

## January 11, 2012 | Announcements

### **President's Message on University Finances:** *President Schapiro provides an overview of the University's financial condition*

Dear Members of the Northwestern Community:

We are engaged in budget planning for next fiscal year (FY13) and given that it has been quite a while since we provided a community-wide budget update, I thought this would be a good time to do so.

While Northwestern weathered the economic crisis of the past few years far better than most colleges and universities, we nonetheless felt its impact. The response of our community to that crisis was remarkable, as all schools and support areas found ways to reduce costs and increase efficiency. Those contributions were a great help in our effort to manage that financial crunch.

### **Our University's Current Financial Condition**

As a result of prudent fiscal management, the University maintains a strong financial position. Specifically:

- While we still face economic challenges, we continue to have balanced budgets and impressive financial results, which have made it possible to support many of our strategic commitments.
- The endowment has recovered most of the losses experienced during the financial downturn and currently has a market value of around \$7 billion. However, the rate of recovery of payouts from individual endowment accounts has been slower given how our endowment spending guidelines work (these guidelines cushion the blow when the endowment shrinks, but slow down spending increases when the endowment grows).
- During FY11, we received approximately the same amount of cash through our fundraising efforts as we did in FY10, but new gifts and commitments increased by over 11 percent. Fundraising in FY12 is going very well.
- We have been able to maintain the necessary cash on hand for daily operations by increasing cash reserves, and through careful management of our resources and borrowing at favorable rates. Moody's, Standard & Poor's and Fitch ratings services recently confirmed our stellar AAA rating, which reduces our borrowing costs and is an indicator of the University's overall financial strength.

### **The FY13 Budget Climate**

We continue, however, to face a challenging financial environment. Realistically, there is limited opportunity in the short term for significant increases from our principal revenue sources -- tuition, fundraising, sponsored research, and endowment earnings. Concurrently, we anticipate rapid growth in financial aid expenses, market pressures on faculty and staff salaries and on benefits costs, expansion in our Office of Alumni Relations and Development to mount a major fundraising campaign, and other costs to remain competitive within our peer group and compliant with federal research-related regulations. As a result, we have fewer funds than we would like to invest in new academic and administrative priorities in FY13. Therefore, we will need to continue to rely on the reallocation of existing resources as the primary way to meet new programmatic needs and address strategic priorities. We look to all areas of the University to share in the cost of program investments, identify further efficiencies in operations, and curtail programs, where appropriate, to enable new initiatives.

Teams from each school and administrative area have been meeting with the Planning and Budget Group to review that unit's strategic plan and requests for additional funds for FY13 and beyond. We will consider these requests in the months ahead, keeping in mind our need to balance the budget. Decisions on faculty and staff salary pools, undergraduate and graduate tuition increases, and the allocation of endowment funds for FY13 will be made by the Board of Trustees at its March meeting.

### **Recent Investments and Commitments**

While we can't do everything we would like to do, we have been able to continue to make targeted investments in academic programs; hire new faculty; increase undergraduate financial aid; support additional research, graduate student training, and computing; maintain our facility renewal and replacement plans; and enhance the arts and athletics/recreation. We have recently recruited new leadership in several of our schools and administrative areas and have helped them address their most pressing resource requirements. We also adopted many of the recommendations of the Undergraduate Budget Priorities Committee, including enhancing cell phone reception and wi-fi service on the Evanston campus (with significant further upgrades to follow over the next year), and allocating funds for a new speaker series and a fall concert.

In addition, we continue to make investments in our infrastructure on the Evanston, Chicago and Doha campuses while planning for future facilities. Specifically:

- On the Evanston campus, we are in the midst of major renovations to our residence halls, including Elder, Lincoln, Allison, Rogers, and 1856 Orrington. Work continues on additions to the Technological Institute to expand research in the McCormick School of Engineering and Applied Science and the Weinberg College of Arts and Sciences. Planning and design is just about complete for the Southeast Campus Development Plan, which features transformative new facilities for the Bienen School of Music and the School of Communication, and we are moving forward with a major renovation of the primary building for the humanities, Kresge Hall, and the construction of a spectacular new building for the Kellogg School of Management.
- On the Chicago campus, we are addressing capital priorities for the Feinberg School of Medicine, including significant renovations of research space, and planning future research facilities on the old Prentice Hospital site.
- We broke ground on our much-anticipated academic center in Doha.

While we have been able to invest in a number of these projects using existing resources, or with the support of the Qatar Foundation in the case of the Doha building, most of these will also require substantial fundraising. The Board of Trustees has reaffirmed the importance of the University's policy of having a comprehensive business plan for each project and agreement about the amount of fundraising pledges and cash in hand necessary before a project may go forward.

### **Questions Regarding the Feinberg School of Medicine and the Athletics Budgets**

In my ongoing discussions with members of the Northwestern community, I am asked occasionally about the recent budget challenges experienced by the Feinberg School of Medicine and about the best way to fund intercollegiate athletics within the context of a medium-sized private research university.

With regard to Feinberg, I am happy to report that the school now has a balanced budget as a result of cooperative efforts of the Feinberg community and our clinical partners in Northwestern Medicine -- the Northwestern Medical Faculty Foundation and Northwestern Memorial HealthCare. We are well into developing a five-year strategic plan for academic and research growth that appropriately weighs the ever-changing healthcare marketplace and the gradual impact of healthcare reform. Feinberg and our Northwestern Medicine partners are busy working toward an agreement on how each will contribute to support Feinberg's research and teaching aspirations.

While intercollegiate athletics play a highly visible role at Northwestern, almost all of that area's budget comes from ticket sales, sponsorships, and revenues from being a member of the Big Ten Conference, including, very importantly, proceeds from the Big Ten Network. Even when considering that the University provides support for financial aid for student-athletes, we are one of a small number of schools that is not forced to subsidize athletics with a large reallocation from the academic enterprise.

### **Northwestern Will**

As I hope you know, the University's strategic plan was recently unveiled. "Northwestern Will" provides clear direction for Northwestern to advance from our current position of strength to even greater national and international prominence. I appreciate everyone's efforts in this important endeavor.

It is time to put the plan into action and we are working with the schools and others to identify and implement concrete steps to propel us forward. We are preparing for the launch of an ambitious fundraising campaign to support the plan's key initiatives. Our previous strategic plan, "The Highest Order of Excellence," served as the framework for a fundraising campaign that raised \$1.5 billion and resulted in notable improvements to the University. We expect even greater success this time around and are finalizing the budget to support a campaign that will significantly increase our resources for many years to come.

### **Conclusion**

Since its founding in 1851, Northwestern University has prospered even during some of the most difficult economic times in our nation's history. As we emerge from the recent financial crisis on solid financial footing, I am confident that we will continue to be a leader in the global academic community.

Thank you for your efforts on behalf of our University and best wishes for a productive and enjoyable 2012.

Morton Schapiro

President and Professor