How Public-Private Partnerships can Drive Innovation and Value for Higher Education

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Jones Lang LaSalle (JLL)

A Global Comprehensive Real Estate Services Firm

• Operates in 78 countries from more than 1,000 locations worldwide.
  - 3 offices in Texas (Houston, Dallas, Austin)
• 60,000 employees worldwide and over 15,000 in the United States.
• Dedicated Public Institutions Practice exclusively serving the needs of Government and Higher Education
• Extensive experience in creative financing mechanisms, public-private partnerships, infrastructure, market feasibility
• Completed 38,900 transactions for landlord and tenant clients in 2014, representing 816 million square feet of space;
• Provided capital markets sales, acquisitions and finance transactions totaling $92 billion;
• Industry leader in property and corporate facility management services, with a portfolio of 3.8 billion square feet worldwide
Access to a scalable platform

- Development feasibility analysis
- Ground lease structuring and analysis
- Transit station financing mechanisms
- Assessment district analysis
- Public-private partnership negotiations
- Public-public partnership structuring
- Urban/transit planning economic support

- Efficient use of public agency capital
- Access to equity and debt financing
- Creative financing mechanisms
- Sale/leaseback structuring
- Infrastructure financing
- TOD and special district financing
- Public and private grant applicability

- Identification of targeted industry sectors
- Competitive city incentive package research
- Business and industry attraction programs
- Retail attraction targeting and strategies
- Business needs assessments

- Portfolio-wide energy management
- Industry benchmarking of energy consumption
- LEED project and development management
- Carbon reduction strategies
- ENERGY STAR and Green Globes ratings
  - 1,380 accredited professionals

- Local market knowledge and analysis
- Financial analysis of occupancy alternatives
- Neighborhood tenant attraction strategies
- Site acquisition/disposition strategies
- Real estate economics
  - 38,900 global transactions annually

- Cost estimating
- Construction management
- Schedule review and budget controls
- LEED Certification and gap assessments
- Move management
  - 16,700 global projects annually

- Supply and demand data collection and analysis
- Absorption and sales/leasing velocity projections
- Supportable new inventory analysis
- Research of pipeline product supply
- Industry and business clustering strategies
- Residential and retail subcategory recommendations
  - Residential, retail, office, industrial, health care, hotel

- IFM on demand
- Mobile engineering services
- Predictive and preventative maintenance
- Strategic sourcing
- Workspace planning
- Baseline energy management
  - 3.8B s.f. facilities under management
Presentation Outline

1. P3 Definitions
2. P3 Uses and Structures
3. Ground Lease and Partnership Agreement Considerations
4. Case Study Examples
What is a Public Private Partnership (P3)?

• Simply defined, a P3 involves leveraging the private sector to provide the capital and expertise to partner with the public sector to design, develop, and/or operate and maintain publicly owned land and/or buildings for a public purpose.

• P3’s have been popular internationally for the past 15 years
  - Used for decades in the Europe, Canada and Australia
What is a Public Private Partnership (P3)?

- P3s in the United States have been increasing in number and scope over the past several years
  - Initially P3s were predominantly for horizontal infrastructure (roads, bridges, rail, etc.) and urban revitalization (affordable and special needs housing, mixed-use development, parks, healthy foods, cultural space)
  - Recently, there has been an increase in P3s for public purpose buildings ("social infrastructure")

- P3’s can be a powerful tool for reducing cost, harnessing private sector innovation & expertise, and transferring public risk to the private sector
  - Unfortunately, they don’t print money
What are P3’s used for today?

- **Social Infrastructure**
  - Health Care
  - Education (K-12, Higher Ed)
  - Housing (Student, Affordable, Military)
  - Civic Buildings (City Halls, County Admin.)
  - Public Services (Libraries, Fire Station, Courts and Justice)
  - Urban Redevelopment
  - Hotels, Retail
  - Transit-Oriented Developments

- **Transportation/Civil Infrastructure**
  - Toll Roads and Bridges
  - Railways
  - Utilities
  - Airports

Good partnerships require the parties to have “synchronized goals” and their purpose contribute toward the core mission of the public partner.
Typical P3 Structures

• Concession
  - Involves contracting to the private sector for a service, such as facilities management & IT)
• Lease/Leaseback
  - Involves leasing land to a 3rd party to develop improvements that either serve a direct program need, generate a revenue source, or both
  - At the end of the lease term the facilities revert back to public ownership
• Design/Build/Operate/Maintain
  - Involves having private sector design, build, operate and maintain facilities for a public organization over a long period (typically 20 years or more)
• Design/Build/Finance/Operate/Maintain
  - Similar to a D/B/O/M but also involves private sector providing all or a portion of the financing
Higher Education P3’s

• Academic buildings
• Infrastructure
• Student housing
• Retail, restaurant and mixed-use
• R&D Facilities
• Entertainment and recreation
• Fitness, health care, wellness centers
• Child care and development centers
• Events centers and competitive sports facilities
• Hotels and conference centers
• Faculty and staff housing
• Energy generation plants, renewal energy
• Integrated Facilities Management
• Auxiliary revenue-generating uses
What are the Benefits of P3’s?

College or University seeks to:

- Reduce outstanding debt burden by transferring debt obligations to private sector
- Tap unique expertise and resources offered by private sector
- Design and construct new capital improvements by transferring risk (design, construction cost, financing, leasing, management and maintenance, etc.) to private sector
- Access new capital markets for non-academic project financing thus freeing High Ed balance sheet for its core projects
- Save time in new project delivery and costs
- Keep campus staff focused on core mission while allowing private sector partner to concentrate their expertise in project delivery and operations
P3 Ground Lease Considerations

Typical Options

• Most P3’s Leases involve a form of ground lease whereby the public partner has the private partner develop improvements on land leased from the public partner

• Ground leases generally fit into one of the following categories

  - **Straight Ground Lease** – Simple form of lease whereby the public entity simply leases land to the private sector for some form of development or other use and generates a revenue stream

  - **Ground Lease with Participation** – Similar to a straight ground lease only the public sector also has some form of participation if the development of the site is successful

  - **Lease/Leaseback** – Form of ground lease whereby the private sector enters into a ground lease with the public sector and the private sector partner builds improvements to the public sectors specifications, which the public sector then leases back from the private sector

• Most ground leases are accompanied by a development and/or operating agreement
Considerations in Structuring a Ground Lease

- Consider establishing ground lease policies and processes for the district or campus
- Draft and issue competitive solicitation for private sector partner
- Qualify development team, investor(s), and operator
- Lease Term
  - Needs to be of sufficient length to allow private partner to secure long-term permanent financing
  - Should be based on reasonable life expectancy of improvements (20 – 70 years, depending on use)
  - Typically minimum of 30 years if accessing taxable or tax-exempt bond financing
  - Typically minimum of 45 years if accessing conventional debt
  - Provisions for optional lease extensions
    - “Good Standing” provisions
    - Capital investment commitment and provision for consideration of economic benefit
Considerations in Structuring a Ground Lease

• Commencement of lease payments and deferrals
  - Upon lease execution
  - Upon construction completion
  - Upon stabilized operations

• Calculation of lease payments
  - Initial rate based on market value
    o based on appraisal (adjusted for specified covenants and restrictions)

• Lease payment escalations (frequency, minimum and maximum)
  - Index basis
  - Flat rate
  - Property performance basis - percentage lease with a minimum (requires “look back” provisions)
  - Adjustment to market rate (requires new appraisal and “look back” provisions)
  - Public partner participation in profits or residual receipt payments
P3 keys to Success

*Determining the Right Path to Follow*

1. Define the need. What is the problem to be solved?

2. Evaluate alternative approaches to solving the problem
   - *Always compare the P3 contemplated against your traditional or other delivery and finance methods*

3. Develop a clear program of requirements rooted in the overall project objectives

4. Determine which resources are required

5. Determine the project timing / critical path for delivery

6. Identify the key stakeholders and approval process

7. Evaluate the appropriate governance structure

8. Evaluate financing needs and resources

9. Identify the key risks and determine how they should be allocated between public and private partners
Case Studies

Practical Applications to Higher Education
Cal State University – Channel Islands

CI 2025 Plan
CSUCI Project Description

- Founded in 2005 CSU Channel Islands (CSUCI) is the newest university in the CSU system

- Campus is a partial adaptive reuse of a converted State Hospital in Mission-Revival style

- Current enrolment of 5,200 FTEs with growth expected to 15,000 FTEs upon full build-out

- With reduction in state funding, CSUCI issued an RFP to engage a development advisor to evaluate various methods, including P3’s as alternative ways to fund needed campus development to support enrollment growth

- JLL was selected as the CSUCI’s development advisor
CSUCI Project Objectives

• Develop viable economic plans to support enrolment growth between now and 2025 with levels of acceptable risk

• Implement the near- and mid-term priority projects identified in the CI 2025 plan
  - Academic
  - Athletics and events
  - Student health and wellness
  - Student housing
  - Performing arts
  - Parking and infrastructure

• Identify and leverage all potential revenue sources and real estate

• Facilitate integration of campus with surrounding community

• Enhance campus identity

• Reduce existing outstanding debt and transition Site Authority to a positive cash flow position

• Provide sufficient on-campus student housing for 30% of FTE enrollment
Site Authority

A unique development asset for the university

- CSUCI established a non-profit Site Authority (SA) to leverage excess campus lands to the benefit of the University
  - The SA was granted tax increment (property, sales, and hotel) collection authority by the State, similar to a redevelopment agency
  - The SA’s sister entity, The Finance Authority, has the ability to issue tax exempt bonds
- A major activity of the Site Authority has been to develop a mix of single- and multi-family for-sale and rental residences on land adjacent to the campus for faculty and staff attraction and retention
  - This development, named University Glen, currently provides 474 residential units and 30,000 square feet of retail space
University Glen

Challenges and opportunities

• Challenges
  - Revenues from initial phase of development were insufficient to meet debt service obligations because of underutilized infrastructure
  - Planned future phases of development would not generate sufficient revenue to fund new facilities
  - Updated EIR and infrastructure modifications needed to permit greater density
  - Public-private partnerships are relatively new concept for CSU system

• Opportunities
  - Strong market and economic fundamentals in Ventura County for multi-family rental housing due to constrained supply and vibrant economy
  - Forecasted tripling of student enrolment and sufficient land to accommodate growth
  - Consensus of local government and business support for the university’s success
  - P3 opportunities for new housing, retail, entertainment, hotel and events center provide potential for new ground lease and tax revenues while achieving the campus mission of meeting its future enrolment growth projections and academic program needs
CSUCI

Proposed Solutions

Create significant revenue for the university through:

1. converting existing rental townhomes to for-sale product
2. the sale of existing University Glen apartments subject to a ground lease and operating agreement
3. developing the remaining 32.5 acres of University Glen with increased density of apartments through a P3 and subject to a ground lease and operating agreement
4. the sale of existing Town Center residential and retail with a development agreement to expand its density on adjacent surface parking lots subject to a ground lease and operating agreement
5. developing future phases of student housing through P3’s
6. exploring partnerships with public and private entities for the financing of a new athletics and events center
7. exploring other revenue-generating development opportunities such as a hotel and conference center that also fulfill the university’s mission and needs
UC Merced: The first major P3 for Campus Development in the UC System
UC Merced

• Opened in 2002, UC Merced is the newest school in the University of California System

• Currently the campus has 6,200 students with the goal of growing to 10,000 students by year 2020

• UC Merced is the most diverse campus in the UC system and is focused on providing a UC education to academically eligible but financially disadvantaged Californians

• UC Merced is the most environmentally sustainable campus in the UC system
  - All of its buildings are either LEED Gold or Platinum
  - The campus aspires to achieve triple net zero energy usage (water, power, waste)
What is the Problem UCM Needs to Solve?

• UCM does not have the facilities sufficient to meet projected enrolment of 10,000 FTE by 2020
  - Enrollment level required to become economically self sufficient
  - If Merced doesn’t grow, it compromises the UC System’s target ratio of academically eligible, financially disadvantaged students

• Waiting for traditional funding and typical UC procurement process would take until 2030, or longer, to build the facilities necessary to meet demand

• For these reasons, the UC Regents authorized UCM to explore utilizing a public-private partnership to design, build, operate and maintain the infrastructure and facilities to accommodate 10,000 FTE’s by 2020
  - This is the first time the UC system has ever approved a P3 that contemplates core academic buildings and infrastructure
  - It is the first P3 of this nature, which includes multi-facilities of different types and an infrastructure expansion (roads, utilities, landscape)
UC Merced Today
104 acres
1.3 MSF
Conceptual Expansion Framework – Additional 1.5 MSF
Major project objectives

• Achieve, **at the best value**, the University’s development vision, programmatic requirements, and schedule

• Find the optimum development and financing structure(s) for the 2020 Project

• Implement the Development Vision for the 2020 Project
  - Create a dynamic mixed-use approach to campus development
  - Further the University’s commitment to leadership in sustainable design
Operations & Maintenance Considerations

• Identification of over 300 distinct categories of operations and maintenance
  - Infrastructure (roads & utilities)
  - Grounds
  - Buildings (classrooms, research facilities, student life and student housing)

• Rigorous benchmarking of existing university O&M operations and performance benchmarks
  - Encourages developer to innovate & design/construct better quality buildings and infrastructure

• Detailed analysis of every O&M risks and who is better equipped to manage them between the University and the Concessionaire

• Segregating O&M categories into major “unavailability events” versus “non-compliance”

• Benchmarking of other O&M service agreements on DBFOM P3s

• Labor considerations
Project status

- **RFQ phase is complete and three teams have been shortlisted**

- **RFP was released in May 2015**
  - Incredibly complex RFP
  - RFP will incorporate rigorous review process between Proposers and University

- **Goal is to select preferred development team by the end of 2015 and have initial phase development complete by Fall 2018**
Unified Port of San Diego

Chula Vista Bay Front
Chula Vista Bay Front

Project Description

- Redevelopment of 535 acres of land on San Diego Bay owned by the Port

- Development is a unique public/public partnership between the Port and the City of Chula Vista
  - Development parcel is divided into three districts that feature extensive parks and trails through restored wetlands
  - Project contemplates over 5 million SF of private development including a major resort hotel, convention center and retail
  - Private sector mixed use housing is also contemplated through a land swap between the Port and Pacifica Companies

- Currently in negotiations with a major developer for a 1,000+ room signature hotel and convention center on the Bay
Development Overview

Sweetwater
Commercial Recreation
240,000 SF
33 ac
0.17 FAR

Harbor
Mixed Use
5,049,500 SF
123 ac
0.94 FAR

Otay
Industrial/Recreational
49 ac
Terms of Lease Considerations

Chula Vista Bay front

- All development on land owned by the Port is via a form of ground lease
- Ground leases range from simple straight ground leases to highly complex ground leases with various forms of participation available to the Port subject to the performance of the project
  - Lease terms can range from short-term to up to 66 years
- Leases that involve significant private sector development are highly complex and deal with a multitude of development, financing, schedule and risk issues
  - Site issues
  - Development Agreements
  - Financing Plans
  - Operating and Maintenance Agreements
  - Insurance and Surety Requirements
  - Permissible Use agreements
  - Public Amenities
  - Reciprocal Easements
Chula Vista Bayfront

Lease Considerations

- Development must generate enough revenue to support the repayment of infrastructure investments
- Public/Public partnership between Port and City make lease negotiations complex 3-party issues
  - Example – Port will contribute ground lease payments to Infrastructure Plan of Finance and City will contribute Transient Occupancy Taxes (TOT’s), Dev’t Impact Fees, and other considerations
- A critical balancing act is finding the “sweet spot” where the development can be successful and still generate enough revenue to support the infrastructure plan of finance
  - This makes it critically important to understand the developers pro formas and the implications of market timing and risk
Thank you!

Questions?

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