Public-Private Partnerships:
Navigating Structure, Risks, and Outcomes

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Presentation Agenda

- P3s in 3 minutes – A Primer on Public-Private Partnerships
- LSU's Nicholson Gateway Project
- Continuum of Available Deal Structures
- Strategic Drivers of Deal Structure Decisions
- Decisions and Approvals
- Conclusion

P-3s IN 3 MINUTES:

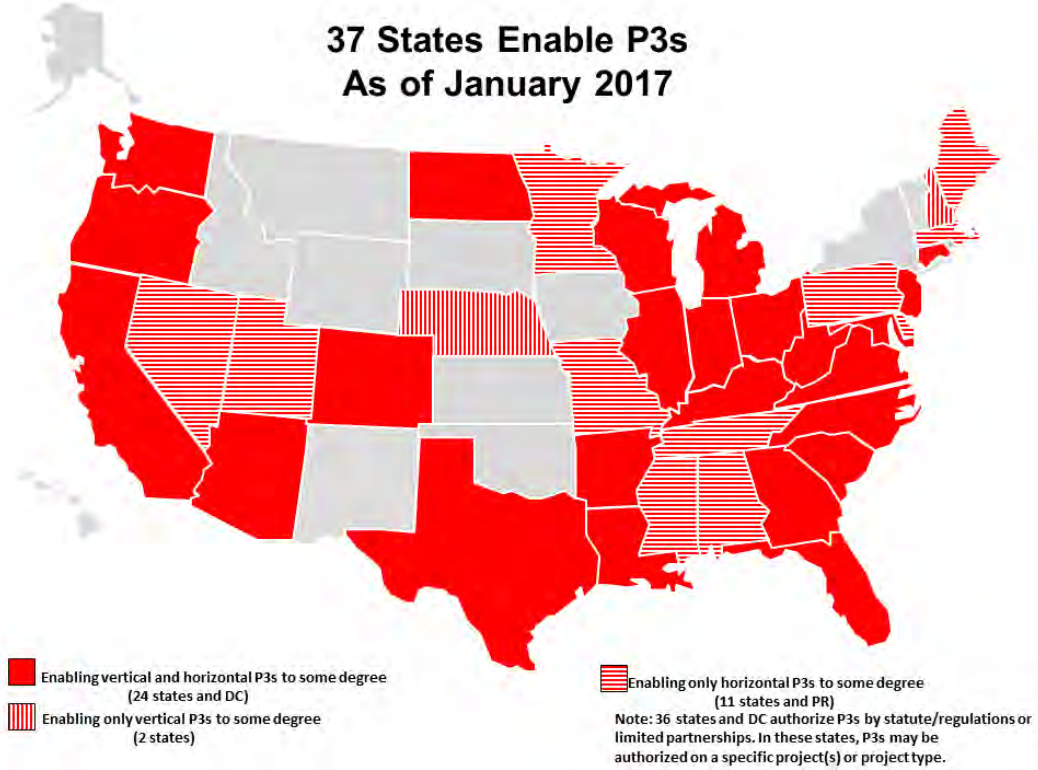
A PRIMER ON PUBLIC-PRIVATE PARTNERSHIPS

- There Is No “One Size Fits All” Model
- Significant Innovation in the Market
- It’s All About Risk Transfer

Range of Delivery Options

- P3 does not have a common definition
- NCPPP identifies 18 different legal and financial P3 structures based on who owns, finances, designs, builds, operates, and maintains the project
- Few centers of excellence
- There is no centralized governing body
- Shortage of technical and financial expertise

P3 – An Evolving Industry



(Source: Associated Builders and Contractors, Inc. through the National Council for Public Private Partnerships)

P3 – An Evolving Industry

MOODY'S
INVESTORS SERVICE

Announcement: **Moody's: US is poised to become largest public-private partnership (P3) market in the world**

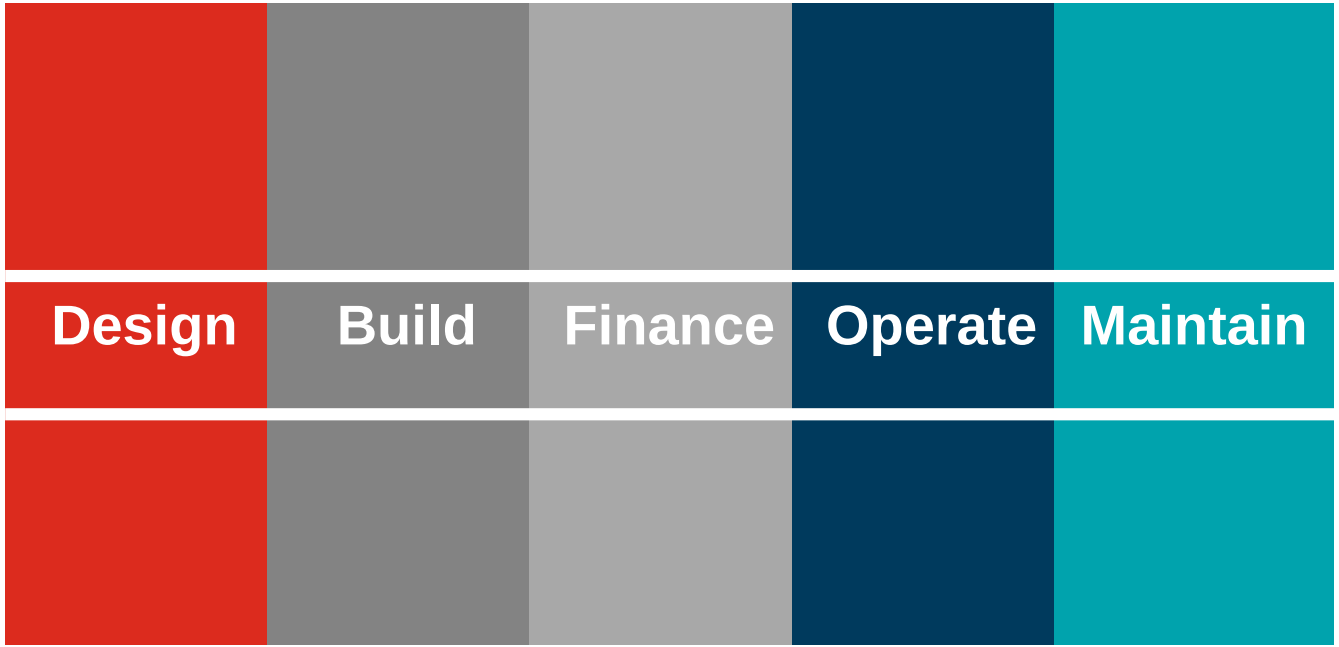
Global Credit Research - 08 Sep 2014

New York, September 08, 2014 -- Given the sheer size of its infrastructure and growing urban population, the US has the potential of becoming the largest market for public-private partnerships (P3s) in the world, says Moody's Investors Service in its "Global P3 Landscape" report. An increasing number of US states are authorizing the use of P3s for transportation projects, typically the first type of P3 project in a new market, and the use of P3 models has been steadily increasing over the last five years.

"More US states and governments around the world are using P3s to develop and maintain public infrastructure," says Managing Director Chee Mee Hu. "Two inter-related trends are at work that could cause P3 activity to expand: the need to upgrade, replace or build out essential infrastructure assets and the inability of governments to finance these current and future infrastructure investments entirely on their balance sheets."

Range of Delivery Options

The Campus MUST define the project



It's All About Risk Transfer

Design — Build

- Site Risk
- Project Schedule
- Technical Design Errors & Omissions
- Program & Conceptual

Finance

- Project Funding
- Credit Rating Impact
- Balance Sheet Utilization
- Debt Capacity Availability

Operate — Maintain

- Programming
- Occupancy Risk
- Custodial & Facility Maintenance
- Asset Management

External

- Macroeconomic Risk
- Force Majeure
- Political Environment

LSU'S NICHOLSON GATEWAY PROJECT

Nicholson Gateway Overview

DEVELOPMENT SUMMARY

Nicholson
1,525 Beds, upperclass/grad
38,000 sf retail
8,500 sf U-Rec Satellite
1,200+ parking

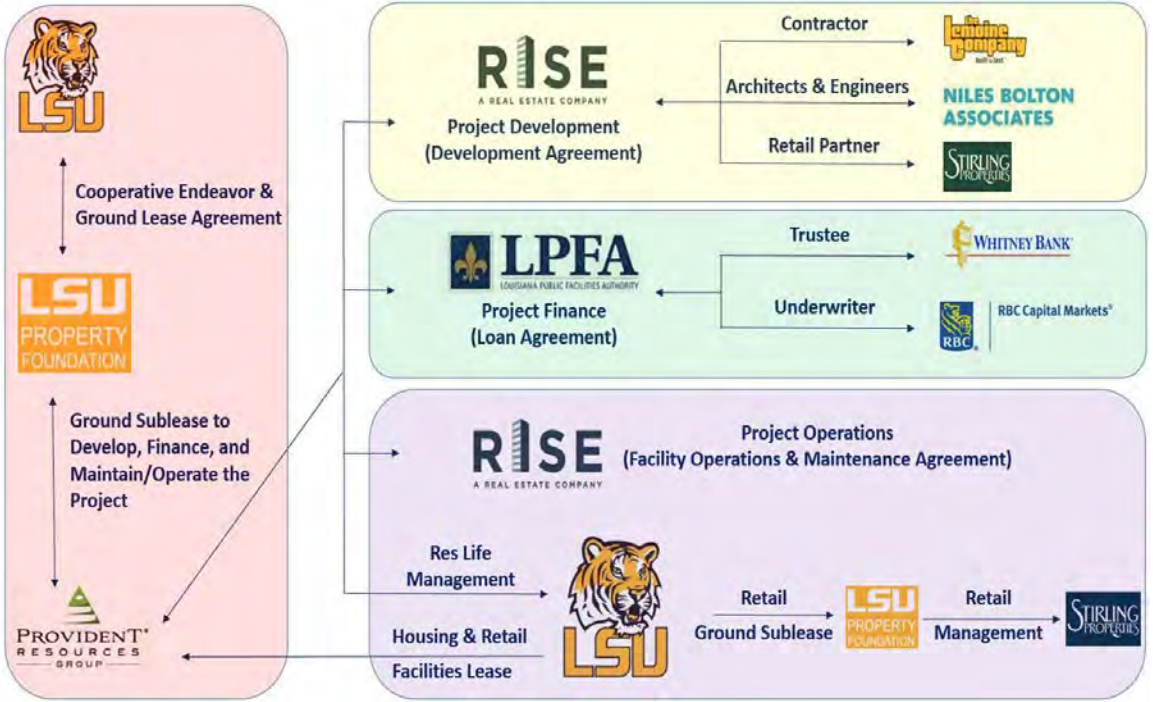
Spruce Hall
421 Beds, first-year students
200+ parking

Nicholson Gateway Development

- LSU engaged its Foundation to select Development Advisor and then Master Developer through competitive process
- $215 million total development cost
- Developer selection February 8, 2016
- Financial Close September 29, 2016
- $218 million total new cash flow to LSU over 40 years

Nicholson Gateway Deal Structure

- Lease-Lease Back
- On-book, On-credit
- Private tax-exempt bonds
- LSU controls residential life operations
- Developer operates and maintains physical building



CONTINUUM OF AVAILABLE DEAL STRUCTURES

- Risk
- Control
- Return on Investment

Comparison of Privatized Project Financing Options

(Assuming No Financial Obligation of the University)

	Tax-Exempt Bonds	Taxable Bonds	Equity	Concession	Conventional
Ownership Entity	Non-Profit	For Profit or Non-Profit	For Profit	For Profit	For Profit or Non-Profit
Financing Type	Up to 100% Project Based Debt	Up to 100% Project Based Debt	Owner Equity *(Possibly with Corporate or Project Based Debt)*	Taxable Debt/Equity	Debt/Equity
Financing Term	Usually 32 Years, but up to 40 Years	Up to 40 Years, but with a preference for 20 to 30 Years	Usually 65 Years *(based on ROI)*	Usually 65 Years *(based on ROI)*	Debt: Up to 40 Years
Security	Mortgage, Project Revenues & Assets	Mortgage, Project Revenues & Assets	Project Revenues & Assets	Project Revenues & Assets	Mortgage, Project Revenues & Assets
Reserve Requirements	Capitalized Interest Debt Svc Reserve R&R Reserve	Capitalized Interest Debt Svc Reserve R&R Reserve	R&R Reserve	Capitalized Interest Debt Svc Reserve R&R Reserve	Capitalized Interest Mortgage Reserve R&R Reserve
Subordinate Debt	Allowable	Allowable	Usually None	Usually None	Allowable
Equity Requirement	No Private Equity	Allowable	Yes	Minimum of 10% *(Unless offset by long operating agreement)*	Usually Required
Rating	Investment Grade *(Speculative Grade Possible)*	Investment Grade	None	Investment Grade *(Private Rating)*	None
University Relationship	Minimum: Projects operated as part of university programs Additional support (sub expenses, priority leasing, guarantees) has greater credit impact				None for off campus projects
Cost of Capital	4.50% TIC* *(32-Year Public Offering)*	5.25%* at +250 *(30-Year Placement)*	6% - 8% Current 12% IRR	+250 to +325 to Interpolated Treasury	4.70%* *(FNMA Permanent)*

*Reflects approximate current market yields

STRATEGIC DRIVERS OF DEAL STRUCTURE DECISIONS

- Financial & Legal Realities
- Risks and Capacity for Risks
- Desired Student Outcomes and University Control

Financial, Legal, and Political Realities

- Each state & each institution has unique capabilities & challenges
  - Auxiliary revenue bond ability & capacity
  - Procurement
  - Retention of funding
  - May vary even among institutions in the same system
- Political Approval Process
  - Labor & Faculty Relations
  - Public & political attitudes towards P3
- Debt Capacity & Credit Strength

Risk & Capacity for Risk

- Risk and financial return are strongly connected
  - More risk transfer = less financial return
- Risk and control are strongly connected
  - More risk transfer = less control
- If institution lacks capacity for a risk, it must transfer it
- Understand what is and is not actually being transferred
- Transfer risks that are not critical to the institution's mission
- All these factors will vary, even among institutions within the same system

Student Outcomes & Control

- Must identify the core institutional missions and the relationship of the project to those core missions
- Project will have financial impact on the institution outside the pure financial costs or return of the project
  - Recruitment of students
  - Retention of students
  - Student success
- Private partner will be focused only on financial return of project

DECISIONS AND APPROVALS

- Design & Construction
- Financial
- Operations & Maintenance
- External Factors

Design and Construction

- Project Schedule
  - Speed of implementation & construction was critical for LSU
  - Included substantial liquidated damages to ensure delivery
- Programming & Purpose
  - Retaining control was critical for LSU
- Flexibility
  - Ability to adapt to changing conditions was critical for LSU

Financial – Credit & Other Risks

- LSU had little need to transfer credit & balance sheet risk:
  - LSU has strong credit
  - LSU has balance sheet capacity
  - LSU has excess debt capacity within its auxiliary services
- LSU had strong need to transfer design, construction, and delivery risk:
  - Traditional state process takes years
  - Traditional state process poses procurement challenges
  - LSU had several large construction projects underway simultaneously

Financial – Occupancy Risk

- Our students, our campus, our risk
  - Nominal transfer of occupancy risk not worth the cost
- Could not risk non-LSU students being housed on campus
- Retention of occupancy risk allowed best financial return
  - LSU needed additional revenue to accelerate replacement of 1960s-era housing
- Rental Rate Control
  - Retaining occupancy risk allows LSU to solely control rental rates

Operations & Maintenance

- Student Life Programming
  - Student Life is a core part of LSU's academic mission
  - Seamless experience for students
- Facility Maintenance
  - Physical operations & maintenance is not a core mission
- Custodial
  - Still evaluating
  - Tentatively see little savings from transferring custodial
  - Custodians have substantial interaction with students

External Factors

- Macroeconomic Risk
  - State funding and state bond availability decreasing
  - Project had to absorb $23 million parking garage that state had originally committed to provide
- Political Risk
  - Pressure to focus on core mission
  - Approvals for projects not related to deferred maintenance are hard to obtain

Conclusion

- These 5 considerations should drive deal structure decisions
  - Impact of the project on the student experience
  - Impact of the project on institutional revenues and success outside the project (e.g., impact on enrollment and retention)
  - Impact of the project on institution's credit and balance sheet
  - Institution's capacity and appetite for risk, need for financial return
  - Ability to truly transfer the risk