

The Current State of Public-Private Partnerships  
“Does it make more or less sense in  
these turbulent financial times?”

ACUHO-I, June 29, 2009



# Presentation Outline

- **Introductions**
- **History of PPPs**
- **Current Status**
- **The Future of PPPs**
- **Does it make more sense now?**
- **Case Study**
  - **University of Maryland**
- **Discussion / Where do we go from here?**



# Introduction

## Jeff Turner – Senior Vice President, Brailsford & Dunlavey

- Background in Real Estate Finance
- Adjunct Professor at Johns Hopkins University
- Frequent guest lecturer at many national higher education conferences
- Experience with over 200 higher education facilities projects
  - Over 100 student housing projects

## Sam Jung – Project Analyst, Brailsford & Dunlavey

- Background in Residential Development and Market Analysis
- B.S. in Entrepreneurship, Indiana University
- Experience with over 10 higher education facilities projects



# Introduction

## Pat Mielke, University of Maryland

- Assistant Vice President, Student Affairs
- Former Housing Director
- Experience in Various Public Private Partnerships & Living Learning Centers

## Joanie Millane - Principal, Millane Partners, LLC

- Formerly Assistant Vice President for Administration and Finance, University of Maryland
- Over 20 Years in Private Sector Real Estate and Finance
- Past 7 years, Co-owner of Consulting Firm that assists Colleges and Universities with their Public- Private Partnership transactions for the development of Student Housing, Research Parks and Mixed-Use Projects



# History of PPPs – Demand Driven

## Student demographics

- 1997 to 2006:
  - High School Graduates increased 22%
    - Minority graduation rose approximately 49%
  - Total Enrollment increased 22%
    - Undergraduate → 22% increase
    - Graduate → 26% increase
    - First-professional → 13% increase
    - Minority enrollment rose approximately 20%
  - Since 2000, developers built 57,000 off-campus beds
    - Additional 23,000 new off-campus beds in 2009



# History of PPPs – Demand Driven

- Dormitories → Residence Hall Facilities
  - Buildings are functionally obsolete
  - Increased programming
  - Increased amenities
  - Student Friendly lease terms
  - Single bedrooms
  - Improved bed to bath ratio



# ➤➤ History of PPPs

## Pre 1990's

- Public-Private Partnerships
  - More Limited University involvement in the beginning
  - Adjacent to campus or farther off-campus
  - “Developer Quality” Building:
    - Not 100 year standard
  - Evolved to meet housing demand quickly
  - Funded by private debt and equity
  - Early projects- Portland State University, UT San Antonio



# History of PPPs

## 1990's – Financials

- Foundation as Owner
  - University or Non-affiliated Foundation
  - Utilization of Tax-exempt debt
  - Lower cost of capital & often no property taxes
- Off-balance sheet designation (considered off-credit through early 2000's)
- Non-recourse projects
- Bond Insurance
- 100% debt financed
- Privately managed residence halls
- First rated deal – University of Central Oklahoma
  - Set precedence of obtaining investment grading





# History of PPPs

## 2000 to Present

- Student Housing has become big business
  - REITs began to enter the market
  - ACC's purchase of GMH for \$1.2B
- Residence Hall → Amenity Rich
  - Prevalence of apartment buildings
  - Increased luxury amenities
  - Increased social interaction



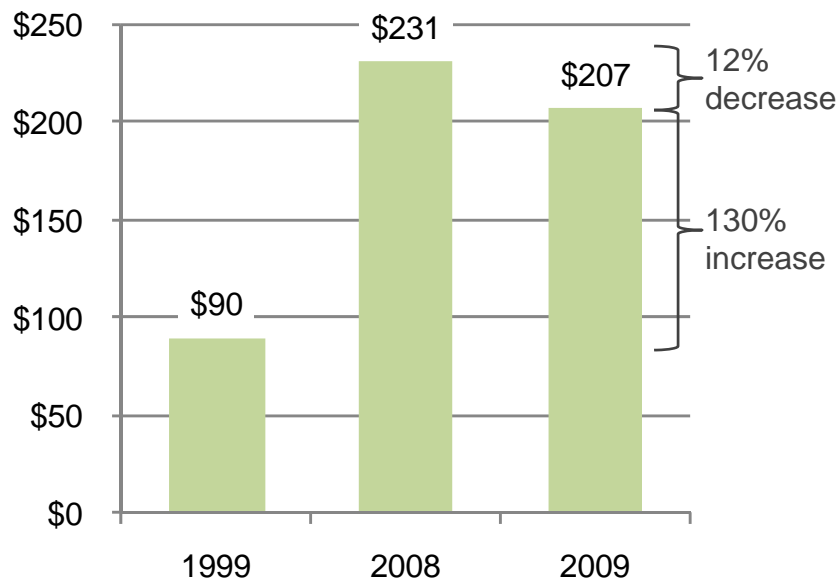




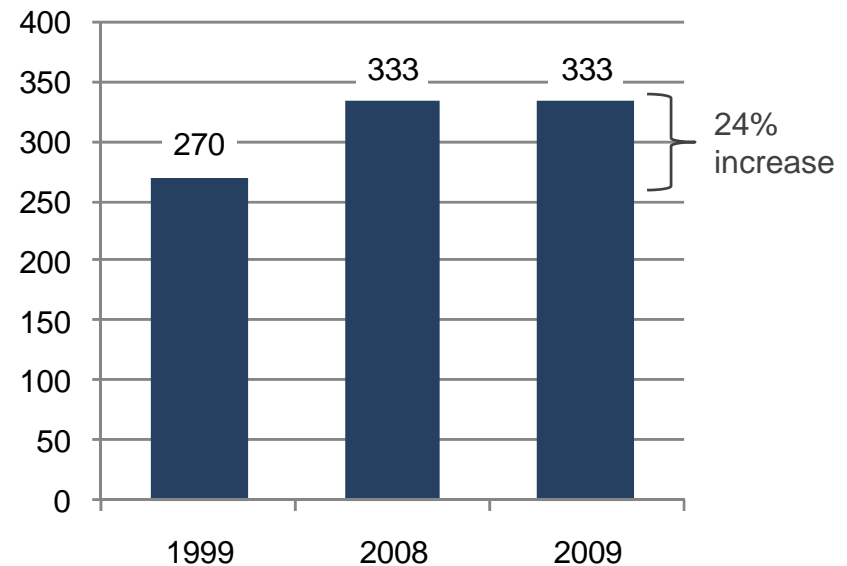
# Current Status of PPPs

- Community Colleges have expanded their interest
- Significant Rise in Construction Cost (until recently)
- Additional square feet per bed
- Projects much more difficult to pencil

**Cost per Square Foot**



**Square Foot per Bed**





# Current Status of PPPs

## Challenging credit market

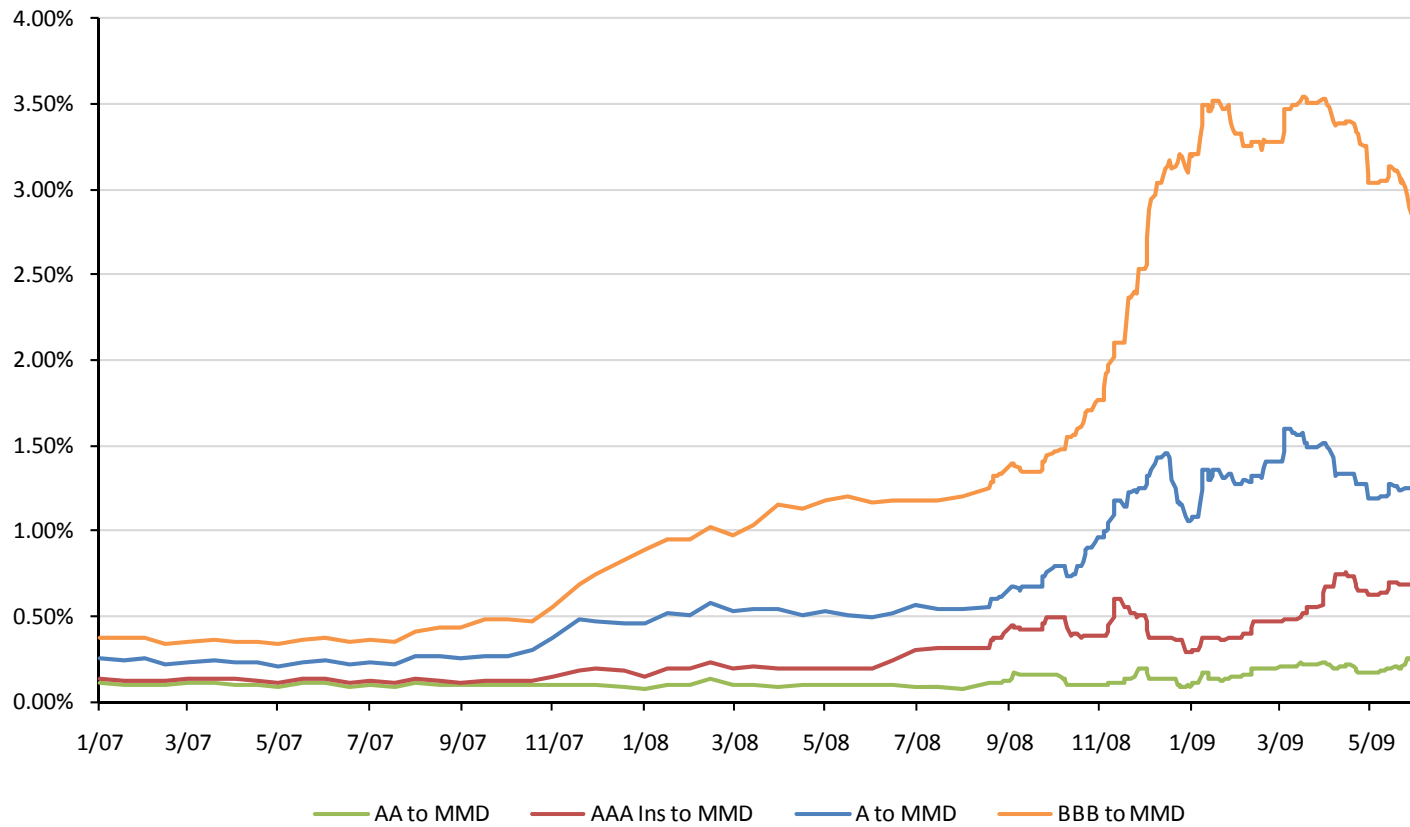
- Dislocation of the Auction Rate Market
- Average Rates on 7 Day Auctions
  - January 2008 3.890%
  - February 2009 6.590%
- Viable projects are also finding it difficult to obtain necessary capital
- No Highly Rated Bond Insurers
- Difficult to get a Letter of Credit



# Current Status of PPPs

## Recent Credit Spreads

10-Year Maturity Spreads to AAA MMD



Source: Morgan Keegan



# Future Status of PPPs

## Future Student Demographics

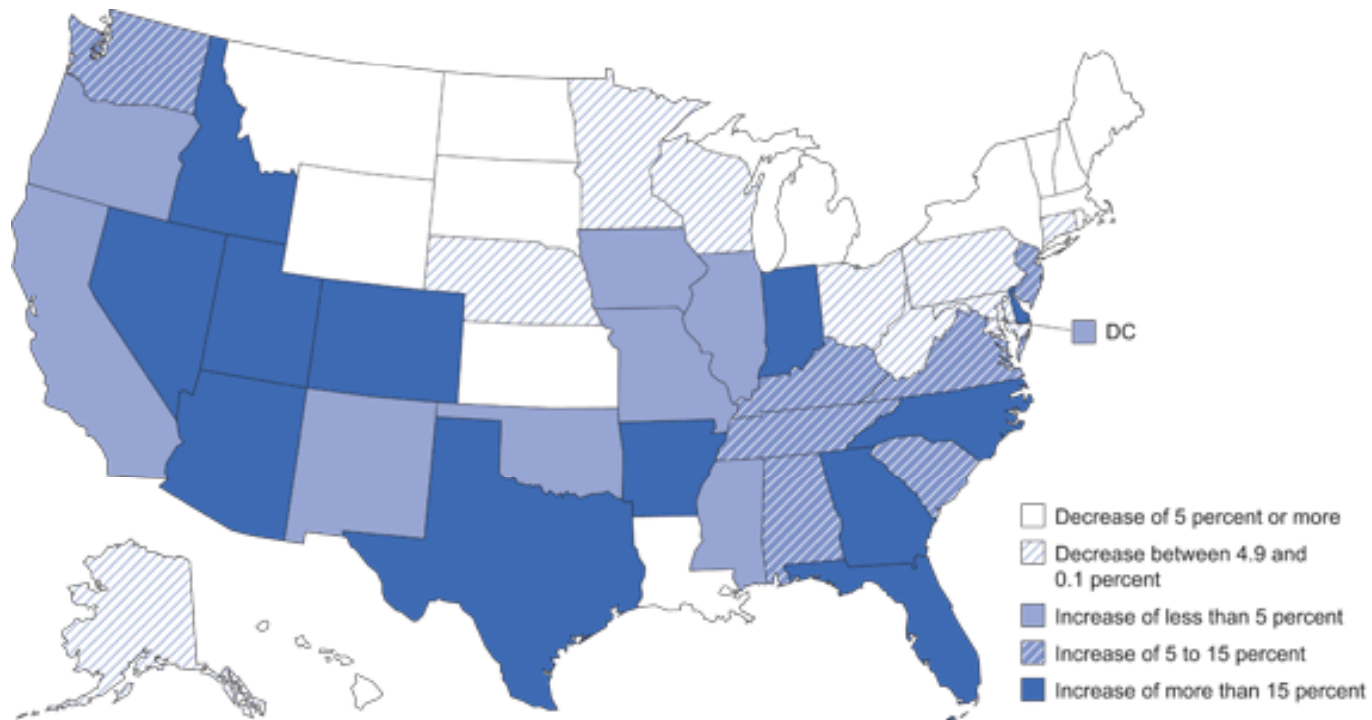
- 2007 to 2017:
  - High School Graduates → additional 22,000 students (+1%)
  - Total Enrollment → additional 2.1 million students (+12%)
- Other factors:
  - Undergraduates are enrolling for more than 4 years
  - Rise in non-traditionally aged and international student enrollment
  - Rise in 2-year college and graduate school enrollment



# Future Status of PPPs

## *High School Demographics*

Projected percentage change in the number of public high school graduates, by state: 2007–08 through 2017–18 (Source: NCES)





# Future Status of PPPs

## Obama Administration's Education Plan

- Increase access to higher education
  - Pell Grants → increased \$500 to \$5,350
  - Tax Credits → new \$2,500 credit for 4-year college tuition
  - Modernize and Expand the Perkins Loan
    - Giving access to 2.7 million additional students
- Make US higher education #1 in world graduation rate by 2020.
  - Currently ranked 15<sup>th</sup> in the world
  - Graduate 18 out of every 100 (compared to 26/100)





# The Future of PPPs

## Economic Stimulus

- Build America Bonds
  - Taxable governmental bonds
  - Federal subsidy → tax credits equaled to 35% of total coupon interest
  - No limit to borrowing
- Bank Qualified – Disintermediation
  - Lower interest rate, no underwriting fees, no offering documents, and reduced cost of issuance
  - Banks typically hold on to debt
  - Tax benefit to banks
  - Maximum \$30 million
- Both can be issued in 2009 and 2010

# ➤➤ The Future of PPPs

## University of West Florida

- 10,000 Students
- 250 beds
- 65,000 GSF
- Begin construction June 2009
- Finish construction July 2010
- RFP in 2009
- Obtained a 5.09% fixed rate 20 year Bank Qualified Loan



West Elevation  
05.28.09



# ➤➤ The Future of PPPs

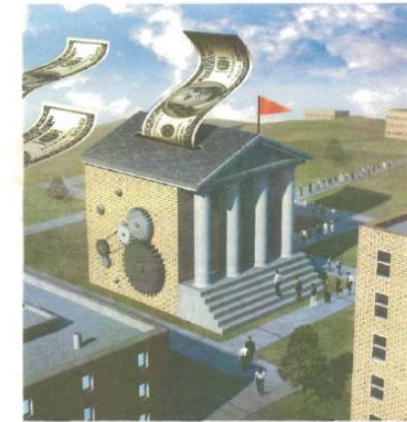
## Mixed Use / New Urbanism

- Walkable Neighborhoods
- Live / Work / Play
- All daily services within 5 minutes
- Housing above Retail / Rec. / Dining
- Universities as catalysts for economic development

**THE CHRONICLE**  
of Higher Education

July 14, 2008 • \$2.75  
Volume 121, Number 15

### Cities' New Economic Engines



In the Rust Belt and elsewhere, universities are asked to replace dying industries, but the expectations are often unrealistic: A18





# The Future of PPPs



## Rochester Institute of Technology

- 16,000 Students
- RFP in 2000
- \$85 Million Collegetown / Mixed Use Development
- New Front Door / 67 acres
- 925 beds
- 80,000 GLA of Retail Space
- Barnes & Noble Bookstore
- Ground Lease with developer (Wilmorite)
- Wetlands Issue (Army Corp of Engineers)



# ➤➤ The Future of PPPs

## MULTI-SCHOOL/CONSORTIA OF STUDENT HOUSING

- University Center – Chicago, IL
- University Heights – Albany, NY
- University Centre – Newark, NJ
- CUNY-Towers – New York City, NY
- Towers at University Center – Hyattsville, MD
- Metropointe – Atlanta, GA
- 100 10th Street – Atlanta, GA



University Centre



Towers at University Center



Metropointe



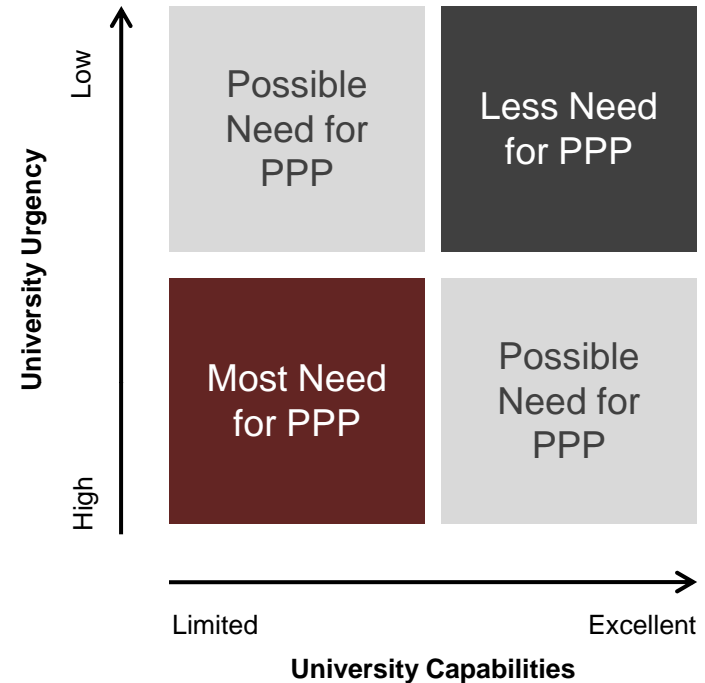
# Does it Make More Sense Now?

## When does it make sense?

- Quick turnaround
- Limited on campus expertise
- Limited Debt
- Reduce state/university payroll

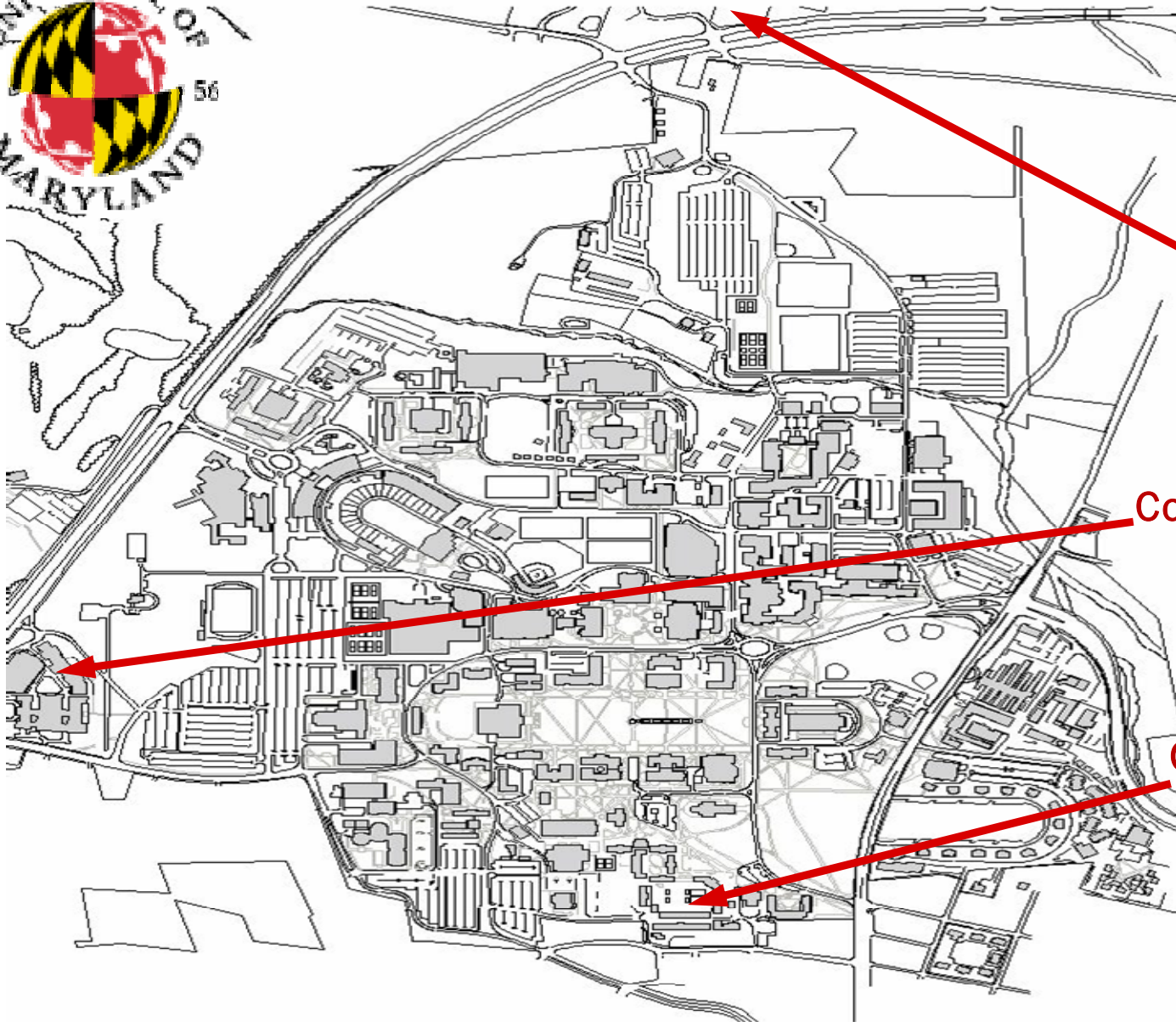
## When does it not make sense?

- Small projects
- Just for “off balance sheet” designation
- Just to lower the cost
- When funding and expertise are readily available





# Case Studies



Ambling Project

Conference Center

Capstone Project

# ➤➤ Case Studies

## University of Maryland's First Public-Private Partnership

- 224 unit / 704 bed facility
- 2 bed / 2 bath and 4 bed / 2 or 4 bath units
- Student focused amenities (furnished units, clubhouse, etc.)
- Financed through tax-exempt bonds and managed by Ambling
- Site located adjacent to wetlands







# Case Studies

Buildings 1-7, University of Maryland College Park

- 7 phases 2001-2010
- Budget:  
\$143,760,000
- Size: 2,192 Beds
- Composite Concrete  
and Steel Structure
- Financing: Tax  
Exempt Bonds
- Management:  
Capstone-Facilities  
UMD- Res Life





# Case Studies

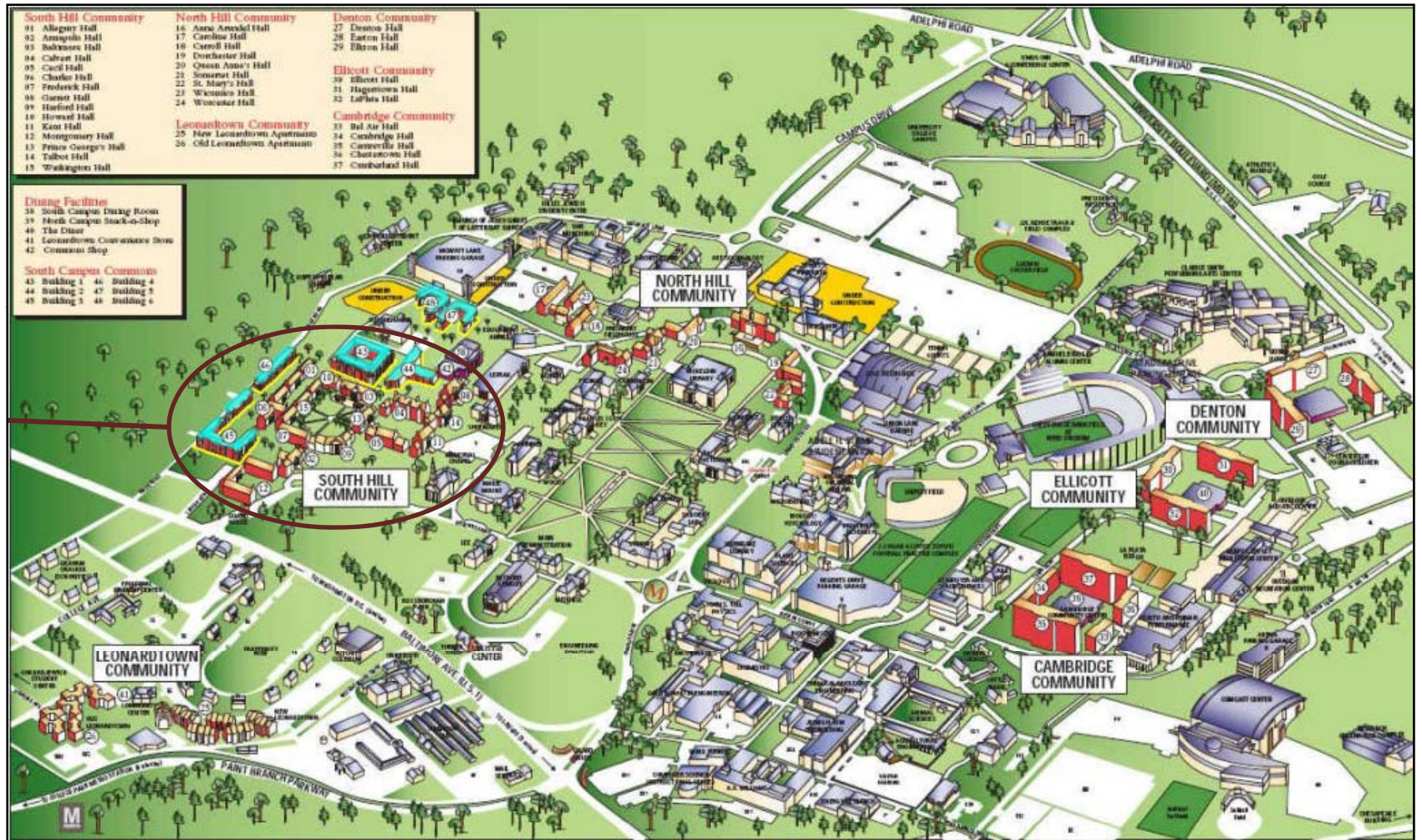


Courtesy of Capstone Development Corporation



# Case Studies

## University of Maryland College Park – South Campus Commons



South  
Campus  
Commons



# Case Studies

University of Maryland College Park – South Campus Commons

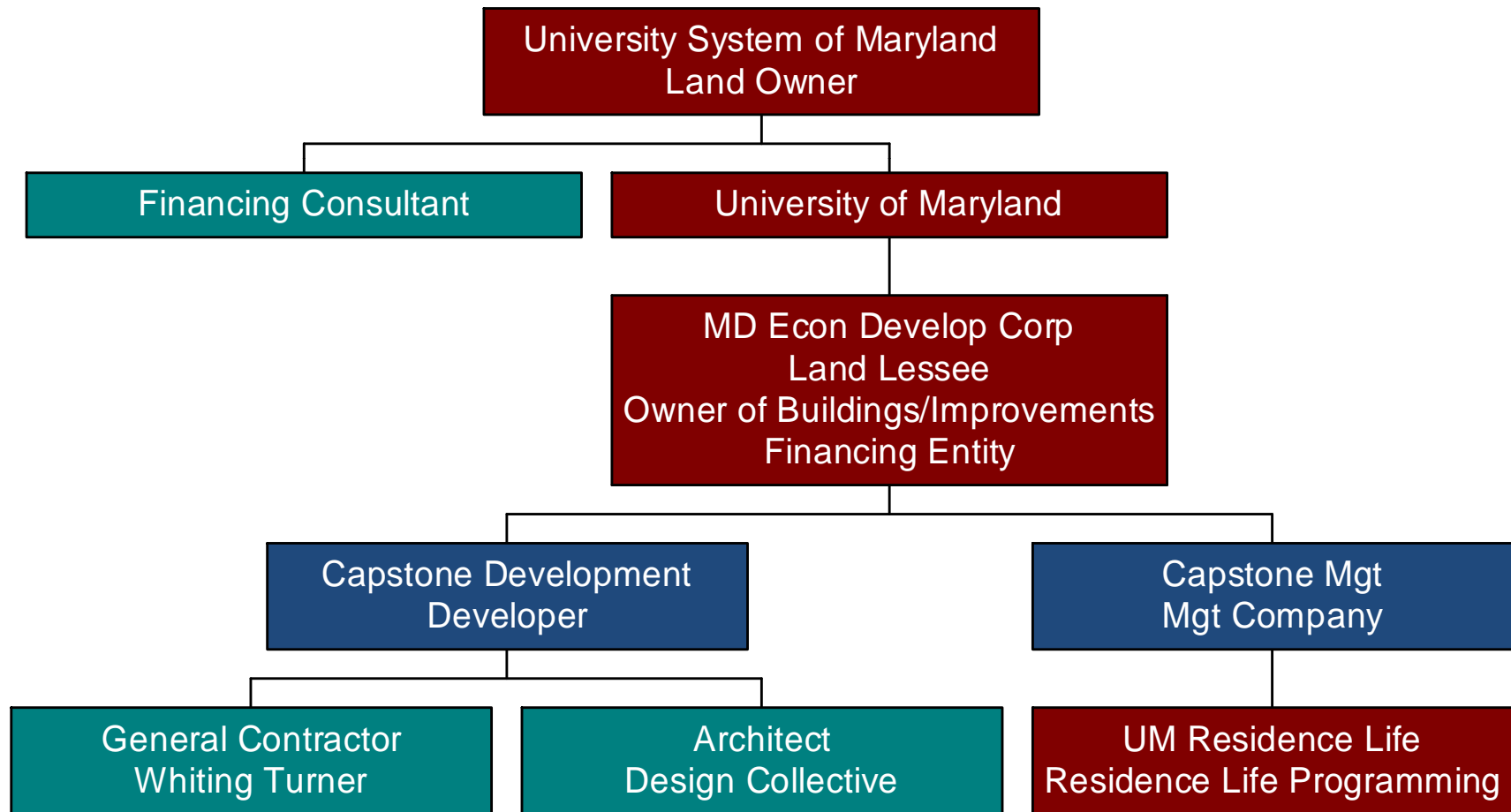
- Cleaned up and consolidated the southern edge of the UM Campus
- 7 Buildings integrated with historic residence halls, pedestrian ways and courtyards





# Case Studies

## University of Maryland Public Private Partnerships





# UMD Lessons Learned

## Understand the key differences

- Tenant/Landlord issues
- Safety/Security
- University IT / Voicemail
- Code of Student Conduct
- Residence Life Rules and Regulations



## Discussion

Where do we go from here?

- PPP Projects Cannot Be Financed Today (at rents that most campuses would find acceptable for their students.)
- However, Projects Envisioned Today Won't Be Ready to be Financed For One to Two Years.
- The Decision To Begin a PPP Transaction Today Depends on the Urgency of the Mission, and if there are Other Alternatives.



# Control and Risk (financial)

**High  
University  
Control and  
Less Risk**

**Less  
University  
Control and  
Higher Risk**



**Free \$**

Named  
Campus  
Building via  
Donation or  
Grant

**State \$**

On Campus  
Building via  
Bonding  
Authority

**Fee Developer \$**

Campus Edge  
Housing via  
Project Finance  
100% Tax Exempt  
Bonds

**Private Developer \$**

Adjacent to Campus  
Mixed-Use Project via  
Financing with Taxable  
Bonds and/or  
Traditional Financing  
and Equity





## May be Off Balance Sheet but NOT Off Credit\*

- FASB Statement #13 – Operating Lease Criteria  
vs. Capital Lease Designation
  1. Transfer of title
  2. Bargain purchase option
  3. 75% of useful life
  4. 90% PV of future minimum lease payments
- FASB Statement #98 - Real Estate Sale/Leaseback
- GASB 39 (Consolidating Affiliated Entities)

**\*Campus should seek advice from its Accountant - particularly its Auditors.**



# Conclusion

- **There are many right ways to do a Public-Private Partnership**
- Understand how the PPP Project fits into the University's Mission
- Achieve Internal Consensus on Campus including the Boards
- Designate a Point Person
- Put a process in place to be responsive timely
- Talk to your peers who have recently done this
- Engage consultants and legal representatives that understand both the university and the private sector needs and have done PPPs before
- Select a Developer that is experienced working with Universities and whom you feel good about
- Enjoy the process- this is a once in a generation opportunity



# Questions?

Jeff Turner – Senior Vice President  
Brailsford and Dunlavey  
[jturner@facilityplanners.com](mailto:jturner@facilityplanners.com)

Sam Jung – Analyst  
Brailsford and Dunlavey  
[sjung@facilityplanners.com](mailto:sjung@facilityplanners.com)

Pat Mielke – Assistant Vice President  
University of Maryland  
[pmielke@umd.edu](mailto:pmielke@umd.edu)

Joanie Millane, Principal  
Millane Partners, LLC  
[jmillane@millanepartners.com](mailto:jmillane@millanepartners.com)

The Current State of Public-Private Partnerships  
“Does it make more or less sense in  
these turbulent financial times?”

ACUHO-I, June 29, 2009

