

# Student Success

## USF P3 Residential Village Project



# Executive Summary for Board of Governors

## November 4, 2015

## Alignment with USF Strategic Plan and Master Plan

- The Project is consistent with the goals contained in the Board of Trustees' 2013-2018 Strategic Plan, including:
  - Goal 1 – Produce well educated and highly skilled global citizens through our continued commitment to student success
  - Goal 4 – Use sound financial management to establish a strong and sustainable economic advancement which requires enhancing the physical infrastructure of the campus through fiscally responsible investments
- The Project is consistent with the objectives contained in the Housing Element of the Master Plan
  - Objective 6.1(i) – Provide 2,000 net new undergraduate and graduate beds in on-campus residence facilities over the next 10 years (2010-2020)
  - Objective 6.1(ii) – Replace 1,036 beds lost to proposed demolition and redevelopment of the Andros Complex site
  - Objective 6.5 – Provide residential support services including student activities, food service, cultural events, recreation facilities, adequate residential parking, improved bicycle and pedestrian connections, large group interior gathering space, and dining in existing and/or new complexes as determined to best serve the expanded residential program

# Residential Character:

74% of Public AAU institutions are highly residential or primarily residential according to Carnegie Commission on Higher Education

Institution	Undergraduate Enrollment	Housing Capacity	% of Undergraduate Enrollment in Residence Halls
New College	834	459	55.04%
Florida Polytechnic University	518	220	42.47%
Florida Gulf Coast University	13,429	4,748	35.36%
Florida Agricultural & Mechanical University	7,705	2,350	30.50%
University of Florida	33,720	8,537	25.32%
University of North Florida	14,121	3,500	24.79%
Florida State University	32,625	7,200	22.07%
University of West Florida	10,075	2,122	21.06%
Florida Atlantic University	24,228	4,463	18.42%
→ University of South Florida (Tampa)	30,317	5,333	17.59%
University of Central Florida	52,539	6,973	13.27%
Florida International University	45,359	3,259	7.18%

Source: Housing capacity per Association of College and University Housing Officers – International profile

**Percentage of degree seeking undergraduates living in University Sponsored Housing:**

Highly Residential: 50% or more  
 Primarily Residential: 25%-49%  
 Primarily Non-Residential: Less than 25%

## Challenge: Andros Residence Halls - USF Tampa

- USF facing urgent need to replace aging housing facilities and infrastructure in the Andros complex
  - Deferred maintenance burden in excess of \$50M for Andros Housing complex
  - Inefficient use of land, outdated facility infrastructure
  - Cost benefit analysis rules out renovation
- 54 year old housing no longer provides the optimum environment for student learning
- Unable to meet demand for on-campus housing

Year    Occupancy

<b>2015</b>	<b>105%</b>
<b>2014</b>	<b>104%</b>
<b>2013</b>	<b>96%</b>
<b>2012</b>	<b>102%</b>

- Conducted analysis using more traditional forms of financing such as tax-exempt Housing debt and found the P3 option to be the most appropriate



# USF followed State procurement and BOG processes to Select P3 Method and Partner

- Conducted strategic, transparent, and inclusive process
  - Objectives for Project – enhance student success and protect public’s interest while preserving student affordability
  - 3 years of due diligence – 9 BOT Meetings (August 2012 – May 2015)
  - Early engagement with BOG staff and DBF
  
- Secured industry leading consultants
  - Brailsford & Dunlavy
  - Public Financial Management
  - Bryant Miller Olive
  
- Utilized systematic approach to selection of Partner
  - 2-stage ITN procurement process
    - Qualifications stage
    - Solicitation of proposals stage
  - Parallel negotiations with short-list firms
  
- Strong Student Support for Project

ITN Proposal Process Timeline	
9/5/14	Issued ITN
9/29/14	10 Stage I proposals received
10/15/14	Selected 5 most qualified
1/12/15	5 Stage II proposals received
2/26/15	Negotiations commence with 2 national firms
5/22/15	Issued Intent to Award

## Benefits of a Public Private Partnership (P3)

### Project Risks Transfer to P3 partner

- Financing - Once final agreements are in effect, partner absorbs all risk to funding the debt and changes in interest cost
- Construction - Partner is responsible for completing project within agreed upon budget and schedule
- Demand - Partner is fully at risk if projected student demand or occupancy levels are not achieved over the term of the ground sub-lease

## Benefits of a Public Private Partnership (P3)

### Project Risks Transfer to P3 partner (cont.)

- Capital maintenance - Requirement that Project is returned to USF at end of term in good condition
  - P3 partner required to fund repair & replacement reserve annually and will perform capital asset management
  - P3 partner required to follow a life cycle repair / replacement schedule
  - Independent assessment of facility condition required every 5 years
  - USF will perform routine custodial and maintenance
  - Advisory Committee oversight of capital maintenance projects and budget

## **Benefits of a Public Private Partnership (P3)**

- **No risk to USF or students if P3 Partner fails to meet its obligations or defaults**
  - If P3 Partner defaults, P3 Partner loses all equity
  - Lender can step in to cure default, no recourse to USF or students
  
- **Preserve USF Balance Sheet Capacity for long-term mission driven investments (Research, Athletics, Parking, Housing)**
  
- **P3 partner has committed debt and equity to Project**
  - Private placement debt – fully committed, funding not dependent on issuance of bonds
  - Debt is 1-yr interest only during construction / 30-yr fixed with level amortization
  - 70/30 Debt/Equity capital structure minimizes rating risk
  - 30% funded by equity motivates P3 partner for project success
  - Equity completely at risk
  - Allows USF to deliver comprehensive residential village
  
- **Accelerated delivery over traditional method**



## **Strengths of the Selected Private Partner**

### **Capstone Development Partners**

- Specializes in the development of on-campus and campus-edge student housing through public private partnerships and affiliations with universities.
- The principals of Capstone have more than 24 years of experience and have delivered on-campus housing for over 60 college and university partners throughout the United States.
- \$3.5 billion in total projects

### **Harrison Street Real Estate Capital**

- Leading real estate investment management firm that offers investment products for access to well-defined private and public real estate segments.
- \$7.5 billion private equity fund
- Owns more than 50,000 student housing beds
- #28 out of the 50 largest private equity real estate firms in the world

# USF P3 Residential Village Project

- A mixed-use residential village with student community constructed around a central plaza:

- Five residence halls – 2,171 beds (1,132 net new)
- Academic support and study space
- Dining, health & wellness, and retail facilities

Mix of Beds	
1,144	Traditional Doubles
900	Suite Doubles with Bath
48	Singles
79	Res. Life Staff

- USF will manage student experience such as Residential Life and Education
- Project supports ACUHO-I 21<sup>st</sup> Century Project four defining concepts: community, flexibility, sustainability, and technology.
- Anticipated Project Completion: Fall 2018

## **Student Choice and Affordability**

- USF students have the freedom to choose.
- USF has 10 different room configurations and rates.
- New P3 Housing rates will not exceed USF premium room rate.
- New P3 beds will be the most attractive housing option on campus.

**USF Students are not required to live on campus**

# USF P3 Housing Development Project – Financials

## Sources & Uses Schedule

### Sources of Funds

P3 Partner – Equity	\$39.8 M	Equity to be contributed by P3 Partner at a preference rate of 7% (25 years – years 11-35)
P3 Partner – Debt	<u>92.8 M</u>	Fixed-rate taxable debt issued by P3 Partner at an interest rate of 5.25% for 30 years (Interest only during construction period)
<b>Total Sources of Funds</b>	<b>\$132.6 M</b>	<b>Total GSF 578,088</b>

### Uses of Funds





Project Costs	\$109.7 M	Construction and Hard Costs
	2.3 M	Contribution to USF for Parking Spaces
	1.2 M	Acceleration Payment
	7.0 M	Soft Costs (insurance, A/E fees, permitting fees)
	4.4 M	Developer Overhead and Fee
	<u>4.6 M</u>	Project Contingency
	\$129.2 M	Total Project Costs
Capitalized Interest	2.3 M	
Closing and Transaction Costs	<u>1.1 M</u>	
<b>Total Uses of Funds</b>	<b>\$132.6 M</b>	

# Key Financial Terms and Return on Investment

<b>USF P3 Residential Village Project</b>	<b>45 yr. GSL *</b>	<b>50 yr. GSL</b>
<b>Total Project Cost</b> <ul style="list-style-type: none"> <li>• 30% equity - \$40 M</li> <li>• 70% debt - \$92 M</li> </ul>	<b>\$132.6 M</b>	<b>\$132.6 M</b>
<b>Ground Lease Term</b>	<b>45 Years from Delivery</b>	<b>50 Years from Delivery</b>
<b>Minimum Certified Useful Life</b>	<b>62.5 Years</b>	<b>62.5 Years</b>
<b>P3 Partner IRR</b>	<b>12%</b>	<b>11.5%</b>
<b>P3 Partner Discounted Cash Flows</b> (Net Operating Surplus +Preferred Equity Return)	<b>\$37.5 M</b>	<b>\$33.6 M</b>
<b>USF Share of Project Cash Flows</b>	<b>18% (up to 12% IRR)</b>	<b>40% (up to 11.5% IRR)</b>
<b>P3 Partner – Debt Interest Rate</b> <ul style="list-style-type: none"> <li>• Non-recourse</li> </ul>	<b>5.25%</b>	<b>5.25%</b>

**\* STUDENT HOUSING RATES ON 45 YR. GSL WILL BE 1%-3% HIGHER THAN RATES FOR 50 YR. GSL.**

# Alignment with BOG P3 Guidelines

<p><b><u>Procurement Procedures – Section IV</u></b></p> <ul style="list-style-type: none"> <li>• Comprehensive USF ITN process: 10 proposals, then 5 most qualified, then 2 finalists for simultaneous negotiations</li> <li>• Complied with all 11 Procurement Procedures</li> </ul>	
<p><b><u>Project Feasibility and Requirements – Section V</u></b></p> <ul style="list-style-type: none"> <li>• Documented student demand, committed equity and debt, low credit rating risk, 1.47x debt coverage ratio, R&amp;R reserves</li> <li>• Term of debt: 1 year interest only; 30 year fixed rate level debt service</li> <li>• Term of lease: shall not exceed 40 years, or the life expectancy of the Facility, and include eventual ownership” (Justification Provided)</li> </ul>	
<p><b><u>Approval Process and Required Information – Section VI</u></b></p> <ul style="list-style-type: none"> <li>• Complied with BOG Process: submitted all 16 Required Information items, addressed 7 factors</li> </ul>	
<p><b><u>Terms of the Agreement – Section VII</u></b></p> <ul style="list-style-type: none"> <li>• Complied with all BOG Terms</li> <li>• Ground Sub-Lease provides for 17 USF protections</li> </ul>	

## Before You Today: BOG Authorization

A resolution approving the University of South Florida to enter into a sublease and operating agreement with HSRE-Capstone Tampa, LLC, related to demolition of current housing and the construction, leasing, financing and operation of an approximately 2,165 bed student housing and mixed use project on the university main campus.

