DOCUMENT RESUME

ED 252 148 HE 018 008

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TITLE How Can We Afford This: Funding & Financing Means.
PUB DATE Feb 84
NOTE 41p.
PUB TYPE Viewpoints (120)

EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Capital Outlay (for Fixed Assets); *College Buildings; Construction Costs; Donors; Endowment Funds; Expenditures; *Facility Improvement; Federal Aid; *Financial Support; *Fund Raising; Higher Education; Operating Expenses; Private Financial Support; *School Funds; State Aid

ABSTRACT

Sources of funds for campus capital renewal and replacement are discussed, including the operating budget, external sources, conversion of assets, and innovative techniques. Current funds can be obtained from tuition and fees, external sources, and sales and services of educational or auxiliary operations. Public universities are more heavily dependent on federal aid and contracts than are private universities. State governments play a significant role in supporting public higher education and, to a lesser degree, private institutions. In the early 1980s, the private sector derived a larger percentage of revenues from private gifts and endowment funds than did public institutions. Educational activities and auxiliary enterprises sell goods and services to faculty, staff, students, and the public. Object categories of college expenditures could be examined for ways to reduce costs and as a potential source for capital renewal and replacement funds. Additional sources of funds are foundations, corporations, and individual donors. Ways of soliciting gifts from private and corporate donors are identified, along with recommendations for obtaining government financial support for renewal and replacement. Debt financing and innovative techniques, such as land development and tax benefits, are also considered. (SW)

ED252148

HE 017 002

HOW CAN WE AFFORD THIS:
FUNDING & FINANCING MEANS

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February, 1984

ABSTRACT

Funding the renovation of older campus buildings fits into the broader context of capital renewal and replacement of all facilities that includes not only buildings, but grounds, utilities, and equipment. An older building selected for renovation because of the desire to coninue the use of a historic structure, or one with importance for the institutional continuity, must be coordinated with overall facilities management goals. Thus, the funding and financing of an older campus building becomes part of a broad institutional policy for maintenance, and renewal and replacement.

After all the funds have been wrung out of unrestricted gifts, endowment income and transfers from auxiliary enterprises, and after the endowment and plant funds have been drained of any reserves, there are normally four sources left available to fund capital renewal and replacement: the operating budget, external sources, converting assets and innovative techniques.

Funding the renovation of older campus buildings fits into the broader context of capital renewal and replacement of all facilities that includes not only buildings, but grounds, utilities, and equipment. An older building selected for renovation because of the desire to coninue the use of a historic structure, or one with importance for the institutional continuity, must be coordinated with overall facilities management goals. Thus, the funding and financing of an older campus building becomes part of a broad institutional policy for maintenance, and renewal and replacement.

After all the funds have been wrung out of unrestricted gifts, endowment income and transfers from auxiliary enterprises, <u>and</u> after the endowment and plant funds have been drained of any reserves, there are normally four sources left available to fund capital renewal and replacement: the <u>operating budget</u>, <u>external sources</u>, <u>converting assets</u> and <u>innovative techniques</u>.

Stated succinctly, this means managing the current fund for greatest effectiveness, reexamining current assets, and raising money from gifts, grants, long term financing, and new strategies.

These sources may already be under siege to meet operating needs, to pay off unwise ventures in capital construction, or other unfunded debts. Certainly, in a time when tuition increases of 10 to 15 percent in the independent sector are common, and public systems of higher education have seen no budget increases for two or three years -- representing a net reduction due to inflation of 15 to 20 percent -- it is expected that the operating budget, available convertible assets, and external sources already have been heavily tapped to maintain financial stability.

With institutions hard pressed to maintain balanced operating budgets, the traditional recourse is to turn to raising funds from external sources for capital improvements. However, it is urged that colleges and universities first turn inwards to operating funds before exploring other sources. An overall approach to renewal and replacement based on on-going funding of capital needs requires a range of 1.5 to 3 percent of annual operating budgets to be set aside for capital renewal and replacement. This allocation is based on estimates of the depletion of total plant replacement value occurring annually.

Introducing an annual level of renewal and replacement funding as a new item in the operating budget requires fresh sources of funding. Because current funds represent the most readily available source of funding capital renewal and replacement they will be given first attention, followed by an examination of other funding sources.

Managing for Performance

To meet its potential as a source for funding capital renewal and replacement projects, current funds require managing. Of course, this is assumed by governing boards as being rigorously addressed to restrain tuition increases and provide adequate staff compensation.

Unfortunately, the budgeting practices in higher education generally limits managing to securing compromises between different competing demands and adjusting revenues and expenditures on an incremental basis. The result is an ongoing struggle to maintain a balanced budget or to minimize deficits. In this climate, reserves to repair facilities or replace equipment are often forsaken to control costs.

Managing current funds requires a broad based approach to generate sources of funds for capital renewal and replacement from operating budgets. This approach begins with managing higher education institutions for their own functions, missions and objectives, followed by identifying opportunities for increasing revenues and controlling expenditures. It is a tough-minded task, not for the weak at heart, nor for those who want to be revered at faculty social events. It must be inspired by the governing board and the chief executive officer and transmitted to senior academic and business officers -- all with a broad perspective of institutional needs -- and onto all administrators responsible for managing the institutions fiscal, human and physical assets.

Managing requires setting priorities and closely scrutinizing those activities that contribute to the performance of an institution. By applying this discipline to the budgeting of current funds potential sources for capital renewal and replacement can be identified and established as an annual budget line. The process examines revenue and expenditure allocations for strategies to <u>increase</u> revenues and <u>control</u> expenditures. Simple generalizations of "increase tuition" and "cut across-the-board" certainly can do the trick but are so shortsighted that they have to be viewed as a last resort, one that is the antithesis of managing for performance. Furthermore, revenue and expenditure of institutions vary greatly in composition by size, mission, and sector of support. These variances dictate specific strategies formulated to address different institutional characteristics.

PART ONE

Current Funds; Revenues

For purposes of formulating strategies for renewal and replacement funding, current fund revenues can be organized into three groups: (1) tuition and fees; (2) external sources -- government, private gifts, and endowment income; and (3) sales and services of educational or auxiliary operations.

Tuition and Fees. Although independent sector institutions vary in their dependency on tuition by level, it is two to three times the revenue source as a percentage of total income as in the public sector. Thus, modest proportional tuition increases in the independent sector have a much greater impact on increasing potential funds for capital renewal and replacement than in the public sector.

For the independent institution, these unrestricted funds are increased at the discretion of governing boards. Public institution tuitions are set by legislative review. For one there is the silent actions of the student market, for the other there is a vocal political response. Both sectors can benefit by closely examining tuition and fees to assure that they are realistically meeting costs. A growing practice is the differentiating of high cost academic programs with special surcharges for tuition and fees where justified.

The "tuition-driven" nature of higher education has different implications for public and independent institution revenues in an era of projected declining enrollments. while private institutions face the loss of tuition and fees due to fewer students, public institutions face the double jeopardy of the decline in enrollments, and the reduction of state appropriations, especially in those states employing enrollment-driven funding formulas. A revenue oriented solution to increase tuition and fees for enrolled students cannot ignore the degree of student sensitivity to changes in tuition where tuitions and fees at independent institutions charges average four times that of public institutions. In the final analysis, increasing revenues by raising tuition and fees is constrained by market resistance, political pressures and the reality of national economic conditions.

External Sources. The major revenue source offsetting the gap between tuition and operating costs is a mix of government appropriations, grants and contracts, gifts and endowment income. These external sources of funding vary widely between the public and independent sector and by level of institution; approximately 65 percent for the public sector and 31 percent for the independent sector.

Public sector universities are heavily dependent upon federal government appropriations, grants, and contracts. Independent sector universities are also dependent upon these sources but from one-half to one-fourth their counterparts in the public sector. Government subsidized student aid is not usually recognized as an "external" source, but the importance of its contribution adds to the overall dependency of both sectors on government policies. Further reductions of federal research grants and contracts will have a damaging effect on revenues, along with the negative impact of decreases in any of the federally supported student aid programs of loans, grants and work study aid.

State governments play a significant role in supporting public higher education and, to a lesser degree, independent institutions. Either by direct appropriations or indirect subsidies, grants to students, program support or construction financing, state legislatures are important revenue sources. Both sectors, need to take aggressive positions on policy decisions concerning levels of state assistance, the form in which that assistance will be delivered, and how that assistance will be coordinated with federal programs. Concentrated lobbying efforts by individual institutions and higher education associations to sustain current levels or introduce new government sources of revenues is vital for all institutions in both sectors.

Private gifts and endowment funds contributed \$4 billion in 1981 to current fund revenues of higher education, and additional amounts to plant funds for capital construction. Independent institutions derived more than fourteen per cent of their revenues from these sources; public institutions almost five percent. A significant growth has been seen in recent years as institutions concentrate their efforts on increasing their revenues. The unrestricted portions are particularly attractive for renewal and replacement funding because of institutional flexibility in allocating these funds.

Generating capital renewal and replacement funds by shifting previously solicited gifts and unrestricted endowment for capital construction to renewal and replacement has been successfully accomplished by several institutions. This transferral will compete with the need to support current operations for instruction, research and public service. However, independent institutions have already used this strategy to offset declines in government support and have seen some encouraging results.

In the public sector, the modest level of contributions from private gifts and endowments to current fund revenue should not discourage efforts to introduce steps to increase these sources. Development efforts should be initiated or expanded among alumni, corporations and foundations to generate funds from these sources to support current funds and offset demands on the operating budget for capital renewal and replacement.

<u>Sales and Services</u>. Educational activities and auxiliary enterprises sell goods and services to faculty, staff, students and the public. Revenues include funds which are incidental to instruction, research and public service with contributions to current fund revenues varying by type and control of institution. Educational activities contribute more to independent universities than to public institutions at the same level; auxiliary enterprises are comparatively close as a revenue source for each level of institution by sector.

These activities are usually supervised, that is, not managed for effectiveness <u>and</u> full recovery of costs. They are viewed as a service and are often a subsidized part of an institution's operations. Sometimes profitable and at other times requiring subsidies, educational activities and auxiliary enterprises are mixtures of moments of inspiration and implied obligations to faculty, staff, students and the public. Added is a measure of tradition. In some cases they are necessary services and in other cases, luxuries. By assessing general administrative costs -- the overhead -- and setting of fees and charges to recover full costs, fresh revenues can be generated for all levels of institutions in both sectors. Furthermore, each activity should be evaluated for their appropriate contribution to the institution; some activities may be better terminated and new activities started where opportunities exist.

The following are suggestions for evaluating educational and auxiliary activities: (1) Are the activities essential to the purpose of the institution? (2) Are full costs being recovered? (3) Will increases or reductions in capital or operating expenditures be cost effective? (4) Are the activities appropriate to the non-profit and tax-exempt status within local jurisdictions?

Current Funds: Expenditures.

The potential for reducing current fund expenditures to free up resources for renewal and replacement is guided by the labor intensive nature of higher education and permanency of physical plants. Approximately 73 percent of total expenditures for the average institution are for personnel compensation. The remainder is for contracted services, supplies, equipment and utilities.

The delicate, least-preferable task of reducing overall personnel compensation by either salary adjustments or actual reductions in staff has obvious benefits. Reductions in personnel are being introduced at campuses across the country as a response to fiscal exigencies but these measures are being done to balance budgets or minimize deficits, not build reserves for capital renewal and replacement. The scaling back of equipment purchases, contracted services, and utility costs by energy conservation are also aimed at offsetting fiscal crises.

Rather than look into the functional categories of expenditures (e.g., instruction, research, public service, etc.) for opportunities to generate cost reductions as a potential source for capital renewal and replacement funds, a more revealing analysis is provided by examining object categories of expenditures and their recent trends. Changes in the categories of expenditures from 1972 to 1982 highlight the possible effects of controlling expenditures and also illustrate the importance of non-personnel expenditure reductions. In a period when costs of contracted services, supplies and equipment increased an aggregate 164 percent (utilities increased 381 percent), compared to 102 percent for personnel compensation, effective managing for performance can yield immediate benefits of significant value. Investments for energy conservation which have rapid pay-back periods can be justified even if borrowing is required, for example.

Reducing expenditures is also guided by the basic approach of decisive action which can most effectively show returns. Energies exerted in agonizing over salaries and personnel reductions should be shifted to areas where effective managing for performance will yield immediate results in reductions of expenditures.

Because colleges and universities have been adjusting to the cost-income squeeze since the early 1970's the limited flexibility in most institutional budgets cannot be overlooked. Many institutions have already reduced the size of their operations, reallocated resources internally and retrenched faculty and programs to shrink the budget base. In fact, the reduction in expenditures in higher education to offset worsening financial conditions in the past decade has been done, and at the expense of staff compensation and deferred maintenance, despite reports of "balanced budgets."

Minter and Bowen, in their recent studies of the fiscal conditions of public[1] and independent[2] sectors of higher education, point out that the deferral of maintenance

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1 Minter, W. John and Bowen, Howard R. Preserving America's Investment in Human Capital: A Study of Public Higher Education. Washington: American Assoc. of Community and Junior Colleges, et. al., September, 1980.

2 ______________. Independent Higher Education:1980. Washington: National Institute of Independent Colleges and Universities, 1980.

of physical and financial assets represents an "inexorable using up of capital." Adding to this grim picture are the trends of increases of operating costs for fixed assets, and the depletion of existing reserves and quasi-endowment to be used for current operations -- all at the very time that the urgent need for capital renewal and replacement is occurring.

PART TWO - OTHER SOURCES

Foundations, Corporations and Individual Donors[3]

Raising funds for construction is a time-honored responsibility greeting every new college president since the founding of higher education in America. It is a unique characteristic of a system that has created a portfolio of plant assets valued in 1982 at $2.3 billion. Traditionally, supplicating college presidents seeking financial contributions wore a path to the doors of corporations, foundations, legislatures and individual donors. With the federal government fueling the expansion of higher education in the 1950's college presidents relaxed in their pursuit of donors. The trustee's maxim of "give it or get it" fell into disuse as institutions relaxed in relative affluence, shifting their attention to participatory governance and social issues.

The fiscal crises surfacing in the 1970's, the loss of public confidence in higher education, and the reduction of federal support drastically altered the situation. Major fund raising campaigns were hastily

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3 See also - Michael D. Richards and Gerald R. Sheratt. Institutional Advancement in Hard Times, ERIC Report No. 2, 1981. American Association of Higher Education, Washington, D.C. 1981

created with unrealistic goals and weakly defined objectives. Initially designed to gain support for operating budgets, these campaigns were expanded to include endowment and capital construction projects. Fund-raising efforts rarely included a component for renewal and replacement of existing facilities.

A reappraisal of these activities is now bringing together a coordinated program of institutional advancement. Included under the umbrella of Institutional Relations are alumni relations, fund raising, governmental relations, public relations, and internal and external communications. The role of Institutional Relations is to unify the college or university's task of gaining support for all its endeavors. More ephemeral than traditional fund raising, these activities are difficult to define and achievements are elusive to measure. However, the main purpose is portraying an institution to its constituencies and gaining confidence in its mission, while simultaneously developing financial support.

Fund raising for renewal and replacement requires special strategies to appeal to different constituencies. Key gifts from corporations, foundations and individual donors require buttressing with mass appeals to trustees, faculty, staff, students, alumni, parent donors, government officials and other donor groups. A presentation with renderings, floor plans and a list of naming opportunities is the traditional method for approaching donors for a new building. The challenge is presenting the enhancement of academic or support through programs of renewal and replacement projects with the same techniques and excitement of new building fund campaigns.

One strategy for raising renewal and replacement funds incorporates priority projects into a single category as "building renovations" in a major fund campaign. In the appeal to donors renovations are equated to increasing endowments and scholarship funds, and new capital construction. Individual projects are listed and graphically presented in the same style as a new building and placed alongside other fund-raising goals. This approach offers the same sense of importance to renewal and replacement as strengthening the academic enterprise and long term fiscal health of the institution.

A benefit of this technique is the combination of renovation needs with other campaign activities. Organizational efforts can be pooled with staff and trustees coordinated towards a common goal. As potential donors are reviewed, a selection of assignments for staff and trustees can be made taking the best advantage of each contact. There has been a growth in this type of approach by non-profit institutions, including higher education.

Another strategy creates a campaign solely for renewal and replacement. Individual projects are identified and a special area of interest in college affairs sought for foundations, corporations, alumni, or individual donors. This approach has been successful in the past in gaining endowed chairs and scholarships for a discipline with a unique appeal to donors. Similiarly, renovations of an entire building converting its use or modernizing outdated equipment can appeal to donors by matching interests with gift opportunities. By working jointly with trustees and academic leaders a development staff should be able to identify sources whose careers and businesses invite themselves to well-prepared approaches for funds.

The following is a checklist of steps for developing a renewal and replacement funding campaign:

- A list of priority projects agreed upon by central inistration
- Review by academic departments and development staff for categories of potential donors
- Review and approval by governing board
- Preparation of campaign for presentation to alumni, corporations, foundations, and friends

Use of either strategy - the consolidated fund drive or individual projects - requires a thoroughly prepared list of projects specifying the conditions to be improved. Benefits to a special academic program, faculty or student support programs should be identified for a donor who will find the need attractive. If there is support proposed for a distinguished academic department, the record of accomplishments and proposed future activities may find an unexpected response from a trustee, alumni or friend of the institution. Where cost benefits will result from a project the pay-back period or operating economies should be spelled out.

It is encouraging that foundations are now showing interest in proposals for renovation as a tool to contain operating costs as an alternative to plant additions. Recognizing that stable or declining enrollments will reduce the need for new buildings and that renovations will strengthen existing programs and support services portrays realistic institutional stewardship.

Capturing the imagination of potential donors requires thoroughness in proposal preparation. At the core of the proposal is a clear statement of the activity benefitting from a gift. By reviewing the list of projects with academic departments the development staff can prepare a tentative list of donors. The appeal to the donor must emphasize that an essential program, whether teaching, research, or community service, will be enhanced by the proposed renovation work. Reluctance to seek funds for a roof replacement or leaking plumbing in a chemistry building can be reshaped by highlighting the importance to undergraduate teaching or the need to sustain research activities. The message must be clearly delivered. Restoring facilities and equipment for programs essential to the institution are just as important as providing improved space for new programs.

The role of trustee leadership in the difficult area of renewal and replacement fund raising is especially important. If a program of renewal and replacement doesn't exist then the board member should ask why not. This questioning can start the process of an inventory of conditions and definition of priority projects and produce a well detailed campaign program. By reviewing and approving a list of projects the governing boards are better prepared to lend their knowledge, experience, and their personal support. The trustee who can introduce a college president or development officer to a potential donor leads the way with their personal contact, good will, and possibly their own gift.

With a list of projects in hand, the governing board and administrators can decide what campaign approach to adopt. An intensive two or three day retreat to "brainstorm" campaign strategies has been a successful method to gain trustee involvement. An informal setting away from campus provides an environment conducive for creative thinking. Imaginative presentations, delivered enthusiastically and illustrated with professionally prepared visual material, benefits the trustees and senior administrators who must be convinced of the urgency of renewal and replacement funding before they contribute their support and energies. The first hand inspection of facilities is perhaps the most persuasive method to gain interest even though it may alarm trustees or a potential donor of a calamitous situation.

A board of visitors or advisory council to an academic program or support program already in existence can be strong champion of a need to improve facilities. Through the enthusiastic participation of a dean or interested trustee an existing council, or one newly formed, provides a core of campaign members for renewal and replacement fund raising. Stadiums and field houses have special appeal to one audience; law, business, architecture and other professional schools appeal to different constituencies. The role of leadership is a familiar one for athletic directors but may be a new one for academicians. However, an articulate dean dedicated to their academic discipline makes an impressive advocate for renewal and replacement funding.

A source for augmenting trustees and campus fund raisers is well informed volunteer support groups. Illustrious alumni, including scholars, athletes and movie stars welcome invitations to lead campaigns, if only asked. Attractively packaging projects is the staff's job; the campaign committee must be willing and committed to achieve their goal. Consulting available references on the interests and activities of foundations and corporations is necessary before wasting staff time and alienating a possible source for a future solicitation. Criteria should be examined beforehand, the presentation clear and concise, and staff well-informed on the proposal to answer questions.

A frequently used strategy is to bring representatives of foundations, corporations, or individual donors to the campus to view conditions, especially when they have been identified with a special area of interest. One Eastern women's college began the development of a new campus through a family's gratitude for the education of their handicapped daughter. Another college recently raised over $4 million from an alumni donor for the conversion of an existing building into a new computing center. In these and other cases of renewal and replacement gifts the college president, trustees and development officers were well prepared with facts and figures. The approaches were successful because personal ties were forged between the donor and the future of the institution.

The same technique is viable for foundations and corporations, and government officials. Representing renewal and replacement as vital to the future of an institution requires thorough documentation, well-prepared fund raisers, and the indication of an area of interest that benefits the donor.

A current success story is the gaining momentum of partnerships between business and higher education resulting in massive investments in buildings and equipment. Industry-supported academic research is being projected for substantial increases in the 1980's to narrow the gap between basic and applied research. Those colleges and universities taking advantage of their strengths by seeking corporate sponsored research will find a rewarding response. An example is the major gifts of computer and genetic engineering corporations to colleges and universities to advance their self interests, but on terms that preserve academic freedom.

The following is a summary of suggestions for soliciting gifts from foundations, corporations and individual donors.

- Presentations. Projects clearly defined and supported by imaginative presentations of slides, videotapes, or film. Reports with plans, renderings and cost estimates. Tours of existing conditions accompanied by technical staff.
- Packaging. Identifying projects with special interest to trustees, alumni and general public. Buildings, grounds and equipment renewal and replacement tied to the activities of a potential donor.
- Trustees. Leadership of trustees by personal giving. Personal contacts and staff introduction to foundations, corporations, and individual donors. Guidance in proposals to industry in similar businesses. Participation in forming alumni and friends into Councils with shared interests in specific programs.
- Advisory Councils. Groups of alumni and friends with a special interest formed around the enthusiastic leadership of trustees, faculty and staff. Boards of Visitors with quarterly or semi-annual campus meeting or nearby metropolitan centers introduces members to campus needs and offers participation in academic activities. The tasks of advisory councils must be directed to a specific goal and avoid conflicts with other funding programs.

- Targeted Sources. Foundations, corporations or individual donors with special areas of interest should be identified to match a specific project. Screening of possibilities is a staff function with assistance of trustee consultation.
- Economic Development. Applied research for local and regional industries as a catalyst for economic development. Special training programs for local residents as a source of qualified employees. Partnership with industry in sponsoring academic programs fostering corporation and institutional goals.

Government

The Massive federal and state government support for higher education in the halcyon days has declined, although funds are still available. Expertise in categorical programs and diligent reviews of the Federal Register can uncover sources of funding for renewal and replacement. Energy Conservation Grants and Housing Loans are two programs which are still being funded; proposals for employment legislation may produce new streams of funds for higher education's renewal and replacement needs.

Lobbying efforts at the federal and state level for special projects have rewarded several major institutions. This technique targets elected representatives who can introduce legislation and steer a project through legislative committees. Tied to either existing or unique pieces of legislation, this approach has provided Georgetown University with a new energy generating plant, Tufts University with a School of Government, Syracuse University with a new stadium, and Rensselaer Polytechnic Institute with a new technology center.

Despite claims of "pork-barrel" legislation from envious institutions the projects were fundamentally sound. They fit either within existing programs or could be defended as sources of economic development. Through extensive lobbying efforts based on a well-prepared program, legislators were convinced by combined efforts of campus administrators, trustees, and local business executives to fund projects. This coordinated effort resulted in a New York State program to fund a network of technology centers. Other states are considering similar legislation.

Funding from government sources serves renewal and replacement needs with new facilities, replacing obsolete buildings and equipment, or renovations of existing buildings. Imaginative proposals for government appropriations or grants can be conceived, even in the absence of precedents, and introduced as legislation with the diligent effort of staff, trustees and friends.

The following is a summary of recommendations for government sources of renewal and replacement funding:

- Existing Legislation. Thorough review of federal and state programs to match proposed projects. Interviews with agencies in person to introduce the institution and obtain facts on current funding.
- Publications. Regularly review Federal Register, higher education newsletters, and proprietary publications for facility program announcements.
- Special Legislation. Formulate programs which can be reviewed with area legislators for possible federal or state grants or appropriations. Lobbying in coordination with trustees, alumni and friends for projects which match state government legislative programs.
- Economic Development. Lobby for new legislation which builds on institutions prestige in strengths of academic programs. Seek construction funding to convert or remodel space which can accommodate proposals which foster local or regional economic benefit.

Debt Financing

Entry into debt financing for funding capital renewal and replacement must be measured cautiously against institutional policies before considering external borrowing or issuance of bonds. Borrowing for building self-amortizing projects such as residence halls or athletic facilities is a common practice, usually made financially feasible by heavily subsidized interest rates.

Financing projects with borrowings at or near market rates requires careful analysis before collateralizing existing assets and pledging future revenues to repay debt. Careful observation of trends is essential because fluctuations in interest may open or foreclose debt financing possibilities during midstream of capital budgeting.

Debt financing in the open market without benefit of interest subsidies should only be resorted to when conditions have reached emergency levels and all other possible sources have been exhausted. When an institution has reached this point of liquidity it is facing the most dire fiscal crisis.

Possibilities for long-term low interest loans exist through current federal College Housing Loan Programs. Although very competitive, many institutions have funded renewal and replacement and achieved significant energy savings through this Program. Agencies in several states also offer debt financing through issuances of bonds which offer tax-free income to note holders. Attractive rates of return for these offerings place them in a favorable position as a source of borrowings for an institution. In some states higher education qualifies for industrial development or similar forms of bonding. The same caveat applies for all of these statewide agencies and authorities borrowing sources: a repayment plan based on anticipated revenues or externally raised funds must be firmly in place.

Creative debt financing, with the full faith and credit of state government and accompanied by subsidies of interest rates, can be supported on several grounds. The contribution to regional economic development falls in line with the intent of industrial development revenue bonds. Similarly, provision of special services ranging from health services to job retraining can fit with the purposes of specific legislation. Lobbying efforts can support other equally valid programs for the creation of debt financing techniques which benefit higher education renewal and replacement needs.

The following are recommendations for debt financing through government sources:

- Existing Federal and State Programs. Thorough review of federal programs which specifically offer long-term low interest loans for facility improvements.
- Industrial Revenue Bonds. Examine already available precedents already for use by higher education. Interpret bonding practices with favorable rates and subsidies for previously untapped funding sources.
- Statewide Agencies and Authorities. Explore the availability of existing sources and support adequate bonding capacities for dormant agencies.
- Creative Debt Financing. Lobby for generic or categorical program debt financing for higher education at subsidized interest rates implementing legislative mandates. Academic activities fulfilling social and economic goals can be the basis of new government debt financing programs.

Conversion of Assets

Yale University recently made national headlines by selling its "Brasher Doubloon" for $675,000 and Syracuse University sold an S. F. B. Morse painting for $3.2 million. Other independent institutions have quietly disposed of buildings or donated items, sold real estate, or auctioned off surplus furniture and equipment. Conversion of assets provides a fresh source of unrestricted funds for discretionary use by campus administration. With appropriate safeguards for gift restrictions, they can contribute to funds for renewal and replacement.

Guiding the process of divesting assets is the basic criteria of whether or not an item is essential to the mission of an institution. This rule can guide decisions in sale of art works, equipment, or property. Painful as it may be, inventory reduction should be considered as a means of getting rid of expensive problems, and learning how to live with less.

Innovative Techniques

Undeveloped land and tax depreciation are two assets generally common to higher education but not directly available to their advantage. Through the use of innovative techniques these assets can create an income source for capital renewal and replacement.

Land Development. Land often acquired for long term growth but with no foreseeable use has potential for private development. By working as a developer, or merely as the lease land-holder, an institution can benefit from converting a dormant asset to a revenue producing asset with little or no cash investment. A leasing arrangement to private investors avoids tying up institutional capital and can provide lease payments and possible reversion of improvements to the institution after a set period of time.

The technique is not new. Projects in urban locations for single or mixed use, including an institution's programs, have served as revenue sources for decades. Columbia University has benefitted from land leases to Rockefeller Center; Stanford, Princeton, Harvard , the University of Chicago, George Washington University, and other institutions have used this method for many years. The models of Stanford, and the North Carolina Research Triangle Park, Princeton and the University of Utah illustrate initiatives which attracted research and manufacturing companies to nearby campus owned land. Corporations often avail themselves of faculty, students, computing centers, libraries and laboratories in a physical environment that values the corporate presence and surrounds it with a supportive, organized and esthetically pleasing environment. By-products for the institutions were opportunities for faculty consulting and employment for graduates sponsored research, gifts, and revenues from land development. The local economies also benefitted from increased employment and tax revenues.

Institutions with land in urban areas or at a critical location for industrial, commercial, or housing uses will find that their future growth needs can be protected while they enjoy a fresh source of income and possible future ownership of the facilities.

When entering into land development or lease back opportunities a college or university should seek sound legal and financial advice. This may be available from knowledgeable board members or outside guidance may have to be retained. A master plan with land development guidelines should be in place and the institution carefully determine its own direct and indirect costs as a partner in a development project.

Tax Benefits. A second innovative technique is the conversion of tax depreciation benefits for private investors which are indirectly available to tax-exempt institutions. This represents an alternative to traditional fund raising as an external source of funding for renewal and replacement. These benefits are attractive to investors, particularly under the Economy Recovery Act of 1981 which allows the investment tax credit for rehabilitated building to be claimed by the owner even if the building is leased to a tax-exempt organization.

In such an arrangement, an old campus building is sold to a group of alumni or other investors. The group makes needed improvements and benefits from the tax credits while leasing back the building to the institution at a favorable rate. At some later date the group may even donate the building to the institution for a further tax benefit. In such a sale/leaseback transaction, the after-tax net cost of the rehabilitation can be substancially lower than it would be if the institution were to raise the funds in a traditional fund raising campaign.

An alternative to the investment tax credit approach is the use of tax exempt bonds issued by an organization chartered for the purpose of acquiring buildings and/or equipment and leasing it back to an institution. By creatively structuring an opportunity for investors an institution can lease a facility or equipment funded privately. In exchange for the tax exempt bonds investors provide initial financing and receive lease payments. Reversion of the investment to the institution is a standard feature of this method of creative financing.

The Colorado State University Research Foundation is an example of creatively organizing a source to meet an institution's needs through depreciation benefits. In addition to providing new buildings in ~~recent~~ years the Foundation recently offered a bond issue for over $9 million to purchase a campus telecommunications system. The proposed sale of Bennington College's entire campus to investors combines the features of tax benefits and lease-back to provide new sources of revenue. However, this controversial form of arrangement is under close scrutiny by Congress and soon may be terminated.

A Footnote

Renovation of older campus buildings is a process filled with risk involving the entire campus community. The idea is a simple one, the process complex. The need may be readily apparent, the execution challenging. A derelict building, or one on the verge of abandonment because of structural or code problems must have a purpose for its preservation. With this clearly in mind, the cautious steps of feasibility of restoration, planning the project, and funding must be taken boldly and with confidence.

Renovation of older campus buildings focuses on a basic question: is the proposed project worth undertaking? To answer this question the governing board and campus administrators will have to thoroughly examine the program needs of the institution, as well as the feasibility of the project. The final decision hinges on whether a renovated structure will satisfy academic requirements for the building for a projected additional life of 50 to 75 years.

One element in the decision to renovate is campus and community attitudes toward a structure. Other considerations include the cost of renovation and the problem of loss of space during construction. Among questions to be asked are: What levels of renovation are possible? Can work be phased to allow use during renovation? Can equivalent funds be spent more wisely to rehabilitate other space? And finally, can the proposed academic and other institutional needs be better accommodated with complete replacement of the existing building? In some cases, one must weigh the advantages of renewing an existing structure even at premium costs.

Apart from the question of historic, architectural or sentimental value, the renewal or replacement decision involves a host of practical considerations: Can the older building really be saved by renewal? Can financial support be attracted for a renewal rather than a replacement? Will the results of building renewal be functionally and esthetically successful?

In recent years, many colleges and universities have reevaluated their older structures for purposes of historic preservation. Examples of successful retention of a building's original exterior enclosing complete replacement of its interior can be found at Harvard, Stanford, Cornell and Syracuse Universities. Unfortunately, there are also examples of ill-conceived attempts to retain the character of an original facade and of reusing parts of a building in a new structure.

To avoid hasty decisions each building should be evaluated individually, without preconceived solutions. A thorough appraisal of costs and benefits is necessary before embarking on a renewal project. Special care should be taken for a building representing an example of a certain architectural style or construction technique, representative work of a distinguished architect, in harmony with adjacent building or a unique design with pleasing proportions.

The last category demands special care. There are periods in the life of a building when its design is no longer fashionable, followed sometime later by a renewed appreciation of its beauty. Victorian architecture is an example of a style which is now gaining appreciation for its robust forms, warmth of materials, and ornate decoration after a long period of neglect.

In judging a proposal for renewal of a building, consider the potential advantages:

- Does it help provide a visual history of the institution and continuity with the past?
- Does it contribute to a sense of performance?
- Is there a harmony with adjacent buildings, providing a design unity for the campus?
- Will it attract continued support from the donors of the original building, and will its preservation help attract other donors?

Disadvantages must also be considered:

. Interior spaces, equipment or teaching methods of a previous era may not readily accommodate present and future requirements.

. The upgrading of older buildings with new mechanical and electrical systems, however necessary, provides little visible improvement. This drawback may induce additional modifications not necessarily warranted for intended functional improvements.

. The building being considered for renewal may actually have no redeeming features other than its age and should be demolished or substantially altered.

Don't underestimate the time involved to complete the projects or its costs. The lack of documentation usually available requires detailed investigation to determine existing conditions. This in turn will determine the possibilities for reuse, and methods of construction. Surprises will occur as part of the institution's history is discovered; so will the costs provide enlightment as compliance with safety and building codes and handicapped accessibility are incorporated into plans.

. Incidental to overall costs is the relocation of activities being displaced. New quarters may have to be permanently secured or temporary accommodations provided. Moving costs, renovations, or rentals are direct costs; staff time and reduction of revenues are often overlooked indirect costs. All of these costs and relocation planning are inherent in the overall renovation project.

In 1964, on the eve of the great growth period for higher education, the Educational Facilities Laboratories offered advice on renewal and replacement that stands today:[4]

> "...colleges would do well to look twice at their old buildings before deciding to tear them down. To spare the wrecker's axe may be to spare the budget. A good rule of thumb may be to renovate if the building is where it belongs, is structurally sound, and possesses beauty, however ancient. If the building is in the wrong place, if its interiors are practically unchangeable, if it is ugly, abandon it."

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4 Bricks and Mortarboards. Educational Facilities Laboratories, New York, NY 1946 (P161)