To “P3” or Not to “P3”? - That is the Question

The use of Public-Private Partnerships (“PPP” or “P3”) by higher education institutions for the delivery of competitive, modernized student housing projects (including ground-up development and renovation of existing facilities) dates back to the 1990’s. Privatized student housing became popular as an alternative to the use of direct institutional debt or capital investment. Over the last 5-10 years, the menu of ownership structures and financing methods for P3 housing projects has evolved to fit the needs of both public and private institutions with varying project scopes and components in urban, suburban and rural markets. As the economy has recovered and private investment in P3 projects has grown, there has been a resurgence of privatized student housing projects and financings involving stand-alone project development as well as entire housing system privatizations. Further, some recent P3 procurements have extended beyond student housing to incorporate multipurpose, revenue and non-revenue producing project components such as academic, dining, recreational, parking and administrative facilities. In some cases, institutions have pursued the build-out of an entire student life and academic core of campus.

Each institution has its own unique set of objectives and constraints related to the funding and delivery of student housing and other capital projects. For some institutions, P3’s have never been used and are of little interest (although they may have been considered), while for other institutions they are a readily used “tool in the toolbox”.

continued on page 5
Happy Spring to all! I hope your year is off to a good start and the typical mid-winter lull in issuance activity is about over. Interest rates certainly continue to favor our borrowers and better weather brings the possibility of new construction.

This is my last message as president of NAHEFFA. It has been a pleasure working with our excellent board, committees and member authorities. Also, I must once again thank Nichole Doxey for her superb work as Operations Director and Chuck Samuels for his continued support and direction of our legislative efforts. If any of you ever is hesitant to serve on a committee or run for a board director or officer spot please consider doing it. There is no better way to become more familiar with NAHEFFA, its mission and our members. Remember, NAHEFFA depends on its members for so much of our success.

Recently Chuck, Donna Murr, Martin Walke and I participated in the MSRB Industry Roundtable at the new MSRB office in Washington, D.C. As always the discussion was lively, wide-ranging and very beneficial to all parties, some not always on the same page. NAHEFFA has been fortunate to have the opportunity to participate in these gatherings and be able to express our interests and concerns including preservation of tax-exempt bonds, BQ regulations, clarification of the MA rules, direct bank purchases, borrower disclosure, MCDC and other things, all influenced by our unique role as conduit issuers.

As always tax reform and its impact on tax-exempt bonds is first on our list of concerns. Even if nothing happens in the 2016 election year, we can expect the discussion to resume in 2017. Please be ready to assist Chuck Samuels and Martin Walke, NAHEFFA Advocacy Chair, as the situation develops and our plan comes into focus. Chuck has more on this and other legislative and regulatory topics in his article in this newsletter.

Finally, I hope to see as many of you as possible April 6th and 7th at the NAHEFFA Spring Conference in Scottsdale, Arizona. The hardest-working conference committee in show business has another timely agenda loaded with valuable information, great sessions and talented presenters. This conference, like all NAHEFFA conferences, is dependent on our wonderful industry sponsors. Thank you to all our sponsors for your support of our mission!

See you in Arizona!
By the time you read this, the presidential primaries may have sorted themselves out—or not. In the most bizarre presidential campaign of our lifetimes, trying to find any insights on future behavior relevant to tax exempt bonds is even more fruitless than usual. On the Democratic side, a President Clinton or Sanders will, like President Obama, talk, on the one hand, about the critical need for infrastructure financing but, on the other hand, undoubtedly promote tax reform legislation that will decrease the benefits directly or indirectly of tax-exempt financing. How that will be sorted out at the end of the day will engage NAHEFFA and all our allies in the public finance community.

On the Republican side, a Cruz or Rubio presidency probably will emulate the classic Republican interest in lower, flatter, simpler tax rates, ala Paul Ryan, which obviously has threatening implications for bonds. Whether Gov. Kasich recognizes the benefits of bond financings in Ohio is unknown—because, frankly, in this madness who is paying attention to anyone’s position?

And, the wild card, really the Trump card, is absolutely unpredictable. Discerning in Mr. Trump’s past his use of various economic urban redevelopment incentives probably is meaningless. In his case in particular, given his absence of any governmental experience, it is likely that the real issues of tax reform which will affect tax exempt financing will be based on which advisors he picks for key White House and Treasury positions, all of which is totally unknown and speculative.

More within any Washington observer’s wheel house and comfort zone are Hill activities. On the one hand, House Speaker Ryan and Ways and Means Chairman Brady released a mission statement on tax reform which includes among its goals reducing tax rates, removing special interest carve outs and “limit the… exclusions… that riddle the tax code today”. None of this rhetoric is new from these congressional leaders and we can expect more documents and hearings on tax reform in the spring and summer before the congressional recess.

On the other hand, the supporters of tax exempt bonds have been very active. Our colleagues at the National Association of State Treasurers organized a 50 state petition on bonds with 600 state and local public official signatories, including NAHEFFA and approximately a dozen NAHEFFA authority directors. Further, key supporting members of Congress, Randy Hultgren of Illinois and Dutch Ruppersberger of Maryland, announced the establishment of a bipartisan House Municipal Finance Caucus. House caucuses provide a useful means for members of Congress to show their interest in a particular area, express their support and work together. Representatives Hultgren and Ruppersberger have in the past organized letters to the House leadership in support of the tax exemption, particularly opposing the president’s proposal to tax the value of the tax exemption at the 28% bracket. They got 122 other members of Congress to sign on. Now these Congressmen have circulated a Dear Colleague letter to the entire House urging their colleagues to join the Caucus. I encourage you to write your congressmen urging them to join the Caucus. It’s also a great opportunity to discuss what you’re doing and its importance.

On the regulatory front, there is anticipation that there will be announcements from the SEC soon as part of its MCDC so-called voluntary reporting cooperation initiative about settlements with issuers/borrowers. Whether penalties and mandatory compliance programs will be attached is unknown. The initial reports with respect to the underwriters did not seem to involve clearly conduit financing but that cannot really be known until the issuer/borrower settlements are announced.

Meanwhile, the idea that undisclosed or not fully disclosed bank loans are critical to the
Greetings from the NAHEFFA Sponsorship Committee

Don’t miss this extraordinary opportunity NAHEFFA is offering, to network with key individuals in your market at our 2016 conferences.

Spring 2016 - April 6-7 in Scottsdale, AZ
Fall 2016 - September 28-30 in Chicago, IL

Build stronger relationships and reach key decision-makers in the industry by becoming a 2016 NAHEFFA annual sponsor. Sponsorship can increase your organization’s exposure and heighten your brand recognition. NAHEFFA conferences are attended widely by NAHEFFA Members including authority board members and staff. These conferences also provide an opportunity to increase your awareness of issues and concerns in the industry.

If you have not already done so, please contact Shannon Govia or Nichole Doxey to get your spot in the NAHEFFA 2016 Sponsorship Program.

Best regards,
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Washington Report, continued from page 3

disclosure regulatory regime has become one of those fixed ideas in Washington that will not be resolved until it culminates in some form of new mandate. There are efforts to develop voluntary practices with respect to private bank loan disclosures, but ultimately I predict it will make its way into mandatory components of continuing disclosure agreements.

Finally, your Association held a very successful February 25 webinar on the important but highly technical topic of the impact of new money market fund rules on public infrastructure investment. A presentation was made on the impact on the cost of financing as tax exempt money market funds are liquidated or converted leading up to the October 14, 2016 deadline to comply with the SEC’s floating net asset value requirements. There also was a report on legislation introduced in Congress (HR 4216/S1802) which seeks to preserve stable value money market funds as a source of liquidity and infrastructure investment. A recording of the webinar as well as the materials presented can be found on NAHEFFA's website.

I hope to see you all in Arizona where a number of great sessions are planned and terrific weather is guaranteed. Among our presenters will be Bill Daly, who heads up NABL's Washington operation, and Susan Gaffney, the new head of the municipal financial advisors group.
While there may be many reasons why an institution may pursue a P3 for the delivery of a student housing or multipurpose project, five main themes are prevalent in P3 projects:

1. Capital
2. Risk
3. Timing/efficiency
4. Expertise
5. Legal/statutory limitations.

The Blue Rose Team - based on significant first-hand experience - knows there is no substitute for thoughtful initial stage planning, feasibility analysis and evaluation of various ownership and financing opportunities. The planning process should bring together internal stakeholders (board, administration, finance department, housing services/residence life department, students, parents, etc.) as well as financial and legal advisors, feasibility consultants and the institution’s auditor. We stress the importance of early planning because there are many key trade-offs, considerations and issues faced in evaluating the best “tool” or method for project delivery. Early involvement of financial and legal advisors, in particular, will allow the institution to evaluate and compare complex P3 structures, understand substantial outcomes, optimize financing results and maximize the effectiveness of the process.

Based on our experience, the following list provides many of the topics for consideration and discussion. Certain issues will vary by state, type of institution (public, private, community college), geographic location (urban, suburban, rural) as well as institutional objectives and risk profile.

**Initial Planning Considerations**
*Is a Public-Private Partnership a Good Fit?*

- Debt capacity and bond rating(s) impact
- Speed of housing delivery
- Procurement laws/regulations/policies
- Accounting treatment
- Cost of capital and debt structure
- Existing bond and debt covenants
- Student rents/affordability and safety
- Legal prohibition of direct student housing ownership
- Legal limitation on duration of land lease
- Market demand and feasibility analysis
- Identify project need and student segment to be served
- Existing auxiliary system impact
- On-campus location/strategic land-use
- Strategic campus expansion (land/project acquisition)
- Parallel capital planning for non-revenue producing assets
- Impact on student recruitment, success and retention and philanthropy

**P3 Considerations**
*Establish and Prioritize Objectives, Preferred Outcomes and Risk Parameters*

- Assumption of risk by developer/third-party owner
- Accelerated procurement process
- Institution vs. developer project budget and delivery schedule

...continued on page 6...
Student Housing Privatization, continued from page 5

- Direct debt vs. privatized financing options, i.e. foundation-owned, tax-exempt bonds; taxable debt equity; and 100% equity
- Duration and provisions of ground lease or concessionaire agreement and other operative P3 and financing documents
- Project management responsibilities
- Control of residence life programming
- Revenue production/cash flow to institution vs. financial obligation/liability
- Occupancy guarantees and contracts
- Project affiliation/student referral provisions
- Subordination of operating expenses and reserve requirements
- Lease requirements for project or certain project components
  (non-revenue producing components, for example)
- Private use components, if tax-exempt financed
- Cash flow pro forma support of non-revenue producing project components
- Purchase options
- Eligibility for property tax exemption/tax abatement
- Reserves for replacement, funding depreciation

Blue Rose provides industry leading financial advisory services for colleges and universities, and, as part of those services, we can deliver independent evaluation of privatized financing alternatives compared to conventional direct debt. We assist our clients in the decision-making process by weighing risks and benefits that exist at various stages of the project’s life. Further, we readily deploy firm resources to evaluate proposals and execute financing strategies.

P3 projects are complex with long-term effects both foreseen and unforeseen. If your institution is considering pursuit of a P3 project, please ask how Blue Rose can guide you through the myriad of issues and help you avoid costly pitfalls early in the process.

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