

Tentes	
Topics	

First of All - What is a Building Componentization Study?

and

Why is it so important to your Institution?

NAVIGANT CAPITAL ADVISORS

How Would Such a Study Help My Institution?

Definition & Importance

- » Basis for reimbursement of depreciation on construction and renovations/improvements
- »Monitor facility's condition for internal planning purposes
- » Project capital improvement needs (often used in a facilities' 5/10 year plans)
- Increase depreciation percentages, sometimes significantly, depending upon current capitalization, maintenance and lifing policies and procedures

3

Sample Building

Sample Building on a Use Allowance Basis		
Life	=	50 years
Sample Building via Componentization Basis		
Building Shell Life	=	50 years
Electrical / Lighting Systems Life	=	20 years
Elevator System Life	=	25 years
Fire Detection System Life	=	25 years
Plumbing Systems Life	=	20 years
HVAC System Life	=	20 years
Interior Finishes Life	=	20 years
Roof Covering Life	=	20 years
Fixed Equipment Asset Classification Life	=	15 years

NAVIGANT CAPITAL-ADVISORS

- » Determine the buildings to be included
- » Identify the building components
- » Perform a lifing analysis based upon "Institutional Experience"
- » Determine historical or estimated original cost information
- » Deduct federal contribution, as and if applicable
- » Segregate the fixed equipment costs
- » Review Use Allowance/Depreciation already taken (as and if applicable)
- » Calculate depreciation for each component
- » Implement perpetuation policies/procedures to keep the study current

NAVIGANT CAPITAL-ADVISORS

XXXXX

If You Do Not Currently Componentize Your Research Buildings, How Do You Know if This Is Best for Your Institution?

Consider a Diagnostic Review Study

- » Select a reasonable sample size of buildings used in Organized Research
- » Determine Federal Contribution (as and if applicable)
- » Select three buildings which should be of different vintages:
- > Old
- > Middle Aged
- > New
- » Perform a comparison analysis of the results of the selected sample of buildings (calculation of depreciation)
- » If the analysis is towards implementation of componentized depreciation, then move forward with those remaining buildings used in Organized Research
- » Be consistent in your selection of buildings to be componentized (typically all buildings with __% and greater of organized research activity 6
- » Do not cherry pick!

Moveable Equipment

Why is it important to have an accurate Movable Equipment Inventory?

NÁVIGANT Page 7 CAPITAL-ADVISORS

Why Maintain an Accurate Moveable Equipment Inventory?

- » Federal and State Financial Reporting Requirements
- » Possible misleading financial statements
- » Qualified Auditor's Report (A-133)
- » Stewardship of fixed assets
- » Risk Management Property Insurance
- » Basis for capital budgeting
- » Avoid the possible purchase of unneeded assets
- » Identification and disposal of surplus property
- » Public scrutiny

NAVIGANT CAPITAL-ADVISORS

Possible Limitations of Equipment Inventory Record

» Inconsistency in following the institution's "Capitalization Policy"

8

- » Improper classification of assets
- » Unrecorded retirements, additions & transfers
- » Unit/group records
- » Incorrect or lack of descriptions, serial number, model, etc.

9

» Age/accuracy of the current inventory

NAVIGANT

Problems Controlling Fixed Assets



- » Budget cut-backs, thus staff reductions
- » Assets are not fixed
- » Staff turnover
- » People do not think it is important
- » People protective of "their" assets, purchased under "their" grants
- » Assets transferred from another institution

NAVIGANT CAPITAL-ADVISORS





- » Controlled
- » Expensed
- Experiedu

*Distinction is important

12

NAVIGANT CAPITAL ADVISORS

8.8.8

Capitalization Policy Considerations

» What to Capitalize

- > Useful life
- > Cost (Threshold)

» Considerations

- > Number of assets to be recorded
- > Volume of transactions
- > Materiality Effect on Financial Status
- » Periodic Review

NAVIGANT CAPITAL-ADVISORS

Capitalization Threshold Considerations

Issues to Consider

» A-21

- > Prior approval of cognizant agency
- > Impact on direct costs in future years

» A-133

 Collaborate with your auditors as to A-21 issues (Componentization/Lifing/Capitalization Thresholds in particular)

14

13

> Lifing (realistic) needs to be reflected in their workpapers

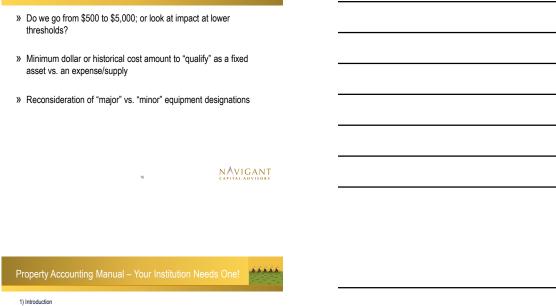
NAVIGANT CAPITAL-ADVISORS

Capitalization Threshold Considerations (cont.)

- » Impact upon F&A What will be the effect with the "GAP" assets?
- » Property Record Maintenance
 - > Higher capitalization threshold equates to accounting for big

15

- items
- Easier
- Sophisticated, recognizable items
- Less movement
- Fewer items
- > Economies
- > Efficiencies
- > Auditability





- 2) Transaction Types
 - Additions
- Changes
- Retirements Adjustments
- 3) Policies and Procedures
- Responsibilities Policy

Capitalization Threshold Considerations (cont.)

- Timing
- Leased Assets
- Capitalization
- Costing
- Donated Assets

4) Tagging Procedures

6) Coding Structures

5) Forms/Disks

17

NAVIGANT CAPITAL ADVISORS

Public/Private Partnerships in Higher Education

Page 18

What is a Higher Education Public/Private Partnership (P-3)?

» A higher education institution Public/Private Partnership program enables a college or university to enter into a P-3 and allows the private entity to assume full financial and administrative responsibility for an on-campus construction, reconstruction, repair, alteration, improvement, or extension of a building, structure, or facility of the institution so long as the college retains ownership of the land and the project is 100% privately funded.

NAVIGANT CAPITAL ADVISORS

What is a Higher Education Public-Private Partnership (P-3)?

With the economy in its current situation many college and university systems are exploring this initiative in an effort to reduce costs, better maintain facilities and create new tools to finance and construct new and modernize academic buildings, research buildings, student housing and other campus facilities.

NAVIGANT CAPITAL-ADVISORS

What is a Higher Education Public-Private Partnership (P-3)?

Page 20

» Some Examples of Recent P-3's:

- > Ohio State University completed a 50 year \$483 million lease of its parking assets 35,000 spaces in garages, surface lots and metered spaces. Most of the \$483 million "upfront" payment will be placed in the university's endowment. The concessionaire will operate, maintain, manage and collect revenue from the parking spaces for 50 years and the deal caps rate increase on parking at 5% annually for the first 10 years of the lease.
- > Texas A&M University announced the privatization of its campus dining, landscaping and building maintenance services. The university expects savings in the area of \$260 million in the coming decade.
- The University of Nebraska at Lincoln announced plans to privatize its aging University Health Center by partnering with a private entity to finance and build a replacement facility. The new operator will take over the overall operations at he current facility while it builds a new \$14 million facility.

Page 21

» Three Primary Components for Successful P-3's

- 1. Legal: Define the long term working relationship between the private company and the higher education entity as the P-3 relationship can scan a period of 30, 40, 50 or 99 year terms. This component should have the following goals of both parties, in terms of risk mitigation:
 - · Protect the institution's best interest
 - Establish the legal framework of a P-3
 - Establish the business terms and conditions in collaboration with the parties' legal counsel
 - · Establish the statutes as to what the owner can and cannot do
 - · Establish a foundation for both the institution and the private operator to succeed

Page 22

NAVIGANT CAPITAL ADVISORS

- » Three Primary Components for Successful P-3's (cont.)
 - 2. Financial: There are three major steps.
 - Determine the value of the assets to be included in the transaction · Determine how the project will be paid for and identify the financial contribution on both sides of the transaction
 - Determine that the P-3 model optimizes the value to the institution

Page 23

NAVIGANT CAPITAL-ADVISORS

» Three Primary Components for Successful P-3's (cont.)

- 3. <u>Technical</u>: Establishing the responsibilities of the contractor, addressing all aspects of design, environment, construction, operations and maintenance, such as
 - 0
 - Estimating costs Coordinating and managing budgets 0
 - 0 Develop criteria to monitor the P-3 (s)
 - Page 24

NÁVIGANT

8

What is a Higher Education Public-Private Partnership (P-3)?

- » To date, approximately 34 states and key federal government agencies have adopted new P-3 legislation
- » The P-3 concept enables institutions to engage business in the planning, financing, building and operating projects, from roads and rail to higher education and other infrastructure.

Page 25

Contact Information

» For questions or comments please contact:

Kevin J. McHugh Managing Director

 Navigant Capital Advisors

 90 Park Ave., 10th Floor

 New York, NY 10016

 Direct
 646.227.4701

 Fax
 646.227.4634

 kevin.mchugh@ncacf.com

26

NAVIGANT

