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Fitch Rtgs: P3s Can Fund Higher Ed Projects While Preserving Balance Sheets

Fitch Ratings-New York-21 October 2019: Public private partnerships (P3s) can help fill infrastructure funding gaps for colleges and universities, says Fitch Ratings. In the face of flat or reduced state funding, public universities in particular will need to find other sources of funding to address aging infrastructure and ongoing capital needs. By allocating costs to the private sector, universities are able to preserve balance sheet capacity. While potential benefits make P3s a useful funding tool, the strength of a P3 is dependent upon sensible risk allocation and the university's and operator's contractual commitments.

Most four-year institutions face limitations in tuition-raising flexibility to offset operating and capital expense pressures, especially public universities, which are facing a persistent expense and revenue mismatch. State appropriations remain below pre-recession highs compared with rising operating expense levels. Subsequently, universities are entering into P3s for a wide variety of infrastructure needs. Recent P3s have been used for major capital projects, notably campus utilities at Ohio State University, Dartmouth University and the University of Iowa. Projects requiring specialized technical expertise, such as campus utility systems or laboratories, necessitate a qualified operator and contractor and available replacements that have the technical and organizational resources to manage major projects with intensive capital needs.

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