cent to the Harvard Business School campus, as well as the construction of a new basketball venue, a vehicular-maintenance and police-training facility, an addition to Harvard Stadium, and two mixed-use institutional buildings (including one on the prominent site near the intersection of Western Avenue and North Harvard Street) that were not part of the original Work Team recommendations.

Notably absent from the new IMPNF are plans for an “enterprise research campus,” described in June 2011 as having the potential for 1.5 million to 2.5 million square feet of commercial space. Such a center, perhaps modeled on Research Triangle Park, situated near three universities in North Carolina, would serve as a major technology hub between Harvard and MIT. The site, in the same vicinity as the hotel and conference center, would be in direct competition with the focus on high-tech firms in Cambridge Center at Kendall Square (where MIT last year announced plans to invest $700 million to redevelop its buildings), as well as with new technology-focused developments at the Seaport along the Boston waterfront—challenging alternatives in the current economic environment. That part of the University’s landholdings, and much else on Harvard’s new Allston map, is blank space—for unspecified use well in the future.

The net result, at least in the most public-facing locations of greatest interest to Allston residents, is a substantially more modest 10-year undertaking than contemplated even 18 months ago. At 175 North Harvard Street, near the intersection with Western Avenue, Harvard plans a 60,000-square-foot, 3,000-seat basketball arena to replace the existing 1,950-seat Lavietes Pavilion at Briggs Cage, which is the smallest in the Ivy League. The complex might also include as much as 140,000 square feet of mixed housing, retail, and institutional or commercial office space. Local residents have greeted the proposal with some skepticism: “Sports facilities around Boston tend to be in conflict with the surrounding community. The nature of the evening activity, the parking, the crowds after and before the game—they just rub each other the wrong way,” commented one resident. Existing institutional uses at the North Harvard Street site, including vehicle-maintenance garages, will be moved to 28-38 Travis Street, the proposed site for the police-training facility as well.

Another 200,000-square-foot building of unspecified mixed institutional use is planned for the most prominent location within Harvard’s Allston holdings: the site of the existing Charlesview apartments at the intersection of Western Avenue and North Harvard Street. Demolition will begin after apartment residents are relocated, probably in late 2014, to new housing at Brighton Mills, now under construction. The new plan, which adds 27 acres to Harvard’s existing 151-acre Allston campus, plays to fundraising strengths—from the athletics department to Harvard Business School (HBS), where on October 12, dean Nitin Nohria announced a $40-million gift from the Dr. James Si-Cheng Chao and Family Foundation to help replace Kresge Hall with a new 110,000-square-foot executive-education facility (see http://harvardmag.com/chao13 for more information). The gift comes as construction continues on the $100-million, 150,000-square-foot Tata Hall, a 179-bedroom expansion of executive-education facilities. Tata, the new Ruth Mulan Chu Chao Center, a planned renovation of the 78,000-square-foot Baker Hall, construction of a 130,000-square-foot replacement for Burden Hall, and a new 110,000-square-foot faculty and administrative office building will result in a revitalized HBS campus. Nearby, the 423,000-square-foot Soldiers Field Park Housing complex is slated for extensive renovation in the latter half of the decade.

The totality of projects planned for Allston in the next 10 years is perhaps more inward-looking than residents might have wished. But by focusing on a much-reduced construction schedule, and with funding from capital-campaign gifts in the offing, the plan no longer relies on massive debt financing or unrealistic endowment payouts (see “An Allston Accounting Adjustment,” page 48). Thus, as one Harvard administrator put it, these projects reflect “new economic realities matching our academic needs.”

Sober Finances

Harvard’s annual financial report for fiscal year 2012 (ended last June 30), released in early November, paints a picture of a sober portrait of the University’s circumstances today—and likely in the years to come. That context overshadows the latest (nearly break-even) financial results, summarized in the chart on the next page and analyzed in full detail at http://harvardmag.com/financial-report.

President Drew Faust’s introduction ex- tolls some achievements of the year—the learning and teaching initiative, edX, and the I-Lab—before pivoting to financial crises in Washington, D.C., and in Europe, and other uncertainties “likely to prove even more destabilizing in the months ahead.” This proves a gentle segue to the castor oil in the blandly titled “Financial Overview” by vice president for finance Daniel S. Shore, Harvard’s chief financial officer, and Corporation member James F. Rothenberg, University treasurer since 2004.
A fiscal roller-coaster ride. “Since Harvard thinks and acts in long-term timeframes,” Shore and Rothenberg write, “we believe it is important” to consider fiscal 2012 “in the broader context of Harvard’s changed financial circumstances and prospects.” Beginning in 2002, “the University enjoyed substantial growth through fiscal 2008 driven by large increases in both net assets and debt”; a chart accompanying their text demonstrates that as the endowment more than doubled (to $37 billion), so did borrowings (to nearly $4 billion). Faculty ranks expanded 10 percent. Campus facilities were enlarged by more than four million square feet (20 percent), heavily funded with debt—and all entailing expenses for operations and maintenance. The financial-aid budget boomed.

Then, they continue, “The global financial crisis changed the University’s financial profile in a sudden and consequential way.” The endowment lost $11 billion in value. Harvard incurred $3 billion in additional losses on various financial and investment transactions, and had to take on additional debt. Interest costs doubled, to nearly $500 million from fiscal 2008 to fiscal 2011, as endowment funds for operations—the schools’ largest source of revenue—suddenly declined. Worsening matters, “over the past 10 years the University experienced only minimal inflation-adjusted growth in key non-endowment

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**An Allston Accounting Adjustment**

**Harvard’s 2012 financial statements reclassify for this year and last the “administrative assessment” (an annual decapitalization, equal to 0.5 percent of the endowment’s value) from a capital item to an operating expense—a different way of presenting about $129 million of funds in fiscal 2011, and slightly more in fiscal 2012. That change tells a story about Harvard’s altered financial circumstances, a useful accompaniment to the narrative from chief financial officer Daniel S. Shore and University treasurer James F. Rothenberg.**

In 2001, late in his presidency, Neil L. Rudenstine and the Corporation created a “strategic infrastructure fund” (SIF) to prepare for campus development in Allston. Each school’s endowment would be tapped 0.5 percent annually, for five years, to yield $500 million to indirectly reimburse the central administration’s investments in necessary infrastructure and improvements in Allston, on the grounds that all Harvard would benefit as new facilities were funded by their tenant schools and created in coming decades.

President Lawrence H. Summers then advanced a sweeping vision for accelerated Allston development (science labs, new homes for the schools of education and of public health, cultural facilities), and in early 2004 the SIF was extended to 25 years and applied to broader uses, including the renovation of facilities vacated by units relocating to Allston and the cost of new buildings there. Given the endowment value then (about $19 billion), the assessment would yield an additional $2 billion over its extended life, even if the endowment did not appreciate—a sum that could support billions of additional borrowing to build in Allston. Meanwhile, as Shore and Rothenberg note, the University was already increasing its debt financing substantially. Centrally managed liquid funds were invested long term, alongside the endowment, to take advantage of the bull market, and Harvard put in place interest-rate exchange agreements meant to stabilize the costs of the anticipated future borrowings for the Allston work.

Today, none of the assumptions equating the administrative assessment with capital investment in Allston development remain. The University cannot borrow substantially more if it wishes to retain its top-tier credit ratings, and has much higher, continuing debt-service costs. The endowment, one-sixth smaller than at its fiscal 2008 peak, must support a larger faculty, physical plant, and financial-aid budget. After punishing losses on the interest-rate swaps and from lack of liquidity, the University is pursuing a lower-risk strategy for investing all its assets, including the endowment. That more cautious strategy must fund not only past Allston-related costs but also the extra, University-wide debt service. And the new Allston master-planning proposal (see “Economic Realities in Allston,” page 46) is vastly reduced from prior schemes. Much of the land is now a blank slate, for potential academic use far in the future.

Thus, treating the SIF as an Allston-related decapitalization item no longer makes sense; rather, it is an operating item—an assessment on endowment assets that defrays central operating expenses. A financial-reporting change thus reflects almost revolutionary upheaval in Harvard’s fiscal assumptions, operations, and position.
“After walking to work my whole life, I’ve become this new, middle-aged cyclist,” says Graduate School of Design professor Ann Forsyth. Raised on a farm in Australia, she has built a career on making sprawling urban areas healthier: improving walkability, green space, food sources, and affordable housing. The author of Reforming Suburbia and Designing Small Parks says there has been “a snobbiness about the suburbs, a perception among designers that they are full of affluent people who can be left to their own devices.” But growth of the burbs and their immigrant populations means “there are often more poor children there now than in the core cities,” making Forsyth’s work even more relevant. This spring, she’ll lead GSD students in a hands-on project to help redevelop downtown Malden, a working-class city north of Boston. She is also working with Harvard’s business and law schools to improve other struggling communities. Forsyth left the farm for college in Sydney, marrying her talents in science and art in an architecture degree. Desiring broader societal impact, she switched to urban planning, earning a master’s at UCLA and a doctorate from Cornell, where she was a professor before joining the GSD last May. She has also taught at the University of Minnesota and UMass Amherst, among other places, moving homes about 28 times in three decades. Now she has settled in Arlington, near the bike path into Cambridge. “Making more sustainable and healthy communities is a matter of balance—helping people make choices that help the wider community in the longer term,” she says. “As a researcher, I not only talk the talk, I ride the ride.”
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The Coming Campaign

Harvard’s capital campaign—long in planning, long hinted about—is under way. When the goal and “quiet phase” fundraising results are publicly unveiled, presumably next autumn, they will mark the first institution-wide capital drive since the $2.65-billion University Campaign concluded on December 31, 1999—cons ago, in development terms. A campaign matters both for the resources it secures and for what it tells constituents about this still decentralized University’s highest priorities for renewal and the future pursuit of knowledge and education.

Evidence of the preannoucement fundraising appears in Harvard’s annual financial report, published in early November (see “Sober Finances,” page 47). In fiscal year 2012, ended last June 30, gifts received (including current-use gifts, capital sums for endowment, and corporate and foundation research grants) totaled $650 million, up slightly from $639 million in the prior year. But pledges rose sharply, to $909 million in fiscal 2012 from $758 million and $772 million in the two prior years, respectively—the leading indicator of future gift income, and a sign that major commitments are being made toward the campaign’s nucleus fund.

In a December 3 interview with the Harvard Gazette, President Drew Faust hinted at the retrospective and prospective nature of a fundraising drive now, observing that a “campaign can strengthen our financial foundations and at the same time enable some important new investments and initiatives.”

The contract that expired last June 30. Academically, increased distributions from the endowment were the largest source of additional operating revenue in fiscal 2012 (after two years of reduced distributions). For fiscal 2013, the Corporation approved a further 5 percent increase, but it now uses a multiyear smoothing formula to set future distributions. The endowment recovered robustly in fiscal 2010 and 2011, but its value declined in fiscal 2012 (reflecting a slightly negative investment return and spending during the year). So in guidance for fiscal 2014 budgets, the Corporation has approved only a 2 percent increase in the distribution—and that subject to revision if there is “severe market dislocation.”

Foreseeing a lasting shift from “many decades of growth and stability” to “rapid, disorienting change” buffeting higher education, the two men restate the case for “integration opportunities” (further wringing out costs through the library reorganization, centralizing information technology, and other initiatives); attack “generous employee benefit offerings”; and urge “exploring incremental revenue” (including “more creative strategies to leverage the University’s space and its vast intellectual resources for additional monies that can be reinvested in our teaching and research aspirations”). And, of course, “a fundraising campaign” (see “The Coming Campaign,” below).

Despite initial fundraising progress, they view Harvard’s long history and traditions in a decidedly cautionary spirit:

The need for change in higher education is clear given the emerging disconnect between ever-increasing aspirations and universities’ ability to generate the new resources to finance them. Certain aspirations more closely resemble imperatives and will require universities to make decisive and inevitably difficult choices from among competing priorities. We can be successful if we equate change with the opportunity to improve and move forward.

...Success will require a tolerance for ambiguity, an openness to different ways of doing things, a commitment to experimentation, an underlying confidence in our ability to implement a sustainable economic model, and an abiding passion for the University and its impact in the world. These are the same success factors that have enabled Harvard to thrive throughout the centuries, and we expect to achieve similar results in the future.