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U.S. Public Universities Turning to Private Sector to Meet Campus Needs.

NEW YORK — U.S. public universities are increasingly turning to public-private partnerships to develop student housing and other campus projects, sometimes using the structure to transfer borrowing and liability risks to the private sector.

Over the last five years, there has been an “uptick” in universities and colleges leveraging the private sector to deliver housing needs, said Kevin Wayer, an international director and co-president of the Public Institutions group at commercial real estate firm Jones Lang LaSalle.

“The notion of having the private sector deliver student housing is something that has been going on for many years, but I think it has definitely increased in utilization since the financial crisis,” Wayer said.

The financing structure, known as “P3,” is being employed both by schools that are fiscally strapped and those with healthier balance sheets.

Brailsford & Dunlavey, a project management firm, has seen on average a 50 percent year-over-year growth since 2011 in P3 transaction values it has consulted on for higher education institutions, said Brad Noyes, senior vice president.

In 2011, the transaction value for such P3 projects was \$320 million, he said. Year-to-date the firm “has \$2.5 billion worth of transactions we’re providing advisory work on,” Noyes said.

Use of P3s can contribute to reduced debt on universities’ balance sheets, said Todd Duncan, assistant vice president of housing, food and retail services at the University of Cincinnati’s main campus.

While still only a “fraction” of the U.S. municipal infrastructure market, the P3 market is building, Moody’s Investors Service said in a report issued in March.

“Universities are also expanding their use of different types of P3s beyond privatized student housing to include other university facilities,” Moody’s said. The report added: “More local governments and higher education institutions are exploring different types of P3s with more hybrid P3s and DBF (design, build, finance) structures.”

Universities might engage in P3s for a number of different reasons, including the efficiency that developers can bring to projects, Duncan said.

Increased operating costs for institutions and decreased state contributions have led to a financing gap, said Kurt Ehlers, managing director at Corvias Campus Living, a development group.

From fiscal 2008 to fiscal year 2016, state spending per student at public two- and four-year colleges decreased 18 percent, according to Michael Mitchell, a senior policy analyst at the Washington,

D.C.-based Center on Budget and Policy Priorities.

The National Council for Public-Private Partnerships, a non-profit that advocates for P3s, lists 18 types of P3 partnership structures on its website. The council did not have a national figure for how much money is being spent on higher education P3 projects.

A newer P3 structure gaining in popularity has the developer not only help finance, build or renovate a project, but also maintain the facility, sometimes for decades, Ehlers said. In return for maintaining standards, the developer can count on a fixed incentive fee.

“From a sustainability standpoint, these properties, these assets become self-sustaining,” Ehlers said.

At the University of California in Merced, developer group Plenary Properties Merced will finance, build and maintain project areas that include student housing, academic facilities and recreation spaces.

The four-year \$1.3 billion project will be financed through payments from the university and through funds contributed by the developer. UC Merced plans to fund its contribution of roughly \$600 million by issuing bonds, said Stuart Marks, senior vice president at Plenary Group and a leader on the 2020 Project.

The developer will fund the difference via Plenary equity and privately placed notes, he said.

The university will pay the developer over 35 years while it provides continued maintenance of the facilities, Marks said.

“You get the economies of scale and efficiencies through having one developer responsible,” he said.

By REUTERS

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(Reporting by Stephanie Kelly; Editing by Daniel Bases and Dan Grebler)