

Report of University Priorities Committee Activities, 2016-17

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 2016-17 activities:

- During the previous academic year (2015-16) UPC devoted a tremendous amount of time to analysis and consideration of the Phase 2 proposal for Duke Kunshan University (DKU), and the committee's materials supported the Academic Council's deliberations (and subsequent approval) of this proposal during Fall Semester, 2016. **There was not one topic that took as much of UPC's time during this past academic year.**
- **Changes in Duke's research portfolio and the status of our undergraduate need based financial aid model are perpetually important topics for UPC.** Duke experienced an uptick in success in federally funded research during the first two quarters of fiscal year 2016-17, particularly from NIH, while Duke's industry-sponsored research funding continued to increase; both outcomes are good news. However, even with this enhanced short term success there are longstanding worries as well as a new one. 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. The new worry comes from federal budget proposals discussed during Spring 2017, some that called for huge cuts in NIH funding budgets, while others envisioned greatly reducing indirect cost recovery formulas for NIH. While such big changes seem unlikely, if anything approaching what has been discussed became policy, it would have a devastating effect on Duke's research mission. Uncertainty continues to abound in this space, even as Duke remains a national leader in the receipt of federal and other research funding.

Duke's need based financial aid spending for Undergraduates stabilized following the financial crisis of 2008, and Duke enhanced our need based financial aid support during the past two years in response to reductions in the percentage of our entering first year students who were

receiving need based financial aid. 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. In 2016-17 Duke provided around \$115 Million in need based financial aid to undergraduates, only 30% of which flowed from endowments. The remainder had to be paid out of tuition dollars—the most precious and flexible monies that we get annually—to fulfill our undergraduate financial aid commitment. Increased endowment support of need based financial aid remains a development priority.

- **DUMAC, the University's investment company has warned that expected payouts from the endowment will be below the level needed to maintain planned spending over the next 3-5 years.** Duke's rise in academic prominence during the 1980s-2000s was funded in large 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 payouts. Some of our peers have a much higher proportion of their budget from endowment income, but with anticipated payouts being less than what we plan for (7.5% nominal/5% real return), the only ways to make up the short fall are: less spending, more debt financing, spending endowment principal, or increased philanthropy/developing other sources of revenue. All of these options are challenging in their own way.

Duke's overall financial situation would be the envy of all but a few University's. Our problem is that we aspire to the spending patterns of those few University's with much larger endowments and assets than we have.

- **The Provost has initiated a Strategic Planning process which is nearing the end of the planning phase, and will move into the implementation phase soon if all approvals are obtained.** 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. The end of the Duke Forward campaign also looms at the end of this fiscal year and discussions about when a new campaign would begin as well as its scope have begun. A key issue from UPC's perspective is to have faculty vitally involved in these ongoing discussions, and it is a priority to identify more efficient means of involving faculty in development activities.
- **There are a variety of student housing capital projects that were deferred that now are being addressed.** During the 1990s-2000s there were some student dormitory projects (renovations and new construction) that were deferred as Duke invested in academic programs and faculty. Many of these housing stock issues are urgent and a series of projects, including renovations and new dormitory construction on both East and West campus are now underway or will be started in the next few years at substantial cost. UPC discussed these issues on several occasions during this past academic year, and the Business and Finance and Facilities and Environment Committees of the Duke Board of Trustees held a joint meeting in December,

2016 to discuss these issues. These capital projects are being financed by debt, student affairs budget dollars and philanthropy. A key looming decision is what to do about Central Campus, whose current housing stock is particularly substandard. Duke is considering outside investment opportunities with central campus that will help to address our housing and other needs at terms that are more financially advantageous to Duke than would be the construction of typical student housing by Duke. How to house undergraduate students in the next 20 years is fairly straightforward, but the housing issues for graduate and professional students are more complex, especially as rent and purchase prices of housing in Durham have risen.

Many faculty involved in the UPC discussion of these matters were “caught off guard” by the magnitude of the student housing needs and costs, though faculty were involved in the many decisions to allocate resources to other needs and priorities in the past that helped to produce the deferred need. This is an area for improved communication in the future.

- **Three-Fourths of Duke’s annual budget flows to the broad domain of health care--patient care, research and education.** Duke’s 2016-17 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%

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 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.

I will end my term of Chair of the UPC on June 30, 2017. It has been an honor to serve in this role.

Respectfully Submitted

Donald H. Taylor, Jr. Ph.D., Professor of Public Policy

don.taylor@duke.edu

Chair, UPC

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