

August 14, 2012

To: Corvallis/OSU Neighborhood Planning Collaboration
From: Dan Larson, Associate Director, University Housing and Dining Services
RE: Public Private Models

Overview:

Objective 3 in the Neighborhood Planning workgroup is to review opportunities to provide housing for OSU students that are compatible with the community. Specifically, the group is to evaluate ways to increase on-campus housing, such as implementing on campus living requirements and the use of public-private partnerships.

As the workgroup explores the merits of public/private partnerships for delivering student housing, I have been asked to provide general information on current projects, and have added thoughts on implementing those models here in Corvallis. The following information should assist us in better understanding how and why such models are used, how they have been implemented in Oregon, and the associated benefits and limitations.

Public/Private partnerships for delivering student housing is typically utilized for cost savings; savings of capital, savings on development/construction costs, and savings to the university on the cost of operation. Successful partnerships however, are not the result of financial indicators alone. Student housing in a university environment is critical to the delivery of the overall mission of the university, and ensuring that the student residential experience is tied to that mission is not easily accomplished when that experience is outsourced.

When using public/private partnership as a means of supplementing a university's housing program, i.e. catering to niche markets, the university can leverage the strengths of the private sector and develop highly effective and comprehensive housing programs that meet a variety of student needs. It is also important to note that the success of any public/private partnership is dependent on the partners involved, financial models used and terms of the agreements.

There are 2 models of public/private partnerships that we typically see used to deliver on-campus student housing.

- 1. Project-Based, Tax-Exempt Revenue Bonds with a 501(c)3:** In this model, the university will ground lease property (may include a facility on the property to be renovated) to a qualified not-for-profit organization that acts as the borrower and owner of the project. The main benefit of this structure is that 501(c)3 status of the borrower allows interest on the bonds to be exempt from federal income taxes, resulting in a lower cost of capital than traditional taxable financing. Additionally, because the project is located on university owned land and is owned by a not-for-profit organization, the development is typically exempt from local property taxation. In this model, the management of the facility may either be through the 501c3 (owner), a third

party management company, or the property can be contracted to be managed by the university. At the end of the ground lease, the property and fully depreciated facility is returned to the university.

Advantages:

- Allows university to focus financial investments on other priorities.
- Minimizes impact on university's debt capacity.
- Typically a majority of the net cash flow is distributed at the direction of the institution.
- The University has more control over construction and on-going operations, but the project must achieve a minimum feasibility test in order to achieve financing.

Disadvantages:

- In order to secure financing, the terms of ground lease may be largely to the benefit of the developer. In other words, the university must ensure the project will not fail.
- The term of the agreement is a significant long term proposition (30+years) for the university.
- The City and County do not benefit from property tax.

2. Developer Equity: In this model, the university will ground lease the property to a developer who utilizes its own equity, not that of a third-party. The developer is the financial partner, development partner, and management partner. At the end of the ground lease, the property and fully depreciated facility is returned to the university.

Advantages:

- All financial risk is held by the developer. No guarantees from the university are required.
- Allows university to focus financial investments on other priorities.
- Minimizes impact on university's debt capacity.

Disadvantages:

- Since the developer is fully at risk for this type of project, the developer has more control over construction costs, accommodation and amenities to ensure a successful project.
- The term of the agreement is a significant long term proposition (45 – 75 years) for the university.
- The cost of capital is also higher than a traditional University general obligation bond.
- Since all the "risk" is on the developer, no net revenue is returned to the university.
- The university has little to no participation in the quality of end product and program, therefore not able to ensure the delivery of a program consistent with the university's mission.
- The City and County do not benefit from property tax.

Public/Private Models in Oregon

Current Public/Private Student Housing Partnership at Oregon State University

University Housing and Dining Services (UHDS) currently maintains a public/private partnership in the development, construction and management of what is now referred to as the Gem. This partnership allowed Oregon State University (OSU) to have a sizable capital investment made on a residence hall that had exceeded its lifecycle, while being able to focus its financial resources on other priorities. This facility was ground leased to a non-profit housing management company that secured financing, hired a development team, and managed the construction, and now the daily operations of the facility. The term of this ground lease is 30 years. The building now houses upper-class students only.

Current Public/Private Student Housing Partnership at Southern Oregon University

Southern Oregon University (SOU) is now constructing a new facility under a Public/Private Partnership with American Campus Communities (ACC). American Campus is developing the community, which utilizes a 501c3 foundation ownership structure, and is financed via a tax-exempt bond issuance. ACC acts as a third-party developer for the SOU project, and the University will manage and operate the project upon completion. The term of the ground lease is typically 32-40 years, and terminates upon full repayment of the bonds. The University receives or directs 100% of the project cash flow after debt service payments and operations.

Current Public/Private Student Housing Partnership at Portland State University (PSU)

Portland State University (PSU) is also in construction on a new facility under a public/private partnership with American Campus Communities. The model PSU is utilizing is an equity structure, where ACC will develop, own and operate the community upon completion, under a long-term ground lease with PSU. For this project, ACC leases the land from PSU (65 years with 2, 10 year extensions) and in-turn pays an annual ground lease payment, or rent to the University.

Concluding Request from University Housing and Dining Services:

University Housing and Dining Services encourages the Neighborhood Planning Workgroup to evaluate the potential long term impacts public/private partnerships can have on both the residential community, private development community, and the institution. As this summary notes, the length of public/private partnerships typically will exceed the duration of any existing administration tenure or workgroup charge. Making any recommendation that would require a 30 – 75 year relationship should not be taken lightly, and significant care should be taken in making any such recommendation. Alternately, providing a summary of the merits of public/private partnerships as a potential means of managing the current housing needs in the Corvallis community would prove valuable as UHDS continues its long term planning for a residential program that facilitates a student experience that is in support of the University's mission and values.

Resources:

1. American Campus Communities, LLC
2. National Association of College and Business Officers: <http://www.nacubo.org>