An agreement with the Agassiz neighborhood north of Harvard Yard has cleared the way for construction of badly needed science facilities there for the Faculty of Arts and Sciences. The architect is working with neighbors, faculty members, and the administration on a building that will house teaching laboratories and classrooms, as well as research laboratory space and room for collections.

tional Studies, delayed for years, is a case in point; plans to build a museum of modern art in the Riverside area along Storrow Drive were likewise derailed by local activism. (Graduate-student housing, which matches an existing use, will go there instead; see "Riverside Rezoned," January-February, page 62.)

Thus the relationship that Harvard has nurtured with the Agassiz neighborhood is one that the University values. How much? In addition to the mitigation measures and construction of amenities for the neighborhood (pedestrian pathways, landscaping, and enhanced lighting, for example) that will continue throughout the buildout of the area, Harvard has agreed to establish and fund a science-education initiative in the Cambridge public schools worth about $1.5 million.

According to the agreement, "Programming will draw on the academic resources of the science departments and museums at Harvard and will be managed and coordinated by the Harvard Museum of Natural History," with the goal of creating a range of science programs to strengthen the school curricula

Allston Budget Billions

Not until later this decade will physical plans be drawn and the first shovel of earth turned for Harvard's new Allston campus. But preparing for the multibillion-dollar cost of the prospective development already figures in the University's finances in a significant way.

As reported, President Lawrence H. Summers presented possible parameters for Allston development in a letter released last October 21 (see "Allston Planning: Working 'Hypotheses,'" January-February, page 53). He raised the notion that the "very substantial capital costs" might be met, in part, by extending the five-year assessment on schools' endowments—the so-called "strategic infrastructure fund" negotiated by President Neil L. Rudenstine in 2001. That mechanism was intended to raise a maximum of $500 million through a half-percent annual "decapitalization"—the use of investment gains achieved over time on contributions to the endowment. The exact sum is calculated annually, based on the prior-year market value of the assets; in fiscal year 2003, $80 million was distributed.

Bearing the bitter with the sweet, Ann E. Berman, vice president for finance and chief financial officer, presented the administration's policy, as approved by the Harvard Corporation, to the Faculty of Arts and Sciences (FAS) faculty council on January 7. Berman said she discussed the extension of the infrastructure fund to cover the "first phase"—approximately 25 years—of Allston development. During the 2001 debate on the fund, which exists at the Corporation's pleasure and is not subject to the schools' approval, several FAS professors expressed concern about their faculty's share of the costs (FAS is by far the best endowed school).

If Harvard's endowment, at its present value of $19.3 billion, is tapped for another two decades, the assessment formula would yield well above $2 billion. Should the endowment continue to appreciate, the assessment could produce substantially more funding than that for qualifying Allston-related expenses. The formula fixes the half-percent assessment rate, but caps neither annual nor aggregate distributions. During the past 30 years, counting investment gains, distributions, and gifts received, the endowment has grown at a compound annual rate of 10.8 percent.

Another element of Berman's presentation might make the extended assessment much more palatable. Uses of the money will be broadened from the original purposes: land acquisition, environmental cleanup, and installation of essential infrastructure such as roads, sewers, and utilities. Now, the funds can be applied to cover both the cost of new buildings in Allston and support for renovation of other campus properties vacated

from kindergarten through twelfth grade. In addition, Harvard will contribute about $1 million to fund recreational programs for Cambridge residents. The $2.5 million total in benefits is tied specifically to phase one, the three FAS buildings, which will entail 670,000 square feet of space above and below grade.

Following the procedure established in the Riverside neighborhood, Harvard's contributions are tied to the successful completion of specific steps in the permitting and approval process. The BRI space, which is entirely underground, should be finished in the summer of 2005, with the LISE building following in the summer of 2006. Still in the design phase is the North/West science laboratory. Originally conceived as two separate buildings, the architect's consultations with both neighbors and faculty members led to the proposition that the two buildings be joined and reoriented to run nearly parallel to Oxford Street. The North/West building is slated to house the Center for Systems Neuroscience, and will include teaching laboratory space, classrooms, research laboratory space, and room for collections.

"Extraordinary" Bonuses

During recent years, when returns on endowment assets have been much stronger than the financial markets in general, the performance-based pay system used by Harvard Management Company (HMC) to compensate its investment professionals has annually produced a few outsized paychecks (see "Outperformance Pays," March-April 2003, page 58). But the $17.5-million peak realized by one investment manager for fiscal year 2002 paled in comparison to the $35.1 million and $34.1 million earnings for the top two HMC staff members in fiscal year 2003, ended last June 30. The data, released January 22, attracted more than routine attention, and prompted unusual responses from University officials.

During fiscal year 2003, the foreign fixed-income portfolio returned 52.4 percent, versus 18 percent for the market benchmark; manager Maurice Samuels received $35.1 million in total compensation. David R. Mittelman's domestic fixed-income portfolio earned 31.1 percent, 13.8 percentage points more than its benchmark; he earned $34.1 million. (Mittleman was the top earner the prior year, when Samuels ranked third. A *Barron*'s profile published February 2 called the duo "two of the best fixed-income managers in the business.") Other members of the foreign and domestic fixed-income teams, Elizabeth A. Randall and Shawn Martin, received $7.6 million and $6.5 million, respectively. Jeffrey B. Larson, who oversees foreign-equity and emerging-markets investments, earned $17.3 million, slightly less than in the prior year, when he was the second most highly compensated HMC manager.

According to University data, Samuels and Mittleman directed investments that during the year yielded Harvard more than $700 million in "value added" (returns in excess of the market benchmarks). The return on assets overall was 12.5 percent, raising the value of the endowment to a record $19.3 billion. That performance more than tripled the median return on comparable institutions' investments, and exceeded the market benchmarks used to measure HMC results by 4.2 percentage points—some $800 million (see "Rebounding Returns,"

by those who move to the new facilities.

The former provision would be a boon to any faculty contemplating expansive building plans, not all of which qualify for reimbursement of overhead costs on federally funded research projects. That is certainly the case for FAS. The latter could have particular relevance to Cambridge-based units foreseeing uses for the Graduate School of Education's buildings if it relocates across the Charles River. (FAS, the Kennedy School of Government, the Radcliffe Institute, and Harvard Law School all come to mind.) In Boston, Harvard Medical School could benefit if the adjacent School of Public Health buildings are released by construction of a new Allston complex.

The early reaction was favorable. Florence professor of government Gary King, a member of the FAS resources committee, noted that the faculty had ultimately concluded in 2001 that the endowment-based assessment was "equitable, feasible, and advantageous" to FAS and the University as a whole. Then the chief benefit of Allston for FAS appeared limited to taking over space in Cambridge vacated by other schools. But given the evolution of Allston planning in the years since, the potential now seems much greater: King envisions FAS "participating as an equal partner in a variety of new projects and developments." (The president's October 21 message discussed graduate and undergraduate student housing, laboratories, and performing-arts and museum space.) Indeed, in his annual decanal letter to the faculty (see page 62), William C. Kirby cited "an extraordinary opportunity for continued growth and development for FAS" in Allston.

King's committee colleague, Eckstein professor of applied economics John Y. Campbell, also emphasized that "FAS will be a big part of the new buildings and activities in Allston." The scope and duration of this "enormous project," he said, require long-term planning and a "regular funding source." Another advantage of an "endowment-based fund," he noted, is that it is "able to draw on restricted funds, which are a very large fraction of the endowment," as opposed to drawing down "unrestricted income, which is comparatively scarce and valuable."

In any event, Berman was at pains to point out, even the extended infrastructure fund will not cover the entire costs of Allston phase one. Gifts, housing rental and parking fees, and the recovery of "indirect costs" (overhead, particularly on scientific research grants) will all play a major role. So too, presumably, will further borrowing by the University. However the specific work is funded, it becomes increasingly apparent that Harvard is embarking on the most ambitious development agenda in its history.