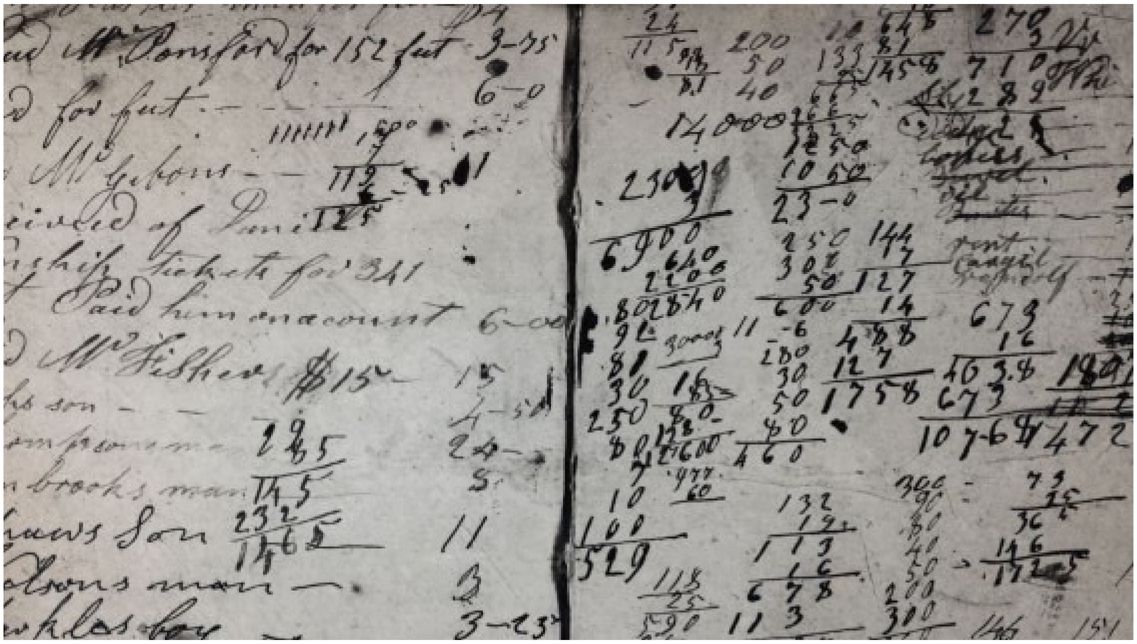
Ten Questions, Forty Answers



The change in The Cooper Union's long-standing full tuition scholarship policy has understandably generated controversy and passion. These brief paragraphs aim to respond to some questions being asked and clear a path toward common ground. The goal is to heighten mutual understanding of some of these complex issues, honor The Cooper Union's legacy and secure and advance its future.

1. Will full tuition scholarships still be available?

Mr. Misinformation says: We're going to be able to provide ***more*** full-tuition scholarships, better financial aid, and a more diverse student body!

Mr. Sarcasm says: "Open and free to all" and "free as air and water" have been replaced with "access" – Peter Cooper's founding, progressive principle! Peter Cooper first used the word on November 1, 2011.

Mr. Optimism says: They just appointed a new trustee devoted to needs-blind admissions! The meritocracy survives!

Mr. Pioneer says: In 2013, the average college gave a 45% discount on their "sticker price" – Cooper will give a 50% discount. The government will provide money for those who qualify for financial aid. The scholarship based solely on merit has been obliterated.

> The Cooper Union's sustainable financial position will, in fact, enhance its ability to provide financial aid to needy students. The institution will continue to maintain a need-blind, merit-based admission policy with tuition far below comparable academic institutions. It also will provide increased funding for living expenses as compared to prior years. Starting with the entering class of 2014, all undergraduate students will receive a scholarship of at least 50% ($19,500 against a projected tuition of $39,000). Those least able to afford higher education will receive full tuition scholarships, and be eligible for increased financial aid for living expenses and books. These students are expected to account for 25% of the 2014 incoming class. In addition, about another 25% are expected to receive financial assistance on a sliding scale based on need. In essence, those (roughly 50%) who can contribute their share will help provide funding for those unable to pay, a founding, progressive principle of balancing responsibility and

equal opportunity explicitly espoused by Peter Cooper in 1864. The Cooper Union remains committed to a diverse student body and the highest standards of access, opportunity and academic excellence.

2. Was the $650 million endowment mainly invested in hedge funds? If so, why?

Mr. Misinformation says: Ha-ha-ha, don't you know $500 million of our endowment is the Chrysler Building? Now let me throw at you a lot of percentages with no numbers to back them up, one of my favorite tricks.

Mr. Sarcasm says: I wonder why *The New York Times* has printed five times that our endowment went from under $100 million to over $600 million? Did we not own the Chrysler Building in 2002?

Mr. Optimism says: I'm confused, if the endowment has covered operating expenses, why is there a crisis?

Mr. Pioneer says: This is an invented question. The Cooper Union had less than $100 million in liquid assets in 2002. When the money started rolling in in 2006, it started investing big-time in hedge funds. After it lost nearly $40 million in the crash of 2008, it has rebalanced the portfolio. Adjusted for inflation, the value of the endowment is equal to its value in 2000, despite a capital campaign and two land deals.

> Some $500 million of value in the endowment is represented by the Chrysler Building--a vital but non-liquid asset. Of the liquid assets, a high share has been invested in funds explicitly chosen to preserve capital, minimize risk and achieve a reasonable return. Some of these are structured as hedge funds, some are not. None (with the exception of a remnant of a small fund from 2000) are illiquid private equity partnerships. This conservative approach seeks to avoid the pitfalls of a volatile market since The Cooper Union has needed to draw down funds every year to pay its bills. Has this strategy worked? For fiscal years 2006 to 2012, The Cooper Union's cash endowment, largely invested in hedge funds, returned 6.35% per annum, after fees. The average return reported by National Association of College and University Business Offices (NACUBO) for the nation's colleges and universities for the same seven years was 4.5%. In 2012 the hedge funds returned more than 10%. In the first quarter of 2013 they returned 5.3%. Bottom line: Our endowment not only performed markedly better than those of most American institutions of higher learning, it did this while providing necessary cash to cover operating expenses.

3. Where did the funds come from to pay for the new academic building (NAB)?

Mr. Misinformation says: The NAB paid for itself! Cost of NAB = Building Fund + 51 Astor Place. Read this: "The new Cooper Union academic building designed by the Pritzker Prize-winning architect Thom Mayne, is the most exciting, energetic, and well-composed academic building to go up in the city in at least a decade. The building is at once tough, strong, and deferential to its neighbors in the rapidly changing East Village; it is also at the cutting edge of sustainability, functions well, and did not cost an arm and a leg. You cannot ask for more than that." – Paul Goldberger, The Ten Most Positive Architectural Events of 2009, *The New Yorker*

Mr. Sarcasm says: We have "high standards" – a LEED Platinum building designed by a starchitect with less square footage than when we started that costs $800 to $1,000 per square foot!

Mr. Optimism says: Someday, some angel may still give us $40 million to attach their name to the building! In the meantime, come in and see all of the ***other*** names sprinkled all over the building!

Mr. Pioneer says: In a rush to complete construction by the 150th anniversary of the college, the president ignored his own financial advisors who insisted that $90 million be raised before starting construction. By leaving the time element out of these transactions, they are completely misrepresented.

The NAB program--which included furniture, fixtures and equipment (FFE), demolition of the Hewitt Building and moving expenses--cost $167 million. We received $92 million (plus $3 million in annual payments) from the sale of 51 Astor Place (the site of the old engineering building.) An additional $60 million was raised from a building capital campaign. These two sources represented new funds only made available because of the development program. They accounted for $152 million, and the remaining $15 million balance came from the endowment. (It should be noted that the $3 million annual payments generated by the transaction would more than cover debt service on a $15 million loan, and exceed even the most optimistic expectation of a return on investment from that amount.) The new development also saved many millions that would have been needed to upgrade the old buildings. Bottom line: The Cooper Union made a commitment to create a building that was architecturally and environmentally distinctive (LEED Platinum), reflecting its own high standards. A hoped for major gift for naming rights to the critically acclaimed structure has yet to materialize, though that opportunity clearly remains. Some believe it would have been more prudent to follow a more modest path. Still, the result was that The Cooper Union traded outmoded facilities for a new one with modern labs and equipment and a self-amortizing cogeneration plant that will yield future savings--with the overwhelming share of funds provided by the development transaction and the building campaign.

4. But wasn't the $175 million loan from Met Life for the NAB? If not, then what was it for?

Mr. Misinformation says: Blah blah blah "structural deficit" blah blah "DASNY loan" blah blah " Foundation Building renovations" blah blah "overly optimistic" blah blah "defer the crisis'!

Mr. Sarcasm says: Sorry, I was distracted from reading the 2006 *cy pres* petition that said that we needed the $175 million loan to build the NAB to ensure we kept our accreditation. You were saying?

Mr. Optimism says: Shucks, you were overly optimistic? I fully understand.

Mr. Pioneer says: DASNY loans, DASNY loans … oh, we're talking about the last building projects, the dormitory that loses us money every year and a long-due restoration of our landmark Foundation Building! The "existing high rates of return" were the hedge funds – wait, that's a different question. Now the loan covered operating expenses? My turn to join Mr. Sarcasm, sorry.

The primary use of the $175 million loan from Met Life was to restore some liquidity to the endowment being depleted by the structural deficit and for the continuing large drawdowns needed to pay bills. It was also used to pay off $25 million in dormitory bonds--saving more than $2 million in annual interest payments. Net proceeds, after paying off the dormitory bonds, were $150 million; this compares to a $119 million operating deficit from 2007-2012. Funds were also used for necessary repairs and upgrades to preserve and maintain the historic Foundation Building. The loan helped defer the crisis, keep the institution afloat and extend the life of the full tuition scholarship policy. However, some of the loan proceeds were invested on the assumption that existing high rates of return would continue and exceed the costs of interest on the loans, resulting in a net gain. That expectation proved overly optimistic, compounded by the ensuing financial meltdown. Bottom line: The loan was necessary to support the endowment and cover operating deficits.

5. Is the Board of Trustees influenced by Peter Cooper's vision?

Mr. Misinformation says: We've got that covered – lots of rich alumni, children of alumni, and Peter Cooper's great great grandson!

Mr. Sarcasm says: Not a middle class artist, architect, or engineer in the bunch!

Mr. Optimism says: In a series of secret meetings, the trustees worked really hard to make sure that instituting tuition was truly a "last resort," just like they said.

Mr. Pioneer says: Peter Cooper would be horrified to learn that his great great grandson works for JP Morgan Asset Management, that half the board works in investment banking and finance, and the rest work in real estate, marketing, and outsourcing.

> Most of the Board attended The Cooper Union. Five are elected directly by the alumni association, including the association's current president. Three are the children of alumni. Peter Cooper's great great great grandson is on the board. The links to The Cooper Union and its legacy are strong and personal and vibrant. That is why for 18 months the Board comprehensively pursued and exhaustively debated every possible path to resolve the financial crisis before turning to what most regarded as a last resort, the institution of tuition. The goal: To honor Peter Cooper's legacy, sustain the institution he founded and serve the values he espoused. Academic excellence and equal opportunity remain the Board's goal and its commitment.

6. Would Peter Cooper ever consider charging tuition?

Mr. Misinformation says: Actually, no, but let me quote what some others wrote while Peter Cooper was alive to imply that Peter Cooper was ***aware*** that others didn't mind charging tuition.

Mr. Sarcasm says: I can pick and choose out-of-context quotes, too, except that those quotes would actually have come out of Peter Cooper's mouth!

Mr. Optimism says: I don't have time to read anything that Peter Cooper wrote or any of the speeches he gave. Can you read me another bedtime story?

Mr. Pioneer says: In the first annual report, the trustees made crystal clear that the "amateurs" violated the policy at Cooper, so they limited their number and eliminated them in 1887 (1860-1887 is 23 years out of 40, hardly "most of the 19th century"). When the trustees proposed charging for some classes, Peter Cooper gave another large donation, insisting, ***in writing,*** that the institution remain free to all. Peter Cooper ***never*** considered charging tuition.

> History provides an insight. The 1864 Art School Rules and Regulations (with Peter Cooper presiding on the Board) state that "each paying pupil secures the admission of two free pupils, and that the usefulness of the school will be greatly extended if all who can and ought to contribute to its support do their duty." A limited number of these so-called "amateurs" paid tuition for most of the 19th century until full tuition scholarships for all were made possible by extraordinary gifts the institution received at the turn of the 20th century. The first annual report of the Engineering School in 1860 offers another indication of Peter Cooper's view on tuition. The report suggests many ways to secure funding to develop the new school absent tuition. But failing these, the report says that the Trustees should consider "making such charge for tuition only as will make up any deficiency in their revenue applicable for this purpose." Bottom line: Nobody, from Peter Cooper to the present, would have preferred to charge tuition. It would have been an option of last resort when launching the Engineering School in 1860; absent a giver as generous as Peter Cooper and his family, it was an option of last resort to prevent insolvency in 2013. Mayor Bloomberg framed the broader issue in his speech at the 2013 Commencement, noting that nothing in life is really free: "The debate isn't about whether education is free…it's about who can and is willing to pay for it…and finding the right balance."

7. Why not sell the Chrysler Building?

Mr. Misinformation says: Because the new owner wouldn't get PILOT, silly!

Mr. Sarcasm says: We can't sell the collateral on the $175 million loan, silly!

Mr. Optimism says: But I ***love*** the Chrysler Building!

Mr. Pioneer says: If The Cooper Union loses the Chrysler Building – or the PILOT – it ceases to exist. The Cooper Union has always earned more money from the Chrysler Building than from the rest of its endowment portfolio, although in the late 1980's, the balance went out of wack with underperforming securities and soaring New York City real estate values.

> The Cooper Union "owns" the Chrysler Building subject to a long-term ground lease. The institution receives both rental income and, in an agreement with New York State, annual tax equivalency payments. The revenue stream from these sources is currently $27 million a year ($9 million in rent and $18 million from the tax equivalency), rising to as much as $55 million in 2019 ($32 million in rent and $23 in tax equivalency). A sale would obviously wipe out the tax equivalency payment to The Cooper Union and would not be available to a potential purchaser. As a result, the building's unique value to The Cooper Union far exceeds its commercial potential to others. Moreover, because of the ground lease, a sale would not convey control over the building. Bottom line: A sale would deprive The Cooper Union of its most important asset without providing even remotely equivalent value in return.

8. What does the record show about the institution's financial condition?

Mr. Misinformation says: The record shows that The Cooper Union hasn't been sustainable for 154 years.

Mr. Sarcasm says: What Mr. Misinformation said is already more sarcastic than anything I can say.

Mr. Optimism says: If the administration had only been more open with the community, we would have avoided this crisis.

Mr. Pioneer says: A college that provides a free education is completely dependent on philanthropy: donations of land, property, and money. Talking about these three things as if they were separate – selling off real estate assets, for example, as if the real estate assets weren't donated land – is a diversionary tactic. All not-for-profit organizations depend on philanthropy; now Cooper has decided to sell tickets and open a gift shop.

> One Trustee's recent unvarnished portrayal of The Cooper Union as being "one step ahead of the bailiff since the 1960's" was actually an understatement. Casting a look to the beginning, the autumn 1964 edition of "At Cooper Union" noted that, "in one of every two years from 1859 to 1926 there was insufficient income to meet expenses." (1926 was when Cooper Union made its agreement with Walter Chrysler.) The publication's spring 1971 edition said, "Our problem now is that expenses are outrunning real or expected income." Many actions have been taken to defer the problem, but not to dispel it. This included selling a 1,000-acre retreat in northern New Jersey (Green Camp) and dropping a major in physics. Significant assets were sold, programs revamped, money borrowed, cuts achieved. Bottom line: Even with a modest uptick in giving and a positive record on returns from investment, the deficit endured and insolvency loomed. The real threat to The Cooper Union's future meant reality had to be engaged and a program for a sustainable future enacted.

9. Can alumni giving or new programs fill the gap?

Mr. Misinformation says: Only 25% of alumni give!

Mr. Sarcasm says: And we anticipate that no one will apply to the new programs!

Mr. Optimism says: I have several ideas for new fundraising campaigns!

Mr. Pioneer says: Current alumni giving rates are post-crash, post-financial crisis (understandably, there is great alumni mistrust in the administration) and not representative. A recent analysis of a 2009 donor report providing alumni giving figures dating back 30 years show that, on average, alumni give 54% of the time, which explains why alumni giving rates were, in any single year, between 35% and 40%, and between 70% and 80% in any three-year period. The narrative is reversed: If the records can be believed (and they are error-prone), only 25% of alumni ***don't*** give to The Cooper Union. Also, during the last capital campaign, alumni giving was twice the $3.4 million figure cited, enough to "fill the gap."

> We appreciate that the level and number of alumni giving has increased recently. Despite this welcome effort, only some 25% of alumni give to The Cooper Union, with annual giving at approximately $3.4 million or 5% of our $70 million operating budget. While many Cooper alumni are successful in their careers as artists, engineers and architects, they do not dominate the Forbes 400 list of wealthiest Americans. Increased giving is an important and cherished goal, but it alone won't solve the problem. Nor can new programs. Faculties of the three schools suggested numerous possibilities and many are promising. However, as a rule these take time to establish and generate income, and often require initial investments to launch. The most promising are being explored and will be implemented. They can ultimately contribute to the financial solution, but cannot realistically provide for it now. The current deficit (after $4 million in recent cuts) is $12 million and growing with inflation. Bottom line: After exhaustively exploring all possibilities, including closing parts of the institution or even whole schools, the one responsible, sustainable--though difficult and wrenching--option is the change in scholarship policy. It was not a decision taken without extensive, open consultation and a multitude of formal and informal meetings with groups of students, faculty and alumni here and across the country. Confronting the long-standing challenge was not the easy choice, but the only responsible one to secure a great institution's extraordinary future.

10. What is the vision for Cooper Union?

Mr. Misinformation says: We hide our vision behind a lot of nice words you will like: "optimism," "possibilities," "talent," "opportunities," "enhance," and "honor."

Mr. Sarcasm says: And don't forget about "access"!

Mr. Optimism: As long as you start with "optimism," I am very happy, as I am optimistic, too!

Mr. Pioneer says: The only practicing architect on the board put it best: "You first have to have a concept of direction and then you strategize based on that." Back in 2003, the Middle States Association criticized the Master Plan for not being explicitly tied to the college's mission statement. Although he is wrong, Chair Epstein expressed the college's vision thusly: "You can have an education equal to the best, or you can have a free education; you can't have both."

> When the Foundation Building was opened in 1859 there was a seven-story cylindrical hole in the building's core. It was left by Peter Cooper to be filled by an elevator that did not yet exist. Optimism about the possibilities of the future still animates The Cooper Union. We will capitalize on our constantly refreshed reservoir of talent to translate thinking into making. We will seize opportunities presented by our city's emerging leadership as a world center in technology, design and innovation. We will continue to provide access to the best and brightest without economic and social barriers. We will

invest in our faculty. We will enhance our immersive, collaborative conservatory-style education. We will engage and explore our unique potential for dynamic, collaborative interdisciplinary relationships. Bottom line: We are poised to build on the past, honor our legacy and provide access and opportunity to generations to come.

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