State of the P3 Higher Education Industry

October 2, 2017 | 2:00 PM - 3:00 PM
Introduction

- More than **450 higher education projects** across the country
- Advisor to clients on more than **$1 billion** in P3 projects
- Presented on related topics more than **30 times** at industry events across the country

Jeffrey Turner
Executive Vice President
Evolving Industry Context
Evolving Context

The Cost of Education is on the Rise

In the last decade, tuition, fees, room, and board rates have risen 27% at private institutions and 41% at public institutions.

Evolving Context
Students are Covering the Gap

Students are covering the gap left by reductions in state funding. Between 1988 and 2015, student tuition and fees went from covering 20% to 50% of Total Educational Revenue.

Source: Center on Budget and Policy Priorities.
# Evolving Context

Student Debt Has Surpassed All But Mortgage Debt in America

<table>
<thead>
<tr>
<th>Type of Debt</th>
<th>Total Debt</th>
<th>Average per Household</th>
<th>% of Households With This Type</th>
<th>Average per Household With This Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgages</td>
<td>$8.48 trillion</td>
<td>$67,301</td>
<td>38.2%</td>
<td>$176,222</td>
</tr>
<tr>
<td>Student loans</td>
<td>$1.31 trillion</td>
<td>$10,397</td>
<td>18.4%</td>
<td>$49,905</td>
</tr>
<tr>
<td>Auto loans</td>
<td>$1.16 trillion</td>
<td>$9,206</td>
<td>31.8%</td>
<td>$28,948</td>
</tr>
<tr>
<td>Credit cards</td>
<td>$779 billion</td>
<td>$6,183</td>
<td>36.9%</td>
<td>$16,748</td>
</tr>
<tr>
<td>Any debt</td>
<td>$12.58 trillion</td>
<td>$99,836</td>
<td>74.1%</td>
<td>$134,642</td>
</tr>
</tbody>
</table>

Data Source: NERDWALLET 2016 AMERICAN HOUSEHOLD CREDIT CARD DEBT STUDY. CALCULATIONS AND CHART BY AUTHOR.
Evolving Context
Deferred Maintenance

Again, backlogs at public and private institution diverge. In 2015, public campuses had an average backlog of over $108 per GSF. Maintenance backlogs for private campuses averaged $88 per GSF, about 19 percent lower. Remember that private campuses invest about $0.50 more per GSF than public campuses, which may explain some of the difference. Still, the backlog in maintenance, modernization, and infrastructure has grown steadily for both public and private institutions since 2007.

Source: Sightlines
Evolving Context

Higher Ed Ratings

Announcement: Moody's: Trump blueprint budget credit negative for US higher education, other non-profits

Global Credit Research - 28 Mar 2017

New York, March 28, 2017 -- Moody's Investors Service says the Trump administration's first draft budget for FY 2018, if unchanged by Congress, would be credit negative for the US higher education and not-for-profit sector owing to steep cuts in federal funding and the elimination or reduction of some programs. However, the credit rating agency believes there is a high probability the proposal would be modified.

A proposed $5.8 billion, or over 18%, cut in funding for the National Institutes of Health (NIH) would have the most significant negative credit impact on the sectors.

"The budget proposal signals reductions as well as potentially large shifts in the administration's research funding priorities, including a material cut to biomedical research funding," Susan Fitzgerald, a Moody's Associate Managing Director, says.

Standalone research institutions focusing on biomedical projects would be most challenged under this budget, including Scripps Research Institute (A1 stable), Fred Hutchinson Cancer Research Center (A3 stable), and the Wistar Institute (Baa1 stable). The NIH funds 15%-60% of biomedical research budgets at Moody's rated research institutes.

Large research universities also receive significant NIH funding, but these institutions tend to have more diversified research portfolios, larger budgets, and significant reserves that would help them adjust to the new funding environment over several years.

The Department of Education (DoE) could experience a $9 billion, or 13%, decline in funding below the 2017 continuing resolution level of $68 billion. Colleges and universities are highly dependent on federal financial aid programs distributed or managed by the DoE, which distribute $45 billion in federal grants and administers student loans.
States Have Taken Notice of Private Sector Interests

37 States Enable P3s
As of January 2017

(State: Associated Builders and Contractors, Inc)

B&D Involvement in Higher Education
The Annual Survey of Higher Education P3 Transactions

2017 Results
Higher Ed P3 Survey

Key Findings

P3 Housing Projects -- # and Average Closing Value $/Year

- # of Projects
- Average Closing Value $ / Year

- 2014: 31, $82,629,000
- 2015: 19, $72,094,000
- 2016: 28, $110,977,000
- 2017: 19, $140,896,000

BRAILSFORD & DUNLAVEY
Higher Ed P3 Survey

Key Findings
Higher Ed P3 Survey

Key Findings

P3 Housing Projects by Region and Average Closing Value $
Higher Ed P3 Survey

Key Findings

% of P3 Housing Projects by Financial Structure

- Tax Exempt: 41%
- Developer Debt/Equity: 4%
- Taxable: 15%
- University Financed: 40%
Higher Ed P3 Survey

Key Findings

P3 Housing Projects by Year and Financial Structure

- University Financed
- Taxable
- Developer Debt/Equity
- Tax Exempt

<table>
<thead>
<tr>
<th>Year</th>
<th>University Financed</th>
<th>Taxable</th>
<th>Developer Debt/Equity</th>
<th>Tax Exempt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7%</td>
<td>31%</td>
<td>34%</td>
<td>28%</td>
</tr>
<tr>
<td>2015</td>
<td>6%</td>
<td>44%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>2016</td>
<td>4%</td>
<td>35%</td>
<td>42%</td>
<td>50%</td>
</tr>
<tr>
<td>2017</td>
<td>50%</td>
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</tbody>
</table>
Higher Ed P3 Survey

Key Findings

% of P3 Housing Projects by Institution Type

- Public 4yr: 73%
- Private 4yr: 2%
- Public 2yr: 25%
Higher Ed P3 Survey

Next Steps

◆ Announcing new Higher Education P3 Resource Center powered by Brailsford & Dunlavey:  www.p3resourcecenter.com

◆ Continue dialogue of the ever expanding role of P3 in higher education

◆ Expand 2018 survey to include smaller and regional developers including more projects (health care, energy, etc.) – Check out P3 Resource Center for more details to come!