181 Mercer Street

Financial Plan Update

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Summary

Summary

History

- The University Space Priorities Working Group, as part of its review of the Core Project, now referred to as 181 Mercer Street, examined the feasibility of the University's financial plan. Data was provided to the USPWG in 2012 and updated the following year.
- At that time, the project being considered was approximately 670,000 square feet with a cost of $727 million.
- The information presented included historical and projected operating and capital budget data, and financial metrics pertaining to the University's ability to pay for the project.
- The USPWG Final Report presented the following findings:
  - NYU has adopted reasonably conservative and prudent assumptions in its financial planning for capital construction and that the Working Group's recommendations for construction on the Coles Site are within NYU's current fiscal means. The University need not – and should not – adjust future tuition fees or faculty, administrative or staff salary assumptions to cover capital costs.
  - Building on land the University already owns is less financially costly than building on land that it must first buy.
- There have been changes to the project since the USPWG report was issued, but the overall University capital plan has remained consistent with the plan reviewed by the USPWG.

Summary

Current 181 Mercer Finances

- 181 Mercer Street as currently designed and programmed, will be approximately 735,000 square feet with a projected cost of $1,285 million.
- The changes in cost are attributable to the following factors:
  - A larger program for the building requiring additional square footage as recommended by the USPWG and as permitted under the City approvals ;
  - Based on USPWG recommendations, proportional increase in spaces with higher costs per square foot (e.g., theaters);
  - Cost premiums associated with structural support to clear wide span and double height spaces such as theaters, gymnasium, etc.;
  - Increase in construction market costs;
  - Additional cost escalation due to passage of time.
- The financial plan for 181 Mercer assumes debt issuance of $947 million, fundraising of $300 million, and use of University "working capital" (cash on hand) of $38 million, spread over the next five years.
- To date, $145M has been raised through fundraising efforts.
- The operating budget impact of the project has been incorporated into the University's Ten Year Financial plan.

Summary

<u>How 181 Mercer Affects the University's Finances</u>

- In the past five years, the University has outperformed its financial plan and exceeded the projected financial metrics presented in 2012.
- Our affordability initiatives have resulted in a lower rate of tuition increase and substantial growth in financial aid, but also lower than anticipated expenses in areas such as debt service, energy, and general operating supplies and services. Enrollment increased more than projected in 2012 due to a combination of selected planned growth, higher yield and higher retention
- The University's capital plan through 2024 – which includes the funding for 181 Mercer- amounts to $2.76 billion of capital projects, a number consistent with the amount projected in 2012, and also consistent with the University's overall rate of capital spending over the past decade.
- In addition to 181 Mercer, the plan includes provisions for new projects such as 370 Jay Street, additional investments in Tandon School of Engineering, projects supporting science at Washington Square, and provisions for ongoing capital replacement and improvements on existing facilities.
- Looking forward, the University's financial plan does not assume or rely on enrollment increases or additional tuition increases as a funding source for the project.
- **<u>The latest projections show that even with the overall higher cost of the project, the University will generally meet or outperform the financial metrics established in 2012.</u>** (There is a higher debt level and leverage ratio due in large part to increases in the School of Medicine's borrowing plans, which is part of the University's balance sheet. The School of Medicine's debt is paid by the School of Medicine).

Background (2012 – 2016)

Background

- NYU's financial planning encompasses two budgets: Operating and Capital. They are summarized here:

  http://www.nyu.edu/about/news-publications/budget.html

- The University Operating Budget is developed annually, and approved each June by the Board of Trustees.
  - We project a Ten Year Financial Plan to assure long-term sustainability of our budget decisions.
  - The Operating Budget also undergoes "stress tests" to assure that mitigation strategies are in place in the event of unforeseen shocks.
- The Capital Budget – looks at the fixed assets (buildings, improvements such as new labs). It is reviewed and approved annually, but also includes a Ten Year Plan.
  - Capital projects are funded from a number of sources: borrowing, fund raising, cash generated from operations.
  - Why borrow: Debt is used to spread the cost of long-term assets over time because fixed assets are used over time.
  - The payments of principal and interest on the debt ("debt service") is then incorporated into the operating budget.
- Our goal is to fund the ongoing academic, research and programmatic needs and goals of NYU, while balancing our ability to cover current expenses with long-term sustainability.
- We use a number of metrics to evaluate that balance.
- Rating agencies (Moody's and Standard & Poor's) also independently evaluate our creditworthiness and financial condition using similar metrics.

Background

Operating Budget 2012 – 2016

There have been some significant developments affecting the University budget since the projections that were made in 2012:

- **Tuition and Fee Rate Increases** – Since 2013, the rate of undergraduate tuition increase has dropped from 3.9% to 3.5% and student fees has dropped from 2.8% to 2.0%. Last year, the rate of increase was 2.9%, with no increase in fees, as we moved forward on the Affordability Initiative.

- **Enrollment** – Undergraduate enrollment at NYU WSQ increased from 22,280 to 23,435, while graduate and professional enrollment decreased from 21,631 to 21,410. These numbers compare fiscal 2012 with fiscal 2016 and exclude the Tandon School of Engineering, which was not part of the SPWG presentation in 2012. The growth in undergraduate enrollment was due to a combination of selected planned growth, higher yield and higher retention. The decrease in graduate enrollment was primarily due to declines from peak enrollment in master's programs.

- **Financial Aid** – Total financial aid increased from $341 million to $488 million, while undergraduate financial aid alone grew by $182 million to $269 million.

- **Energy** – 7.5% decline in University's energy budget between 2012 and 2016 due to conservation measures, re-estimations of energy price inflation, and savings from full operation of the co-generation plant.

- **Debt Service** – Continuous savings due to actual long-term interest rates consistently below the University's financial plan assumption of 6% interest.

- **Tandon School of Engineering** – Starting in 2014, (with the first full year being 2015), the NYU Polytechnic Institute successfully merged into the University and became the Tandon School of Engineering, bringing with it savings in administrative and auxiliary operations from the merger.

- **Portal Campuses** – Enrollment at NYU Abu Dhabi grew from 447 to 1,048, the first commencement took place in Spring 2013 with a graduating class of 140 students from 49 countries. The new campus opened at Saadyiat Island in 2014. The inaugural class of 300 freshmen enrolled at NYU Shanghai in 2013, and the new permanent campus opened in August 2014. The Portal Campuses have operated on a break even basis – they have added revenues and expenses to the University budget but have not impaired the WSQ budget

Background

Operating Budget 2012 – 2016

- With those changes, the University has consistently been able to generate a positive operating margin (the excess of revenues over expenses) in its Operating Budget.
- In fact, the University has outperformed its budget by about $450 million over the past five years.
- The positive operating margin is used to fund a portion of capital projects as well as provide school-based operating reserves.

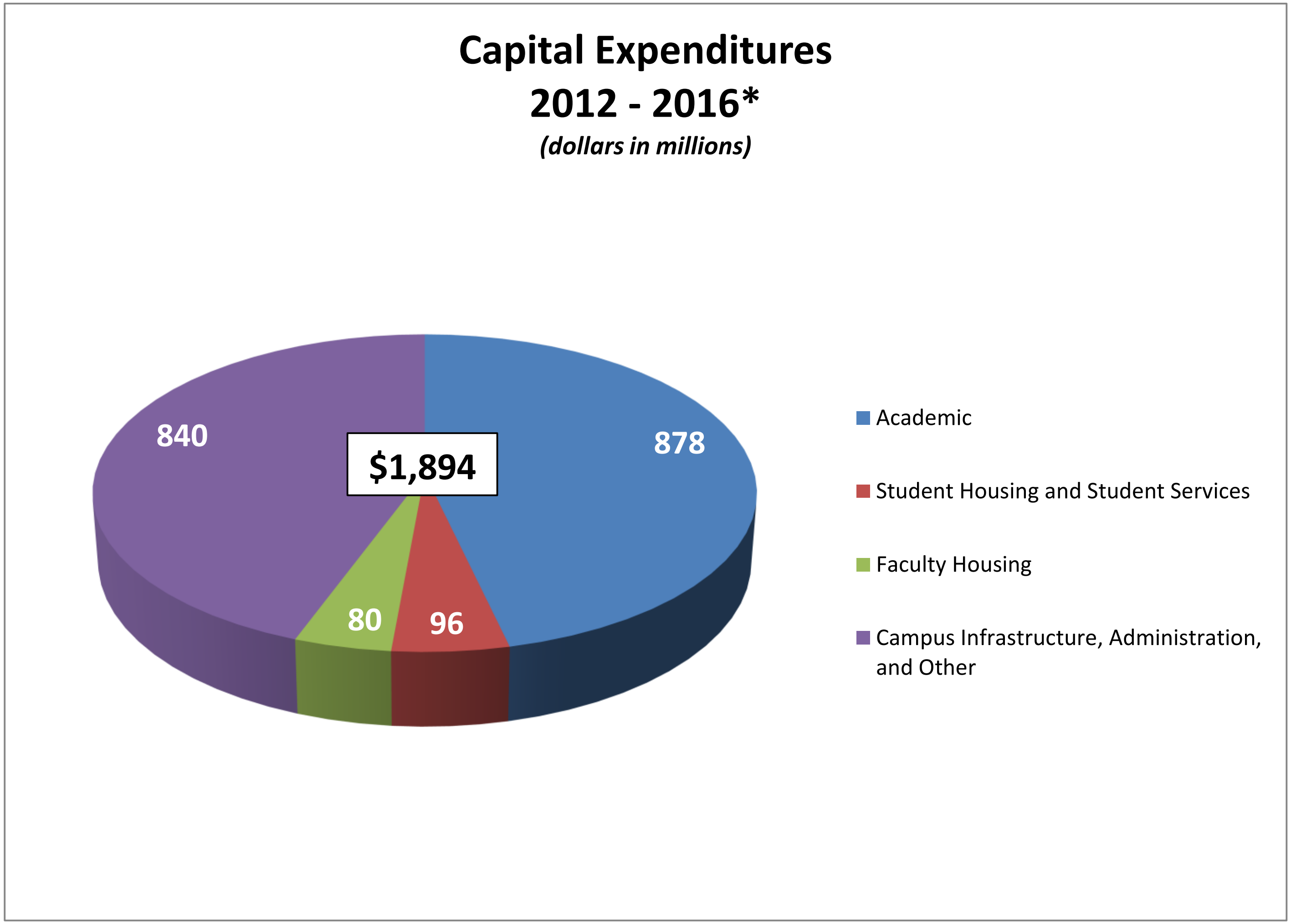
Operating Margin (University Only)
(dollars in millions)

	Budget	Actual	Variance
FY12	64	268	204
FY13	104	161	57
FY14	26	104	78
FY15	52	107	55
FY16 *(estimated)*	90	146	56
Subtotal	336	786	450

Background

Capital Budget 2012 – 2016

- The University has undertaken $1.9 billion in capital projects over the past five years
- The total capital spend over the past ten years was $3.9 billion.



Background

Capital Budget 2012 – 2016

Significant projects undertaken in the past five years include:

Academic

- 370 Jay Street, Brooklyn Mixed-Use Academic Building (2013-2016): $185M
- 20 Cooper Square Mixed-Use Academic Building (2013-2016): $14M
- 433 First Ave for the Colleges of Dentistry and Nursing and Bio-Engineering (2012-2016): $147M
- 60 5th Avenue (formerly Forbes Building) for the Marron Institute, Center for Data Science, and Courant Computer Science Department (2014-2016): $59M
- The Media and Games Network at 2 MetroTech Center, Brooklyn (2013-2016): $16M
- FAS Physics at 726 Broadway (2012-2016): $84M
- FAS Science Projects at Silver and Meyer (2012-2016): $30M
- Tandon School of Engineering Projects (2012-2016): $51M
- Miscellaneous Academic (2012-2016): $238M

Student Housing and Student Services

- 383 Lafayette Student Services Building (2012-2016): $49M
- 404 Lafayette for Athletics (2015-2016): $16M
- Miscellaneous Student Housing and Student Services (2012-2016): $41M

Faculty Housing

- Faculty Housing Renovations and Investments: $80M

Campus Infrastructure, Administration, and Other

- 383 Lafayette Building Purchase (2014): $17M
- 404 Lafayette Building Purchase and Stabilization Renovations (2015-2016): $171M
- Capital Replacement (2012-2016): $274M
- Cogen Utility for Superblocks (2016): $20M
- Information Technology (2012-2016): $135M

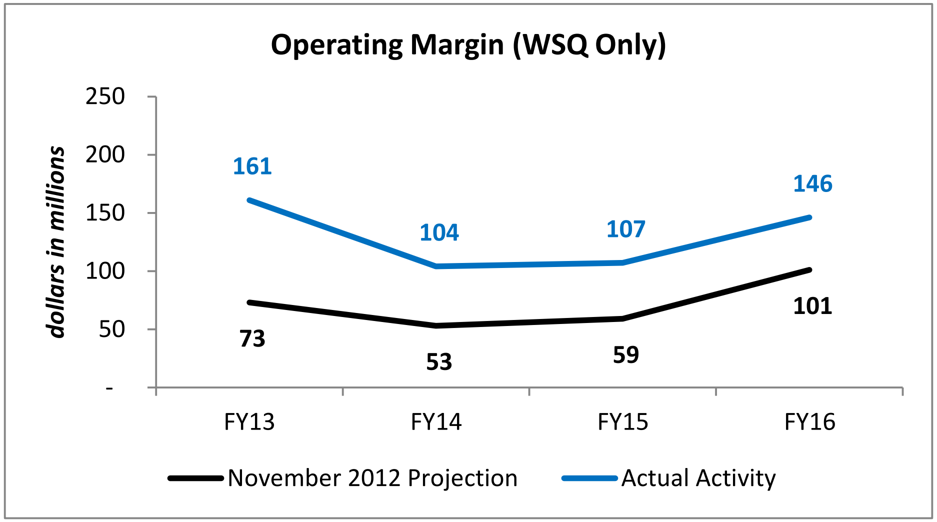
NYU Financial Operations and Treasury

Background

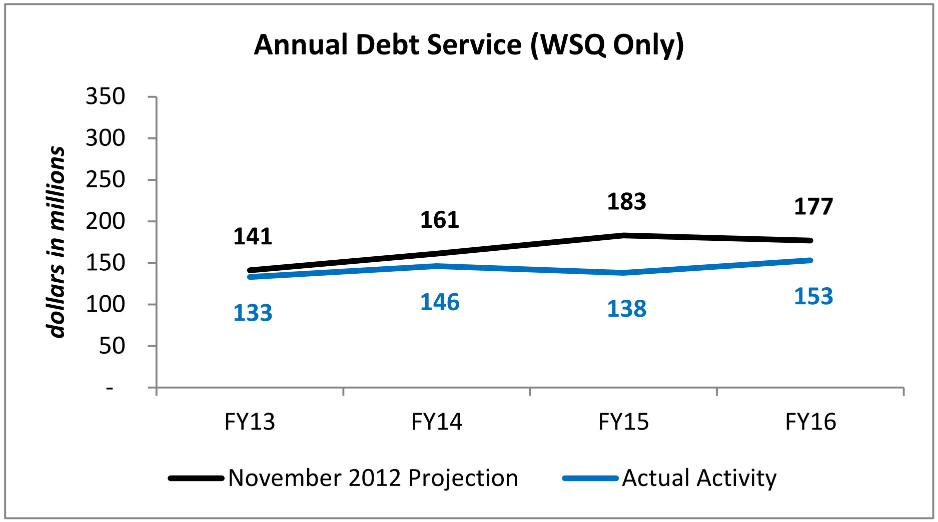
Financial Metrics: Historic Performance

- In 2012, The USPWG was presented with the financial metrics used to set budget goals for the University.
- We analyzed the following metrics over the historic period 2013-2016 to compare projected performance with actual results. Across several metrics, the University has out-performed the Financial Plan.
    - 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. **The University has outperformed projections by an average of $48 million per year.**
    - 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**). Cash and unrestricted investments are approximately $150 million greater than projected.**
    - Debt Service: Annual Principal and Interest Payments (WSQ only). **Debt Service is now about $24 million below projection – even as the amount of debt has grown as projected, interest rates have remained lower than assumed in our planning.**
    - Debt Service as a % of Annual Operating Budget (WSQ only). **This metric is currently well below projection due to lower rates.**
    - Capital Expenditures: (WSQ only). **Capital expenditures are slightly below projection as some projects have lagged in timing of construction.**
    - Debt: Long-Term Debt Outstanding. School of Medicine debt is included in this metric, as it is part of the University balance sheet. **The amount of debt outstanding is $465 million higher than projected, because long term debt for pending capital expenditures planned in FY16-18 was accelerated into a larger issue in FY16 to take advantage of low interest rates.**
    - Leverage: Ratio of Expendable Financial Resources to Debt (with expendable financial resources defined as unrestricted and temporarily restricted net assets less plant). Again, School of Medicine debt is included in the calculation of this metric. **The earlier issuance of debt creating a lower EFR to Debt ratio than expected.**

Background



Note: FY16 Actuals are preliminary (audit not yet final).



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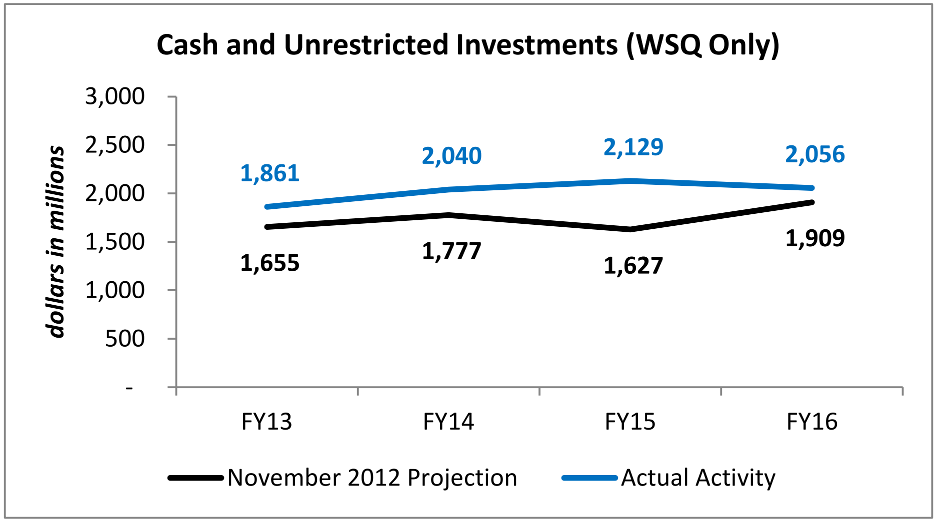

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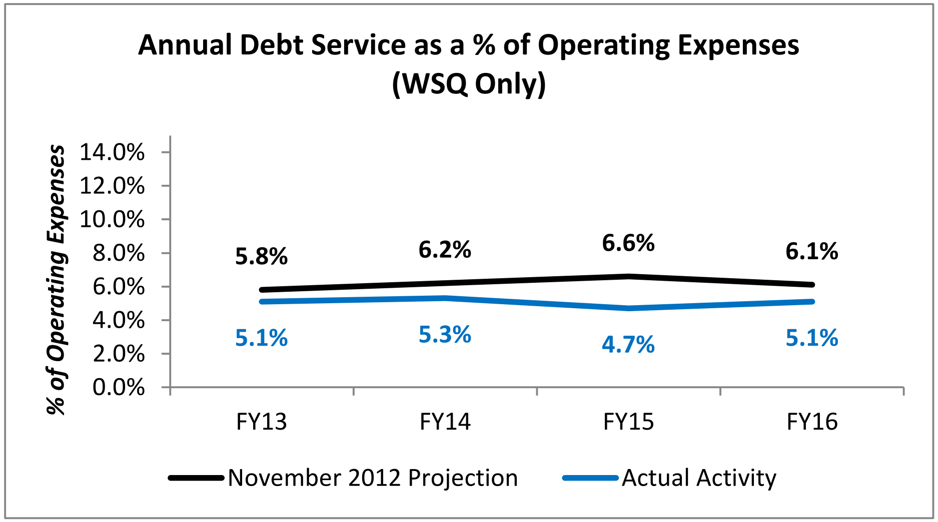

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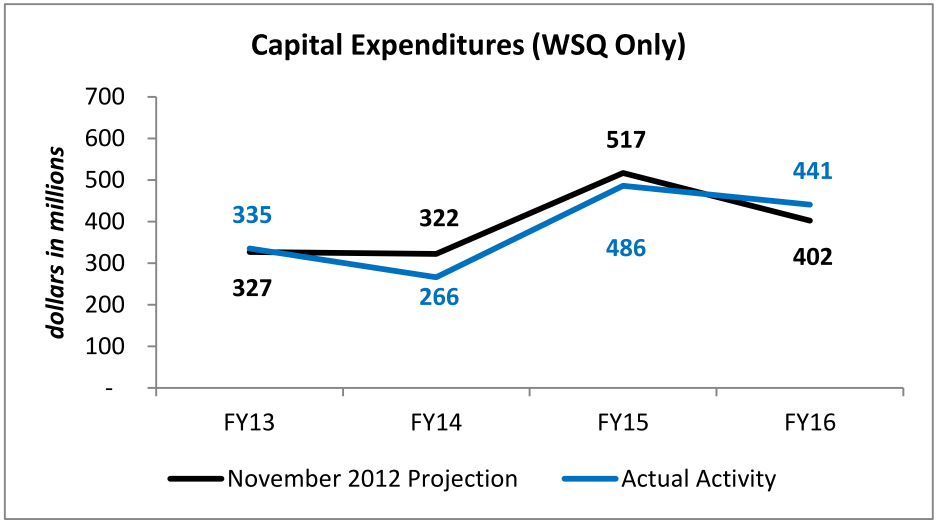
NYU Financial Operations and Treasury

Background



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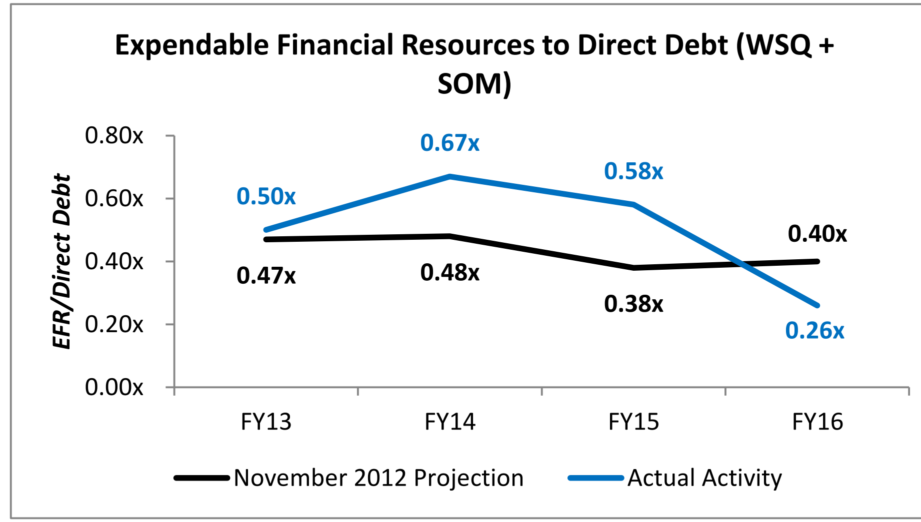

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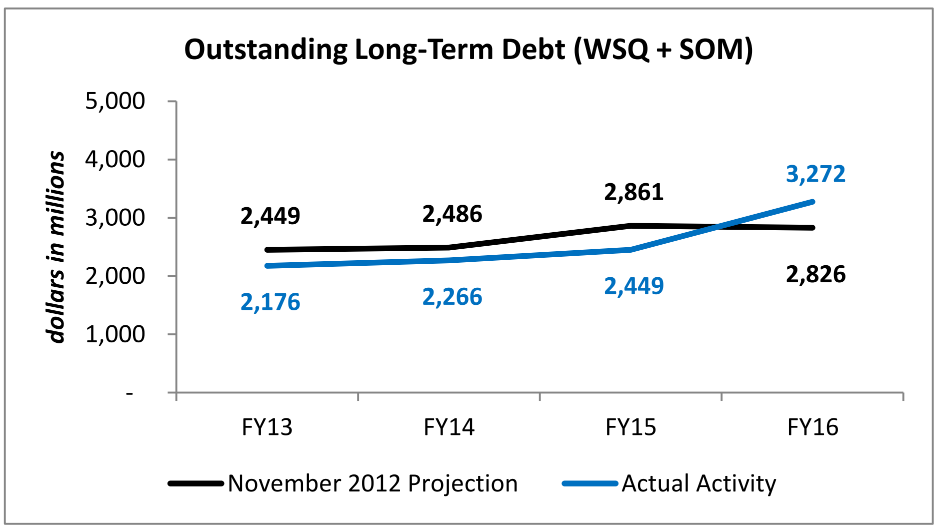

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University Financial Outlook (2017 – 2025)

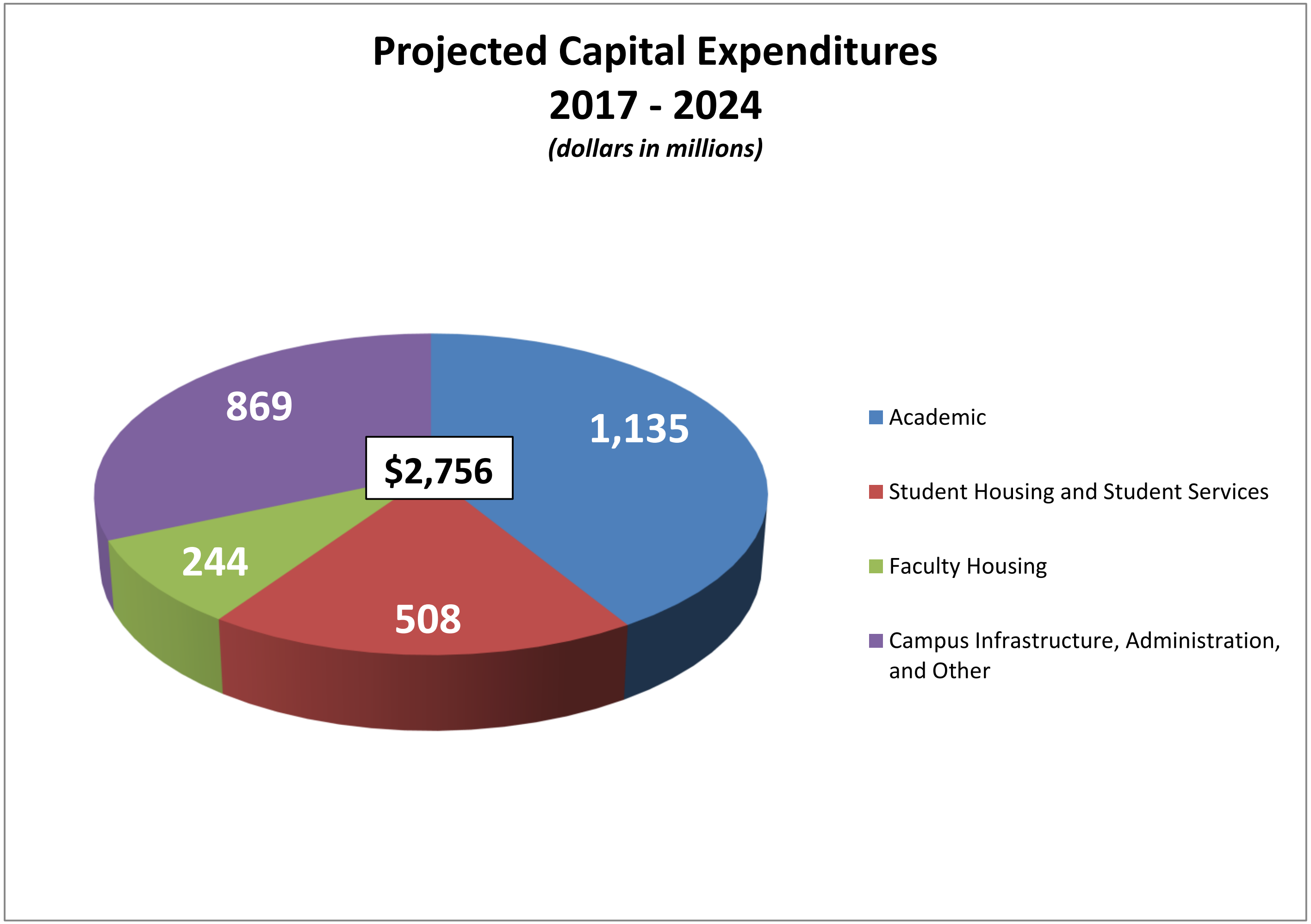
Outlook

The University's current Ten Year Financial Plan is based on the following Operating Budget assumptions:

- UG Enrollment Growth at Washington Square: Slight reduction following "over enrollment" compared to plan in 2016.
- Graduate and Professional Enrollment Growth: essentially flat
- UG Tuition: Moderation of rate of increase compared to recent history
- UG Room and Board: Moderation of rate of increase compared to recent history
- UG Financial Aid: Rate of increase as needed to maintain discount rate
- Graduate Tuition: Rate of increase consistent with recent history
- Philanthropy: Consistent with recent history
- Annual Merit Increases (Salaries): Maintain competitive market position
- Energy: Overall, lower, with rate of increase lower than recent history
- General Inflation in Other Than Non-personnel Costs: 2.5% per year after FY18
- Some savings and adjustments due to affordability initiatives (no affordability initiative funds used to fund 181 Mercer)

Outlook

The University's Capital Plan projects $2.76 billion of spending, including the 181 Mercer Street project. ($3.9 billion was spent over the past ten years)



Outlook

Following is a list of the major capital projects planned for the next ten years.

Academic

- 370 Jay Street Mixed-Use Academic Building (2017-2018): $219M
- 404 Lafayette for the College of Global Public Health (2017-2019): $50M
- FAS Physics at 726 Broadway (2017): $29M
- FAS Science Projects at Meyer (2017-2019): $63M
- Tandon School of Engineering Projects (2017-2020): $107M
- Miscellaneous Academic (2017-2025): $53M

Student Housing and Student Services

- Miscellaneous Student Housing and Student Services: $20M

Faculty Housing

- Faculty Housing Renovations and Investments: $103M

Campus Infrastructure, Administration, and Other

- Capital Replacement (2017-2025): $648M
- Cogen Utility for Superblocks (2017-2018): $40M
- Information Technology (2017-2025): $94M
- Miscellaneous Campus Infrastructure, Administration and Other (2017-2021): $39M

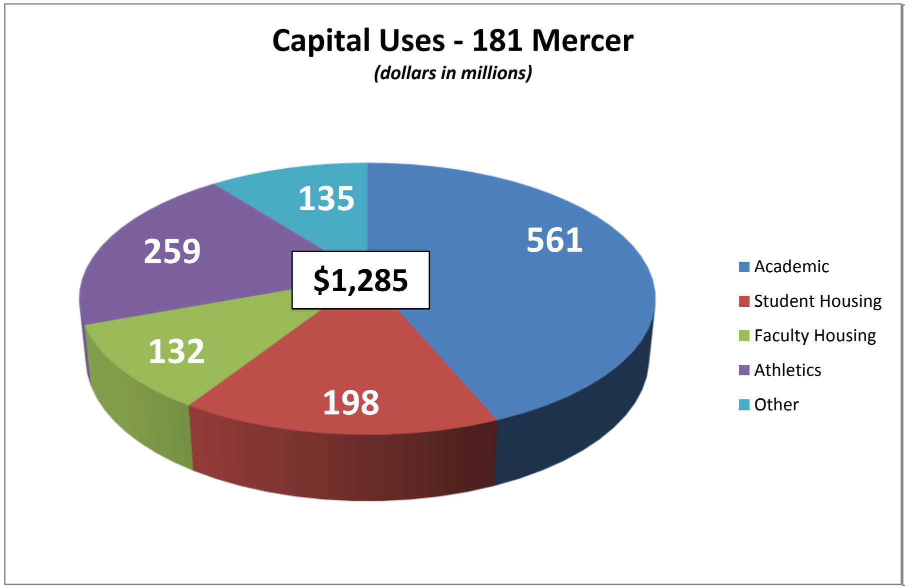
181 Mercer (Mixed Use Project): $1,285M

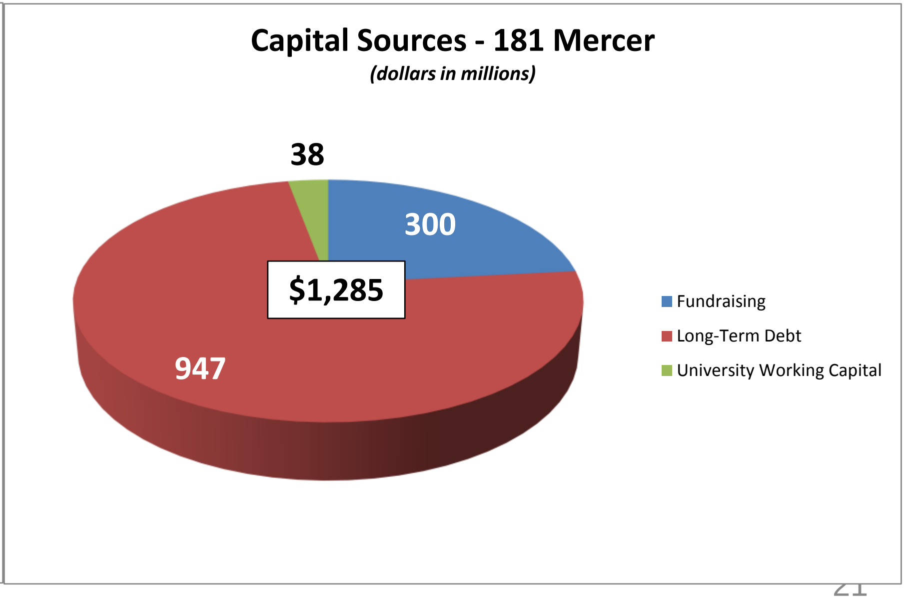
Project Update – 181 Mercer

181 Mercer

- 181 Mercer Street as currently designed and programmed, will be approximately 735,000 square feet with a projected cost of $1,285 million.

- The changes in cost are attributable to the following factors
  - Increase in square footage as permitted under the City approvals
  - Based on USPWG recommendations, proportional increase in spaces with higher costs per square foot (e.g., theaters)
  - Cost premiums associated with structural support to clear wide span and double height spaces such as theaters, gymnasium, etc.
  - Increase in construction market costs
  - Additional cost escalation due to passage of time





181 Mercer

- 181 Mercer Street is projected to incur an annual “carrying cost” of $64 million per year.
- The annual carrying cost has been incorporated into the University’s Ten Year Financial Plan.
- The assumed interest rate on the debt is 6.0%. At current interest rates, annual cost could be reduced by up to $12 million per year.

<u>Annual Operating Revenues</u>	
Student Housing Revenue (~475 beds @ 97% occupancy)	**$ 8**
Faculty Housing Rents	**$ 11**
Total Annual Operating Revenues	**$ 19**
Annual Operating Expenses	
Building Operating Expenses	**$ 14**
Debt Service	**$ 69**
Total Annual Operating Expenses	**$ 83**
Net Operating Surplus/(Deficit)	**$ (64)**

Current Forecast of Financial Metrics

NYU Financial Operations and Treasury

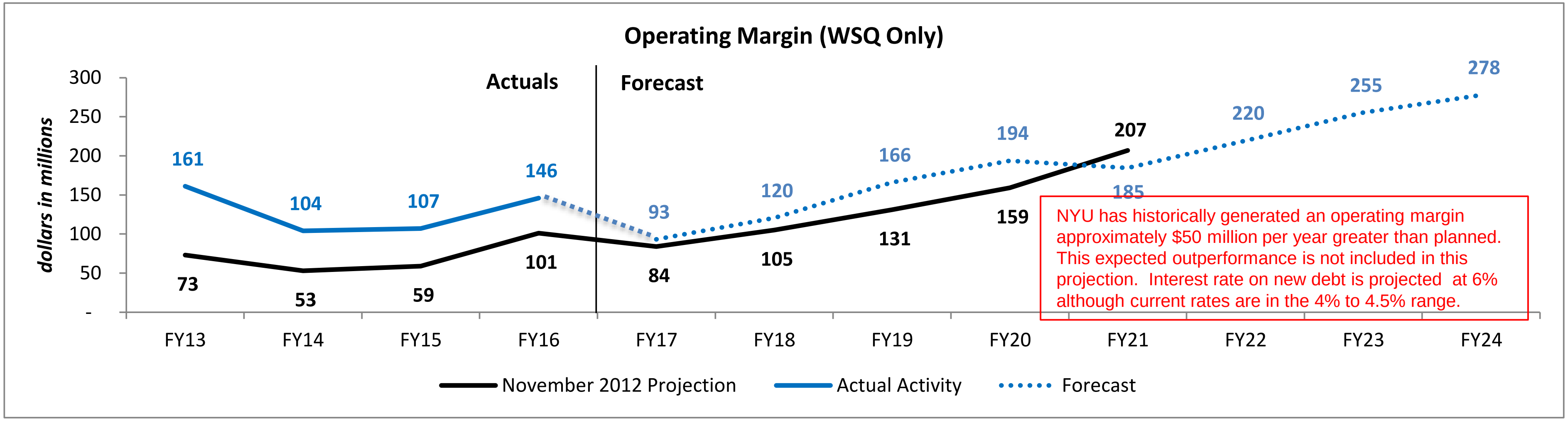
Current Forecast of Financial Metrics

- The March, 2014 Final Report of the *University Space Priorities Working Group* concluded that the replacement building at 181 Mercer Street could be *"accommodated within the University's capital spending framework"* and *"unless there are unexpected or unforeseen developments, the proposed Capital Spending and Financing Plan is unlikely to impair the financial status of NYU."*

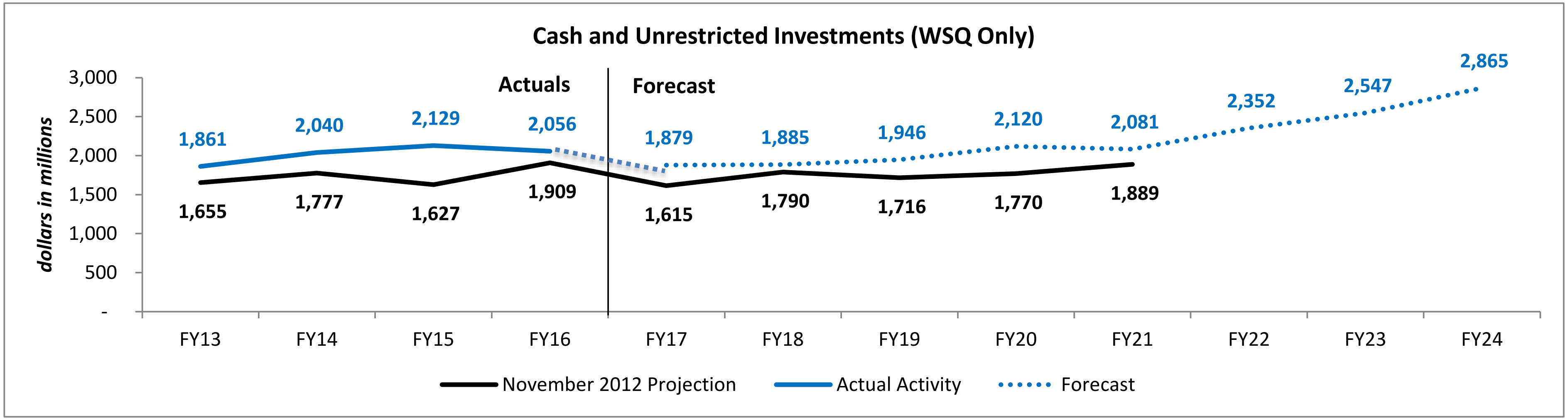
- The following pages compare the metrics as projected in 2012 to both the historical results for the years 2012 -2016, and as projected through 2024. (Note the projections made in 2012 ended in 2021).

- The forecasted financial metrics show that the University generally meets or exceeds the metrics originally projected in 2012.
    - Annual operating margin and unrestricted cash and investments continue to exceed projections and trend upward. The University has historically generated an operating margin approximately $50 million greater than planned.
    - Total debt outstanding exceeds the 2012 projection due to increased School of Medicine debt plans, plus the increase in borrowing that is driven by the increase in the cost of 181 Mercer.
    - The Expendable Financial Resources to Debt ratio falls below the 2012 metrics due to that increased borrowing.
    - Annual debt service projects higher as a result of increased borrowing (but debt service as a % of the University operating budget remains roughly consistent with the projections).

Current Forecast of Financial Metrics



Note: FY16 Actuals are estimated.



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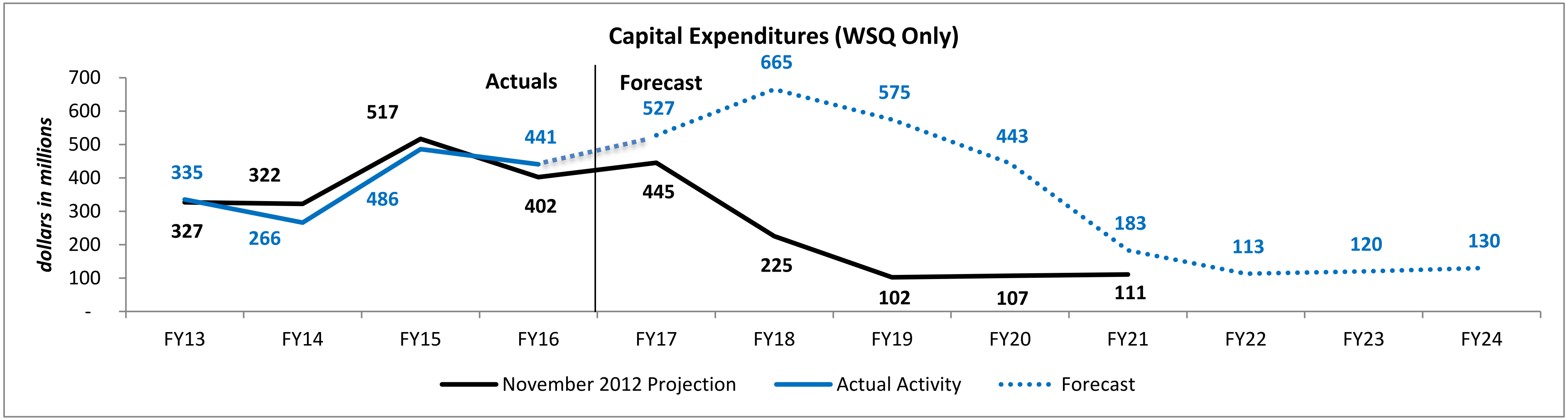

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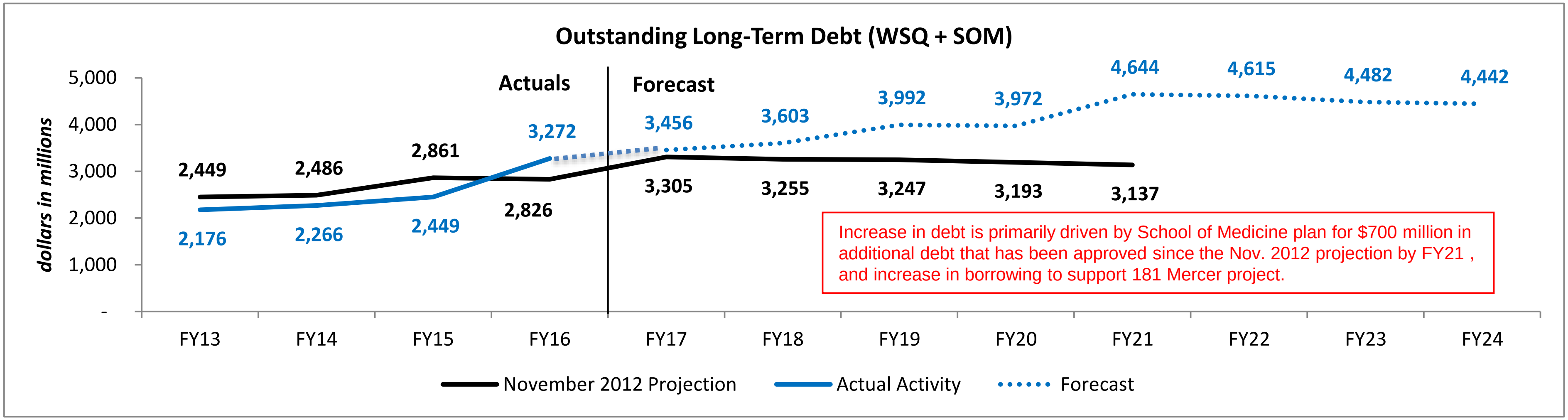

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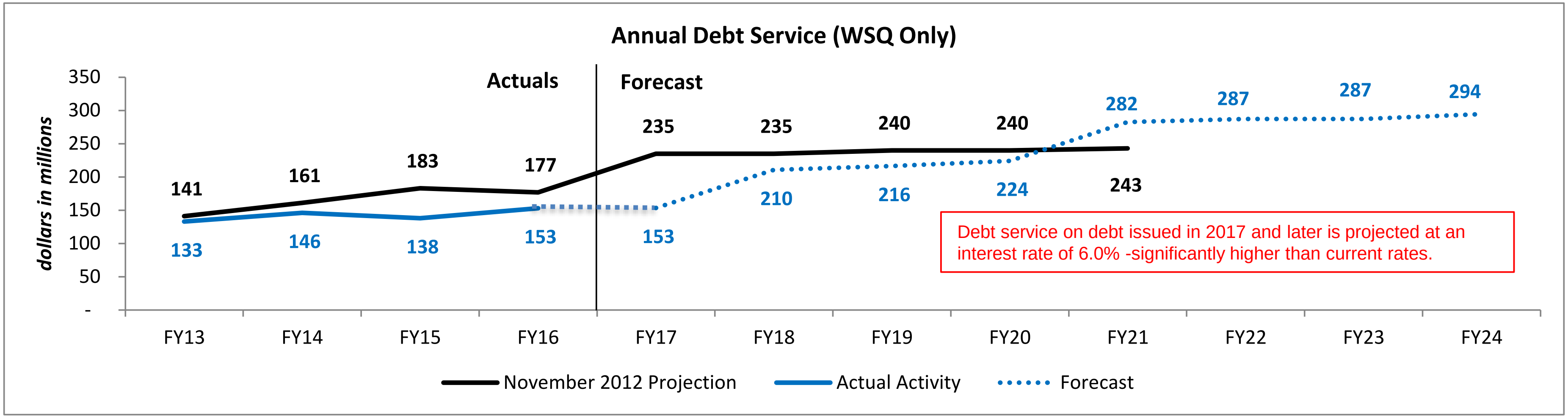

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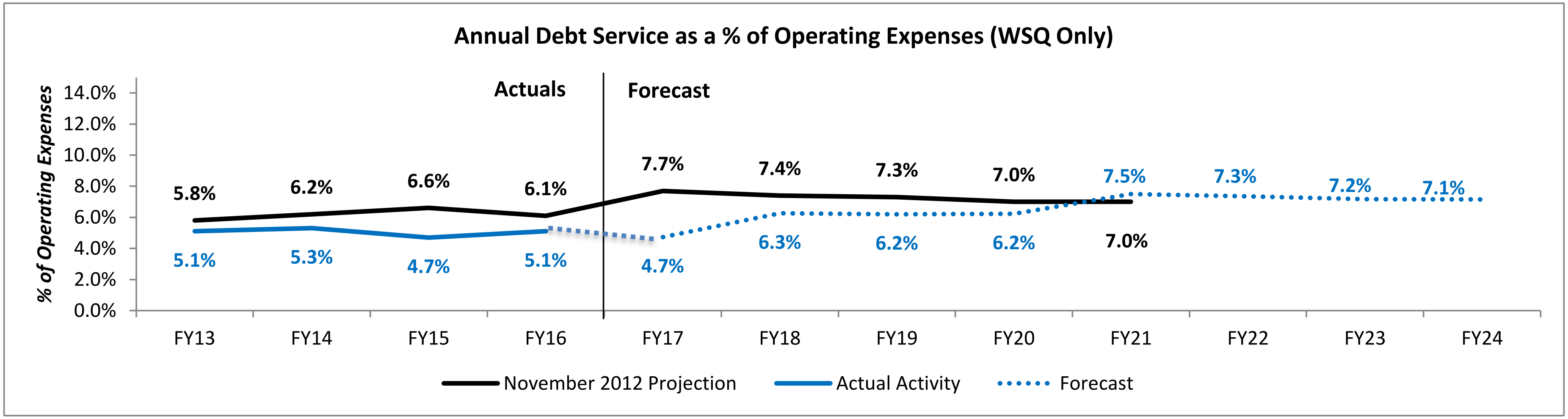

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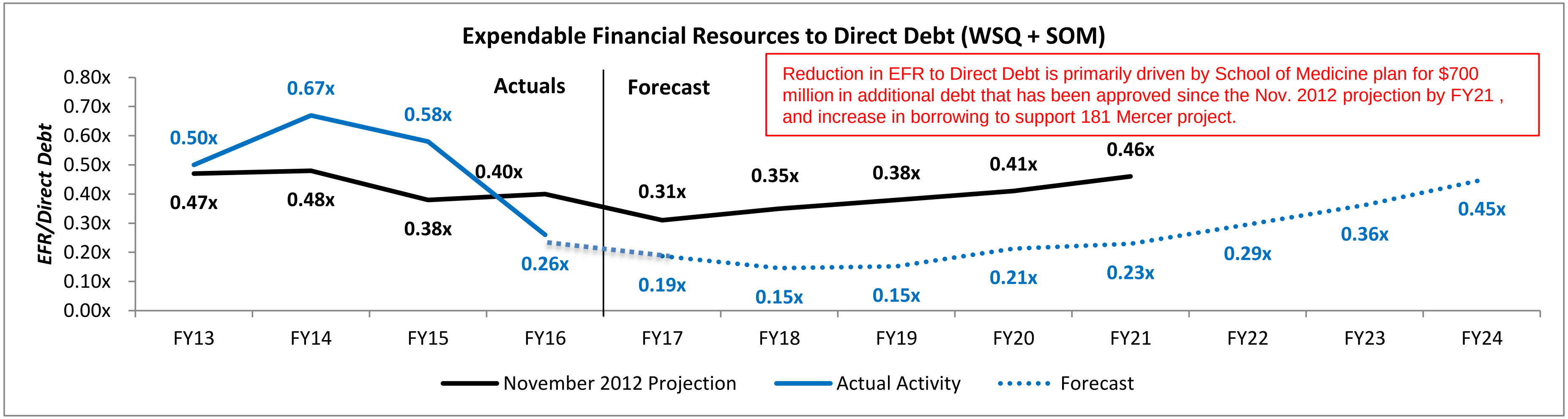

Note: FY16 Actuals are estimated.

Debt & Credit Management

Measuring & Monitoring NYU's Debt Capacity

- NYU's ability to pay its debt service is evaluated by both internal and external third parties at regular intervals. The University and its School of Medicine (the "obligated group") maintain a credit rating that is separate from the credit rating of NYU Hospital, which is a separate entity. While NYU's financials are consolidated annually to include both the Hospital and the University, neither entity is legally obligated for the debt of the other.

- Annually, Moody's and S&P assess NYU's credit worthiness and assign a credit rating to NYU's debt. This credit rating is used by investors to assess risk relative to NYU's ability to pay debt service on its obligations. NYU's last annual credit review was completed in May, 2016. Moody's and S&P both affirmed NYU's credit rating, at Aa3 (positive outlook) and AA- (stable outlook), respectively. NYU has maintained these ratings since the first rating was assigned in 2009.

- Moody's holistic review of NYU's credit strengths and weaknesses is summarized as follows:

  - ***Credit Strengths:***
    - *Relatively rapid transformation to a globally competitive, research-intensive university, with a presence in more than 40 countries*
    - *Large size and scope of operations…provides diversity and economies of scale*
    - *Substantial amount of highly marketable real estate holdings in New York City*
    - *Strong clinical demand contributing to robust hospital operating performance*
    - *Significantly improved monitoring and oversight capacity for this large and complex organization*

  - ***Credit Challenges:***
    - *Very high leverage, including operating leases and a modest pension liability*
    - *Exposure to the profitability of clinical care from an A3 rated organization*
    - *Moderate liquidity for such a large and complex organization, mitigated by modest potential calls and committed bank lines*
    - *Complexity of business lines and diverse locations highlight the importance of coordinated oversight and skilled management*

Measuring & Monitoring NYU's Debt Capacity

- In their most recent rating-reports, both firms commented on NYU's exceptional enterprise profile and robust and continuing student demand. Some notable excerpts from the reports include:
  - *"We believe that NYU will be able to easily absorb the additional debt at the current rating level. We expect they will issue additional debt in the next two to three years to fund the Mercer Street expansion, which we believe they will also be able to absorb at the current rating level." (S&P)*
  - *"The university has robust strategic planning and a track record of execution and monitoring of strategies." (Moody's)*
  - *"NYU's investments in the recently consolidated engineering school, formerly NYU Poly, combined with New York City's initiatives to expand applied science, engineering, and technology transfer will drive strong positive momentum."(Moody's)*

- The University continues to utilize conservative planning assumptions and analyses.
  - In addition to external evaluation, the Finance Committee of NYU's Board of Trustees reviews NYU's financial performance and projections at least twice a year, and have reviewed the metrics shown in this presentation. University leadership also provides "stress tests" demonstrating our capacity to manage through unexpected financial shocks.

  - Since FY09, NYU's cash and long term investments have grown by 47%. After eliminating permanently restricted investments in NYU's endowment, the growth in cash and unrestricted investments is 33% over the same time period. Thus, as the University has increased its debt portfolio, it has also increased its financial reserves.

  - The University's Operating Budget continues to show an upward trend in operating margin, and has demonstrated consistent outperformance – the actual operating margin has exceeded the budgeted margin by over $50 million per year.

  - NYU's existing debt portfolio is composed of fixed rate, amortizing debt (the typical average life is less than 20 years). We do not have variable rate debt, derivatives or swap agreements. This conservative structure allows for predictable financial planning and mitigates risk. NYU conservatively projects a cost of future borrowing at 6%, but NYU's current cost of capital is estimated in the range of 4% to 4.5%%.

- It remains our conclusion that the proposed 181 Mercer project financing plan is unlikely to impair the financial status of NYU.