



The Fiscal Crunch

WITH NO RELIEF since the University's early-December announcement that the endowment's value had declined sharply (see "Harder Times," January-February, page 47), Harvard faces significant spending reductions—likely to affect both employees and perhaps even high-priority capital projects (see left). Budgets were scheduled for review in February. Announcements about cost-cutting measures made after this issue went to press will be reported at www.harvard-magazine.com (see the "University Financial Crisis" section).

During the winter, further details about the University's financial challenges emerged (all reported in much greater detail at the website):

- Faculty of Arts and Sciences (FAS) administrators assume its endowment will shrink to its 2004-2005 value—about \$11

billion. This would be in line with the projected decline in the endowment overall, from \$36.2 billion last June to about \$24 billion at the end of this fiscal year, reflecting a 30 percent loss in asset values on top of the \$1.4 billion distributed to pay for current operations.

FAS's budget has grown from \$812 million to \$1.2 billion during the past four fiscal years; the share funded by endowment distributions has risen from 35 percent a decade ago to 56 percent now. And with debt doubling to \$1.1 billion since

2004-2005 (largely reflecting an \$800-million investment in laboratories), debt service has nearly tripled to \$85 million.

Dean Michael D. Smith distributed briefing materials detailing these figures on December 5. In a faculty meeting on December 9, he said that—given an existing deficit; certain increases in financial aid; rising personnel costs from recent faculty appointments; added expenses for new facilities now operating; and further increases in debt service—FAS faces a \$100-million shortfall in the fiscal year

I N T H I S I S S U E

- | | | | |
|----|--|----|--------------------------|
| 45 | A Vision for the Arts | 50 | Decisionmaking, Measured |
| 45 | Harvard Portrait | 51 | Brevia |
| 46 | Mapping Africa | 53 | The Undergraduate |
| 47 | Yesterday's News | 54 | Sports |
| 48 | A <i>Global Health View</i> | 56 | Alumni |
| 49 | Human Rights: Inalienable, Unfulfilled | 60 | The College Pump |

beginning July 1. That assumes the Corporation holds FAS's endowment distribution level, for the first time in memory, at \$650 million. The gap would widen if the Corporation feels compelled to reduce the distribution (its decision is expected in March)—or if research funding or current-use gifts decline.

FAS thus faces removing \$100 million to \$130 million from anticipated spending of slightly more than \$1.2 billion. But debt service and work funded by sponsored-research grants can't be cut, so the real problem is shedding 10 to 15 percent of a nearly \$1-billion budget. Smith acknowledged this would require more than one year of restraint, while simultaneously putting pressure on \$100 million or so of unrestricted reserves.

FAS will try to keep its problems from worsening by canceling two-thirds of current faculty searches; freezing most compensation; restricting hiring of new staff; trimming visiting faculty and non-tenure-track teachers; exploring retirement incentives; and possibly reducing graduate student admissions.

- The professional schools are cutting, too. At the Harvard Kennedy School, where the endowment funds only one-quarter of the budget, Dean David T. Ellwood forecast flat revenue, rising financial-aid needs, and problems for foreign students as the dollar strengthens. The school's budget for fiscal year 2010 will incorporate expense reductions of 5 to 10 percent, with salary freezes, sharp limits

on hiring, and deferral of capital projects. He also expects to "revisit current expectations regarding teaching loads."

Harvard Medical School directed all departments to plan for 10 percent expense reductions during the next 18 months. Sponsored-research funding (about 40 percent of the school's budget) and debt service are untouchable.

- After the financial announcement by President Drew Faust and Executive Vice President Ed Forst last December 2, Harvard moved promptly to borrow \$2.5 billion. Public reports suggest the University will incur annual interest costs on this debt (before principal payments) of \$128 million to \$138 million, offset in part by the repayment of existing shorter-term debt. That substantial expense may be defrayed by using the "strategic infrastructure fund," an administrative assessment on endowment capital now designated to offset costs for Allston campus development. Thus Harvard gains liquid resources that may help it manage the endowment (which invests in many illiquid assets); reduce the risk of refinancing shorter-term debt; terminate existing, expensive interest-rate swap agreements; and bolster the internal "central bank," through which cash receipts and working capital are administered.

As each school readies its budget, the administration is also running task forces to identify new sources of revenue, explore more efficient operations (from better use of information technology to real

estate, procurement, and even shared library functions), and examine personnel policies and practices. The results will likely unfold over the longer term; in the immediate future lie whatever actions are necessary to shrink compensation costs and trim other expenses.

HARVARD'S problems are not unique. A survey prepared for the National Association of College and University Business Officers (NACUBO), published on January 27, indicated average declines in endowment values of 22.5 percent—\$94.5 billion in total—from July 1 through November 30. The losses could widen when private-equity and real-estate asset values are reported, accounting for the University's estimate that Harvard's endowment could be off as much as 30 percent for the fiscal year.

How are other institutions responding? In December, Yale estimated a 25 percent endowment decline and a \$100-million budget shortfall for fiscal year 2010. Saying that it was important not to "overreact," President Richard C. Levin prescribed closing half to two-thirds of the gap in the first year. Yale will restrain but not eliminate compensation increases, continue faculty searches, and pursue new science programs—albeit at a measured pace. It will cut expense budgets 5 percent annually and continue current construction, but defer all new projects until they are financed.

Princeton president Shirley M. Tilghman in early January forecast endowment results similar to Yale's, and laid out similar responses: reduce endowment distributions by \$50 million in the general budget and cut nonpersonnel expenses proportionally; maintain searches, but review requests for new ones carefully; and continue to design planned capital projects, but defer construction until financing is in place. Princeton will raise tuition and fees for the next academic year 2.9 percent, its lowest increase since 1966—an indication of the revenue constraints schools face. And Princeton echoed Harvard, turning to the capital markets to borrow \$1 billion.

In a painful symptom of the times on campuses generally, NACUBO's website in January offered members a webcast on "understanding underwater endow-

Energizing the Local Economy

In mid January, the University published "Investing in Innovation," the most recent report in a series prepared by Appleseed, a New York-based consultant, that details Harvard's impact on the Greater Boston economy (see, for instance, "The Academy and the City," November-December 1999, page 77). The study found that Harvard, with 18,350 full- and part-time workers, ranked second among area private employers, behind Massachusetts General Hospital. Including direct payrolls, purchasing, construction, and spending by employees, vendors, and students, the consultants estimated that Harvard accounted for \$4.8 billion of economic activity and 44,000 full-time-equivalent jobs locally.

Perhaps of greater moment is Harvard's prospective impact. The report noted that in "past economic downturns," higher-education institutions "tended to remain stable" or even grew, as other industries shed jobs. But given the University's need to adjust to the diminished value of the endowment, sustaining that positive effect in a sharply declining economy appears challenging now.

The report appears at www.community.harvard.edu/economic_impact.php.

ments”—funds whose value has fallen below a gift’s principal amount, making distributions illegal in many states. (At Harvard and elsewhere, some programs created by benefactors in recent years are already operating, with expectations, now dashed, of cash payouts from the endowment.) Also available was “new guidance on layoffs.”

A Vision for the Arts

THE ARTS must assume a more central role in the intellectual life of the campus, and this goal should remain a priority even in the current bleak economic climate, a task force on the arts at Harvard exhorted in a December report.

The arts are “at once everywhere, and yet oddly marginalized and undervalued” at Harvard, Cogan University Professor Stephen Greenblatt, the Shakespeare scholar who headed the task force, told an Office for the Arts publication last fall. The campus’s “exceedingly vital and interesting arts scene,” he said, “was genially accepted but somehow not really important or different from other extracurriculars in the way the University viewed it.”

Toward the goal of putting the arts “on par with the study of the humanities and sciences,” the task force recommended launching new degree programs; incorporating more opportunities for art creation in the undergraduate curriculum; and building new space for the arts, as well as improving existing facilities. These undertakings will require “a substantial fund-raising effort,” the report noted.

It offered three main recommendations.

- Greater emphasis on “art-making” in the undergraduate curriculum.

Undergraduates interested in art creation have a limited selection of courses, some of which require students to have experience and skill *before* enrolling. With this state of affairs, the report said, “we reinforce the message that a serious curricular engagement with the arts should be reserved for a tiny cohort, and we direct all others to the broad and playful sphere of the extracurricular.”

“The creation of art—the integration of

HARVARD PORTRAIT



John Briscoe

Harvard once had a renowned engineering program dedicated to water, and John Briscoe, Ph.D. '76, was a student during its intellectual apogee. Growing up in South Africa, where a green, well-watered coastline rings the arid but economically important mining regions of the interior, he understood early the links between water and development. Briscoe, whose mother ran an orphanage and daycare center in Soweto (“Winnie Mandela worked for her for many years”) has brought his personal and political views about inequality and development to his work, in which he has facilitated water projects around the world, most recently as senior adviser to the World Bank’s \$50-billion water program and then as the bank’s country director for Brazil. He arrived at Harvard in January with a joint appointment—McKay professor of environmental engineering in the School of Engineering and Applied Sciences and professor of the practice of environmental health in the School of Public Health—and a mandate to restore the water program to preeminence. Water, he says, is about more than potability, health, agriculture, energy production, and climate change: it touches on almost every aspect of life, including politics, religion, even civilization itself. “We think of the Three Gorges Dam as the world’s largest hydroelectric project,” he says, “but what does it mean in China?”—where historically, an emperor who failed to control water did not last. “It was Sun Yat-sen’s dream to build Three Gorges,” he adds, because doing so would “show that this is a government that controls the rivers...and is therefore a government that can maintain social order.”