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Colleges Find Attractive Option in P3 Funding.

DALLAS — Cash-strapped colleges and universities are finding public/private partnerships as an attractive avenue for financing student housing and other campus infrastructure projects, according to Fitch Ratings.

The benefits of a P3 financing include an efficient construction process and less operational risk for the school, Fitch analysts said in a new report on college P3s.

"Recent P3s by some colleges have been able to procure funds more quickly and efficiently than traditional sources while offloading risk to the private sector and preserving colleges' balance sheets," said Fitch senior director Seth Lehman, chief analyst on the report.

College campuses are like small cities that provide a number of public services that can generate the revenues sought by private investors, Lehman said.

"It's not for every university," Lehman said. "The schools have to be willing to give up some control to the private investors, like the ability to set dormitory fees."

Higher education P3 ratings are likely to fall within the triple-B category but higher ratings are possible for P3s with robust coverage and little cost risk, he said.

"Strong contractors and sufficient third-party security packages can also result in a higher rating for higher ed P3s" Lehman said.

Large public flagship universities with good credit ratings are less likely to turn to P3 financing than are the smaller schools, according to Lehman.

"The larger schools with good access to the municipal market often don't see that they can justify it but secondary institutions are less certain to find funds for renovations or other infrastructure needs," he said.

A $1.14 billion campus expansion project at the University of California at Merced announced in November 2015 could be a model for future higher education P3 projects, Lehman said.

"That's one that a lot of people are going to be looking at," he said. "It's certainly one of the larger ones you'll see in the higher ed market."

The UC Merced 2020 Project will be financed with $600 million of University of California revenue bonds that the UC Board of Regents will be asked to approve in July and $157 million of UCMerced funds.

Plenary Properties Merced was selected Wednesday as the winning bidder for the 39-year concession to build and operate almost 1 million square feet of new facilities on the campus located near Yosemite National Park.

Plenary Group, an international infrastructure developer, is the lead partner and equity provider.

The consortium of international financial, engineering, and design partners will contribute $386 million of equity to the four-year construction effort and receive $51 million per year of availability payments for 35 years.

The UC Merced project will include classrooms and housing for 1,700 students as well as recreational areas, dining spots and walkways. Work will begin later this year and be completed by 2020.

The new buildings will feature classrooms and meeting spaces on the ground floors and student residences on the upper levels.

The Merced deal is the largest P3 of its kind in the U.S. higher education sector and the first time that the UC system will use a single private development team for a multiyear, multi-building project, said UC president Janet Napolitano.

The work will be completed nearly twice as fast as a traditional public construction project, she said.

“UC Merced is poised to become a model for our other campuses as we look for the most efficient ways to construct, operate and maintain facilities that enable us to pursue our teaching, research and public service missions,” Napolitano said.

UC Merced is the newest and smallest full-service campus in the UC system, with 6,685 students. The expansion project will provide space for 10,000 students.

The Bond Buyer

By Jim Watts

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