FROM DREAM TO REALITY: PUBLIC/PRIVATE PARTNERSHIPS

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OACUBO
Ohio Association of College and University Business Officers

BRAILSFORD & DUNLAVEY
B&D Introduction

Project Development Process
- Strategic Visioning
- Demand / Feasibility Analysis
- Partnership Structure Analysis
- Selection Process
- Implementation Strategy
- Partnership Agreement

Risk Mitigation

Q&A
INTRODUCTION
Brailsford & Dunlavey is a program management firm that can take your projects from dream to reality, while mitigating risk every step of the way.
AREAS OF EXPERTISE

SERVICES

- Strategic Planning
- Market Analysis
- Programming
- Financial Analysis
- Economic Impact Analysis
- Site Analysis / Selection
- Referendum Planning
- Business Planning
- Architectural Selection
- Design Management
- Management Consulting
- Program Management

PORTFOLIO

- Student Housing
- Workforce Housing
- Recreation / Athletics
- Unions
- Ballparks
- Stadiums / Arenas
- Community Recreation
- Conference Centers
- Academic / Administration
- Campus Edge / Mixed-Use
- Dining / Retail
- Faculty Clubs
INTRODUCTION

**Kim Martin**
- Senior Project Manager
- 15 years of Higher Education Planning & Operations Experience
- Background in University Administration and Financial Planning

**Richard Rieth**
- Project Analyst
- Background in Real Estate Development, Acquisitions, and Project Finance
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Dream
- Demand / Feasibility
- Pre-Development Phase
- Construction
- Reality

Planning Effort
Cost of Changes
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

• Strategic Visioning
• Demand / Feasibility Analysis
• Partnership Structure Analysis
• Selection Process
• Implementation Strategy
• Partnership Agreement
STRATEGIC VISIONING
TARGETED NEW REALITY
STRATEGIC ASSET VALUE - SAV STORY

◆ Educational Outcomes
◆ Institutional Growth
◆ Leadership Development
◆ Student Employment
◆ Faculty Recruitment
◆ Academic Activities

◆ Enrollment Management
◆ Recruitment
◆ Retention
◆ Graduation
◆ Alumni Development

◆ Campus Community
◆ Central Gathering Place
◆ Faculty / Staff / Student Interaction
◆ Alcohol-Free Social Opportunities
◆ Late Night / Weekend Programming
◆ Campus Gateway
◆ Out-of-Classroom Experience

Institutional Priorities & Desired Project Outcomes
STRATEGIC VISIONING
TARGETED NEW REALITY
STRATEGIC ASSET VALUE - SAV STORY

- **Financial Performance**
  - Risk Tolerance
    - Affiliation agreement, alternative financing?
  - Return on Investment
    - Tangible, intangible?
  - Balance Sheet Utilization
    - On-balance sheet, on-credit?
  - Sustainable Design / Operations
    - Cost-benefit analysis, learning / teaching opportunity?
  - Level of Service
    - Programming for Students / Community?

Institutional Priorities & Desired Project Outcomes
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Strategic Visioning
- Demand / Feasibility Analysis
- Partnership Structure Analysis
- Selection Process
- Implementation Strategy
- Partnership Agreement
Demand / Feasibility Analysis

Defining the Possibilities

- **Demand**
  - Market Analysis
    - Benchmarking
    - Stakeholder Interviews
    - Focus Groups
    - Survey
  - Campus Demand
    - Gap Analysis
  - Community Demand
    - Off-campus Supply
    - Accommodate Community?
    - Demographic Analysis

→ **What to Build**
→ **How Much to Build**
DEMAND / FEASIBILITY ANALYSIS
DEFINING THE POSSIBILITIES

◆ Feasibility
  ◆ Competitive Context
    ◆ On-campus competitors
    ◆ Off-campus marketplace
  ◆ Detailed Financial Analysis
    ◆ Revenues & Expenses
    ◆ Business Plan & 10 Year Pro Forma
    ◆ Sources & Uses
  ◆ Project Schedule
    ◆ Financing schedule
    ◆ Phasing schedule
  ◆ Site Evaluation
  ◆ Scenario Testing

→ How Much to Charge
→ Where to Build
→ When to Built
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Strategic Visioning
- Demand / Feasibility Analysis
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Why Partner?

- Project Development
- Financial Capacity
- Operating Risk
- Ownership
- Management Skill

Understand the extent of your performance capacity shortfalls, prioritize them and determine what trade-offs would be acceptable to the institution.
PARTNERSHIP STRUCTURE ANALYSIS

POTENTIAL INSTITUTIONAL NEEDS

- Project Development
  - Skill
- Financial Capacity
  - Capacity
  - Flexibility
  - Speed
- Operating Risk
- Ownership
- Management Skill
PARTNERSHIP STRUCTURE ANALYSIS

Project Development

Financial Capacity

Operating Risk

Ownership

Management Skill

POTENTIAL INSTITUTIONAL NEEDS

- Creating Capacity
- Preserving Capacity
- Generating Cash Flow
- Rating Impact
PARTNERSHIP STRUCTURE ANALYSIS

POTENTIAL INSTITUTIONAL NEEDS

- Project Development
- Financial Capacity
- Operating Risk
  - Short-term / Long-term
- Ownership
  - Demand risk
- Management Skill
  - Economies of scale
PARTNERSHIP STRUCTURE ANALYSIS

POTENTIAL INSTITUTIONAL NEEDS

- Project Development
- Financial Capacity
- Operating Risk
- Ownership
  - Risk
  - Control
- Management Skill
PARTNERSHIP STRUCTURE ANALYSIS

POTENTIAL INSTITUTIONAL NEEDS

- Project Development
- Financial Capacity
- Operating Risk
- Ownership
- Management Skill
  - Event Management
  - Residence Life
  - Operations / Programming
  - Marketing
## Partnership Structure Analysis

### Alternative Approach to Project Development

1. **Traditional Approach**
   - A. University financed with tax-exempt bonds through auxiliary system
   - B. Student rents or fees used to retire debt

2. **Affiliated Non-Profit Sponsored Development**
   - A. University partners with associated 501(c)3 organization
   - B. Project backed by a master lease from the university

3. **Private Development/Unaffiliated**
   - A. Ground lease with developer
   - B. No other university involvement
## Partnership Structure Analysis

### Comparative Analysis

<table>
<thead>
<tr>
<th></th>
<th>College</th>
<th>Affiliated</th>
<th>Private Developer</th>
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<tbody>
<tr>
<td><strong>Cost of Capital</strong></td>
<td>Lowest</td>
<td>Middle</td>
<td>Highest</td>
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<td><strong>Speed of Delivery</strong></td>
<td>Slowest</td>
<td>Closer to Private Developer</td>
<td>Fastest</td>
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<tr>
<td><strong>College Control</strong></td>
<td>Greatest</td>
<td>Need for control; manage the developer</td>
<td>Least</td>
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<td></td>
<td>Program, Operations, Tenants, etc.</td>
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<tr>
<td><strong>College Risk</strong></td>
<td>Greatest Exposure</td>
<td>Some Exposure</td>
<td>Least Exposure</td>
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<td></td>
<td>Delivery, Financing, Lease-up, etc.</td>
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<tr>
<td><strong>College Financial Impact / Debt Capacity</strong></td>
<td>Greatest Exposure / Opportunity</td>
<td>Some Impact</td>
<td>Least Exposure / Opportunity</td>
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</table>

Which structure (or combination) fits your needs and vision?
PARTNERSHIP STRUCTURE ANALYSIS
RATING AGENCY INVOLVEMENT

On Balance Sheet / Credit

- University commitment to maximum rental rates
- Project located on-campus
- Project essential to University mission
- Eventual taking of title
- University receives revenues
- University refers students to project
- University controls rental rates
- University programming & management

Off Balance Sheet / Credit

- No maximum rental rates
- Project located off-campus
- Project small part of advancing mission
- No planned title transfer
- Developer retains all revenues
- University has no marketing role
- Developer controls rental rates
- Private programming & management
PARTNERSHIP STRUCTURE ANALYSIS
ON- OR OFF-CREDIT/BALANCE SHEET?

Ratings agencies consider:

- How does the project fit into the broader strategic goals of the institution?
- What benefit does the institution obtain because of the partnership?
- What elements of the project are controlled by the institution?
- What is the institution giving up?

Specific Categories:

- Location
- Land Ownership Structure
- Rental Rates
- Target Market
- Marketing & Management
- Institutional Affiliation
PROJECT DEVELOPMENT PROCESS
GOING FROM DREAM TO REALITY

• Strategic Visioning
• Demand / Feasibility Analysis
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High Quality Concept
PROJECT DEVELOPMENT PROCESS
GOING FROM DREAM TO REALITY

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SELECTION PROCESS

SELECTION TOOLS

- **College**
  - Confirm interest at a low cost
  - Strategy & concept only

- **Partner**
  - Low cost
  - Opportunity relationship building

- **RFI**
- **RFQ**
- **RFP**
- **Interviews**
- **Design Competition**
- **Site Visits**
SELECTION PROCESS

SELECTION TOOLS

- RFI
- RFQ
- RFP
- Interviews
- Design Competition
- Site Visits

College
- Minimal project planning required
- Reference checks can be conducted

Partner
- Low cost response
SELECTION PROCESS

COLLEGE

- RFI
- RFQ
- RFP
- Interviews
- Design Competition
- Site Visits

**College**
- Must be a carefully developed document
- Completed planning must be appropriate for the request

**Partner**
- Willingness to compete depends upon response cost, number of proposals solicited and project scale
SELECTION PROCESS

SELECTION TOOLS

- RFI
- RFQ
- RFP
- Interviews
- Design Competition
- Site Visits

**College**
- Substantial institutional time commitment required
- Requires substantial review and interaction with partners

**Partner**
- Very risky if quality of information is poor or criteria & project objectives are fluid / proprietary ideas
- Limited field and partial compensation will increase interest
SELECTION PROCESS

SELECTION TOOLS

College
- Opportunity to test key intangibles

Partner
- Potentially costly to participate

RFI
RFQ
RFP
Interviews
Design Competition
Site Visits

Opportunity to further limit field for a design competition
Clarity of project parameters and institutional objectives is key
SELECTION PROCESS

SELECTION TOOLS

- RFI
- RFQ
- RFP
- Interviews
- Design Competition
- Site Visits

**College**
- The ultimate reference check!
- Expensive & time consuming

**Partner**
- Successful projects speak for themselves
- Opportunity to showcase a healthy client relationship
SELECTION PROCESS

OVERVIEW

- RFI  Balance Institutional needs while being sensitive to partner’s perspective.
- RFQ  Ensure processes don’t overburden potential partners.
- RFP
- Interviews
- Design Competition
- Site Visits
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

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IMPLEMENTATION STRATEGY

POTENTIAL SCHEDULE CONSTRAINTS

- Public Approvals
  - State Approvals
  - Local Approvals
  - Institutional Review & Approvals
- Public Funding
  - Is this a large portion of the project’s capital stack? If so, lengthy delays are possible
- Project Site
  - Is the site in the middle of campus?
  - Can the infrastructure work only occur over the summer?
  - Environmental Concerns?
- Economic Conditions
  - If the market experiences a temporary slow-down, will the project move forward?
**IMPLEMENTATION STRATEGY**

**EXAMPLE IMPLEMENTATION SCHEDULE**

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<th>2015</th>
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<td>Financial &amp; Funding Structure</td>
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<td>Detailed Programming &amp; Design Guidelines</td>
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IMPLEMENTATION STRATEGY

PROJECT DELIVERY OPTIONS

- Depends on the partnership structure
  - Union requirements?
  - Disadvantaged business requirements?
- Institutional review rights?
  - Construction Documents
  - Site Plan
  - Contractor Selection
- CM at Risk / CM as Agent / Design-Build

Align strategy with institutional needs & vision – don’t burden yourself by reviewing items not crucial to you

More up-front planning makes for easier implementation
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Strategic Visioning
- Demand / Feasibility Analysis
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PARTNERSHIP AGREEMENT

FINALIZING THE PRE-DEVELOPMENT PROCESS

- Defined by type of partnership
  - Affiliated vs. Private
- Institutional review rights
  - Clearly defined (50% SD, 100% CD, etc.) points
  - Clearly defined time-table
- Ground lease or land transfer?
  - Ground lease term, payments, right of first refusal, reversion, etc.
  - Shared revenues or flat payment?
- Shared management / operations
- Space Guarantees
  - Bed fill, office / retail rentals, performance space, etc.
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Strategic Visioning
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High Quality Partnership
PROJECT DEVELOPMENT PROCESS
FROM DREAM TO REALITY

- Strategic Visioning
- Demand / Feasibility Analysis
- Partnership Structure Analysis
- Selection Process
- Implementation Strategy
- Partnership Agreement

High Quality Concept
+
High Quality Partnership
=
High Quality Project
RISK MITIGATION
RISK MITIGATION

- Strategic Visioning
- Demand / Feasibility Analysis
- Partnership Structure Analysis
- Selection Process
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- Partnership Agreement
Strategic Visioning
- Creates list of priorities and drivers that should be considered throughout the project – *“does this potential change align with our vision?”*

Demand / Feasibility Analysis
- Established demand metrics
- Economically feasible projects
- Program elements can eliminate potential partners
- Determination of project size can eliminate potential partners
- Changes to an infeasible project later in the pre-development process often result compromise program that doesn’t align with the institutional vision
Partnership Analysis
- Defines institutional needs (management expertise, capital, etc.)
- Defines desired institutional controls (program elements, design standards, programming, etc.).
- Narrows the pool of potential candidates

Selection Process
- **Largest opportunity to mitigate risk**
  - Expertise
  - Ability to align with strategic vision
  - Financial capacity
  - Management / operational skills
Implementation Strategy

- Effective project financing and construction schedule allows both parties to market the project more effectively and build anticipation / demand
- Collaborative phasing strategy can compliment institutional needs and market conditions

Partnership Agreement

- Experienced legal and development consultants create documents eliminating potential ambiguity
  - Default clauses, payment structure and order, construction processes and procedures, prohibited uses, operational and management agreements, financial auditing clauses, reversion clauses, right of first refusal / ownership approvals, common area maintenance and operating cost structure, design guidelines, etc.