

THE COOPER UNION FOR THE ADVANCEMENT OF SCIENCE AND ART

APPROVED

Minutes of Board of Trustees Meeting

June 12, 2019 | 8:30 AM

SEP 25 2019

PARTICIPANTS

DANIELLE COOPER DAUGHTRY
SECRETARY TO THE BOARD OF TRUSTEES

Trustees: Rachel Warren (Chair), Stephen Gerard (Co-Chair), Eric Hirschhorn (Co-Chair), Taesha Aurora, Kevin Burke, Anne Chao, Joseph Dobronyi (WebEx), Thomas Driscoll, Wanda Felton, Pam Flaherty, Aftab Hussain, Peter Katz, Mahmoud Khair-Eldin, Malcolm King, Lynn Lander, Scott Lerman (WebEx), Dwight McBride, Paul Nikulin, Cristina Ross, Brian Steinwurtzel, Jeremy Wertheimer

Officers: President Laura Sparks, Treasurer John Ruth, Secretary Danielle Cooper Daughtry

Representatives: Melody Baglione and Yuri Masnyj

Staff: Charlotte Wessell

Financial Monitor: Richard Faughnan and Ron Salluzzo

Guests: Mary Dwyer (attended a portion of the meeting), Margaret Matz

Absent: Kevin Slavin

The meeting was called to order in Executive Session at approximately 8:33 a.m. The regular session began at approximately 11:07 a.m.

Ms. Warren reported that during the Executive Session:

- Pamela Flaherty, Aftab Hussain, Mahmoud Khair-Eldin and Margaret Matz (whose term as the new CUAA President and Trustee will begin June 30) were all elected as Trustees to the Board.
- The faculty tenure recommendations as recommended by the Academic and Student Affairs Committee were approved by the full Board.

Ms. Warren noted that Mary Dwyer termed off the Board as of the beginning of this meeting and Paul Nikulin terms off on June 30th. Both were in attendance, Ms. Dwyer as a guest, and the Board thanked them for their dedication and service to the mission of The Cooper Union.

Chair Report:

Ms. Warren thanked Trustees for their participation at the annual Board Retreat held the day before. During the Retreat, the Board engaged in a facilitated discussion regarding best practices in governance and decision-making as part of its annual governance training as required under the Consent Decree.

She also thanked Trustees who participated in Commencement and Reunion activities and attended the End of Year shows featuring works by Cooper students. Ms. Warren was encouraged by the positive

feedback she received from alumni, visitors, and guests, many of whom expressed confidence in the school's progress under President Sparks' leadership.

President's Report:

Ms. Sparks referenced the memorandum that was included in the materials sent to Trustees in advance of the meeting and noted that it provided a detailed recap of the academic and fiscal years. She offered some highlights and updates:

- As of March 31, 2019, we were forecast to end FY 2019 approximately \$2.5 million ahead of budget, tracking ahead of the Plan to Return to Full-Tuition Scholarships (the "Plan") for the second year in a row.
- The first new significant changes to the academic program in ten years were launched with a new humanities and social science minor and a new computer science minor. Twenty-five graduates in the class of 2019 were awarded a minor in computer science, a first for Cooper students.
- After completing extensive national searches, several key positions are scheduled to be filled, including at least seven full-time faculty positions (two in Architecture, four in Art, and one in Humanities and Social Sciences), Vice President of Enrollment and Vice President of Alumni Affairs & Development.
- We are projected to have the highest level of contributed revenue since 2008, which includes a \$5 million gift from an anonymous new donor, the largest individual donation since 2005, which will be used to support an additional \$5 million challenge.
- Areas of critical importance and effort continue to be mental health, diversity and inclusion, the Humanities and Social Sciences, and other multi-disciplinary learning opportunities.

The Board congratulated faculty and staff for such a productive year and acknowledged the volume and importance of the work that is being undertaken. The Board also acknowledged the impact that such a significant workload can have and queried whether there are ways to further focus initiatives and distribute the workload. The Board also inquired about the priorities which have been established for the Vice President of Enrollment. Ms. Sparks remarked that the highest priority is a recruitment strategy that attracts students with a strong track record and potential. At the same time, he will need to address significant operational challenges in the areas of data collection and analysis, develop a student-centered culture, and ensure comprehensive policies and procedures. She noted that the new Vice President, Mark Campbell, comes to Cooper with considerable experience in these areas.

Trustee Peter Katz announced that on September 20, there will be a panel discussion on the Electoral College, and all Trustees were encouraged to attend, as this is an extension of the hard work being done to have the Great Hall play a larger role in the civic life of New York City.

Upon motion duly made and seconded, the Minutes of the March 6, 2019 Board of Trustees meeting were approved, as presented.

Finance and Business Affairs Committee Approvals and Update:

John Ruth gave an overview of the latest FY 2019 Budget Variance Report (BVR) (as of March 31, 2019) which was included in the materials. The current forecast reflects a \$2.5 million positive variance to budget. Highlights are as follows:

FY 2019 Budget Variance Forecast As of March 31, 2019 (\$ in thousands)

Leases and tax equivalency payments	634
Net undergraduate tuition	843
Contributions	800
Other Revenue	(328)
Operating expense savings	533
Capital expenditures	0
Endowment spending	0
Total	\$2,482

The Finance and Business Affairs Committee presented the proposed FY 2020 budget, which was provided in advance for the Board's review, to the Board for approval. Management and 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 continue our path forward to 100% full-tuition scholarships.
- The revenue budget increases \$900K (1%) from \$87.8 million forecast for FY 2019 to \$88.7 million budgeted for FY 2020.
- The expense budget increases by \$1.4 million (2.5%) from \$54.4 million forecast for FY 2019 to \$55.7 million budgeted for FY 2020. The FY 2019 expense results were favorable to budget, due in large part to open positions not being filled; the expense budget for FY 2020 as compared to the budget for FY 2019 increased \$850K or 1.5%.
- Debt service, per the terms of existing (not new) loan agreements, increases by \$2.3 million (14.1%) from \$16.2 million forecast for FY 2019 to \$18.5 million budgeted for FY 2020, as there is a full year of principal payments on the MetLife loan in FY 2020 vs. seven payments in FY 2019.
- Per Plan, capital expenditures are budgeted to increase by \$250K (14%) from \$1.75 million forecast for FY 2019 to \$2.0 million budgeted for FY 2020.
- The FY 2020 overall projected surplus (after debt service and capital) of \$12.5 million is \$600K or 5% in excess of the Plan surplus of \$11.9 million.
- 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

Ms. Sparks highlighted that the budgeted net operating surplus exceeds the FY 2020 target in the Plan, with budgeted revenue and expense both higher than Plan. She explained that, prior to recommending the FY 2020 budget, the Finance and Business Affairs Committee engaged in a lengthy discussion

regarding the expense budget. (Consistent with the prior year, budgeted revenues are \$1.97 million higher than Plan and, as such, more than offset the negative \$ 1.38 million expense variance on a net results basis.). The institution has both raised and saved more than Plan, providing the financial support for the recommended investments while adhering to the net results committed to in the Plan.

Key areas of investment are:

- Diversity
- Mental Health
- Key positions critical to advancing Board-approved goals and priorities
- Market-level salaries to attract and retain talent

The Board discussed the paramount importance of adhering to the Plan's net financial results, the potential impact of exceeding Plan expenses even when adhering to net results, and the strategic priorities of the institution, including full-tuition scholarships, a high-quality academic program, and a positive student experience. Significantly, the overage in budgeted expenses was related to new investments and not the \$9.1 million in expense cuts previously approved by the Board, the majority of which have already been implemented. The goal is to keep expenses as tight to the Plan as possible while also maintaining the ability to make new investments in the areas noted above, which Management and the Board previously identified as essential in fulfilling institutional goals and strategic priorities.

While eliminating the proposed new investments would keep expenses more tightly aligned to Plan and potentially increase operating surpluses, Management does not believe that the trade-off is worth the risk of not investing in key areas that advance the quality of the school and mitigate risk to the academic program and student experience. Further, an increased surplus at this level would not accelerate the Plan in any meaningful way, and withholding the investment creates a threat to quality in the academic program (a critical element of the Consent Decree). Accordingly, Management strongly recommended approval of the Budget as presented.

The Board engaged in a lengthy discussion on whether the Budget should be evaluated on the basis of net results or variances within component items; the differences among increases in expenses which are offset by an increase in revenues, ongoing structural expenses, and one-time investments; and the purpose of the guardrails as measures of Plan progress, rather than a budgeting tool. The Board and Management acknowledged the difficulty in reducing or eliminating an increase in structural expenses once implemented and the need to balance this challenge with the need for additional programmatic investment beyond what was originally contemplated in the Plan. It was suggested that Management propose a process and policy for approving variances to major Plan components (e.g., revenues, expenses, and key line items therein), even when holding flat or positive to net operating results.

The Financial Monitor confirmed that the Finance Committee and Board had appropriately considered the relevant issues and noted that the Consent Decree requires the institution to maintain financial stability, academic quality, and student enrollment. The Financial Monitor observed that investments in curriculum, diversity, mental health, and other areas that are key for higher education in the current context often require substantial investment and go to the heart of academic quality. The Financial Monitor emphasized the need for flexibility in balancing these multiple goals, in addition to the clear goal of long-term financial sustainability, particularly as time progresses and Management and the Board become aware of new challenges. As required by the Consent Decree, the Financial Monitor

expressed its opinion that the FY 2020 Budget was appropriately considered and recommended that it be approved.

The Board noted that every year the budget is approved pending final enrollment and corresponding tuition revenue numbers, which are solidified once Fall registration is complete.

There were no further questions and upon motion duly made and seconded, the Board approved a resolution to adopt Cooper Union's Budget for Fiscal Year 2020 as presented, pending final enrollment and tuition numbers, and with the request that Management propose a process and policy for approving variances to major Plan components (e.g., revenues, expenses, and key line items therein) and provide a breakdown of the incremental costs that shows whether they are one-time or ongoing. The FY20 Budget summary attached to the resolution is below:

Fiscal Year 2020 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	\$60,768	\$60,768
Undergraduate and Graduate Tuition and Fees, net of scholarships	13,637	13,637
Contributions	6,386	11,276
Student Housing and Other Rental Income	2,813	3,905
Endowment payout	4,630	4,630
Other Revenue	465	2,792
Total Revenue	\$88,699	\$97,008
<i>Expenditures</i>		
Education, General and Auxiliaries	\$55,750	\$58,979
Debt Service and Capital	20,487	20,487
Depreciation, Amortization and Other Non-Cash		9,620
Total Expenditures	\$76,237	\$89,086
Net (Allocated to Plan Priorities)	\$12,462	\$ 7,922

COMMITTEE REPORTS:

Academic and Student Affairs:

The Chair of the Committee reported that an engineering transition team composed of external experts provided a useful assessment and set of recommendations to inform a strategic path forward for the

School of Engineering and highlighted areas of potential focus. The enactment of a computer science minor was universally considered a positive new development, and the Committee was pleased that this year's graduates who had previously fulfilled the requirements of the new minor were awarded the minor. Management is continuing to work on a plan to engage visiting committees, and Trustees agree this will be a beneficial process. In response to an inquiry from a Representative, the Committee Chair confirmed that student health comes under the purview of this Committee and has been discussed at length. Ms. Sparks noted that Student Affairs prepared and presented to this Committee a report on the state of student mental health at Cooper and how it compares to national trends. Cooper Union also joined the JED Campus Program, a four-year engagement that provides a comprehensive analysis of our student mental health resources and programs and a roadmap to providing adequate support to our students. Based on this analysis, JED will make recommendations for a strategic plan related to mental health supports at Cooper. The Mental Health First Aid Training was offered over spring break and additional training will be offered in the future.

Alumni Affairs and Development:

The Co-Chairs of the Committee announced that Terri Coppersmith will be joining Cooper Union as the Vice President of Alumni Affairs and Development. They described some highlights from the Development report included in the materials:

- Cooper Union received a \$5 million pledge from an anonymous donor and will use the gift as the basis for a new fundraising challenge given the success of the Irma Weiss challenge.
- Cooper benefited this year from multiple bequests, including a \$4 million bequest.
- These and several other generous donations are helping Cooper Union exceed fundraising goals.
- Affinity groups and regional gatherings have been great resources and have helped deepen alumni engagement and grow Cooper's base of support.
- One goal for next year will be to continue rebuilding alumni engagement.

Audit:

The Chair reported that the Committee continues to make progress in the area of Enterprise Risk Management. Included in the advance materials was a draft risk appetite statement, and the Committee Chair solicited feedback from the Board. Ms. Sparks asked those with feedback to send their edits to her to be incorporated into a revised draft. The Committee Chair also reported that Cooper Union will be adding cyber insurance to its insurance program. He noted that the insurance does not cover the liability, but rather the cost associated with the response and mitigation.

Governance:

The Chair reminded the Board of its responsibility to proactively engage in succession planning as there are several Trustees terming off in the next two years. Upon reviewing the areas of expertise that governance experts recommend for Boards, the expertise currently represented on the Board, and Cooper Union's specific needs, the Governance Committee will look for Trustee candidates with expertise in accounting, higher education, human resources, portfolio investment, and the law. In addition, in order to fulfill the goals of the Plan, the Board is seeking candidates with financial capacity, experience in and connections to philanthropic sources of funding. While the Board has expanded its membership over the past few years, it will continue to seek people of diverse backgrounds. The term of a Board Chair is one year and may be renewed up to four years. If Ms. Warren is re-elected in December 2019, her final term will end at the December 2020 Board meeting. The Governance

Committee has an established process for identifying candidates for the chair position and Trustees are encouraged to submit nominations to the Committee. The goal is to identify somebody early enough to allow for an adequate transition period. The Chair then noted that the Draft Code of Conduct for the Representatives is near completion, and she and Ms. Sparks will discuss it with the Representatives and solicit their feedback.

Investment:

A report from Cambridge, Cooper’s investment advisor, was provided prior to the meeting. The performance review provided by Cambridge noted the following:

- The portfolio balance as of April 30, 2019 was approximately \$175 million.
- Performance summary was as follows through April 30, 2019:

	CYTD	Trailing 1-Year	Annualized Trailing 3-Years	Annualized Trailing 5-Years	Annualized Trailing 10-Years
Total Assets	7.1	5.5	8.0	4.8	7.0
Total Assets ex Cash	8.2	6.3	9.8	5.7	8.4
Dynamic Benchmark	7.7	0.0	5.9	3.5	5.1
Total Assets Benchmark	6.8	-0.7	5.9	3.4	6.6

The Committee Chair reported that Cooper Union has a broadly diversified portfolio. He noted that more than three-quarters of the portfolio is liquid. The market has been volatile, and Cooper Union’s hedge fund strategy has provided some downside protection. The Committee continues to move toward the revised target allocations outlined in the Investment Policy Statement and approved by the Board in December 2018, including moving resources from Cooper’s high cash position into equities while maintaining Cooper’s relatively conservative risk profile and high liquidity.

Input from Representatives:

Representatives provided input throughout the meeting. There was no additional input from Representatives.

New Business:

There was no new business.

The Board moved to Executive Session at approximately 12:50pm. The meeting adjourned at approximately 1:15pm.

