President Bharucha Q/A with Engineering Student Council – October 31, 2011

summary, followed by commentary, by Barry Drogin, EE ‘83

What follows is a presentation of notes from a question and answer session held between the President of The Cooper Union, Jamshed Bharucha, the Vice President of Finance, TC Westcott, the Engineering Student Council, and a room of students with some alumni attending. I will attempt to present the information objectively, and to withhold my own perspectives and opinions, as well as additional information not presented at the meeting, to a separate section following.

The President was asked to make introductory remarks, and stated that Cooper was experiencing a “serious financial crisis” due to what he characterized as a “structural deficit” due to an “unsustainable financial model” that had been in place at Cooper for “decades.”

Bharucha said that the last financial year (July 2010 – June 2011) saw $59.7 million in expenditures but only $43.3 million in revenue, which he rounded to a 25% deficit. He said this deficit had fluctuated for a couple of decades, and hit a maximum of 34% in 1995. He stated that a major cause of the deficit was a drop in the rent from the Chrysler Building, which he dated to 1989.

TC Westcott then presented a more detailed report of these figures. The $59.7 million in expenses was broken into two categories, $46 million for general operating expenses, including a little under $15 million for the School of Art ($4 million), Architecture ($2.6 million), Engineering ($6.3 million) and the Department of Humanities ($1.8 million), and $13.6 million primarily comprised of $10.2 million for paying Cooper’s debt service on outstanding loans. The $43.3 million in revenue was split into three categories, $27.5 million from real estate (primarily $24 million profit from the Chrysler Building, and a reported $107,000 loss on the St Marks Bookshop), $6.7 million in “other income” (primarily $3 million from student fees and $2.1 million in annual giving), $1.5 million from dormitory rents, and $7.5 million in investment income.

TC Westcott presented another view of expenses, indicating $24.1 million in salaries and $9.4 million in benefits. Other expenses included $3.2 million in “general and administrative expenses” and $4.7 million in “contracted expenses.”

Later the President, in response to another question, stated that the total college endowment was worth $120 million, comprising real estate holdings, restricted funds, and unrestricted funds. The unrestricted part of the endowment was only $50 million. It was from this figure that Bharucha made the calculation that the difference between the $59.7 in expenses and the $43.3 million in revenues, the $16.5 million deficit, would wipe out the unrestricted endowment in two to three years. He also said that colleges considered a responsible “endowment spending policy” to be 5% which, if my memory serves, would allow for a 7% profit from an endowment offset by a 2% loss due to inflation.

When questioned about alumni giving, Bharucha said that only 18% of alumni contribute annually to the school, and that this percentage must rise. Bharucha also said that it was not reasonable to believe that annual giving would increase by a factor of 8 (from $2.1 million to $16.5 million) to solve Cooper’s deficit problem.

Bharucha was also asked about the construction of the Academic Building. He said that $197 million had been raised, and that Cooper took out a $175 million loan. After the meeting I asked Bharucha about the sale of the old Engineering Building property; he told me that the sale had netted about $100 million. I do not know if that figure is part of the $197 million or in addition to it. TC Westcott had also spoken to the complexity of fully characterizing the cost of the Academic Building because of many details such as the rental of property in Queens for the art students and the related cost of transportation.

When asked about the Board of Trustees, the President informed the students that the members of the Board were uncompensated and that many were major donors to the school, including some who were neither alumni nor parents of students.

President Bharucha refused to speak to an article published two years ago in the Wall Street Journal describing Cooper's sound financial state, but Past Alumni President MaryAnn Nichols rose to inform the students that she had attended many Board of Trustee meetings, and that the article may have been inspired by some successful stock portfolio transactions (I'm characterizing from memory, her statements were not recorded in my notes). Similarly, when President Bharucha was asked about our actions during the previous financial crisis, he refused to speak and I rose to inform the students about the 1975 renovation of the Foundation Building, the dissolution of the Physics major, layoff of tenured professors and formation of the teachers union, and the history of the student fees.

He gave a curious summary of Peter Cooper's philosophy of the school, claiming it comprised three parts: the promotion of technological innovation (invention), helping the poor and those discriminated against by lack of opportunity (gender, race), and the teaching of Political Science. He claimed the Deed did not guarantee the students a tuition-free education, and invited students and alumni to make appointments with him to discuss their issues and their ideas.

Bharucha announced the formation of the "Revenue Task Force," which will include students, alumni, teachers, but no Board members, and promised the students some form of forum with the Board of Trustees (or perhaps representatives from the Board). He stated he would not close any of the schools, and emotionally and loudly proclaimed, "I will not be the President to shut this down." He was continually asked to address the issue of collecting tuition on students, and continually referred to it as a "last resort."

An individual in the back of the room, who the President knew by name, was often disruptive to the format the ESC attempted to enforce, and at one point the President sharply rebuked him. I did not record a quotation, but I understand there is an audio tape of the meeting.

This concludes my attempt to objectively report to those not in attendance the content of the meeting. I regret that I did not have access to all details presented by Westcott in a PowerPoint, and that I am not a stenographer and this is not a transcript.

In 1980, Leo Argiris and I published a summary in *The Cooper Pioneer* of the Financial Report of The Cooper Union for the 1979-1980 year. On June 30, 1980, the fair market value of all assets of the school was $53 million, comprising $11.3 million in real estate and restricted endowment funds, $14 million in unrestricted endowment funds, and $20.4 million, the value of the three buildings then part of The Cooper Union and the equipment in them. The rest of the assets consisted of cash on hand and monies owed to the college. The college owed $6.5 million in loans.

The college had $6.8 million in expenses, 30% ($2 million) for instruction, 19% ($1.3 million) for institution and office budgets, 17% ($1.1 million) for academic support, 13% ($0.9 million) for buildings and grounds, 7% ($0.4 million) in debt services, and the remaining money for student aid, student services, and other miscellaneous expenses. The college had $8.5 million in revenues, 34% ($2.9 million) from the Chrysler Building rent, 39% ($3.3 million) from investment income, 16% ($1.4 million) from gifts, grants, and bequests, 4% ($0.3 million) from student fees, and the rest from government aid and other miscellaneous revenues.

In other words, in 1979-1980, The Cooper Union did not have a deficit of 25% but a surplus of 25%. A dollar in 2011 has the same buying power as $0.35 in 1980.

In the same issue of *The Pioneer*, I reported on a note in the Financial Report that stated that "the College has pledged and assigned ... the first $230,000 of fees or other charges payable to the College by full- or part-time students for academic instruction." The $230,000 came from a $200 student fee instituted in 1975 to go into a reserve fund as collateral on a 30-year bond issue to raise money for the renovation of the Foundation Building. In 1979, the $200 was raised to $300, resulting in $90,000 in unrestricted funds for the college. I pointed out in the article that the Joint Activities Committee (JAC) had a budget of only $11,000 and *The Pioneer* had a budget of only $7,000.

I told the students at the meeting that, since 1975, students had been paying tuition to The Cooper Union. The students told me that the student fee was now $800 per semester. No doubt, in 2005, the $6.9 million (plus interest) in that reserve fund was merely returned to the college as further unrestricted funds.

Why is Bharucha telling students that story about Peter Cooper's desire to teach Political Science? Because the Deed of the college contains this sentence:

"To regular courses of instruction at night, free to all who shall attend the same, under the general regulations of the trustees, on the application of science to the useful occupations of life, on social and political science, meaning thereby not merely the science of political economy, but the science and philosophy of a just and equitable form of government, based upon the great fundamental law that nations and men should do unto each other as they would be done by, and on such other branches of knowledge as in the opinion of the Board of Trustees will tend to improve and elevate the working classes of the city of New York."

This sentence is *separate* from four other sentences describing the establishment of a free reading room, instruction of females in the arts of design, the establishment of a polytechnic school, and providing rooms for officers of a society of Associates of The Cooper Union. It is no coincidence that *The New York Times* reports that, prior to 1902, The Cooper Union collected tuition "from students who had the means to pay." Bharucha is setting up a legal argument that the Deed only requires that the college provide a reading room and Political Science classes at night for free, and that the schools of art, architecture and engineering only provided a free education to all after Andrew Carnegie gave $300 million (in 1901 dollars!) to the school, and Peter Cooper's relatives "matched" the gift by giving to the college the land that the Chrysler Building was eventually built on.

(A little side history – construction on the Chrysler Building started a year before the stock market crash, and at the time the country believed the Great Depression would only last a year and kept on building. When the building was completed in the mid-30's, it was known as "the empty building" because there were no businesses renting space in it. That $300 million from Andrew Carnegie kept Cooper tuition-free throughout the Great Depression! Also, what a coincidence – a $300 million gift (in 2011 dollars) would, at Bharucha's 5%, generate $15 million a year for the college, closing its deficit!)

Bharucha told *The Times* that the value of Cooper's assets was $577 million in 2010. It does seem amazing that only $50 million, or less than 10%, is available as cash assets and unrestricted funds. In 1980, nearly 50% of Cooper's assets were available as cash assets and unrestricted funds.

According to Cooper's 2009 Form 990, Cooper's assets were $579 million, its revenues were $47 million, and its expenses were $65 million. But there was also a "net unrealized gain on investments" of $47 million. Unfortunately, this is a "paper gain" that can only be obtained by selling off Cooper assets.

I am guessing that, to avoid paying capital gains taxes, Cooper may have transferred most of its assets over to non-cash assets, but it is also true that dipping into one's endowment in order to pay operating expenses is not "sustainable," to use Bharucha's buzzword, although, for much of the century (and certainly during the Great Depression), Cooper may have actually done it.

The students were demonstrably clueless about the organization of a not-for-profit institution of higher education; in particular, they did not understand that the Board of Trustees is Bharucha's boss, and that attempting to force him to criticize or even acknowledge any misconduct by the Board would likely cause him his job. I am not convinced there has been any misconduct by the Board, aside from stating in their Form 990s that everyone at Cooper receives a full tuition scholarship while continuing to authorize the collection of student fees. I was also amazed that some students thought that the twenty members of the Board would be able to cough up $1 million each every year in order to close Cooper's perpetual budget deficit.

Given that some 21st century angel will not descend upon Cooper with a quarter of a billion dollar gift, it is obvious that some financial solution must be found. It bothers me that Bharucha is forming a "Revenue Task Force" when, in the last financial crisis, Cooper did make painful cuts to academic programs, and the possibility of painful cuts to expenses should be on the table.

Bharucha's statements that a bigger school can minimize problems caused by its fixed expenses does not appear to me to scale to a tuition-free school. Bringing in more students, hiring more teachers, and providing more classroom space while *not* collecting tuition from students seems to me to be, on the face of it, absurd mathematics.

I don't expect to formulate, in a few hours time, a proposal for a solution to maintaining the miracle that is The Cooper Union. I would hope there would be a solution that accumulates a combination of things – doubling or tripling annual giving, returning more of Cooper's assets to unrestricted and cash-on-hand assets, closely examining and reducing some expenses, perhaps even some political intervention at the federal level via earmarking. Bharucha may want to build up a legal argument that Cooper's schools are not required to be tuition-free, but that does not make continual lying to the government on our Form 990s legal.

The students have a hard time believing that a financial crisis could be this severe and come so quickly, but those of us out in the workforce have seen it. There is not only 9% unemployment, but 31% unemployment amongst recent engineering college graduates; those who have not attended Cooper also have huge student loans to pay back.

In the West Village, preservation activists protested a proposal by St Vincent's Hospital to make a deal with Rudin real estate, tear down the O'Toole building, and erect a new hospital. The hospital claimed hardship before the Landmark's Preservation Committee. Shortly thereafter, St Vincent's went bankrupt and the entire West Side of Manhattan has been without an emergency room and a full-service hospital. We recently saw a similar situation play out as Internet petitions and celebrities tried to convince Cooper to finance further the St Marks Bookshop. The Board of Trustees is, in every way that can be defined, ultimately responsible for the financial health of the institution. The Great Recession we are in is real, as real as the financial crisis of the 1970's, when many colleges did close. The threat is real and I am not so naive as to believe that a solution must be findable. I have yet to read a solution that will work.

Corrections to this document are appreciated and, if based on substantiated facts from legitimate sources, will be implemented by the author. The author freely admits that this document is not meant to be a full representation of the emotions, opinions, and viewpoints of all attendees at the meeting. I believe students should express for themselves what they think, and that alumni, such as myself, should not presume to articulate their thoughts. Perhaps Peter Cooper was right that some knowledge of Political Science would be highly useful to their further participation in this issue.

The author is over-worked and over-tired, and reserves the right to substantially change portions of this text at his discretion. This version was completed on November 2, 2011, and may be considered a first draft.