THE COOPER UNION
ALUMNI PIONEER

A Fiduciary Timeline (rev 2)

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Abstract
The financial history of The Cooper Union from 2000 to 2012 in three year intervals, including the launch of the Capital Campaign in 2000, the change in accounting policy that allowed for investment in hedge funds in 2003, the mortgage of the Chrysler Building in 2006 in support of the Master Plan, the media campaign in celebration of the 150th Anniversary of Cooper and opening of the NAB in 2009 bragging that Cooper had survived the crash, and how the Board took a historical address about whether Abram Hewitt falsely attributed the "free as air and water" quote to Peter Cooper as a basis in 2012 to justify charging tuition to cover the debt the college became saddled with.

2000

The Board of Trustees are faced with a series of problems. Whereas previously, the endowment earnings have been evenly split between real estate income and investment portfolio income, the real estate side is not living up to its potential, and the investment portfolio is on a downward spiral. The college is running out of assets to sell, and the Board feels the engineering building at 51 Astor Place has obsolete labs, inadequate ventilation, and old-fashioned classrooms.

The Board formulates a bold strategy. It will launch a 12-year Capital Campaign to replenish the investment portfolio with $160 million. It will raise an additional $90 million dollars to build a new academic building (NAB) for the art and engineering schools on the site of the Hewitt Building. It will vacate 51 Astor Place and find a developer for the property who will provide a lump sum payment in lieu of rent for the right to build a mixed-use commercial structure with some left-over academic space and property tax payments to the college similar to the Chrysler Building deal.

2003

The Cooper Union selects Thom Mayne of Morphosis to design the NAB. Jonathan Rose Companies is engaged by The Cooper Union as its Owner's Representative. The pace of the Capital Campaign is on track. Unfortunately, the investment portfolio is in real trouble.

The spending policy of the college – take 6% of the fair value of the Chrysler Building and the invetment portfolio averaged for the previous three years and "impute" that amount as operating revenue – is no longer feasible, given the shrinking investment portfolio. There are new investment instruments – riskier investment instruments – that are becoming popular in the investment community. They are called "hedge funds." Hedge fund managers know how risky their hedge funds are, and they don't want unhappy investors who lose their shirts in the market. So hedge fund managers establish a point of entry – you can't invest in a hedge fund unless you have at least $100 million in assets. To meet this requirement, The Cooper Union "changes its accounting policy" (FY 2004 Notes to Consolidated Financial Statements). Rather than use the $600,000 cost of the Chrysler Building, the Board uses the fair value of the Chrysler Building - $144 million at the time - and reveals the new sum in the financial statement. This new sum, well over $200 million, satisfies the hedge fund managers and they allow The Cooper Union to invest $3 million in a hedge fund.

After the 6% spending policy is jettisoned, the Board will start arbitrarily imputing earnings as operating revenue, using values of 7% based on inflated Chrysler Building values, even though the rent and payments in lieu of taxes (PILOT) remain relatively flat..

2006

Everything is on the rise. The Capital Campaign is ahead of schedule, raising $129 million of the planned $250 million in six years. The fair value of the Chrysler Building is zooming through the roof. Hedge fund earnings are far beyond all expectations.

But with the good, there is bad. Interest rates are on the rise. Construction costs are rising, too. The Cooper Union petitions the Supreme Court of the State of New York for *cy pres* relief, announcing it is in a "grave fiscal crisis" – information it conceals from donors, the media, and the Cooper Union Community. It asks the court for permission to mortgage the Chrysler Building.

For a "sustainable financial future," the Supreme Court is promised that the Board of Trustees and the President have developed and begun to implement a "Master Plan" to "produce a more reliable and stable revenue stream." Under the Master Plan, The Cooper Union will:

- Reduce operating expenses of the college by 10% by 2011
- Raise the other $121 million for the Capital Campaign
- Increase annual giving
- Maximize return on its investment portfolio
- Monetize its remaining real estate holdings

The Attorney General buys the inference that accredition agency criticism of the engineering school facilities, rather than lack of art and architecture studio space, threatens the college's accreditation, so they don't oppose the petition and the Supreme Court rules in Cooper's favor. The Board takes out a $175 million loan from MetLife at a 5.87% interest rate, locks in a guaranteed maximum price of $115 million with Sciame for construction of the NAB, and strikes a deal for $97 million for the engineering building real estate. It renegotiates a 1999 Tishman Speyer lease for Chrysler Building rent to lock in real-estate boom prices for the next forty years. It invests more money into hedge funds. And, overruling its conservative VP of Finance, it proceeds with construction of the NAB, although the building fund has only $60 million of the $90 million deemed prudent for such a venture.

2009

The Master Plan starts to unravel. Rather than reduce operating expenses, the administration drives them through the roof. The Capital Campaign has slowed its pace, and annual giving is dropping every year.

The financial collapse of late 2008 wipes millions out of the hedge fund. The NAB is nearing completion, but the developers of the engineering building site are not going to build a new building in the failing economy, which will deny The Cooper Union anticipated PILOT. The 5.87% interest rate on the $175 million – over $10 million a year – will become a debt service, 20% of Cooper's negative cash flow.

This does not make for a good media campaign, so the administration masks the damage with positive spin. The president of the college balanced the budget in the year before the crash, and vows to reduce spending further. The chair of the investment committee brags to the Wall Street Journal about how well it had weathered the financial collapse. The NAB, whose final cost has zoomed to $165 million, opens to great fanfare, gaining accolades from throughout the architectural community.

Within the walls of the Board Of Trustees meetings, some know better. Others jump ship. Others try to pick through the crumbs of the consolidated financial statements, which effectively hide the truth of Cooper's financial situation.

Is this the point at which group-think takes over? Maybe the recession won't last so long. What if The Cooper Union started to charge tuition?

2012

The NAB is completed and everyone has moved in. The engineering building sits vacant and undeveloped. With the great recession in full swing, annual giving is down and Cooper has fallen over $50 million short of its Capital Campaign goals. Renovations of the Foundation Building are over budget. The $10 million yearly debt service on the MetLife loan kicks in. The prospect of earning over 5.87% on equity investments is not going to happen. Instead of reducing spending, the administration goes on a hiring spree and realized how expensive it is to operate and secure the NAB.

The Board of Trustees recalls a 2009 address delivered by Cooper Union Associate Professor and "unofficial historian" Peter Buckley. Buckley questions whether Peter Cooper ever said that education should be "as free as air and water." The quote is twice attributed to Peter Cooper by Abram Hewitt, Peter Cooper's son-in-law.

Unlike the uneducated Cooper, Hewitt graduated from Columbia, was both a president of its alumni association and a trustee. Whereas Cooper, a product of the industrial revolution of the Nineteenth Century, the "mechanic of New York," elevated science to religion (according to Buckley), Hewitt transformed the college from a vocational school for the poor into a Twentieth Century institution of higher education. With $300,000 from Andrew Carnegie, $300,000 from Peter Cooper's son (and Hewitt's business partner) Edward Cooper, and $300,000 of his own money, Hewitt perfected a new Cooper Union, and created a new, mythological Peter Cooper as well.

The Trustees proceed to completely misappropriate the content of Professor Buckley's address in order to justify its new agenda. The Board of Trustees looks hard at its Deed of Trust. It doesn't require that the college be free. A trustee approaches Dr. Jamshed Bharucha, the darling of a new academic movement devoted to educating students in a "global context." With engineering companies outsourcing to India and China, it sounds like a new Twenty-First Century vision for the institution.

Before his arrival at The Cooper Union, Dr. Bharucha questions whether the "cherished aspect" of free education at Cooper is as important as its high admissions standards. Once hired, he plans a media campaign to justify the Board's plans to bring tuition to The Cooper Union. He refers often to the original Deed of Trust. As Chief Academic Officer of The Cooper Union, he hopes to institute the concepts of the academic movement he champions. He also starts reading the unpublished autobiography of Peter Cooper. He assumes no one else has read it.

Unbeknownst to Bharucha, on the 200th anniversary of Peter Cooper's birth, under President John Jay Iselin, Peter Buckley published excerpts from the autobiography, "illuminating the man behind the myth." There is an aspect of the Cooper autobiography that President Bharucha chooses not to mention. It is Peter Cooper's fear of debt and speculation. What would Peter Cooper think of the overpowering debt and speculation that the Board of Trustees have burdened the college with? Here are some excerpts from the "unpublished" autobiography of Peter Cooper:

> When quite a small boy I made a small wagon. Riding with one of my younger brothers a friend of my father's saw it and offered me six dollars. With those six dollars, and with four dollars that I obtained from some other work, I was persuaded by an uncle of mine to buy lottery tickets. I had the good luck to draw a blank with my tickets, and I consider it one of the best investments I ever made, for I learned it was not my forte to make money by games of chance.
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> In all the different kinds of business in which I have been engaged, it has been my constant endeavor to carry them on in a way that I should owe nobody anything but good will. In looking over my whole career from its commencement to the present, I am unable to recollect any time when the men who worked for me did not get their pay when they required it. I could not have done this if I did not studiously avoid business notes discounted at banks.
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> It was the sight of such ruin [the depression of 1837] that had been brought upon the country by the operations of the old United States Bank about the time of the commencement of my business life that led me to form a firm resolution to do what business I should ever be able to do on such means as I could have of my own so as not to be dependent upon the tender mercies of banks. So fearful was I of debt that I well remember that for fifty years I never allowed a year to pass that, if every one with whom I dealt did not come for the money that was due them, I made it my business to carry it to them and get their receipt in full settlement at the end of every Saturday before Christmas.

According to Professor Buckley, because Peter Cooper always had cash on hand, he not only survived the periodic depressions, he used them to increase his wealth. "The glue works, his early railroad investments and the first piece of land on which the Foundation Building now stands, were all purchased at the bottom of markets."

In 1832, Peter Cooper joined with other laborers to end imprisonment for non-payment of debt. Peter Cooper's legacy was modern bankruptcy law. Let us all hope that The Cooper Union will not need to take advantage of Peter Cooper's legacy.

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