MSU Financing the Future

Conversation with the President

Mark P. Haas
Vice President for Finance and Treasurer
September 23, 2019
We All Support University’s Core Mission By:

- Protecting the integrity of financial resources
- Effective fiduciary stewardship
- Honest, accurate and transparent reporting
Our Collective Financial Stewardship Roles

1. Finance Office
   - Develop policy & procedures

2. Colleges & Departments
   - Follow policies in daily transactions

3. Internal Auditors
   - Evaluate compliance

4. External Auditors
   - Independent examination

5. Committee on Audit, Risk and Compliance
   - Fiduciary Oversight

- Follow policies in daily transactions
- Develop policy & procedures
- Fiduciary Oversight
- Independent examination
- Evaluate compliance
- Follow policies in daily transactions
Primary Financial Drivers

- Revenues
  - Enrollment – Tuition, Appropriations, Auxiliaries
  - Gifts, Investment Revenue
- Expenditures
  - Wages, Salaries and Benefits
- Accumulated Assets
- Debt
- What has changed?
Fiscal Year 2018-19
Preliminary Financial Overview

• Overall, MSU’s financial position is still strong
• Total assets $7.0 Billion
  • Assets Increased over $500 million
  • Liabilities increased only $20 million (Mostly Accounting as Debt increased $772 million)
• Total net position of $2.5 Billion

• Revenues totaled $2.8 Billion
  • But growth slowing
• Expenses totaled $2.7 Billion
• Enough money to do many things, but not everything
MSU 2019 Revenue $2.8 Billion
(Millions)

- Tuition & Fees: 31%
- Grants and Contracts: 17%
- Auxiliary Activities (Housing, Athletics): 15%
- State Appropriations: 12%
- Gifts and Capital Grants: 8%
- Investment Income: 7%
- Departmental Income: 10%

Source: PRELIMINARY 2019 MSU Annual Financial Statements
Revenue Trends

- Total Revenue:
  - $2,600
  - $2,400
  - $2,200
  - $2,000
  - $1,800
  - $1,600
  - $1,400
  - $1,200
  - $1,000

- Tuition and Fees: $800
- State and Federal Grants: $600
- State Appropriations: $400
- Auxiliary Activities: $200
- Departmental Income: $0
- Private Gifts and Grants: $0

Graph showing trends from 2002 to 2019.
MSU 2019 Expenses
(Millions)

Functional Classification
$2.7 Billion

Natural Classification
$2.7 Billion

Preliminary
MSU Cash and Debt Management Strategy 1997-2019

Situation

• Economic fluctuations and uncertain State Appropriations
• Demographic trends and increased competition for fewer Michigan high school graduates caused additional uncertainty in future enrollments

Strategy

• University must become more financially self-reliant
• MSU systematically budgeted to accumulate reserves, and borrow funds for capital building projects
• Historically low borrowing costs and strong investment returns enable us to generate additional income
Invest Cash - Use Debt for Capital Projects
And Lawsuit Settlement Payments

Operating Cash and Investment Market Values

- Liquidity Pool
- Liquidity Reserve Pool
- CIF - Operating Cash
- Total Debt

1) Book values used for CIF operating cash 7/1/1997 - 9/30/2000. Market values used following these
# Investing Operating Cash Netted

$378 Million Past 10 Years  
Actual 2019

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending Distribution</td>
<td>$28</td>
<td>$30</td>
<td>$33</td>
<td>$37</td>
<td>$47</td>
<td>$53</td>
<td>$61</td>
<td>$64</td>
<td>$61</td>
<td>$58</td>
</tr>
<tr>
<td>Realized Net Gain (Loss)</td>
<td>$4</td>
<td>$2</td>
<td>$(3)</td>
<td>$(12)</td>
<td>$19</td>
<td>$17</td>
<td>$9</td>
<td>$7</td>
<td>$25</td>
<td>$42</td>
</tr>
<tr>
<td>Annual Total Available</td>
<td>$32</td>
<td>$32</td>
<td>$30</td>
<td>$25</td>
<td>$66</td>
<td>$70</td>
<td>$70</td>
<td>$71</td>
<td>$86</td>
<td>$100</td>
</tr>
<tr>
<td>Cumulative Subtotal</td>
<td>$74</td>
<td>$106</td>
<td>$136</td>
<td>$161</td>
<td>$227</td>
<td>$297</td>
<td>$367</td>
<td>$438</td>
<td>$524</td>
<td>$624</td>
</tr>
<tr>
<td>Debt Interest on Book Value of</td>
<td>$(19)</td>
<td>$(21)</td>
<td>$(23)</td>
<td>$(27)</td>
<td>$(34)</td>
<td>$(40)</td>
<td>$(45)</td>
<td>$(48)</td>
<td>$(52)</td>
<td>$(52)</td>
</tr>
<tr>
<td>Net Annual Impact</td>
<td>$13</td>
<td>$11</td>
<td>$7</td>
<td>$(2)</td>
<td>$32</td>
<td>$30</td>
<td>$25</td>
<td>$23</td>
<td>$34</td>
<td>$48</td>
</tr>
<tr>
<td>Cumulative Total Avail FY10-FY19</td>
<td>$13</td>
<td>$25</td>
<td>$32</td>
<td>$31</td>
<td>$63</td>
<td>$93</td>
<td>$118</td>
<td>$141</td>
<td>$175</td>
<td>$223</td>
</tr>
<tr>
<td>Unrealized Gain on Operating Cash</td>
<td>$(43)</td>
<td>$31</td>
<td>$(11)</td>
<td>$38</td>
<td>$117</td>
<td>$96</td>
<td>$(29)</td>
<td>$95</td>
<td>$144</td>
<td>$155</td>
</tr>
<tr>
<td>Total</td>
<td>$(30)</td>
<td>$56</td>
<td>$21</td>
<td>$69</td>
<td>$180</td>
<td>$189</td>
<td>$89</td>
<td>$236</td>
<td>$319</td>
<td>$378</td>
</tr>
</tbody>
</table>
Common Investment Fund Growing From Gifts and Income
(as of 6/30/2019) Market Value in Billions
Common Investment Fund Returns  
(Preliminary Ending June 30, 2019)

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>3-Year</th>
<th>5-Year</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MSU CIF</strong></td>
<td>7.1%</td>
<td>11.4%</td>
<td>6.5%</td>
<td>8.9%</td>
</tr>
<tr>
<td><strong>Benchmark</strong></td>
<td>3.5%</td>
<td>8.7%</td>
<td>5.0%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>
Spending Policy Provides Stable Funding
$120 Million in Fiscal Year 2019

1. Scholarships
2. Professorships
3. University Programs and Infrastructure
4. University Advancement/Development
5. Now lawsuit related expenses from new operating trust investment income
6. Effective reduction in discretionary spending
Stable Scholarship Funding Despite Volatile Investment Returns

CIF Annual Return vs. Spending Policy Annual Distribution

Fiscal Years (Ending June 30)

- Common Investment Fund Annual Return
- Spending Policy Annual Distribution

<table>
<thead>
<tr>
<th>Year</th>
<th>Return (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$(107.9)</td>
</tr>
<tr>
<td>2016</td>
<td>$184.1</td>
</tr>
<tr>
<td>2017</td>
<td>$398.4</td>
</tr>
<tr>
<td>2018</td>
<td>$298.5</td>
</tr>
<tr>
<td>2019</td>
<td>$119.7</td>
</tr>
<tr>
<td>2020*</td>
<td>$125.1</td>
</tr>
<tr>
<td>2021*</td>
<td>$129.4</td>
</tr>
</tbody>
</table>
Debt Increased $772 Million

Total Debt Payable by Fiscal Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Debt (in Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>$851</td>
</tr>
<tr>
<td>2011</td>
<td>$854</td>
</tr>
<tr>
<td>2012</td>
<td>$896</td>
</tr>
<tr>
<td>2013</td>
<td>$1,113</td>
</tr>
<tr>
<td>2014</td>
<td>$1,074</td>
</tr>
<tr>
<td>2015</td>
<td>$1,306</td>
</tr>
<tr>
<td>2016</td>
<td>$1,239</td>
</tr>
<tr>
<td>2017</td>
<td>$1,246</td>
</tr>
<tr>
<td>2018</td>
<td>$1,261</td>
</tr>
<tr>
<td>2019</td>
<td>$2,033</td>
</tr>
</tbody>
</table>
Most Debt for Academic and Research Facilities

Debt Outstanding by Function

- Athletics: 7%
- Academic / Research: 33%
- Settlement: 26%
- Housing: 17%
- Infrastructure Maintenance and Construction: 17%
- Athletics: 7%
Average Cost of Capital is 3.54%

As of June 30, 2019

FY2017-18
- CP 18%
- Bonds 75%
- Other 7%

FY2018-19
- CP 9%
- Bonds 85%
- Other 6%
Credit Ratings Consistent for MSU Bonds

• As of **June 30, 2019**, the University’s outstanding General Revenue debt carried strong investment grade credit ratings:
  o Moody’s Aa2
  o Standard & Poor’s AA

• Negative outlook due to:
  o Higher ed enrollment declines
  o Leadership transitions and stability
  o Lawsuit uncertainty
MSU Current Debt Balance Pay Down

Debt Capacity at Aa levels (Nov-18 estimates)

- Aa3
- Aa2
- Aa

Debt Capacity at current rating

Actual vs. Projection


Millions
MSU Projected Debt and Debt Capacity

Current Debt - Debt issued as of June 30, 2019
New Bond Projects ($45M)
New CP for projects that need bridge financing only ($26M)

Possible Future Debt - $60M per year, amortized over 30 years at 4%

Debt Capacity at Aa levels (Nov-18)

Debt Capacity at current rating

Debt Capacity at Aa levels (Nov-18)
New Bond Projects (BoT Approved) - $45M, amortized over 30 years at 4%

New CP for projects that need bridge financing only ($26M)

Possible Future Debt - $ varies per year, amortized over 30 years at 4%

$200

$150

$100

$50

Principal is solid, Interest is lined

Current Debt - Debt issued as of June 30, 2019
How Will 2019 Bond Debt Service Be Paid?

- Settlement bond debt service will be paid from operating cash investment earnings.
- Project bond debt service will be paid from a combination of General Fund, Departmental Funds and operating cash investment earnings.
- *Proposed Series 2019C will refund 2010 bonds at lower interest rate in December and reduce debt service costs.*