

Report of University Priorities Committee Activities, 2015-16

The University Priorities Committee (UPC) is appointed by President Richard Brodhead, chaired by a faculty member, and convened by Provost Sally Kornbluth and Executive Vice President Tallman Trask. The membership of the committee includes several other faculty members, Senior Administrators, some of whom report to the Provost and others to the President, students and two Deans. The charge of UPC is broad: "To work with senior administrators to define University and academic priorities and ensure the University's annual and long term budgets reflect these priorities." UPC fulfills this through bi-weekly meetings and *ad hoc* small group meetings on timely topics characterized by (in the words of the official charge) "...discussion of University and academic priorities in context with budget and financial information..."

UPC does not vote, but provides an opportunity for ongoing dialogue on important issues and serves as an important faculty sounding board for administration proposals as they are being developed. UPC both participates in the discussion of key ongoing business of the University, as well as identifies areas of interest to the faculty that should be elevated for discussion within the charge of the UPC.

Highlight of 2015-16 activities:

- **UPC's most consequential work was discussing the Phase 2 proposal for Duke Kunshan University (DKU) to offer an undergraduate degree.** UPC spent part of 4 meetings discussing DKU, and gave the full 1.5 hour meeting time to the draft proposal in two of these meetings. We also had numerous rounds of email-based discussion and revision of documents pertaining to DKU. In addition, UPC chair Don Taylor, member Craig Henriquez and Professor of the Practice of Economics Emma Rasiel served on an *ad hoc* DKU committee that provided feedback to Jim Roberts, Executive Vice Provost for Finance and Administration and the Provost on the financial projection model for DKU Phase 2.

The UPC issued a detailed memo to the Academic Council that identifies the creation of a successful undergraduate, Western-style undergraduate degree at DKU (along with continuation of the Phase 1 activities) as a potentially transformative investment for Duke and China, that we characterized as "high risk, high reward." The memo discusses key sources of uncertainty which in turn point out key management tasks if this proposal is to be successful (it must be approved by the full Academic Council in Fall 2016 to move forward). Our memo to the Academic Council notes several important questions that need to be finalized prior to this vote, and various Duke faculty committees and Senior Administrators at Duke and DKU are working on finalizing the proposal and related documents that will be submitted to the Academic Council for consideration. UPC does not anticipate addressing the DKU proposal further in committee unless there are large changes in the financial model.

- **Changes in Duke's research portfolio and the status of our undergraduate need based financial aid model are perpetually important topics for UPC.** The decline of federally funded research, particularly from NIH, even as Duke's industry-sponsored research funding has

increased, mean that research revenue (especially indirect cost recovery) continues to trend lower than optimal. Duke is doing better than most University's both with NIH and in diversifying our research funding, but our revenue tracks behind what our research side cost structure requires for maintenance, and this makes investment in new areas more difficult.

Duke's need based financial aid spending for Undergraduates has stabilized following the financial crisis of 2008, and there were concerns this year that the percentage of our entering first year students who were receiving need based financial aid was falling too fast after the financial crisis rebound as compared to our competitors, and some tweaks were made. Duke's commitment to need blind admission has long been longstanding, and the expanded generosity of our financial aid model in the past few years has been necessary to both maintain some socioeconomic balance of our student body and to compete with peer institutions for students. In 2015-16 Duke provided around \$100 Million in need based financial aid to undergraduates, only \$30 Million of which flowed from endowments. This means that we have allocate \$70 Million tuition dollars—the most precious and flexible monies that we get annually—to fulfill our undergraduate financial aid commitment.

For context, to fully endow our current need based financial aid model (that lags in generosity schools like Brown, Columbia and Dartmouth and greatly lags schools like Stanford, Princeton and Harvard) would require the addition of at least \$1.5 Billion to our endowment that was earmarked for undergraduate, need based financial aid. To provide further context, this is 50% greater than the amount that is planned to be added to endowments for all purposes in the Duke Forward campaign (~\$1.0 Billion of the \$3.25 Billion goal).

- **Three-Fourths of Duke's annual budget flows to the broad domain of health care--patient care, research and education.** Duke's 2015-16 budget is over \$5 Billion, with expenditure shares in the following areas:
 - Duke University Health System (patient care and delivery). 53%
 - Duke University Schools of Medicine and Nursing (education and research). 22%
 - Duke University Provost Area Activities & Central Admin (e.g. everything else). 25%

The Schools of Medicine and Nursing plus the other Schools (Trinity, Pratt, Divinity, etc.) are what we typically refer to as "the University" and are more directly subjected to faculty oversight and consultation, but over half of the annual budget of "Big Duke" is in the Health System. Of note, the Health System had one of its best financial years ever, and its balance sheet is currently growing due to the extremely positive operating returns. Gene Washington, the Chancellor of the Health System has recently completed a strategic planning exercise to rebrand Duke Medicine toward Duke Health. Further, there are a variety of issues in which the Provost and the Chancellor are cooperating from health policy to plans for investments in basic sciences.

- **Duke's overall financial situation would be the envy of all but a few University's.** Our problem is that we envy the spending patterns of those few University's with much larger endowments

and assets than we have. Duke's net assets, including investments in our endowment at year-end 2015 were around \$13 Billion (\$9.8 Billion for the University, including the SOM and Nursing, and \$3.2 Billion for the Health System). The strength of our balance sheet has been built by the very strong investment returns of DUMAC over the past 30 years and the generous gifts to Duke from many persons (that were invested). Our current overall financial model assumes a 7.5% nominal (5% real, or inflation adjusted) annual return from our investment portfolio, and the last 5 years DUMAC has achieved 5 year annualized returns around 10%. DUMAC is now forecasting investment returns over the next 3 to 5 years lower than what Duke's financial model assumes. This will require either less spending, more philanthropy, debt or dissaving of our endowment to maintain projected annual spending rates. It is important to note that DUMAC's investment return performance has consistently been near the top of peer institutions, in both good and bad overall investment return climates.

- **Key Issue for 2016-17: Determining Resources Available for Strategic Planning.** The Provost has initiated a Strategic Planning process, and the next step is determining the available resources for investment in such a plan. The central strategic funds controlled by the Provost are between \$70 - \$80 Million annually, but most of these funds for the next several years are bound by past commitments (essentially paying for the last strategic plan), so another source of funding will be needed. There are several options, but all of them are more constrained if investment returns from DUMAC remain lower than their past performance. It is key for the faculty to be informed of the financial realities of Duke and to engage in these discussions. Several faculty reached out to the Chair of UPC this year to discuss how the faculty could be more involved in setting development priorities for future fundraising campaigns, and ad hoc discussions were held but no process has been identified beyond committees such as UPC. Seeing to more faculty input and involvement in all aspects of Duke's financial affairs, and clearly communicating the financial realities of Duke to the broader faculty is an ongoing priority for UPC.

Respectfully Submitted
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Chair, UPC
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