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COVID-19 Puts Universities' Use of P3s to the Test: Nossaman

Universities have utilized public-private partnerships (P3s) in recent years to facilitate various types of campus construction projects, including campus housing, specialized facilities, utility systems and even overall campus expansions. Utilizing P3s for campus improvements has allowed universities to deliver important projects and leverage private industry expertise while shifting capital cost investments to the private sector.

Despite the growing trend of using P3s to deliver projects, the COVID-19 pandemic may impact universities' interest in utilizing P3 models for campus improvements in the near future. Two interrelated factors that could affect the attractiveness and feasibility of university P3s are potential revenue reductions and declines in demand for the facilities constructed. The uncertainty of potential shutdowns, limitations on normal student activities and travel restrictions have caused schools to worry that some students may not return to classes this fall, negatively impacting revenues. Significant decreases in the number of out-of-state and international students for public universities could especially impact university budgets. Furthermore, a recent Moody's report predicted a slow-down in the student housing P3 sector, in part due to concerns about on-campus housing demand softening, as COVID-19 forces many students to continue to learn off-campus.

However, even in the face of such uncertainty, P3 project delivery could allow universities to leverage the flexibility afforded by P3 models to continue progressing campus projects in the midst of these challenging times. One advantage of P3 project delivery is that it can allow owners to defray or shift certain capital cost investments. With tighter budgets, universities may seek to engage the private sector to fund or finance capital outlays, especially for larger capital projects that may not be sensitive to short-term enrollment declines. For projects that may not generate significant revenue through operations, universities can utilize availability payment P3 models to spread payment obligations over a longer period. An example of a project delivered with availability payments is the University of California Merced 2020 Campus Expansion Project, completed in June of this year, which delivered student housing, classrooms, recreational facilities and research buildings, as well as the underlying infrastructure to support these new facilities. Utility infrastructure projects, similar to the University of Iowa's utility P3 project, may also be particularly attractive, as these projects often include large upfront payments to universities that are later repaid through fees paid to developers over the life of the project.

Furthermore, even in light of potential challenges for student housing P3s, some universities have forged ahead with projects, such as South Dakota University, which recently issued an RFP for a student housing project and the University of Oregon, which reached financial close for a student housing P3 near its Eugene campus.

Though the COVID-19 pandemic will certainly disrupt how universities approach and plan for campus building projects, the flexibility afforded by P3s may allow for universities to continue to progress campus improvements despite short-term uncertainties over revenues and demand.

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By Josh Burke on 09.29.2020