

## **Campus Town: A Potential Public / Private Partnership**

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### **Abstract**

The College of New Jersey is considering the development of a piece of land on the edge of its campus to provide for both living facilities and retail establishments for its students. Due to its already level of high per-student debt outstanding, the college is considering entering into a public/private partnership with a developer. This case requires the student to make a recommendation supported by a list of pros and cons to the college's board of trustees as to whether such a proposed partnership should be formed.

### **School Background**

The College of New Jersey (TCNJ) is a highly selective institution that has been named as one of the ten “public ivies” in the United States. The college was founded in 1855 and is one of nine state colleges in New Jersey. It is ranked by *Money Magazine* as one of the top 15 public colleges “most likely to pay off financially,” and *U.S. News & World Report* rates it the No. 1 public institution among regional universities in the northeast. It has a most successful Division III sports program that has won 40 team and 49 individual NCAA championships. TCNJ enrolls approximately 7,400 students including 6,790 undergraduates and 610 graduate students. This school is located between Philadelphia and New York City.

While the college has one of the highest per student debt burdens in the nation, Moody's rates it A2. This relatively high rating is the result of dedicated revenue streams for interest and principal payments. The college has found itself in a position whereby it prefers not to take on additional debt.

Current national demographics on high school students have not been favorable for admission applications. The US is experiencing a period of lower than usual number of high school graduates. Although this trend is likely to last a few more years, TCNJ has been competing with other selective institutions for the best and the brightest. Unfortunately, TCNJ's endowment is not of sufficient size to match the financial aid offers that wealthier schools can offer, thus the college must compete on another basis.

At the same time as the lower than normal number of high school graduates, TCNJ is facing what has become an annual reduction in the percent of its budget, which is funded by the State of New Jersey. TCNJ is trying to make up for this reduction in support by increasing the number of tuition paying students.

When high school juniors and seniors visit a college campus, they are increasingly drawn by the amenities offered by the school. Current college tours have spent an increasing amount of time displaying their student centers, fitness facilities, residential housing, and dining halls. Students are usually well informed about a college's curriculum, entrance requirements, graduation rate, job placement, and cost. When these high schoolers come to tour a campus, they are looking for the “wow factor”.

TCNJ is located in a suburban setting in Ewing, New Jersey. Unlike schools such as Princeton and the University of North Carolina at Chapel Hill, there is not a street opposite the campus that offers everything a student could look for in eating, shopping, and

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entertainment. To compete with other schools, TCNJ is considering building its own campus town. Unfortunately, it does not have the endowment nor the ability to take on the amount of debt that this project would require. Thus, it is considering some sort of public/ private partnership.

#### **Current Campus Housing Situation**

Housing is an issue for upper level students. While TCNJ guarantees students housing for their first two years, it is not promised to upper level, transfer or provisionally admitted students. Early in the second semester, freshmen, as well as other students, may apply to be entered into a lottery to determine if they will have housing made available to them for the following year. While freshmen end up getting campus housing, most of the apartment style housing is reserved for rising juniors and seniors. Typically upperclassmen receive on-campus housing but it is not guaranteed. Due to an expanding freshmen class, some previously designated lounges within resident halls have been converted into freshmen dorm rooms. Living space has also been made available to freshmen in dorms that had been traditionally used for upperclassmen. Rising juniors and seniors who have been successful in the lottery have a good chance of moving into an apartment type living arrangement. These quarters provide room suites with bathrooms and modified kitchens. Occupancy in this style of living still requires the residents to purchase a campus meal plan. While these living accommodations are popular with students, there is not enough supply to satisfy demand.

Many students choose to move off campus and rent student housing from private providers. As many as eight students may rent a house for a year and many pay up to \$500 a month plus utilities to live off campus. Some students feel that this is cheaper than living on campus and have more freedom since they are not restricted by campus policies. Many of these privately owned available off campus houses are within walking distance of TCNJ. While students may enjoy the freedom that living off campus affords, often times, their neighbors do not particularly enjoy having eight noisy students, who come and go at all hours of the night, living next door. While the college has tried to maintain a positive relationship with the community, students living off campus provide a unique challenge. This has led to a community relations issue.

TCNJ has about 12.5 acres on its border, which it would like to develop with the financing of a private company. The college is considering the construction of several apartments over the commercial establishments. The goal is to offer students an alternative to living off campus. The apartments would contain many amenities such as a full kitchen and washer and dryer. These apartments may replace the need for a meal plan and laundry service. These apartments would have a landlord responsible for maintaining the property. Currently off-campus housing is considered rundown and landlords are not in any hurry to address maintenance issues. The cost of living in this proposed project would be higher than living off campus.

#### **Current Retail Situation on Campus**

There is a limited amount of retail business on the TCNJ campus. The student center contains the college bookstore which sells textbooks, clothing with the college name and or logo inscribed, some paperback books and a limited amount of snack items. The student center also has a snack bar that is open to students, college employees and the public. The snack bar is open from early morning until after dinner time. In addition to the offerings at the student center, there is a Starbucks in the campus library. This coffee shop is open until late in the evening. A few of the dorms have very small convenience stores located within

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them. The Schools of Education and Engineering also has lunch carts that provide limited hours of operation and a very small selection of items for sale.

There is a Seven Eleven convenience store about four blocks from the campus entrance, but it is not in walking distance from most campus residential facilities. TCNJ is literally surrounded by a community of private homes.

#### **Proposed Project**

TCNJ is considering the development of 12.5 acres on the edge of campus. If developed, this project would be named Campus Town. This project will create 83,000 square feet of commercial space and 195,000 square feet of residential space to be rented to students. The retail space would be developed for use by restaurants, and other service providers that would be of interest to students. Off campus access would be developed to encourage local residents to also make use of the commercial establishments. Non-student use of the commercial space is considered critical so that the businesses in Campus Town would be viable during vacation times when the student population falls off considerably.

To entice a developer, TCNJ is willing to move both its fitness center and the Barnes and Noble campus bookstore to Campus Town. The fitness center is currently cramped in a space within the student recreation center. If relocated to Campus Town, it will be able to occupy a substantially larger space. The bookstore is currently located in the student center. A move to Campus Town would enable it to be both expanded and be more accessible to the local community. Currently the closest bookstore easily accessible to the local public is about ten miles away. TCNJ expects this project to also include the type of restaurants that would cater to student tastes and budget.

The residential component of the proposed Campus Town would contain apartments that would be available to TCNJ students. There would be housing for 446 students comprised of single, double, and quadruple configurations. Each unit would contain a full kitchen and the occupants would not be required to purchase a campus meal plan. Each unit would also contain a washer and dryer. Units designed for two or four students would contain two bathrooms. Students would be allowed to opt for either an academic or calendar year lease. Student parking would be made available for a fee ranging between \$280 and \$350 a year. While the building would be owned by the developer, TCNJ campus police would be responsible for both public safety and maintaining law and order. Students living in Campus Town would not be required to follow TCNJ housing guidelines or restrictions. For example, some units might even allow pets. While campus dorms close during Thanksgiving and Christmas breaks, Campus Town would remain open year-round. Housing in Campus Town would be made available on a first come, first served basis. Freshmen would not be allowed to reside in Campus Town.

#### **Public/Private Partnership**

Why doesn't TCNJ fund this operation on its own? Why is it looking for a private partner to take on this development? TCNJ has an extremely high debt per student ratio. It also has some projects on the drawing board that, if implemented, could cost over \$100,000,000. Most freshmen are housed in the Travers Wolfe Dormitory complex, which consist of two ten story buildings. Neither of these buildings are air conditioned and their heating and ventilation system is nearing the time for its replacement. TCNJ is deliberating whether it would be cheaper to renovate these dorms or to tear them down and replace them.

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Occasionally, the State of New Jersey provides for the state colleges to compete for grant money that is designated for construction projects. During the most recent occurrence, TCNJ was successful in being awarded funds to construct a STEM complex. These funds came with a string attached. TCNJ would have to fund seventy five percent of the project. TCNJ would like to use available college funds plus what little borrowing capacity it has on projects that will be at least partially supported financially by the state. It is unlikely that the state would partially fund a project such as Campus Town. TCNJ's maintenance and facilities departments are stretched thin. They would not have the staff or funds to take on additional buildings.

#### Plan Details

While TCNJ has hired an architect to come up with some general guidelines for the proposed Campus Town project, it is understood that it will be up to the developer to fine tune these plans. What has been determined is that the project not exceed more than 12.5 acres. The proposed plan has four buildings which contain:

- 97 four-bedroom, two-bathroom units
- 25 two-bedroom, two-bathroom units
- 8 one bedroom, one-bathroom units
- There would be 83,000 square feet devoted to retail space and 195,000 feet for residential space. The campus bookstore would move from the student center to Campus Town. The bookstore currently pays an annual \$475,000 base commission to TCNJ. If the project is developed, the bookstore would pay the developer an annual \$625,000 base commission. This commission increase is due mainly to the increased space made available for the bookstore.
- TCNJ's fitness center would move to a larger facility in Campus Town. The college expects to pay \$195,500 in rent to the developer for the first year. TCNJ would be responsible for staffing, furnishing and maintaining the fitness center. Currently students are not charged a fee for using the fitness center.
- The developer would set the rents for the retail space and be responsible for selecting an appropriate mix of retail tenants.
- TCNJ would not bear any responsibility for any possible vacant retail space.
- The developer would pay TCNJ \$400,000 annually to lease the college owned land that Campus Town would sit on. This amount would increase by \$25,000 each year.
- The industry standard for projects like Campus town is that after fifty years, all of the buildings would be given to the college.
- The developer would be required to give TCNJ students first right to the residential space. However, if there is insufficient demand, the excess units could be made available to non-students.
- TCNJ would maintain the right to replace the developer, with cause, if it is unsatisfied with Campus Town operation.
- The developer would maintain the buildings, grounds and parking lots.
- The developer would receive any fees charged for resident parking.
- It is estimated that the cost of the Campus Town project will be around \$90 million.

#### Your Assignment

You are a consultant engaged by TCNJ to make a presentation to its board of trustees. Your presentation is to include a list of the advantages pertaining to TCNJ if this project is undertaken. You are also expected to list any and all foreseeable disadvantages related to the

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possible construction of Campus Town. Finally, you are to make a recommendation to the board as to whether this project should be undertaken.

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