P3 Perspectives: Three Universities... Three Different P3 Models
<table>
<thead>
<tr>
<th>University</th>
<th>#1</th>
<th>#2</th>
<th>#3</th>
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## Correct Matches

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Today’s Panel Members

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Panel Focus and Participant Take-aways

- P3 Perspectives
  - Butler University
  - Wayne State University
  - Bowling Green State University

- Q&A

- Participant Take-aways
  - Objectives influence risk transfer outcomes
  - Evolution of P3 alternatives
  - Key differences between structures
  - Insight into University decision-making processes
  - Critical importance of University due diligence
OBJECTIVES

INFLUENCE

RISK

TRANSFER

Design / Build

- Project concept and program
- Technical design
- Procurement / contract bidding
- Site selection
- Project delivery / schedule
- Construction management

Finance

- Funding / financial close
- Debt capacity
- Credit / financial statement impact
- Allocation of financial resources
- Return on investment
- Asset ownership

Operate / Maintain

- Residence life / programming
- Occupancy / revenue
- Direct and indirect operating costs
- Capital reinvestment
- Funding deferred maintenance
- Asset management
OBJECTIVES DRIVE RISK TRANSFER OUTCOMES

100% INSTITUTIONAL
Full control, risk, return and resources of Institution

Myriad of Options

100% “PRIVATIZED”
Minimal or zero Institutional control, risk or resources

- Planning
- Financing
- Site Selection
- Development
- Marketing & Leasing
- Management
- Residence Life
P3 Financing Structures

- Tax-Exempt Bonds
- Taxable Bonds
- Equity
- Concession
- Conventional Debt & Equity
P3 Financing Structures

- Tax-Exempt Bonds
- Taxable Bonds
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P3 Perspective #1

100% Equity Structure – “ACE” Program
P3 Partner: American Campus Communities
1,300 Main Campus Beds
P3 Housing constitutes 50% of Total Beds
P3 Housing Location

Fairview House
Phase 1 Fall 2016

Phase II Fall 2018
Fairview House
Strategic Objectives

**TIMING**
Board driven decision to deliver new housing

**DEBT CAPACITY**
Reserved for core academic projects / capital plan

**CONSTRUCTION MANAGEMENT CAPACITY**
Balance simultaneous on-campus projects

**ECONOMIC BENEFIT**
Receive cash flow through ground lease

**HOUSING DIVERSIFICATION**
Diversification of ownership/risk within housing system
### Design / Build
- Predevelopment cost sharing
- Construction cost overruns
- On-time delivery
- Construction quality, amenities, campus design mesh – “Premium”
- Collaborative design process – ACC held tie break, although never used
- Speed to delivery real (1-year delay)
- Construction phased to accommodate replacement housing
- Student demand fully vetted
- New architect for Butler
- Familiar general contractor

### Risk Transfer
- Predevelopment cost sharing
- Construction cost overruns
- On-time delivery

### Considerations
Risk Transfer
- Funding / financial close
- Equity return *(no debt service)*

Considerations
- Higher cost of capital
- Longer duration
- Fewer reserves (no CapI or DSR funds)
- Ground rent arrangement – Performance and Base + Performance
- No project-level debt
- No rating requirement
P3 Analysis

Risk Transfer
- Occupancy and revenue
- OPEX
- Life-cycle, capital costs

Considerations
- Shared governance:
  - Limited
  - Rental rate setting – 3% ceiling unless approved in committee
- Efficiency increases
  - Private management
  - Quarterly operations committee
- Butler runs residence life
- Butler sub-lease of common space
- Butler holds property tax risk
P3 Analysis

Support
- Residence life management
- Common space sub-lease
- Integrated marketing, website
- 3-year campus live-on requirement

Outcomes
- Financial statement impact (FASB):
  - Footnotes in audit only
- Rating agency impact:
  - No project level debt currently to cause a credit impact
  - P3 Partner (ACC) financially strong
  - If project level debt issued by ACC, S&P will re-evaluate
- Ended two decade long “housing problem” discussion
P3 Perspective #2

Service Concessionaire Structure – Taxable Bonds

P3 Partner: Corvias Campus Living

4,160 On-Campus Beds

Full Housing System Privatization (100% of Beds)

P3 set to close November 2017
Housing System Map

New Construction & Renovation

Demolition

Existing
Virtual AWD tour: https://www.youtube.com/watch?v=rt1uL_Fhwzc
**STRATEGIC OBJECTIVES**

- **CAPITAL RESERVES**
  Disciplined funding of reserves and reinvestment

- **CORE MISSION FOCUS**
  Board decision to privatize housing to focus administration on core mission

- **SHARED GOVERNANCE**
  University control on rent setting, residence life/programming, operations, etc.

- **DEBT DEFEASANCE**
  Defease ~$100 million of outstanding general revenue bonds

- **DEBT CAPACITY**
  Limited; finite resources reserved for academic projects

**TIMING**
Board driven decision to deliver new housing
Design / Build

Risk Transfer
- Predevelopment cost sharing
- Construction cost overruns
- On-time delivery

Considerations
- Construction quality, amenities, campus design mesh
- **High quality of construction for AWD project**
- WSU facilities and residence life participated in detailed, collaborative design process
- Speed to delivery real
- **Student demand and cash flow proforma fully vetted**
- New architect and general contractor

Finance

Operate / Maintain

Support / Outcomes
**P3 Analysis**

**Design / Build**

**Finance**

**Operate / Maintain**

**Support / Outcomes**

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**Risk Transfer**

- Funding / financial close
- Cash flow short-fall, event of default
- Interim construction funding

**Considerations**

- Relative to General Revenue bonds:
  - Higher cost of capital
  - Greater upfront reserves
- SCA Waterfall:
  - Partial subordination of WSU Retained Services reimbursement
  - Mgmt. fee subordination (KPI’s)
  - R&R and capital reserves
  - WSU share of excess cash flow
- Defeasance of Gen. Revenue Bonds
- WSU retains asset ownership
- Less costly ways to undergo project
Risk Transfer

- Occupancy and revenue
- OPEX
- Life-cycle, capital costs

Considerations

- Shared governance
  - Rental rate setting
  - Quarterly Operations Committee
- Efficiency increases
  - Top to bottom OPEX vetting
  - Private management
- WSU runs residence life w/ Retained Services reimbursement
- No sub-lease of common/retail space for AWD Project
- Project tax exemption anticipated
Support

- Residence life/programming mgmt.
- Integrated marketing, website

Outcomes

- **Financial statement impact:**
  - Critical to undergo auditor review
  - Collectively navigate the Potential Component Unit flowchart

- **Rating agency impact (TBD):**
  - Structure to be assessed by Moody’s and S&P – expect “on-credit” view
  - Moody’s: “prospectively credit positive”
  - WSU to eliminate debt and subsidization of housing auxiliary
  - Good underwriting fundamentals: 1.30x DSCR, reserves, controls, etc.
  - Effectively eliminated deferred maintenance problem
P3 PERSPECTIVE #3

501c3 (Foundation) Structure – Tax-Exempt Bonds
P3 Partner: Capstone Development Partners
1,318 On-Campus Beds
P3 Housing constitutes 28% of Total Beds
Transaction unwind: 2017 Gen. Receipts Refunding
P3 Housing Map

Falcon Heights

Centennial Hall
P3 Housing Projects

Falcon Heights

Centennial Hall
**STRATEGIC OBJECTIVES**

- **SPEED TO DELIVERY**: 12-14 month timeline acceleration
- **CONSTRUCTION COST SAVINGS**: Avoid State of Ohio multiple-prime contracts/bidding
- **DEBT CAPACITY**: Limited resources reserved for 7-10 year master plan; Ohio Senate Bill 6
- **ECONOMIC BENEFIT**: Receive cash flow through ground rent payment

**CAMPUS WIDE FACILITIES UPGRADE**

H&D key component
Risk Transfer
- Predevelopment costs
- Construction cost overruns
- On-time delivery

Considerations
- Under existing Ohio construction law – 30-40% increased costs for 4-year public institutions (pay “PW”)
- Developer at-risk model used
- Construction quality, amenities, campus design mesh
- Speed to delivery very real
- Student demand fully vetted
Non-recourse financing to BGSU
- Cash flow shortfall, event of default

Relative to General Receipts bonds:
- Higher cost of capital – “Baa3” rating vs. “A1” / “A+” University ratings
- Greater upfront reserves

Bondholder security:
- Pledge of revenues, assignment of rents
- Pledge of reserves (trust accounts)
- Leasehold mortgage

Ground rent arrangement – BGSU decided to retain supplemental ground rent (excess cash flow) with 501c3
Risk Transfer
- Occupancy and revenue
- OPEX
- Life-cycle, capital costs

Considerations
- Shared governance
  - Rental rate setting
- Efficiency increases
  - Private management
- Property tax exempt
- Marginal rent premium – rents consistent with on-campus Greek housing
Support
- Residence life management
- Integrated marketing, website

Outcomes
- Financial statement impact
- Rating agency impact
  - On-credit for both Moody’s and S&P
  - Dynamic view of credit impact to BGSU
- Project performance and cash flow mitigated credit / debt capacity impact
- Strategically important, pivotal assets delivered to campus when needed
  - H&D capital investment has paid off
Right Reasons, Then & Now

- Prior objectives discussed
- Close monitoring of market conditions and cash flow savings for Gen. Receipts refunding issue
- Vetted on-balance sheet refunding internally and with Ohio Dept. of Higher Education
  - Subterfuge concerns alleviated
  - Did not “abuse” the system
  - 7+ years since 501c3 bond offering
- Improved refunding economics
  - Closer to 10-year par call date
  - Less negative arbitrage
  - Persistently low rates/spreads
  - Market acceptance of BGSU bonds
- Improved debt capacity and less Senate Bill 6 pressure

Key Refunding Statistics

- Issued $73.56 million of 2017B General Receipts Bonds
- Reduction of outstanding “project” debt by $4.2 million
- All-in True Interest Cost: 3.705%
- Refunded Bond Average Coupon: 5.95%
- Average annual gross savings: $1,082,500
- Present value savings: $13.8 million, or 17.7% of refunded par
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Other Considerations

- Due to massive annual debt service savings and far less restrictive covenants:
  - BGSU no longer beholden to annual rental rate increases needed to ensure DSC ratio is met
  - More flexibility within operations
  - Internal discipline needed to fund capital reserves over life of assets

- Private rating process, debt capacity testing and Senate Bill 6 analysis are critical due diligence items to understand the implications of bringing the P3 squarely on-balance sheet
  - Financial, leverage and operating ratios
  - Note: the CFP Project was always “on-credit”
Other Considerations

- Centennial Falcon Properties, Inc. (“CFP”) created and now a viable entity

- BGSU can utilize or deploy as a “tool” going forward

- Previous or similar structure can be leveraged, especially with now existing resources on its balance sheet

- Capstone shall continue to manage original P3 projects; gradual transition process under consideration
QUESTIONS?