Report of the TFSC finance committee by Nicholas Economides 2/7/18

The Senate Financial Affairs Committee met on 2/7/18. Among others, we had a chance to hear Tony Jiga, representing NYU, discuss two crucial issues, the impact of tax changes on NYU, and the impact of changing financial conditions on NYU borrowing. Below of a summary of these remarks.

A. Impact of tax changes on NYU

The tax changes have minor effects on NYU compared to what NYU worried they might have.

Specific impact

1. Imposition of excise tax on NYU administrators paid more than $1 million per year. NYU estimates that the extra cost to NYU will be $300,000 per year. [Nicholas Economides notes that the new tax is 21% on the amount exceeding $1 million for administrative employees of a non-profit with compensation over $1 million, see https://www.mwe.com/en/thought-leadership/publications/2017/12/tax-reform-bill-becomes-law . This implies that such employees at NYU have compensation exceeding $1 million by approximately $1.428 million in total, so that, when applying the 21% tax rate, the resulting tax cost to NYU is $300,000.]

2. Imposition of "unrelated business tax" on NYU activities, that is, "not related to its primary mission," such as bookstore sales and rental of rooms to non-affiliates. New tax law imposes tax liability on profits from these, but likely to have small impact because NYU collects tax charges on these activities anyway.

3. Employer (NYU) must pay tax on employee benefits distributed through WageWorks.

4. Moving expenses paid by the university are not tax exempt anymore.

5. Philanthropic contributions to NYU might decrease because fewer tax payers will itemize in their tax returns because of the increase of the “standard” deduction. Although it is extremely hard to predict the effect on NYU, it may be up to 5% of contributions, likely less. [Nicholas Economides: Large donors itemize taxes anyway and should not be affected. Small donors who used to itemize but do not anymore, may give less because their deduction may not be deductible, or may bunch transactions and give them in one year when they itemize. This is also facilitated by “Donor Advised Funds” offered by Vanguard and many large brokers that allow contributions to be made and deducted from taxes in a particular year even though the donor can assign them in any portion to charities in the future.]

B. Impact of financial conditions on issuing new debt

On issuing debt, Tony Jiga stated that there are no immediate plans to issue debt. However, it is clear that a significant debt issue will be needed in the next 2-3 years to finance the Mercer and other investment projects. Presently, NYU has borrowed by issuing bonds at 3.5%. Going forward, because interest rates are increasing across the board, NYU will have to pay 4.5%. In terms of the exact timing of the debt issue, NYU will try to balance the benefit of lower rates if it borrows immediately with the extra cost of paying interest for 1-2 years on moneys it does not immediately need. Exact timing of new substantial borrowing has not been decided. [Nicholas Economides comments that the 0.5% higher interest rate (from 4% to 4.5% since borrowing was delayed from 2017 to 2018) on a $2 billion loan will add to the servicing cost of the loan $10 million per year. Our December report expected a yearly borrowing cost of $370 million per year. Now it is expected to be $380 million per year.]