FUNDING FACILITIES AND FACILITIES IMPROVEMENTS IN THE CURRENT MARKET

In recent years, more institutions have looked for innovative, outside-the-box methods of funding their investments in the physical campus -- including an array of models for public-private partnerships, mixed-use facilities, and (in a few cases) fundraising for renewal and maintenance.

We asked Pete Isaac,senior project manager with Brailsford & Dunlavey, to offer his insights on trends in the lending market and what institutional leaders need to rethink in order to achieve their capital planning goals. We also invited Kambiz Khalili, assistant vice chancellor for student affairs and executive director of housing and dining services for the University of Colorado at Boulder, to share his lessons learned from CU-Boulder's innovative approach to leveraging rate increases to avoid the bond market or having to rely entirely on private developers.

Whether you turn to a public-private partnership or develop an innovative plan to leverage rate increases, the key is intentional and pro-active planning for investment in the physical campus.

Driving the Process

> It is critical that the institution drives the planning and development process. This approach will yield the best return and the best results for both the institution and the institution's potential partners.
>
> **Pete Isaac, Brailsford & Dunlavey**

Isaac recommends thorough planning prior to ever sending out an RFP for a private partner or contacting a lending institution:

- First, be able to articulate clearly how any proposed facilities enhancement or new construction will help the institution meet its mission and its strategic priorities.
- Second, the institution needs to define, as early as possible, the financial feasibility of the project.
- Third, institutional leaders need to be prepared to state explicitly what they are willing to risk and what control of the project the institution has to retain – especially when seeking out a private partner.

"Before inviting a partner to the table," Isaac remarks, "you need a plan of action. What kind of partnership are you seeking? Are you clear from the start on what will meet your institution's long-term best interests? Have you determined the best balance point between your strategic goals and your market demand? Are you very clear on your level of risk tolerance?"

SELECTING A PRIVATE PARTNER

Isaac notes that rather than engage immediately in an RFP process, some institutions have mitigated risk by adopting a longer, multi-phase approach to identifying a partner:

- A letter of interest to gauge the market's interest in the project
- Individual conversations with potential partners to understand the market's financial requirements and risk profiles
- A request for qualifications ("RFQ") to evaluate potential development partners
- Negotiating a proposal with the preferred developer

Isaac comments, "This 'baby steps' approach to selecting a private partner mitigates risk because it allows pre-development analysis to be completed on the project (site selection, negotiated terms of land acquisition, due diligence on land, market analysis, project design, etc.) before substantial commitments are made and before the control and risk profile is transferred."

Working with Lending Institutions and Rating Agencies

We also asked Isaac to offer his perspective on current trends in the lending market. "The lending institutions have become more sophisticated and more advanced in their own market analysis," Isaac notes. "Conducting feasibility planning prior to contacting a lender or potential partner is more critical than ever when trying to negotiate terms that maximize the value of your future investment."

Isaac notes three items that have become "sticking points" for lending institutions when evaluating a project:

- They want to see proven market demand. They want to see the data – typically from a third party.
- They will pay close attention to enrollment data and will take into account future enrollment projections. They want to see long-term financial health.
- They want to know where this development fits into the larger story of the institution. Both lending institutions and rating agencies want to know that an upcoming development is aligned closely with the institution's mission, strategic priorities, and long-term financial interest. This means that any new development needs to be clearly integrated with the institution's stated strategic priorities and with the campus master plan.