Division of Student Affairs
Budget Series 101 Part 1: Budgeting and Finance in Higher Education – Presented by Jake Julia, Vice Provost for Administration and Chief of Staff
Thursday, February 25

Julie Payne-Kirchmeier: Thanks everybody for being here with us this morning today. I know that, again, I know I think I know, as I was scrolling through the screen, most people, but we will still…Umm…I'll reintroduce myself, I'm Julie Payne-Kirchmeier, I use she her pronouns of the Vice President for Student Affairs.

And this presentation and this series that's starting with this particular presentation is something that really came out of our conversations with all of you and your respective teams throughout the summer, based on feedback we got from the staff survey.

There were a lot of questions about budget, there was a lot of questions, and it was all across the spectrum about budget, whether it was, how do we manage aligning the Student Affairs budget with priorities up to, how does the university approach it or what are some of these basic budgeting concepts that we really should know so that we can understand how it impacts us. So, we really wanted to respond to that and so created this three-part series, and this is the first part of the series which is February and then of course we have one in March and April. And we are so thrilled and excited that Jake Julia is here with us, our Vice Provost for Administration and Chief of Staff of the Provost area.

I've known Jake since I started, I think Jake you were like one of the first people I met when I came to campus. When you were really working over with the office of what was formerly known as change management. And you've been here since 1996 correct?

Jake Julia: That is correct.

Julie Payne-Kirchmeier: Yes, so Jake knows Northwestern, he is all too familiar with, I think our budgeting process, but he also teaches a course, in our master science in higher education program about this subject, and so we thought what a great person to come in and help us walk through the higher-level concepts around budgeting. And I also hear from his students that he does this very well, but it also takes him a full quarter so we're getting I think a compressed version of something that's a little bit more tailored potentially to what we may need.

So, Jake I am just so grateful that you're here, and before I turn it over to you folks you do have the ability, this is a general zoom okay so we will be monitoring questions in the chat and so ask them as we go throughout and there will be moments, where I may break in and ask Jake a question if we start to see some themes come up. Ronnie and Regan and Lesley-Anne and thank you to the three of you, they are doing, as we all have come to know and love the mission control work behind the scenes to make sure that those questions are tracked and we can get them in front of Jake and those themes. We can also tell you that any questions that we don't get to today like we have done in all of our sessions, we will get those back to the people

who asked them after the fact, so that you know Ronnie is tracking every question that's asked we just want to make sure that everybody is heard and that we can get you the answers that you need.

In addition to asking questions throughout, we will have some time at the end for just a general Q&A. So, I'll pop back on and help moderate that but, hopefully with the content and through your questions, we can really get some good information here today. So, with that Jake I will turn this over to you and look forward to learning with and from you.

Jake Julia: Fantastic Julie, thank you, thank you so much, I just appreciate the opportunity to talk with this group and to, you know, give you some of the…some ideas related to kind of how a budget works and what…what it does and and, and maybe answer some questions you have.

Again, I was as Julie did just encourage you, as we go through to ask questions and if I don't know the answer I will just tell you. When you know Julie and Lesley-Anne and others, asked if I might be interested, I said, of course, because this is you know just really, really fun for me.

But the title is Budget Series 101, and so what I'm going to do is talk about some pretty fundamental concepts and so, for some of you…You know I noticed that Sheila Driscoll was on the line was formerly in the Budget Office and Lori Gordon I don't know if she's on or not, but, you know this, they could probably give this presentation, I just want to be really clear so um you know if there I guess you can, you know check your emails or you know, look at something if I'm getting to fundamental, but I hope this will be helpful and…and again want to strongly encourage you to ask questions as we go forward so with that let's Anthony…yep.

Great, so just really quickly you know again I'd like to just give an overview of budgets, in essence, what is the budget and talk through some of the methodologies and types of budgets, you know go over revenues and expenses and some of their implications, connect on a few budget terms, and then I would like to spend a few minutes just on Northwestern University's resource planning or budgeting process just to give you a flavor of how that works, what we do. And again, I want us to engage, and so I look forward to I'm going to jump right in and again, as I do go through fire away, so next slide please.

What’s a budget? Um well, I mean and it's first and foremost it's it is just a financial representative…representation of an institutions plan. I think sometimes there's a tendency to...ahhhhhh… it's the budget, and you know ohhhh….it’s this sort of you know, great golden oracle out there, and in fact it really is simply how do we track, you know what we need to spend on the activities that we do as an institution and how do we fund them, and you know the budget itself really provide sort of an update in the financial status of the university, you know, at the end of a cycle usually it's a year budget cycle. And it's something that our, you know our trustees have three or two primary responsibilities they have a responsibility to hire and let's say hire the President. And fiduciary responsibility, and so the budget helps them to ensure that we are doing what we should, in terms of matching our revenues and sources of revenue to our expenses, as an institution and doing that in an accountable way. And you

know, I guess, I would say, I would say, a lot of times we're all engaged in planning and we talked about strategic planning and the need to plan and we spend a huge amount of time and effort on it.

And my really strong sense, I've said this to many folks is you know planning without the resources or budget behind it is just hope. And so really the importance of a budget is to make sure that when we plan as an institution and then, as we execute that we have the resources to be able to…to do that and it's not much more than that. It has some has very different roles at each institution, though, so next if you can go to the next slide please.

So, it really is a mechanism for setting priorities, again, you can call something a priority, but if you don't fund it – it really isn't and I think that, if you look at a budget you look overall at the at the university's budget you know where we are expanding our…our resources, you know really sets our priorities and so, so it is absolutely a way sort of the actualization of where we think our priorities are as an institution at any one given time.

And, given that might what I said earlier about you know planning it's a…it's a plan of action, and so, when you have resources, you can take the action you can run programs, you can provide, you know, support for students, you can undertake professional development, you, these are all actions that we do in our daily work and the budget sort of frame that. It's a contract and I think this is really important it's sort of a contract between, you know the…the senior leadership of the university and the various operating units, so that we say you have a budget then, until we say otherwise and…and, unfortunately, as you know, in the past several years we have had to do that…it's a commitment that you can expand against this, you know these expenses that you have against revenues that we're providing as an institution. It's also a contract in that we get many of the sources of our revenue…revenue that we're gonna talk about in a few minutes you know come with restrictions and so, for example when, we have federal financial aid, there are certain restrictions that come with that, when we have direct costs for the almost 900 actually over $900 million dollars in research expenditures each year the you know, the direct costs have restrictions and so it's a contract to make sure that we meet those restrictions and how we expend the money. It's a control mechanism.

And again, one could make the argument that it hasn't really, hasn't fully worked in Northwestern over the past several years, and in fact we've been spending quite a bit of time, making sure we come back to that, where we ensure that our expenses don't extend beyond our revenues and…and so when you many of you have to go through quarterly projections and or those on your staff need to do that on this is part of that control mechanism to make sure that we're expanding at the rate we thought, if there are any changes that are coming in that in terms of that, or if there are environmental factors, a pandemic, for example, that we are, you know that we're making sure we control and modulate our expenditures.

It's a gauge of institutional risk. So it's interesting Julie mentioned I've been here in August it will be….ahhhhh….not ahhhh…but it'll be 25 years – seems like a long time that's…that was my reference there. And you know I think there was a time when Northwestern was hugely

conservative in terms of its investments and really wanting to ensure that you know more than anything, we had a balanced budget, there was a real pride in that and there's…there still is. But over the past several years, there was an idea that maybe we should be expanding more, then we had the past, and with that comes some risk, you know we did. We'll talk about capital budgeting in a few minutes, and you know, there was a period of time, you know, over the last five years, we spent over two and a half billion dollars on new academic and other buildings at the university and so you know, taking that on and taking the debt on was more of a risk than we've done in the past, and you can kind of tell by the budget where the budget came out, how we did on that.

It is an instrument of communication and again it tells the community, kind of what our priorities are, how we're expending on them and you know, and what we think, in essence, is important, as an institution, as we go forward. And then it is a political device and whether it's conscious or informal or formal you know, there are negotiations that happened on an ongoing basis, in terms of where our funding goes some of it depends on issues that arise. You know when…when President Shapiro decided that we wanted to make sure that we had 20% of our students as Pell Grant students by 2020 obviously again we were, we were even better than that there were a lot of negotiations that went on, you know, again, whether they're formal or informal to say darn it, this is a priority and we're going to make some tradeoffs, to be able to do that. And so those tradeoffs are kind of part of a political process that's inherent in every budget process.

I'll take a breath for…for a second just say that these are things that happened at the university level, they happen at the school and...and Vice Presidential level and they happen at the unit level as well, where you know whether it's daily or the product of an overarching process people you know kind of, say, can you can we make this trade off or are there ways that we can get this done and that really becomes a political…political process basically.

Next please.

So, what are some budget methodologies? Again, these are terms you probably have heard, and I don't want to spend a huge amount of time on them, but but…You know incremental budgeting really all that it means and I guess, we could say in Northwestern presently you've done some detrimental budgeting here in the past several years. It means that either you know you increment or detriment your…your…your budget by a certain percentage. And so, when we're going to talk about expenses in a few minutes we're going to say find that at a place like Northwestern what's between 65 and 75% of all of our expenses are human resources. And so, it might be that you know, in an incremental budgeting process, we would, basically, say okay we're going to increment the salary pool for our faculty and staff by X percent over the coming year.

We may say that we're going to increment our non…non personnel expenses by Y percent and you just basically build on the budget that's there. It's stable. It is easy, reasonably easy for people to understand and it basically means that in good times you're building on the

previous…previous budget and just moving forward. Now the challenges we've had here over the past several years um, you know, we have gone the other way. Let's just be, I'll be very upfront with you we've detrimented. And so, you know we were at you know X and then you know, over the past two years X minus you know Y percent based on you know the non-personnel expenses that were cut out of the budget. And, frankly, is…your…everyone is aware, and I want to be upfront that the personnel, the human resource increments have been taken out of the budget. So…so it does work both ways, but again it's on incremental basis either way when you look at it.

Responsibility Centered Management is called, many you'll hear people call it RCM you might hear people call it, tubs on their own bottom. Basically, it means that there are in in this environment or your schools and administrative units, predominantly your schools actually would be you know sort of having their own revenues and their own expenditures.

So here at Northwestern we have a hybrid model So, our undergraduate schools are what we call appropriated schools, meaning that they get an appropriation, an allocation from the central budget every year to fund their…their activities. Our professional schools, however, are in this RCB model, which means that the revenues come into them, come directly to those schools and then they're responsible for matching their own expenses against those revenues on an ongoing basis. And so, for example, if there was a situation where Kellogg ended up going into the deficit, Kellogg is responsible for meeting that deficit. It may be that they have to take a loan from the University, which we hope again, this is not happening just to be very clear, I know this is being recorded I'm just using this as an example, but you know it really means that they are sort of their own business units within the institution and they pay a subvention fee to the university, for lack of a better term, to kind of cover you know, obviously the buildings and the land. The utilities are Northwestern they're not the individual schools and so that you know funding comes back to the central administration from those schools for that.

Some schools have all of their units, all of their schools on this RCM model, I believe the University of Michigan, for example, is on that. In some ways it makes each of the deans you know their…their own sort of financial boss, basically, in that sense and responsible for both the revenues and their and their expenses. The challenge is that when you have that, and Morty Schapiro, I guess USC had this and Morty came from USC two institutions ago. And one of the things he outlined very clearly is that it really puts up a sense of competition between the units. And so you might have some, so Morty was President of The…The School of Arts and Sciences or College of Arts and Science…not President…Dean and he used to joke, because the Business School would have its own English courses and its own Art History courses, because they could get those, those faculty members cheaper than they could you know, by sort of paying the School of Arts and Sciences, to have their English courses taken there.

So, we at Northwestern really believe that you know, we want to be on this appropriated model for our undergraduate schools so that that we don't run into those sorts of challenges. And our professional schools are you know run on this other on RCB or RCM.

I mentioned zero budgeting based budgeting, because it comes up a lot. Oh, you know somebody comes in, or you need to zero base budget, and you know it is something that you see many, sometimes when a new leader comes in, you want to Zero base. Which basically means going back and not assuming increments. So, you're going to go back and say we're starting from scratch and making sure that every activity is justified in our unit, in our area and that we know what it costs and then we know what the revenues that are going to be applied to that.

It takes a huge amount of time and again, if you think about the fact that between 65 and 75% of the expenses in any given unit or an organization are human resources, you know you have to be if you're going to do zero based budgeting, you really have to be willing to look at the human…human resource expenses and that's a challenge for a lot of folks. So, it's out there, has to be used and really focused in areas, and so, if you're a unit that's just been incremented for a long period of time, it may be, you know that your leader decides let's kind of let's go back to square one, and see where we are. Really challenging, difficult to run at a whole institution. Rarely really does it happen. If it does happen, sometimes it's more on the non-personnel expenses that it's done.

Next.

Julie Payne-Kirchmeier: Jake?

Jake Julia: Ya.

Julie Payne-Kirchmeier: Real quickly, I'm trying to connect a couple of things here. When you talk about responsibility centered budgeting these budget methodologies, I know that within Student Affairs, we have a few different approaches, given the different units that report up through us.

Would an appropriate comparison be that, maybe our Residential Services area is funded more like budgets more in that space versus the other areas within the Division of Student Affairs?

Jake Julia: It is fair to say that I think you know when we get to the next slide Julie we're talking about sort of auxiliary budgets.

Julie Payne-Kirchmeier: There we go…

Jake Julia: I think you know, in some ways it's a terminology issue…but yeah absolutely you know those…those if you look at this, the second sub bullet there, things like you know, like Residential Services, The Bookstore you know…you know would be auxiliary enterprises that kind of have their own revenues and their own expenses absolutely. I think a little bit more targeted when we think about auxiliary versus overall but it's the same model.

Julie Payne-Kirchmeier: Great Thank you.

Jake Julia: Are there other questions? I will take a breath here. Anything else I should...like to answer at this point?

Julie Payne-Kirchmeier: Not at this point…no it doesn't look like it.

Jake Julia: Okay. Great. Super.

So, you know we talked about budgets, you know a lot of times what people are talking about are operating budgets and that's the day-to-day sort of expenses of the institution.

At Northwestern and it's about $2.6 billion dollars. It's comprised of restricted and unrestricted funds. So restricted funds are those...pretty much what they say! They are they're restricted use. So, it would be, many times gifts that come in have restrictions and how they can be spent, and when they can be spent, and by whom. I mentioned earlier, direct costs associated with federal grants are restricted. If we have state…state appropriations we don't have significant state appropriations, but the state does provide funding for some programs, and they would be restricted in terms of how we could use that.

Unrestricted basically means that the funding can be used, obviously in the legal and compliant way, but with a lot of flexibility, maybe that's a better way to frame it. The other thing is that a distinction that's good to make is recurring versus non-recurring. So recurring is something where we make an allocation, and we understand that this could be part of the ongoing operating budget. So, when you ask for an incremental FT…full time equivalent position then, you know generally it's probably going to be recurring unless you say I only need this person for one year and I'm only going to fund it for one year. You know non-recurring means that there is a time limit…could be one year could be three years. But you know it's not going to be part of the permanent budget it will be part of the annual budget it'll be in there for that year, but it won't be something that's going to be incremented every year going forward.

Sometimes, when people you know, again, maybe you've experienced this but, when people are proposing new…new full time positions they'll say…Oh, I just want to do it on a non-recurring basis to try it. And I would just tell you centrally we're cautious about that because, you know, things change, and if you, and if we're making a commitment to somebody to come here, unless you're really explicit with them that they're only going to be there for a year or the commitment is only for a year or two years, whatever it might be. Then you know, we want to be careful about making you know…about baiting and switching in essence somebody so that they…they don't come in with the expectation that they're going to be funded on an ongoing basis if they don't have that funding in place. This something we run into.

Restricted budgets are simply going to sub budgets that we would use to make sure that we are compliant. It is that…that control mechanism, I talked about a little bit earlier in terms of just ensuring that we are matching and meeting the restrictions that are there.

We talked about auxiliary enterprise budgets already, there are several within Student Affairs, and many of you are, several of you, I know have those responsibilities of oversight in those areas. And then hospital operations, the clarity here is that it's a…we have affiliated hospitals. I think, I just…just point that out that in some institutions, the hospital budget and the university's operating budget are…are connected and almost integrated. And here, our hospital operations in our affiliation forwards funding is a resource source for us basically an ongoing basis, you know, based on our relationship, but it isn't you know part of our budget it's separate basically.

And then just Service Center budgets are within the you know, our budgets like there are instrumentation…you know service corps, for example in some of our schools and they have their own budgets, because again there you might say they're an auxiliary or an RCM type model as well. Where they need to internally charge their budgets and we just want to make sure we're tracking what's being expended there.

And then yeah Lori, thank you for that comment, you know that absolutely endowments and gifts are very much you know, on the restricted are restricted funds that come in, not always and I think there's a lot of excitement when an unrestricted gift comes in, but many of them, respecting and understanding the donors have very explicit…you know what areas where they want their expenditures to go…go through.

And then capital budgets, actually if we flip to the next slide please.

So, you know capital budget, you know it basically is you know, we define a capital project is anything with a total project budget over $100,000. So if you've come from other institutions or you come from smaller institutions you know, it could be in some institutions, they call capital anything over $5,000 I think it really depends on the institution, the size of the budget, the complexity of the budget and so here. And you know I won't read the sub bullets, but basically this sort of defines when you think about a capital request or you may be in a position where you want some construction done this, this really gives an idea of some of the areas that you know that would be covered in a capital budget.

Next slide please.

Julie Payne-Kirchmeier: Jake, we got a quick question from someone in the chat wanting to know, Lori had brought up at a lot of our restricted budgets, you know our gifts in endowments but what are other examples of restricted budgets that are not gifts or endowments?

Jake Julia: Yeah, so…so if we look, right here in this slide, for example, the Federal Government for every grant that…federally sponsored grant that the university receives, again it was $900 million worth of them last year, we have direct costs, and we have indirect costs. So, the direct costs, basically, are the human resources, the you know the cost of the equipment, the lab renovation, those are explicit costs that are put into the grant and are funded and have to be restricted only for that, absolutely has to be that. On the indirect costs it's called the

F&A…finance and administration rate or indirect cost recovery and it's a percentage of each that comes in, with each grant it's kind of an overhead. And while the idea appropriately is that since it costs way more to do research, then the grants actually will cover, you know that the indirect costs can be used unrestrictedly so you can use them in a way it comes to kind of the bottom line. But the direct costs would be I think a really good example. And the other thing would be for the state so again, we talked about state…state grants if the state is funding a specific program, we've put in proposals recently for some capital projects that would be funded by the state of Illinois. If they fund it, we can't just sort of take that money and buy it somewhere else, we have to use it for a specific project that we that we define.

I hope that helps.

Julie Payne-Kirchmeier: Yeah. Thank you.

Jake Julia: Sure.

And yeah, Northwestern does have a standard indirect. I believe, right now is 60%. Please don't quote me and I could find out, you know it's either 58 or 60%. So, for every grant that you know you figure your direct costs and then add 60% on top of that, for the indirect costs.

We have a great team, here too, by the way, in Financial Services it's a really tough negotiation with the Federal Government to get that rate and so, one…one side note here is that we spent I mentioned the $2.5 billion that we spent in buildings, over the past, you know five to seven years. Many of those buildings, not all certainly were research buildings and because of the fact that we are expanding all that of those institutional resources on that research it helped us in our case, to increase our indirect cost rate.

Again, if we think overall about the revenues coming into the institution to Northwestern, we have tuition and fees, and just the vendors understanding…yep thanks Lori I thought so. Good.

That obviously tuition and fees and that's the institutional financial aid that we get the students would come off the top of that post fees. Mentioned the federal grants, state grants and again just to be clear, if we were at Indiana, mentioned earlier, Michigan, Wisconsin…state this money coming into from the state will be much higher than it is at a place…a private institution like Northwestern.

Next slide please.

So, we mentioned again that the private gifts and grants are a source of revenue. Again, Northwestern has $5.1 billion dollars raised over the last number of years, and you know again that those comes from very generous donors, and again I know Student Affairs has you know, has been the recipient of many of those.

For some corporate gifts there are direct and indirect costs but rarely are…they're NOT let me be explicit, at the same rate as the as the federal rate. And, in many cases the university makes the decision that, depending on the amount of the of the corporate or foundation, would be a better way to say, gift, it may be that we, we would take a lower rate of that because we feel it's really important to receive it. So, the…the indirect rate, I was talking about earlier is predominantly for the Federal major agencies.

In terms of endowment again, you know, there is the resource, and the revenue comes in, predominantly for the operational use from a pay out that happens on an annual basis it's generally around 5% here in Northwestern.

The idea with the endowment you know there's a lot of confusion out there right now is that…That it's something that helps Northwestern keep going in perpetuity. You know the University has been around for 165 years and the idea is that we will be around for another 165 years at least.

The endowment is what helps to do that, so the desire, I think, maybe…maybe you all saw Amy Falls from Rockefeller University is joining the university shortly to be our Chief Investment Officer and her…her role in that is to make sure that she does everything possible to…to grow that endowment for the future use of the institution and…and on and the connection with our operating budget is on an annual basis, again, approximately 5% is paid off, of whatever the endowment is at the time to help fund our operating or day to day expenses of the institution.

So, so again for clarity sake, it may be that an annual year that the university makes 9% on those investments, and so you know the…the 5% payout would come out of that, but the rest will be reinvested to help build the capital and to move forward.

On special occasions, and this I believe public knowledge that you know, given some of our financial constraints over the past several years we did take some of the money out of the endowment to be able to make sure that we could continue, you know operating the university at the level that we wanted to. As a rarity very, very rare and not something that is advised.

And then other revenues again you folks, many of you folks in Student Affairs will be aware of the sales the revenue that comes from obviously from room and board, from dining services from the bookstore, from medical services for the institution. And then a really important source of revenue is at the bottom of the page that's licenses. So, our faculty, you know, on an ongoing basis their research ends up with some really neat inventions and…and there are royalties paid on that. So, the Lyrica fund is like Northwestern's you know, you know, major, major sort of success in that area in which there were you know significant amount of funds that came into the university, some of it goes to the…to the inventor in this case, it was Rick Silberman some of it goes to the department some to the school and then some to the university to be able to use to help support its operations.

And so again we're not here to you know, to have our faculty be making inventions that make money, but when they do there's a…you know there's a revenue stream that comes in, from that and…and we take advantage of that.

Next, please.

Okay, on the expense side you know, again I mentioned, really, really briefly earlier there are human resource expense, you know, salary and benefits we just want to be clear about that there are operational, the day-to-day operations of the university are what it takes to run. It's the programs you offer, it's the support that you provide students, it's the professional development that you undergo, it's the supplies you need on an ongoing basis to do your job, the computers, you know the technologies that you need those would be considered operational and programmatic.

We have what's called O&M I use that because you may see the term it's just what it takes to run the university's a physical plant on a day-to-day basis.

We mentioned earlier, capital that they're expenses related to you know the on ongoing…beyond operations and maintenance there's deferred maintenance, where we need to replace roofs, we need to replace you know floors we, we need to put in new plumbing. You know, there are those expenses that are kind of deferred maintenance on these buildings that we have, and then there are the new buildings and the major renovations that we have.

And then Northwestern takes out debt to be able to make sure that it has the appropriate cash flow to meet its…its bills on an ongoing basis and to be able to you know not have to wait until we've saved up every penny to start a major project. And so, obviously we pay interest on that debt and that's an expense as well. There are a few others that are associated, maybe explicitly with research and some of the other areas. That I'm not going to spend a lot of time on right now.

Next, please.

I think that these slides I don't I won't go over explicitly because they really just I think reinforce some of the things that I've been talking about previously so um…let's move on, let's keep going… next…next…keep going, keep going, keep going.

Alright, thanks. So really, I am getting toward the end of the time, and I want to make sure there's time for more questions, but I wanted to talk to you a little bit about Northwestern's resource planning process. So, we have, these are the very, very clearly stated, what I would say high level priority goals, and so it is to strengthen faculty and staff compensation pool you know, to the degree possible means that exactly that. I can assure you that that Kathleen Haggerty and…and Craig Johnson and Julie Payne-Kirchmeier and Morty Schapiro are doing everything possible to make sure that we are maximizing whatever we can do for the faculty

and staff compensation pool. We're very aware of kind of the constraints we've run over the last three years you know, two years at least two years, and this is, this is the highest priority.

My, my caveat is just that you know even with that sort of focus and desire and that high priority, you know, I think it will be hard to meet, meet everyone's expectations across the whole university but we're going to do the very best we can to make sure that it is a robust compensation pool.

Then, to make sure that we are supporting our basic infrastructure, you know, targeted investments in terms of our facilities and information technology.

And then unequivocally and absolutely and this, I would say that the compensation is at the top, certainly but co…co at the top is maintaining the health and safety of our community through the pandemic and beyond. And so, looking at how we invest in that, as we move forward.

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So, what's the goal of our process? To provide as much transparency as possible, as we go through the process. That we understand and demonstrate the financial impact of the decisions that are being made. Getting back to kind of where we started in terms of the budget being you know, a sort of the implementation of the university's plans and then identifying necessary tradeoffs and you know that's you know, a really key point that I guess I would want to get across. We have an amazing complex, exciting, diverse university at Northwestern and our peers would be the same so we're not unique. And we would like…I can share with you…and let me not say we…I would love to be able to fund every great idea that comes in, every need that we have and to the absolute maximum that we can.

There’s just a finite amount of resources that are available at any one given time, we do have to make tradeoffs, we do have to make decisions, we try to make them as informed as possible, as we look across the university. You have a Vice President who is a hugely strong advocate for all things Student Affairs and everything in terms of our student support and we do our best to take that into consideration as we think about these tradeoffs. But it is part of the job and frankly I'll just share with you it's one of the most challenging part of the job because…because we do have to make very difficult decisions and we respect and understand that it's not to everyone’s satisfaction actually <u>never</u> everyone’s satisfaction in terms of that.

So, again we develop the framework, it's incremented, you know coming back to the incremental budget process from our FY21 budget, we refine it during the winter and spring quarters. And then we can spend, you know, maybe it's Budget 501 talking about GAAP, generally accepted accounting principles it's what the board needs in terms of kind of looking at our overall financial picture that's just what that means.

Next slide.

Yes, just again so you know we have a number of meetings you know, in the fall where we talk about you know areas of you know, of priority and where they how they fit into the overall budget planning. All the schools and Vice President units present their strategy and their funding options to you know the university leadership for consideration. And then there is that consideration, and then basically you know, in May, June we roll out with the decisions are for next year.

Fiscal year, I didn't even mention that and I should – Here at Northwestern it is September first to August 31. So FY22 is September…starts September 1, 19…..no not 19 that's awful…2021 sorry.

Next slide.

Julie Payne-Kirchmeier: It's okay Jake I think sometimes we all want to go back to 19…It's fine!

Jake Julia: And this is another one, that just so you have for people who are interested, I won't go into the details here, but I just wanted, you know I get we get questions, how do you make the decisions on those capital resources, you know those…those projects over $100,000? And this I think just defines that maybe this is something if you had questions after the fact I'd be glad to go through them but don't want to you know get in…don't want to get in too much detail now.

Next slide please.

Yeah questions, but actually could you go to the next slide and then I'll come back to questions? Yeah so, I just want to be really clear, two things…one is that the Goldstein book is really one that I go back to even now, just to make sure that I'm clear on some of the concepts and so, if you really are excited, I've just generated so much excitement in you that you want to go out and know more about budgeting it's a really good source.

And then I do want to make sure that several of the slides here are ones that I use that we're actually done by these…by these colleagues and just want to make sure that I cite them because you know I just I didn't want to rework great work that was already done so, please know that.

So, if you could go back up to the question slide.

Great! So, what didn't I answer, or what more questions that I generate? Please fire away.

Julie Payne-Kirchmeier: We've got a couple that were submitted ahead of time and during the process and then we can open it up to the…the larger group.

One of the questions that we'd love to put in front of you Jake is that, we know from the financial update that was sent out the beginning of the calendar year that Northwestern experienced and I guess we call it an unplanned surplus for FY20 and the President said those dollars are being used for 21. Could you share with us like what that was used for? And then you know how our surpluses typically used because I know this is sort of an atypical year.

Jake Julia: Yeah so, thank you. So, what I would say is that, you know, just to be clear, the surprise was that we've never been through a pandemic before and we you know we were we tried to be as conservative as possible so that we didn't put the university into a very negative financial situation as a result of the pandemic.

And really what it turned out happening was we learned even more than we thought we knew about how much the university spends in travel and in events and in sort of professional development going to conferences, presenting at conferences by traveling there.
And then, with many people I know many are but with many people across the university, not on campus that those sorts of operations and maintenance, you know expenses, the you know turning on the lights, you know things like that you know really were way less then what we anticipated in the end, so we ended up with the surplus.

What we've done with that is, you know you know immediately…I sort of have to be careful, but I would say, is what it allowed us to do so, I don't want to be that we use that exact funding for these exact things, but what this allows us to do was to go back and you know go back to our previous match for retirement, so that we, you know didn't we…we can keep our commitment and not go forward, excuse me…further with without having that match.

It allows us to pay for the extensive and expensive…expense for testing, as we go through you know this. It allows us to…allows us to help with our technologies, especially our learning technologies to make sure that again the experience of our students is as much as possible and helps us to fund things like quarantine and isolation and the things that come along with that, as well, so you know, we are watching what happens this year it's…it's a very fair question to say well is this going to happen again? And you know our desire would be that we would match our revenues and expenses much more closely going forward.

Julie, to your question about what happens in a regular year, it would be that, when we have those surpluses it allows us the capital to be able to undertake major projects that we might not be able to with our general operating budget that you have a surplus that kind of backs up, you know that the need to undertake a major new initiative or major new capital project that's really what we have been doing in the past. And we hope to get back to that by the way!

Julie Payne-Kirchmeier: Yeah, thanks for that Jake I think it just helps to hear it explained a little bit more than simply a couple of lines in a letter, and I know that that caused some questions.

Um another question that we got submitted, and this is from Kim…Thank you Kim…You talked a little bit about you know federal and state funding before, but you know as a private institution in general, what kinds of federal and state funding do we receive and do we think it's going to change because of covid?

Jake Julia: Yeah so, the predominant…the predominant federal funding that we receive is through our you know the major funding agencies for funded research, for you know funded research, so I don't I don't mean to leave anything out but NIH, NSF you know NEH those sorts of agencies that's predominantly for us where it comes through.

Sometimes we have specific projects that really the state feels adds to the economy here and they provide funding, you know for again predominately capital funds.

In the past we've had some matching funds, you know from state aid, you know, to help bolster our some of our student aid I don't know that we, you know, given the status of the Illinois budget that that's actually something that we're still experiencing, but that might be an example. Versus a place like Michigan or Indiana or Wisconsin would get an appropriation from the state every year to help run its operations, so that would be kind of that's a little bit of the difference, I would say.

Julie Payne-Kirchmeier: Great. I think one of the things that we might want to put in the room, is that we know that there was discussion into the summer that CARES funding that came out for students, Northwestern did not accept the funds last year in part because there were some pretty what I would call draconian restrictions associated with it, and it would have hurt some of our students, but a few of them actually, but there's some discussion about it this year correct?

Jake Julia: There is, and I think again, you know as we're going on, I think there was this is a different appropriation this year at this point then it was last year. I caveat….I caveat and it's just because things change almost on a daily basis stuff, and so I don't want to say something that tomorrow, I find out is not true, but yeah, and so we just want to be really careful as an institution that we are aware of all of the factors that are engaged in this. I mean the same thing would extend with gifts it's so its sometimes people have a challenge and I understand that, well, this somebody told me that this donor was going to get $5 million why didn't you accept it? Our…let's see…probably three Presidents ago Arnold Weber was famous for talking about gifts that eat. And you know, he what he meant was that sometimes you take a gift, but it cost you more to implement the gift than it does to…actually what the gift covers.

And so, we're careful on that as well and make sure it before we say yes, this is great, thank you, that we've…we…we have that we know what the implications are of the gift so that you know we don't…we don't cause more than you know expense, for example, then, then what the gift does so that would be another one.

Julie Payne-Kirchmeier: You mentioned, like flexibility or some of these urgent things we had a question come into the chat but what flexibility exists in the budget for emerging issues that may arise.

So, for instance, matters that are identified, as you know, important by students and then maybe acknowledged by staff so in our case, we hear that a lot with CAPS we hear it sometimes with HPAW and some other needs.

Jake Julia: So there, there is, I think, inevitably, in a in a $2.6 billion budget think that there is there are opportunities to reallocate or to kind of utilize sort of what I would call carry forward or surplus funds basically. Now again, I would say that in the past couple of years we've also been cautious about using our carry forward funds because there are implications that GAPP accounting that I talked about earlier, very briefly. But that is an area that's an area that you know that in emergencies, you know we've said, well, we need to approve the use of those surpluses for emergent things. The other thing is that there is, you know there's what's called an institutional contingency. Not a huge amount of money, but if there's something that we really feel can't wait for the next budget cycle, then we may utilize that as well and it...it varies. I'm not trying to be cryptic, but I would…I would hesitate to say what that is at one given time, basically.

Julie Payne-Kirchmeier: Great. Thanks Jake and thanks Keith for the question. We started to talk a little bit about those carry forward funds we have questions submitted earlier, I think it fits better now in this conversation about carry forward.

You know, there was a while that we weren't able to use them and we were even told we couldn't use them for gifts and I think this is probably like in the first couple years, wondering where the university stands on that. And I can share it full transparency that Lori and I had a conversation with Daniel Durack who is our associated VP for Budget, and for gifts we've got a little more leniency there now, we just need to work with the Budget Office on those.

Jake Julia: Right.

Julie Payne-Kirchmeier: I mean there's still approvals that happen, but just your…your perspective.

Jake Julia: So, my perspective, is that you know, Daniel…Daniel is the expert on that and we and we and the Provost Office support this kind of evolution, to be able to use those gifts. You know we, it makes sense if donors are giving gifts, it feels, it doesn't feel great to me to not be able to expend them. What I would contextually though share with you is that where…where I support Daniel also is that we, we have to be cautious, as an institution, as everyone wanting to try to use their carry forward all at once. Because there is a cumulative impact basically, so sometimes what I think we're evolving to Julie would be really looking at the timing and you know kind of and the priority, you know, as we move forward, but so yeah I think there's much more of an openness and there was when we were kind of in our really significant financial

constraints, over a year ago, maybe a year and a half ago. It's still evolving, but I think you're going to find some flexibility as we move forward.

Julie Payne-Kirchmeier: Great thanks Jake and we got that same kind of feedback, I think, from Daniel but we just have to be intentional and purposeful it's not a free for all, so this this does connect over you talked in that even in your answer there about priorities, right? And we had a couple questions about priorities come through, one is a general one like how are the universities budget priorities even determined? Yeah so that's one. And then one more specifically Kelly Benkert, thanks for the question, about the public commitments about racial equity and what that conversation may be looking like in overall budget discussions.

Jake Julia: Yeah so, so I think that…you know, on, I mean absolutely I think that we are trying to what we try to do is to think what our institutional priorities, what we have said, our institutional priorities are and how are we matching that. So if you go on the, I think it's the Provost website, you can find there are university strategic priorities, and I think that we come back to those and, as mentioned in this presentation as well to say all right, you know, or is this something that we're going outside or is this something within those…and they are very broad I respect that, but...but still think that we really try to do that. And so when folks like you Julie come in and you give your presentation to the you know, when you have a strategy meeting, you…you and your team that did a great job of sort of laying out this is where what we're advocating for as it relates to the university's priorities, so I think on that front that's kind of that's the kind of the guiding it's a framework for how we would go about that.

I think, on the on issues of racial diversity and social activism and ensuring that we're being aware, I think that that comes you know, certainly is one of the priorities of the institution. I actually think that we need, and I'm looking in the mirror when I say this not…not saying other people can do better at communicating what we have invested in what we want, what we've approved in terms of our investments in those areas, basically, as we go forward and you know we are listening to advocates on an ongoing basis, you know, in terms of what are our priority needs and how those fit. And there are tradeoffs, we're...if we're if we are investing in some areas, we have to make an institutional commitment that we may not invest in other areas as well. And again, not saying there's…there's no value judgment in what I just said, simply that that's part of what…what we do as we go forward.

Julie Payne-Kirchmeier: I just want to check in and Kelly B thanks again for the question there's a second part to it about any racial equity goals being set using our economic powers and anchor institution in Evanston and Chicago and that may be a more a deeper component of…of what you just discussed, but Kelly Benkert, I just want to make sure is there anything else that you want to add to that or is that an answer, then we can follow up later?

Jake Julia: Ya, I would while…while…while you're asking, I would just say, you know that that is part of what we're talking about I mean, I think you know, there are number of things that we work through Dave Davis through David Figlio through other of our schools, as well as what we hope is contributing to a broader sort of impact, you know beyond our campus and, you know,

again, you know the specifics I'd recommend following up and but you know I would actually recommend that if you had a specific question about that follow up directly with Dave Davis who is our university community…community…Director of Community Relations or Executive Director of Community Relations, I'm not sure what exact title is but I would recommend that.

Julie Payne-Kirchmeier: Neighborhood and Community Relations. Kelly B I saw you unmute there for a second.

Jake Julia: Sorry.

Julie Payne-Kirchmeier: It's okay, you both did at the same time, it happens!

Kelly Benkert: No, it's fine and Jake, thank you so much for taking the time to talk with us today, I think I'm just to name that there are like 100 people on here and so obviously this is a topic we are all very interested in. I think my question about the anchor institutions is really we are a massive institution obviously by size and by budget in a community in Evanston and in Chicago and many institutions of our size make very intentional commitments to think about our role as a permanent member of a community, and what that looks like in terms of how we set goals around procurement from black owned businesses, local hiring agreements things like that. In a coordinated strategic way in partnership with the community around some goals that are related to things like education equity and, you know stuff like that that's all connected together so just curious what that conversation looks like, there are some amazing professional organizations that support institutions in thinking about progress towards justice-oriented goals in using their economic resources.

Jake Julia: Yeah, so it's a good point, and again I think that there is that the answer is that is that there is a conversation, and when you think about procurement and you think about our you know facilities and our capital folks and you think about again programmatically what we're doing with Chicago public schools we're doing here in Evanston there are a wide range of those sorts of initiatives that are connected on if not, if not fully evident to the community as part of a very conscious idea of being…being impactful both in Evanston and Chicago.

I'm not trying to deflect but I really sincerely would say that you know if you wanted to know more and more detail, I would you know just connect back to…to Dave Davis in terms of because I think there's pretty significant you know detailed information about what we're doing in that space and what's planned in that space. And you know I also come back to what I said before, and that is that you're asking this question Kelly, I appreciate hearing it because to me it says that we need to do better at communicating really some of the really neat things that we're doing to be that sort of anchor and that impact in both Chicago and in Evanston so thank you, I appreciate the question.

Julie Payne-Kirchmeier: Alright, well it seemed to fly by to me, I don't know about you all. We have just three minutes left, right and so first off Jake, if people could use your reaction buttons or whatever you want to do in just thanking Jake for being here with us today and putting the

effort and labor in creating this presentation and sharing your expertise we really appreciate you being here and teaching us all. I learned things today and I've been here nine years have done budgets for a really long time, so thank you so much for that. Remember this is step one in a series and so next month Lori Gordon our own resident expert will be talking about our Student Affairs budget, and then the month after that I will do my best to really talk more about stewardship of the budget and how we tie things to that strategy that Jake talked about. We'll talk about the strategy and you'll have those basic building blocks and we can talk to you about how we align these resources and get your questions answered that way okay? And don't forget, we do have a coffee chat next…ya….next Wednesday…No…Two weeks! I can do calendar math I promise, two weeks Wednesday, March 10 so please just pop in if you're able will have some good fun conversation it's a little more lighthearted and still we can answer some questions in that space to.

Also, again recognizing Regan and Ronnie and Lesley-Ann for their work and bringing this together, and then Anthony is here from Norris Tech Services. Thank you so much Anthony for making sure everything worked, that the slides were working, the recording got started and all of that labor behind the scenes.

And then, again as a reminder, this will be…it's been recorded, thank you Jake for letting us do that and we'll also transcribe it into Spanish and put it on the website so that folks who couldn't be here have an opportunity to go back to it and watch it as well, and we will do that for our other two in the series too. So, with that again, Jake thank you very much, thanks everybody for being here and have a fantastic rest of your day great.

Jake Julia: Thank you so much appreciate it we'll see it.

Julie Payne-Kirchmeier: All right.