

# Chapter 38

## Study of Public Works Based on Asset Replacement

Lijun Fan

**Abstract** “Asset replacement” is a general successful practice of listed companies. To graft this practice onto public utilities and use it to start those local public works which are poorly financed now, the key is to understand the connotation, scope of application, ways of operating, and management system of asset replacement in-depth. College A in Henan Province succeeded in using asset replacement to start the construction of new campus, from which we can get some inspirations.

**Keywords** Asset replacement · Operating and management system · Economic benefits and social benefits

### 38.1 Introduction

Since the outbreak and spread of the 2008 financial turmoil in the whole world, affected by tight money policies, some local public works projects which have enclosed land and been planned to start have halted. How to strive for policy support, widen financing channels, start the project as soon as possible, and make the best of the current land resources have become the top priority of the units to which those problematic projects belong [1]. As an effective proper financing channel, asset replacement will surely play a big role in exerting government’s and administrative institutions’ subjective positivity, raising initial capital, and redeveloping public works. This chapter takes the construction of the new campus of

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College A in Henan Province as an example, and focuses to detail the connotation, appropriate projects, ways of operating, management system, and policy suggestions of asset replacement from the perspective of public works [2].

## **38.2 Asset Exchange Concept**

“Asset exchange” comes from economics. It is a means for the restructuring of enterprise’s assets, namely the two parties of listed company’s transaction exchange evaluated assets based on equivalent value, separate away assets that do not aid in the company’s development and at the same time infuse into quality assets. Simply speaking, asset exchange is to exchange a company’s assets with other companies’ assets in order for a company’s assets to be at the best disposition, to obtain the maximum income or for other sakes such as getting listed [3].

This concept in economics is also applicable in the running of a university under market economy conditions, the asset exchange of two parties under the principle of equivalent value exchange under the support and leading of the government. For schools, the counterpart’s high amount of money is acquired and invested into capital construction through high-valued asset (unimportant for itself) exchange [4, 5].

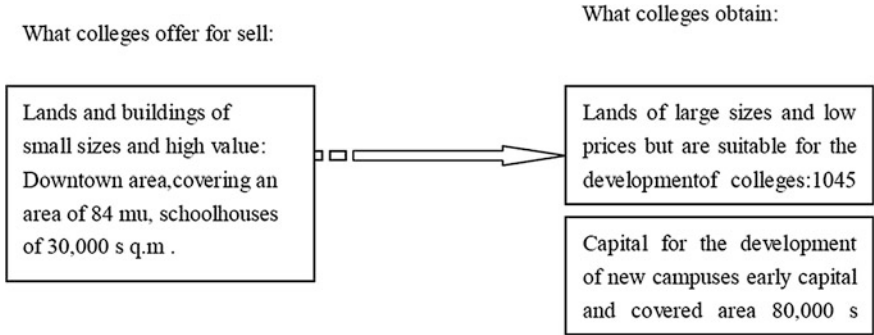
## **38.3 Applicable Projects**

Asset exchange of universities in principle applies to public projects (e.g. land expropriating and prophase fees, water, electronic, and central heating pipeline networks and auxiliary facilities, library, teaching building etc.). This realm of projects cannot be realized through the way of union development (the union of university’s and social money) due to the fact that they cannot produce economic benefit immediately after the completion of construction as the principle and core projects of universities [6]. The narrow-margin projects and for-profit projects cannot catch up unless these projects are started up. The star-up of public projects cannot merely rely on universities and the government must exert more effect of support. Under the condition that government cannot increase direct investment, asset exchange can yet be regarded as a good resolution method [7].

## **38.4 Ways of Operating and Management System**

### ***38.4.1 Ways of Operating***

Asset replacement in colleges is to raise funds needed by capital construction by means of managing their own assets, it includes the reselling of old campuses, the



**Fig. 38.1** Sketch of ways of operating of asset replacement

transfer of tangible and intangible assets, and the renting of facilities. Asset replacement is the exchange of assets between buyers and sellers under the principle of equivalent exchange. For colleges, they can use high-value assets that are not so important to attract social investment to build campuses and to obtain large amounts of land assets and funds. In the case that the direct economic input of government finance are not increasing, through asset replacement colleges can obtain both the required large areas of land and the start-up capital for the development of new campuses as well as the foundation fund to help their survival and further development. Take College A for example, its ways of operating can be shown in Fig. 38.1.

It is a total innovation of education investing system and education management system to obtain capital by means of asset replacement and use the capital in developing colleges' new campuses. It has been found that asset replacement will become an effective method of simple operation to solve the current problem of financing gap in the development of colleges' new campuses.

### 38.4.2 Management System

#### 38.4.2.1 Implementation Procedure

Estimate the colleges' real estate first, then determine the reference standards of the market values of assets, and then confirm partner such as real estate agency or other investors, with which colleges carry out asset replacement. Both parties will sign an agreement of asset replacement: defining what both parties of asset replacement offer for sell and their value, together with the specific time and relevant issues of delivery. The specific sketch is given below.

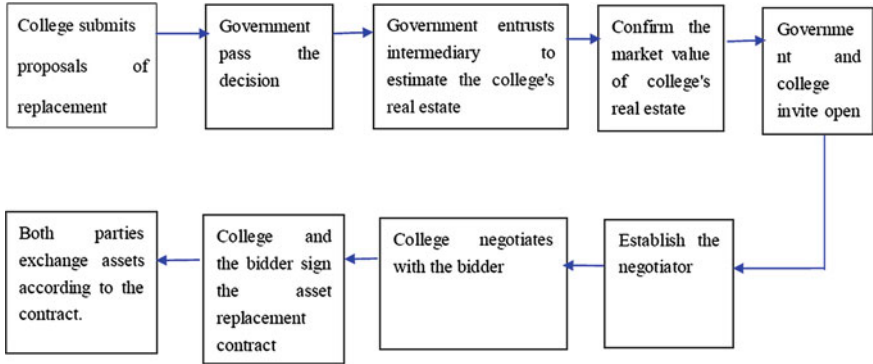


Fig. 38.2 Procedure chart of college’s asset replacement

### 38.4.2.2 Method of Management

The preparations before the asset replacement between colleges and enterprises should be finished under the domination and control of the local government and rely on the social intermediary. After signing the contract, both parties should carry out the finishing of asset replacement under the supervision of the government (Fig. 38.2).

### 38.4.2.3 Forms of Exchange

According to the contract of asset replacement, generally, there are three types of final exchange forms between both parties: (1) Object–object delivery, which means the exchange between the college’s real estates and the real estates in the new campus that of equal value and funded by the cooperative enterprise; (2) object–money delivery, which means the exchange between the college’s real estates and the capital offered by the enterprise; (3) object–money + object, which means the exchange between the college’s real estates and a part of the real estates built by the enterprise together with a part of their capital.

### 38.4.2.4 Delimitation of Property Rights

Before the asset replacement, the property right of the college’s real estates which are waiting to be exchanged belongs to the college; however, after the asset replacement, it belongs to the sponsored enterprise.

### **38.4.2.5 Ways of Construction**

With regard to the exchange form in which the built estates are the objects of replacement, before the exchange of assets, as the future vendor, the college should manage the overall process of newly built projects from various tache like planning, designing, construction, completion of works, and acceptance, and control the project quality, time limit for the project, and investment together with the sponsored enterprise according to the contract.

## **38.5 The Asset Replacement of the A University**

### ***38.5.1 The Background Conditions***

The A universities cover an area of 84 acres. While the main school hardware conditions cannot be achieved and eager to expand outside, the plan that the old campus which is located in the heart of the city intends to preserve the old campus on the basis is difficult to achieve; therefore, the development of the A university can be done only in the new campus without other choice.

The A university original campus area is small, noisy, and not suitable for Higher Learning, but the school is located in the city center which is the high cost of land and has a high commercial value. Small parcels of land located in the center far from being able to meet the school's teaching effectiveness of favorable conditions of the campus in the heart of the city in prime locations, but it can be used in accordance with the principle of land rent, good location, and land a high gold content of the original campus of asset replacement acres of land on the outskirts. You can exchange for part of the funds for new campus construction in order to maximize the effectiveness of education and teaching of the land.

### ***38.5.2 The Specific Implementation and Achievement***

With the strong support of the local government, in March 1997, the A university and XX real estate development company sign an agreement in the real estate replacement: A university will return the existing campus of 84 acres of land (including ground attached 30,000 m<sup>2</sup> of real estate) to the XX company in the 2 years later, in July 1999. The XX company will pay 160 million yuan to the total value of A university including land acquisition costs of the new campus and 1,045 acres of land containing one of the pre-matching fee of 75 million yuan, while the rest is built premises. This contract which is a final area of 84 acres of campus and the old premises of 30,000 m<sup>2</sup> in exchange for 1,045 acres of campus land and 80,000 m<sup>2</sup> of new school has been able to reach the main advantage of

the city downtown and suburban land rent. The A university old campus is the total value of \$1.6 billion with a land area of 84 acres, per acre of the prevailing market price of \$1.4 million yuan coupled with the ground attached to the property of 30,000 m<sup>2</sup>. The A university uses the asset replacement fund to enable the funds to the 1,045 acres of land in the suburbs. The new campus far from urban areas and land acquisition costs only 66,000 yuan/acre (including related taxes and fees), so only 75 million yuan is enough upfront infrastructure fee to pay for land acquisition costs and a project. The remaining more than 8,500 million yuan will completed the equivalent of nearly three times the size of the original school premises.

The A university completed an expansion project to break through the “bottleneck” of their own development with asset replacement mode of financing the construction of new campus, which is greatly improving the hardware level and passed the compliance requirements of the Ministry of Education school conditions. And this has laid a solid foundation for the overall relocation of the university A to create a good space for future development for the two the start of the phase of the expansion project. Therefore, A university was development at the same time learning in the building school.

In addition, the A university also use the principle of asset replacement communications market to open exclusively to the telecommunications operating company. Selling the campus communications market intangible assets in order to finance the construction of capital of 8 million yuan. A new campus communication system works according to the investment budget for the required 800 million. In order to ease the tensions of school funding, schools will be on campus wired telephone market exclusive to sell to China Netcom and the wireless communications market exclusivity to sell to China Unicom. As the premise of the school, the two communications companies signed a treaty, which the two companies will fund the construction of the communication system of the A university. This initiative makes school construction in the case of direct funding to improve the communication system, but also laid the foundation for future sustainable development of the school communications, network, and generate huge economic benefits and far-reaching social benefits.

### **38.6 The Issues to be Focussed on**

According to the experience of the colleges and universities around the implementation of asset replacement, the support given by the local government in terms of policy is determinate condition and the collaboration and cooperation of government departments at all levels is a basic condition to complete the replacement work. Replacement way selection, scientific and reasonable arrangement of the replacement program is the basis of the premise that replacement work. It is important to government departments to attach great importance to the introduction of the corresponding support policies. Therefore, in particular, to propose the following:

### ***38.6.1 To Establish the Governing Bodies of Colleges and Universities of the Old Campus of Asset Replacement***

By the competent governor (mayor) responsible for the Department of Education, National Development and Reform Commission, Ministry of Finance, Personnel Department, the Office of Land and Resources, Department of Construction, Civil Air Defense Office, Price Bureau, Local Taxation Bureau, and other departments involved in the study the introduction of relevant policies and coordination of university assets replacement work.

### ***38.6.2 Full Investigation***

Full investigation on the basis of the relevant departments to devise a “Higher asset replacement management approach” and explicitly universities applications for replacement of the old campus, the approval process to determine the acceptance, examination, besides, approval department of the government can also select a few representatives of the school in the first step, replacement of part of the assets of the old campus of experimental work. Suggested that the government on everything and try to simplify the approval procedures.

### ***38.6.3 To Minimize the Replacement Cost***

The core of “Asset replacement management approach” is the old campus educational sites you want to change to the comprehensive development of land to price higher, which to make this part of the increase in value realized through the auction listing. This part of the full amount will investigate into the school by the Government the new campus construction. The key of “Replacement of assets management” is the reduction of various taxes, fees, minimizing replacement costs, and solve the problem of the necessary construction funds for the local higher education to find a new way, in order to reflect the government and relevant departments to support the development of higher the determination of education.

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