NORTHWESTERN
GRADUATE WORKERS

MEMORANDUM

Subject: 2019 NUGW Financial Report

Date: Thursday, April 16, 2020

The following is a summary of Northwestern's 2019 Annual Financial Report, with attention aimed especially towards implications for graduate funding capacities.[1] Contained are the following:

1. Investment Returns
2. 2019 Fichtenbaum-Bunsis Ratios for Northwestern
3. University Endowment
4. Discussion of university surplus
5. Further Questions and Concerns

1 Investment Returns

The university posted $295 million in investment returns for the past FY. Due to spending on university construction, however, academic and operational costs were $589 million. The reduction in investment returns were partially due to decreased performance by their holdings in equities, real assets, and absolute returns. This is a major reduction from last year's returns of $909,304,000 in 2018 and 1,087,366,000 in 2017.

[1] The 2019 Annual Financial Report is available at https://www.northwestern.edu/financial-operations/annual-financial-reports/index.html

2 Fichtenbaum-Bunsis Ratios

2.1 Summary

These ratios analyze the university along several fundamental aspects of viability, including general profitability, deficit spending capacities, and reserve capacities.[2] for the eponymous chapter of the AAUP. These ratios measure both short-term and long-term financial capabilities. One of the main arguments given by the university is that increased funding for graduate workers and other sectors of workers is that the potential funding's increase draw on the endowment would be "unsustainable."

This report shows that Northwestern's Primary Reserve Ratio and the Viability Ratio - the two FB ratios that consider long-term capacities - are extremely high, implying very robust long-term funding capabilities. Given the relatively small size of guaranteeing 6th year funding relative to Northwestern's various cash flows (see section 3.1),

2.2 Fichtenbaum-Bunsis Ratio Results

Primary Reserve Ratio: Obtained by dividing True Total Reserves ($12,027,507) by Total Expenses ($2,511,191). **Northwestern's Primary Reserve Ratio was 478.96% in 2019, an increase from 429.35% in 2018.**

Viability Ratio: Obtained by dividing True Total Reserves ($12,027,507) by Total Debt ($3,176,668,000). **Northwestern's Viability Ratio was 378.62% in 2019, an increase from 326.2% in 2018**

Net Income Ratio: Obtained by dividing the Change in Net Assets (-$183,771,000) by Total Revenue ($2,327,420,000). **Northwestern's Net Income Ratio was -7.90% in 2019, a decrease from 19.71% in 2018.**

Cash Flow Ratio: Obtained by dividing the Operating Cash Flow (-$166,121,000).[3] The Operating Cash Flow is then divided Total Revenues ($2,327,420,000). **Northwestern Cash Flow Ratio was -7.14% in 2019, a decrease from 44.48% in 2018.**

2.3 Comparison with University of Chicago

As a point of comparison, here are the University of Chicago's FB ratios for FYs 2019 and 2018. The reasons the University of Chicago was chosen as a point of comparison is due

[2]For an example of the utility of these ratios see Professor Howard Bunsis' analysis of Wright State University's finances

[3]The Operating Cash Flow is obtained by summing the Change in Net Assets (-$183,771,000), Capital Depreciation (-$165,142,000), and Investment Income ($182,792,000).

to having equivalent Carnegie classifications, their geographic proximity, comparable enrollment numbers, and very similar spending on academics and research.[4]

These are with hospital financials included (2019—2018):

1. *Primary Reserve Ratio*: 198.05% — 188.56%
2. *Viability Ratio*: 469.96% — 484.47%
3. *Net Income Ratio*: 34.07% — 7.12%
4. *Cash Flow Ratio*: 15.93% — -5.95%

Because Northwestern's medical system is a completely separate corporation with separate books, a more direct comparison with U Chicago may be with their hospital financials removed (2019—2018). This means comparing Northwestern with the university part of U Chicago along with their Marine Biological Laboratory:

1. *Primary Reserve Ratio*: 276.47% — 258.39%
2. *Viability Ratio*: 380.51% — 383.66%
3. *Net Income Ratio*: 37.16% — 11.67% gm
4. *Cash Flow Ratio*: 25.66% — -01.86%

In terms of primary reserve ratio, Northwestern has a far larger reserve capacity (almost twice) than University of Chicago, with or without the hospital figured in. Northwestern's 20 year average for their Primary Reserve Ratio is 415.29%, more than twice the) than University of Chicago, with or without the hospital figured in. Northwestern's 20 year average for their Primary Reserve Ratio is 415.29%, more than twice that of the whole U Chicago system.

The viability ratio, which measures general indebtedness, show Northwestern in a comparable state to U Chicago, with U Chicago having better viability than Northwestern in 2018. However, this is in the context of a lot of construction on Northwestern's Evanston campus, necessitating an increase in debt.

In other words, under more "normal" circumstances, like the ones promised in the 2019 annual report in President Schapiro's email, Northwestern's viability ratio would likely be as good if not better than Chicago's. Evidence for this comes from Northwestern having Viability Ratios over 400% in in 7 of the past 20 years, with a 20 year average of 379.49%.

Further, the increases in the Primary Reserve Ratio and Viability Ratio are both expected results from university austerity measures. Notably, the Viability Ratio's improvement is due to *both* an increase in total reserves and a reduction in the university's debt. Some of this is due to a maturing 30-year taxable bond (4.60% interest

[4]The University Chicago combines academic and research expenses in their functional analysis and reports a combined total of $2,251,685,000 (2,124,537,000 in 2018), while Northwestern reports $1,651,845,000 in academic funding and $533,365,000 in research funding for a total of $2,185,210,000 in 2019.

rate) and the partial repayment of a $750,000 million credit line.[5] It is also important to note that these numbers, for both U Chicago and Northwestern, are **much** better than those of most other universities, including a number of their peers such as Brandeis, Notre Dame, and Rice.

Northwestern's negative net income ratio is due mostly to market factors that led to a reduction in net assets. US equities dropped from $1,655,719,000 in 2018 to $1,452,615,000 in 2019, and International Equities dropped from $1,911,440,000 in 2018 to $1,746,314,000 in 2019. International equities listed in active trading markets (so-called 'Level 1' investments) did modestly increase from $275,595,000 to $318,103,000, but US equities in trading markets (e.g. stocks and bonds) decreased by almost $200 million, from $628,791 to $442,952. Vice President William McClean's description of equities as a "drag" on returns (p. 4) is in reference to this drop by US equities in active markets.

This market downturn is also the root of the decrease in net assets used for the Net Income Ratio. This decrease is mostly due to a financial crash in December 2018 which hit a number of Northwestern's holdings. As illustration, Northwestern's Net Income Ratio in 2009, in the wake of the financial crash, was -695.30%. When this outlier is removed, Northwestern's Net Income Ratio compares very favorably to U Chicago's historically, with 6 out of the past 20 years having NIRs above 35%.

Northwestern's negative Cash Flow Ratio for 2019 is, besides a result of their returns, also the result of $589 million in spending on repayment of debt necessary for construction.[6] However, the 20 year average, with 2009 removed, has been 36.58%, and the report is confident in return to historic performance. Northwestern is also planning to restructure its portfolio somewhat, with greater focus on private investment and high-yield credit, which will impact the CFR (along with its relative stability) in the future.[7]

3 University Endowment

The administration has reported a drop in the endowment. As a point of clarification, the number listed as the **"endowment net assets"** is not identical to **net assets**, which often gets reported as "Northwesterns endowment" of roughly $11 billion. "Endowment" for the purposes of this report refers to the endowment net as referenced in the 2019 Northwestern Annual Financial Report.

[5] $85,000,000 outstanding in 2019, down from $115,000,000 outstanding in 2018, see page 30 of the 2019 University Financial Report for full table of outstanding loans and basic terms.

[6] The CFR for after the 2008 crash was -1357.25%.

[7] "Endowment Decreases after Underperformance, Deficit Spending, *Daily Northwestern*, Jan. 9 2020

(in thousands of dollars)		With donor restrictions			2019
	Without donor restrictions	Funds held in perpetuity	Accumulated gains (losses)	Total	Total funds
Institution-designated endowment funds	$4,125,505				$4,125,505
With donor restrictions					
Underwater funds		$91,626	($2,891)	$88,735	88,735
All other funds		1,587,979	2,442,599	4,030,578	4,030,578
Endowment assets at end of year	**$4,125,505**	**$1,679,605**	**$2,439,708**	**$4,119,313**	**$8,244,818**

The university reported a drop from $15,479,786,000 in 2018 to $15,204,175,000, a loss of $275.6 million in 2019. The endowment saw a drop from $8,386,918,000 to $8,244,818,000, a loss of $142.1 million. However, the endowment is made up of two basic divisions:

1. Endowment funds **with** donor restrictions
2. Endowment funds **without** donor restrictions

The endowment has $4,125,500,000 in endowment monies without any donor restrictions. This represents a drop from $4,229,710,000 in 2018.

President Morton Schapiro's April 16th email to the Northwestern community about the "financial implications" of COVID-19 mentions that "These endowed funds tend to be restricted for specific purposes and a portion of them are allocated to illiquid investments."[8] This is true, but misleading. A portion of these funds are restricted, but many are not as seen above. **In fact, even the single year drop in these unrestricted endowment funds would be enough to guarantee an extra year of stipend funding for all PhD students currently in their 1st through 6th years of their programs.**

Inside of the endowment assets *with no donor restrictions*, **$2,368,537,000 is earmarked for "Teaching, research, and program support,"** $659,387,000 is earmarked for student financial aid, and the remaining $1,097,581,000 is in capital and operations.

Among endowment assets *with donor restrictions*, the endowment saw a drop from $4,157,208,000 to $4,119,313,000. **The breakdown of the endowment with donor restrictions is that $2,771,527,000 is dedicated to "Teaching, research, and program support,"** while $808,523,000 is devoted to student financial aid and the remaining 539,263,000 for capital and operations.

The breakdown of the endowment assets with donor restrictions is important for the following reason. While Northwestern is only able to use tese funds for the purpose specified, what counts as a donor restrictions is highly variable and can include specifications on (among other things)

1. Time limits for expenditure

[8] Pollard, James, *The Daily Northwestern*, April 16 2020, 'Schapiro: University Funding Hampered by COVID-19", https://dailynorthwestern.com/2020/04/16/campus/schapiro-university-funding-hampered-by-covid-19/

2. Investment restrictions
3. Specific departments/schools/institutes to be funded
4. Financial aid, assistantships, and grants for specific groups of students

These restrictions can possess a wide range of granularity even inside these categories. However, while these may have restrictions, that by no means none of this money can be used for the purposes of graduate funding. If a hypothetical endowment donation specified that it were to help fund doctorate student education in Chemistry, then Northwestern would still be able to use that specifically to guarantee an extra year of funding for Chemistry students even as they also draw from the unrestricted pool to provide support to other graduates. This makes President Schapiro's claim that these assets have restrictions true but misleading in another respect.

4 University Surplus

The administration reported a $68.7 million surplus for the end of FY 2019. This is, as those who followed the news last year, a sudden turnaround for the university's finances. There are some immediately identifiable causes for this sudden surplus. **The first cause of the surplus is the reduction in salaries for support and maintenance staff.** The university reduced wages and salaries among support and maintenance staff by $15.5 million by way of layoffs. Notably, while President Schapiro mentions one of the goals of FY21 to be to "enhance support for our physical and technological infrastructure, especially in information technology and deferred maintenance of our facilities" there is no mention of what employment decisions will be made to make up for these defered projects, especially since the backlog initially developed in part due to low staffing. At the same time as maintenance and support staff are cut, and general allocations for their operations decreased as well, the university increased academic operations by $14.08 million and salaries by $10 million. Below is the table of reported expenses, classified by function (see page 36 of report):

(in thousands of dollars)				*2019*
	Academic	**Research**	**Support**	**Total**
Salaries, wages, and benefits	$914,581	$278,335	$246,243	$1,439,159
Services, supplies, maintenance, and other	566,670	193,503	59,993	820,166
Depreciation	111,854	40,342	12,946	165,142
Interest on indebtedness	58,740	21,185	6,799	86,724
Total	**$1,651,845**	**$533,365**	**$325,981**	**$2,511,191**

(in thousands of dollars)				*2018*
	Academic	**Research**	**Support**	**Total**
Salaries, wages, and benefits	$890,686	$268,132	$261,713	$1,420,531
Services, supplies, maintenance, and other	552,254	179,423	87,595	819,272
Depreciation	101,442	39,356	9,934	150,732
Interest on indebtedness	46,201	17,923	4,524	68,648
Total	**$1,590,583**	**$504,834**	**$363,766**	**$2,459,183**

The second source of this surplus comes in the form of several large donations over the summer, including one for $50 million.[9]

One of the most important points to take from this surplus is that it would be very easy for the university to guarantee 6th year funding as less than a quarter of just this year's surplus could provide a 6th year of funding for the entire class of graduate workers in their first year. Covering every member of the marticulating class would cost about $17,046,036, or 24.81% of this year's budget surplus.

4.1 Explanation of 6th Year Funding Methodology

Here are the figures:

519 (2019 Marticulating doctoral students) x $32,844 (Base Stipend)= $17,046,036

$17,046,036/ $68,700,000 (FY2019 Surplus) = 24.81%

When calculating Northwestern's capacity to provide 6th year funding, an important assumption is made and is intended to grant Northwestern's primary financial talking point against guaranteeing funding. The administration claims that guaranteeing funding will just incentivize more students to stay on for their sixth year, placing an increased burden on funding. Accordingly, this report assumes that 100% of the entering class will stay on for at least six years.[10]

Guaranteeing a 6th year of funding at the base stipend level for the entire class of 1st

[9] "President Morton Schapiro Announces and Budget Surplus for the 2019 Fiscal Year," *Daily Northwestern*, Oct 28, 2019

[10] This assumption is perhaps overly generous to the administration because this assumes even STEM majors where more than five years is very unusual, if not expressly prohibited from doing so, will also stay on for six years.

year doctoral students (519) would cost 24.81% of this year's surplus. If one dispenses with the assumption that no attrition would occur, and assume instead that attrition for this class would hold at the 6 year average of %12.67, the resulting $2,167,704 in saved funding would be able to provide supplemental 6th year funding beyond the base stipend for those eligible to receive it in the class (i.e. lab assistants).[11]

5 Further Questions and Concerns

5.1 Undefined Benchmark for Long-Term Balanced Pool

The 2019 report uses an undefined benchmark in evaluating its assets. On page 7, containing the forecasted returns fo the Long-Term Balanced Pool (LTBP), there is reference to two benchmarks. The first (Benchmark A) is referred to as an "internal" metric. The second (Benchmark B) is defined as a weighted average (70% Equity and 30% Bonds), measured by MSCI All Country World Investable Index and the Barclays Capital Global Aggregate Bond Index respectively. These metrics are comparable to those used by mutual peer universities such as Duke.

Benchmark A, however, is unusual for two reasons. The first is comparative: Northwestern's peers do not report results of internal benchmarks in their financial reports. Duke,[12] Emory, Harvard, Loyola, MIT, Princeton, Stanford, U Chicago, and Yale all either report no benchmarks at all or define the ones used. This finding is based on the most recent financial reports for each of these universities.[13]

[11] This is providing the (overly generous) assumption that this attrition occurs in the 5th year every time, entailing minimum stipend savings the university figures will occur due to normal attrition

[12] Duke defines theirs as follows: "Under the policy approved by the Board, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 70% of the MSCI All Country World Index and 30% of the Bloomberg Barclays U.S. Aggregate Bond Index. Duke expects its endowment funds, over long time periods, to provide an average annual real rate of return of approximately 5.0%. Actual returns in any given year may vary from this amount," p. 29. Link: Duke 2018-2019 Financial Report

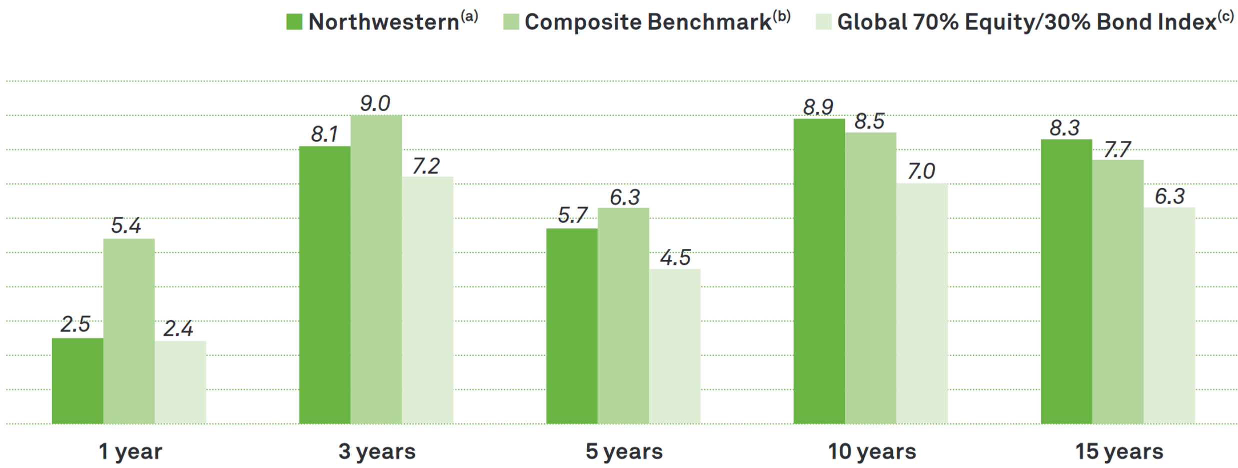
[13] Yale (p.19) provides the most comprehensive definition of their benchmarks, employing separate formulae for each class of investment.

Active Benchmarks: **Absolute Return:** Credit Suisse and Inverse Wilshire 5000 Composite **—Domestic Equity:** BNY Median Manager, **—U.S. Equity Fixed Income:** Barclays 6-12 Month U.S. Treasury Index after June 2018. Barclays 1-3 Year Treasury Index from October 2013 to June 2018. Barclays 1-5 Year Treasury Index through September 2013. **— Foreign Equity:** BNY Median Manager Composite, Foreign Equity **— Leveraged Buyouts:** Cambridge Associates Global Leveraged Buyouts **— Venture Capital:** Cambridge Associates Venture Capital Composite **— Real Estate:** Cambridge Associates Real Estate **— Natural Resources:** Cambridge Associates Natural Resources

Passive Benchmarks: **—Absolute Return:** Barclays 9-12 Mo Treasury **—Domestic Equity:** Wilshire 5000 **—Fixed Income:** Barclays 6-12 Month U.S. Treasury Index after June 2018. Barclays 1-3 Year Treasury Index from October 2013 to June 2018. Barclays 1-5 Year Treasury Index through September 2013 **—Foreign Equity:** MSCI EAFE Investable Market Index / MSCI Emerging Markets Investable Market Index + MSCI China A-Share Investable Market Index, weighted according to target developed andemerging equity allocations since December 2014. MSCI EAFE Investable Market Index / MSCIEmerging Markets

Benchmark A is also unusual because it departs dramatically from Benchmark B in the short (1-year, 3-year) and medium (5-year) terms. Northwestern only begins outperforming Benchmark A at the 10 year and 20 year mark, while Northwestern outperforms Benchmark B on all windows (see graph on next page:)

Long-Term Balanced Pool: Annualized Net Performance Relative to Selected Benchmarks *(in percentages)*



(a) *Northwestern's returns are net of investment manager fees.*

(b) *An internal benchmark consisting of market indices weighted by the target policy portfolio*

(c) *A stock/bond mix representative of the MSCI All Country World Investable Index and the Barclays Capital Global Aggregate Bond Index*

So, there are at least three questions arising from this metric:

1. **What is the formula used for the internal benchmark?**
2. **How long has Northwestern University used this benchmark?**
3. **How does this benchmark compare to the latter benchmark in terms of impact on university decision making?**

A member of the research committee emailed the Office of Financial Operations and the Treasury Accounting Services on January 7th with these questions regarding the internal benchmark. So far, the office as not responded to these questions.

Investable Market Index + MSCI China A-Share Investable Market Index /Custom Opportunistic Benchmark, weighted according to target developed, emerging andopportunistic allocations through November 2014. **—Leveraged Buyouts:** Russell 2000 (75%) / MSCI ACWI ex-US Small-Cap Index (25%) **—Venture Capital:** Russell 2000 Technology Index (56%) / MSCI China Small-Cap Index (20%) / NASDAQ Biotechnology Index (19%) / MSCI India Small-Cap Index (5%) after June 2018. Russell 2000 Technology Index (56%) / NASDAQ Biotechnology Index (19%) / MSCI China Small Cap Index (17%) / MSCI India Small Cap Index (8%) after April 2014 through June 2018. Russell 2000 Technology Index (75%) / MSCI China Small Cap Index (17%) / MSCI India Small Cap Index (8%) through April 2014. Russell 2000 Technology Index through June 2010. **—Natural Resources:** Custom Timber REIT basket / S&P Oil & Gas Exploration & Production Index / Euromoney Global Mining Index / Custom Agriculture REIT Basket, weighted according to contemporaneous target timber, oil and gas, mining and agriculture allocations

Link: Yale 2018-2019 Financial Report

We hope this report has been useful for you and provided a source for future agitation and strategy.

In solidarity,

NUGW-RC

6 Appendix 1: Copy of Morton Schapiro's Email from January 10

Subject: 2020 Financial Update

Dear Members of the Northwestern Community,

Its our privilege to welcome you to the winter quarter and a new decade at Northwestern University. Once again, we would like to use the start of the new year as an occasion to update you about the state of our finances and plans for future investments.

Northwestern is in stronger financial health than it has been in some time, having beaten its planned budget for the 2019 fiscal year by $66.5 million, leaving us with a small but important budget surplus.

After two previous years of budget shortfalls, the credit for this turnaround goes broadly to our University community, which has worked together to seek focused growth and efficiency in daily operations while continuing to support our core mission and priorities.

The Universitys academic and fiscal fundamentals are sound. An unprecedented period of growth in recent years has cemented our status as a Top 10 institution with an endowment just under $11 billion. The We Will fundraising campaign, which some time ago passed its original $3.75 billion goal, is on pace to top $5 billion well before it concludes at the end of this calendar year, thanks to more than 160,000 generous donors.

A challenge we always face is to balance short-term interests with the commitment our University has made to serve future generations as capably as this one. Discipline remains essential, as our revenue streams and endowment are subject to shifts in the economy. Thus, we have asked campus leaders to continue with prudence in their Fiscal Year 2021 resource planning, guided as always by our distinctive University priorities.

As we develop goals for FY21, we believe we will be in a position to:

- expand the compensation pool for our faculty and staff to ensure that the University can continue to attract and retain the worlds best talent;
- enhance support for our physical and technological infrastructure, especially in information technology and deferred maintenance of our facilities;
- continue to invest in safety and security improvements on all our campuses;
- carry out an initiative that can open new pathways to success for faculty at all levels, while increasing faculty diversity broadly;
- and elevate the student experience, particularly for first-generation, low-income, marginalized and underrepresented minority students.

We are also committed to maintaining Northwesterns leadership position among American universities in addressing our impact on the environment, by continuing to integrate sustainability into our campus operations and culture. Our community made considerable progress in the previous decade to reduce our carbon footprint, increase recycling, add solar installations, move toward electric fleets for our Facilities teams, and gain LEED certification for new buildings. We are developing an even more ambitious agenda for the coming years, to ensure that sustainability drives our operations and educational and community-service efforts. We expect to share with you an updated plan later in the year.

We look forward to welcoming new leaders to our community this year. Just this week, we welcomed Manuel Cuevas-Trisn as our new Vice President for Human Resources. He comes to us from Motorola Solutions, where he shaped services for 16,000 employees around the world. He brings to our campuses a firm commitment to partnering with staff and faculty to improve every aspect of our operating environment, with a focus on career development, talent management and the improvement of work processes.

Searches are progressing for deans of the School of Communication and Northwestern University in Qatar, the vice president for student affairs and the vice president for research.

We thank you for the role you have played in bringing Northwestern to this point, and we are grateful for the opportunity to serve alongside you and to raise our sights together in these early days of this new decade. Indeed, as we are midway through a historic commemoration of 150 Years of Women at Northwestern, we believe this is an opportune moment to commit ourselves anew to equipping every member of our community to be a catalyst for change in our world. In this manner we can be the best possible stewards of a premier institution with a global, inclusive and enduring mission.

Morton Schapiro, President and Professor

Jonathan Holloway, Provost and Professor

Craig Johnson, Senior Vice President for Business and Finance

7 Appendix 2: Copy of Morton Schapiro's Email from April 16

Dear members of the Northwestern community,

Nearly every organization, small or large, has been compelled by the global coronavirus emergency to adjust its plans for the short-term and the long-term. I want to offer you some perspective on how we are making these adjustments at Northwestern.

Since the early days of the pandemic, we have asked you to make many sacrifices to help slow the spread of COVID-19, and we take great pride in the way the Northwestern community has responded to this call.

While the public health crisis continues, the global, national and local economic impacts of the pandemic are profound, and are likely to become increasingly challenging in the weeks and months ahead. In the first four weeks of the pandemic, more than 22 million Americans filed for unemployment and tens of thousands of U.S. businesses have temporarily closed their doors. Many of these businesses are at risk of never reopening. Through Monday, the stock market was down more than 24

The sobering reality for us is that COVID-19 is having a significant impact on many elements of universities funding. Our challenges are similar to those faced by other universities and colleges across the country, including:

Financial hardship for many families, requiring increased financial support for a number of our students, which we are committed to providing; Dramatic declines in many financial markets, causing a decrease in the value of our endowment and a reduction in endowment payouts supporting the Universitys operating budget; A reduction of more than $25 million in revenues from room and board and student fees related to the decision to refund these charges for Spring Quarter; and The loss in revenue due to the cancellation of many on-campus courses and programs.

In addition to the current financial challenges, we also need to prepare our institution for potentially more financial disruptions. Philanthropy may decrease, as our alumni and supporters face financial challenges of their own. Research funding from private or government sources may decline. Enrollment in certain programs may not reach pre-pandemic levels. And certain community-defining activities, such as Athletics, may be severely impacted. Finally, our return to on-campus instruction in the summer or fall is not guaranteed.

Despite the fiscal pressures, we believe we have an obligation to help vulnerable members of our academic community and our larger community. Along with providing refunds for certain student fees and room and board, we assisted more than 1,500 students through our COVID-19 emergency assistance fund, providing more than $1.5 million for students travel and technology needs as we transitioned to remote learning. We partnered with Compass Group to leverage the federal relief package so that all hourly food service workers will continue to receive benefits and compensation equal to their current full-time status for the entire Spring Quarter. We also partnered with the City of Evanston to establish a food bank for Evanston community members impacted by the pandemic.

Together with the Board of Trustees and University leadership, and with input from our University community, we continue to assess the short- and long-term impacts of the pandemic on our resources. As we did following a budgetary shortfall a few short years ago, we will keep you informed and regularly updated on our plans and our progress.

Certain underlying principles will guide our actions:

We will fully honor all student financial aid commitments, and we will provide increased financial support to undergraduate students with demonstrated need. We will work to minimize the disruption to our academic mission. We will continue to support intellectual eminence and impactful research. We will prioritize the preservation of jobs whenever possible. We also will work to protect our endowment, which represents a strong fiscal foundation that must serve Northwestern in perpetuity.

Given the recent budgetary shortfall, we have worked diligently to put the University on more stable financial ground, and many of the measures we have already taken will benefit us now and in the future. We have introduced greater rigor and discipline in our budgeting practices.

However, the magnitude of the financial risk we now face requires us to take additional measures, which include:

Pausing all facilities projects, except those related to the safety and reliability of our campuses and projects that are in the final stages of permitting and close-out; Pausing new staff hiring until further notice, except for hiring supported by external grant funding or critical to the core mission of the University, with the understanding that we are trying to protect our current workforce for as long as possible; Significantly slowing academic hiring and retentions, with each hire subject to careful evaluation; Keeping all individual faculty and staff salaries for fiscal year 2021 at current levels (except when contractually required or salary adjustments associated with promotion and tenure decisions); Asking all schools and units to defer discretionary spending. Large expenditures are reviewed by the senior vice president for business and finance to ensure our resources are directed towards our most essential functions.

Depending upon how the pandemic evolves, we may continue these adjustments over the summer and perhaps into the next fiscal year. We also may ask our units to make further adjustments in expenditures.

Questions may arise as to whether Northwesterns endowment might help us bridge any financial gap caused by the pandemic. These endowed funds tend to be restricted for specific purposes and a portion of them are allocated to illiquid investments that are not easy to unwind to support current spending needs. Funds within the endowment, in most cases, were provided by donors as a promise of support to future generations of students, faculty and staff. The endowment was not established to fix budget shortfalls or manage crises, but rather to provide key resources needed to preserve our mission of academic excellence and research eminence far into the future.

I want to reiterate how proud I am of the resilience and determination of the Northwestern community. We have swiftly adjusted the ways in which we learn, teach, research and work to meet the urgent public health challenges at hand.

I have a profound sense of optimism in the skill of our scientists, the resolve of our medical professionals and the wisdom and ingenuity of scholars in every discipline, who all are contributing to defeating this pandemic and bringing forth a better world. I know a solution will be found, but I also know we must plan in the meantime with prudence.

I want to thank you now for the hard work that implementing these steps will entail. I am inspired by your steadfast commitment to this Universitys mission to serve our world a mission never so urgent as now. May we continue to work together to overcome the challenges ahead.

Sincerely,

Morton Schapiro President and Professor