

SEP 26 2018

Minutes of Board of Trustees Meeting

June 13, 2018 | 8:30 AM

DANIELLE COOPER
SECRETARY TO THE BOARD OF TRUSTEES

PARTICIPANTS

- Trustees: Rachel Warren (Chair), Stephen Gerard (co-Chair), Eric Hirschhorn (co-Chair), Kevin Burke, Anne Chao, Joseph Dobronyi (phone), Thomas Driscoll, Mary Dwyer, Wanda Felton, Peter Katz, Malcolm King, Lynn Lander, Scott Lerman, Paul Nikulin, Brian Steinwurtzel, Robert Tan, Jeremy Wertheimer (phone)
- Officers: President Laura Sparks, Treasurer John Ruth, Secretary Danielle Cooper Daughtry
- Representatives: Toby Cumberbatch (phone), Atina Grossmann (Skype), Yuri Masnyj, Walid Raad (phone), Amy Westpfhal
- Financial Monitor: Richard Faughnan, Ron Salluzzo
- Guest: Julian Mayfield
- Absent: Kevin Slavin

The meeting was called to order at approximately 8:36 a.m. and began with an Executive Session. Ms. Sparks participated in the Session. Following the Executive Session, the remaining Officers and the Representatives joined the meeting at approximately 9:57 a.m.

Ms. Warren reported that during the Executive Session the Board of Trustees elected Taesha Aurora (AR '21) as Student Trustee. Ms. Warren thanked outgoing Student Trustee Julian Mayfield, who was attending as a guest, for his service to the Board. Several Trustees commended the important role that Julian played on the Board over the past two years, noting his thoughtful approach and important insights that often prompted examination of critical issues during complex discussions. The Board wished Julian well in his next endeavors.

The December 13, 2017, February 20, 2018, and March 14, 2018 meeting minutes, were provided to the Board in advance and presented for approval. Upon motion made and seconded, the minutes for each of the meetings were approved.

Chair Report:

Ms. Warren thanked Trustees for their participation in the Board Retreat, held on June 12, 2018, noting that the Board engaged in a robust discussion about the institutional goals and strategic priorities based, in large part, on recommendations from management and rooted in extensive feedback from students,

faculty, staff, and alumni. She noted that, as a result of various opportunities for community engagement held in connection with the FEC's proposed plan to return to full-tuition scholarships (alumni events; student, faculty and committee meetings; and community feedback sessions), the Board gleaned important insights which informed its discussions on Cooper Union's future direction. The Board agreed that an important next step will be to share the goals and strategic priorities that emerged from the Retreat with various stakeholders in order to seek their additional input. This feedback will then be used to inform the Board's decisions as it finalizes institutional goals and strategic priorities.

Ms. Warren noted that the turnout the prior evening for the Trustee/Alumni reception held at Hudson Yards and featuring a presentation by Trustee Kevin Slavin (A '95) on The Shed was oversubscribed within 36 hours. She thanked Trustees for their attendance at Cooper events and noted that their participation and engagement with Cooper students, faculty, staff, and alumni will promote better relations with and an understanding of the diverse community interests. In an effort to build on the last 18 months of positive engagement, the Board plans to host receptions with alumni and other stakeholder groups the evening before each quarterly Board meeting.

Finance Committee:

Review of FY18 Budget

The Co-Chairs of the Finance and Business Affairs Committee reviewed the budget variance report and noted the unbudgeted reduction in the tax equivalency payments (TEPs) received by Cooper Union from various real estate property owners/leaseholders. The Committee also noted that a reduction in TEPs was one of the risks specifically referenced in the Plan to Return to Full-Tuition Scholarships (Plan) that is largely out of Cooper Union's control since it is based on NYS real estate tax rates.

Despite this unexpected decline in revenue, the forecast for the bottom line Cash Surplus is \$2.4 million favorable to budget, as summarized below:

Budget Variance Forecast As of March 31, 2018 (\$ in thousands)

Leases and tax equivalency payments	(\$779)
Net undergraduate tuition	657
Other revenue	174
Operating expense savings	200
Capital expenditures	500
Endowment spending	1,710
Total	\$2,462

** Important Note: The "Endowment spending" included as part of Unrestricted revenue was budgeted conservatively at only 62% of what was approved by the Finance & Business Affairs Committee. Actual amounts as approved by the Committee, which are forecast for FY2018, are higher than this conservative budget and comparable to prior years payout level amounts, resulting in a positive reported variance of \$1.7 million vs. the conservative budgeted amount (noted above). Using the originally budgeted amount (at 62% of the approved spending rate), the total favorable variance to budget would only have been \$725K. In addition, savings on capital expenditures should not necessarily be seen as positive, since it potentially results in increased deferred maintenance.*

The Co-Chairs noted that, as the documents distributed prior to the meeting show, while there may be variances in individual line items, Management is adhering to the overall projected Plan results. The

Committee explained that, while having the cash surplus is a positive sign, we must be mindful that all surpluses are already committed to building the endowment and reserves.

Approval of FY19 Budget

The Committee then turned to a discussion of the proposed FY19 budget, which was provided in advance for the Board's review. The Committee highlighted the following:

- The goal of the proposed budget is to plan and manage operations to meet the long-term financial Plan as we begin our path forward to 100% full-tuition scholarships.
- The revenue budget increases \$15.5 million (22%) from \$70.3 million forecast for FY 2018 to \$85.8 million budgeted for FY 2019.
- The expense budget increases by \$955K (1.8%) from \$53.9 million forecast for FY 2018 to \$54.9 million budgeted for FY 2019.
- Debt service, per the terms of existing (not new) loan agreements, increases by \$3.2 million (24.7%) from \$13.0 million forecast for FY 2018 to \$16.2 million budgeted for FY 2019.
- Capital expenditures are budgeted to increase by \$750K (75%) from \$1.0 million forecast for FY 2018 to \$1.75 million budgeted for FY 2019.
- The FY 2019 overall projected cash surplus (after debt service and capital) of \$13.0 million is slightly below (\$280K) the Plan cash surplus of \$13.3 million solely due to a revision to the planned reduction in the Endowment Spending Payout from 4.25% to 4.0%, which was approved by the Finance & Business Affairs Committee at its May 2018 meeting. (The Committee again noted that all "cash surpluses" are immediately allocated to the financial priorities set forth in the Plan and thus should not be thought of as "surpluses" in the traditional sense.)
- Budget risks include:
 - Chrysler building base rent revenue
 - Tax Equivalency Payments
 - New tax on endowment earnings
 - Economic downturn
 - Unexpected operating expenses, particularly health benefit claims

The Board discussed the summer program and how tuition is structured. Ms. Sparks noted that management is preparing an analysis of summer tuition that the Finance Committee will review for next summer's program. There was also discussion regarding the status of a Master's in Typographic Design program, the design and implementation of which is still being developed. A Representative asked in what school the typography program would live, and Ms. Sparks noted that the School of Art has been spearheading the design of the program, grounded in the work of the currently existing typography programs in continuing education, and that final decisions about governance and oversight will come with final design of the program, faculty and administration review, and Board approval.

In further discussion, the Committee noted that some of the changes to the FY19 Budget from the

projections in the Plan are due to:

- the planning of a fundraiser gala;
- the restructuring of facilities and security; and
- an estimate of the cost of the typography program.

There were no further questions and upon motion made and seconded, the Board approved a resolution to adopt Cooper Union's Unrestricted Operating Budget for FY2019 with the caveat that it will be subject to modification once final net tuition totals are available in October. The FY19 Budget summary attached to the resolution is below:

Fiscal Year 2019 Operating Budget for The Cooper Union for the Advancement of Science and Art

	<u>Unrestricted Budget</u>	<u>Full Budget</u>
<i>Revenue</i>		
Real Estate	\$59,308	\$59,308
Undergraduate and Graduate Tuition and Fees, net of scholarships	13,373	13,373
Contributions	5,367	10,227
Student Housing and Other Rental Income	2,812	3,904
Endowment payout	4,450	4,450
Other Revenue	552	1,197
Total Revenue	\$85,862	\$92,459
<i>Expenditures</i>		
Education, General and Auxiliaries	\$54,902	\$56,702
Debt Service and Capital	17,946	17,946
Depreciation, Amortization and Other Non-Cash		9,620
Total Expenditures	\$72,848	\$84,268
Net Surplus	\$ 13,014	\$ 8,191

President's Report:

Ms. Sparks provided a recap of the past year, and began by acknowledging the significant efforts of faculty and staff to work in new ways that have yielded important results. She also thanked the Board for their hard work and their generosity of time, connections, and resources.

Ms. Sparks noted that the memo provided in advance covers the details of her report. Some highlights include:

- Organizational restructuring, hiring of two Deans, appointment of an Acting Dean
- Exceeded our financial goals, including fundraising;

- Successful Middle States reaccreditation process;
- Revised and approved new Vision and Mission statements;
- Board Vote to Return to Full-Tuition Scholarships;
- Development of a long-term financial plan.

One area for concern was the headcount reduction and its impact on staff workload and morale. In an effort to show its appreciation for the hard work, the Board discussed how best to communicate this to the community. Upon motion made and seconded, the Board approved issuing a formal message of thanks to the faculty and staff for their hard work and stellar accomplishments when the school year begins.

A Representative expressed concern regarding the change in facilities and cleaning staff, particularly given the long tenure of some of the personnel. It was noted that we had two outside vendors that provided cleaning services and that management issued a request for proposals to consolidate to one vendor and reduce costs. The new vendor was asked to give preference and priority in its hiring process to employees of the current vendor.

COMMITTEE REPORTS

Academic and Student Affairs:

The Committee articulated its role of overseeing alignment of the curriculum and resources for academic and student affairs to Cooper Union's mission and decided to revise the Committee Charter to more effectively and succinctly articulate its role. The Committee will review revisions at its next meeting.

To support the Committee's oversight role with respect to the academic programs, the Committee will utilize visiting committees composed of experts in relevant fields to provide an outside perspective on the academic programs.

The Committee reviewed admissions data, in particular the continual decline of engineering applications and the possible causes, including a lack of computer science and bioengineering programs, the requirement of SAT subject test scores while other schools have eliminated the requirement, the requirement to choose a major at the application stage, and the cost-benefit trade-offs for students. Ms. Sparks noted that she will be working closely with the incoming Dean of the School of Engineering to explore these issues and ways to address them.

There was a discussion regarding increasing the involvement of the engineering faculty in engineering admissions and of engaging HSS faculty in the admissions process for all three schools. The administration agrees that these would both be worthwhile changes and is exploring ways to implement these changes.

Alumni Affairs and Development:

The Committee Chairs began by thanking the Development team for their work. They noted that we exceeded our original goal of \$5.5 million for current use funding. Endowments and other funding are also on track, and we are now closing in on our stretch goal of \$11.3 million in total funding. The

Committee highlighted the importance of the Irma Weiss challenge campaign and connections to new funders that Trustees were able to facilitate. All Trustees were encouraged to schedule their one-on-one meetings with Development to facilitate each Trustee's fundraising plan.

The Committee noted that while FY18 was very good year, the goal for FY19 is even more aggressive and will require us to build on the FY18 successes. The Committee noted that the alumni participation rate was higher than last year, and that it will be critical to continue deepening our engagement with alumni and growing participation. The Development report will be updated to show a direct comparison to the fundraising targets of the Board-approved Plan to Return to Full-Tuition Scholarships.

Ms. Warren and Ms. Sparks thanked the Board for their enthusiasm and participation in fundraising and understanding the importance of embracing the \$25,000 "give or get" expectations of all Trustees. Trustees have been hosting events, sending letters, and making calls, and it has made an important difference.

Audit:

The Committee reported that it reviewed and filed the Form 990 and completed the Committee's annual review of its Charter. The Committee also noted its developing focus on Enterprise Risk Management and its plan to bring this topic forward for Board discussion at a future meeting. At its most recent meeting, the Committee also reviewed the IT audit and discussed the extent to which the General Data Protection Regulation (GDPR), a European Union regulation on data protection and privacy, may apply to institutions of higher education.

Free Education:

The Committee thanked Mr. Mayfield for his commitment and invaluable contribution over his two year term. As the Committee shifts its role from Plan development to the next phase of its work, the Committee has now developed a proposed Committee Charter, which will be forwarded to the Governance Committee for its review and recommendation to the full Board. The Committee also approved a reporting template to monitor progress on the Plan. The Committee discussed next steps in moving a Board conversation forward about whether to sell the Fish House to fund a scholarship endowment and agreed that management should obtain updated market comparables.

The Board reaffirmed that the FEC should continue to exist as a committee through the duration of the Plan, monitoring implementation of the plan and identifying and vetting new proposed initiatives.

Governance:

The Governance Committee reported that it continues to evaluate potential candidates for the Board, with a focus on identifying people with expertise in higher education; finance, accounting, and investments; the law; and philanthropy. The Committee also continues to focus on increasing diversity and the giving capacity of the Board. Research and recruitment will continue over the summer and fall, and Trustees were encouraged to submit names of any potential candidates.

Investment:

A report from Cambridge was provided prior to the meeting. The performance review provided by Cambridge noted the following:

- The portfolio balance as of March 2018 was approximately \$157 million.
- The portfolio posted strong absolute returns thus far in 2018, returning +9.2%.
- Performance summary was as follows through March 31, 2018:

	CYTD	Trailing 1-Year	Annualized Trailing 3-Years	Annualized Trailing 5-Years	Annualized Trailing 10-Years
Total Assets	-0.1	9.2	4.6	5.7	4.6
Total Assets ex Cash	-0.1	10.6	5.7	6.6	5.8
Dynamic Benchmark	-0.3	10.3	4.8	5.3	2.8
Total Assets Benchmark	-0.3	9.7	4.6	5.5	3.6

Cambridge reports that Cooper Union has been able to achieve favorable returns with a relatively lower risk profile as compared to other colleges and universities. However, our large cash position, necessary over the last few years to ensure sufficient liquidity, has been a drag on performance. As liquidity increases with greater net cash inflows, the Committee expects to begin reducing Cooper Union’s overweight cash position to generate higher returns while maintaining a similar risk and liquidity profile. Recent market conditions have allowed us to generate strong returns at a relatively lower risk than might ordinarily be required. We should not count on this to continue, and the Investment Committee will plan accordingly. Cambridge is preparing recommendations for how the cash position can be reallocated to generate higher returns without imprudently increasing Cooper Union’s risk profile. The Investment Committee will review these recommendations and develop a strategy for reallocating some of Cooper Union’s cash position to other asset classes over time.

Input from Representatives:

Ms. Warren noted that Representatives have provided input throughout the meeting and asked whether they would like to offer any final comments. A Representative asked management to explore whether employees of the new cleaning company are being paid at the same rate as the prior cleaning company; emphasized an interest among engineering faculty to play a more significant role in the admissions process; and informed the Board that there is a desire among faculty for a computer science program, noting that the challenges in approving and implementing a program in prior years were rooted in how it was developed rather than in opposition to having program.

Representatives also encouraged Trustees to schedule time to visit classes and thanked the Trustees who already have. It was noted that their participation not only encourages the students and helps build a stronger sense of community, but the Trustees will benefit from seeing firsthand how impressive Cooper Union students are and directly experience the life of the school.

New Business:

Ms. Warren emphasized the importance of confidentiality following Board meetings. She reminded Trustees and Representatives that minutes are posted to ensure transparency and that faculty and staff Representatives are present for all Board discussions in regular session. She reminded the group that, in order to build trust and have honest debate and discussion, Trustees must have confidence in the process,

which includes adherence to the Board Code of Conduct and the confidentiality provisions within it.

A suggestion was made that any comments/requests for changes to the draft minutes be forwarded to the Secretary in advance of the meeting so that they can be addressed prior to the meeting in order to avoid delays in approving and, thereafter, publishing them to the website.

The Regular meeting adjourned at approximately 1:03 p.m. and the Trustees thereafter moved to Executive Session.