

**EFFECTING INSTITUTIONAL CHANGE THROUGH
INNOVATIVE CAPITAL FINANCING**

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A great deal of external, visible, physical plant change has taken place at the University of Georgia over the past nine years, so beginning with a brief commercial will help illustrate the change that has occurred recently at our institution. Many people do not understand what has taken place in a state like Georgia and at a university like Georgia, the first state-chartered public university in America. This backdrop has in many ways made our on-campus constituents tired of change.

The University of Georgia is an institution in what is now the ninth-largest state in America, whereas 15 years ago the state of Georgia was grouped among those southern states trying to find industrial might and economic opportunity for the future. Along with California and Florida, Georgia has been one of the fastest-growing states in the nation over the last ten years. The University of Georgia has grown from 25 000 to 35 000 students in a period of less than 15 years, going from what was a better-than-average, open admission, public flagship university to what is now—based on grades and board scores—one of the most competitive public universities in America. Admission is routinely denied to fifth- and sixth-generation applicants in a rapidly changing environment where the social dimension remains tied to change coming out of the racial politics of the 1960s and 1970s. Today the state is enjoying a time of dramatic growth, particularly in the northern arc of Atlanta, with a high-tech business and economic environment that rivals that in many other places in the United States. A great deal of this change was already in motion when I arrived almost ten years ago.

In fiscal year 2001, only five years ago, the University of Georgia received \$421 million from the state on a budget of about \$1.2 billion, or 41 per cent of its budget. Today, the total budget is approximately \$1.4 billion, with that growth largely fueled by

an explosion in research, but UGA receives about \$20 million less from the state than five years ago, for a total state contribution of about 31 per cent. These changes reflect national trends. Georgia was actually very late coming into the recession of '02 and '03 and has been late coming out of it; happily, for fiscal year 2006 the budget is back to where it was several years ago.

The major theme of the change that has been implemented at the University of Georgia is straightforward: to become the kind of institution envisioned in our strategic plan—to be not only one of America's best publics but also certainly one of the best universities in America—will require a campus-wide commitment to excellence. When I arrived in 1997, a considerable level of complacency existed. Most of the senior administrators had been in their jobs for many years and were nearing retirement. The members of the University System Board of Regents, when they hired me, told me they wanted new blood, new plans and new visibility. They told me they wanted a change agent and they got one, for good or ill, depending upon whom you ask. They wanted me serving on national boards; they wanted me speaking at higher education conferences; they wanted to raise the visibility of a rapidly changing institution.

Michelangelo said that 'The greater danger for most of us is not that our aim is too high and we miss it, but that it is too low and we reach it.' And, frankly, there had been some of that in the history of UGA. My predecessor Dr. Charles Knapp deserves a great deal of credit for beginning the process of change, but after a ten-year period as president he had decided to move on to other ventures. The challenge that remained was one of overcoming complacency in a traditional conservative southern state, and there are two ways of overcoming complacency. One may be characterized by the old joke that

‘the beatings will continue until morale improves.’ The other is to offer a clear vision of benefits to the affected parties in order to secure buy-in, and we have tried to follow the latter approach.

When I arrived at the University of Georgia, we were facing very serious physical plant challenges. In 1997, the UGA campus was like many others: some pretty good Georgian architecture and some excellent historic structures, one of which dates to 1806 and was built by a great gentleman, Josiah Meigs, who started the University of Georgia and modeled Old College on Connecticut Hall at Yale, where he had taught. Like many other institutions, the University of Georgia also built some of the worst buildings in history, particularly during the 1960s and 1970s. They are characterized by poor architecture, poor utility and high upkeep. These are ugly square boxes with flat roofs and few redeeming aesthetic qualities.

Georgians love North Campus, the oldest section of campus and the equal of any in the country, I believe, for its sheer beauty and architectural charm. Moore College is the home of the Honors Program. Meigs Hall is home to the Institute for Higher Education, and Phi Kappa Hall is the traditional home of one of the university’s debating societies. We have taken special care of this part of the campus. It tugs at the heart strings of most of our alumni and it has been easy to raise the money to do the kind of renovation there that has been needed. Historic buildings like Candler Hall, Meigs Hall, Phi Kappa Hall, Moore College, the Administration Building (which was the university’s first stand-alone library and home of the Georgia Museum of Art for many years) all exemplify the ongoing effort to renovate and preserve the University’s valuable old structures.

South Campus has been quite different. This is a large area of campus, over 600 acres with north, south, east, west and central precincts. UGA's campus grew southward in the 60s and 70s, largely driven by a rapidly developing science complex. As it grew, however, the character of North Campus was discarded for a style that is modern and postmodern in the worst sense of those terms. We hired the Ayers/Saint/Gross firm out of Baltimore, the master-planning consultants for the University of Virginia and Emory University, which we thought were two of the best campuses in the South, to help us develop a master plan and a full set of design standards for any campus facility.

Meanwhile, the faculty was wondering where all this money would be coming from and how it would impact everyone's compensation. The consultants worked closely with the Office of University Architects, the Physical Plant and the senior administration, holding forums to gather input from the entire campus community. We indicated that we would be moving the parking decks to the periphery of the campus; that you couldn't park next to your building any more; and that dramatic design changes were on the horizon. The campus was going to be more pedestrian-friendly and energy-efficient, and we were going to build things in an entirely different way.

Achieving the goals of the master plan required two things: a set of design standards and an entirely new set of funding mechanisms that differed from the way the University of Georgia had done business in the past. There is a fine line between having buildings that all look alike and having a set of meaningful design standards that bring continuity to a campus. The master plan says that a building at UGA built in the Georgian style would look as if it belongs at the University of Georgia, and it would also address long-neglected core infrastructure issues that most large universities have not handled

very effectively. Danny Sniff, the campus's chief architect, has a very good presentation entitled 'Why does it cost so much to construct a building at the University of Georgia?' As Mr. Sniff states, the first factor is quite simply a commitment to the quality of construction. Developers around the campus build apartments more cheaply than we build residence halls, but we do not want to build cheaply (and in the short term, they do). Developers also build office space and dining facilities more cheaply than we do. The issue of site selection is key, of course. We are bound by the existing limits of the campus and often must build on very tight sites, limiting the 'lay down' space needed for construction equipment and, by extension, increasing costs and lengthening timelines. The academic calendar also impacts costs by necessitating aggressive and tight construction schedules with multiple shifts and night and weekend work.

A commitment to quality guides choices at all stages of the building process. All utilities are underground now. Mechanical systems and their enclosures are tastefully screened and all service access points are hidden. We exceed engineering codes in every aspect of construction; we use hard pipe conduit larger than that required by code and larger than flexible metal conduit. We require brick exteriors, even on taller structures; we require sloped roofs, slate and standing seam only. We require pre-cast concrete for cornices and other details, for both aesthetic and maintenance reasons. Many of the systems are designed to be linked rather than to function alone. We use concrete structural frames rather than steel, although a building can go up more quickly with steel, which is the choice of most private developers today.

With this commitment to quality in the master plan comes a concomitant acknowledgement that quality costs more than conventional construction. There are

always tradeoffs between having the most space available in the building, which is usually desired by the faculty and other administrators, and insuring quality and long-term viability. A school or college at the University of Georgia that wants to maintain a certain level of quality cannot simply build the biggest box possible. Quality may mean less space, but it also means less maintenance and longer usage. Senior administrators must become involved in adjudicating those kinds of decisions.

One of the toughest construction decisions I made came early in my career at Georgia. I cut 30 000 square feet out of our signature Student Learning Center in order to maintain quality and meet the guidelines in required materials like brick and granite and marble, rather than wallboard and sideboard, which would have allowed the full building to have been built. The Student Learning Center is a three-story classroom and electronic library space in the center of the campus. It has become the academic heart of the University of Georgia, visited by people from 47 states, in use at all hours and well received by students and faculty. It also symbolically espouses this new quality standard, both intellectually and physically, and an adherence to a set of design standards that insures long-term viability.

There were additional battles regarding the design of one of the university's most important research facilities, the Complex Carbohydrate Research Center. The desire again from the faculty was for as much laboratory space as possible. Some, frankly, said they cared very little about the aesthetics of the building. By the time we designed the Paul D. Coverdell Center for Biomedical and Health Sciences, however, which is scheduled to open this year, the campus culture had begun to change. This building is a 21st-century center for biomedical and health research and represents the kind of planned,

careful design process that will propel us physically into the future. Both the interior and exterior spaces blend form and function in an aesthetically pleasing way. Over time the impact of the master plan, with green space and quality construction, had begun to shift the campus mindset about what quality change in the physical plant really means.

In that vein, every campus should develop a firm set of guidelines for construction standards. Once the guidelines are in place and the entire community has at least devoted some level of adherence to them, it is amazing how many issues down the road can be solved when plans or proposals do not meet the original agreed-upon design standards. It is also critically important to get buy-in from a campus in the early stages of this kind of physical change; otherwise people will react negatively to the changes to a place that they know very well, believing that the place in its present condition looks the best it could ever look.

We undertook two early projects that, while not major parts of the master plan in terms of facilities, demonstrated the principles of the master plan in a very visible way, and in a way that had a positive impact on people's lives. These projects were controversial at the start, but once completed, they helped build credibility for the entire plan. The first was the conversion of a Herty Drive parking lot into Herty Field. Herty Drive is an access point into North Campus from downtown Athens, which lies immediately across the street on the northern edge of campus. In 1997, Herty Drive included a 139-space parking lot, pure asphalt that was ringed by some of our most historic buildings. Historically, this area was the site of UGA's first football game in the 1890s versus Auburn. A parking lot was clearly out of place there. One of the tenets of the master plans is an expansion of green space, so we proposed that the parking lot be

restored as the original Herty Field. The immediate response was not very positive, especially from those 139 people, most of whom were administrators who were parking in the heart of North Campus every day. Today, however, Herty Field is one of the most popular spots on campus. Given Georgia's climate, students, faculty and staff are out on the field almost every day of the year. The use is profound. The Terry College of Business sponsors a weekly concert series in the spring and fall; a fountain serves as an informal meeting spot; people read, play Frisbee and nap throughout the day. Herty Field today looks like the campus spots that we all feature in our recruitment literature.

Similarly, as part of a project to improve the South Campus infrastructure to support the Coverdell Building, D.W. Brooks Drive, which was named for one of the university's largest benefactors and is the main access point into South Campus, was converted into a lawn and pedestrian mall. The reaction was predictable. Brooks Drive's associated parking was used by thousands of UGA faculty and staff and students every day. But the site was ugly, barren and uninviting and surrounded by those 1960s and 1970s buildings. What is there now is just as attractive as North Campus and has become a popular site for departmental and school and college receptions and special events.

We have employed multiple creative funding sources on these and other projects, almost a billion dollars worth in the past nine years, using a mix of private funds, some public funding and some bonded indebtedness. When possible, in cash-rich areas like athletics, those funds have helped pay down indebtedness resulting in increased future flexibility from a bonding standpoint. Georgia's state construction process can take up to ten years from the approval of a building to actual facility completion. The University System Board of Regents maintains a capital construction projects priority list,

submitting three to five projects each year to the legislature for funding and adding others to the bottom of the list. Currently the Regents' list contains a \$600 million backlog in System-wide unfunded projects, with about \$130 million of that at the University of Georgia: a \$40 million expansion of the College of Pharmacy building; a new special collections library, \$36 million; and a College of Veterinary Medicine teaching hospital, almost \$70 million. We need those facilities today, but we can expect them in four or six or eight years based on legislative funding. We realized that we simply could not wait for the state to meet such pressing facilities needs.

In 1999 the University of Georgia Real Estate Foundation was created specifically for the purpose of providing a mechanism for meeting these needs faster. The Real Estate Foundation has a board of three university people and eight of the best developers in the state of Georgia. It provides a funding vehicle for the university to address strategic capital and property acquisition through a fiscally responsible debt structure by taking advantage of some of the most favorable bond market conditions in the history of the United States. Since its inception six years ago, the University of Georgia Real Estate Foundation has now helped finance more than \$200 million in campus facilities. They include the Complex Carbohydrate Research Center, where some of the most sophisticated research on cancer causes in the country is taking place; the Coverdell Center for Biomedical and Health Sciences, now a \$42 million project; East Campus Village Housing, the first new housing built on the campus since 1968, at \$72 million; the East Campus Commons Dining Hall, \$17 million; expanded studio space for the School of Art and the College of Environment and Design, \$4 million; and two new parking decks at \$17 million each. In finding money for these facilities during a time of

shrinking state support and a Regents' policy of funding only purely academic facilities through state funds, the Real Estate Foundation has been cited as one of the most innovative entities in the country. What follows are two examples of how the Foundation has helped meet campus needs.

The Paul D. Coverdell Center for Biomedical and Health Sciences is the centerpiece of a growing research program at UGA and is perhaps the single most creative financing arrangement we've managed to date. Many lawyers were kept busy in the process of arranging the financing for this facility. Paul Coverdell represented Georgia in the US Senate from 1993 until he died of a stroke in July of 2000. He was one of those moderate senators held in high esteem by colleagues in both parties and we were soon engaged in a conversation with two UGA alumni, Senators Zell Miller of Georgia and Phil Gramm of Texas, about an appropriate memorial. A proposal for a \$40 million biomedical facility to be named for Senator Coverdell was developed in about three weeks. Congress, at the urging of these Georgia alumni, appropriated \$10 million for the memorial. Governor Roy Barnes of Georgia, who was close to Senator Coverdell although of a different political party, agreed to match the federal commitment with \$10 million in state money. The university pledged to raise the remaining \$20 million and in about a seven-day period we had gone from nothing to a \$42 million commitment.

To keep all the local, state and federal lawyers happy, we actually had to condominiumize the air rights of the building to help assess and regularize who owned what part of the facility for the terms of amortization. We partnered with the local economic development authority and the local housing authority to issue bonds to finance some of the construction. While there is no direct monetary benefit for these local

agencies, which had never engaged in a project like this before, they recognized that a healthy, vibrant and forward-moving University of Georgia is critical to the economic well being of the entirety of North Georgia. Some indebtedness will be paid off by leveraging indirect cost recovery dollars generated by additional research; in short, the building will pay its own way, with the university receiving a \$40 million building for only \$20 million of its own money. This financing arrangement is allowing the University of Georgia to meet immediately a pressing need for biomedical research facilities that would have taken at least ten years to meet if the proposal had gone through the normal state process. We broke ground for the Coverdell building in January 2003 and will be moving in this month, November 2005. It is a 135 000 square foot space with wet labs, 30 procedure rooms, six chemical hood rooms, and space for 275 scientists, staff and graduate students. In total, it is a project that met all of the design standards and moved from conception to completion in a bit over two years. Such an accomplishment would have been unthinkable even five years ago.

Similarly, the UGA Real Estate Foundation was the vehicle for the financing and construction of a new home for the Complex Carbohydrate Research Center, one of the university's most successful research programs. The CCRC was recruited to Georgia in 1985 from the University of Colorado with its team of 16 faculty and support staff. It now houses approximately 300 scientists, working on major health concerns from cancer to Parkinson's disease to diabetes in a 140 000-square-foot building. The Real Estate Foundation actually owns title for this facility and leases it back to the university, as that was the most cost-effective way to do so. The payments are generated by additional

indirect cost recovery, and the building is designed to look like some of the early mills that shared the Oconee River location of the current CCRC.

The UGA Research Foundation, another cooperative organization, manages an endowment that is helping us build to completion an animal health research center, a bio-safety Level III facility. This is another joint state-federal initiative that will allow our researchers, in concert with Atlanta's Centers for Disease Control and Prevention, to analyze tissue samples of all animal-born diseases in the southeastern United States. If there is an outbreak of West Nile virus or bird flu in the United States, this facility will be ground zero, along with our adjacent veterinary and pharmacy schools. For this structure, the state provided \$25 million, the university \$15 million, with an additional \$15 million coming from UGA's external support. Again, the payback mechanism is similar.

We have done the same sort of thing, but usually with more cash, in the athletic area. We have done some refinancing under the lower, favorable rates that have been available for the past four to five years. We paid down a great deal of long-term indebtedness, which improved the entire cash flow process at the university and, importantly, strengthened the future bonding position. Among the facilities that have been added in athletics are new skyboxes, which immediately paid their own way; an upper deck in Sanford Stadium, taking capacity to almost 95 000; and a women's athletics complex with softball and soccer fields. Work is beginning now on an additional \$30 million dollar practice facility for men's and women's basketball and women's gymnastics.

Faced with cutbacks in state funding, limits on the types of construction for which public funding can be used, and growing demand for a variety of campus facilities, the

University of Georgia has taken the initiative to meet those needs through aggressive and innovative funding mechanisms. It is this kind of entrepreneurial spirit, now better understood by on-campus constituents, that has helped the faculty as well as the administration take great pride in the fact that change can happen in two or three years, rather than only in ten- or twelve-year increments. A dear friend of mine, Paul Young, the former dean of architecture at Ohio State, has said that the academic quality of a place is often reflected in the architectural standards of a place and that learning does take place best in an environment, which is conducive to it. The quality of the learning environment speaks symbolically to the quality of a place and it is not accidental that quality places look like quality places. A healthy change agent with supportive buy-in by key constituencies coupled with creative financing can lead to change in the learning environment that will enhance research, improve instruction and increase commitment to public service. That is what has been achieved collectively through creative change at the University of Georgia.