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Universities Found Way to Keep Debt Off Books in Dorm Arms Race.

- Colleges tapping developers to finance, build dormitories
- Partnership with Kean University selling $43 million of bonds

New Jersey's Kean University is joining a growing number of colleges tapping outsiders to finance dorms, a step that holds down debt as they cope with declining state aid and pressure to limit tuition increases.

Kean, the fourth-largest public university in the Garden State, located about 20 miles (32 kilometers) southwest of Manhattan, is working with a Baton Rouge, Louisiana-based non-profit to finance a new 385-bed dorm on campus. Provident Group-Kean Properties LLC is planning to sell $43.3 million municipal bonds Wednesday to pay for the project.

Rendering of new Kean University dorm building.Source: Kean University
"We're able to, rather than tacking on more debt to the university directly, have this partner share in the burden," said Felice Vazquez, Kean's associate vice president for strategic initiatives.

Kean, the University of Massachusetts Boston, and Texas A&M are among universities that in the last year turned to separate non-profits to build dorms backed solely by revenue from the projects. That preserves universities' capacity to borrow for classrooms and labs while reducing the risks of constructing new housing facilities that are a selling point to prospective students.

"Some universities are choosing a strategy of sticking to their knitting and divesting itself of anything that's not purely academic," said Jessica Matsumori, an analyst with S&P Global Ratings. In addition, "developers are seeing quite a bit of opportunity in this space and they're getting much more aggressive in their marketing and pitching to universities."

While such deals don't officially add to a university's debt, Matsumori said the company considers them contingent liabilities, given that administrators may want to spare their schools the stigma of a default.

"We believe if the project were distressed, they would likely be compelled to step in and assist – as it would affect their students, possibly their campus, and potentially their reputation," Matsumori said.

Kean enrolled about 15,500 students for the current academic year, with about 2,000 living on campus. The university, which offers admission to about three-quarters of applicants, has adopted a strategic plan that calls for more rigorous academic programs and decreasing the share of students living off campus.

"When you're here, 7 days a week, 24 hours a day, you do better and you're more likely to graduate in four years," said Vazquez.

With about $340 million in outstanding debt carrying an A- rating, Kean isn't on the hook to pay debt service for the new dorm, which is replacing half-century-old residence halls and will include a 2,000 square foot bistro once it's finished in August 2018.

Kean will treat the new dorm as part of its student housing program and won't build and operate another unless there's demand enough to keep them filled, according to an S&P rating report. In addition, Kean, which is managing the residence hall, agreed to reduce the number of spaces elsewhere so the new project will have enough students to meet debt-service coverage requirements.

S&P rates the bonds BBB-, the lowest investment grade and three steps below the university's bonds.

Kean's partner, Provident Resources Group, was founded in 1999 by a former public finance lawyer. The non-profit owns student housing at Montclair State University in New Jersey, Towson University in Maryland, and North Carolina State University.

In October, Provident partnered with the UMass Boston to finance a 1,080-bed residence hall, the commuter school's first. Provident Commonwealth Education Resources, Inc. priced about $130 million of bonds rated BBB- for yields of as much as 3.74 percent on securities due in 32 years, or about 2 percentage points more than top-rated debt, according to data compiled by Bloomberg. With interest rates having risen since, the bonds traded for an average yield of about 4.4 percent this week.
Provident Commonwealth will own the dorm. Birmingham, Alabama-based Capstone Companies will develop and manage the facility. UMass Boston will get about $1 million per year in rent after bondholders are paid.

"We don't have any housing on the campus right now, so it just really makes sense to bring in a private operator," said Patricia Filippone, executive director of the University of Massachusetts Building Authority. She said the financing will help the university preserve debt capacity for projects that don't directly generate revenue.

The project is being done as a "design-build" in which design and construction are contracted to single entity. Advocates say better coordination allows problems to be solved faster. Governments benefit from contracting with a single entity responsible for guaranteeing price and schedule.

"This is just a more efficient delivery method," said Filippone.

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