

Planning and Budget Process

The University's planning framework, The Highest Order of Excellence II, is the framework for strategic planning at all levels of the institution. Oversight for the strategic planning, budget planning, analysis, and allocation process starts with the University officers reporting to the President. The Planning and Budget Group reviews all major resource planning and decisions and oversees the budget planning and allocation process. Members of this group include the President, the Provost, Senior Vice President for Business and Finance, Vice President for Administration and Planning, the Vice President for Research, the Associate Vice President for Budget and Planning, Associate Provost for Change Management and the Associate Provost for Budget, Facilities and Analysis.

The Provost's Office, Budget and Planning, Administration and Planning, and the Office of Change Management provide staff support for the strategic planning work of the Planning and Budget Group. The Budget Office also provides staff support for the day-to-day administrative work associated with the budget planning, analysis, and allocation process. In addition, deans and area financial managers play a major role in the management and administration of the annual budgets and they are consulted on various budget planning issues and topics during both the development and implementation of the University's annual budget.

The budget planning process at Northwestern University is an integral part of the ongoing institutional planning and management structure. The planning cycle starts in September when the Planning and Budget Group identifies and reviews external economic conditions and other factors that could impact the University's annual budget. Trends in economic growth, interest rates, and investments are reviewed. The Group also examines changes in the consumer price index and higher education price index. Other materials reviewed include published peer university tuition, room and board rates; Human Resources staff compensation studies, and peer comparisons of the University's benefit program, undergraduate financial aid policies, and faculty salary trends. Further, the Group identifies critical items for the University's upcoming budget and reviews the University's three-year financial forecast of all funds revenues and expenses maintained by the Budget Office.

Under the direction of the Provost the Group, guides and directs the development of the budget planning parameters including tuition, room and board rate increases; revenue estimates for all of the primary unrestricted revenue and restricted sources and student financial aid programs. The Group approves preliminary budget allocations and also estimates shared services expense for the Feinberg School of Medicine and the Law School, establishes faculty and staff salary increase pools, and issues budget planning parameters to schools and administrative units for use in the development of detailed area budgets, including setting budget reduction and reallocation targets when necessary.

Each school and support area of the University is expected to maintain a rolling three-year strategic plan that includes financial forecasts and more detailed plans. As part of this, each school and operating area is expected to conduct its own planning and budget process where departments, centers and institutes and other operating units are engaged in discussion of the management and resource needs of each area. School and area plans are adjusted annually to reflect changes in the internal and external environment and to reflect any changes in the strategic directions for the school, support area, or the institution as a whole. These three-year

plans form the basis for discussions about the management of each area including the degree to which strategic goals are being achieved and the identification of issues that affect area program performance.

From December through March, the Planning and Budget Group meets with all school deans and support area directors to review their multi-year strategic plans, financial performance history, special program and budget issues, and other needs and problems. These planning activities and discussions form the basis for the University's annual operating budget plan. When all of school and administrative area meetings are completed in March/April, the Group makes final budget allocation decisions. The Provost and the Budget Office communicate the allocation decisions to each of the schools and administrative areas in May. The schools and areas are then asked to prepare detailed departmental operating budgets within their total budget allocations. Under the multi-year planning and budgeting process, more emphasis has been placed on "block" budget allocations, which allow school and area managers more degrees of freedom in applying incremental budgeted resources to the most critical needs in these areas. In June and early July, the Budget Office receives the final detailed budgets for review to ensure that they comply with the final budget allocations and the overall budget plan of the University. The detailed area budget reviews are completed by the end of July, and the final budget is loaded into the financial system budget tables by the end of July.

Board of Trustees

The Board of Trustees is actively involved in the University planning and budget process. The Trustee Budget Committee reviews and endorses proposed tuition, room and board rates. The full Board reviews tuition, room and board rates for the coming year at their February meeting. The Budget Committee reviews and endorses final operating and capital budget plans at their June meeting. The Chair of the Budget Committee reports on the Committee's activities during the year to the full Board, including its approval of the Budget at its June Budget Committee meeting. The full Board accepts the minutes of the June Budget Committee meeting at its September meeting, which serves as the action to adopt the University's budget for the year starting September 1.

Office of Budget and Planning

The Associate Vice President of Budget and Planning directs the Budget and Planning Office staff, which includes a senior director, director, nine analysts and one support staff. The Office is heavily involved in planning, but also has budget management tasks throughout the year.

Budget and Planning maintains a rolling three-year University-wide revenue and expense forecast for the Planning and Budget Group, identifies special macro resource issues, reviews and analyzes special budget and resource requests and issues, projects costs associated with faculty and staff salary increase scenarios, and forecasts benefit program costs and recovery rates, and seeks approval for these rates from the Federal Government.

The Budget and Planning staff prepares both preliminary and final budget allocations for all areas of the University, and through a variety of means, monitors the areas' performance against their budget allocations. The budget performance monitoring is reported tri-annually to the President and other members of the Planning and Budget Group. At the end of the fiscal year, final budget performance is determined at the area level, and a comprehensive area budget

performance report is prepared. This report is reconciled to the University's year-end financial reports, which are audited and made public.

Budget performance is one of the key elements in measuring the performance of area and departmental managers. Area budget performances are highlighted for vice presidents, deans and directors. The Planning and Budget Group reviews the budget performance reports and Budget and Planning investigates significant deviations from the budget. A primary element in the management culture of the University is follow-up of major unfavorable budget performance with the appropriate manager.

Overall Budget Management Strategy

Northwestern University has a hybrid financial management structure. The financial management of the six undergraduate schools is centralized while the professional schools – Feinberg, Law, Kellogg, and Housing and Food Services operate on a de-centralized basis, (fully-costed, self-supporting or revenue sharing bases, see below).

A critical component of the University's centralized financial management approach to budgeting has been the creation of an environment in which budgetary discipline and rigor are recognized as major factors in assessing the management performance of deans and unit directors. This environment includes strong financial incentives for schools and administrative areas to manage their budgets effectively, because they are permitted to retain year-end budget savings that can provide non-recurring funding for their program needs.

Since 2001, the Feinberg School of Medicine has managed its finances within the de-centralized financial framework. Under this framework, the School is expected to cover all of its direct and indirect costs. Annually, the Feinberg School of Medicine is charged its "fair share" of various centrally-managed academic and administrative support services." In addition to paying for its portion of shared services, the School is charged a modest net contribution from the revenues it generates, which is used at the discretion of the President and Provost to meet critical needs of the University. In fiscal 2006, the Law School moved to this same de-centralized financial management structure with annual processes identical to the Feinberg School of Medicine, such as "shared services" and a net contribution from its revenues.

The Kellogg School of Management has a slightly different de-centralized model than Feinberg and Law. The central element for the Kellogg School is tuition revenue sharing on their core education programs. Revenue from the executive education programs is not subject to the revenue-sharing structure; however, starting in fiscal 2005, it has been assessed an administrative fee. Central administration covers expenses for centrally-managed administrative services relating to Kellogg from the tuition revenue share it retains.

Performance Results and Recent Accomplishments

Under this budget management framework, the University has achieved financial stability and strength.

Some of the strategically significant financial objectives and performance results are as follows:

- The University has achieved favorable budget balances for more than two decades.

- The general fund balances have grown so that working cash requirements can be handled internally and there are reserves that are invested in the long-term endowment pool and contribute significant income to the annual operating budget.

When there has been extraordinary revenue growth in a specific revenue source, the incremental revenue has been phased into the University base budget over several years to avoid large upward swings in the continuing revenue budget and the associated pressure to build the incremental revenue into the continuing expense budget. This practice has made it possible to maintain very stable budget support to recurring programs, and at the same time it provides a source of funds for supporting non-recurring program investments and capital projects.

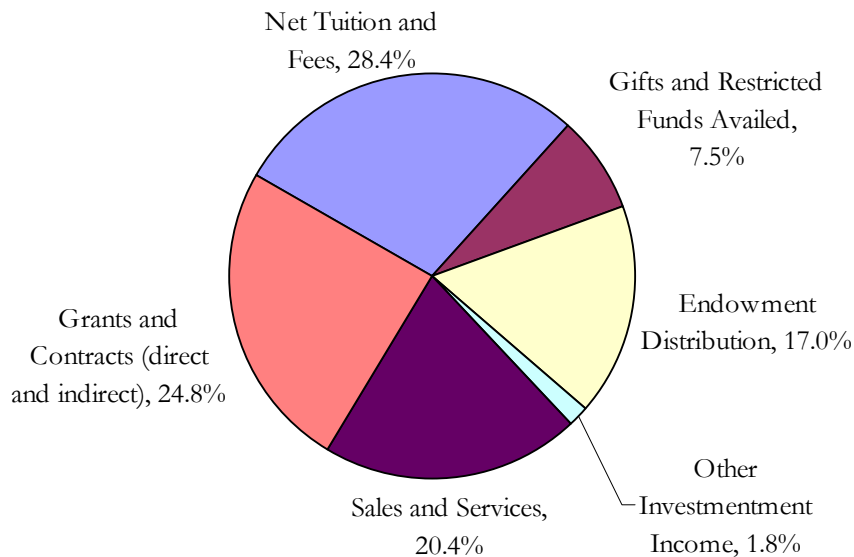
- As much as possible, large recurring expenses are anticipated well in advance of their being incurred. Significant annual, recurring revenue increases are set aside to cover the expected new expenses. An example is the segregation of a substantial portion of the incremental revenues from unrestricted endowments generated by adjustments to the pay-out rate several years ago for the operation and maintenance support of the major new buildings opened over the past two years. These segregated funds have been used to cover the support of the new buildings as they are completed and occupied.

The University is increasing the renewal and replacement annual base budget by \$2 million per year to approximately a \$20 million total budget for FY 2009. The apportionment of these funds between campuses is approximately 60% Evanston and 40% Chicago. In addition to these funds, Feinberg contributes \$3 million to \$5 million annually through major renovation projects, Kellogg allocates \$2 million in annual improvements and Housing spends about \$6 million annually, for an approximate annual total of \$30 million.

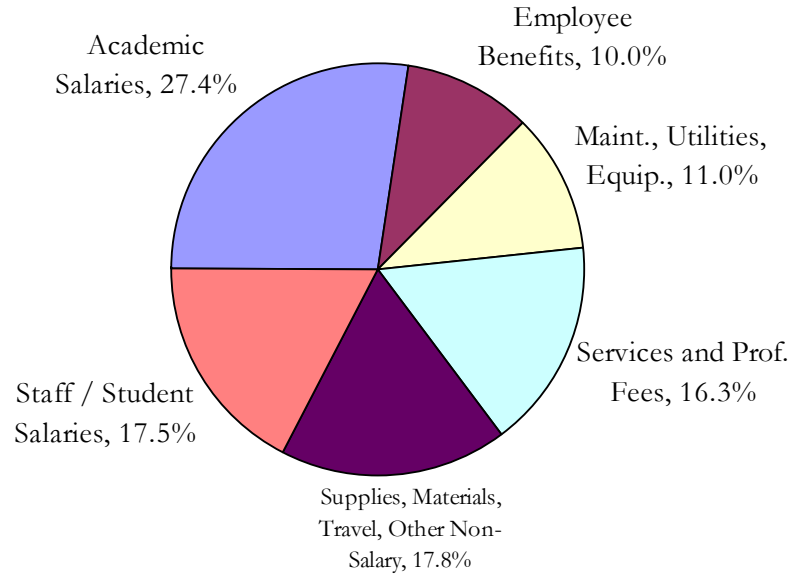
Operating and Capital Budgets

The following charts display the University's operating and capital budget results for FY 2008.

Operating Budget Revenue (FY 2008 Actual)



Operating Budget Expense (FY 2008 Actual)



Capital Funding Sources (FY 2008 Actual)

