THE COOPER UNION
ALUMNI PIONEER

The Deadline (rev 1)

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Abstract
Looking forward, *The Alumni Pioneer* takes its first steps into the future, proposing that a five-year plan – a focus on FY 2013 through FY 2017 – might be enough to get The Cooper Union through the financial crisis until the Chrysler Building rent is raised from $7.5 million per year to $32.5 million per year.

The Alumni Pioneer was asked to present about the past at the FREE COOPER UNION! community summit, a subject that may be important to some, but isn’t as important as the present and the future. With the release of the FY 2011 financial statements, the community gets its a look at the first year that the college was fully moved into the NAB.

My staff is learning to tread lightly on two words: “tuition” and “the deficit” (let alone that strange concoction, “the structural deficit”). Although The Cooper Union has seen positive cash flows in 6 of the past 12 years, it is experiencing a negative cash flow now, what with the debt service and the yearly 10% growth in non-academic costs over the past 5 years.

By being forced to look at the past, we have noticed two things: The Cooper Union is reluctant to discuss openly the Chrysler Building value and the Chrysler Building rent. An intrepid source provided The Alumni Pioneer with a photograph which showed that, in FY 2011, the Chrysler Building rent was $25.6 million, and that in FY 2012, it is expected to be $26.4 million, a 3% increase. There is evidence that the fair value of the Chrysler Building may have dropped from about $530 million to about $450 million or less after the crash. This is based on the statements that the value of our endowment was $600 million and the non-real estate portion was $150 million.

Although originally The Cooper Union only owned the land under the Chryler Building, through some historical quirk it came to own both the land and the Chrysler Building itself. The land and building can have many very different dollar figures attached to it. There is the original purchase price of the land, about $600K, which is depreciated on paper over time down to zero. There is the “fair value” of the land and building, which is what the financial statements have hidden in the investment portfolio since 2003. The most important dollar figure is the property value as determined by the New York State Department of Taxation and Finance. An assessor can use one of three approaches: the cost approach, used for vacant lots, farmland, and residental properties,.the cost approach, used for industrial, utility, and special purpose properties, and the income approach, which looks at how much income a propery should produce if rented, less operating and maintenance expenses and insurance and financing terms. The property value is extremely important to The Cooper Union, because the amount that the tenants of the Chrysler Building would normally pay the state in property taxes is instead paid to us. This is referred to as “payment in lieu of taxes,” or PILOT. In FY 2011, that amount was $16.8 million.

The Wall Street Journal, CNBC, and The New York Times have all glossed over these facts, regurgitating whatever The Cooper Union tells them without, apparently, any fact-checking. So one source says the value of the endowment stayed flat after the financial crisis of 2008, another mentions an 18% drop, and the third completely confuses the real estate portion of the endowment with the non-real estate portion of the endowment, in essence dipping twice in front of its readership.

There is a curious nugget in the original Wall Street Journal article that started all of the furor over The Cooper Union's false claims of financial solvency followed by dire predictions of imminent collapse. The Wall Street Journal article claims that The Cooper Union signed a 150-year lease for the land under the Chrysler Building with Tishman Speyer Properties in 1999. Tishman then turned around and sold 90% of that lease to the Abu Dhabi Investment Council for $800 million. Most significantly, The Cooper Union struck a deal that, in 2018, Tishman would "lock in" payments of $32.5 million in rent payments, a 433% raise from the negotiated $7.5 million value (which snuck up to $8.8 million in FY 2011), a guaranteed raise equivalent to over 15% per year. Additional raises are locked in for 2028 and 2038.

To sum up, The Cooper Union is going to receive at least another $25 million per year in rent from the Chrysler Building in 2018. This dwarfs the $16.5 million in operating "deficit" in FY 2011 (given that only $7.5 million was "imputed" from the non-real estate investment portfolio, based on a spending policy which has not been explained, in FY 2010 called the "asset allocation spending model policy index").

The point of this analysis is to start talking rationally about what the real deadline is. Is it two to three years from now, or FY 2015, when the non-restricted endowment could be exhausted? Or could there be a plan to hold on until FY 2018, when that extra Chrysler Building rent kicks in?

This is not to claim that the FY 2018 boost will be enough to cure all ills. FY 2018 is also the year The Cooper Union starts to pay down the principal on the $175 million MetLife loan. Alternatively, by FY 2018, 51 Astor Place could be developed so that we could start collecting PILOT on it. But if the administration's "Revenue Task Force" accepts these silly "deficit" numbers and is unaware of the $25 million boost in revenues expected in 2018, can they really be of much use from a "structural deficit" point-of-view?

I understand there is a practical distance between the concept of a "free education" for all, and setting up a system where The Cooper Union can collect a few million in fees for academic instruction, and get its hands on money from government programs that otherwise wouldn't give any money to The Cooper Union without some clever talk about tuition and grants and student aid. The point being, if The Cooper Union really did provide a free education to all of its students, it would not be able to go to the government and ask for money using the normal channels that other colleges use.

So let's all focus on a five-year plan – a way to get us from FY 2013 through FY 2017 – without establishing the precedent of charging student tuition. Is that too much to ask?

The current version of this document can be found at <http://www.notnicemusic.com/deadline.pdf>. Corrections to this document are appreciated and, if based on substantiated facts from legitimate sources, will be implemented by the author. The original version was completed on December 5, 2011, and updated on January 31, 2012.

The Alumni Pioneer, <http://www.notnicemusic.com/Cassandra/cooper.html>, is a virtual newspaper with breaking news stories and links to analyses, sources and the media. It is written and formatted in an inverted-pyramid newspaper style to facilitate quick access to what is deemed the most important information. The abstract was added on January 28, 2012.