Harvard’s Finances

Harvard Library All-Staff Meeting
January 16, 2020
The University strengthened its financial health in 2019, due to careful fiscal management and strong donor support

2019 Financial Highlights

• The largest surplus since the Great Financial Crisis
• Fundraising’s second best year (i.e., pledges and cash)
• The first year of financial impact of the Tax Cuts and Jobs Act
• Enhanced downside planning to protect Harvard’s mission during a financial downturn
After a decade of consolidated effort in revenue diversification and financial stewardship, University operating results have steadily strengthened.

Harvard University Operating Surplus as % of Total Revenue, FY04-FY19

1. The Central Support Allocation (CSA) is included in FY04-FY10 numbers
Capital facilities spending remained near all-time highs as the University continued to invest in critical capital assets, both new and renewed.
The Allston campus transformation continues to make exciting progress

Klarman Hall - Harvard Business School
Opened Fall 2018

ArtLab
Opened 2019

District Energy Facility
Opening 2019

Science & Engineering Complex
Opening 2020

114 Western Ave Renovation
Opening 2020
The University is a large enterprise with diversified revenue sources.
The Harvard Schools have varying revenue profiles

FY19 School Revenue (column totals in $M)

<table>
<thead>
<tr>
<th>School</th>
<th>Revenue (in billions)</th>
<th>Proportion of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Schools</td>
<td>4.427</td>
<td>100%</td>
</tr>
<tr>
<td>Radcliffe</td>
<td>34</td>
<td>0.77%</td>
</tr>
<tr>
<td>Divinity School</td>
<td>41</td>
<td>0.93%</td>
</tr>
<tr>
<td>Faculty of Arts &amp; Sciences</td>
<td>1,428</td>
<td>32.52%</td>
</tr>
<tr>
<td>School of Engineering &amp; Applied Science</td>
<td>130</td>
<td>3.02%</td>
</tr>
<tr>
<td>Harvard Law School</td>
<td>265</td>
<td>6.05%</td>
</tr>
<tr>
<td>Graduate School of Design</td>
<td>68</td>
<td>1.53%</td>
</tr>
<tr>
<td>Harvard Medical School</td>
<td>805</td>
<td>18.57%</td>
</tr>
<tr>
<td>Harvard School of Dental Medicine</td>
<td>43</td>
<td>0.97%</td>
</tr>
<tr>
<td>Harvard Kennedy School</td>
<td>222</td>
<td>5.08%</td>
</tr>
<tr>
<td>Graduate School of Education</td>
<td>142</td>
<td>3.22%</td>
</tr>
<tr>
<td>Harvard Business School</td>
<td>874</td>
<td>19.90%</td>
</tr>
<tr>
<td>School of Public Health</td>
<td>375</td>
<td>8.51%</td>
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</tbody>
</table>
While the endowment’s market value is significant, only a portion can be accessed each year.

End FY18 (6/30/18) Endowment Market Value: $39.2B

To sustain the endowment’s purchasing power for future generations, Harvard targets a payout rate equivalent to ~5% of the endowment’s market value, based on an assumed 8% long-term market return.
More than 70% of the endowment is restricted for donor specified purposes.

FY19 Restricted Endowment Fund Categories

- Unrestricted: 30%
- Restricted: 70%

Restricted categories include:
- Scholarships & Students
- Professorships
- Other
- Research & Arts
- Capital/Construction
- Program Support
- Faculty & Teaching
While Harvard has the largest endowment in the world, some peers surpass Harvard in terms of endowment per student.

Although Harvard has a larger endowment, Harvard also has more students and ladder faculty to be supported from the endowment.
Harvard has a $5.2B budget; approximately 70% of University expenses are comprised of people and space.

**FY19 Expenses: $5.2B**

- **Salaries & Wages**: 39%
- **Benefits**: 11%
- **Supplies & Equipment**: 5%
- **Services Purchased**: 12%
- **Interest**: 4%
- **Space & Occupancy**: 7%
- **Depreciation**: 8%
- **Other Expenses**: 13%
Harvard has navigated the current industry issues well, but we are not immune to these pressures

<table>
<thead>
<tr>
<th>Industry Issues</th>
<th>Impact on Industry</th>
<th>Overall Harvard Risk Assessment</th>
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</thead>
<tbody>
<tr>
<td>Pressure on traditional revenue sources:</td>
<td></td>
<td></td>
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<tr>
<td>Declining willingness to pay high tuition prices</td>
<td></td>
<td></td>
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<tr>
<td>Declining state funding (public schools)</td>
<td></td>
<td>N/A</td>
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<tr>
<td>Declining federal sponsored</td>
<td></td>
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<tr>
<td>Moderated endowment returns (incl. impact of endowment tax)</td>
<td>N/A</td>
<td></td>
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<tr>
<td>Costs as hard to control:</td>
<td></td>
<td></td>
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<tr>
<td>Increasing costs</td>
<td></td>
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<tr>
<td>State of the Industry:</td>
<td></td>
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<tr>
<td>Declining demographics / enrollment</td>
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<tr>
<td>Increasing competition for top faculty and students</td>
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<td></td>
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<tr>
<td>Declining public / political support</td>
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</table>
The comparatively strong financial position of the University and careful planning will help address challenges, both current and future.

### Foreseen Challenges

1. **Revenue pressures on traditional sources**

2. **Anticipated recession in the near term**

3. **Varying degrees of financial sustainability across Schools / Units**

4. **Waning political support for higher education**

### Planned Responses and Highlighted Examples

1. **Revenue pressures on traditional sources**
   - Schools and Units continue to invest in *non-traditional revenue* sources, such as continuing and executive education, non-federal sponsored funding, and licensing / royalty opportunities.
   - Expense management is top of mind across the University.

2. **Anticipated recession in the near term**
   - Schools and Units are incorporating *downside scenarios* into their Multi-Year Financial Plans.
   - Schools and Units are *building reserves* in anticipation of future declines.

3. **Varying degrees of financial sustainability across Schools / Units**
   - University leadership continues to engage closely with Schools and Units to achieve breakeven operating results.

4. **Waning political support for higher education**
   - President Bacow continues to *advocate* on behalf of the University and higher education more broadly.
   - Schools are *investing resources* in demonstrably serving the public good through teaching and research.
Recession planning is another form of scenario planning…

providing leaders throughout the University with a financial planning playbook,

focusing on key principles, potential actions, and organizational strategies

for creating a resilient organization

“Lead, don’t just survive”

- Former Harvard Dean
Harvard has extraordinary assets and many comparative advantages

- Scholarly Reputation
- Faculty, Staff, and Students
- Campus
- Endowment
- Loyal Donors
- Geographic Location
- Moody’s “Aaa” financial rating

“You don’t survive 400 years if there’s not resilience in your DNA”

- Harvard School Dean, 2019