

Exploring New Funding Strategies to Address Budget Shortfalls



As competition for new students and faculty grows, schools feel the pressure to invest in their aging campuses. However, maintaining the physical appearance and functionality of a school's campus is easier said than done. Schools continue to struggle with balancing tightening budgets and prioritizing a growing list of key projects. Many face deferred maintenance backlogs that have grown at a rate of 15% annually since 2007.¹ To address this growing concern, colleges and universities are not only placing an emphasis on prioritizing maintenance, but also finding new and creative ways to fund these projects despite tight budgets and limited resources.

Many schools realize that the longer maintenance projects are deferred, the worse, and more expensive they become. Proactively investing in campus improvements not only eliminates the backlog of projects, but also significantly reduces the amount of money needed for campus repairs over the long-term. According to a recent report from *Sightlines* ***“every \$1 spent towards the annual maintenance budget actually avoids \$3 in capital reinvestment.”***

The Never-Ending Maintenance Backlog

To tackle this challenge, schools are exploring new funding strategies to address deferred maintenance backlogs and prioritize improvements of their aging campus buildings and infrastructure. That is exactly what a private, liberal arts school in Maryland recently realized as it was reviewing its deferred maintenance priorities. As one of the oldest Catholic Universities in the country, the school has a constant need to repair its aging campus. It was faced with a long list of deferred maintenance projects that were becoming urgent. The school had to find a creative way to address their budget shortfalls and fund a vast array of needed repairs on campus; from electrical infrastructure equipment and critical sidewalk repairs to significant renovations to its student athletic facilities.

One of the largest projects on its deferred maintenance list was a \$2.5MM update to the school's Student Athletic Center. Nestled among other, more modern athletic facilities, this Athletic Center is a central hub on campus that is used by both students and the local community. Over time, this facility became tired and outdated as needed maintenance was deferred for years. Among the many needed building renovations were:



- + ***Installation of LED lighting to modernize the facility and become more energy efficient***
- + ***Replacement of the HVAC system for better climate control with less cost***
- + ***Upgrades to the fabric roof that was well beyond its useful life***
- + ***Removal of rubberized flooring that didn't meet the same high standards of the other facilities on campus***

Being such an important facility for its students (both current and prospective) and the community, the school knew it couldn't defer the improvements another year. The priority was to invest in this existing space to improve both the appearance and functionality.

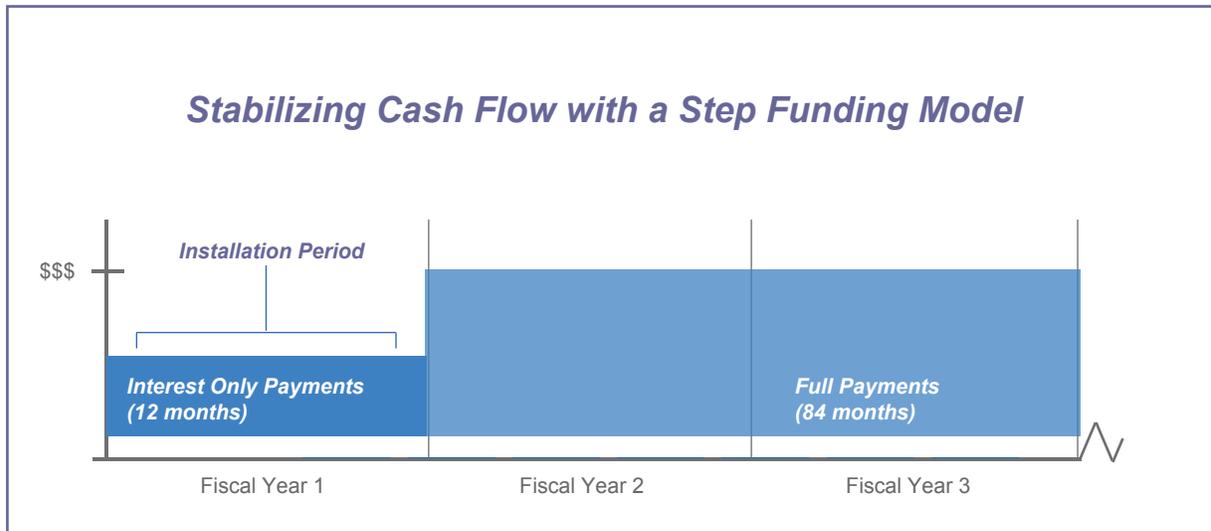
[Bettering students' lives by providing schools with the resources to succeed.]

Source¹: State of Facilities in Higher Education 2014 Benchmarks, Best Practices & Trends. Sightlines. (2014).

Balancing Priorities and Budget Constraints

To make the much needed repairs, the school needed to find a new way to address their deferred maintenance backlog. First American worked with the school to understand its challenges and create flexible financing agreements that made it possible to complete the renovations within the school's existing budget.

The financing solution stabilized the school's cash flow through predictable, affordable monthly payments. Since the renovations to the Student Athletic Center also required a long installation period, the financing solution further helped with cash flow alignment by allowing the school to make interest-only payments until the installation was complete. They also mitigated their interest rate risk by locking in the interest rate upfront. In the end, the solution provided the school with the necessary cash flow predictability and saved money by locking in a lower rate upfront.



Modernizing Facilities and the Impact on Student Recruitment

The update to the Student Athletic Facility, along with the other projects that were finally addressed after being deferred overtime, was a tremendous success for this historic Maryland school. While facing budget constraints and a long deferred maintenance backlog, First American was able to work with the school to create a financing solution that fit their needs and allowed them to tackle the much needed repairs within the school's existing budget.

The school experienced their largest incoming freshman class this past fall, leading to record enrollment for the institution. This school now has a revitalized building to showcase to future students, updated campus infrastructure for existing students and most importantly, a new solution to address their deferred maintenance projects.

To learn more about how First American is helping other schools tackle their deferred maintenance projects, visit:
www.FAEducationFinance.com/Maintenance

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