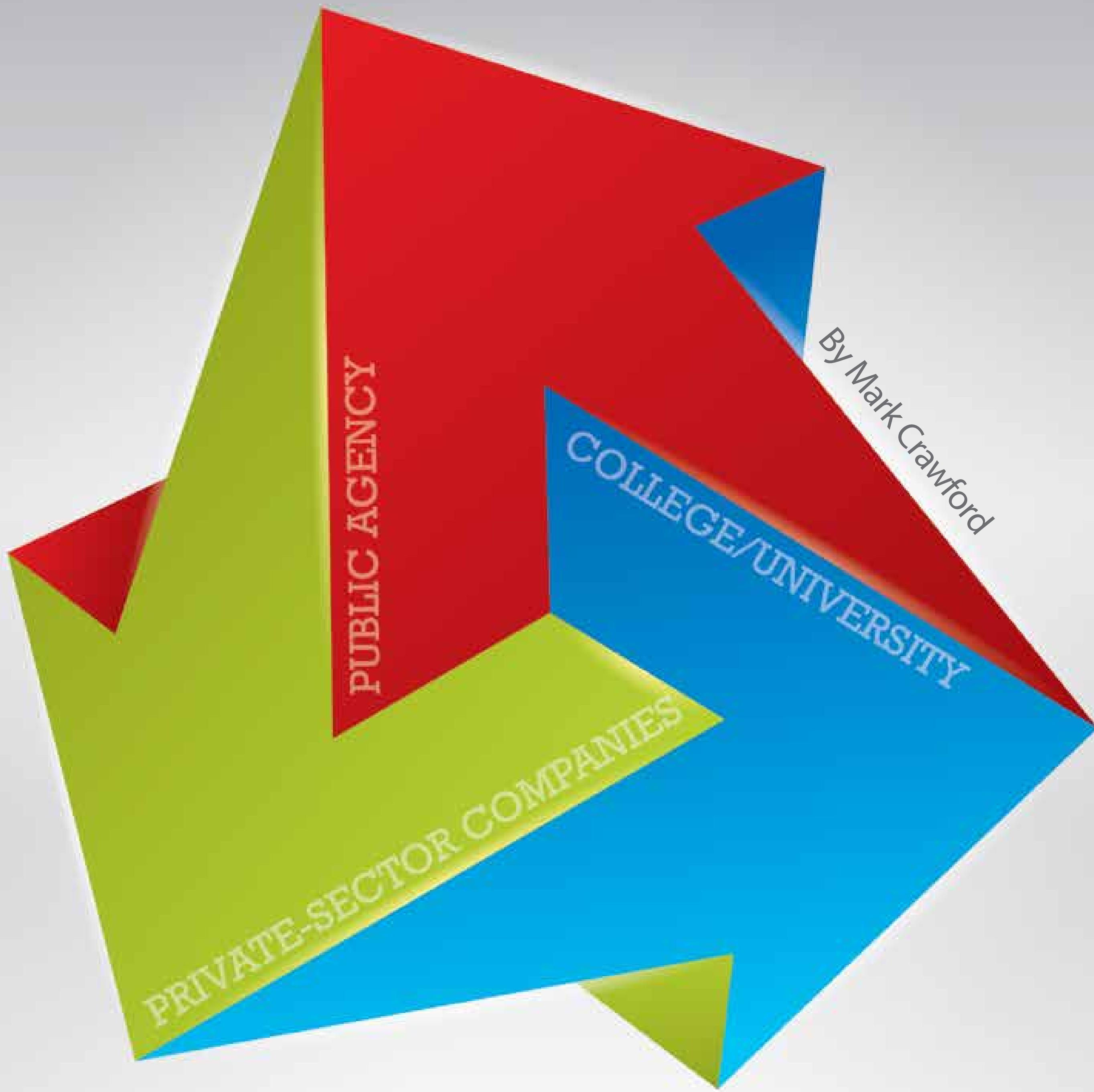


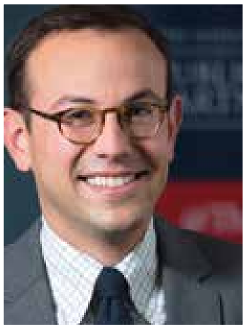
By Mark Crawford

Public-Private Partnerships in Education

Shared Risk, Mutual Reward

Public-private partnerships are increasingly popular as a funding tool for infrastructure projects on academic campuses. PPPs have worked well in other sectors for a number of years, especially with local, regional, and state government partners.

A public-private partnership (PPP, or P3) is a negotiated contract between a public agency and one or more private-sector companies for building infrastructure or providing services that benefit the public. PPPs are especially useful for completing important projects that have been held back because of lack of funding or internal politics.


Todd Herberghs, NCPPP

"For many states and communities across the country, budgets remain flat but infrastructure expenses continue to rise," states Todd Herberghs, executive director for the National Council for Public-Private Partnerships in Washington, D.C. "Public-sector leaders are looking to PPPs as a way to meet their needs in a cost-effective and efficient manner. Overall, PPPs are being used in new and exciting ways and moving beyond transportation and wastewater facilities toward energy, justice facilities, and education projects."

"Colleges and universities are continuing to face a real infrastructure and deferred maintenance crisis that is now being paired with flat tuition rates, increasing expenses, and decreased revenue," adds Ronald LaPorte, vice president of partnership development for Corvias Campus Living in East Greenwich, Rhode Island. "On average, 60 percent of a school's space is over 25 years old, and schools face a backlog of $92 per gross square foot on their facilities. Increased demands for improvements, rising costs, fixed revenues, and decreased endowments have stalled renovation and new construction projects on campuses everywhere."

Public-private partnerships can rescue these important projects. They solve university space problems by providing upfront financing and/or by bringing property not owned by the university into consideration. PPPs can also deliver projects more quickly, conserve taxpayer money, and take advantage of private-sector expertise when it comes to the latest advancements in design, materials, and construction methods.

"As buildable space becomes increasingly scarce on campus, consideration for relocating back-of-house administrative services off campus needs to be explored," states Donald J. Guckert, associate vice president of facilities management for the University of Iowa in Iowa City. "PPPs provide the means for colleges and universities to effectively lease, versus finance, facilities. Off-campus PPP deliveries may also drive down costs, since the private-partner builder is not governed by public bidding statutes or restricted by project delivery methods."

ARE PPPs AS GOOD AS THEY SOUND?

PPPs got their start in the education market as a funding tool for building student housing. They are now being used in more creative ways to leverage the many benefits they offer, including access to funding, protecting debt capacity, reduced developer costs, operational expertise, risk mitigation, and faster project delivery. Depending on the project, a PPP can be completed in half the time or less, compared to the university building it on its own. PPPs also provide developers

Portland State University
Portland, OR

We have completed two public-private partnership facilities—a mixed-use Academic and Student Recreation Center with funding from the City of Portland and space for the city's archives and historical documents. We used a similar development strategy in bringing in a partner to construct our College Station residential housing facility with a third-party contract. Our most recent project is a 660,000 gsf facility for science focused instruction and research, with medical professional track programs in the Collaborative Life Sciences Building, constructed in partnership between Oregon Health & Science University (a public corporation), Oregon State University, and Portland State University. The building is constructed on land OHSU was gifted on Portland's south waterfront.

The Academic and Student Recreation Center was completed in 2009 in partnership with the City of Portland: *http://www.pdx.edu/floorplans/buildings/asrc.*

College Station Housing Facility was completed in 2012 in partnership with a private developer. PSU owns the land on which the building is constructed. American Campus Communities funded construction of the building and manages its operation on a long-term lease: *http://www.pdx.edu/insidepsu/college-station-residence-hall*

The Collaborative Life Sciences Building was completed in 2014 in partnership with OHSU (a public corporation) and Oregon State University: *http://www.pdx.edu/floorplans/ buildings/clsb.*


Robyn Pierce

—Robyn Pierce
Director, Facilities Management
Collaborative Life Sciences Building

University System of Georgia

Atlanta, GA

Kurt Ehlers

The University System of Georgia (USG) recently selected Corvias Campus Living to develop, construct, manage, and maintain the first phase of student housing in a long-term partnership. During 2014 and 2015 Corvias will add 3,683 new beds across seven USG schools: Georgia State University, Georgia Regents University, University of North Georgia, Columbus State University, Dalton State College, East Georgia State College, and College of Coastal Georgia. Georgia Regents University and Dalton State College will be receiving the school's first-ever on-campus housing for students. In July 2015, the USG will also transition 6,195 existing beds across seven schools including Armstrong State University and Abraham Baldwin Agricultural College.

Turning to a private partner allows for the USG to expand its housing offerings without expending capital, incurring additional debt or managing project development. Benefits to the schools include a reinvestment account, an out-year development plan, upfront capital repair reinvestment dollars and, most important, quality, safe, affordable housing for the students.

As a result of this partnership, students will be guaranteed that both new and existing housing will be well-maintained throughout their time at the school. It will provide them with an excellent alternative to off-campus housing options with all of the benefits of living on-campus, including proximity to university resources and a sense of community.

—Kurt Ehlers
Managing Director,
Corvias Campus Living

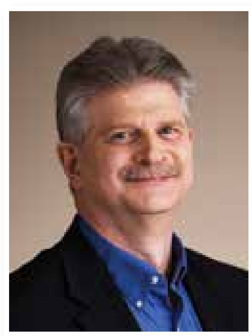
with access to otherwise choice but inaccessible property on campus.

Despite all these advantages, PPPs are not a slam-dunk. Disadvantages that need to be considered include higher cost of capital, agreement complexity, multi-party roles and responsibilities, and reduced control for the academic institution.

Lack of control is always a major concern. In the past, colleges and universities had to prioritize what they wanted out of a PPP relationship, knowing that they were going to lose a certain amount of control to the private entity. "Today, innovative models are being introduced that allow institutions to retain control when partnering with the right private entity," says LaPorte.

Don Guckert, University of Iowa

Capital costs also require serious study. PPPs can reduce construction costs by about 10 to 25 percent, compared to typical projects. Yet PPPs may not be the most cost-effective method for building on campus, due to the higher borrowing rates and profit margins that private partners add to the cost. Some statutory restrictions may not allow the leasing of public campus land for PPPs to build upon, or may require them to follow public procurement statutes.



Ron LaPorte, Corvias Campus Living

"The cost of a PPP project off campus will generally be lower," says Guckert. "But in theory, if built on campus, it would cost more to cover the profit margins and higher borrowing costs of the private partner for a facility built to campus-design standards."

New Jersey Institute of Technology (NJIT) has been exploring PPP options with private developers as a way to revitalize the University Heights neighborhood in Newark. Initially NJIT considered a PPP for the Greek Village component of the redevelopment plan. However, after the finances were examined, it was decided to move forward with a traditional bond financed project.

"The challenges were related to the impact on credit rating/debt capacity for projects where the university is the main tenant/occupant," says Andrew P. Christ, vice president of real estate development and capital operations for NJIT in Newark. "Depending on the relationship of the university to the PPP project—such as any guarantees to fill rooms for a housing project, or a lease for a parking garage project—rating agencies may consider that the university has a 'moral obligation' to backstop the project if things do not go as planned. If the developer brings equity to the project, that impact may be softened, but it will still be a consideration for an institution's rating moving forward."

Institutions that have little to no debt capacity can use PPP projects to get projects done and let the revenue generated pay the developer. However, says Christ, "Universities that have the ability to borrow with a sufficiently good bond rating may find that the costs associated with the PPP delivery method, such as development fees and slightly higher interest rates, may make it a more costly proposition."

STRUCTURING THE DEAL

The ideal public-private partnership project has a champion within the public sector that realizes the value of the project and works with the private sector to educate other public stakeholders. A well-structured deal also shares the risk between both sectors and is open and transparent. Perhaps most important, the two entities must believe the partnership is a long-term relationship that is working toward shared goals. This allows the college, university, or school to focus on its core mission and trust the private partner is taking care of the development aspects of the project, in support of the core mission.

"Goals must be identified early in the process, especially when it comes to governance," says LaPorte. "Loss of control for an educational institution can be a huge risk. For example, when a parking or housing partner decides that rates need to be raised to meet their corporate bottom line, the college is the one that has to deal with the student uproar."


Eli Capilouto, University of Kentucky

Preferred PPP projects include student housing facilities, parking garages, and back-of-house, off-campus services. For example, the University of Iowa is using a PPP to replace its art museum, which was lost in the flood of 2008. It was important to locate the new museum on higher ground, where university staff, students, and the public would have better access. However, there were no suitable or sizable locations available on campus to accommodate the relocation.

"Instead, through a PPP, we were able to secure a prime location within the downtown area with the developer constructing retail, office, and residential space into the project," says Guckert. "Leveraging these developer goals with the university's goal is a win-win for both parties. We secured a great location because we allowed our museum to be co-located with other functions like retail, housing, and office, resulting in a more cost-effective build-out of the site."

In another creative alignment of strategic goals, the University of Kentucky has embarked on a $245-million partnership with Aramark, a leading food-services company located in Philadelphia, Pennsylvania. Aramark will provide dining services to University of Kentucky students and staff; in return the company will invest $70 million in new construction and $5 million for a research center that works with the Kentucky Department of Agriculture and local farmers to promote the state's food economy.

"Agriculture is a way of life in Kentucky," says University of Kentucky president Eli Capilouto. "The University of Kentucky is leading the way in furthering scholarships, as well as practical applications for Kentucky producers. In Aramark, we have a partner who is committed to Kentucky and one of our most important industries. This is an unprecedented public-private partnership that has the potential to be a national model for the study and promotion of food and agriculture."

NEXT-GENERATION PPPS

As more academic institutions and private-sector companies get involved in PPP delivery systems, PPP models are becoming

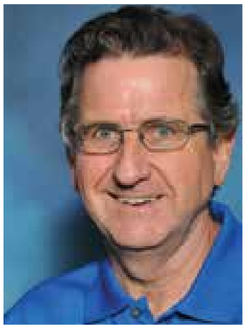
Dean College
Franklin, MA

Dean College is a private, four-year liberal arts college in eastern Massachusetts with a population of about a thousand students. Like most small colleges, there are many needs that compete for limited resources. Difficult choices have to be made. Do we invest in aging building envelopes, mechanical systems, interiors, furnishings, or program needs, among others?

It's difficult enough to have available cash to get ahead on deferred maintenance, never mind investing in new systems and technologies. Yes, energy-efficiency projects do save money in the long run, but in the short term it can be difficult to find the funds for these projects. Fortunately for Dean College, a public-private partnership had been developed that would help five to six Massachusetts campuses in forwarding their sustainability goals.

GreenerU, a private firm specializing in campus sustainability, partnered with the Association for Independent Colleges and Universities in Massachusetts (AICUM) to develop a program to advance sustainability in higher education. With $2 million invested by Mass Development, the Mass College Green program was created. Using their portion of the available capital, each of the selected colleges could make improvements on their campuses that would advance sustainability, save money, engage the campus community, and bring positive change.

As a result of this partnership, Dean College will be completing many projects such as lighting retrofits, updating of controls, variable frequency drives, and ventilation and exhaust improvements. For five years, all savings from reduced energy consumption are shared by GreenerU and the college. After this five-year term, Dean College assumes 100 percent of all savings. In addition to the benefit to the bottom line, we have the benefit of the expertise of GreenerU in developing ongoing community engagement and education programs designed to promote sustainable behavior, educate, and involve the campus community.


Brian Kelly

Since the GreenerU business plan depends on any installed systems working to their highest efficiencies, their engineers will be monitoring, adjusting, and maintaining all installed systems throughout the five-year period. In other words, for Dean College and the other participating institutions, it's like having highly trained, engineering professionals on staff at no cost for five years. That sounds like a pretty good deal to me.

—Brian Kelly
Assistant Vice President,
Capital Planning and Facilities

more innovative. The "next generation" PPP is a flexible and adaptive model that provides guidance and recourse for a long-term partnership with aligned interests. According to Corvias' LaPorte, key benefits include:

- Partnerships structured so that decisions benefit the whole program and incorporate input from all stakeholders
- Long-term financial, operational, design/construction, and development components
- Surety of execution, less upfront funding, greater sustainability, and local economic impact
- Private partner responsible for ensuring project success, while the public partner retains oversight and governance
- Revenue is deposited into a reinvestment account that is controlled by the public partner, enabling upgrades, modernization, replacement, or completion of partner-mandated projects
- More resilient facilities and infrastructures

One of the most critical benefits above is that the next-generation PPP model effectively solves the aging infrastructure problem by setting up a reinvestment fund with project profits to help maintain, renovate, and operate the project long term.

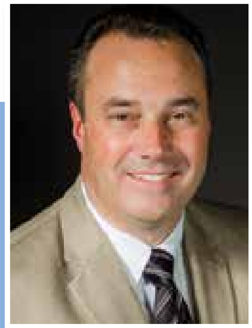
"This makes the program sustainable over the length of the partnership, eliminating the past tendency to allow deferred maintenance to build up on facilities in the partnership," says LaPorte. "Facility managers no longer need to worry about when the building's next capital investment will be approved in their budget. This also allows the public sector to maintain control, but gives the private sector a long-term vested interest in the success of the project."

PARTING ADVICE

Academic institutions considering a PPP must put considerable effort into defining what it wants from its private partner,

New Jersey Institute of Technology

Newark, NJ



Andrew Christ

NJIT has been contemplating a P3 relationship for some time within our Gateway Redevelopment project. You can read about the redevelopment plan at *http://gateway.njit.edu/details/index.php*, whereby NJIT is working with private developers to revitalize the University Heights neighborhood. A major component to this for the university is a parking garage. The intent is for the developer to acquire the property from a neighboring hospital and construct a mixed-use development with residential, commercial, and parking. The university has committed to license 500 parking spaces at market rate. The hospital will also be a tenant for 350 spaces.

We are now contemplating a second parking garage project as a P3, but it is in the very early stages. Several New Jersey colleges and universities have completed P3 projects in the past few years: Rutgers University, Rowan University, Montclair State University, and Bloomfield College.

—Andrew P. Christ, P.E.
Vice President
Real Estate Development and Capital Operations

Jeri King

University of Iowa

Iowa City, IA

We partnered with Balfour Beatty to replace Hawkeye Court apartments (graduate and married student housing) that had reached the end of their useful lives. The firm erected Aspire at West Campus, a complex that was completely rented by the time it was completed (in time for the fall semester). You can learn more about the project at *http://now.uiowa.edu/2014/10/uima-development-partner-selected*. This was largely believed to have saved the university $31 million in construction costs. We do not manage the facilities.

Now Balfour Beatty will be starting on Phase II (taking down more of the old apartment buildings in that area and replacing them). More information on this is at *http://www.regents.iowa.gov/Meetings/DocketMemos/14Memos/September2014/0914_P&F05.pdf.*

We recently announced a partnership with H&H Development Group and Mortensen Inc. to build a new University of Iowa Museum of Art in downtown Iowa City. Here's a recent news article on it: *http://now.uiowa.edu/2014/10/uima-development-partner-selected.*

The Public Private Partnership projects are now managed by the UI Business Manager.

—Jeri Ripley King
Assistant Director, Facilities Management

According to Campus Apartments in Philadelphia, a provider of P3 partnerships in the student housing sector, there are four typical structures and operating arrangements for P3s:

University-owned land with ground lease to developer	In these types of agreements, the developer obtains a long-term ground lease of a university-owned parcel of land and commits to the financing, construction, and management of the property. The university maintains fee ownership of the land, and a lease can typically last between 60 to 80 years.
University-owned land with ground lease to developer plus master lease	Similar to the above, this method entails additional risk mitigation for the developer. With a master lease, the institution has a financial commitment to lease units within the project regardless of student demand. Typically, the master lease is negotiated for a multiple-year period but does not extend through the full ground lease term.
Foundation-owned project and fee development	Student housing projects are ideal for tax-exempt bond financing due to their ability to generate consistent revenues that allow a project to amortize a long-term bond and still maintain a specific debt-service ratio. In this method, the university enters into a long-term ground lease that can be independent or affiliated with the institution. Tax-exempt bonds are given to finance a project and are repaid through project revenues as a later date. The developer receives a fee for its services, which can include coordination of bond financing, working with the architect, construction management services, and project delivery. This method carries the least amount of risk for the developer because it does not require the developer to put equity into the project.
Joint ownership	This deal structure involves the university contributing land or a facility to the partnership in exchange for equity within the partnership. The developer provides the remaining equity for the project, obtains financing, and assumes all construction risk. For this method to work effectively, it is necessary for both the university and the developer to be flexible.

so that it is easier to identify and align goals. Total clarity is required. The best PPP relationships are true partnerships where both entities are working toward shared, well-defined goals. "The members of the partnership need to have aligned interests where the private entity is incentivized to support the mission of the school, rather than its own corporate mission," says LaPorte.

Another key consideration is building life. Some facilities on campus are built to higher standards of durability, maintainability, and longevity to reduce total cost of ownership. However, for many facilities managers considering a PPP office building being built off campus, it is difficult to adjust thinking from long-term life (50-100 years) to short-term (about 20 years).

"The advantage of PPP delivery for a shorter-life building is that our private partners are more experienced constructing a more affordable building that will last 20 years, compared to 50," says Guckert. "Many PPP projects are built with the notion of selling them off after 20 or so years. It makes no sense to build a 50-year-plus-life building off campus. But you also do not want a 20-year-life building on prime campus land. As it nears the end of its life it could appear as a blighted structure on the campus landscape."

Finally, facilities managers who are inexperienced with PPPs may view them as difficult, time-consuming, and expensive to put together, fraught with conflicting viewpoints, egos, and control issues.

"Public-private partnerships can be difficult if you have two partners that are working toward divergent goals," says LaPorte. "However, that when two partners have truly aligned interests, and are working toward the same outcome, establishment of the PPP is a smooth process and part of the team-building experience. In terms of time and assuming leadership buy-in to a PPP solution, the duration of a PPP process is more dependent on the institution's internal process for selection and contracting, rather than the actual form of the agreement."

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