

NAVIGANT  
CAPITAL ADVISORS

**An Overview of Building Componentization, Fixed and Moveable  
Equipment Inventories and Public/Private Partnerships  
in the Higher Education Community**



**Northeast Conference on College Cost Accounting (NECA)  
August 27, 2013**

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Topics 

- First of All - What is a Building Componentization Study?  
and
- Why is it so important to your Institution?

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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

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Moveable Equipment 

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

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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

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Possible Limitations of Equipment Inventory Records 

- » Inconsistency in following the institution's "Capitalization Policy"
- » Improper classification of assets
- » Unrecorded retirements, additions & transfers
- » Unit/group records
- » Incorrect or lack of descriptions, serial number, model, etc.
- » Age/accuracy of the current inventory

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## 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

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## 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)
  - › Lifing (realistic) needs to be reflected in their workpapers

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

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### Capitalization Threshold Considerations (cont.)



- » Do we go from \$500 to \$5,000; or look at impact at lower thresholds?
- » Minimum dollar or historical cost amount to "qualify" as a fixed asset vs. an expense/supply
- » Reconsideration of "major" vs. "minor" equipment designations

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### Property Accounting Manual – Your Institution Needs One!



- 1) Introduction
- 2) Transaction Types
  - Additions
  - Changes
  - Retirements
  - Adjustments
- 3) Policies and Procedures
  - Responsibilities Policy
  - Timing
  - Leased Assets
  - Capitalization
  - Costing
  - Donated Assets

- 4) Tagging Procedures
- 5) Forms/Disks
- 6) Coding Structures



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### An Overview



### Public/Private Partnerships in Higher Education

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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.

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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.

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

» 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 the current facility while it builds a new \$14 million facility.

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

» 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 span 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

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

» 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

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

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

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

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