

Report of University Priorities Committee Activities 2018-19

The University Priorities Committee (UPC) is appointed by President Vincent Price, 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, serves as an important faculty sounding board for administration proposals as they are being developed, and provides faculty review of key spending decisions by the University. 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 2018-19 activities:

- **The status of our undergraduate need based financial aid model remains a critical topic for UPC.** Duke’s commitment to need blind admission has 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. Duke’s need based financial aid spending for Undergraduates was stabilized after several years of imbalance beginning with the financial crisis of 2008. In part, the stabilization resulted from changes in policy that reduced the number of students enrolling who required aid. For example, early decision admits tend to require less financial aid than regular decision admits, so changes in the percentage of students accepted early decision can have significant impacts on financial aid costs. After this period of adjustment, the percentage of entering students eligible for need-based fell from a high of 45% to a low of 35%, well below our peers.

In December 2015, Duke administrators decided to take counter measures to reverse the decline in our aided student enrollment and to ensure that truly needy students would apply to Duke and, if admitted, attend Duke. This policy change had several motivations including that Duke was falling behind its peers in percentage of students on aid and the number of low income (Pell-grant eligible) students. Duke partnered with Questbridge to recruit highly-qualified lower-income students, and also launched the Rubenstein Scholars Program for first generation students. These strategies have been quite successful and both applications and enrollment from lower income students rose sharply in the class entering in 2017. Duke is now better positioned relative to our peers in terms

of both overall financial aid and Pell-grant eligible students. However, these strategy shifts have implications on the financial aid budget.

The costs of financial aid are handled somewhat differently from other costs associated with undergraduate education which are typically born entirely by the undergraduate admitting and serving schools (Trinity, Pratt, Nicholas, and Sanford). Because financial aid policy is set by the Board and the amount of financial aid required cannot be easily predicted year-to-year when using need-blind admissions, the full amount of any increase in financial aid costs is not passed onto the undergraduate schools. Rather the additional costs (year-over-year) are capped at 1.5 times the tuition increase. For 2019-2020, the tuition increase is 3.9 percent, so the total aid budget paid for by the undergraduate schools will go up 5.85%. Any undergraduate financial aid amounts in excess of those paid by the undergraduate schools are covered by funds from the Tier 1 (SIP) funds managed by the Provost's office and designed for strategic initiatives. Hence, rapidly increasing financial aid costs can appear to "crowd out" funding for strategic initiatives.

In 2017-2018, Duke spent \$125M of institutional resources on financial aid, and roughly \$6M of this comes from central (SIP) resources. While the class of 2017-2018 did not have quite the same high-need profile as the class of 2017-2018, nonetheless total financial aid growth exceeds the growth rate passed on to the undergraduate schools, thereby increasing the amount of aid that comes from strategic central funds. This trend is projected to continue, and we project that only a small amount of this increase can be covered from increased endowment spending given current spending rate forecasts even taking account of anticipated payments on *Duke Forward* campaign pledges. Meeting the increased cost of need-based aid will require a large increase in unrestricted support, either from the schools or central strategic resources. Increased endowment support of need based financial aid, of course, remains a top development priority.

- **Research support remains strong, despite concerns about Federal cutbacks.** Duke continues to experience increases in federally funded research, particularly from NIH. This puts Duke in an enviable position relative to other schools who have struggled to maintain funding levels amidst increased competition for federal research dollars. However, even with this enhanced success there are longstanding worries. Even with the relatively high indirect cost recovery that comes with more NIH funding, our research revenue tracks behind what our research cost structure requires for maintenance, and this makes investment in new areas more difficult. There are ongoing concerns about the potential impacts of proposed Federal budget cuts at NIH and NSF. And the increased scrutiny of Duke by the NIH has required investments in research administration and support infrastructure to ensure compliance. Uncertainty continues to abound in this space, even as Duke remains a national leader in the receipt of federal and other research funding.

- **DUMAC, the University's investment company continues to be conservative in estimates of returns to the Long-run Pool (LRP).** Duke's rise in academic prominence during the 1980s-2000s was supported, in part, by DUMAC's investment returns that were higher than those achieved by most of our peers. Just under 1 in 5 dollars spent by Duke each year comes from income from annual endowment pay outs. Some of our peers have a much higher proportion of their budget from endowment income. But DUMAC continues to project returns of 5.0% nominal over the next several years, with the longer-term projection of 7.5% nominal. This limits our ability to grow spending from endowment returns. **It is important to note that Duke's overall financial situation would be the envy of all but a few other universities (e.g. Stanford, Harvard, Yale, MIT, Princeton).** Our problem is that we aspire to the spending patterns of those few universities with much larger endowments and assets than we have.
- **The new strategic plan, Together Duke, has moved into the implementation phase.** The central strategic funds readily available to this plan are around \$120 Million, over the next 5 years. There are many more ambitions for strategic planning and investments than there is money available, and the plan was created in the context of an acute realization of this reality. Importantly, because of the financial constraints, the strategic plan doesn't address the major investments needed to advance the sciences at Duke. A separate planning/fundraising process for that initiative is underway.
- **Three-Fourths of Duke's annual budget flows are generated by the broad domain of health care--patient care, research and education.** Just over 50 percent of the overall Duke expenditures occur as part of the Duke University Health System. Just over 20 percent of expenditures occur in the Schools of Medicine and Nursing. The Provost Areas and Central Admin (including all the other schools at Duke and Athletics) comprise roughly 25 percent. This basic point was noted in last year's report, but this budgetary reality is the essence of Duke and cannot be over-communicated. The Health System continues to have strong financial returns with distributions of money flowing to the University, even in these uncertain policy and political times. It is noteworthy that Gene Washington, the Chancellor and CEO of the Health System, and the Provost have had close cooperation in the strategic planning processes as well as in recent investments in health policy and the basic sciences.

Respectfully Submitted,

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