

THE NEW SCHOOL'S FINANCES: OVERVIEW AND QUESTIONS

Preliminary: July 10th, 2020. All figures subject to possible, indeed probable error. Please check here for latest version:

<https://tinyurl.com/ycy527pc>

DATA

- All data underpinning the analysis are drawn from public source and are available here, along with supporting calculations:
- https://drive.google.com/drive/folders/1Oqef3NRbII9vFRKZvn0WAYYYH0zK_fGwe?usp=sharing

ASSETS AND LIABILITIES

- 2019: Sources here and below are annual Financial Statements, TNSPublic, Government data (IPEDS, Form 990, DASNY documents) etc. All estimates rounded to nearest million.
- **Total Assets: \$1261 million**, of which,
 - Investments (Endowment and Other): \$426 million
 - Land Building and Equipment: \$745 million . Land valued at historical cost so likely to be worth much more than reported (\$81 million of 'land and air rights').
- **Total Liabilities: \$684 million**, of which \$595 million is “long-term debt” (bonds of ten year or more duration, with maturities from now to 2050). Appears to have been mainly contracted to build the flagship “University Center” building on the basis of revenue growth assumptions.
- **Net Assets: \$578 million**, of which \$361 million has no donor restrictions, and out of which in turn \$246 million are unrestricted endowment funds

SCATURRO HOUSE (PRESIDENT'S HOUSE)

- 21 West 11th Street
- Bought in 1984 for \$990,000
- Assessed value in 2018: **\$15,196,000** (Zillow)

INCOME: TUITION DEPENDENCE

- 2019:
- **Total Revenues: \$427 million, of which**
- **Student tuition and fees: \$314 million** (net of \$136 million of scholarships and “tuition discounts” reducing payments due)
- **\$48 million of “auxiliary activities”, mainly related to student enrollments:** receipts for room and board (amount not reported but by subtraction of other reported amounts, appears to be around \$21 million), repayments of previous loans made by the New School (\$14 million, after making \$20 million allowance for uncollectible loans), “deferred” tuition and fees for services paid in prior years but realized in the current fiscal year (\$6 million) and other past payments credited in the current year, e.g. for services as a landlord (\$7 million))
- Net assets “released from restrictions”: \$29 million (reported as income but seems to be reclassification of existing assets): **Stripping this out more than 90 percent (\$362 out of \$398 million) of revenues is directly or indirectly linked to enrollments, past or present**

INCOME: NOT MUCH ELSE

- **\$16 million of “endowment return appropriated for operations”** reflecting **endowment spending rate of 4%** - gradually reduced from 5% before 2012. (\$10 million from funds without donor restrictions and \$6 million from funds with donor restrictions). Endowment return appears to have been broadly in line with US average for university endowments.
- **Contributions: \$31 million + Grants and Contracts: \$11 million. Total is \$42 million. Fundraising expenses were \$5 million.** Where “For the purpose of disclosing fundraising expenses, the university includes only those fundraising costs incurred by its development office”. The fundraising investment per dollar raised appears to be slightly below the average for institutions granting doctorates (12.5 cents per dollar as compared to 10 cents - CASE VSE 2019 Research Brief 4)
- **Other Income:** (What is this? No descriptive notes in Annual Report) **\$19 million**

EXPENDITURES: CLASSIFICATION

- 2019:
- **Total Operating Expenses: \$420 million** (less than revenues by \$8 million)
- Categorized according to **non-transparent** designations, such as: Instruction and departmental research (**\$156 million**), Sponsored research and public services (\$17 million), Academic support (\$91 million), Student services (\$33 million), Auxiliary activities (\$52 million), Institutional support (\$71 million). Amount spent on debt repayment: more than **\$53 million** (one eighth of total expenditures),

EXPENDITURES: SALARIES

- Total “salary outlays” on (427) full-time instructional staff (2019-20, from IPEDS) was **\$46 million**. There were 1979 part-time instructional staff. **\$120 million** was spent on salaries, wages and benefits for all categories of instructional staff, full-time and not: **28.5%** of total expenditures. But the total salary and benefits expenditure of the New School was **\$259 million**. This means that \$149 million (or about 54%) was spent on non-instructional staff, including administrators.
- Retirement contributions to TIAA-CREF were **\$16 million** in 2019. Contributions to other plans, based on union contracts, were **\$2 million**.
- Total expenditure on libraries (staff, materials, operations and maintenance) was **\$7 million**
- 29 highest compensated individuals at institution paid a total of **\$11 million** (of which \$10 million was paid to **23** members of the “executive leadership”) in 2017, last year for which data available: averaging more than **\$400,000** per person. Less than 4% of the budget but not insignificant, and symbolically important.

HIGH LEVEL OF COMPENSATION: PRESIDENT

- New School: President Van Zandt salary (2017): \$1,148,000 (retirement and other benefits additional). Salary \$ per \$ million in institutional expenses: **\$2,658** . Ratio of total compensation to faculty salary: **8:1**

COMPARE:

- Harvard: President Drew Gilpin Faust salary (2017): \$1,173,000 (retirement and other benefits additional). Salary \$ per \$ million in institutional expenses: **\$240** . Ratio of total compensation to faculty salary: **5:1**
- Source: Chronicle of Higher Education.

HIGH LEVEL OF COMPENSATION: PROVOST

- New School: Provost Tim Marshall total compensation (2017): \$605,000 .
Salary \$ per \$ million in institutional expenses: **\$1,401** .
- Harvard Provost Alan M. Garber total compensation (2017): \$881,000. Salary
\$ per \$ million in institutional expenses: **\$180** .
- Source: Chronicle of Higher Education and Harvard Magazine

OTHER HIGH SALARIES

- 2017:
- Chief Enrollment and Success Officer: \$450,000
- Chief Development Officer: \$439,000
- Chief Marketing Officer: \$433,000
- Etc. As already noted, average for Executive Leadership is above \$400,000.
Median is \$372,000

PAYOFFS TO FORMER TOP EXECUTIVES

- AT ANY ONE TIME ABOUT HALF OF HIGHEST PAID 5-10 FACULTY (EARNING BETWEEN \$200,000 AND \$450,000) APPEAR TO BE FORMER ADMINISTRATORS (DEANS, PROVOST, ETC.)
- POST-SERVICE PAYMENTS TO PRESIDENT KERRY LASTED AT LEAST FOUR YEARS AND TOTALLED AT LEAST \$1.8 MILLION, IN ADDITION TO ELEVATED \$3 MILLION IN HIS FINAL YEAR OF SERVICE
- POST-SERVICE PAYMENTS TO FORMER EVP AND COO MURTHA LASTED AT LEAST TWO YEARS AND TOTALLED AT LEAST \$1.7 MILLION
- 2016 POST-SERVICE PAYMENT TO FORMER SVP REIMER OF \$663,000.
- 2017 POST-SERVICE PAYMENT TO FORMER VP CANTRELL OF \$470,000

EXPENDITURES: ADMINISTRATIVE BLOAT (CURRENT INDICATIONS)

- **1,115** administrative staff: **2.61** administrative staff for every full-time faculty member.
- **394** administrative staff connected to the Provost's Office alone, but "only" 87 of these appear to have primary ties to that office - remainder appear to be linked to divisions (unclear).
- **240** in "Enrollment and Success"
- Amount spent on external "Professional Services" (consultants, lawyers, accountants?): More than **\$20 million**. Likely larger than the entire budget of major divisions of the University (e.g. NSSR). How much of it is essential?

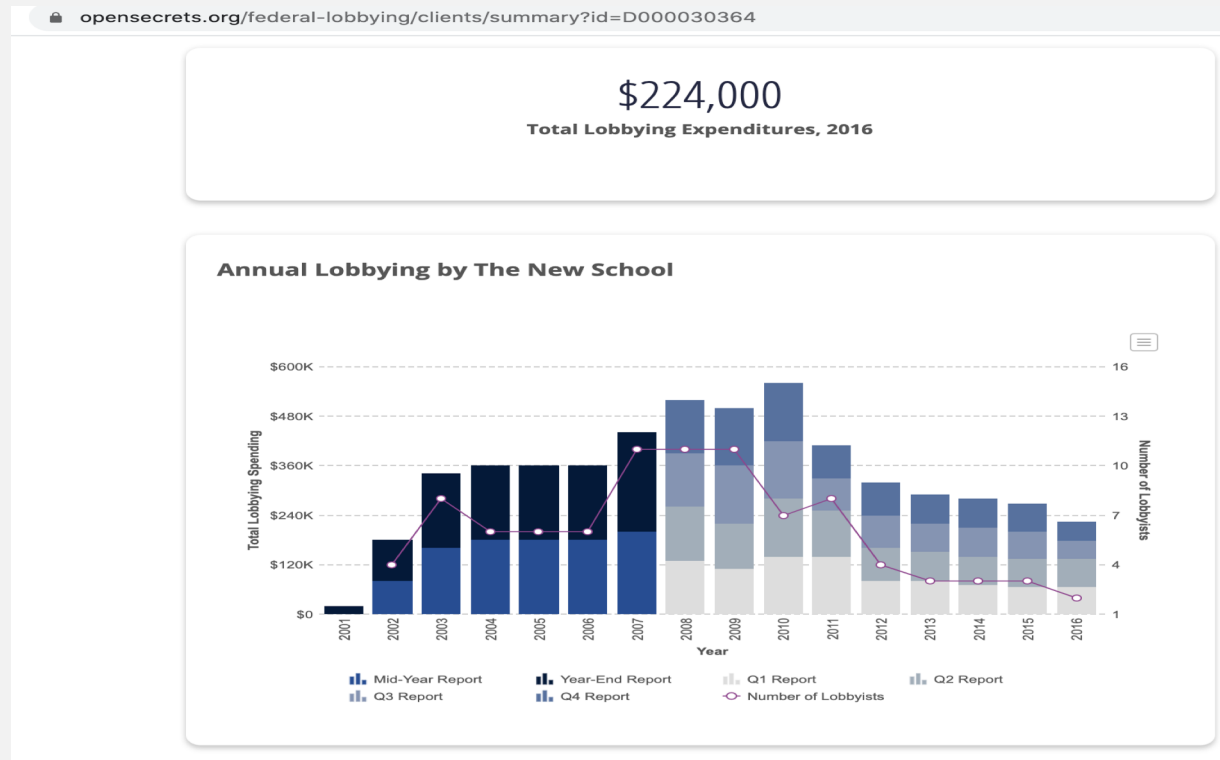
EXPENDITURES: ADMINISTRATIVE BLOAT (TREND)

- Between **Fall 2014 and Fall 2019**, faculty Full-Time Equivalent (FTE) number increased from 989 to 1087 (**10%**). Full-time faculty increased from 416 to 427 (**2.6%**) and part-time faculty from 1719 to 1979 (**15%**). Growth in salary bill over similar period: for full-time faculty: **22%**; for part-time faculty **7%**. Average salary has risen by **19%** for full-time faculty and fallen by **11%** for part-time faculty over this period.
- ‘Management’ number increased from 343 to 476 (**39%**) and ‘Other Professionals’ number from 251 to 358 (**43%**). Service/Maintenance staff have *fallen* from 197 to 132 (**33% decrease**: outsourcing?).
- Salary total for management employees rose **45%**, **almost entirely accounted for by growth in numbers** (average management salaries rose by less than **4%**).
- In contrast, executive leadership compensation rose by **19%**.
- Growth in total expenses and in total revenues was **17%**. Growth in tuition revenues was **18%**.
- A big increase in expenditures on “management” salary bill, outstripping both growth in salaries of all other classes of employees, and revenues – but driven by numbers, not growth of average salaries.
- Part-time faculty wages per FTE *fell* in both nominal and real terms.

GROWTH IN SALARIES AND BENEFITS FOR
SPECIFIC "EXECUTIVE LEADERSHIP"
POSITIONS:
FROM FIRST COMPLETE YEAR ON PAYROLL
(2011 TO 2017)

- Not necessarily most egregious, just examples (to nearest thousand):
- Chief Operating Officer – \$345,000 (2014) to **\$438,000** (2017) [**8.3%** per year]
- Chief Legal Officer – \$313,000 (2011) to **\$501,000** (2017) [**8.2%** per year]
- Compare **3.6%** annual increase in salaries of full-time instructors (overstatement since includes effect of new hires) and **-2.1%** annual change in average salary of part-time instructors over FY 2014-2019.

EXAMPLE OF QUESTIONABLE EXPENSE - NEW SCHOOL LOBBYING IN WASHINGTON D.C.: ON WHAT?



THE CRISIS: REVENUE REDUCTION

- Decreased revenues due to possible reduction in enrollments and increased tuition discounts (scholarships); effect presently unknown but might be sizable. 34% of all students are non-resident aliens, who may be most likely not to enroll. If 15% of students overall do not come, and assuming they are neither more nor less “profitable” than the average, then enrollment related revenue will fall by **\$49 million** (15% of \$362 million). If 30% do not come then revenue will fall by **\$98 million**. Tuition discounts could raise losses above this.
- Anecdotally, domestic enrollments are so far holding up in many US institutions, especially catering to undergraduates. Foreign student enrollment in US projected to fall by 25% (American Council on Education, letter to Congressional Representatives of April 9th): if applied to New School would mean 8.5% fewer students. But all bets off with recent ICE announcement.

CURRENT CRISIS RESPONSE: I

- Eliminating retirement contributions will have between saved **\$16 million** (TIAA-CREF contribution) and **\$18 million** (all funds) across the New School.
- A six percent reduction applied to the \$195 million spent on **all** full-time faculty and all staff salaries (much more than proposed) would save less than **\$12 million**. The true amount raised is likely to be much less than that because many faculty and staff fall in the 3% or zero percent reduction categories – our estimates suggest **\$5-6 million** (after taking into account the 12-15% pay cuts of the “senior leadership team”).
- The total saved by both of the above measures is therefore \$21-24 million. The elimination of research and travel funds of full time faculty might save another \$1-2 million. Estimate. **\$22-26 million saved** by these measures, around 6% of budget.

CURRENT CRISIS RESPONSE: II

- Additional savings come from furloughs, not hiring part-time faculty, and other measures. (If 25% of the \$100 million in the instructional and departmental research category that is *not* attributable to full-time instructors' salaries and retirement contributions is eliminated, by foregoing adjunct hiring, deferring maintenance on buildings, lowering other benefits etc. this would raise an **additional \$25 million.**)
- On this assumption, total savings from compensation reduction measures considered on the last slide and this one may total **\$47-51 million**. This would roughly accommodate the 15% revenue reduction scenario considered above, Savings from capital projects additional but no information about them.

SOCIAL JUSTICE? SAVINGS FROM FURLOUGHS

(OVERESTIMATE AS ASSUMES ALL AFFECTED STAFF ARE FULL-TIME)

Employee Area	Assumed IPEDS classification	Estimated Number Affected	Average Salary (IPEDS), 19-20	Months	Salary Saved
Security	Service Occupations	40	\$46,658	3	\$466,580
Maintenance	National Resources, Construction and Maintenance Occupations	70	\$62,840	3	\$1,099,700
Professional/Clerical	Office and Administrative Support Occupations	80	\$56,309	3	\$1,126,180
Health	Healthcare practitioners and Technical Occupations	15	\$110,515	3	\$414,431
Operating Engineers	Computer, Engineering, and Science occupations	3	\$85,926	3	\$64,444
Administrators	Business and Financial Operations	48	\$66,270	3	\$795,240
				SAVED:	\$3,966,575

A POSSIBLE ALTERNATIVE CRISIS RESPONSE: THE BIG IDEA

- MINIMIZE CUTS AND MAXIMIZE FAIRNESS IN
BURDEN SHARING

A POSSIBLE ALTERNATIVE CRISIS RESPONSE: SPECIFIC PRINCIPLES I

- Adopted by resolution of the NSSR Faculty in June 2020:
- 1. Re reductions in faculty and staff compensation:
 - Any proposed reduction in total compensation (including both salaries and retirement contributions) should be on a steeply graduated scale, with no sacrifices at all for those at the bottom of the scale, and higher proportional sacrifices than originally proposed by the university at the top of the scale. Various proposed reductions should be judged comparatively, using existing payroll data to estimate the total quantity of resources that would be raised under each.
- 2. Re temporary status of reductions:
 - The University should commit to the full reinstatement of salaries and retirement funds of faculty and staff in subsequent years, including compensation for foregone earnings, as soon as conditions permit, beginning with those earning least, and not necessarily extending to those earning most, in particular in the executive leadership of the University.
- 3. Consultative process
 - All decisions on sacrifices imposed must emerge from a proper consultative process in accordance with the AAUP statement of Principles and Standards for responding to the crisis (at <https://www.aaup.org/issues/coronavirus-information-higher-ed>), especially point 8:
 - “...principles of academic governance apply no matter how exigent the situation, as the authors of [the Katrina report](#), cited above, asserted: “However cumbersome faculty consultation may at times be, the importance and value of such participation become even greater in exigent than in more tranquil times. The imperative that affected faculties be consulted and assume a meaningful role in making critical judgments reflects more than the values of collegiality; given the centrality of university faculties in the mission of their institutions, their meaningful involvement in reviewing and approving measures that vitally affect the welfare of the institution (as well as their own) becomes truly essential.”

A POSSIBLE ALTERNATIVE CRISIS RESPONSE: SPECIFIC PRINCIPLES II

- Add to these the following additional principles:
- 4. Treat security of employment for all workers in the midst of the crisis as a primary institutional goal and therefore find expense reductions elsewhere, wherever possible. Workers should be treated as members of the community, not as a flexible “factor of production”. [Specially relevant for adjunct faculty and non-unionized workers].
- 5. Distinguish between temporary measures to survive the crisis and those needed to reform the institution more generally. The primary focus of any measures taken presently should be the former. (As in the corporate sector, where there is a distinction between liquidity and solvency problems: former requires cash to get over a hump, not a new business model).
- 6. Do what is necessary when it is necessary, to the extent possible. Avoid excessive preemptive action that is harmful to the community.

LOOK FOR OTHER DEGREES OF FREEDOM

- Asset Sales (e.g. property portfolio)
- Additional external borrowing. Note that many for-profit firms and some other universities have been borrowing in the midst of the current crisis to take advantage of very low interest rates (much lower than the 4-5% presently being paid by the New School). One percent reduction in interest costs would likely save approximately one-fifth of annual debt repayment burden of a bit less than \$25 million, i.e.: around **\$5 million**.
- Increased endowment payouts, with planned post-crisis return to lower levels (“internal borrowing”). Exceptional 10% drawdown would raise **\$40 million** (see slide to follow).
- Emergency fundraising appeal to alumni and donors, as well as - joining with other affected institutions - State and Federal Government: **\$10 million**
- “Selling” specific divisions to better resourced institutions where it can be done with limited impact on faculty, staff and students (e.g. international campuses): how Parsons joined the New School historically, because it was about to fold and the NSSR was then better resourced (Friedlander history)!
- Not clear to what extent each of these is being considered. Potential for income generation in each case needs study. Total of above: **\$55 million**, in addition to the effect of any **fairly shared** compensation cuts

POSSIBLE OBSTACLE TO BORROWING MORE OR TO ASSET SALES - DEBT CONVENANTS

- Asset maintenance requirements (restricting sales of property or other assets)
- Limitations on issuance of new debts
- Unclear if such legal restrictions exist – should be researched by looking at the bond documents.
- However: not evident from Dormitory Authority of the State of New York information on New School bond issues examined to date nor any other source consulted, that there are any such restrictions. Only restriction identified so far is that newly issued debts must not enjoy seniority.

ENDOWMENT POLICY ON A RAINY DAY

- Neither law nor arguments concerning sound endowment policy seem to place restrictions on spending more of endowment during a “rainy day”. Indeed there seem to be strong arguments for doing so in the view of endowment experts (Hansmann, Mehrling etc.).
- The endowment appears to be sufficiently large, and to include enough liquid assets, to permit some flexibility (see following slides).

ENDOWMENT COMPOSITION

(SCREEN SHOT FROM FINANCIAL STATEMENT)

(4) Investments

Investments at fair value consisted of the following at June 30, 2019 and 2018:

	2019
Endowment investments:	
Cash and cash equivalents	\$ 29,354
Public equity	137,089
Fixed income	36,900
Hedge funds	152,393
Private equity	21,894
Real assets	20,837
	<u>398,467</u>
Operating and other investments:	
Cash and cash equivalents	24,287
Public equity	167
Fixed income	71
Real assets	2,665
	<u>27,190</u>
	<u>\$ 425,657</u>

INVESTMENT LIQUIDITY PROFILE OF THE NEW SCHOOL: JUNE 2019

(SCREEN SHOT FROM FINANCIAL STATEMENT)

	2019		
	<u>Endowment</u>	<u>Operating</u>	<u>Total</u>
Daily	\$ 147,342	24,525	171,867
Monthly	87,042	—	87,042
Quarterly	63,655	—	63,655
Semi-annual	7,178	—	7,178
Annual	32,432	—	32,432
Illiquid	<u>60,818</u>	<u>2,665</u>	<u>63,483</u>
Total	\$ <u><u>398,467</u></u>	<u><u>27,190</u></u>	<u><u>425,657</u></u>

**NET ASSETS W/OUT DONOR RESTRICTIONS:
\$361 MILLION OUT OF \$578 MILLION**
(SCREEN SHOT FROM FINANCIAL STATEMENT)

(9) Net Assets

Net assets consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	
Without donor restrictions:		
Board-designated endowment	\$ 245,868	
Other board-designated	295	
Net investment in plant	172,507	
Undesignated	<u>(57,720)</u>	
	<u>360,950</u>	

PROJECTION OF ENDOWMENT DRAWDOWN WITH LATER RECOVERY

Table I		T ₀	T ₁	T ₂	T ₃	T ₄	T ₅	T ₆	T ₇
Business as Usual (BAU): r=5% p(T _x)=4%	Endowment	100.0	100.8	101.6	102.4	103.2	104.1	104.9	105.7
	Return	4.8	4.8	4.9	4.9	5.0	5.0	5.0	5.1
	Payout	4.0	4.0	4.1	4.1	4.1	4.2	4.2	4.2
MODEL 1: r=5% p(T ₀)=10% p(T _x >T ₀)=3%	Endowment	100.0	94.5	96.2	98.0	99.8	101.7	103.6	105.5
	Return	4.5	4.6	4.7	4.8	4.8	4.9	5.0	5.1
	Payout	10.0	2.8	2.9	2.9	3.0	3.1	3.1	3.2
MODEL 2: r=5% p(T ₀)=7.5% p(T _x >T ₀)=2.5%	Endowment	100.0	97.1	99.4	101.8	104.2	106.7	109.2	111.8
	Return	4.6	4.7	4.8	5.0	5.1	5.2	5.3	5.5
	Payout	7.5	2.4	2.5	2.5	2.6	2.7	2.7	2.8

T_x = Time period of a year, where T₀ is current year. Endowment size at T₀ is 100 units.; r = rate of return; Conservative estimate of 5% annually applied after payout; p(T_x) = Payout rate, i.e. percentage of endowment spent annually; BAU is projection with no variation in 4% payout policy. Models 1 and 2 project higher payout (10% and 7.5% respectively) for current year, with lower payout rate (3% and 2.5% respectively) than normal later.

NEED DATA (TO GUIDE PROPOSALS FOR MORE EFFECTIVE RESOURCE GENERATION AND MORE JUST BURDEN SHARING)

- What are the various kinds of non-compensation expenditures of the institution – need to know more beyond very aggregative and vague classifications revealed so far, to identify other areas where cuts can take place.
- Who earns what? In order to propose an alternative more "progressive" schedule of compensation reductions that generates a desired expenditure reduction, need to know how many workers in each compensation bracket (not just top earners from Form 990 and full-time faculty from IPEDS). Anonymized data by income brackets will do. We do not have data on distribution of earnings. Ideally, also disaggregate by type of worker (e.g. managerial, instructional etc.).
- What are the functions of various categories of "managerial" and administrative workers? What exactly are the expenditures on external "professional services" undertaken by the University?
- What "capital projects" does the university have under way and what is the scope for saving by revisiting them?
- What are the revenues and expenditure by division and by office or function? How are expenses allocated? As far as we are aware, no publicly shared evidential basis for the claims that have been made, and that continue to be made, about supposed surpluses and deficits of different divisions of the university. Forced marriage of divisions in the absence of such data is "flying blind" and may create new problems.