

P3 OPERATIONS – INSTITUTION VISION vs. PARTNER CONTROL

SEAHO PRESENTATION | SPRING 2017



PRESENTATION AGENDA

P3 OPERATIONS – INSTITUTION VISION vs. PARTNER CONTROL

- Presentation Objectives and Introductions
- USF Village Project Overview
- Public-Private Partnership Basics
- P3 Project Operations
- Discussion



PRESENTATION OBJECTIVES AND INTRODUCTIONS

PRESENTATION OBJECTIVES

During this presentation, you will learn more about...

- The factors that led USF to choose a public-private partnership and the ultimately selected deal structure
- The relationship between P3 deal structures and operating agreement parameters
- The amount of preparation required to make educated decisions with regards to operations in a P3 structure

PRESENTER INTRODUCTIONS



ANA HERNANDEZ

- University of South Florida
- 27 Years of Higher Education Experience
- Assistant VP for Housing & Residential Education



ERIC BRAM

- Brailsford & Dunlavey
- 5+ Years with B&D
- Project Manager
- Atlanta, Georgia Office

UNIVERSITY OF SOUTH FLORIDA

Fall 2016-2017 Facts

- 42,803 USF Tampa students
- 8% Enrollment growth over last 5 years
- 4.08 Average FTIC GPA (3.91 GPA in Fall 2011)
- 95% In-state population
- University is 60 years old (founded in 1956)



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440

Higher education
clients

> 1,000

College + University
Projects

\$35B

In completed higher
education facilities

500+

Student housing
projects

A nighttime photograph of the USF Village Project. The top half shows a multi-story building with many lit windows against a dark purple sky. A green semi-transparent banner is overlaid across the middle. The bottom half shows a paved courtyard with benches, trees, and a building entrance with large glass windows. A sign on the building reads "JUNIPER FLAT".

USF VILLAGE PROJECT OVERVIEW

USF / B&D BACKGROUND

USF engaged B&D in Spring 2014 to...

- Prioritize the strategic drivers that will guide USF's future housing decisions
- Quantify current and future demand for on-campus housing demand at USF
- Create an implementation plan that addresses how USF should advance its system and approach deferred maintenance
- Ensure that the implementation plan maintains financial covenants within existing debt obligations
- Identify the funding strategy that best addresses the University's needs

USF HOUSING OVERVIEW

Housing Background

Bed Count

- 4,812 Revenue Beds (non-RA / Staff)
- 67% Non-Apartments

Fall 2016 Occupancy

- Occupancy: 106%

Facilities

- Average Age: 1979
- More than \$90mm in Deferred Maintenance

Housing Inventory (Fall 2016)

<u>Residence Hall</u>	<u>Year Opened</u>	<u>Bed Count</u>	<u>Unit Type</u>
Kosove	1961	242	Apt.
Beta	1962	276	Traditional
Castor	1963	354	Traditional
Delta	1964	218	Suite
Epsilon	1964	226	Suite
Eta	1964	80	Suite
Zeta	1964	80	Suite
Iota	1966	60	Suite
Kappa	1966	112	Suite
Lambda	1966	40	Suite
Mu	1966	110	Suite
Theta	1966	38	Suite
Holly	2000	702	Apt.
Magnolia	2001	462	Apt.
Maple	2003	216	Suite
Cypress	2004	292	Suite
Cypress	2004	288	Apt.
Juniper	2009	408	Suite
Poplar	2009	608	Suite

Total: 4,812

Andros Facilities

- Opened Mid-1960's
- 9 Residential Buildings (~1,000 Beds)
- \$52mm in Deferred Maintenance
- No Debt Service
- Generates ~\$1.6mm in CF (40% of Total System CF)

ANDROS

VILLAGE PROJECT OVERVIEW

Decision to demo / replace Andros:

- Andros has been considered for replacement for many years, but USF needed the inventory to support its L/O requirement
- Cost-benefit analysis demonstrated that renovations were too costly and did not further USF's strategic objectives
- Andros occupies highly-prominent land near the campus edge / Marshall Student Center and does not support the USF brand
- Opportunity existed to elevate the quality of student housing, create a more well-defined residential neighborhood, and deliver a more impactful residential experience on this site



VILLAGE PROJECT OVERVIEW

USF HOUSING DEMAND

2017 - 2018 USF Housing Demand

<u>Academic Classification</u>	<u>Enrollment</u>	<u>Demand</u>
Freshman / Sophomore	8,595	3,441
Junior / Senior / Other UG	20,872	2,030
Graduate	11,575	229

<i>Total Demand</i>	5,700
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<i>Existing Inventory</i>	4,812
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<i>Less Andros Phase I Demo</i>	604
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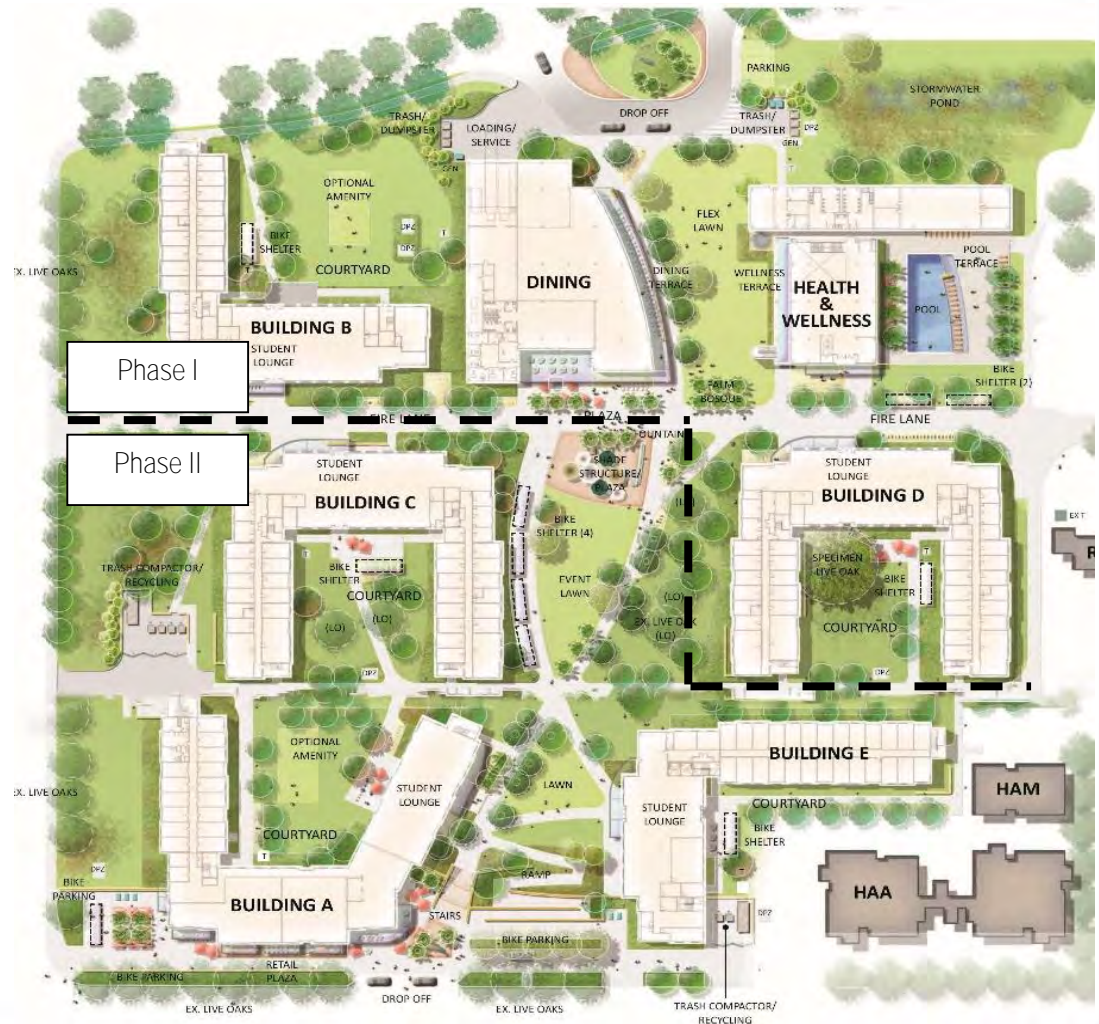
<i>Less Andros Phase II Demo</i>	360
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<i>Excess Demand</i>	1,852
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Including the demolition of Andros, USF experiences excess demand of 1,852 beds in Fall 2017

VILLAGE PROJECT OVERVIEW

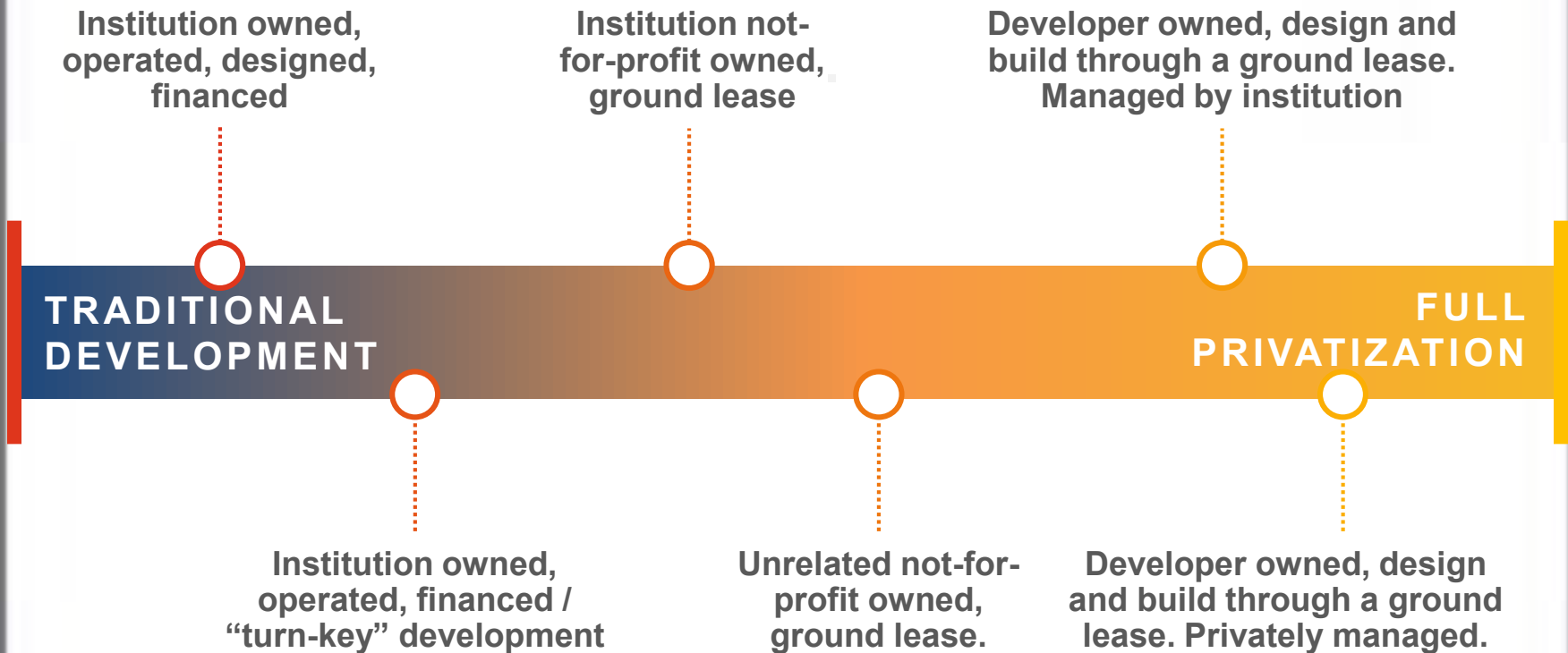
- \$132.8mm
- Phase I Fall 2017 / Phase II Fall 2018
- 1,996 Total Beds (Rev. and Non-Rev.)
- Indoor Recreation (19,280 GSF)
- Outdoor Pool
- Dining (15,660 GSF)
- Retail (5,623 GSF)
- Surface Parking
- Andros Demolition





PUBLIC-PRIVATE PARTNERSHIP BASICS

P3 BASICS



P3 BASICS

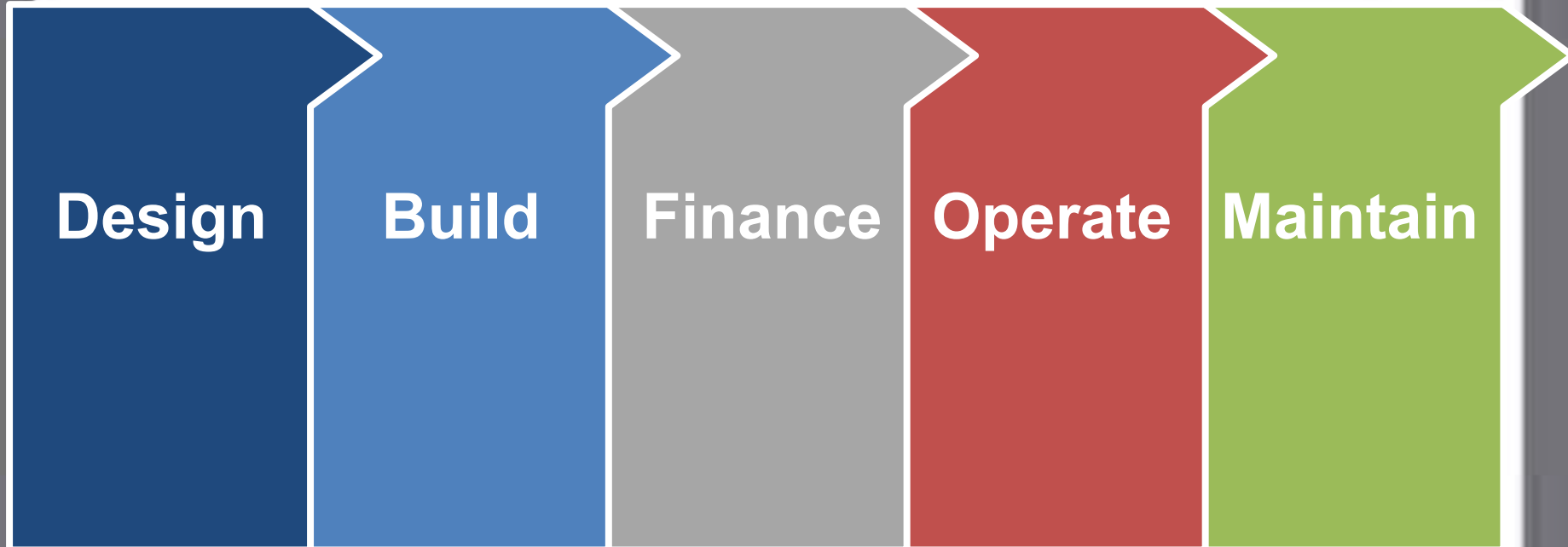
WHY P3?

What are the reasons why institutions may consider a public-private partnership?

- Limited debt capacity or an inability to finance
- Risk transfer (initial costs, budget, financing, and schedule)
- Faster delivery (Time = Money)
- Ability to pursue alternative procurement strategies
- Development expertise
- Ability to consider a range of construction standards
- Management and operating expertise
- Financial return (ground lease revenue, net cash flow participation)
- Land assemblage

P3 BASICS

Institution MUST define the project



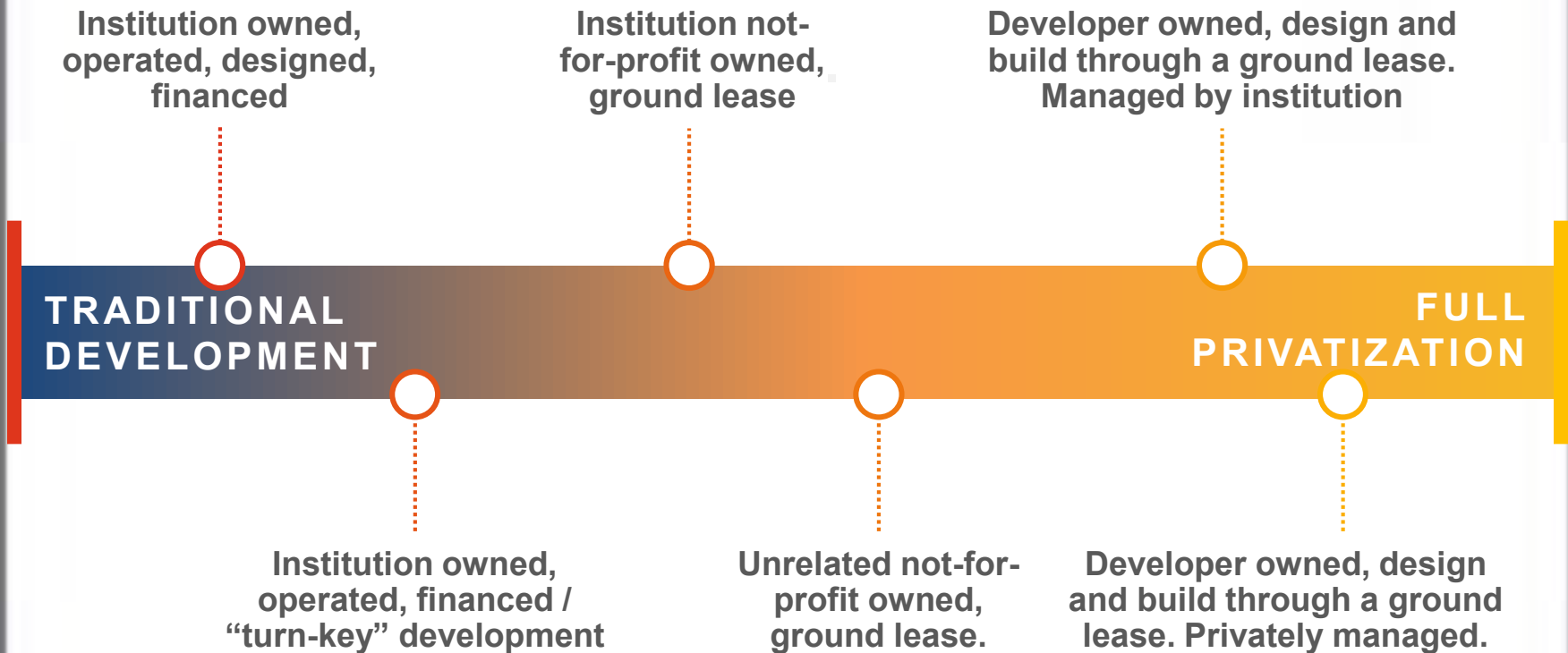
P3 projects have changed over time – Universities are in a stronger position now more than ever

USF SOLICITATION

USF issued a solicitation with the following key criteria regarding the partnership structure:

- No consideration of proposals that may adversely impact USF credit rating and/or debt capacity
- Ground lease of no more than 50 years
- No extraordinary equity participation percentages
- Delivery of the project on time / on budget is the responsibility of the partner
- Ability to buy out the project prior to the expiration of the ground lease based upon a purchase price calculation

P3 BASICS



*For these reasons, USF decided to pursue a debt-equity funding model = **Higher Risk for Partner***



OPERATING A P3 PROJECT

P3 HOUSING OPERATIONS

Why are operating terms a challenge to negotiate in this type of partnership structure?

Partner Perspective:

- *More Risk = More Control Needed*

USF Perspective:

- *How to deliver a seamless experience to all housing residents with split operating oversight*

P3 HOUSING OPERATIONS

How might the operations relationship differ in other partnership models?

P3 HOUSING OPERATIONS

There are 3 primary operating buckets that must be considered:

- ◆ Residential Life (Living-Learning / RA's / Emergency Response)
- ◆ Administration (Assignments / Billings / Marketing)
- ◆ Facilities (Custodial / Routine Facilities Maintenance / Asset Management)



P3 HOUSING OPERATIONS

For operations, USF indicated the following in the solicitation process to potential partners:

- USF will provide all residential life / administrative functions (assignments / billings / marketing / programming)
- USF will consider proposals that outsource custodial and maintenance activities
- If outsourcing occurs, seamless residential experience must exist for students regardless of where they are living on campus
- Asset management services will be maintained by selected partner

P3 OPERATIONS

For the P3 partner, they are concerned about the operator demonstrating its capabilities to:

- Provide a high level of service quality
- Deliver efficient (low) cost of operations
- Meet reporting requirements
- Plan for long-term health of the asset

Understanding these operating parameters is a high priority, especially in an equity model

P3 OPERATIONS

If USF is interested in providing facility operations...



Comparing budgets requires equal assumptions

P3 OPERATIONS

Comparing Budgets Requires Equal Assumptions

	Items	Included in USF's FCM Budget?	Notes / Definitions / Specifications
USF Housing Facilities	Key & Lock Maintenance – Physical	Yes	Key replacement and lock re-coring; keys and cores are supplied
	Minor appliance, Furniture & Fixture Repair/Replacement	Yes	Appliances / Furniture / Bathroom Fixtures / Light fixtures / Windows (interior and exterior) / Doors (interior and exterior) / Environmental Controls
	Minor Electric Repair	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Exterior Cleaning & Maintenance as well as Envelope Repair	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Flooring Repair	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor HVAC Repair and Maintenance	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Painting/Sealants Repair	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Interior Surface Repair and Maintenance	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Plumbing Repair and Maintenance	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Minor Roof Repair	Yes	Up to an estimated 4 hours of labor or \$5,000 per repair
	Pest Control	Yes	To include normal prevention and on-call remediation

*Budget Comparison
Example:
Routine Maintenance
VS.
Asset Management*

P3 OPERATIONS MATRIX

To negotiate, USF needed to do its homework...

	FYE 2016		FYE 2017		FYE 2018		FYE 2019	
	Fall15/Spr16/Su16		Fall16/Spr17/Su17		Fall17/Spr18/Su18		Fall18/Spr19/Su19	
	Total Cost	Expenses / SF	Total Cost	Expenses / SF	Total Cost	Expenses / SF	Total Cost	Expenses / SF
Custodian Salaries & Benefits	\$300,000	\$0.17	\$309,000	\$0.19	\$321,000	\$0.17	\$330,000	\$0.17
	\$100,000	\$0.06	\$103,000	\$0.06	\$107,000	\$0.06	\$110,000	\$0.06
	\$100,000	\$0.06	\$103,000	\$0.06	\$107,000	\$0.06	\$110,000	\$0.06
	\$100,000	\$0.06	\$103,000	\$0.06	\$107,000	\$0.06	\$110,000	\$0.06
Telephones	\$200,000	\$0.12	\$206,000	\$0.13	\$210,000	\$0.11	\$215,000	\$0.11
Custodial Supplies & Uniforms	\$50,000	\$0.03	\$51,500	\$0.03	\$53,000	\$0.03	\$55,000	\$0.03
Custodial Equipment Maintenance	\$50,000	\$0.03	\$51,500	\$0.03	\$53,000	\$0.03	\$55,000	\$0.03
Sub-Total	\$600,000	\$0.35	\$618,000	\$0.38	\$637,000	\$0.33	\$655,000	\$0.33

Expenses needed to be understood down to the penny

**Not USF's actual expenses*

Financial Reporting

In this structure, the P3 partner can dictate report formatting

Total Maintenance	0	0	0	0	0	0
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P3 OPERATIONS MATRIX

Administration			
Function	Mgmt. Partner	Owner	University
Financial Reporting - Owner Required Monthly Financial Reports	X		
Financial Reporting - Resident Rent Rolls, Charges and Payments (to Owner with copies to COCM) to be included in Financial Reports			X
Security Officer Staffing - USF PD			X
Front Desk Staffing			X
Application Process			X
Assignment Process			X
Rent Charges and Collections			X
Creation of Annual Budget - Asset Management	X		
Creation of Annual Budget - Administrative Services			X
Creation of Annual Plan - Asset Management	X		
Creation of Annual Plan - Administrative Services			X
Roll Up of Asset Management and Administrative Services Budgets for Owner	X		
Rate Approval by Advisory Committee (part of Total Budget Package Development and Approval)		AC	
Final Budget Package Submittal to Owner	X		
Final Budget Approval by Advisory Committee		AC	
Record and Book Keeping - Asset Management	X		
Record and Book Keeping - Residence Life			X
Mail and Package Distribution			X
Telephones and Telephone Service (including cell phones) for Administrative Services			X
Telephones and Telephone Service (including cell phones) for Tenant Maintenance Services; includes phones tied to fire safety monitoring system.	X		
Office Supplies and Equipment for Administrative Services			X
Office Supplies and Equipment for Tenant Maintenance Services	X		
Insurance Maintenance - Property		X	
Insurance Maintenance - Management Liability	X		
Insurance Maintenance - Gap	X		
Insurance Maintenance - Worker's Comp - Asset Management	X		
Insurance Maintenance - Worker's Comp - Administrative Services			X

P3 OPERATIONS

Other Key Contract Elements

- Utility Coordination
- Indemnification
- Insurance
- Default
- Management Agreement Termination

P3 OPERATIONS

It sounds (and is) a lot of work, but...

- The university and partner both want what is best for the project for future years
- The process allows for an in-depth understanding of whether or not standards are being met
- For the benefit of the students, institutions must understand their expenses and operational efficiency
- A P3 partner may be a new endeavor, and clear definition is required
- With a clear understanding of objectives, the institution can measure against its vision throughout the process



A nighttime photograph of a modern university building with a green translucent overlay. The building has multiple stories with many lit windows, and the foreground shows a paved walkway and some landscaping.

DISCUSSION

P3 OPERATIONS – INSTITUTION VISION vs. PARTNER CONTROL

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