

Report of University Priorities Committee Activities, 2017-18

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 provided 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 2017-18 activities:

- **Funding of the University Initiatives, Institutes, and Centers was reviewed.** At the request of Provost Kornbluth, UPC devoted a tremendous amount of time during this academic year to a review and analysis of the financial reports of the University Institutes, Initiatives and Centers (UICs). Combined, the budgets of the UICs account for approximately \$24 million in Provost discretionary funds (SIP funds) each year. The UICs play a critical role in Duke University life and have helped Duke to establish itself as a leader in interdisciplinary research, education, and public engagement.

Each of the seven Institute Directors and 4 Initiative Directors prepared a summary of their financials for the 2017 fiscal year, came to a UPC meeting to discuss the mission of their organization, the organization’s accomplishments, and their use of central resources to fulfill the mission of their organization. The Directors also answered questions from the committee. The primary focus of the UPC review is on the value added to the University for the level of investment made in central resources. The committee is in the process of preparing a report for the Provost and President with recommendations related to the financing of the UICs.

- **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 recently re-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.

In 2017-2018, Duke will spend \$125M of institutional resources on financial aid, and we estimate that \$6M of this will need to come from central resources. If each of the next three classes has the same economic composition as the current first-year class, the Provost's Office projects that our financial aid commitment will grow to \$170M (a 35% increase) by the 2021-2022 academic year. 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 undergraduate 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, and Duke's industry-sponsored research funding has been generally expanding (although FY18 appears to be an exception due to timing issues related to DCRI). 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. 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.
- **Financing for Central Development for future fundraising campaigns was revised to enhance the sustainability of these activities.** The prior fundraising campaign, *Duke Forward*, was funded with a unique mechanism that was designed to distribute the financial costs of the campaign to the decentralized units (e.g., schools) commensurate with the benefit derived by these units from the campaign. The plan was to fund the campaign costs by applying an assessment against the income created by new endowment gifts raised through the campaign. While the overall Duke Forward campaign was a huge success and exceeded goals, the amount of endowments (as opposed to expendable gifts) raised through the campaign fell well short of levels able to cover Campaign costs through this mechanism by the end of the Campaign. This strategy will remain in place until the Campaign debt is retired.

The original plan did not provide for post-Campaign costs that necessarily continue after the formal close of the Campaign. A new plan, approved by the Board of Trustees, is to recover approximately \$20M per year in a new assessment against the unrealized

appreciation in the University's \$9B long-term investment pool to support these ongoing costs. This will fully cover the costs of central development post-*Duke Forward*. Beginning in FY2019, there will also be structured increases in financial support from the schools to create the capacity to fund the next campaign so that this situation does not recur.

- **There are a variety of necessary student housing capital projects that now are being addressed.** The housing stock on Central Campus has outlived its usefulness and several dormitories remain without air-conditioning and without modern electrical and fire systems. 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. These capital projects are being financed by debt, student affairs budget dollars and philanthropy. 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.
- **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,

Lori Snyder Bennear

Juli Plant Grainger Associate Professor of Energy Economics and Policy
Nicholas School of the Environment, Sanford School, Dept. of Economics
April 4, 2018