Meeting Date: Thursday, November 29, 2012

Members in attendance: Barbara Albrecht, Robert Berne, John Billings, Corey Blay, Mary Cowman, Rajeev Dehejia, Mariam Ehrari, David Engel, Allyson Green, Wen-Jui Han, James Jacobs, Perri Klass, Marty Kurth, Ted Magder (chair), Laurence Maslon, Panos Mavromatis, Tony Saunders, Rosemary Scanlon, Andrew Schotter, Jalal Shatah, Matt Stanley, David Vintinner, Larry White, Diane Yu

Members unable to attend: Tony Movshon, Angela Kamer

1. Call to order and announcements

In addition to the members of the Working Group, Vice President Alicia Hurley and Executive Vice President Martin Dorph attended the meeting as presenters. Senior Vice President Lynne Brown and Chief of Staff Richard Baum attended as invited guests, as well as Michael Patullo, staff support for the Group.

2. NYU’s open space commitments as defined by ULURP (Alicia Hurley)

Vice President Hurley outlined the provisions for the creation of an Open Space Oversight Organization (OSOO) as defined by the City Council under the Uniform Land Use Review Process (ULURP). NYU, she explained, must convene the non-profit organization and one seat will be allocated to the following entities: 1) NYU, 2) Community Board #2, 3) local Council Member, 4) Manhattan Borough President, 5) NYC Parks Department. This group will have broad responsibility to review and comment on the landscape improvements and designs within the superblocks, and will review reports on the extent to which NYU is maintaining open space on the superblocks, which will be prepared by a third party.

[A copy of the letter from Vice President Hurley to President Sexton regarding NYU’s open space obligations, which was distributed to the Working Group, is available on the “Documents” page of the Working Group Web site.]

Hurley noted that the Working Group should provide input as to the NYU representative on the OSEO, and that, ideally, this recommendation would be provided by the end of the calendar year.
Executive Vice President Martin Dorph provided the Working Group with an overview of the financial planning process for the Core Project. He explained that the financial planning for the Core Project was part of a larger financial planning effort to define the University’s space needs and financial capacity to meet those needs over the next ten years. He began by describing the financial envelope, which was defined by the Board of Trustees in conjunction with the senior administration, and which limits debt service to no more than 7% of the University’s annual operating budget. This envelope was developed after consideration of the University’s financial performance and condition over the past ten years. Since 2002, the University’s operating budget experienced a number of significant positive events (see slide #5) that, along with other enhancements that improved cash and unrestricted investments, served to improve the overall health of the budget in terms of operating margin and liquid assets.

Dorph noted that the capital investments made over the past ten years have largely been composed of space renovations and upgrades (i.e. not adding new space). He listed a number of academic projects, as well as improvements to student and faculty housing, administration, and infrastructure (see slides 6-8) undertaken during this period. He made reference to projects in which space was purchased—Gramercy Green Residence Hall, the 12th Street Residence Hall, and 726-730 Broadway—noting that these significant capital expenditures replaced leased space with owned space, resulting in a net financial benefit to the University.

He demonstrated, using graphs of the University’s operating margin and cash on hand, the overall strengthening of the University’s financial position over the last decade. He noted that capital expenditures over the same period had totaled $2.95 billion, with approximately two-thirds of the funding coming from sources other than debt. Furthermore, the leverage ratio (save for an anomaly in 2007 when the School of Medicine sold its Remicade revenue stream) remained relatively constant over time.

With regard to debt service, Dorph described the University’s annual principal and interest obligations, which amounted to $148 million in FY 2011. The increase in debt obligations since 2008, he noted, resulted primarily from the purchase of the two dormitories and administrative/academic building noted above. As of 2011, the debt service as a percentage of operating expenses was at 7% of expenses. The Board of Trustees determined that prospectively, the University’s financial plan should be developed using that 7% as a limitation.

After assessing the University’s current financial situation, Dorph said, the Budget Office, within the parameters set forth by the Board of Trustees (see slide 13), developed a space
development and overall capital projection based on the needs and priorities articulated by the Provost. This projection also took into account issues such as the “domino” effects of space moves, the need for continuing investments in deferred maintenance, and the impact on operations and the operating budget that would follow from the space needs. (The operating goals and variables factored into the financial model are listed on slides 14 and 15, respectively.) The projection that resulted from the analysis yielded a space proposal within the University’s financial capacity, which included overall capital expenditures over the ten year period 2012 through 2021 of $3.0 billion. This would allow for the addition of approximately 1.6 million square feet, as well as ongoing capital maintenance and renovations to existing space. The University, Dorph noted, could undertake this $3.0 billion investment with an increase in debt of $1.4 billion (the remainder of the funding to come from other sources such as the operating budget and fundraising), keeping the University’s debt service obligations at 2021 within the 7% envelope.

Dorph then described, using projections of the University’s operating margin, and cash and unrestricted investments that the University can remain in good financial condition while incurring the $3.0 billion in capital expenditures and issuing the needed debt. Dorph noted that the projection is conservative due to the fact that historical budgets have outperformed projections, given stringent budget processes and restrictions (as evidenced on slide 17), as well as the fact that the interest rate on future borrowing was assumed to be 6%, whereas the University’s current borrowing rate is 4%. In addition, the projection does not account for additional philanthropic giving which would be a goal associated with this plan.

Concluding his remarks, Dorph emphasized that the goal of the (budget forecast?) was to project the amount and financial impact of the possible space opportunities that best meet the University’s needs, not just to maximize the amount of space developed. The model, which represents a feasible plan, also includes the result of converting approximately three hundred thousand square feet from leased to owned space; while continuing to invest in capital maintenance, building a revenue-generating dormitory, among others, all while assuming conservative fundraising and other parameters.

He noted that most importantly, the “zipper” option in the Core Project on the South Block was included in the projection, assuming the largest and most expensive configuration, and would still represent less than 25% of the envelope that was created under the financial modeling.

Due to lack of time, Dorph agreed to return to complete his presentation at the December 11 meeting of the Working Group.

Working group members asked the following questions:

- Does the 7% debt service restriction specify type of debt? Answer: No, but the University tries to limit to 30-year fixed rate (4%) debt, rather than short- or variable-term debt.
• Does the “healthy university” want to retain a certain amount of debt? Answer: It is typical for even the richest and most well-regarded institutions to have debt, especially since it allows the economic burden of large capital projects to be shifted to those in the future who will reap the benefits.

• What is the University’s bond rating? Answer: NYU first had to get its own rating in 2009. Currently, the University’s rating is AA-/AA3. [Bond rating documents are available on the Working Group Web site]

• What is the financial relationship between NYU and NYU Medical Center, and what is the risk to the University? Answer: From a legal standpoint, the hospital is a separate entity and has its own bond rating. The Medical School is part of the University corporation, but is managed separately from the University, and is combined as a common enterprise with the Hospitals Center. The University has no obligation if the Hospital faces financial difficulty. The only situation where there could be any recourse is if the School of Medicine faces difficulty and the hospital cannot sustain operations.

• What if the University decides not to build anything? What would the financial picture be? Answer: Dorph presented the University’s position that it does not have the option to do nothing. Since capital maintenance and upgrades are built into this model, it is reasonable to expect that these changes would need to happen anyway. In addition, choosing to forgo building could lead to long-term consequences that result in NYU’s inability to attract top students, incurring deferred maintenance, etc. The Board did not present us with a choice—to improve space vs. using funding for another option.

4. New business

Chair Ted Magder encouraged members of the Working Group to begin to think about possible ways to consider governing principles, a response to the Faculty Against the Sexton Plan (FASP) group, and the organization of the Group going forward.