October 1, 2020

To: Academic Council
From: Tallman Trask III, Executive Vice President
Subject: Financial Update

Duke University’s financial condition remains generally solid, although COVID-19 and some long-term structural problems in our budget process present significant challenges that will require equally significant actions in the coming year to protect and strengthen our core missions. For more detail, please see Duke’s Annual Financial Report for FY-20 at https://finance.duke.edu/budget/reports.

Fiscal 2020 Financial Results

As projected in the spring, the University’s financial results for fiscal 2020 were not materially impacted by the Covid-19 crisis because the vast majority of University revenues were essentially solid by the time the crisis began. While revenue in several areas – notably housing and dining -- were lower than originally anticipated, philanthropic support of remained solid at $519 million, the second-highest amount of fundraising in Duke’s history, and our clinical and research activity returned to near normal performance more rapidly than expected. In addition, the spending controls we enacted in immediate response to the pandemic were more effective than imagined – non-salary spending alone was down nearly $64 million between April and June compared to the same period last year.

In an extraordinarily volatile year, the university’s investments (principally the endowment) rebounded in the final quarter and finished with a total return of 0.7% for the fiscal year. (It should be noted that our modeling in May projected a negative 10% total return for fiscal 2020, which would have resulted in a $1.5 billion reduction in market value including current year spending.) In FY-20, income from the endowment and other investments contributed approximately $600 million to the university’s operating budget. As with all endowment income, most of these funds are designated for specific purposes like financial aid, faculty chairs and program support and are not able to be directed to other purposes.

The university’s total net assets were $10.9 billion as of June 30, 2020, representing a decline of $600 million as a result of the payout. The market value of the endowment totaled $8.5 billion as of June 30, 2020, down from $8.6 billion last June.

Capital spending in FY-20 totaled $259 million, well-below comparative totals from recent years. Major construction during fiscal 2020 included the new engineering building, chilled water plant #3, and the interprofessional health education building. Because of the Covid-19 crisis, new university construction projects are on indefinite hold, except those related to safety, repairs, infrastructure, virus research, and obligations to new faculty.

On a positive note, the University successfully marketed $1.3 billion of bonds in May 2020 at average fixed rates of 2.8%. Approximately $750 million of that total was a refunding of existing debt, while $550 million was incremental and essentially a reimbursement of cash previously spent on construction projects. The University’s debt ratings were reconfirmed as Aa1/AA+ as part of this process. With this issuance, the University achieved present value savings of $142 million on the existing debt, while also significantly strengthening our liquidity position. The University’s outstanding debt as reflected on the balance sheet increased from $2.1 billion to $2.7 billion as a result of the May transaction.
Operating Results for Fiscal 2020

The operating results for FY-20 reflect a $79 million surplus, which was $63 million greater than planned based on a total budget of $2.8 billion. This positive variance was driven primarily by expenditure savings resulting from our decision to restrict non-salary spending, freeze hiring, and suspend 403b contributions following the campus shutdown in March.

Future Outlook

Our original projections for FY-21, developed after the fallout impact COVID-19 was apparent, called for revenue shortfalls of $250-$350 million and an operating deficit of $90-130 million. These projects continue to be reasonable, with a majority of the projected pressure on the (non-medical) academic activities where tuition, financial aid, and fee-related exposures are most pronounced. The impact of this deficit will vary across operating units, which is why we are currently engaged in a significant cost-reduction exercise with the schools and central administration.

Beyond FY-21, we anticipate persistent operating deficits caused by limited revenue growth potential. Given these pressures, cost containment is obviously critical during this period. At the university level, we remain focused on overall targets established in May for cost reductions of approximately $100 million which will be effected through a variety of methods. This remains a primary focus of our efforts, with results already apparent within a variety of metrics tracked by central University leadership.