NEW YORK UNIVERSITY
A private university in the public service

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Martin Dorph *Executive Vice President, Finance and Information Technology*

MEMORANDUM

To: University Space Priorities Working Group

From: Martin Dorph, Executive Vice President

Date: January 18, 2013

Re: Response to your inquiries regarding financial planning

Question 1. How does NYU budget for emergencies such as Hurricane Sandy?

I would answer the question in two parts:

1. Budgeting for disasters such as flood, fire, business interruption, etc. falls under the category of "risk financing". NYU's risk financing is primarily managed through our insurance, which provides for property damage, liability, business interruption and a myriad of other insured events. We determine and manage the financial exposure in a number of ways:

    i. Most policies have a deductible, which is the component that would be paid by NYU in the event of the disaster. Our deductibles tend to be under $500,000, which is very manageable within our budget.
    ii. The policy limits determine the maximum payable under the policy. NYU would have exposure if the limit were exceeded. Our limits tend to be very high for most insured events (e.g., our property insurance limit for most insured events is in excess of $4 billion). Insurance policies do include exclusions or lower limits on certain types of losses. For instance, insurance limits flood losses to much lower amounts, and other sources such as FEMA would be tapped if needed. If limits do not seem adequate in our judgment to deal with the potential exposure, we will attempt to identify and mitigate those risks through our Enterprise Risk Management program (see below).
    iii. Some risks such as health insurance or workers compensation are self insured. This effectively passes the risk back to the NYU on a pay as you go basis. As one would expect, this technique is used for risks that tend to be reasonably predictable without sudden or unexpectedly large costs. For this reason, catastrophic risks are not self-insured.

iv. NYU uses an approach to identifying risks (either insurable or uninsurable) through a process known as Enterprise Risk Management. Serious risks are identified and mitigation strategies developed and implemented under this process. This may often involve commitment of operating or capital budget resources (for instance, dorm sprinklers have been installed using our annual appropriation to capital maintenance).

The Board of Trustees' Audit and Compliance Committee periodically reviews both our insurance and risk management programs.

2. Budgeting for contingencies (unforeseen expenses in the non-disaster category) are provided as part of the annual operating budget process (approximately 1% of budget) and with the Strategic Contingency Reserve, which is currently in excess of $100 million and is planned to grow to over $200 million by 2020. The Reserve may only be tapped with the approval of the Board.

Question 2. What contingency planning has been undertaken to assess the financial risks of the Core Plan?

Senior leadership has undertaken "stress tests" of the University's budget and financial plan, which quantify the impacts of circumstances such as increased inflation, increased interest rates, energy cost spikes, failure to achieve enrollment objectives, etc. With the stress tests, we have identified mitigation strategies which can be used to offset these negative impacts. The strategies include choices in categories such as reducing or eliminating projects in our capital plans (including the Core Plan), and other operating budget moves.

Question 3. If the southern block were built to maximum density, what are the additional annual maintenance costs?

At a maximum density of 1.2 million (800,000 Zipper Main; 225,500 Zipper Tower; 170,000 Bleecker Building) square feet, the southern block would have 1.0 million additional square feet compared to the current University square footage (about 200,000 square feet of the southern block, primarily the replacement gym, are not new incremental square feet). At an average annual operating cost of $17 per square feet, the southern block would result in $17 million additional annual maintenance costs. The latest version of the University's financial plan provided for 520,000 incremental square feet (670,000 Zipper Main, less 150,000 Coles) with additional annual operating costs of $9 million, so an increase to maximum density would result in an increase of $8 million per year compared to plan.