New York University

NYU Core Project
Financial Planning Information

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Contents

Background

- The University's Board of Trustees, based on the 2008 Strategic Framework and dialogue with senior management established the following fiduciary mandates
  - Ensure that there is adequate and adequately maintained infrastructure for academics
  - Address the historic lack of sufficient space
    - Currently too compressed
    - Currently too vertical for classroom uses
  - Prefer owning versus leasing
    - Leases often more expensive due to landlord's profit, real estate taxes, etc.
    - Never stop paying on leases
    - When owned, debt is eventually paid off and resources are freed up for other purposes
  - Move beyond the catch up on deferred maintenance that has dominated the past ten years
- University leadership was charged with delivering a space plan to meet the mandate within our financial capacity which was set by the Board at debt service of approximately 7% of budget
- University leadership developed University space planning projections consistent with the Board's mandate
- University leadership also considered South Block development plan options as part of the space planning projections consistent with that charge

Description of Analysis

- The analysis looks at the budget and financial metrics for the University excluding the School of Medicine and NYU Hospitals Center which operate separately (except as defined below).

- In order to measure the capacity of the University to meet the mandate of the Trustees, we analyzed the following metrics over the historic period 2002-2011

  – Operating Margin: Excess of annual operating revenues over annual operating expenses (WSQ only). This is the annual cash flow generated from University operations before use for capital projects, or deposits to reserve accounts.

  – Cash and Unrestricted Investments: Working Capital plus unrestricted long term investments as of August 31 of each year. Long- term investments do not include donor-designated endowment but do include "quasi-endowment", i.e., funds invested long term but not restricted. (WSQ only).

  – Capital Expenditures: (WSQ only)

  – Debt: Long-Term Debt Outstanding (WSQ + SOM)*

  – Leverage: Ratio of Expendable Financial Resources to Debt (with expendable financial resources defined as unrestricted and temporarily restricted net assets less plant) (WSQ + SOM)*

  – Debt Service: Annual Principal and Interest Payments (WSQ only)

  – Debt Service as a % of Annual Operating Budget (WSQ only)

*The University's debt includes debt of both WSQ and the School of Medicine (SOM debt is less than 20% of total).

Development of Financial Capacity: 2002-2011

- The following events had an impact on the University's operating budget and expendable resources over the past ten years.

- Significant Operating Budget Events during 2002 – 2011:
  - Correction of University Structural Deficit (2002 – 2004)
  - Partners Plan Hiring and Ancillary Costs (2007 – 2011)
  - Administrative Reengineering (2008-2010)
    - Generated Annual Savings of $66 million
    - Created necessary budget gap closer during financial "crunch"
    - Now, as planned, available for investments in academic programs
  - Establishment of Strategic Contingency Reserve (2009)
    - At request of Board, established emergency cushion for unforeseen budget shocks of the University (not Medical Center)
    - Annual deposit equal to 1% of Gross Tuition Revenue
    - At present, market value is $102 million
    - When equal to 5% of operating budget, annual contributions will be reallocated for academic investments
  - Establishment of Momentum Fund (2011)
    - Equal to 1% of Gross Tuition Revenue, used to fund annual academic initiatives

- Significant Events Affecting Cash and Unrestricted Investments 2002 – 2001:
  - Successful execution and completion (2008) of $3 billion NYU fundraising campaign – largest ever in U.S. (at that time)
  - Strategic Contingency Reserve established (2009)
  - Financial market decline (2009)

Development of Financial Capacity: 2002-2011

- The following projects were the significant capital projects during the past ten years. The vast majority were either renovations of existing space or newly acquired space that replaced leased space.

<u>Academic Investments:</u>

- Dentistry
  - Schwartz Hall (2005-2007): $54 million: <u>Renovations / Upgrade</u>
- FAS
  - Partners Plan (2007-2011): <u>Renovations / Upgrade</u>
    - Science: $111 million
    - Non-Science: $151 million
    - Faculty Housing: $37 million
  - Genomics Building (2008): $92 million: <u>Renovations / Upgrade</u>
  - King Juan Carlos Center (2008): $15 million: <u>Renovations / Upgrade</u>
  - Science Phase 2 (2010-2011): $26 million: <u>Renovations / Upgrade</u>
- Gallatin
  - 715 Broadway (2007-2008): $24 million: <u>Renovations / Upgrade</u>
- Law
  - Furman Hall (2002-2004): $112 million: <u>New Space</u>
  - Vanderbilt Hall (2004-2005): $29 million: <u>Renovations / Upgrade</u>
  - 135 MacDougal Building (2009-2010): $37 million: <u>New Space</u>
  - 22 Washington Square North (2009-2010): $15 million: <u>New Space</u>

Development of Financial Capacity: 2002-2011

Academic Investments:

- Steinhardt
  - Kimball Hall (2007-2008): $19 million: Renovations / Upgrade
  - Pless Hall and East Building (2011): $9 million: Renovations / Upgrade
- Stern
  - Shimkin Hall (2007-2008): $23 million: Renovations / Upgrade
  - Concourse Project (2009-2010): $47 million: Renovations / Upgrade
- SCPS
  - Fairchild Building (2010): $90 million: Renovations / Upgrade
- TSOA
  - Undergraduate drama studios on Broadway (2010-2011): $19 million: New (Leased) Space
- Wagner
  - Puck Building Renovations (2004): $10 million: New (Leased) Space
- Miscellaneous
  - Purchase of 20 Cooper Square (2004): $37 million: New Space

Development of Financial Capacity: 2002-2011

Significant Capital Expenditures during 2002 – 2011 (continued):

Student Housing and Student Services

- Design and Build of Kimmel Student Center (2002-2003): $79 million: New Space
- University Hall and Palladium (2002-2003): $21 million : Renovations / Upgrade
- Gramercy Green Dorm (2008): $295 million*: New Owned Replacing Leased
- 12th Street Dorm (2010): $138 million*: New Owned Replacing Leased
- Global Center for Academic and Spiritual Life (2009-2011): $95 million: New Space

Faculty Housing

- Purchase of Faculty Housing at 120 West 15th Street (Armory Apartments) (2002): $38 million: New Space
- Apartments (2006-2010): $30 million: Renovations / Upgrade

Campus Infrastructure, Administration, and Other

- Cogeneration Plant (2007-2011): $137 million: Renovations / Upgrade
- Purchase of 730 Broadway (2009): $212 million**: Owned Replacing Leased

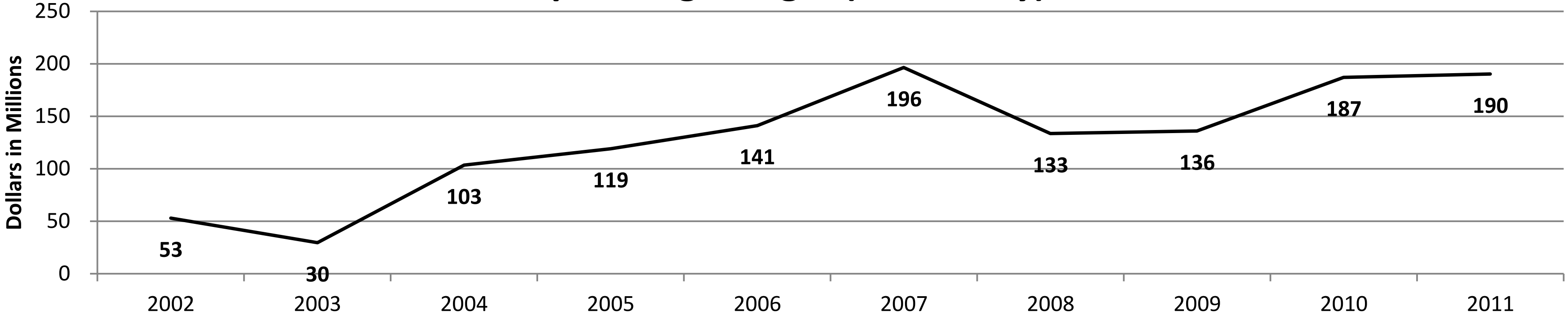
* Two leased dorms replaced with owned facilities, creating cumulative cash flow surplus of $275 million over 30 years

** Conversion of 140,000 square feet of leased space to 200,000 square feet of owned space

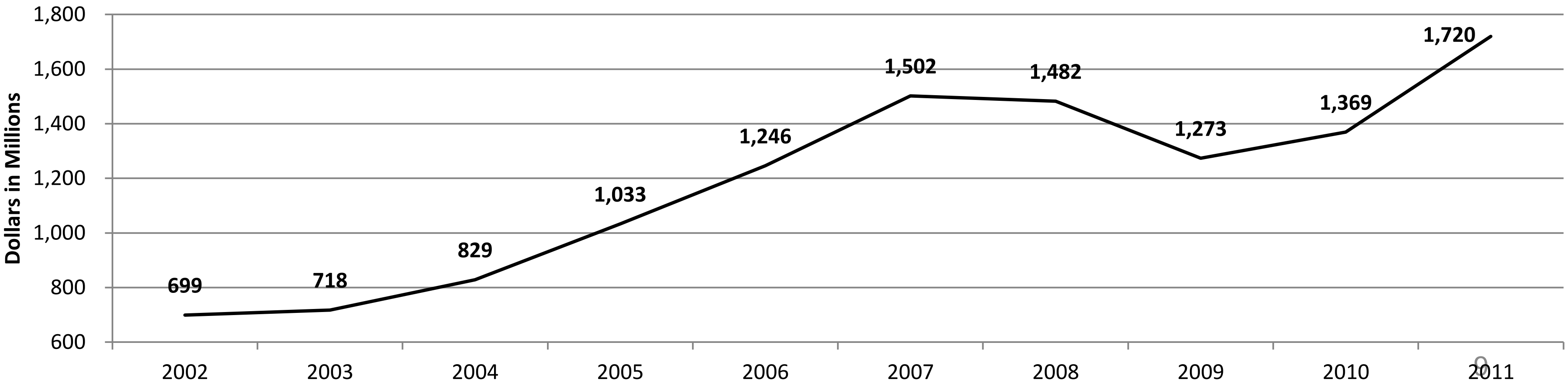
Development of Financial Capacity : 2002-2011

- Average annual operating margin of $129mm ($151mm in Last 8 years). (Note: this is before transfers for capital projects).
- Operating margin has grown due to prudent budget management by Schools and University administrative units (including administrative re-engineering)
- Cash and unrestricted investments increased 146%.

Operating Margin (WSQ Only)



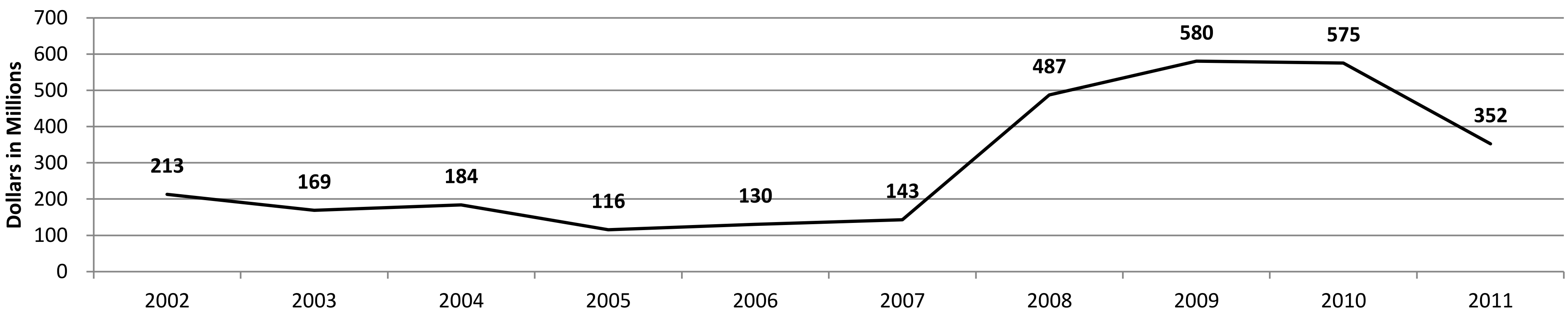
Cash and Unrestricted Investments (WSQ Only)



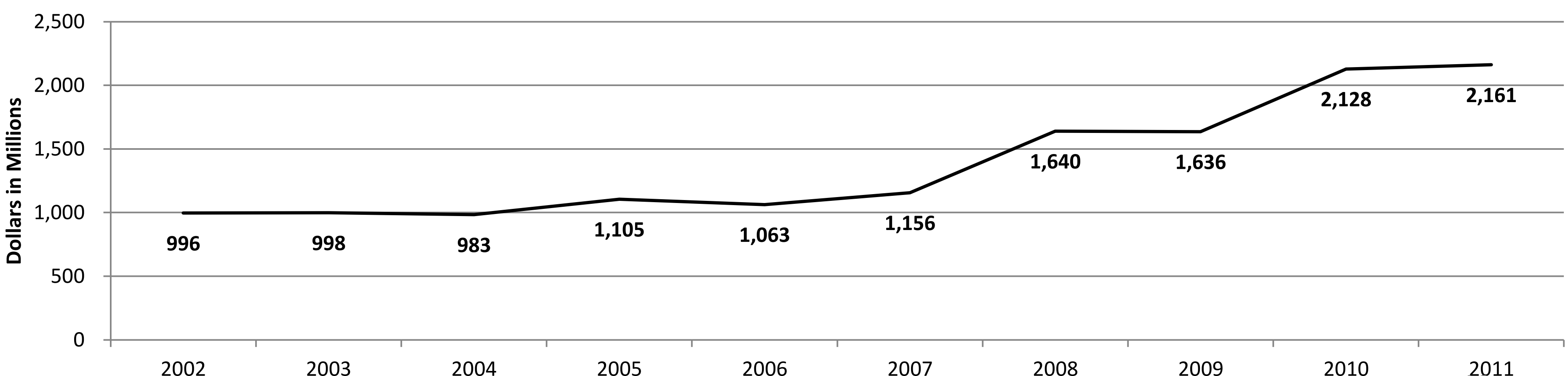
Development of Financial Capacity : 2002-2011

- Capital investments of $2.95 billion ($295 million per year)
- Debt (including SoM) increased 117% - less than growth in cash and investments
- Two-thirds of capital expenditures were funded with sources other than debt: fundraising, operating funds, etc.

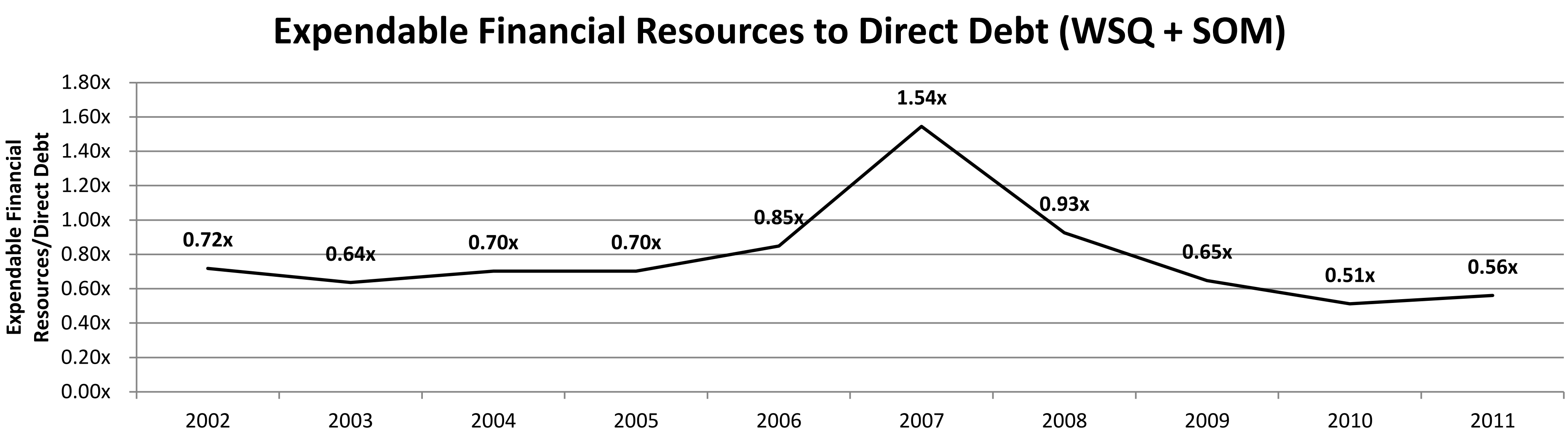
Capital Expenditures (WSQ Only)



Outstanding Long-Term Debt (WSQ + SOM)

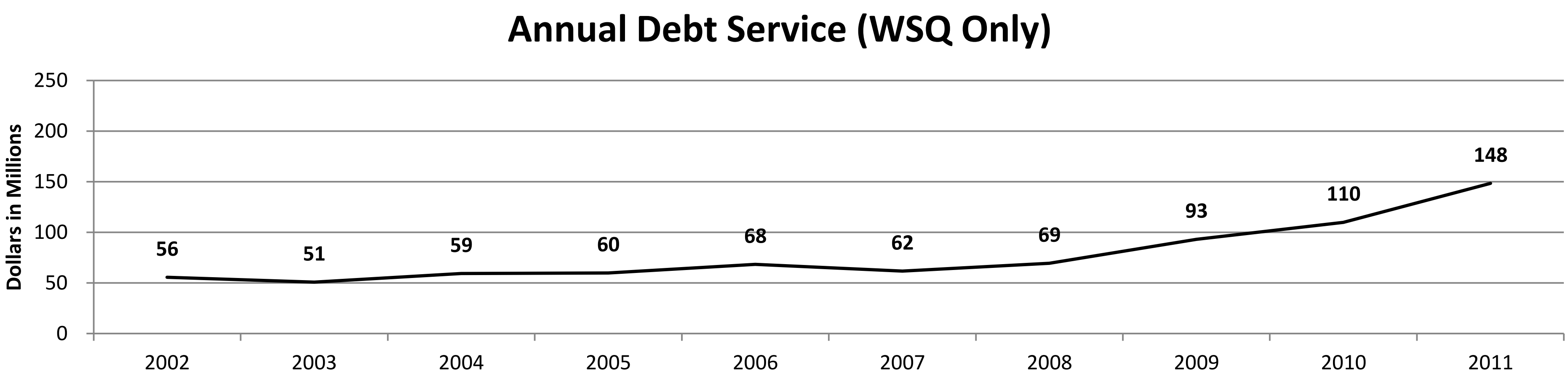


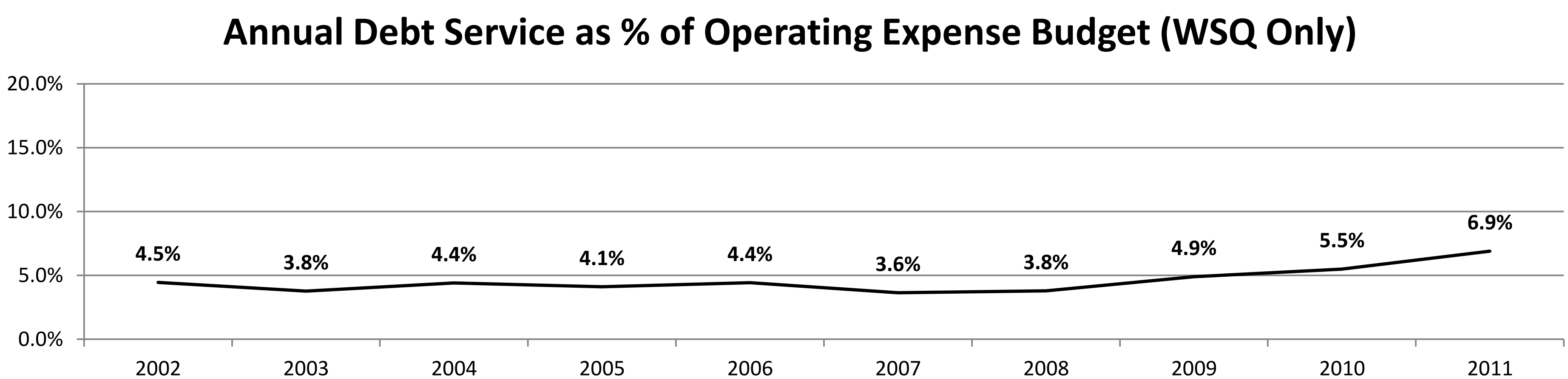
- 10 Year Financial History:
  - Increase in fiscal 2007 due to one-time sale of Remicade revenue stream by SOM



Definition of Historic Baseline: 2002-2011

- Debt Service increases to $148 million per year
- Approximately $645 million of debt incurred in 2008 to 2010 (approx. $42 million per year debt service) was due to conversion of leased to owned real estate with little net impact on operating budget





Development of Financial Capacity: 2002-2011

- Board of Trustees considered University's financial capacity and space needs.

- If allowed annual debt service at WSQ to stay at about 7.0% of annual budget, this would be equivalent to an additional $100 million of debt service per year by 2021 (due to growth in operating budget)

- $100 million per year of additional debt service would allow up to $1.4 billion in borrowing (assuming 30 years @ 6%).

- If continue to fund projects from other sources as well, there could be a total funding envelope of up to $3 billion in total capital expenditures

  – Board also advised that NYU should look to options that can assist in funding and financial capacity: own versus lease, revenue producing projects such as student residence halls, and higher levels of fundraising

  – The Board authorized the University to define the total space development envelope within that financial capacity, including a Core Project focused on the south block, with an evaluation of the financial impact over a ten year period

Space Envelope and Financial Projection 2012-2021

- In order to meet the Board's mandate, University leadership developed a ten year projection of space development options, and financial impact

- In developing the financial projection, the following operating goals were reflected in the projection:
  - UG Enrollment Growth at Washington Square: average of 0.5% per year
  - Graduate and Professional Enrollment Growth: essentially flat
  - UG Tuition: Moderation of rate of increase compared to recent history
  - UG Room and Board: Rate of increase consistent with recent history
  - UG Financial Aid: Rate of increase equal to the rate of tuition increase
  - Graduate Tuition: Rate of increase consistent with recent history
  - Philanthropy: Consistent with recent history
  - Annual Merit Increases (Salaries): Maintain competitive market position (with faculty salaries in top ten); consistent with past practice rate of increase expected to be slightly less than rate of tuition growth.
  - Energy: Rate of increase higher than recent history
  - General Inflation in Other Non-personnel Costs: 2.5% per year

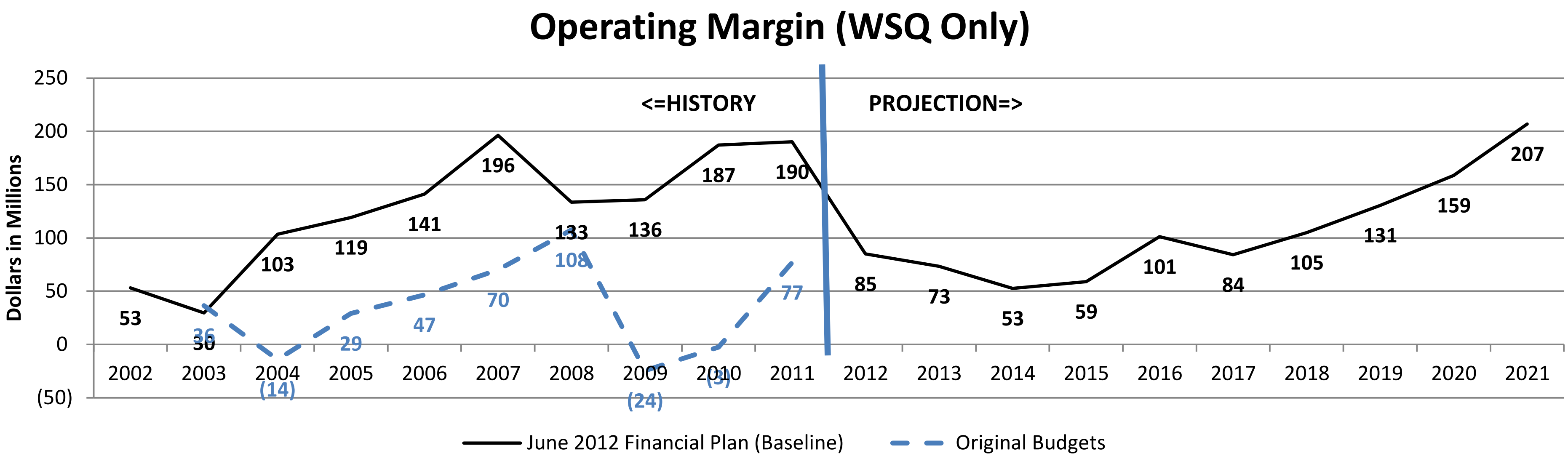
Space Envelope and Financial Projection 2012-2021

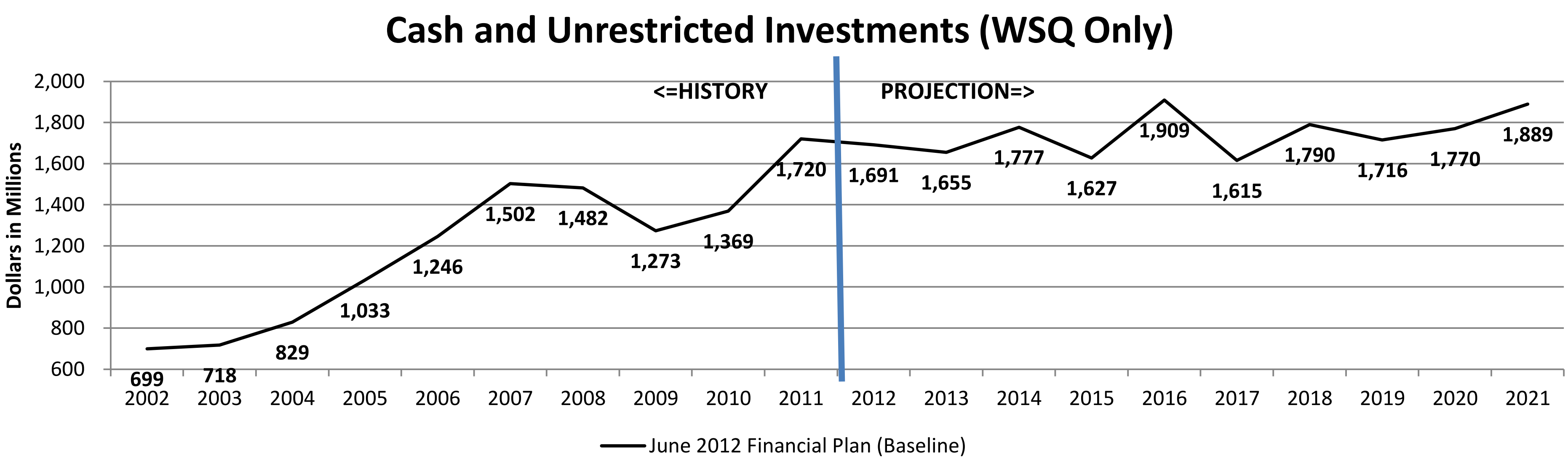
- In developing the space envelope, the following factors were taken into account:
  - Enrollment impact (both at WSQ and on campuses abroad);
  - Square footage of University space utilized or gained;
  - Resulting surplus or unmet demand of square footage based on University needs;
  - Resulting surplus or unmet demand for student housing;
  - Faculty headcount (e.g., would increasing faculty count require additional space for offices, faculty housing, and other related costs?);
  - Research funding and indirect cost recovery (e.g., would increased research funding require increased lab space, etc?);
  - "Domino" impacts of space moves (e.g., would a renovation of a classroom into lab space require a replacement classroom, where would a relocated administrative office go and would there be related lease or renovation costs?);
  - Lease expirations (e.g., where will Wagner and Sociology go after the expiration of the Puck Lease?)
  - Added externalities (e.g., what are the nature and amount of miscellaneous costs associated with enrollment growth?);
  - Fundraising opportunities (e.g., does the initiative give rise to additional fundraising opportunities?)

Space Envelope and Financial Projection 2012-2021

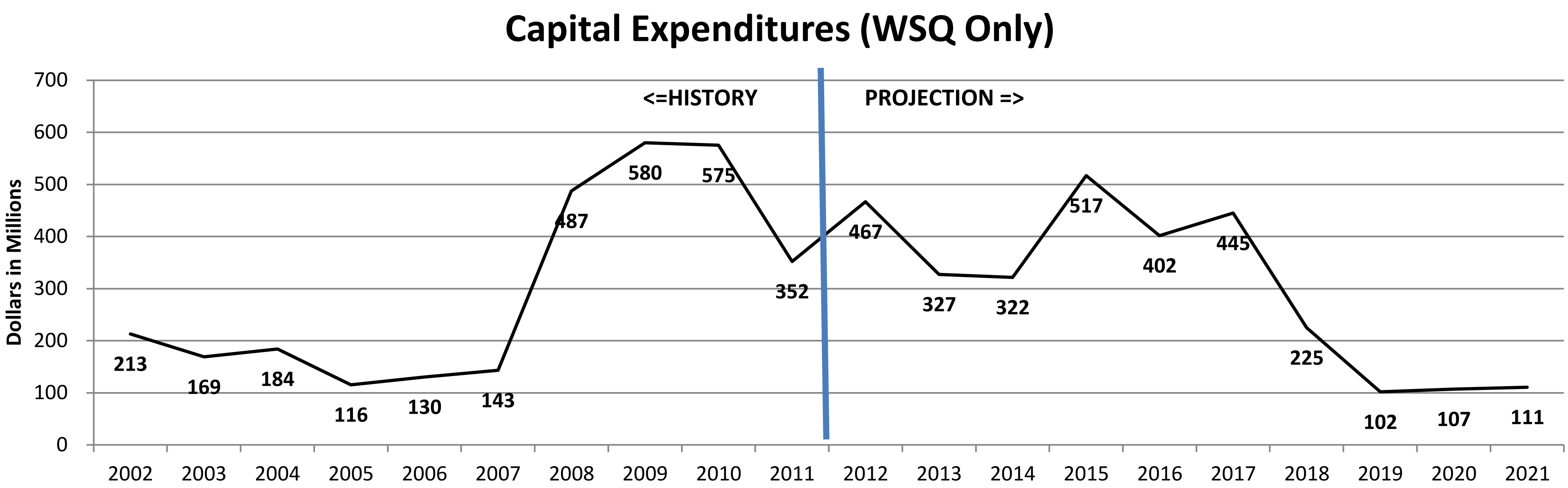
- The resulting projection provided the following space envelope and cost within the financial capacity
  - Total Additional Square Footage of approximately 1.6 million square feet
    - Academic Space (including IPA): 0.8 million square feet
    - Student Housing and Student Services: 0.4 million square feet
    - Campus Infrastructure, Administration and Other: 0.4 million square feet of which 0.3 million is lease replacement
  - Total Capital Expenditures of approximately $3.0 billion
    - Academic: $1.6 billion
    - Student Housing and Student Services: $0.8 billion
    - Faculty Housing: $0.2 billion
    - Campus Infrastructure, Administration and Other: $0.4 billion
    - Not all $3 billion spent on the additional square footage: $0.7 billion is capital maintenance, and also included amounts for renovations of existing space and equipment needs (e.g. IT)
  - Total Increase in Debt Service not to exceed $100 million; Debt Service equal to 7% of Operating Budget after ten years
  - Total Increase in Debt not to exceed $1.4 billion
- For purposes of this analysis , we incorporated the Zipper “full build” option of 670,000 square feet at a cost of $725 million. This option was the most costly option considered.
- All operating expenses associated with the incremental space are included in the projection

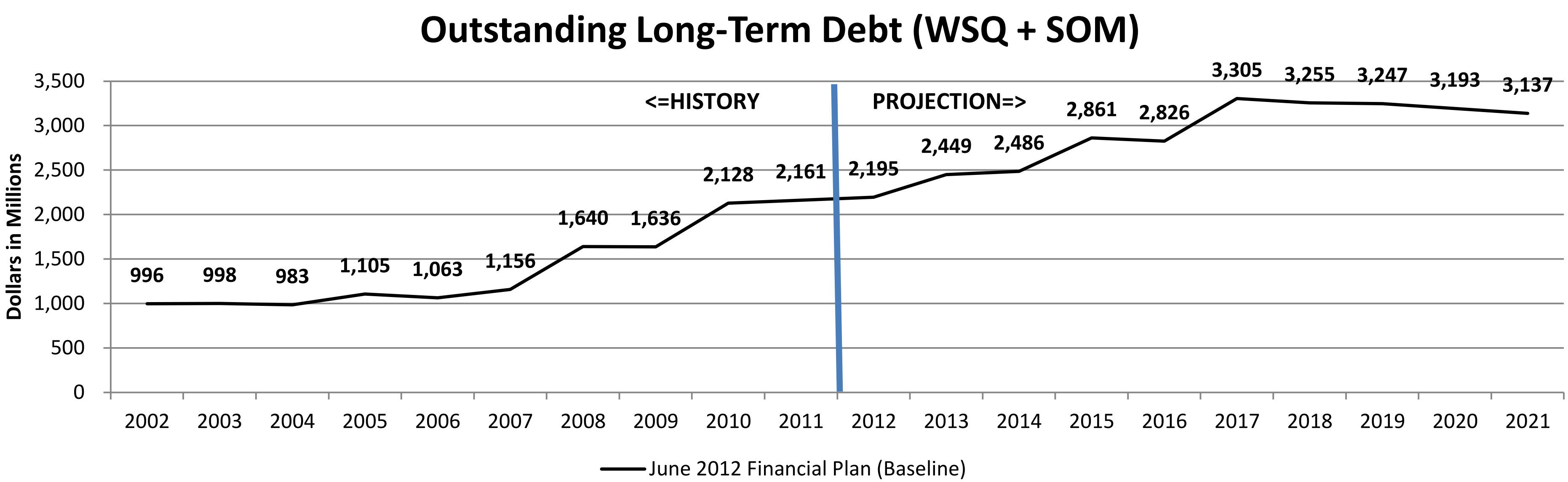
Space Envelope and Financial Projection 2012-2021



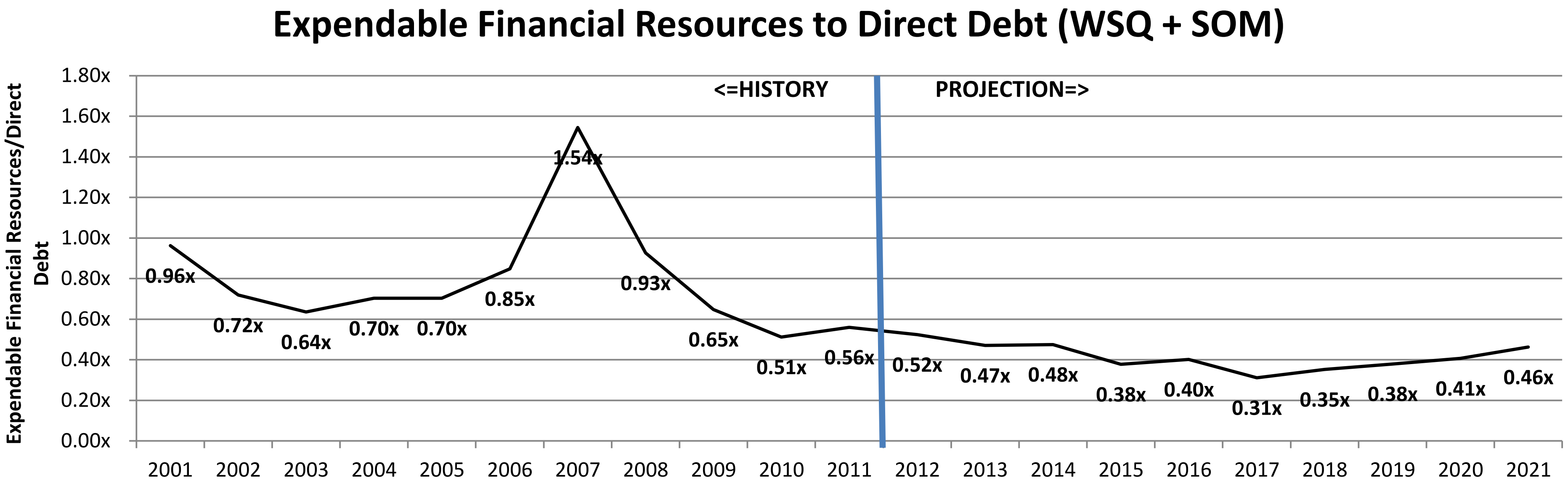


Space Envelope and Financial Projection 2012-2021



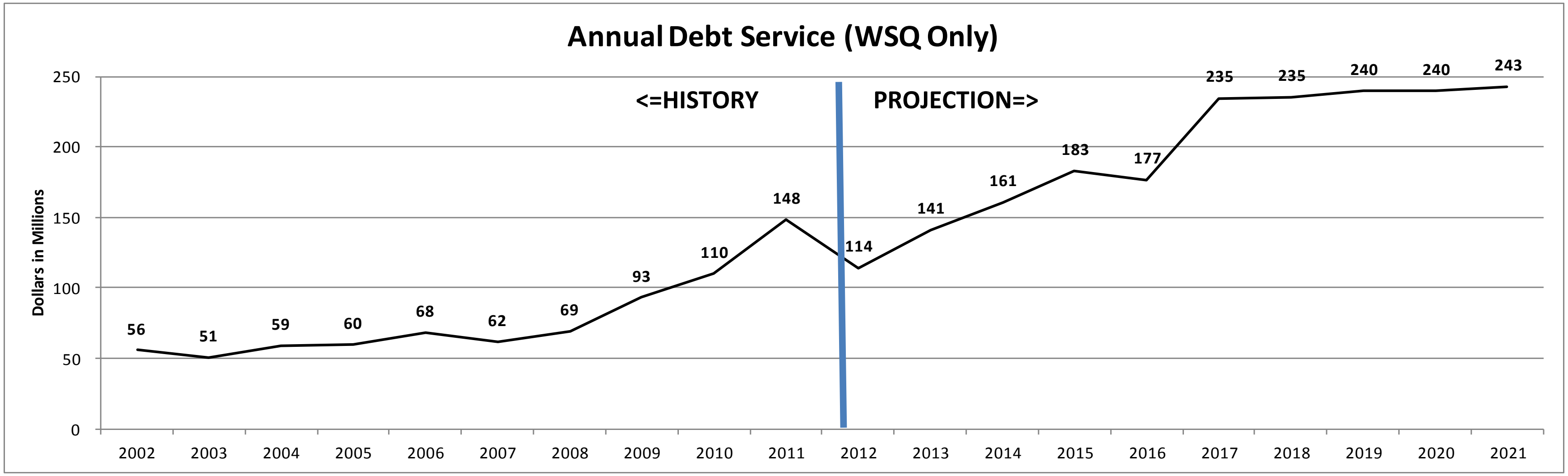


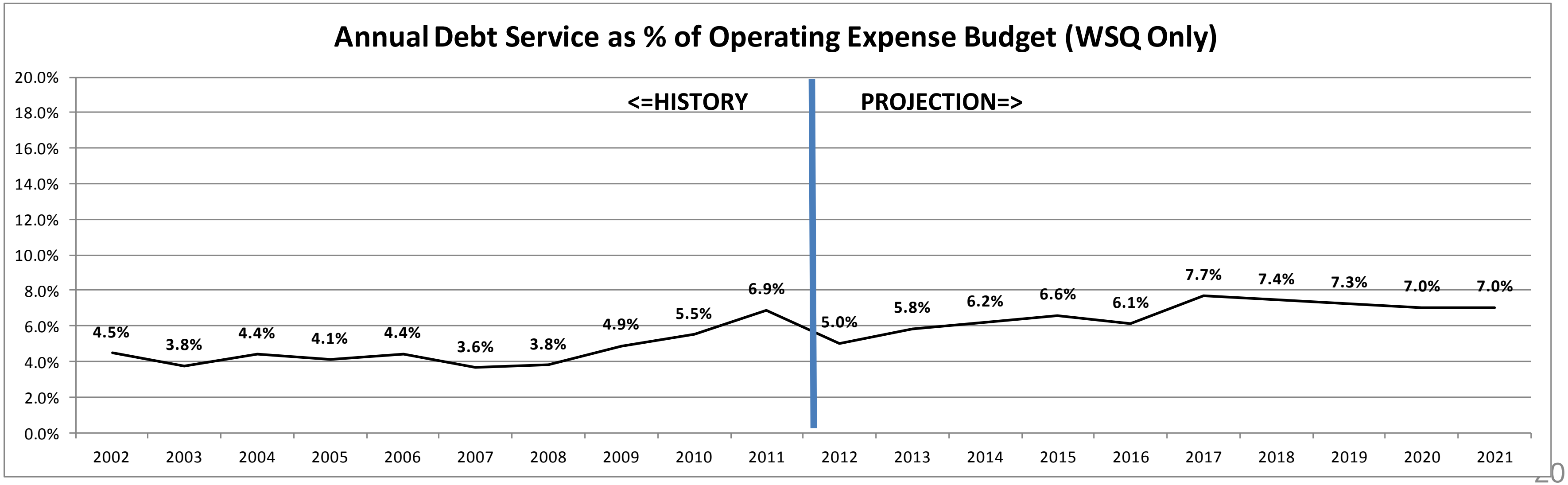
Space Envelope and Financial Projection 2012-2021



Space Envelope and Financial Projection 2012-2021

- Annual debt service remains at approximately 7% over ten years
- Interest rates assumed to be 6.0% - current 30 year borrowing rate is 4.0%





Space Envelope and Financial Projection 2012-2021

- Findings
  - Can continue to convert leased space to owned space – close to 300,000 square feet
  - Can continue to invest in capital maintenance – $700 million
  - Can create revenue opportunity in dorm

- Ability to withstand stresses:
  - Assumed only $175 million of fundraising for capital over next ten years (6% of total projected cost)
  - Assumed no increases to unrestricted investments from fundraising (only from operations)
  - Assumed 6% borrowing rate on debt with current rates at 4% (this could be worth approximately $20 million per year savings on projected new debt)
  - Operating Margin projections were conservative (in every year over past ten years University has had substantial positive budget performance)
  - Core Project on South Block represents less than 25% of total capital cost of overall space plan projection
  - Can cut back on the $3 billion plan in the event of unforeseen future budget shocks

- If assume University achieves fundraising equal to 20% of project costs:
  - Additional $430 million in fundraising would bring total to $605 million
  - Savings of $31.2 million in debt service per year – becomes only 6% of budget
  - Improvement to expendable resources to debt ratio from approximately 0.46x to approximately 0.7x

Core Project Plan Development Options

- The ULURP process created an envelope of permitted development. The University's plan was to first develop the south block, and undertake either the Zipper building (east) or the west building on the site of Morton Williams supermarket. This plan was confirmed by City Council, and no development on the northern block (Washington Square Village) will occur before 2022.

- For purposes of the Board mandated projection, we incorporated the Zipper "full build" option at a cost of $725 million. This option was the most costly option considered and therefore it was determined that if this could be accommodated within the financial envelope, then smaller less costly options could be chosen without detrimental impact to the University.

- This space plan projection was undertaken before final action by the City Planning Commission and City Council. Therefore the components of the Zipper building and their size differ from the final zoning envelope. The southernmost Tower was not included in the space plan projection because it was planned for a hotel, and the Zipper building was modeled at 670,000 square feet instead of the 754,400 square feet approved in the ULURP process.

- Therefore, we have revised Core Project Plan options consistent with these changes

Core Project Plan Development Options

- There are two primary development options for consideration:

  - East Side (Zipper Building): 754,000 square feet plus 46,000 square feet for tower prep = 800,000 square feet:
    - TSOA Institute for the Performing Arts (IPA) (90,000 GSF)
    - Academic Space in addition to IPA (185,000 GSF)
    - Athletic Space (150,000 GSF)
    - Student Residence Hall (295,000 GSF)
    - Retail, Community and Next Phase Prep Space (80,000 GSF)

  - West Side (Morton Williams site):
    - If New York School Construction Authority vests: TSOA IPA = 70,000 square feet
    - If SCA does not exercise option (NYU full build) = 155,000 square feet
      - TSOA IPA (90,000 GSF)
      - Academic Space in addition to IPA (40,000 GSF)
      - Community Facility Space (25,000 GSF)

Core Project Plan Development Options

- Finance and Build on South Block
    1. East Side without additional fundraising
    2. East Side with additional fundraising
    3. West Side NYU full build
    4. West Side SCA Vests

- Acquire New Site and Build: Possible Space not identified; however, if a site could be acquired, the acquisition would add approximately $300 per square foot to the cost(which would be higher if inflated to 2016 $)
    1. Comparable to East Side Project with new gym
    2. Comparable to East Side Project without new gym
    3. Comparable to West Side NYU full build
    4. Comparable to West Side SCA Vests

- Lease Space and Renovate: Possible Space not identified; lease options for Lower Manhattan would begin at $50 to $60 per square foot per year, would escalate approximately 3% per year, and would also require renovation costs of $200 to $500 per square foot, depending on use (higher if inflated to 2016 $)
    1. Comparable to East Side Project with new gym
    2. Comparable to East Side Project without new gym
    3. Comparable to West Side NYU full build
    4. Comparable to West Side SCA Vests

Core Project Plan Development Options

East Side Options: Sources and Uses of Funds

East Side Full Build (no tower)

	(dollars in millions)
Sources	
Fundraising	50
Long-Term Debt	784
Total Sources	**834**
Uses	
Public Improvements and City Fees	16
Faculty Housing Mitigation at Silver Towers and WSV	26
Demolition and Cogen Connection	22
Academic Space (185,000 GSF)	193
TSOA IPA (90,000 GSF)	130
Athletic Space (150,000 GSF)	130
Dormitory (295,000 GSF)	266
Retail, Community and Next Phase Prep Space (80,000 GSF)	51
Total Uses (800,000 GSF)	**834**

Debt Service = $56.9 million per year

East Side Full Build (no tower), plus $250M fundraising

	(dollars in millions)
Sources	
Fundraising	300
Long-Term Debt	534
Total Sources	**834**
Uses	
Public Improvements and City Fees	16
Faculty Housing Mitigation at Silver Towers and WSV	26
Demolition and Cogen Connection	22
Academic Space (185,000 GSF)	193
TSOA IPA (90,000 GSF)	130
Athletic Space (150,000 GSF)	130
Dormitory (295,000 GSF)	266
Retail, Community and Next Phase Prep Space (80,000 GSF)	51
Total Uses (800,000 GSF)	**834**

Debt Service = $38.8 million per year

West Side Options: Sources and Uses of Funds

West Side Option 1 (SCA Vests, NYU takes 70,000 GSF)

	(dollars in millions)
Sources	
Fundraising	50
Long-Term Debt	83
Total Sources	**133**
Uses	
Public Improvements and City Fees	16
Faculty Housing Mitigation at Silver Towers and WSV	26
Demolition and Supermarket Relocation	11
TSOA IPA Space (70,000 GSF)	81
Total Uses (70,000 GSF)	**133**

Debt Service = $6.0 million per year

West Side Option 2 (NYU Full Build 155,000 GSF)

	(dollars in millions)
Sources	
Fundraising	50
Long-Term Debt	193
Total Sources	**243**
Uses	
Public Improvements and City Fees	16
Faculty Housing Mitigation at Silver Towers and WSV	26
Demolition and Supermarket Relocation	11
Academic Space (40,000 GSF)	41
TSOA IPA (90,000 GSF)	130
Community Facility Space (25,000 GSF)	20
Total Uses (155,000 GSF)	**243**

Debt Service = $14.0 million per year

Core Project Plan Development Options

(dollars in thousands)

Alternative Strategies to SouthBlock Development - Estimates as of Fiscal Year 2020

	Construct on South Block				Construction on Acquired Site [1]				Leased and Renovated Site [2]			
	East Side	East Side with Fundraising	West Side with SCA	West Side All NYU	East Side	East Side w/o Gym	West Side with SCA	West Side All NYU	East Side	East Side w/o Gym	West Side with SCA	West Side All NYU
Square Feet	800,000	800,000	70,000	155,000	800,000	650,000	70,000	155,000	800,000	650,000	70,000	155,000
Annual Debt Service (and Lease Costs where applicable)	$ 56,900	$ 38,800	$ 6,000	$ 14,000	$ 71,500	$ 58,800	$ 6,300	$ 16,100	$ 75,800	$ 61,600	$ 6,600	$ 14,700
Revenue Offsets[3]	$ 19,700	$ 19,700	$ -	$ 1,600	$ 17,600	$ 17,600	$ -	$ -	$ 17,600	$ 17,600	$ -	$ -
Net Cost per Year	**$ 37,200**	**$ 19,100**	**$ 6,000**	**$ 12,400**	**$ 53,900**	**$ 41,200**	**$ 6,300**	**$ 16,100**	**$ 58,200**	**$ 44,000**	**$ 6,600**	**$ 14,700**

1. Construction on acquired site option includes additional $300/GSF for site acquisition, but excludes costs for Cogen connection and faculty housing noise and air mitigations at Southblock.

2. Leased and renovated site option assumes $55/RSF, with 25% increase in GSF to calculate RSF; plus, $350/GSF for renovation costs. Excludes Cogen connection and faculty housing noise and air mitigations at Southblock.

3. Revenue offsets based on housing revenue and commercial lease opportunities.

- Findings:
  - Construction on South Block is far more economical than acquire/build or lease/renovate options (construction of full Zipper is less expensive than other options even without new gym).
  - Zipper (East Side) options fit well within Board's funding envelope, leaving capacity for other initiatives and needs as they arise
  - Fundraising would provide substantial benefit; with $250 million fundraising, East Side could be built for $6 million more per year than West Side option, but would provide 5 times more space (net additional 650,000 square feet)