Financial innovations help universities tackle campus construction projects

Kentucky institutions of higher learning develop new public-private funding for hundreds of millions in campus capital projects

By Deborah Gibson Isaacs

With groundbreaking innovations in financing higher education campus construction, Kentucky public universities have undertaken hundreds of millions of dollars in capital projects in recent years – even as a recessionary economy caused multiple rounds of cuts in traditional state funds.

The most innovative approaches financially were developed for campus housing projects, an area of particular need but also one with its own revenue stream.

Also previously unheard of is the level of cooperation among the public universities in jointly requesting bonding authority for 11 projects at six of the eight state schools, which prompted happy legislators and the governor to OK the $388 million in plan in record time.

With the exception of four emergency projects, the Kentucky General Assembly last appropriated General Fund dollars for capital construction or capital renewal projects on a state university campus in 2008.

And public higher ed institutions in the commonwealth already were billions behind in capital needs, according an assessment by VFA Inc., a Boston firm the

Council on Postsecondary Education (CPE), the state universities and the Kentucky Community and Technical College System hired in 2007 to assess their physical infrastructure.

“Beyond the desired new facilities, the study found there was $3 billion in deferred maintenance and capital renewal needed just to maintain integrity of physical infrastructure,” said Sherron Jackson, senior policy advisor for CPE.
Many years ago, Western Kentucky University led in the way in finding a creative solution to physically transform its residence halls. The university relinquished ownership of the dorms and developed an intricate plan to recapitalize and renovate the structures, including Pearce-Ford Tower, which was revitalized in 2009. (Photo by Clinton Lewis/WKU)

Years clicked by, buildings aged further, enrollments soared and projects such as dorm renovations, new sprinkler systems and new campus housing moved from “want” to “necessity.”

Kentucky’s university presidents are not a passive lot, though, and responded by becoming increasingly entrepreneurial, creative and united.

**Out-of-the-bell-tower entrepreneurship**

In 1997, Gary Ransdell was the new president of Western Kentucky University with a question on his mind: What did students want most? Their answer: better residence halls.

But WKU’s residence hall fees were just enough to cover the basics – debt service, staff, day-to-day operations and modest repairs. The university still had $22 million in outstanding debt on the dorms with full debt relief 27 years away.

Ransdell looked at his meager options. Since the General Assembly expects dormitories to be self sufficient, there would be no legislative funding. And universities could not issue auxiliary agency bonds as they can today with legislative approval.

“We needed to raise new capital, pay off existing debt to the state so we could afford to finance new debt, and physically transform the buildings themselves without disrupting the revenue stream that would finance our current and future debt,” Ransdell wrote in Trusteeship, a publication of the Governing Boards of Universities and Colleges. “We also needed to create an independent structure through which new debt could be issued and serviced.”

He and his board decided to do something that had never been done on a university campus, anywhere. WKU would relinquish ownership of its residence halls through an intricate plan that provided a way for the university to recapitalize and renovate the residence halls.

Ransdell and board incorporated a Student Life Foundation (SLF) as a nonprofit, nonaffiliated, tax-exempt Kentucky corporation to operate exclusively as a supporting organization for WKU’s Foundation. Any excess funds generated by the SLF could be paid to the foundation, and the foundation would use the funds to benefit the university.

The legislature’s Capital Projects and Board Oversight Committee approved the plan, and within two weeks the SLF purchased 17 of WKU’s 18 residence halls (one dorm was reserved for a different purpose). The SLF issued $65 million in tax-exempt bonds backed by dorm bed rental revenue to pay the $22 million still owed,
transaction costs, renovation costs, and establish SLF operating and repair reserves.

WKU's $22 million in outstanding “university housing and dining bonds” all were redeemed and taken off state books. When the SLF bonds mature, the university has an option to buy the buildings back or continue under the management agreement with the SLF.

“The whole transaction is invisible to students because the Office of Resident Life manages the resident properties,” Ransdell said. “We were able to take a poor-quality living environment on campus and turn it into state-of-the-art living environment. It was entrepreneurial and a little risky, but it worked.”

**Collaborative creativity**

“The universities are being creative about things that are identified as critical to the well being of their campus and their ability to compete for good faculty and students,” observed CPE’s Jackson. “Students are looking at campuses to see what kind of facilities they have and then making their decisions on where they are going to go.”

Jackson said the University of Louisville has been particularly creative when it comes to student housing.

“We haven’t had any money for residence halls from the General Assembly, even in the form of agency bonding, in 15 years,” said Shannon Staten, director of housing and resident life for UofL. “Not that we’ve asked the legislature every time, but we have been thinking out of the box for about 15 years.”

This new way of thinking started in 1997, when then-President Dr. John Schumaker wanted to expand campus housing capability from 9 percent of UofL students to 19 percent. He also wanted to update older residence halls. Beyond financing, UofL had two additional complications.

The university needed additional beds fast – to accommodate a new UPS program for third-shift workers offering the perk of a company-paid college degree. University housing that would accommodate employees’ unique needs was a key to its success, the company believed.

UofL also wanted to meet its goal using a public financing model.

The school did hold one ace in its hand: university-owned land that had already been designated for student housing.

“We formed ULH Inc., an entity within the University Foundation,” Staten said. “ULH Inc. contracted with EdR Trust (a Memphis-based company) to design, build and manage four new buildings (with 1,220 beds). The residence facilities were built between 2000 and 2006 at a cost of $56.3 million funded in tax-exempt bonds.”

The university met its goal of 2,900 beds by the end of 2006. Upperclassmen now have an apartment-style housing option in Bette Johnson Hall. Underclassmen can choose private or double-occupancy suites at Herman & Heddy Kurz Hall. Community Park includes five Greek chapter houses plus suite-style residence hall units. Billy Minardi Hall houses athletes and general students and offers food service.

“It worked well for us, Staten said. “EdR Trust did a good job of managing the facilities and working with the university to meet students’ needs. But all along, when it came time for us to renew we thought there would be no reason to. But we found it was more cost efficient and easier for EdR to continue to manage them.”

UofL wasn’t finished, it turned out. Enter James Ramsey, UofL’s current president, who upped the goal for on-campus student housing to 32 percent to make the school more of a residential rather than a commuter college.

“At that time, we didn’t have any more land and still didn’t want to rely on agency bonding,” Staten recalled. “We
had to get creative again.

UofL successfully invited adjoining property owners into a “bridge” partnership to build and run student housing.

“This has resulted in quality student apartments on the edge of our campus where the owners/managers work within our standards and guidelines and collaborate with us on the programming and activity on site,” Staten said. “This intentional bridging to the students has provided locations for our students to live with a more private and independent lifestyle while remaining connected to the campus through programming, crisis response and staff training. We endorse these communities to our students who qualify to live there.”

Yet more creativity

Less than 100 miles away, the University of Kentucky also found working with private developer EdR Trust beneficial. In fact, UK became the first U.S. school to work with an outside company for all its residence halls, according to Penny Cox, housing project implementation director.

Phase 1 of UK’s agreement with EdR Trust, New Central Hall, will be complete in July and open this fall, said Tom Trubiana, executive vice president and chief investment officer of EdR Trust, a real estate investment trust that owns or manages 67 communities in 24 states with more than 37,000 beds.

Unique at UK is that EdR is using its capital exclusively to build the first $28 million project, a living/learning center with 600-beds and 19 active learning rooms that is designated for honor students and freshman.

“There are no taxpayer monies being used on the project,” Trubiana said. “There is no debt being placed on the properties either.”

EdR will own the buildings under a long-term ground lease with UK, operating the buildings with its employees and giving UK a cut in rent revenues.

Trubiana’s staff works directly with Cox, who serves as the university’s liaison with EdR. Benefits go far beyond financial, Cox said.

“Students do much better academically when they live on campus, where they can engage more readily with faculty and residential life-support systems,” she said. “The active learning spaces constructed in our new facilities will expand our educational environment to include the times and places students live, eat, play, study and socialize.”

The General Assembly has given UK permission to spend $175 million on phase two of the plan.

Phase 2 will include Champions Court 1 and 2, which will have 1,167 beds and 19 active learning rooms; Woodland Glen, with 1,818 beds and 33 active learning rooms; and Haggan Hall with 332 beds and 19 active learning rooms. All are on schedule for opening in 2014 at a total cost of $133 million.

Rent at the new facilities will be the same as for upper-end housing already available at the university.

UK also has found other creative ways to fund much-needed facilities, including using an asset most
Academics and athletics

“President (Eli) Capilouto and I talk often, both about athletics and the campus,” said Mitch Barnhart, UK’s athletic director. “We had been talking for several months about campus infrastructure needs – from commonwealth to academic issues. President Capilouto has been very supportive of our desire, using our resources, to upgrade athletics facilities on behalf of our student athletes and fans. I told him that we wanted to contribute to improvements in the academic campus.

“We’ve long been partners in that regard and, fortunately, we’ve been in a position to contribute millions of dollars each year toward academic scholarships and other programmatic needs on the campus. President Capilouto identified the science and academic facility as a critical infrastructure need.”

From those discussions and other meetings came an unprecedented agreement. UK Athletics would provide $65 million toward a new science building that will be a successor to the circa 1962 Chemistry/Physics Building.

To UK’s knowledge, the athletics program financing is unique.

“I’m not aware of this level of investment occurring anywhere else,” Barnhart said. “But we have an incredible fan base that passionately supports this program. We are in the premier athletics conference in the country. And we have built, over a long period of time, a strong program, one that is among the handful in the country that is truly self-sustaining.”

Barnhart is among the small circle in university administration that report directly to the president.

“Mitch is involved in and knows what is happening across campus,” said Steve Byars, assistant vice president for government relations at UK. “He’s also a real team player. He saw that athletics had the resources to make an impact on the entire university. He saw it as the right thing to do.”

And this is far from the first time athletics has given academics a financial assist, Barnhart emphasized.

“We have over the years funded millions of dollars in programmatic needs for the university, from music to the Center for Research on Violence Against Women to a prominent auditorium and meeting space in the W.T. Young Library,” he said. “We understand the needs on campus and continue to pay full cost on in-state and out-of-state tuition along with sharing licensing revenue 50-50 with the university. In total, we spend over 25 percent of our expenses back on campus.

‘United we stand’

This kind of collaborative, do-what’s-right thinking enabled Kentucky’s public universities to gain 2013 General Assembly approval for six schools to borrow $363.3 million to build or renovate 11 buildings. The universities estimate the projects will create 5,100 construction jobs in 2013 and generate an economic impact of a $622.9 million – in addition to benefiting students, most of whom will go on to contribute the state economy.
Again, the postsecondary capital project construction involves no General Fund appropriations. Money will come from agency bonds, which require institutions to use their own money to service the debt.

Unique, however, is that the multi-project authorization request from the public universities came collaboratively in one document, rather than competitively as individual requests. All the schools have wants and needs, but they worked together for months and jointly submitted to legislators “A Proposal for Shovel-Ready University-Funded Capital Investments,” a document detailing 11 projects and their impacts.

In response, legislators gave their OK in record time, and in an odd-year short session, requiring a three-fifths vote. Some of the projects had been considered but failed to gain approval in the 2012 legislative session.

The university presidents met repeatedly through the summer of 2012 to discuss the matter, said Robert Jackson, associate vice president for development and governmental relations at Murray State University. The presidents’ facility management and government relations staffs got involved, too, said Jackson, who was a state senator from 1997 to 2004 and has first-hand knowledge of the legislative process.

“We all meet often and get along well,” Jackson said. “We have worked together collectively on many projects and are all supportive of each other.”

However, these 2012 meetings produced a first – a collective agreement among the universities spelling out agreed-upon priorities and bearing the endorsement of all the presidents, including two with no projects on the list. It was one for all and all for one.

“The universities have worked together well for a long time, but I think having a unified message was really important,” Byars said. “I think it was important that we had the criteria for our priorities described in detail. We said: Here’s a way for the General Assembly to help the universities help themselves.”

The university presidents felt the projects could not wait until 2014, said Joe Wind, vice president of government and community relations at Northern Kentucky University.

“These projects were all advanced in the last regular session and were not approved,” Wind said. “They all were priorities more than a year ago. This, coupled with the rates for bonding and lower materials costs that will save money, convinced the presidents that they couldn’t wait until 2014 to begin these facility improvements.”

The university leaders had to determine which projects to champion and established four criteria. The proposals had to:

• Be shovel-ready, able to begin construction in the next year.

• Not increase tuition costs; have a funding source in place.

• Have significant immediate impact on students and the college experience.

• Have a significant impact on Kentucky’s economy.
The long list was whittled down to 11 projects that met the four criteria.

“What is even more impressive,” Wind said, “Eastern Kentucky University and Kentucky State University did not have a current project with a funding source identified but signed on to the list because Dr. (Mary Evans) Sias and Dr. (Doug) Whitlock felt that this effort was important to the state. The other presidents would have done the same thing.”

**The future: more win-wins**

The final proposal hints at future collaboration in its first sentence:

“We, the presidents of Kentucky’s four-year public universities, are providing you with this first in a series of collaborative initiative to maintain momentum at Kentucky post-secondary education institutions during these difficult financial times.”

Wind believes there will be such collaboration in the future and said NKU plans to be part of it. Robert Jackson at Murray State concurs.

“We are being strongly encouraged,” he said, “and everyone involved says we need to do this again. The legislature is a complex place dealing with complex issues. It is much easier for legislators when they are dealing with one voice with everyone on the same page rather than five people with five messages.”

CPE’s Sherron Jackson praised the “ingenuity of having the institutions come together as a unit.” The result “was so overwhelmingly positive.”

“Everyone is pleased the universities are getting their buildings. They are paying for them with their own money. There is not a down side. I can’t imagine they wouldn’t want to do it again. It’s a win-win, and everyone is always looking for that.”

Similar win/win comments dominate discussions about the use of outside firms such as EdR Trust.

Officials at UofL “consider them (EdR Trust) a part of campus housing,” Statten said. “We work with their managers on training. We provide bridge programs from student affairs. It is really quite phenomenal. We have been able to negotiate several business changes, and now students have no clue who manages the buildings because it all feels the same to them. We do a lot of things in tandem in a way that is really unique to most campuses.”

Others are taking notice of what Kentucky’s universities are doing.

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