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A STATEMENT FROM THE BOARD OF TRUSTEES CONCERNING COOPER UNION'S PRESENT CIRCUMSTANCES AND FUTURE PROSPECTS

INTRODUCTION

For decades, members of the Board of Trustees have strived to keep The Cooper Union solvent while preserving both the excellence of its educational offerings and the full-tuition scholarship policy. This has required extraordinary efforts. Indeed, providing a high quality education without having the benefit of tuition income has necessitated the sale of institutional assets over many years.

In difficult financial times such as these, all higher education institutions are facing financial stresses. The possibility of charging tuition is only one of several alternatives the Revenue Task Force comprised of alumni, faculty, and students will be examining over the coming months; it is by no means predetermined that future students will be paying tuition for what our current students have received without charge. But one thing is certain: both the Trustees and the President remain committed to the goal of ensuring access to education for students with demonstrated financial need.

BACKGROUND

The Trustees recognize that the passion that has inspired the Cooper Union community to raise its concerns is an expression of their abiding love for this extraordinary college, which we share. To each of them – students, alumni, faculty, donors, and neighbors -- the Trustees have prepared this statement to provide responses to the question of how we arrived at this point.

First, this is by no means the first time that the Trustees have had to consider tuition. It is a matter of record that, since the 1970's, confronted with Cooper Union's ongoing financial difficulties, the Trustees have acted to avoid charging tuition. These actions included what were viewed then as extreme measures, such as selling off assets (Green Camp in the 70's, properties around Cooper Square including the Bowery Bar property in 2004), and cost cutting (for instance, eliminating the position of provost, and shortening hours the studios were open). Neither course of action provided a permanent solution to the chronic problem.

Our financial predicament has been previously publicly disclosed. For example, in 2006, Cooper Union successfully petitioned the New York Supreme Court (in what is known as a petition for *cy pres* relief) to eliminate certain limitations on our ability to monetize our most valuable asset, the Chrysler Building. In this publicly filed document, which was reviewed by the Charities Bureau of the New York State Attorney General, Cooper Union acknowledged that it "currently faces a grave fiscal crisis." It stated that the Cooper Union "has experienced significant financial challenges and operating deficits, which have recently become acute" and that "despite its many academic strengths, the Cooper Union currently faces the possibility that it will be unable to carry out its statutory mission in the not-too-distant-future". The petition further noted that two major accrediting bodies had expressed dissatisfaction with the current state of the college's finances and facilities.

The *cy pres* petition outlined a Master Plan, ratified by the Board of Trustees after careful deliberation, designed to address current financial challenges and secure the financial and academic future of The Cooper Union. The plan was composed of several interconnected initiatives:

- A commitment by the administration to reduce operating expenses by 10% by 2011;
- A $250 million capital campaign, which at that time had already raised $129 million;
- Expansion of the effort to increase annual giving by alumni and others;
- Construction of the new academic building;
- The adoption of investment strategies to invest liquid assets to maximize returns while preserving principal; and
- The development of real estate assets and revenue growth from existing real estate assets (including, among other things, finalizing a new ground lease for the Chrysler Building and using the college's interest in the property as security for a $175 million financing).

CAUSES OF OUR PREDICAMENT

To fully comprehend what brought Cooper Union to our current financial predicament, The Board of Trustees has completed a review of the college's audited financial statements for the past 12 years. The consolidated financial statements of The Cooper Union for each of the years in the 12 year period ended

June 30, 2011 have been audited by KPMG LLP, independent auditors. The Board further engaged KPMG LLP to validate the mathematical accuracy of the summary. The summary may be found at http://cooper.edu/about/trustees. In addition, a webinar on the summary will be conducted by Trustee Ronald Weiner, a certified public accountant who joined the Board in 2010 (and thus had not been part of any of our prior financial decision-making or planning) on **January 10, 2012 at 3:00 PM**. To sign up for the webinar, please click on the following link: https://www3.gotomeeting.com/register/422350542

The summary identified three key components of the Master Plan that were not achieved as anticipated:

Returns on our investment portfolio suffered a severe setback in the fiscal year 2009 market crash. This severely adversely affected Cooper Union's finances as well as those of many other colleges and universities.

Our investment portfolio had an average annual return of $11 million for the three years preceding 2009. But the severe market setback of 2008 affected Cooper Union harshly as well. Projections made in 2008 conservatively anticipated a 2009 return of $6 million but instead our portfolio suffered a loss in that year of $22 million. Even with that loss, our portfolio performed in the top 2% of endowments during fiscal years 2007-2011. Most other college and university endowments lost a larger percentage than we did.

Despite the market rebound of the next two years following 2009, the progress made between 2006 and 2008 was wiped out in that one horrible year. Other schools responded to their shortfalls by instituting sharp tuition increases – we did not.

Since Cooper Union is dependent on its investment return to close the annual gap between costs and revenue, a $28 million shortfall (the difference between our projected $6 million gain in 2009 and our actual $22 million loss) is devastating. Our institution, which provides a full-tuition scholarship and has not developed a consistent pattern of alumni giving, has little else to fall back upon.

Alumni giving and other donations fell far short of projections, and the capital campaign failed to achieve its goal. In 2006, the administration projected a total of $87 million dollars in donations coming in over the ensuing five years. Although giving started strongly, in large part because of the capital campaign to build 41 Cooper Square, the same economic crisis that crippled our investment portfolio severely impaired giving. Ultimately, the capital campaign only raised approximately $197 million of its $250 million goal, of which approximately $40 million was in the form bequests which do not provide immediately available funding for the college.

In 2009, contributions to annual giving came in $2 million under forecast; in 2010, $7 million under and in 2011, close to $12 million dollars less. Over the five-year period, giving was $10 million short of what was projected in the fall of 2006. Unfortunately, only approximately 20 percent of Cooper Union alumni donate to the annual fund, compared to, for instance, Princeton, Williams and Amherst, all of which charge significant tuition and have over 60% of alumni giving annually. Our historic failure to develop a robust habit of giving among our alumni is both a puzzle and a problem - a puzzle because we all know how much Cooper Union alumni value their education, and a problem because the giving habit has never been fully developed.

All parties share responsibility for this - not just the alumni, but also the administration and the Board of Trustees, who had not ensured that sufficient investment was made in development staff and other resources or explained the college's financial circumstances to the alumni with sufficient clarity. The Trustees' decision to hire a highly accomplished vice president for development last year was a first step toward improving our annual giving, both from alumni and from other friends of the school, but it takes time for that effort to show results.

Projected reductions in operating expenses were not achieved. Many factors contributed to this, chief among them the stunningly fast rise in costs throughout higher education (estimated at 4% faster than inflation).There was also a consistent reluctance to cut into the core of Cooper Union's educational mission. Could the administration and the Trustees have been more aggressive in their cost-cutting? Perhaps - but at a school that operates as leanly as Cooper Union does, anything but the most careful cost-cutting could cause severe, and perhaps irreparable, injury to the institution. In addition, essential and unanticipated repairs to the Foundation Building resulted in more than $11 million in additional costs. President Bharucha is creating a task force to investigate possible cost saving measures. Measures that, we hope, will be arrived at by consensus throughout the college community.

It is also important to state that 41 Cooper Square was not the cause of the current financial dilemma. Its construction relieved Cooper Union of the costs that would have had to be incurred to renovate the old engineering building and the Hewitt Building to make them acceptable sites for a 21st century education and meet accreditation standards.

If one weighs each other relevant factor - the revenue obtained from the sale of the 51 Astor Place ground lease, the future stream of new tax equivalency payments from 51 Astor Place, moneys donated for naming opportunities around the campus as part of the capital campaign, government grants, and operating efficiencies made possible by the new building, Cooper Union is far better for it. It would have cost far more in the long run not to have built the building.

CONCLUSION

All of the above is history. Now the Cooper Union community must confront the future. Simply put, the overriding issue is not tuition, although we are by no means seeking to downplay the ramifications of that alternative; it is the college's financial condition, and what can be done to improve it and guarantee its future. As we seek to address this, the Trustees and the new administration are being as transparent as possible and evaluating all options. This enhanced transparency has been spearheaded by the foresight, commitment, and courage of our new president. We firmly believe that, with President Bharucha's leadership, the support of the trustees, the efforts of the students, faculty and administrative staff, and the good will and generosity of alumni and friends of the college, Cooper Union will be able to thrive in the decades ahead.

We also remain hopeful that the autumn of 2011 will in time be remembered as the time when the Cooper Union community came together to ensure the college's future.