

THE COOPER UNION ALUMNI & PIONEER

President Bharucha Q/A with Engineering Student Council a.k.a., The Halloween Massacre (rev 5)

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Abstract

An objective report of the content of the Halloween Massacre, followed by an analysis that includes reporting on Cooper's surpluses in FY 1980 through 1983, the difference between a full-tuition scholarship and a free education, insight into Cooper's Deed of Trust, reaction to the false Chrysler Building narrative, concerns about Bharucha's research dreams, and a cautionary tale of how real threats of bankruptcy can be.

What follows is a presentation of notes from a question and answer session held between the President of The Cooper Union, Jamshed Bharucha, the Vice President of Finance, TC Westcott, the Engineering Student Council, and a room of students with some alumni attending. Some of this initial material, with alternative highlights, appeared in Mini-Issue #2 of *The Cooper Pioneer*.

Part 1: Report

The President was asked to make introductory remarks, and stated that Cooper was experiencing a "serious financial crisis" due to what he characterized as a "structural deficit" due to an "unsustainable financial model" that had been in place at Cooper for "decades."

Bharucha said that the last financial year (July 2010 – June 2011) saw \$59.7 million in expenditures but only \$43.3 million in revenue, which he rounded to a 25% deficit. He said this deficit had fluctuated for a couple of decades, and hit a maximum of 34% in 1995. He stated that a major cause of the deficit was a drop in the rent from the Chrysler Building, which he dated to 1989.

TC Westcott then presented a more detailed report of these figures. The \$59.7 million in expenses was broken into two categories, \$46 million for general operating expenses, including a little under \$15 million for the School of Art (\$4 million), Architecture (\$2.6 million), Engineering (\$6.3 million) and the Department of Humanities (\$1.8 million), and \$13.6 million primarily comprised of \$10.2 million for paying Cooper's debt service on outstanding loans. The \$43.3 million in revenue was split into three categories, \$27.5 million from real estate (primarily \$24 million profit from the Chrysler Building, and a reported \$107,000 loss on the St Marks Bookshop), \$6.7 million in "other income" (primarily \$3 million from student fees and \$2.1 million in annual giving), \$1.5 million from dormitory rents, and \$7.5 million in investment income.

TC Westcott presented another view of expenses, indicating \$24.1 million in salaries and \$9.4 million in benefits. Other expenses included \$3.2 million in "general and administrative expenses" and \$4.7 million in "contracted expenses."

Later the President, in response to another question, stated that the non-real estate investment portfolio of Cooper's college endowment was \$120 million, comprising restricted funds and unrestricted funds. The unrestricted part of the endowment was only \$50 million. It was from this figure that Bharucha made the

calculation that the difference between the \$59.7 million in expenses and the \$43.3 million in revenues, the \$16.5 million deficit, would wipe out the unrestricted endowment in two to three years. He also said that colleges considered a responsible “endowment spending policy” to be 5% which, if my memory serves, would allow for a 7% profit from an endowment offset by a 2% loss due to inflation.

When questioned about alumni giving, Bharucha said that only 18% of alumni contribute annually to the school, and that this percentage must rise. Bharucha also said that it was not reasonable to believe that annual giving would increase by a factor of 8 (from \$2.1 million to \$16.5 million) to solve Cooper’s deficit problem.

Bharucha was also asked about the construction of the Academic Building. He said that \$197 million had been raised, and that Cooper took out a \$175 million loan. After the meeting I asked Bharucha about the sale of the old Engineering Building property; he told me that the sale had netted about \$100 million. I do not know if that figure is part of the \$197 million or in addition to it. TC Westcott had also spoken to the complexity of fully characterizing the cost of the Academic Building because of many details such as the rental of property in Queens for the art students and the related cost of transportation.

When asked about the Board of Trustees, the President informed the students that the members of the Board were uncompensated and that many were major donors to the school, including some who were neither alumni nor parents of students.

President Bharucha refused to speak to an article published two years ago in the Wall Street Journal describing Cooper’s sound financial state, but Past Alumni President MaryAnn Nichols rose to inform the students that she had attended many Board of Trustee meetings, and that the article may have been inspired by some successful stock portfolio transactions (I’m characterizing from memory, her statements were not recorded in my notes). Similarly, when President Bharucha was asked about our actions during the previous financial crisis, he refused to speak and I rose to inform the students about the 1975 renovation of the Foundation Building, the dissolution of the Physics major, layoff of tenured professors and formation of the teachers union, and the history of the student fees.

He gave a curious summary of Peter Cooper’s philosophy of the school, claiming it comprised three parts: the promotion of technological innovation (invention), helping the poor and those discriminated against by lack of opportunity (gender, race), and the teaching of Political Science. He claimed the Deed did not guarantee the students a tuition-free education, and invited students and alumni to make appointments with him to discuss their issues and their ideas.

Bharucha announced the formation of the “Revenue Task Force,” which will include students, alumni, teachers, but no Board members, and promised the students some form of forum with the Board of Trustees (or perhaps representatives from the Board). He stated he would not close any of the schools, and emotionally and loudly proclaimed, “I will not be the President to shut this down.” He was continually asked to address the issue of collecting tuition on students, and continually referred to it as a “last resort.”

An individual in the back of the room, who the President knew by name, was often disruptive to the format the ESC attempted to enforce, and at one point the President sharply rebuked him. I did not record a quotation, but I understand there is an audio tape of the meeting.

Part 2: Analysis

In 1980, Leo Argiris and I published a summary in *The Cooper Pioneer* of the Financial Report of The Cooper Union for the 1979-1980 year (http://www.notnicemusic.com/1980_financial.pdf). On June 30, 1980, the fair market value of all assets of the school was \$53 million, comprising \$11.3 million in real estate and restricted endowment funds, \$14 million in unrestricted endowment funds, and \$20.4 million, the value of the three

buildings then part of The Cooper Union and the equipment in them. The rest of the assets consisted of cash on hand and monies owed to the college. The college owed \$6.5 million in loans.

The college had \$6.8 million in expenses, and \$8.5 million in revenues. In other words, in 1979-1980, The Cooper Union did not have a deficit of 25% but a surplus of 25%. Later issues showed that FY 1981, FY 1982, and FY 1983 also had surpluses.

In the same issue of *The Pioneer*, I reported on a note in the Financial Report that stated that “the College has pledged and assigned ... the first \$230,000 of fees or other charges payable to the College by full- or part-time students for academic instruction.” The \$230,000 went into a reserve fund established in 1975 as collateral on a 30-year bond issue to raise money for the renovation of the Foundation Building. In 1979, the \$200 was raised to \$300, resulting in \$90,000 in funds for academic instruction at the college. According to Don Toman, EE '55, the student fee was “significant” when he went to Cooper, and other pre-1975 alumni I talked to have confirmed that they paid a student fee also, although in the early 70’s the fee was somewhere between \$100 and \$200.

I told the students at the meeting that, since 1975, students had been paying tuition to The Cooper Union. Later research (see http://www.notnicemusic.com/Fee_v_Tuition.pdf) shows that there is a curious difference between the word “tuition” and the word “fee” in academic parlance. What I should have said is that, since 1975, all student who did not receive financial aid were not receiving a free education. I have later learned that that should be extended by at least another 25 years. The students told me that the student fee was now \$800 per semester, although another reliable source has informed me the fee is now \$825 per semester.. No doubt, in 2005, the \$6.9 million (plus interest) in that reserve fund was merely returned to the college to help pay teacher salaries that year. This may explain why Cooper suddenly had an \$8 million surplus that year.

Why is Bharucha telling students that story about Peter Cooper’s desire to teach Political Science? Because the Deed of the college contains this sentence:

“To regular courses of instruction at night, free to all who shall attend the same, under the general regulations of the trustees, on the application of science to the useful occupations of life, on social and political science, meaning thereby not merely the science of political economy, but the science and philosophy of a just and equitable form of government, based upon the great fundamental law that nations and men should do unto each other as they would be done by, and on such other branches of knowledge as in the opinion of the Board of Trustees will tend to improve and elevate the working classes of the city of New York.”

This sentence is *separate* from four other sentences describing the establishment of a free reading room, instruction of females in the arts of design, the establishment of a polytechnic school, and providing rooms for officers of a society of Associates of The Cooper Union. It is no coincidence that *The New York Times* reports that, prior to 1902, The Cooper Union collected tuition “from students who had the means to pay.” Bharucha is setting up a legal argument that the Deed only requires that the college provide a reading room and Political Science classes at night for free, and that the schools of art, architecture and engineering only provided a free education to all after Andrew Carnegie gave \$300 thousand (about \$7 million – the Bureau of Labor Statistics has only been tracking inflation back to 1913) to the school, and Peter Cooper’s relatives “matched” the gift by giving to the college the land that the Chrysler Building was eventually built on (two relatives purchased the property for about \$600,000).

(A little side history – construction on the Chrysler Building started a year before the stock market crash, and at the time the country believed the Great Depression would only last a year (sound familiar?) and kept on building. When the building was completed in the mid-30’s, it was known as “the empty building” because there were no businesses renting space in it. That \$300 thousand from Andrew Carnegie kept Cooper free to all throughout the Great Depression! Today, it would take a \$300 million gift (using Bharucha’s 5%) to generate

\$15 million a year for the college, closing its deficit. For those interested in politics, during the Great Depression, FDR's party lost the mid-term elections (sound familiar?), all media was predicting that he would lose his re-election, and FDR won instead by the largest electoral college landslide in the history of the nation. Encourage the nation to get out and vote Democratic in 2012!)

Bharucha told *The Times* that the value of Cooper's assets was \$577 million in 2010. It is clear from Cooper's Form 990 that \$200 million of that is the paper value of Cooper's buildings and the equipment in them. Bharucha then says our endowment and quasi-endowment are \$70 million and \$50 million, respectively. This leaves over \$250 million unaccounted for, which may be a valuation of the title of the land under the Chrysler Building (plus a few smaller properties).

According to Cooper's 2009 Form 990, Cooper's assets were \$579 million, its revenues were \$47 million, and its expenses were \$65 million. But there was also a "net unrealized gain on investments" of \$47 million. Unfortunately, this is a "paper gain" that can only be obtained by selling off Cooper assets. It certainly appears that the methods used to value real estate holdings (especially in Manhattan) are greatly exaggerated. Put another way, you only realize the "gains" on Manhattan real estate by selling it, and you only increase your profits on Manhattan real estate by raising your rents through the roof.

Without a copy of the latest Financial Report, it is difficult to fully compare 1980 to 2011. As a first guess, it would appear that Cooper is earning only 6% on its non-real estate portfolio, as opposed to well over 10% in 1980. The paper value of the land under the Chrysler Building has soared and the earnings, by any measure, have increased well beyond inflation, despite what Bharucha has said.

So we start with two mischaracterizations. Cooper has not been deficit spending for decades – *The Alumni Pioneer* has now analyzed random available data showing at least 7 years out of 17 years from the past three decades when that was not the case. Also, the story about a drop in Chrysler Building rent in 1989 might have some element of truth, but what is important is not a drop in rent, but the significant drop in non-real estate earnings.

More curious is the difficulty in comparing 1980 dollars to 2011 dollars. The Bureau of Labor Statistics claims that \$1 in 1980 has the same buying power as a little under \$3 today. Using that benchmark, the cost of running The Cooper Union today should be a little under \$20 million, not \$60 million. Using the cost of instruction as a benchmark instead, Cooper's expenses should be \$50 million, not \$60 million. A portion of that difference is the large change in Cooper's indebtedness.

Unfortunately, under either yardstick, annual giving has not kept pace with inflation, but consider other reasons why – the wages of engineers, architects, and artists has not kept pace with inflation, either. There is a big difference in buying power – the ability to pay for food, health care, a home, and education – and middle class wages. This is known as "wage stagnation." Not only do the rich get richer and the poor get poorer, but the middle class looks a lot less like a middle, has to work harder, and racks up huge debts.

In a forum on LinkedIn's Cooper Union Alumni Association group (I do not have access to Facebook), I have cast doubt on Bharucha's "5% endowment spending policy" statement. Colleges who stick to that policy make up the difference between that policy and their actual expenses by charging tuition, and then they raise tuition to preserve the policy – which has resulted in huge increases in the cost of higher education. This may be "sustainable," to use Bharucha's buzzword, but it cannot be applied to Cooper – and certainly wasn't during the Great Depression!

The students were demonstrably clueless about the organization of a not-for-profit institution of higher education; in particular, they did not understand that the Board of Trustees is Bharucha's boss, and that attempting to force him to criticize or even acknowledge any misconduct by the Board would likely cause him

his job. I am not convinced there has been any misconduct by the Board, aside from hiding the true nature of what a “full-tuition scholarship” means vs. what a “free education” means. I was also amazed that some students thought that the twenty members of the Board would be able to cough up \$1 million each every year in order to close Cooper’s perpetual budget deficit.

Although I completely respect that Jamshed Bharucha should not be held liable for anything that happened prior to the start of his term in office, I’m not sure I buy into the “what I discovered since taking office” narrative. It makes more sense that President Bharucha is operating at the direction of the Board of Trustees, that he was chosen because of his thinking and ability to implement their new policy, and that he may have been told that that would be his job prior to being offered the position (the last is speculation that does not fit the discovery narrative). This has been born out by the words used by the current Chairman of the Board of Trustees.

Given that some 21st century angel will not descend upon Cooper with a quarter of a billion dollar gift, it is obvious that some financial solution must be found. It bothers me that Bharucha is forming a “Revenue Task Force” when, in the last financial crisis, Cooper did make painful cuts to academic programs, and the possibility of painful cuts to expenses should be on the table.

Bharucha’s statements that a bigger school can minimize problems caused by its fixed expenses does not appear to me to scale to a tuition-free school. Bringing in more students, hiring more teachers, and providing more classroom space while *not* collecting tuition from students seems to me to be, on the face of it, absurd mathematics.

I am also concerned about Bharucha’s desire to push Cooper from being a teaching institution to being more of a research institution, although he has tempered it somewhat by suggesting that we perform research on education itself. Amongst the painful cuts we may want to consider are elimination of the masters degree programs. In hard times, students use masters programs to delay entering the workforce (this is not what I did), and are used by institutions as cheap labor. Since Cooper students are top-of-the-class they probably should get masters degrees, but doing so should not be a general policy for the nation.

Without access to more data, I cannot formulate a proposal for a solution to maintaining the miracle that is The Cooper Union. I believe the solution should accumulate a combination of things – doubling or tripling annual giving, relying less on untouchable paper assets, restricted endowment funds and borrowed money and more on unrestricted and cash-on-hand assets, closely examining and reducing some expenses, perhaps even some political intervention at the federal level via earmarking. Bharucha may have a legal argument that Cooper’s schools are not required to be tuition-free, but that does not make Cooper’s slippery language about a “free education” any more palatable.

The students have a hard time believing that a financial crisis could be this severe and come so quickly, but those of us out in the workforce have seen it. There is not only 9% unemployment, but 31% unemployment amongst recent engineering college graduates; those who have not attended Cooper also have huge student loans to pay back.

In the West Village, preservation activists protested a proposal by St Vincent’s Hospital to make a deal with Rudin real estate, tear down the O’Toole building, and erect a new hospital. The hospital claimed hardship before the Landmark’s Preservation Committee. Shortly thereafter, St Vincent’s went bankrupt and the entire West Side of Manhattan has been without an emergency room and a full-service hospital. We recently saw a similar situation start to play out as Internet petitions and celebrities tried to convince Cooper to finance further the St Marks Bookshop. The Board of Trustees is, in every way that can be defined, ultimately responsible for the financial health of the institution. The Great Recession we are in is real, as real as the financial crisis of the 1970’s, when many colleges did close. The threat is real and I am not so naive as to believe that a solution must be findable. Perhaps my degree is more valuable if Cooper goes bankrupt than if it starts to charge tuition?

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