

**James C. Grimm
NATIONAL HOUSING
TRAINING INSTITUTE**

**National Housing Training
Institute 2017**
Project Definition and Public
Private Partnerships

Peter Isaac, Brailsford & Dunlavy
Brad Noyes, Brailsford & Dunlavy

+ Background Information

Our mission is to make our clients the strongest owners possible throughout the development process.

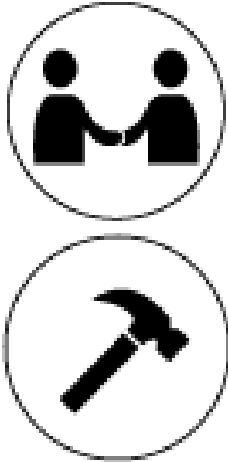
Our purpose is to inspire and empower organizations to maximize the value of investments that advance communities.

My background is Real Estate Development & Finance having worked with more than 100 campuses. I have been with B&D since 2006.



+ The Knowledge Domains

This session
contributes to the:



Ancillary Partnerships &
Facilities Management
Knowledge Domains

Select Areas in these Knowledge Domains:

- Public Private Partnerships
- Specialized Housing
- Facilities Assessment
- Capital Project Management

This session will contribute to your mastery of
**Project Definition and Public Private
Partnerships** of these knowledge domains.



+ Why do you care about this?

- Advances your understanding of the complexities and interconnectedness of project definition and public private partnerships.
- Prepares you to contribute to campus understanding of:
 - The establishment of project definition as a road map.
 - The importance of revenue and non-revenue generating spaces (features, purpose, size and placement).
 - The impact of appropriate room configurations for target demographic and strategic priorities.
 - The selection of optimal delivery structures for your context.
 - The institution's critical role in defining the terms of any public private partnership and normalizing competitive solicitation processes.

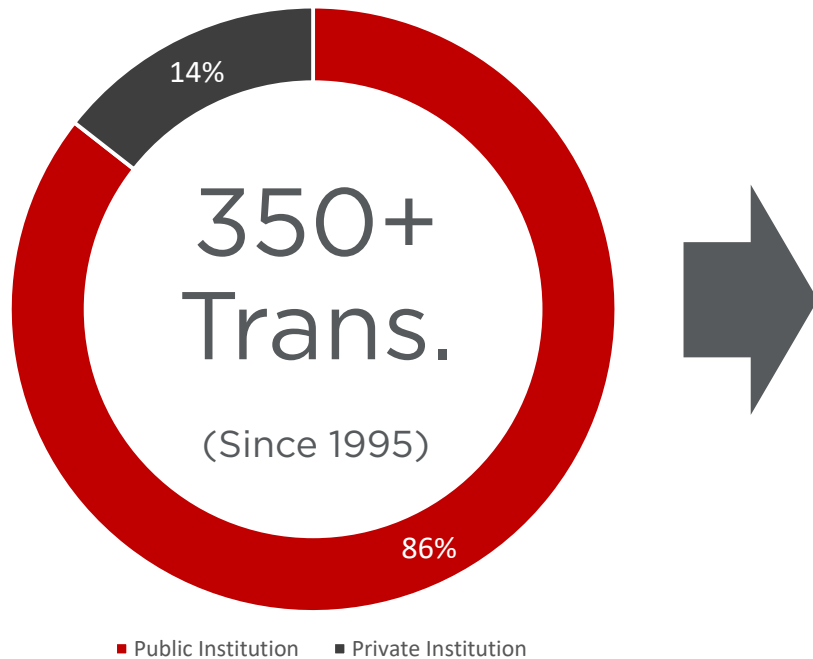


+ Agenda

- Public Private Partnerships: An Evolving Industry
- Range of Delivery Options
- Project Definition Process & Tools
- Public Private Partnership Considerations
- *Public Private Partnership Considerations in Action*
- Wrap-up & Lessons Learned



P3 – An Evolving Industry



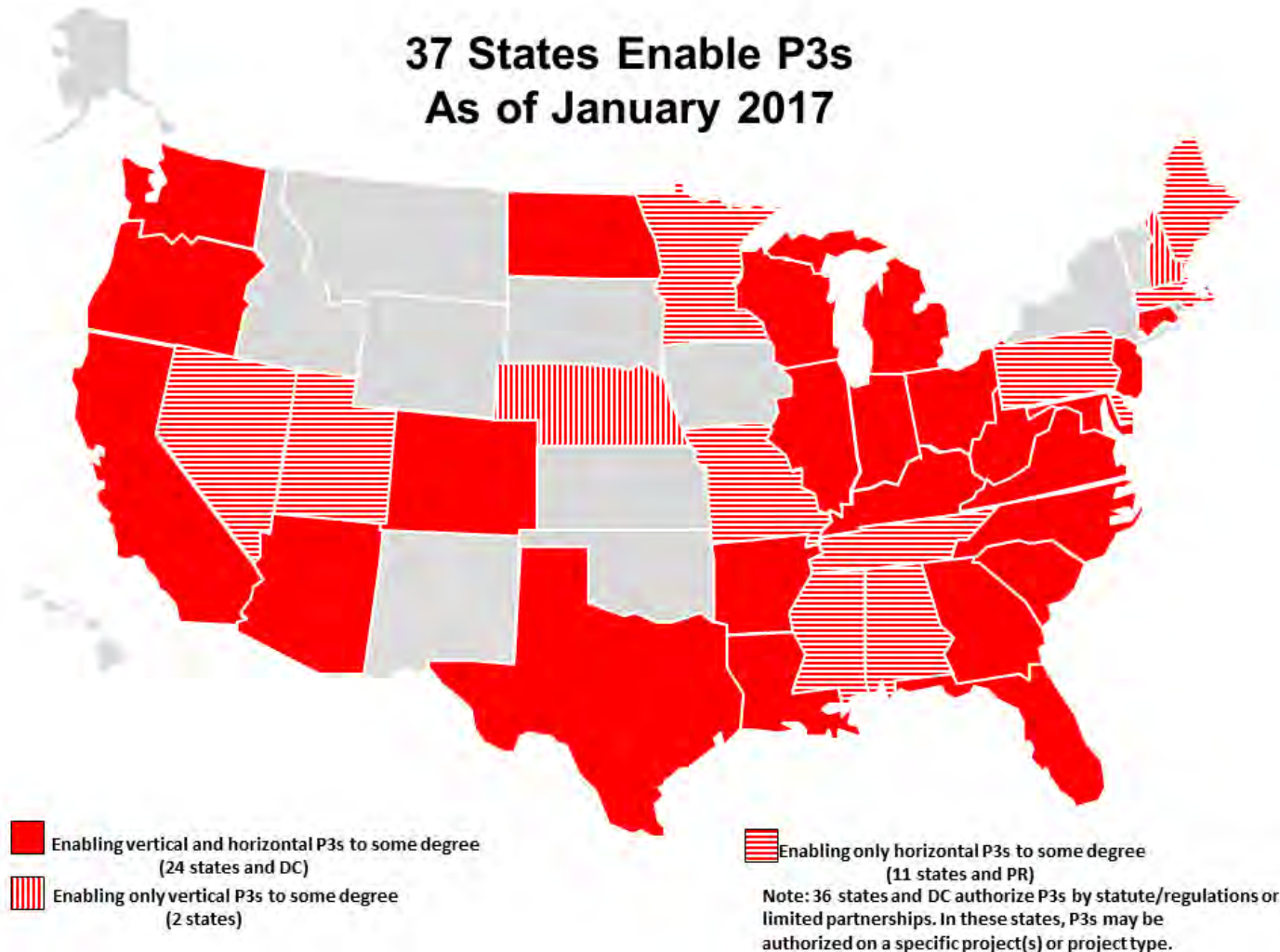
- ◆ +\$12 Billion in Trans. Volume
 - ◆ 50% Bond Financed
 - ◆ 50% Debt / Equity
- ◆ 220,000 Beds Delivered
- ◆ Avg. Scale: 500-700 Beds
- ◆ Avg. Trans.: \$30-\$50 Million

Source: George K. Baum + Brailsford & Dunlavy



P3 – An Evolving Industry

**37 States Enable P3s
As of January 2017**



(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."



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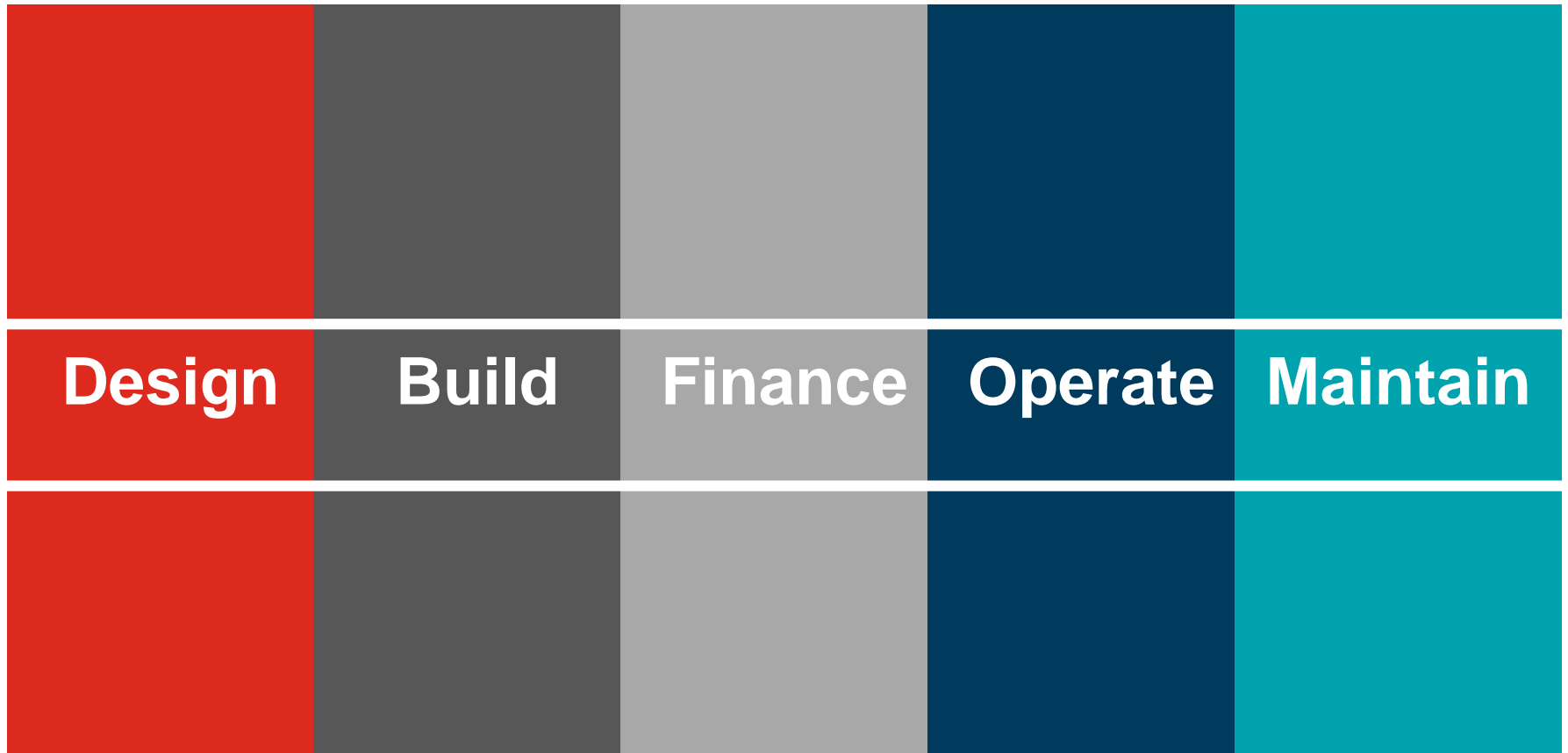
+ Range of Delivery Options

- 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



+ Range of Delivery Options

The Campus **MUST** define the project



+ Range of Delivery Options

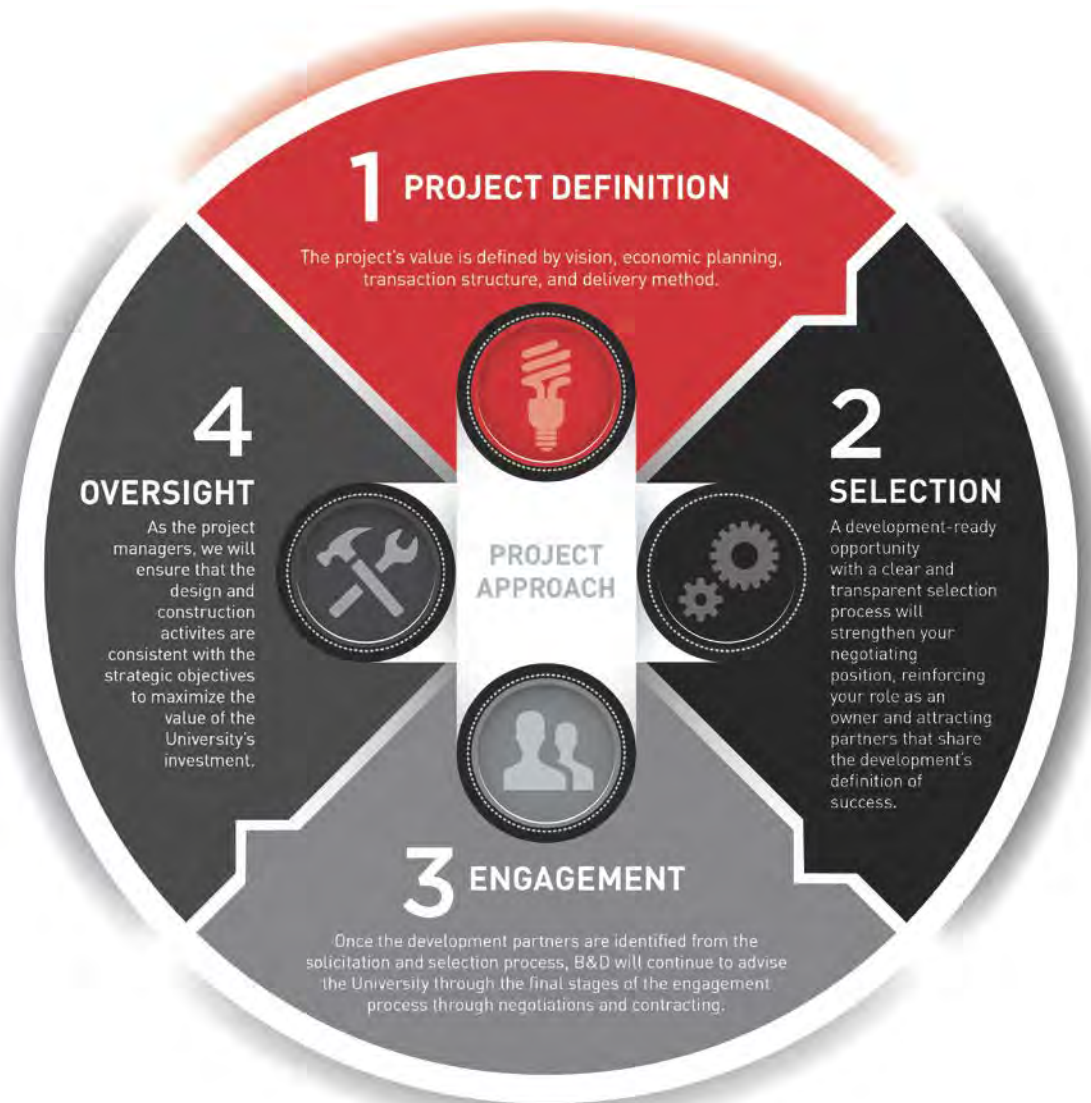
STUDENT HOUSING OWNERSHIP OPTIONS

- 1** University owned, operated, designed, financed
- 2** University owned, operated, financed / "turn-key" development
- 3** University not-for-profit owned, ground lease
- 4** Unrelated not-for-profit owned, ground lease.
- 5** Developer owned, design and build through a ground lease. Managed by school
- 6** Developer owned, design and build through a ground lease. Privately managed.



+ Project Definition & Process

Generate Value through Risk Reduction



+ Project Definition & Tools

- Campus Context & Strategic Plan
- Demand Analysis & Market Analysis
 - Off Campus
 - Focus Groups
 - Benchmarking
 - Demographic Analysis
 - Surveys
- Facilities Assessment & Inventory Management
- Financial Analysis & Value for Money
- Delivery Options



Strategic
Planning



Survey



Focus
Groups



Peer
Analysis



Market
Analysis



Financial
Analysis



+ Considerations

- What you should do...
 - Identify the key elements of risk in various public private partnership structures:

Design & Construction	Site risk	Availability of site (land acquisition/rights-of-way), quality of site (geological conditions, existing asset condition), zoning permits
	Design risk	Inadequate planning, substandard design vs user requirements, lack of system integration, delayed construction permits, delay PPP approval
	Construction risk	Time delays, completion risk, cost overruns, quality issues, sub-contractor underperformance, untried and complex technologies, design change requests
	Environmental and social risk	Delayed environmental permits, environmental constraints for construction and operation, stakeholder opposition, costs of social and environmental mitigation
Operations	Commercial risk	Lower demand than forecast, higher price elasticity, network interface risk, revenue collection risk
	Operating cost risk	Higher operating costs, maintenance costs, labor costs and commodity prices
	Performance risk	Operational inefficiency, system underperformance, reduced asset availability and capacity, service interruptions, innovation risk
	Financing risk	Refinancing availability, borrowing rate risk, counter-party and government sponsor risk
Political & Macro	Macroeconomic risk	Changes to economic growth, population, demographics, industrial development, interest rates, exchange rates, inflation
	Regulatory risk	Changes in regulated prices, competition, sector framework, taxation
	Political risk	Breach of contract, expropriation, currency inconvertibility, no profit repatriation
	Force majeure	Natural or man-made events, e.g. earthquake, flood, hurricane, civil war, riot, crime, strike

Source: World Economic Forum and The Boston Consulting Group – Strategic Infrastructure – Steps to Prepare and Accelerate Public-Private Partnerships, 2013, p.46



+ Considerations

Public Sector

Certainty

Efficiency

Mission-based

Risk transfer to private partner

Desires openness from private partner

Private Sector

Fair return

Desires flexibility to succeed from public partner

Desires direction from public partner



+ Considerations

- What are the reasons why higher education may consider a public private partnership?
 - Limited debt capacity or an inability to finance
 - Avoiding cumbersome procurement structures
 - Faster delivery (Time = Money)
 - Ability to consider a range of construction standards
 - Development expertise
 - Land assemblage
 - Management and operating expertise
 - Financial return (ground lease revenue, net cash flow participation)
 - Risk transfer (initial costs, budget, financing and schedule)



+ Considerations

- What are the most frequent sensitive terms for higher education?
 - Preservation of control (design, construction, operations)
 - Limited flexibility due to long-term ground leases
 - Limiting ownership transfer options for a selected partner
 - Reasonable returns for providing land and students
 - Potential impact on student rents of particular public private partnership cost structures
 - Loss of operational control can inhibit the advancement of the University's mission
 - State legislation may inhibit utilization of public private partnerships



+ Considerations

- What you should be aware of...
 - The operating, staffing, and financial context of your institution.
 - Significant range of customizable delivery options:
 - Self-perform Model
 - Campus DSO Model
 - Lease-Leaseback Model
 - National 501c3 Project Financing Model
 - Service Concessionaire Model
 - Equity Model

- What you should do...
 - Understand the operating, staffing, and financial considerations and risk transfer of various delivery options.
 - Analyze the advantages and disadvantages of the range of delivery options within your unique campus context.



+ Interactive Exercise: Public Private Partnerships in Action

Step 1: Recall background info and connections to prior sessions

Step 2: Discuss and synthesize the scenario presented

Step 3: Review the potential range of PPP delivery structures

Step 4: Determine how you will execute your project

Step 5: Recommend a delivery structure for the scenario

Step 6: Select group spokesperson to summarize your story

Step 7: Report out on your plans and drivers



+ Case Studies



**Bobcat State
University**



**Blue Jay
College**



**Norsemen
University**



**Bald Eagle
University**



Grace College

+ Initial Context



- ✓ Urban, public 4-year institution
- ✓ Declining enrollment
- ✓ Un-energized campus culture
- ✓ 2nd / 3rd tier institution within state system hierarchy
- ✓ Legacy housing inventory

+ Initial Context



Very small, private 4-year institution



Stagnant to declining enrollment



Campus culture characterized by rich traditions



History as a single-sex institution



Oversupply of housing with significant deferred maintenance issues



+ Initial Context



Norsemen University



Public research institution



Growing enrollment



Member, major athletic conference



Flagship institution within the state



Significant housing presence
for underclassmen



+ Initial Context



Bald Eagle University



Urban, private 4-year institution



Steady enrollment



Undergoing repositioning branding campaign



Quickly deteriorating student housing



Very expensive off-campus housing market



+ Initial Context



- ✓ Religious, private 4-year institution
- ✓ Growing enrollment
- ✓ Rural campus, very small off-campus student housing market
- ✓ Students often choose to live on campus for entire educational experience
- ✓ Housing is outdated, student body is outgrowing capacity



Interactive Exercise: Public Private Partnerships in Action

Step 1: Recall background info and connections to prior sessions

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+ Lessons Learned

Focus on a selection and contracting process that drives value as defined during an initial project definition phase

**Leveraging
delivery
structures**

**Engaging
an evolving
market**

**Normalizing
variables**

**Driving
competition**

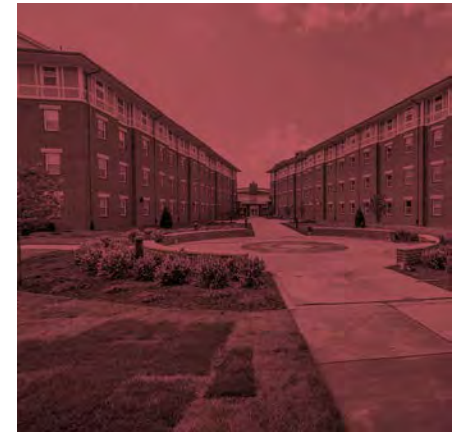
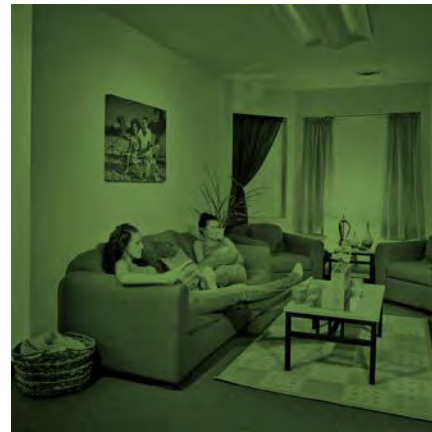
Engage in parallel with internal and external approval processes



+ Lessons Learned

- Key ingredients to successful public private partnerships...
 - Stated common commitment to a strategic vision
 - Clear project champion & key stakeholder alignment and support
 - Clear definition of project framework (no fishing expeditions!)
 - Essential defined facility need
 - Established feasibility / business case
 - Definition of any funding gap and necessary economic parameters
 - Definition of institutional risk profile and tolerance
 - Organized, fair, transparent procurement process
 - Partnership oriented rather than exclusively a transactional focus
 - Advisors & expertise from initial stages through implementation





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