

## **Chapter 7 – Strategic Investment Plan**

Our planning has highlighted a number of ongoing priorities and critical new investments in programs and facilities that we must support financially if the plan is to succeed. Our Strategic Investment Plan will provide a blueprint for future resource development and allocation. Specific financial commitments for annual program expenses and individual capital projects will be determined by the senior officers in the course of the regular operating and capital budget processes and subject to normal Board of Trustees review and approval through those processes. We will monitor the short and long-term effects of our strategies and investments, and the Board of Trustees will participate regularly in the assessment of the overall effectiveness of the plan and its execution.

### **Resources for Strategic Investment**

Duke operates through a resource allocation system of managed decentralization. While our schools have considerable latitude in prioritizing expenditures and strong incentives to generate funds and allocate them wisely, we have also developed strong central funding mechanisms to supplement school resources to achieve critical priorities. These central strategic investment funds provide a critical component of our overall resource allocation system and are allocated by the senior officers for both programmatic (typically as seed money) and capital purposes with the approval of the Board of Trustees. Allocations are typically based on: 1) strategic importance of the investment to the advancement of the institution or a particular school; 2) the ability of the central commitment to leverage additional resources, either provided by the school or from external resources such as philanthropy or sponsored research; and 3) sustainability of the program once central funds are expended. In essence, we have created a renewing pool of strategic investment funds so that Duke can continually invest in projects that promise a high academic or financial return and can become self-sustaining in the long run.

Several strategies implemented converge to create these strategic investment funds. Funding sources include:

- “Virtual Equity” derived from deposits in the institutional reinvestment account (IRA) and depends on the spread between the IRA investment return and the rate paid to depositors. The university formed the IRA in 1994 as an “internal bank.” Equity is generated by paying depositors a rate equal to the 30-Day T-Bill, while investing the assets in longer-term vehicles which generate returns greater than the pay out rate to depositors (the current asset mix for investments is approximately 60% long-term pool and 40% short-term account). The university can take dividends (i.e., discretionary income) when the equity generated exceeds 6% of the fund’s liabilities.
- Strategic Investment Funds allocated in the university operating budget. In May 2000, the Board of Trustees approved a new spending rate and distribution structure and at the same time approved creation of new line appropriations in the university operating budget to support the strategic fund. Strategic funds in each of the schools are allocated to deans’ priorities after approval by the provost and for the Schools of

Medicine and Nursing, with the concurrence of the chancellor for health affairs. In addition, a central strategic funding source has been created under the president for investment in central strategic initiatives.

- Uncommitted Unassigned Income derived from interest income from the university's working capital and internal overdrafts, unrestricted operating support from The Duke Endowment, and income from university unrestricted endowments. According to the policy announced by the senior officers in January 1997, all growth in university unassigned income above the FY 96/97 base is allocated by the president for specific strategic purposes.

These central resources provide tremendous leverage to finance our strategic investment plan when combined with other academic resources, fundraising and opportunities for tax-exempt financing. The Executive Vice President has formed a working group to evaluate additional opportunities to enhance the strategies already in place to ensure that Duke continues to have substantial central resources.

### **Strategic Investment Plan**

The planning process has identified a set of specific investments where central support is critical to achieving the goals of the plan: enhancing our faculty, strengthening our graduate programs, improving the undergraduate experience, broadening the impact of the arts, and completing key facilities investments. The investment plan has been developed based on careful review of costs, resources, and priorities.

The Strategic Investment Plan is summarized in the tables below. Table 1 shows totals by expenditure category and funding source. Table 2 provides greater detail on expenditure categories. The plan includes the academic investment proposals and facilities projects that have been endorsed by the senior officers through the planning process for central support, including debt financing. The core operating budgets of the schools will also advance many strategic priorities that are not specifically accounted for here.

The Strategic Investment Plan calls for a total investment over the next six to eight years of approximately \$1,300.7M, of which \$248.8M is for academic programs and related support (\$208.8M on campus and \$40M through the School of Medicine), \$350M is for the Central Campus project, \$551M is for other facilities, \$50.9M is for related debt service during the planning period, and \$100M is earmarked for future opportunities and contingencies. Approximately \$479.3M or 37% of the total plan commitments will be funded by school or other unit resources (primarily for capital projects) while \$821.5M or 63% of the total will be a central responsibility. We expect at least \$150M of the needed central funds will come from fundraising, approximately \$325M from tax exempt debt, and the remainder of approximately \$346.5M from the central strategic resources described above. This breakdown assumes that all future opportunities/contingencies come from these central strategic funds; more likely, costs would be apportioned across multiple central and unit funding sources.

Table 1

**Summary of Central Strategic Investment Plan  
6 to 8 Year Totals, in Millions**

	Central		
	<u>Total</u>	<u>Admin.</u>	<u>School/Unit</u>
1 <b><u>Uses of Funds</u></b>			
2 <b>Academic Programs</b>	248.8	248.8	-
3 <b>Facilities (Capital Cost)</b>	551.0	195.0	356.0
4 <b>Central Campus</b>	350.0	250.0	100.0
5 <b>Debt Service during Planning Period</b>	50.9	27.7	23.3
6 <b>Future Opportunities and Contingency</b>	100.0	100.0	-
7 <b>Total Uses</b>	<u>1,300.7</u>	<u>821.5</u>	<u>479.3</u>

	Central		
	<u>Total</u>	<u>Admin.</u>	<u>School/Unit</u>
1 <b><u>Sources of Funds</u></b>			
2 <b>Fundraising</b>	333.0	150.0	183.0
3 <b>Tax Exempt Debt</b>	598.0	325.0	273.0
4 <b>University Operating Funds</b>	23.3	-	23.3
5 <b>University Strategic Funds</b>	346.5	346.5	-
6 <b>Total Sources</b>	<u>1,300.7</u>	<u>821.5</u>	<u>479.3</u>

**Notes:**

**\$100M Future Opportunities/Contingency included in University Strategic Funds.**

**Includes full estimated costs of facilities projects.**

**Excludes school matching resources for faculty development/programs.**

The Strategic Investment Plan will underwrite the implementation of the university strategic plan, providing a clear guide to priorities, and a resource allocation blueprint for program support and capital projects. Expenditure targets and resource commitments will evolve as specific projects are approved. Expenditure plans will be managed to fit available resources. Our general expectation is that programmatic support from central funds will not continue beyond five years; funding will shift either to external grants and contracts, new endowment income, or the budgets of the schools. Programmatic support is thus a form of bridge funding. Maintenance and operating costs of new facilities will be the responsibility of the schools. Allocation decisions will be incorporated into our ongoing operating and capital budget cycles, but central strategic investment funds will be separately identified and managed. The Board of Trustees will play a major role in this ongoing process through its regular reviews of budget issues and capital projects and through our specific reporting on the strategic plan that is part of the assessment framework described below.

Our strategic investment plan is linked to a program of assessment and financial checkpoints intended to keep us moving towards our strategic goals while guarding against over-commitments. Overall, we think we are likely to identify the needed resources to enable us to move forward with this program. At the same time, we are prepared to make the necessary midcourse corrections and tradeoffs (delaying, trimming, finding alternative revenue sources) that may be necessary should the resource outlook prove less favorable. We will revisit these issues often as a part of our ongoing planning

for budget and capital program as well as regular assessments of plan implementation discussed in Chapter 8.

Table 2  
**Strategic Investment Plan Commitments 2006**  
**Investments Expected Over 6 - 8 Years**

	<b>Total</b>	<b>Central</b>	<b>Unit</b>
	<b>Investment</b>	<b>Total</b>	<b>Total</b>
<b>Program Support</b>			
Faculty Enhancement Initiative	100.0	100.0	-
Faculty Diversity Initiative	10.0	10.0	-
Academic Program Initiatives	40.0	40.0	-
Graduate School Enhancement	7.5	7.5	-
Undergraduate Experience	20.0	20.0	-
Enhancing the Arts	11.3	11.3	-
Libraries	5.0	5.0	-
IT Pool	15.0	15.0	-
Subtotal Campus Programs	208.8	208.8	-
SoM Academic Programs	40.0	40.0	-
Subtotal Program	248.8	248.8	-
	<b>Total</b>	<b>Central</b>	<b>Unit</b>
	<b>Investment</b>	<b>Total</b>	<b>Total</b>
<b>Capital -- University Priorities</b>			
Central Campus (Phase 1)	350.0	250.0	100.0
Perkins Phase II	30.0	15.0	15.0
West Union	20.0	20.0	-
Page Auditorium	20.0	20.0	-
Baldwin Auditorium	5.0	5.0	-
Bryan Center	10.0	10.0	-
Old Art Museum	10.0	10.0	-
Technology Infrastructure	20.0	10.0	10.0
West Dorm Renovations (Phase 2)	25.0	25.0	-
Subtotal University Priorities	490.0	365.0	125.0
	<b>Total</b>	<b>Central</b>	<b>Unit</b>
	<b>Investment</b>	<b>Total</b>	<b>Total</b>
<b>Capital -- School Priorities</b>			
FSB Classroom Building	40.0	-	40.0
Law School Library Renovation	6.0	-	6.0
Law School Atrium Project	8.0	-	8.0
Nicholas School/Inst	85.0	20.0	65.0
Pratt SMIF	17.0	-	17.0
Pratt Teaching Facilities	40.0	10.0	30.0
SoM Signature Building	95.0	40.0	55.0
SoM Vivarium	40.0	-	40.0
SoM Renovations	50.0	-	50.0
Academic Renovations (Phase 1)	30.0	10.0	20.0
Subtotal School Priorities	411.0	80.0	331.0
<b>Debt Service During Planning Period</b>	50.9	27.7	23.3
<b>Contingency/Future Development</b>	100.0	100.0	-
<b>Grand Total</b>	1,300.7	821.5	479.3