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"Privatized" Student Housing on Campus

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Speakers

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ADVANTAGES OF PRIVATIZING

Paul W. Reichel
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Advantages of Privatizing

- Improved balance sheet
- Preserve debt capacity/capital
- Expedited development timeline

Advantages of Privatizing

- Access to latest trends/expertise
- Focus on core competencies

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DISADVANTAGES/RISKS OF PRIVATIZING
(Depends on Structure)

Paul W. Reichel

Bond Schoeneck & King

Disadvantages/Risks of Privatizing

- Forego revenue stream
- Less control over pricing, operation, etc.
- Quality of construction?

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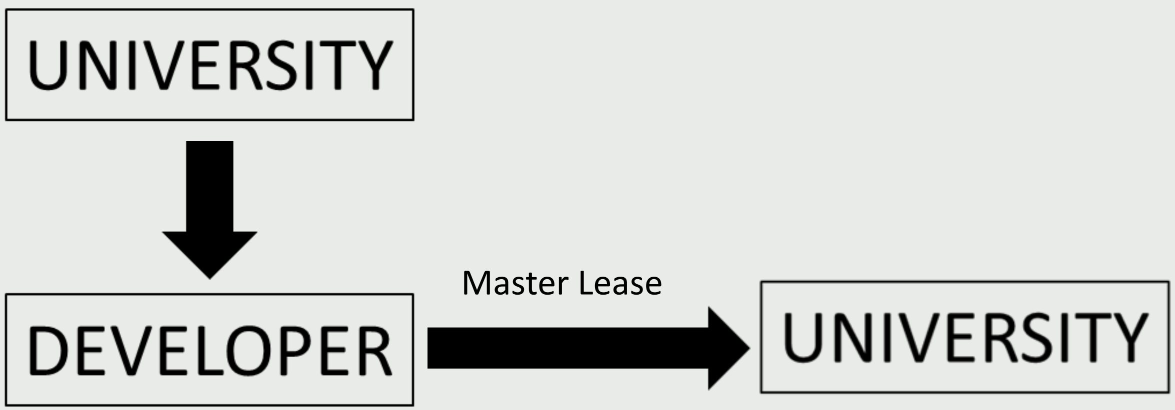
Disadvantages/Risks of Privatizing

- “Reputational risk”
- Still “on-credit”?
- Impact on tax, permitting and other exemptions

STRUCTURE ALTERNATIVES

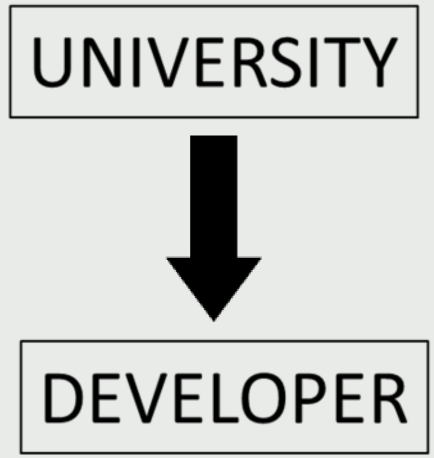
Brandon Lewisohn
Parker Poe Adams & Bernstein

GROUND LEASE TO DEVELOPER; MASTER LEASE TO UNIVERSITY



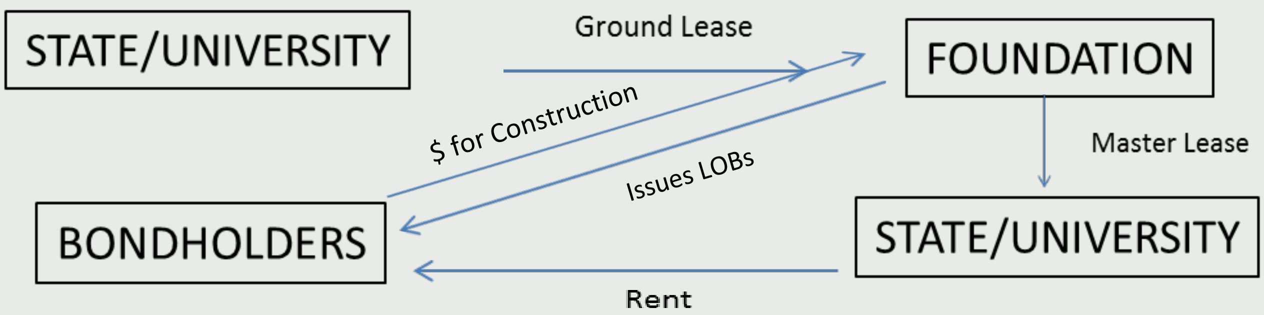
- Developer owns and operates as a private for-profit project. Incur construction risk, however has captured tenant for term (generally term is commensurate with amortization of debt)
- Construction quality
- Liability issues
- Lower cost if outside of state procurement rules

Ground Lease to Developer



- Developer owns and operates as a private for profit project. University receives a percentage of rental income or fixed rental amount. At end of term project ownership reverts to University for nominal amount.
- Low risk
- Low control by University

GROUND LEASE TO DEVELOPER; MASTER LEASE TO UNIVERSITY



- Limited Obligation Bonds ("LOBs")
- Since rent is derived from State, entity satisfies government test and bonds are tax exempt
- Full control
- Credit risk
- Operation risk
- Recourse is to project and, possibly, reputation

Foundation-Owned Project

- 501(c)(3) designated entity ("Foundation")
- Issue tax exempt bonds to finance
- Other than Foundation, parties included are all private for profit entities, so profit drives the project.
- Concern on traveling 501(c)3 entities

FOUNDATION-OWNED PROJECTS

Paul W. Reichel

Bond Schoeneck & King

Foundation-Owned Projects

- Create new 501(c)(3) or use existing (c)(3) such as College Foundation, Faculty-Student Association or Auxiliary Services Corporation
- If use existing (c)(3), establish wholly owned LLC for protection

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Foundation-Owned Projects

- Foundation leases facility to school
  – Master lease between Foundation and school

OR

- Foundation licenses rooms directly to student
  – Operating agreement between Foundation and school

Foundation-Owned Projects

- Advantages:
  - Expedited process
  - Significant control
  - Off balance sheet (perhaps)
  - Preserve debt capacity
  - Tax-exempt (financing, sales tax, property tax)

Community College Model (New York)

- NY community colleges have no authority to construct/operate residence halls
- College sponsors (counties) may be reluctant to incur debt
- Solution: Foundation-Owned Project

Community College Model (New York)

- County ground lease to Foundation
- Foundation finances and constructs
- Foundation operates residence hall by contract with College

PROTECTING THE SCHOOL’S INTERESTS

Brandon Lewisohn
Parker Poe Adams & Bernstein

Audit Risks

- Tax-exempt bonds
- Private use
- Greek housing
- Random audits

Control Risks

- Management
- Debt pressures (rent)
- Liability (developer-owned)
- Links between private entity and institution

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Capacity Risks

- Siphoning
- First fill or similar arrangements
- Debt pressures
- Unfilled units

CREDIT IMPACT

Paul W. Reichel
Bond Schoeneck & King

Credit Impact

- Off balance sheet, on-credit?
- The greater the likelihood the school will step in if project fails, the greater the impact on school's credit rating.

Credit Impact

- School’s credit rating more likely to be impacted if:
  - Project located on central campus or on adjacent land
  - Significant percentage of total beds
  - School shares in cash flow
  - School provides/guarantees debt
  - School provides fill covenant
  - Occupancy tests before new housing may be constructed

Please Contact Any of our Speakers for More Information

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Join us for our next Higher Education Council webinar:

"**Higher Education Update in the UAE**."

July 8, 2015.

More information to come.

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