

MSU Financing the Future



Conversation with the President

Mark P. Haas

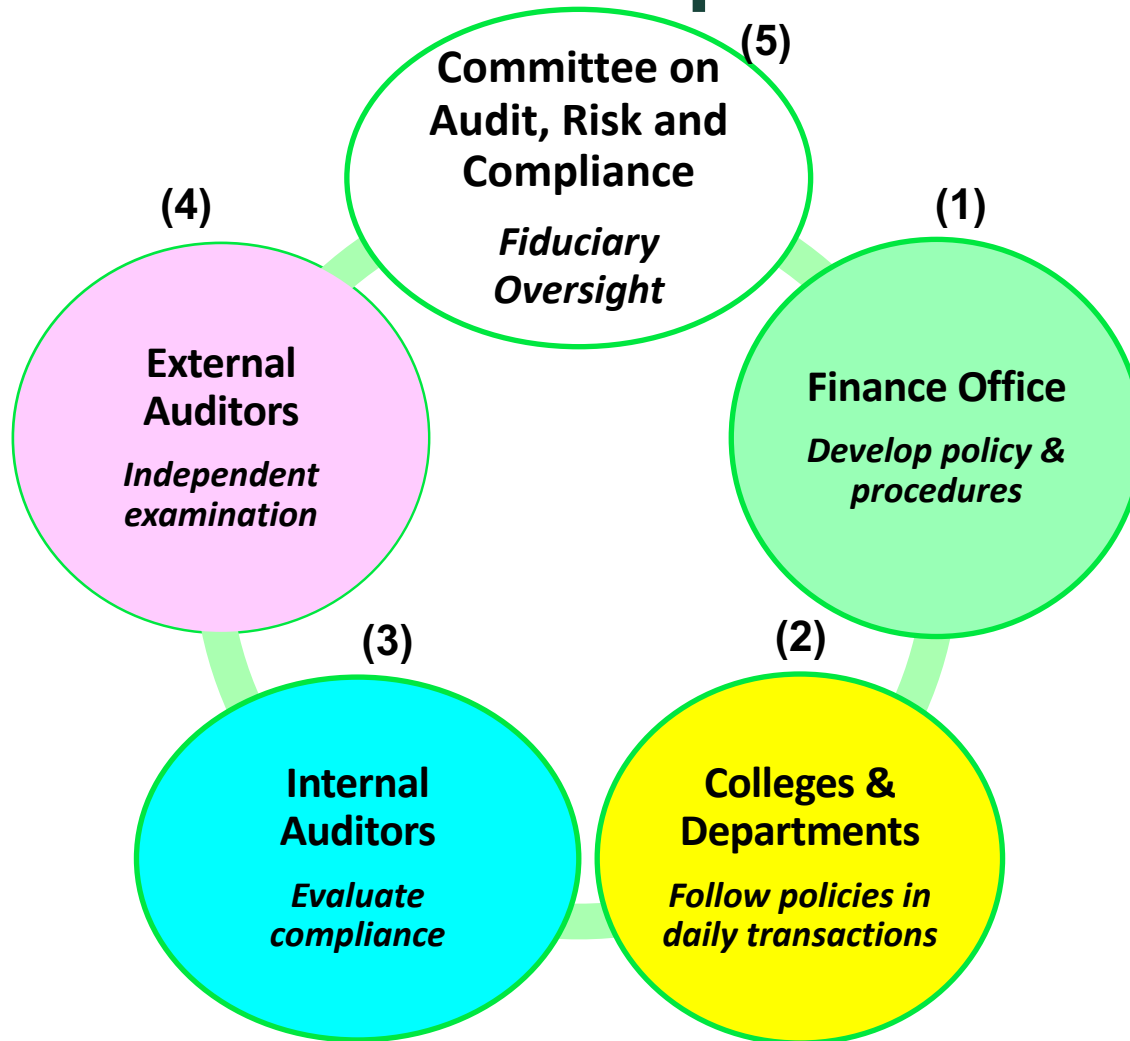
Vice President for Finance and Treasurer

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



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

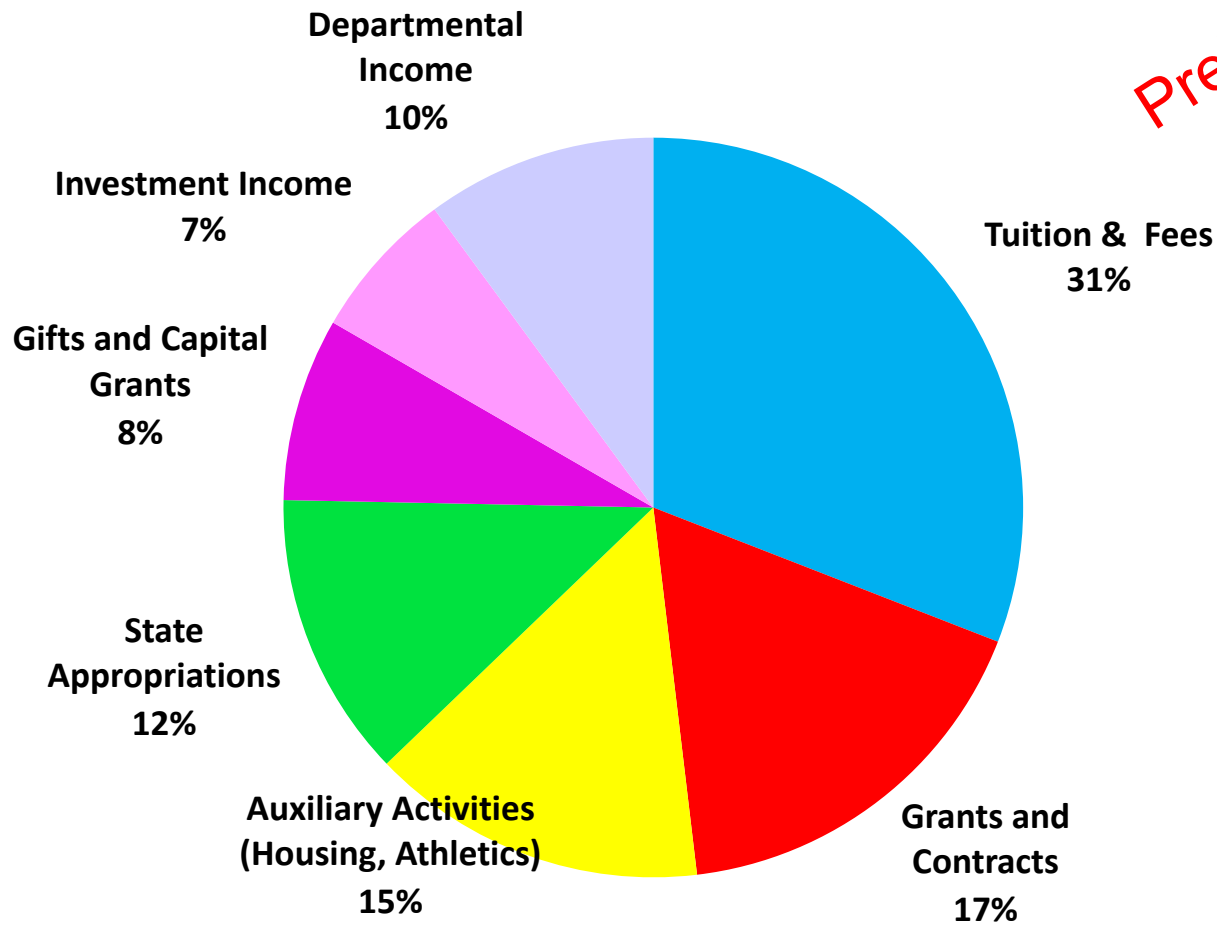
Preliminary Financial Overview

- 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

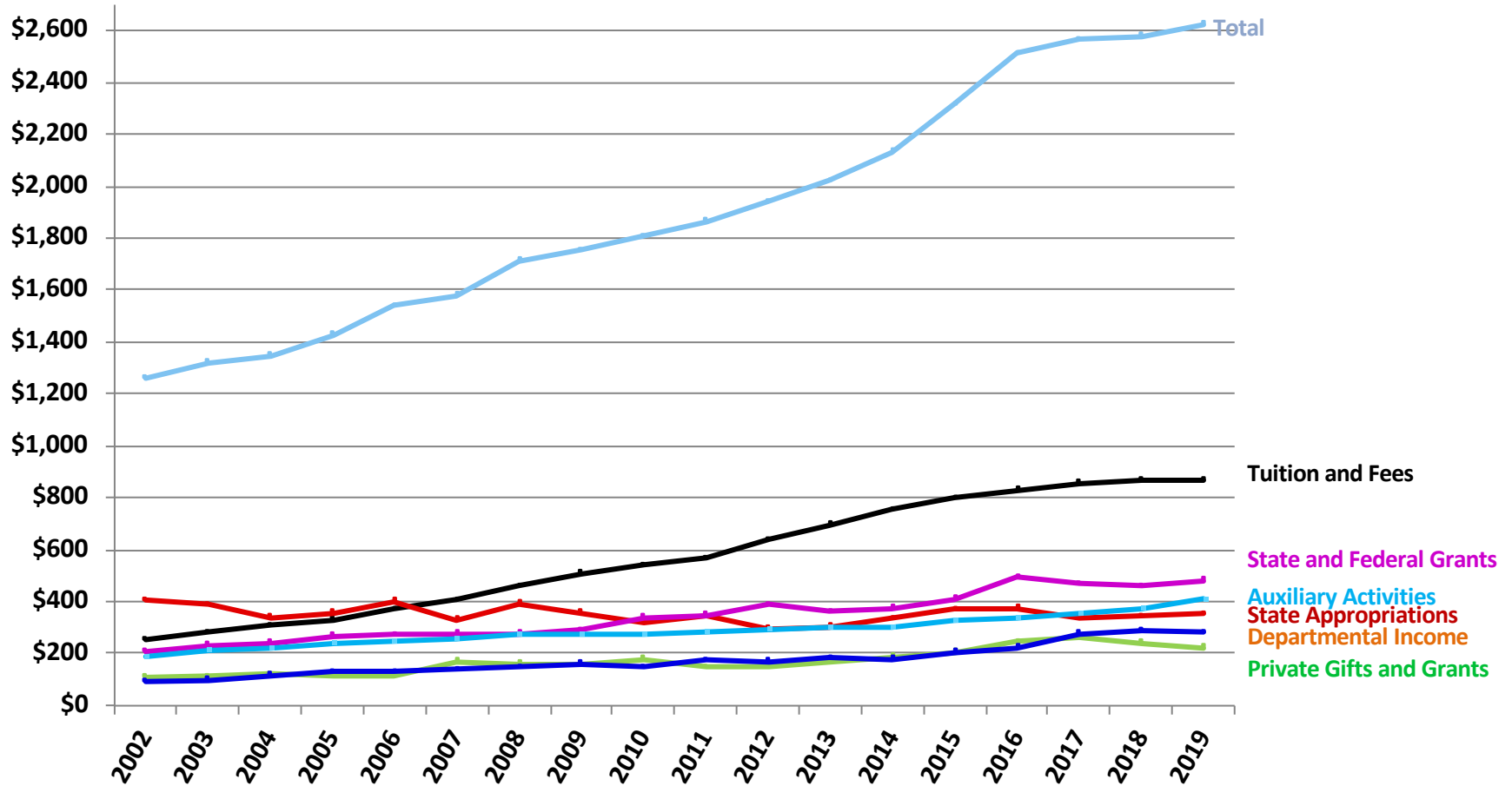
MSU 2019 Revenue \$2.8 Billion

(Millions)

Preliminary



Revenue Trends

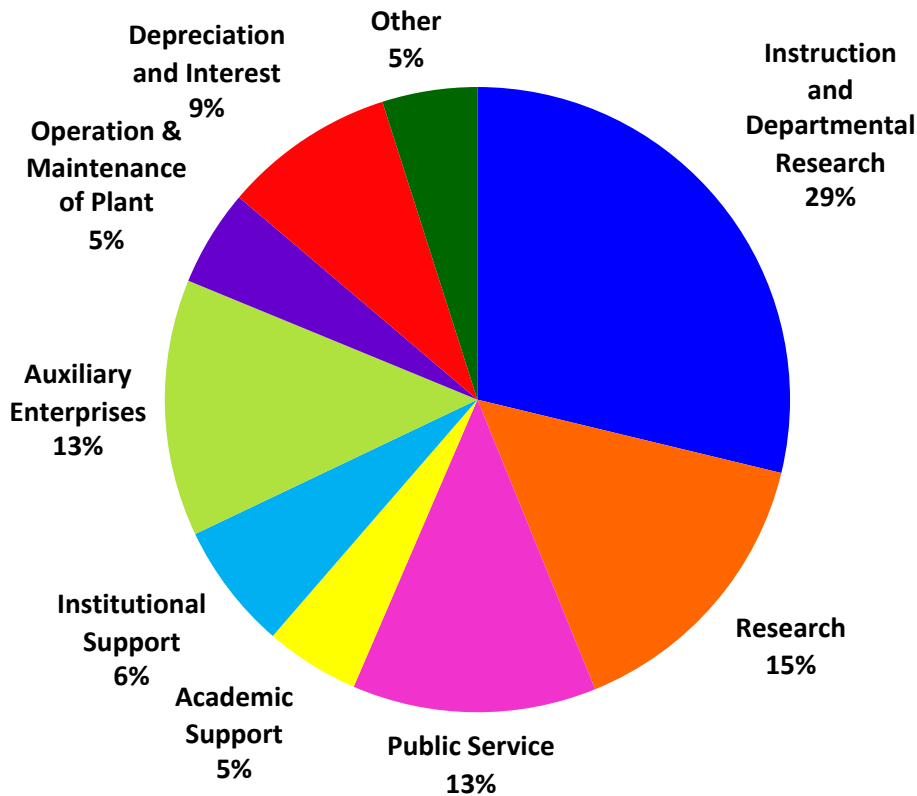


MSU 2019 Expenses

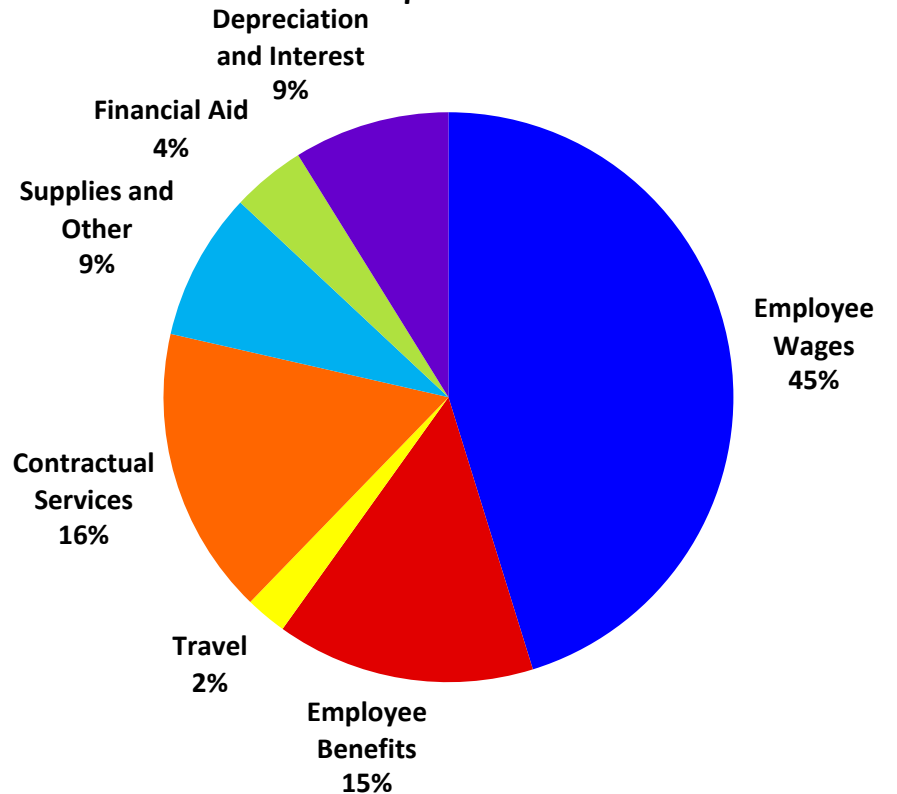
(Millions)

Preliminary

Functional Classification
\$2.7 Billion

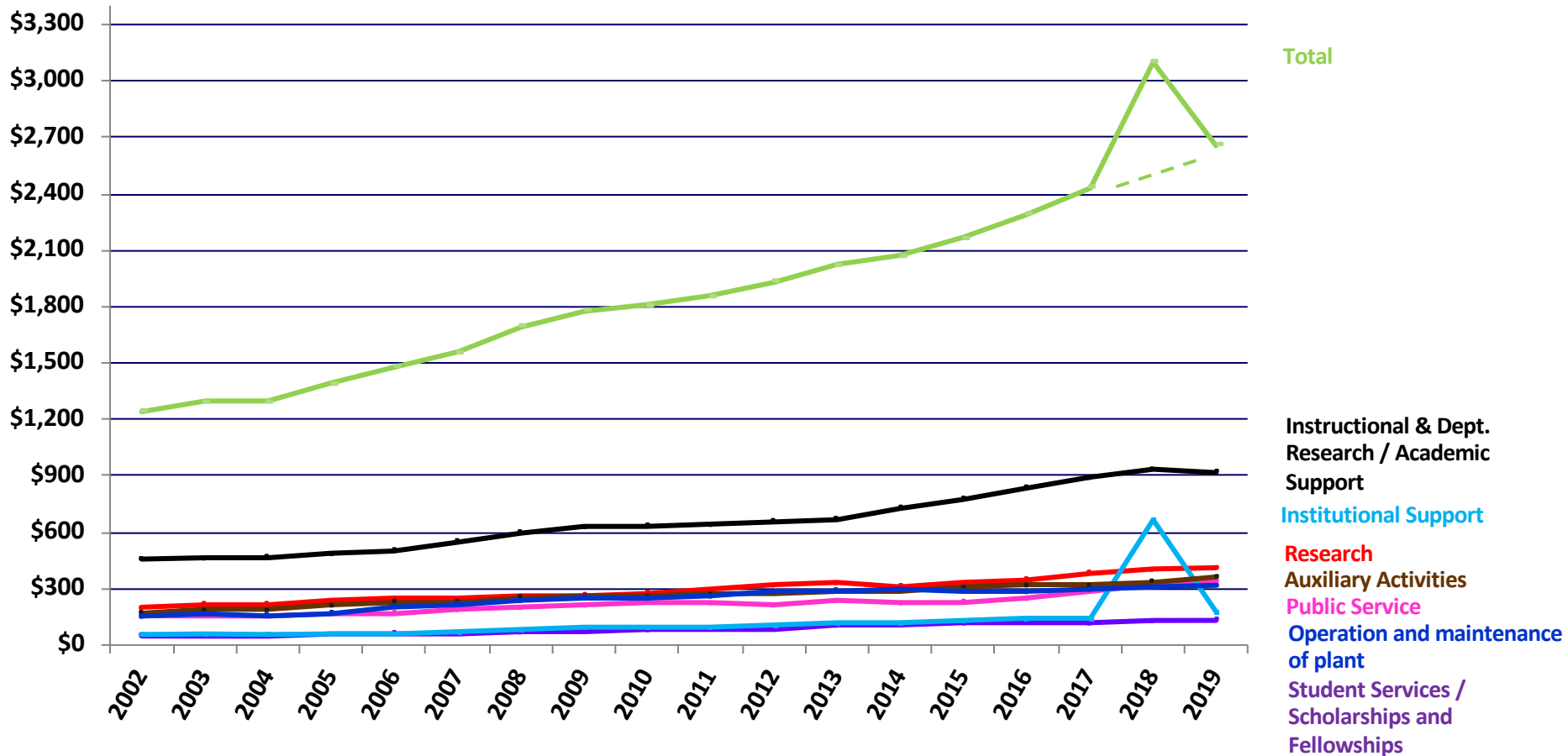


Natural Classification
\$2.7 Billion



Operating Expense Trends

(millions)



MSU Cash and Debt Management Strategy 1997-2019

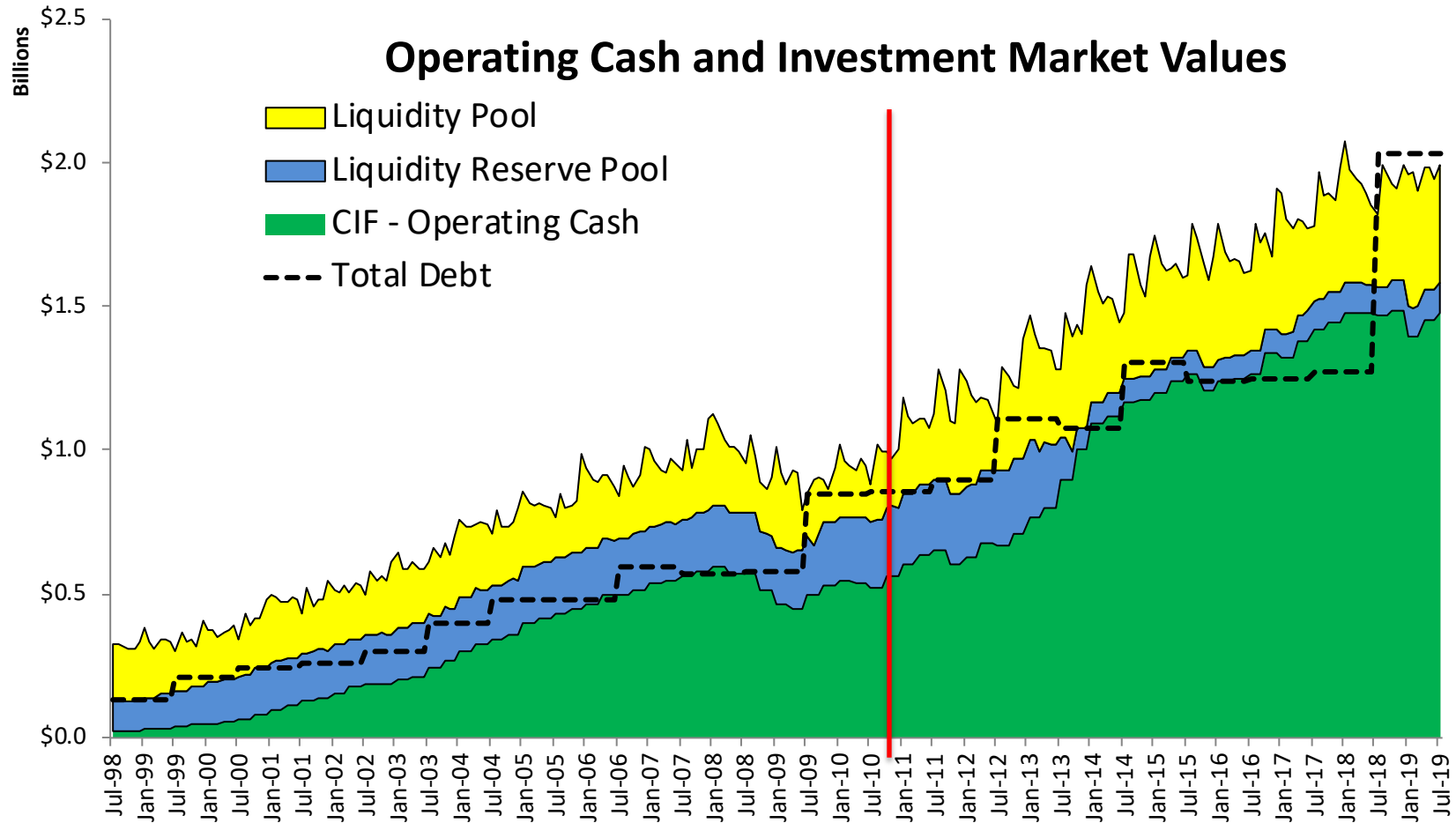
Situation

- 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



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

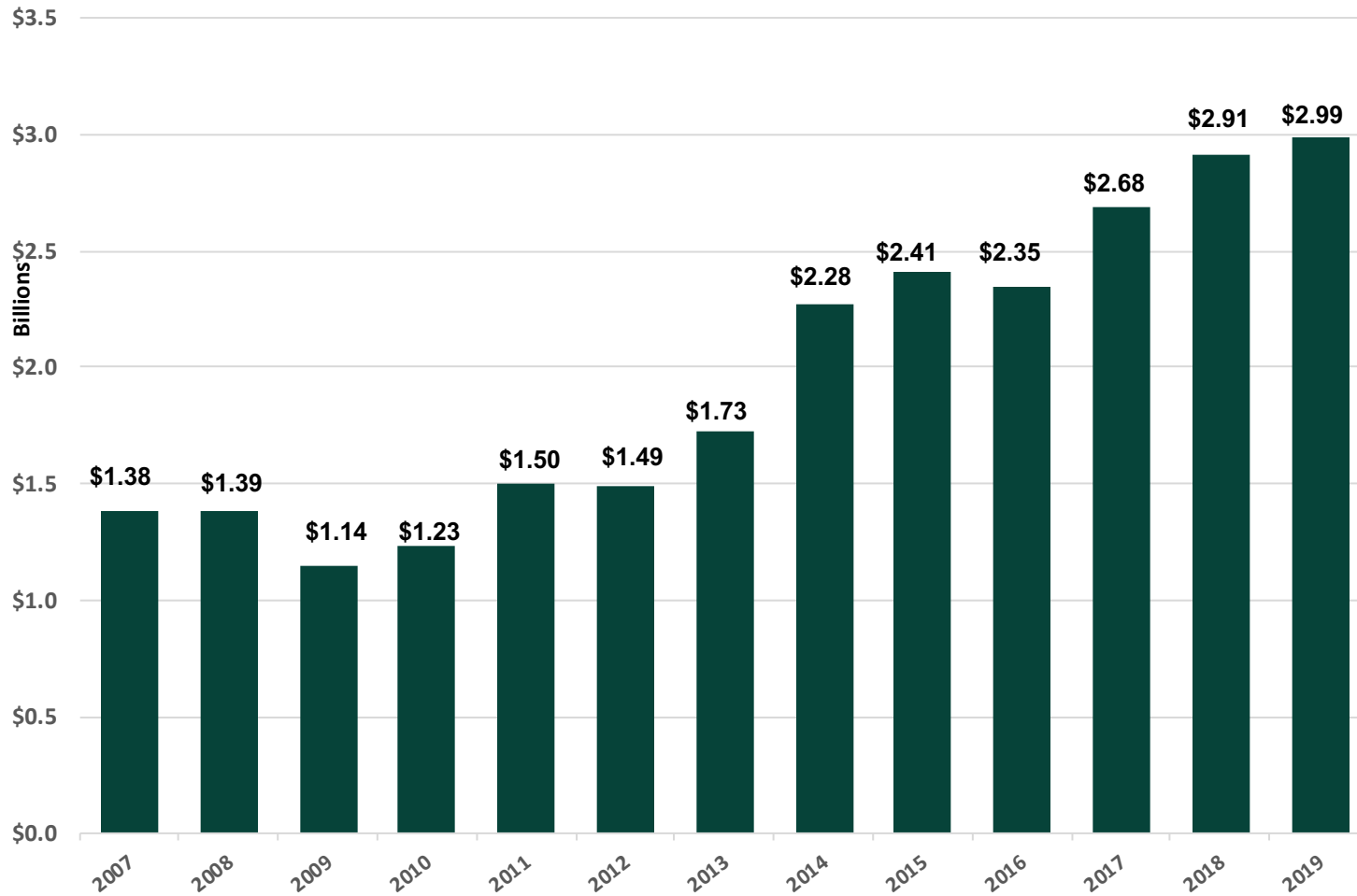
Investing Operating Cash Netted

\$378 Million Past 10 Years Actual 2019

(\$ millions)	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Spending Distribution	\$ 28	\$ 30	\$ 33	\$ 37	\$ 47	\$ 53	\$ 61	\$ 64	\$ 61	\$ 58
Realized Net Gain (Loss)	\$ 4	\$ 2	\$ (3)	\$ (12)	\$ 19	\$ 17	\$ 9	\$ 7	\$ 25	\$ 42
Annual Total Available	<u>\$ 32</u>	<u>\$ 32</u>	<u>\$ 30</u>	<u>\$ 25</u>	<u>\$ 66</u>	<u>\$ 70</u>	<u>\$ 70</u>	<u>\$ 71</u>	<u>\$ 86</u>	<u>\$ 100</u>
Cumulative Subtotal	\$ 74	\$ 106	\$ 136	\$ 161	\$ 227	\$ 297	\$ 367	\$ 438	\$ 524	\$ 624
Debt Interest on Book Value of Invested Operating Cash in CIF	<u>\$ (19)</u>	<u>\$ (21)</u>	<u>\$ (23)</u>	<u>\$ (27)</u>	<u>\$ (34)</u>	<u>\$ (40)</u>	<u>\$ (45)</u>	<u>\$ (48)</u>	<u>\$ (52)</u>	<u>\$ (52)</u>
Cumulative Subtotal	\$ (19)	\$ (39)	\$ (62)	\$ (88)	\$ (122)	\$ (162)	\$ (207)	\$ (255)	\$ (307)	\$ (359)
Net Annual Impact	\$ 13	\$ 11	\$ 7	\$ (2)	\$ 32	\$ 30	\$ 25	\$ 23	\$ 34	\$ 48
Cumulative Total Avail FY10-FY19	<u>\$ 13</u>	<u>\$ 25</u>	<u>\$ 32</u>	<u>\$ 31</u>	<u>\$ 63</u>	<u>\$ 93</u>	<u>\$ 118</u>	<u>\$ 141</u>	<u>\$ 175</u>	<u>\$ 223</u>
Unrealized Gain on Operating Cash	\$ (43)	\$ 31	\$ (11)	\$ 38	\$ 117	\$ 96	\$ (29)	\$ 95	\$ 144	\$ 155
Total	<u>\$ (30)</u>	<u>\$ 56</u>	<u>\$ 21</u>	<u>\$ 69</u>	<u>\$ 180</u>	<u>\$ 189</u>	<u>\$ 89</u>	<u>\$ 236</u>	<u>\$ 319</u>	<u>\$ 378</u>

Common Investment Fund Growing From Gifts and Income

(as of 6/30/2019) Market Value in Billions



Common Investment Fund Returns

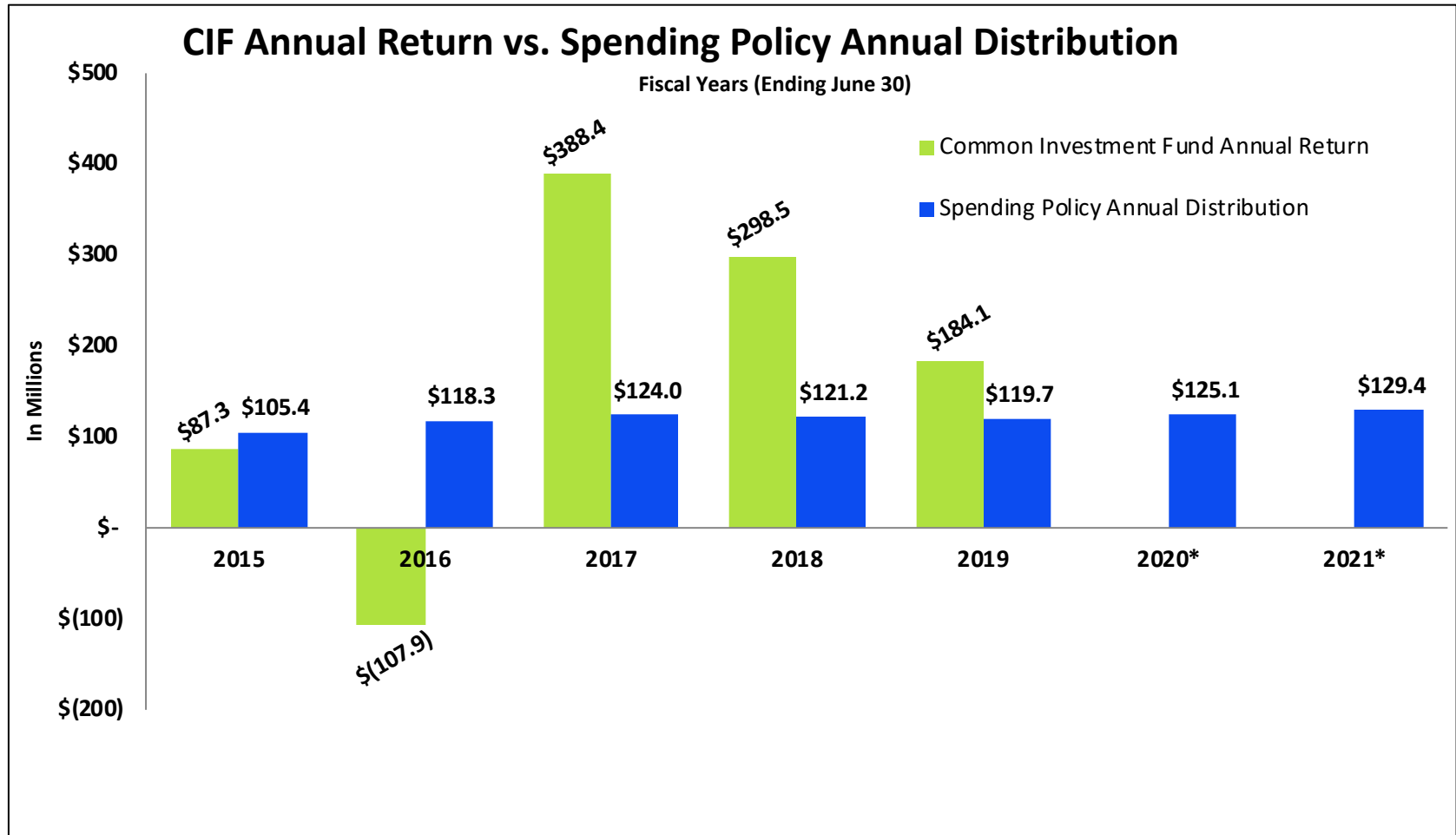
(Preliminary Ending June 30, 2019)

	FY19	3-Year	5-Year	10-Year
MSU CIF	7.1%	11.4%	6.5%	8.9%
Benchmark	3.5%	8.7%	5.0%	8.2%

Spending Policy Provides Stable Funding \$120 Million in Fiscal Year 2019

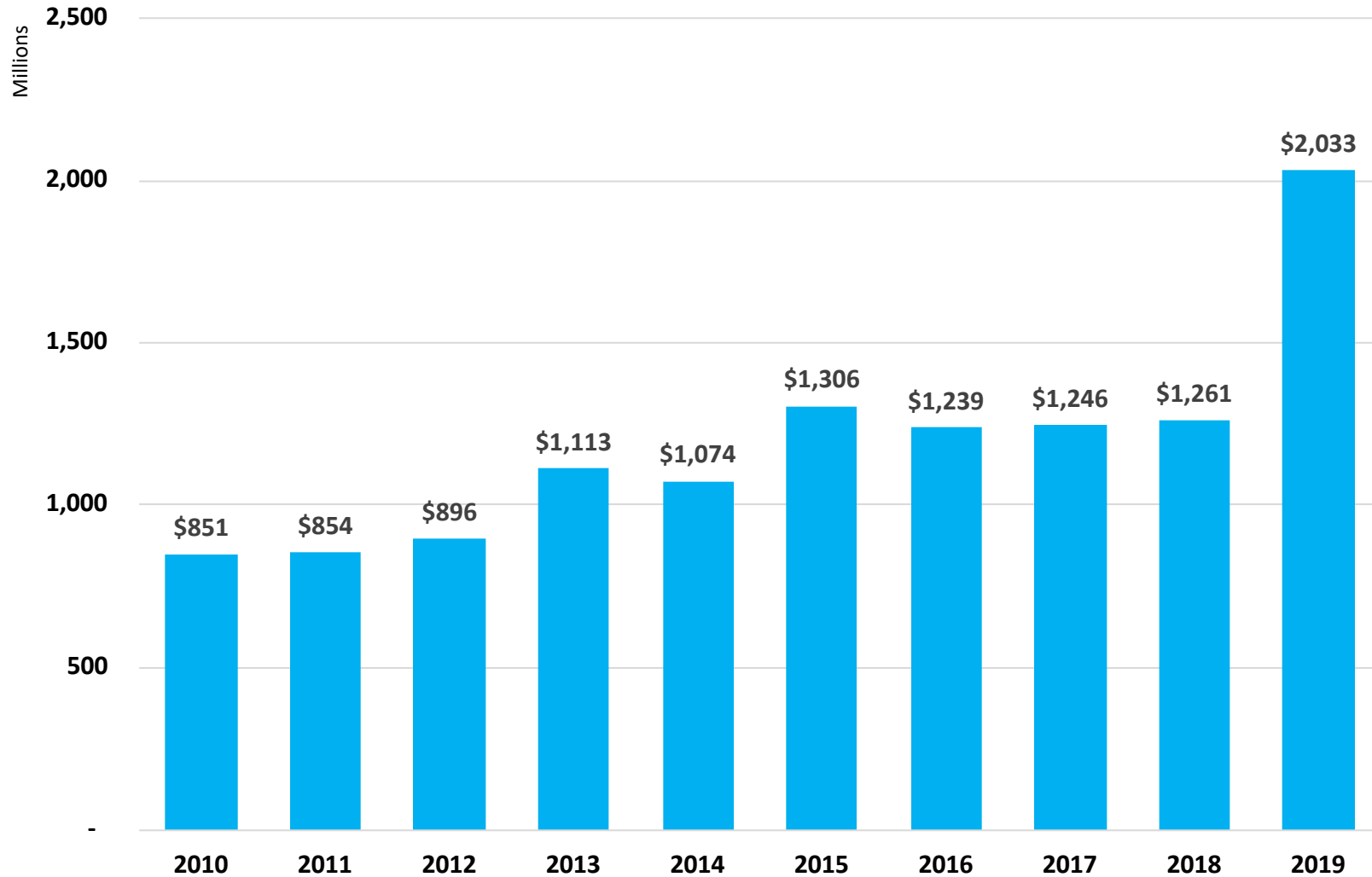
1. Scholarships
2. Professorships
3. University Programs and Infrastructure
4. University Advancement/Development
5. *Now lawsuit related expenses from new operating trust investment income*
6. Effective reduction in discretionary spending

Stable Scholarship Funding Despite Volatile Investment Returns



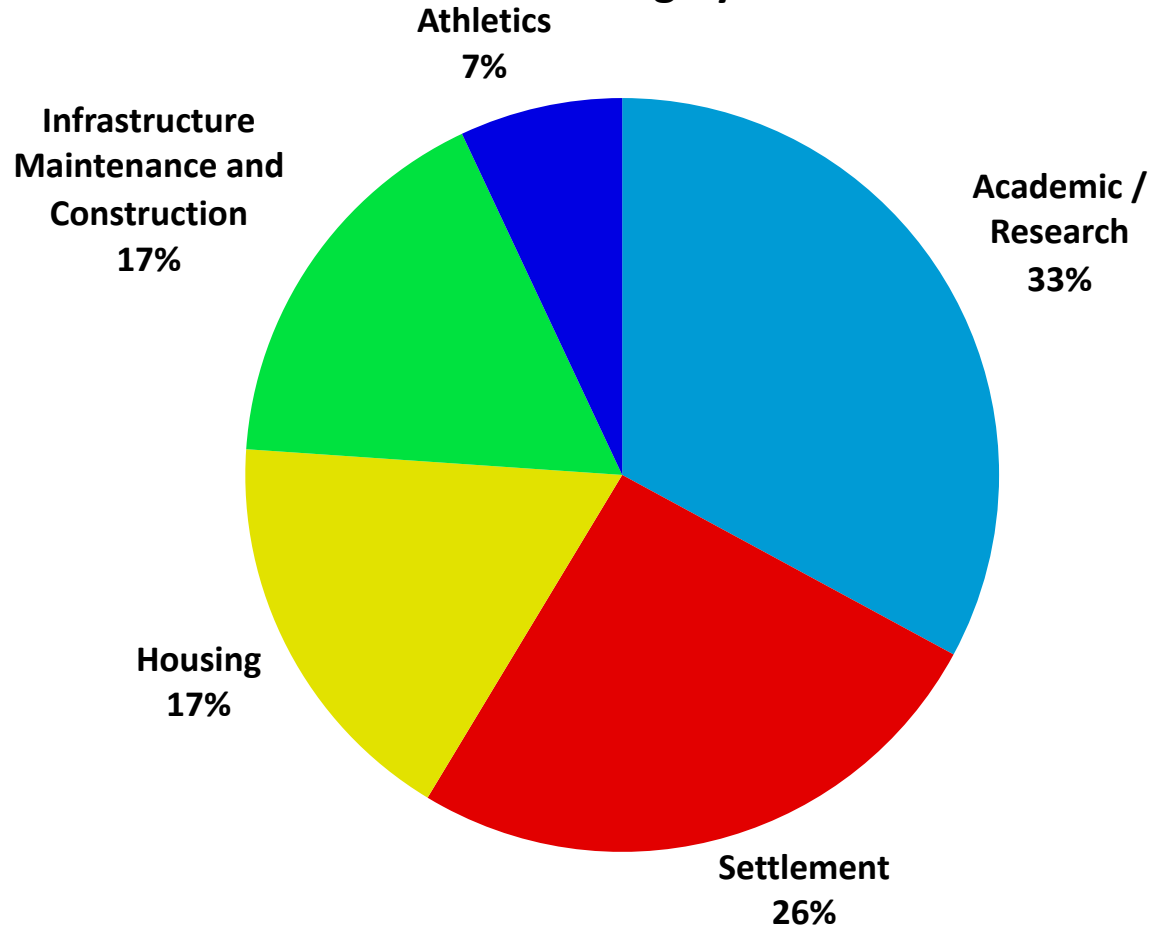
Debt Increased \$772 Million

Total Debt Payable by Fiscal Year



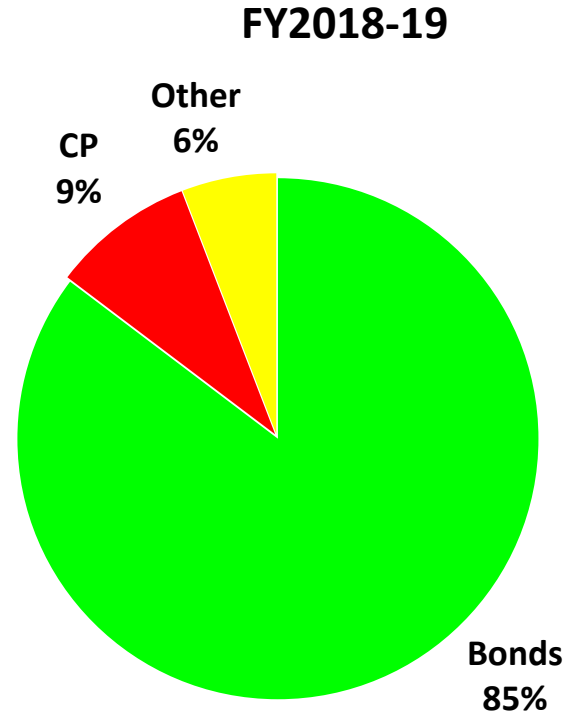
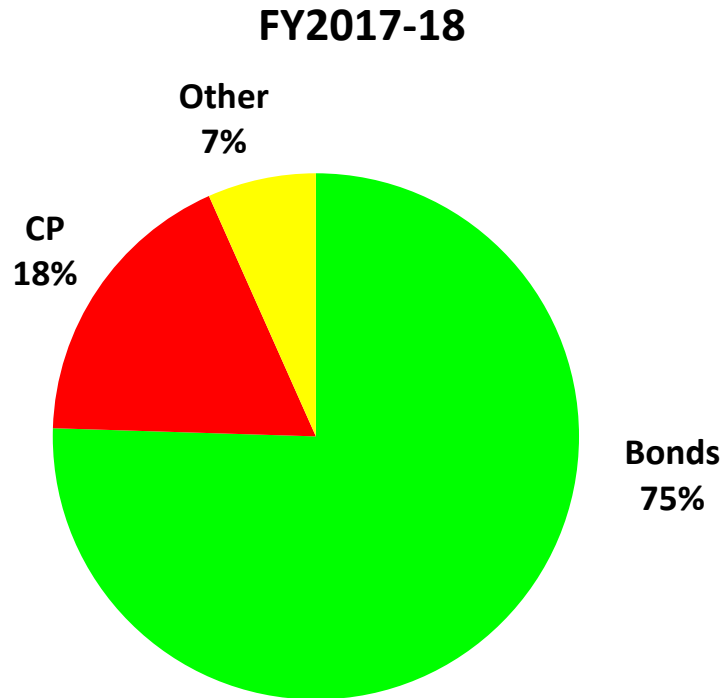
Most Debt for Academic and Research Facilities

Debt Outstanding by Function



Average Cost of Capital is 3.54%

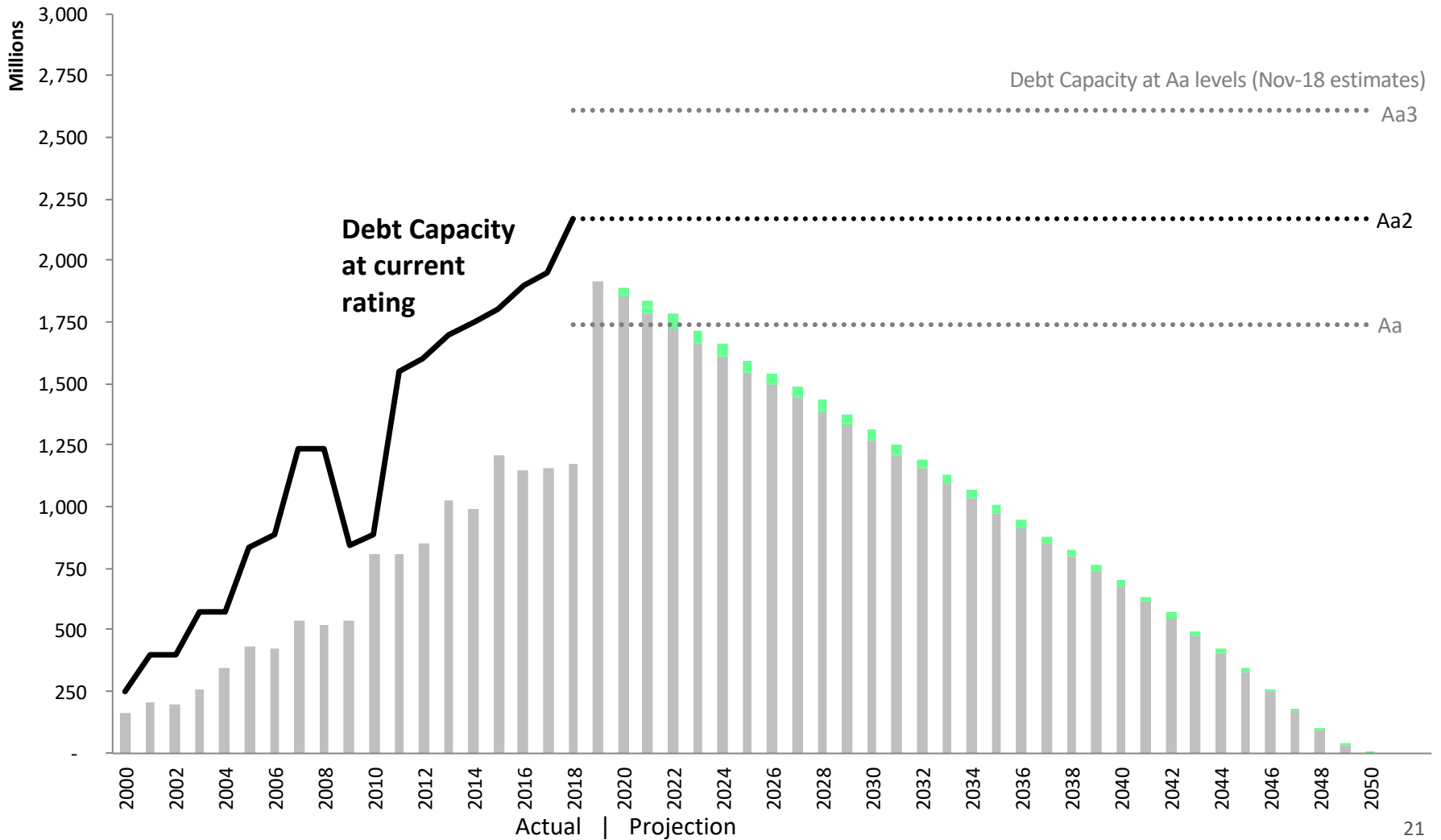
As of June 30, 2019



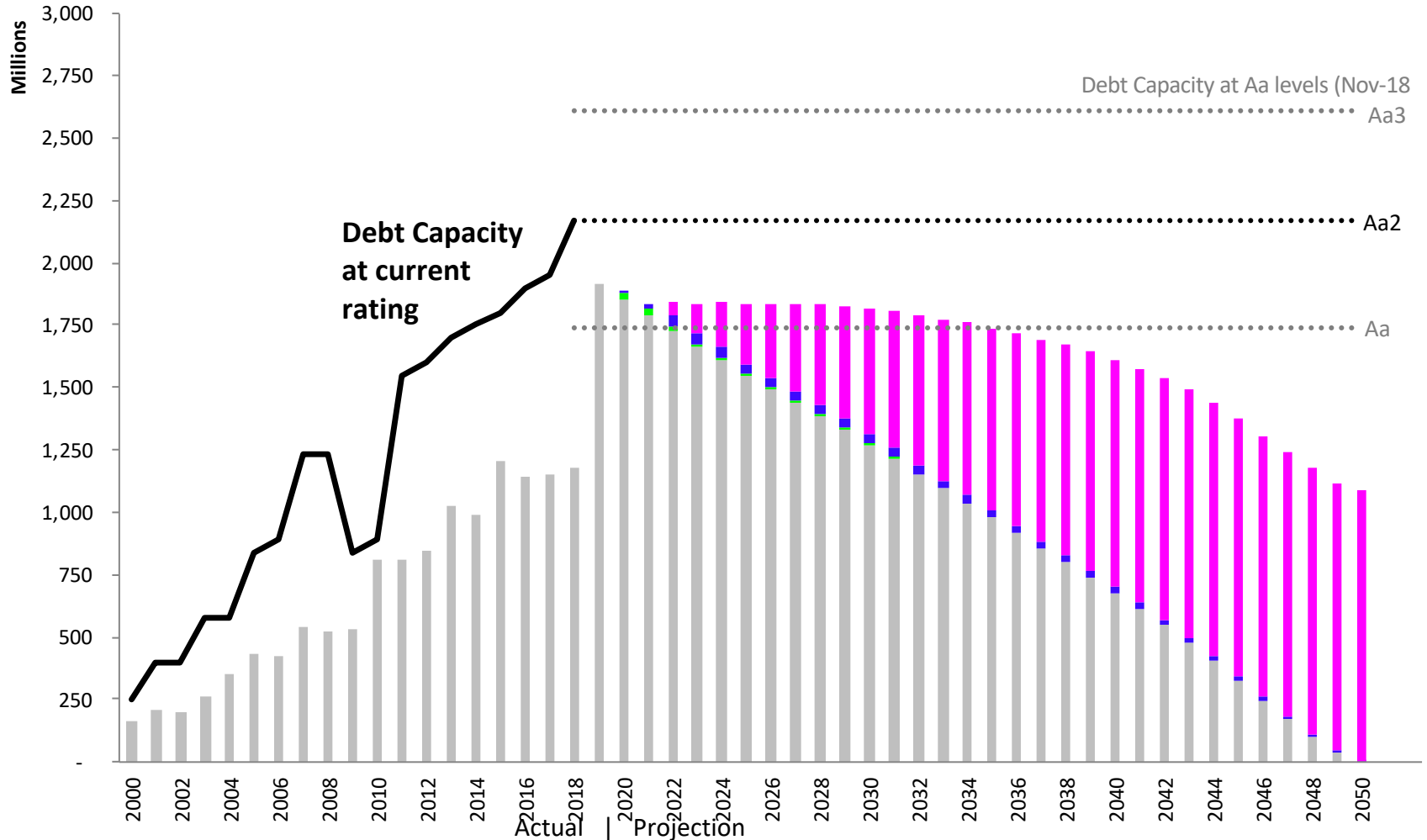
Credit Ratings Consistent for MSU Bonds

- As of June 30, 2019, the University's outstanding General Revenue debt carried strong investment grade credit ratings:
 - Moody's Aa2
 - Standard & Poor's AA
- Negative outlook due to:
 - Higher ed enrollment declines
 - Leadership transitions and stability
 - Lawsuit uncertainty

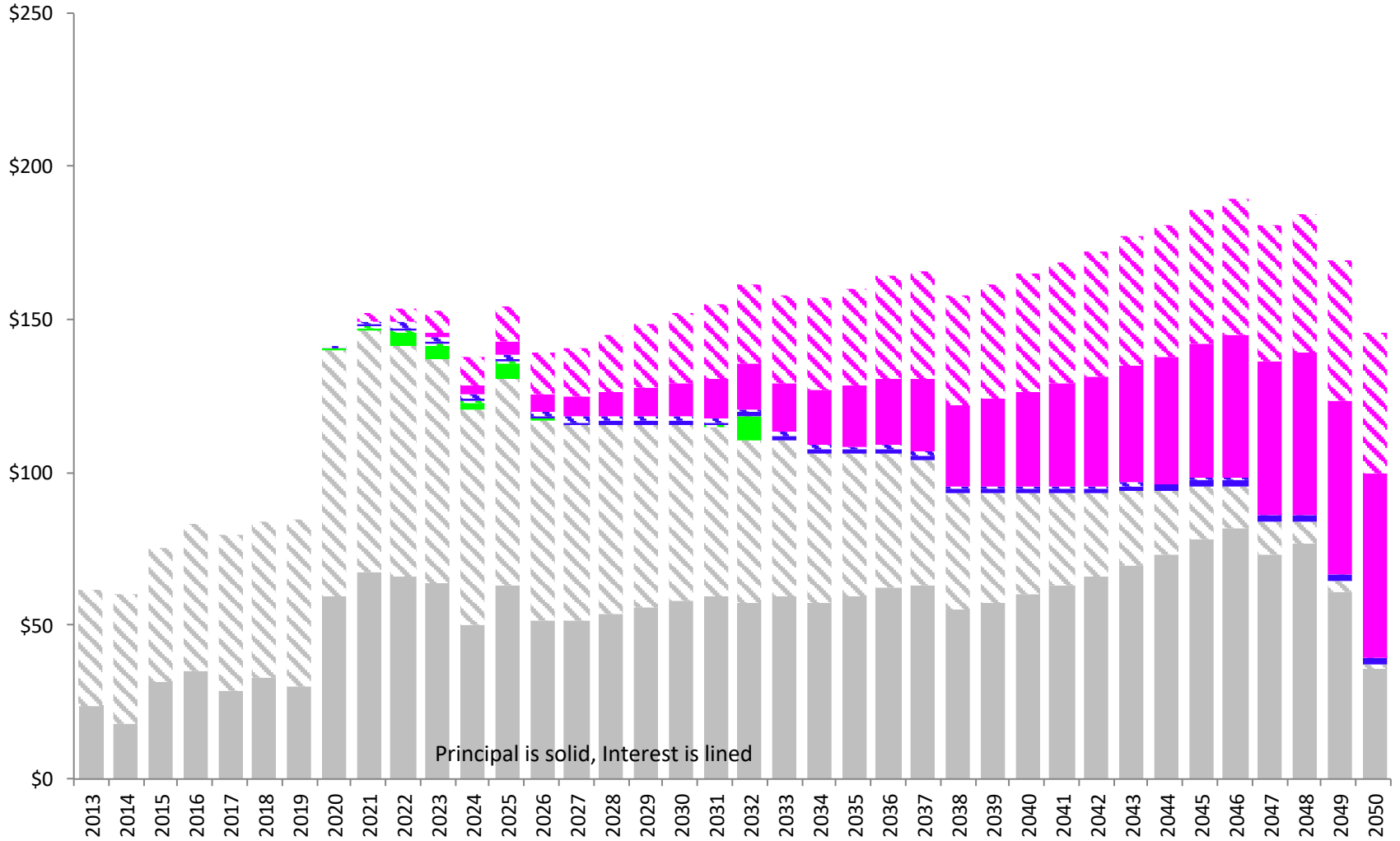
MSU Current Debt Balance Pay Down



MSU Projected Debt and Debt Capacity



MSU Projected Future Debt Service



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*