Colleges Shedding Non-Core Operations

By BOB SECHLER

Ohio State University wants to drop out of the parking business.

In an era of stagnant or declining state support for higher education nationwide, the university is seeking investors who might pay hundreds of millions of dollars to lease its parking system of nearly 36,000 spaces.

The university—one of the nation's largest, with a nearly 57,000-student main campus in Columbus—is also considering privatizing a roster of other assets that could make a midsize city envious, including two 18-hole golf courses, a small airport and a power grid.

"Teaching students and [conducting] research is the core of what we do," said Ohio State Chief Financial Officer Geoffrey Chatas, a former infrastructure investment manager at J.P. Morgan Chase & Co.

"The question is, do we really need to operate parking? Do we really need to own and operate an airport, or own and operate golf courses?"

Public universities across the U.S. have seen financial support from state governments decline, and have faced growing criticism for raising tuition to help cover the gap.

Tuition and student fees at four-year public universities rose more than 70% over the past decade, according to the College Board, while state appropriations per full-time student fell more than 20%.

That has prompted some universities to turn to the private sector for services beyond common areas such as bookstores and restaurants.

The University of Kentucky announced plans in December to transfer control of its dormitories to a private company in exchange for up to $500 million in upgrades and new construction. Portland State University in Portland, Ore., signed a deal with American Campus Communities Inc. in 2010 to build a $90 million, nearly 1,000-bed dorm on campus that is scheduled to open this fall.

Ohio State estimates it could get at least $375 million up front for a lease of up to 50 years of its parking facilities, and says seven groups that expressed initial interest—including Carlyle Group and Macquarie Group Ltd.—have been invited to make bids. Final proposals are due in May. Carlyle and Macquarie declined to comment.
The plan illustrates how "institutions don't have the resources they once did, and so they are trying to leverage every dollar possible," said Peter Eckel, vice president at the Association of Governing Boards of Universities and Colleges.

Ohio cut funding for instruction at Ohio State last year by 15%, or nearly $63 million, as part of efforts to plug a multibillion-dollar state budget hole.

The university's overall instructional budget climbed 4% nonetheless, to $5 billion, buoyed by a 3.5% tuition increase.

Local governments across the country have faced resistance to plans for privatized parking. Chicago agreed in 2008 to sell rights to operate its parking meters for 75 years for $1.16 billion. Critics have complained the price was too low, and that rates have risen too quickly since.

Some students and staffers worry that a private-sector operator would be tougher with parking fines, among other concerns, and contend officials haven't provided enough information to show the school wouldn't be better off financially in the long run managing parking itself.

"The first thing people say is, 'Oh God, our prices are going to go up,' " said Brittany Fennell, a 20-year-old sophomore studying pre-med and psychology, who notes that the current parking administration has a reputation for flexibility with cash-strapped students on fines. But, she said, the plan could be positive if it mitigates tuition increases.

Ohio State's parking system reaped about $28 million in revenue last fiscal year from permits, fines and other sources, and generated about $19 million in earnings before interest, taxes, depreciation and amortization, according to the university.

If the potential privatization goes through, the successful bidder would be limited to maximum annual rate increases of 7.5% during the first decade, after which prices could rise by either 4% or the rate of inflation, whichever is greater.

Ohio State said it likely would put proceeds into an endowment, using disbursements to fund scholarships, bus services and other purposes.

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