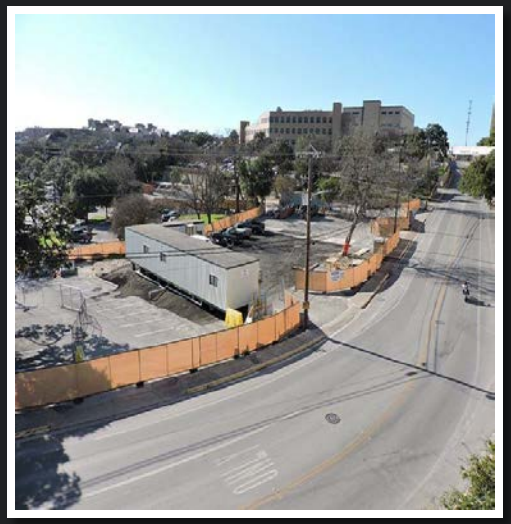


THE FINANCIAL NUTS AND BOLTS OF CAMPUS PROJECTS

TASSCUBO Summer Meeting – July 2017

Eric Algoe, Texas State University

Kim Laird, The University of Texas at Dallas

TEXAS STATE UNIVERSITY

The rising STAR *of Texas*

- San Marcos, Texas
- Chartered in 1899
- TSUS System
- 38,808 enrollment
- 200 academic programs in 8 schools

Facilities Environment

- 500 acres, San Marcos
  100 Acres, Round Rock
  4,500 acres total
- 8.1 Million GSF
- 39 Years Avg Bldg Age
- $98.1 Million Avg Annual Capital Expense

- Richardson, Texas
- Chartered in 1969
- University of Texas System
- 26,793 enrollment
- 142 academic programs in 8 schools

Facilities Environment

- 728 acres Collin & Dallas Counties
- 6.2 Million GSF
- 22 Years Avg Bldg Age
- $111.6 Million Avg Annual Capital Expense

Factors Common to All Capital Projects

- Planning
- Management
- Completion and Operation

Planning

- Strategic, Academic, & Financial
- Assumptions (Be Honest!)
  - Enrollment, Research Needs, Staffing
- Pro forma (Be Honest!)
  - Revenue
    - New Sources
    - Reallocations of Existing Sources
  - Sustaining Operations
  - Debt Capacity

Management

- Project
  - Design, Bid, Build vs CMR
  - Internal Management vs External
- Debt
  - Duration, Lender, Fixed vs Variable
  - Funding Source: State vs. Local, Auxiliary

Completion and Operation

- Completion
  - Punch Lists
  - Full Project Close Out
- Commissioning
- Operation
  - Warranties & Guarantees
  - Training
  - Monitoring

GROUP DISCUSSION

Other Factors Common to All Capitol Projects

Today's Focus

- Traditional Projects:
  - Academic
  - Auxiliary

- P3: Public Private Partnership

GROUP DISCUSSION

Other types of capital projects

Types of Capital Projects

- Research center
- Student center
- Recreation center
- Athletic facilities
- Alumni center
- Music building
- Library
- Museum
- Athenaeum

THREE TYPES OF CAPITAL PROJECTS CONSIDERED

Academic, Public-Private Partnership (P3), and Auxiliary

Academic Planning

Pro Forma Inputs

- Total Project Cost
- Financing Sources and Terms (often multiple)
- Building Description
- Expected Enrollment Impact
- Additional Faculty/Staff Needs
- Building Operations
- Other Expenses

Academic Example
Engineering Building

- From Concept to Reality
  - $110M TRB Request (Oct 2012)
  - $70M TRB authorized (May 2015)
  - CIP Approval (August 2015)
  - Preliminary planning and analysis (March 2016)
  - Design & Development Approval (May 2016)
  - Notice to Proceed (Nov 2016)
  - Expected Occupancy (Aug 2018)

Academic Example (continued) Engineering Building

- Project Cost and Financing Sources
  - $110M Total Cost
  - Multiple Financing Sources
    - $70 Million Tuition Revenue Bonds (TRB)
    - $20 Million Permanent University Funds (PUF)
    - $20 million Revenue Financing System (RFS)

Academic Example (continued)
Engineering Building

- Building Description
  - 200,000 GSF; 120,000 ASF
  - Majority research space; some classrooms
- Enrollment Impact
  - Increase 1,250 FTES (UG/GR)
- Personnel Impact
  - 14 new T/TT Faculty
  - 5 lecturers, 5 tech support
  - 250 Teaching/Research Assistants
  - 5 Support Staff

Academic Example (continued)
Engineering Building

- Building Expenses
  - General Maintenance & Ops: $2.25/ASF
  - Custodial Services: $0.75/ “cleanable” SF
  - Utilities: $4.50 per GSF
- Other Expenses
  - Research Startup Packages
- Debt Service
  - Interim Financing
  - Permanent Financing

Academic Example (continued) Engineering Building

- Pro Forma Evaluation Focus
  - Debt coverage ratio (1.0 and higher)
  - University support required
  - Impact on University debt capacity
  - Impact on University operating budget

Auxiliary Planning

Pro Forma Inputs

- Total Project Cost
- Financing Sources and Terms
- Building Description
- Room Types
- Expected Occupancy
- Additional Staff Needs
- Building Operations
- Other Expenses

Auxiliary Example
Apartment Style Residence Hall

- From Concept to Reality
  - CIP Approval (May 2015)
  - Preliminary planning and analysis (August 2015)
  - Design & Development Approval (May 2016)
  - Notice to Proceed (Nov 2016)
  - Expected Occupancy (Aug 2017)

Auxiliary Example (continued) Apartment Style Residence Hall

- Project Cost and Financing Sources
  - $48M Total Cost
  - Single Financing Sources
    - $48 million Revenue Financing System (RFS)

Auxiliary Example (continued)
Apartment Style Residence Hall

- Building Description
  - 200,000 GSF; 120,000 ASF
  - 68 1-bed; 324 2-bed rooms
- Personnel Impact
- Building Expenses
- Other Expenses
- Debt Service
- Deferred Maintenance

Auxiliary Example (continued)
Apartment Style Residence Hall

- Pro Forma Evaluation Focus
  - Self-sustaining
  - Projected rental rates w/in market
  - Unit debt coverage ratio
  - Impact on overall housing
    - Operations
    - Debt coverage (1.3 and higher)
  - Adequate local reserve
  - Reasonable and sustainable deferred maintenance reserve
  - Impact on University debt capacity

Questions/Comments
Traditional Projects

P3 Process Overview

- Self- or Developer-Initiated?
- Know why P3 is better than other options for the project?
- Clearly delineate what you need and what you are willing to pay for it.
- Clearly understand the Developer’s strengths, needs and desires.

P3 Process Overview (continued)

- Allow significant time for negotiations:
  1. All the steps of other projects
     a) Financial Planning and Modeling
     b) Project Program, Plan, Design
     c) Construction Management
  2. Complex legal Partnership creation
  3. Long-term land deal

- Have a realistic timeframe that is well communicated and understood

P3 Process Overview (continued)

- Know everyone's role at each stage
  - Planning & Design
  - Credit and equity financing
  - Each phase of Construction
  - Management & operations
  - Refinancing & Change of Ownership
  - Termination

P3 Example

Multi-Tenant Research Facility at Off-Campus Research Park

- Started with a need for additional research space for successful spin-offs of our tech incubator.
- Obtained buy-in: Fully explained the situation and verified that the P3 approach was the best fit.

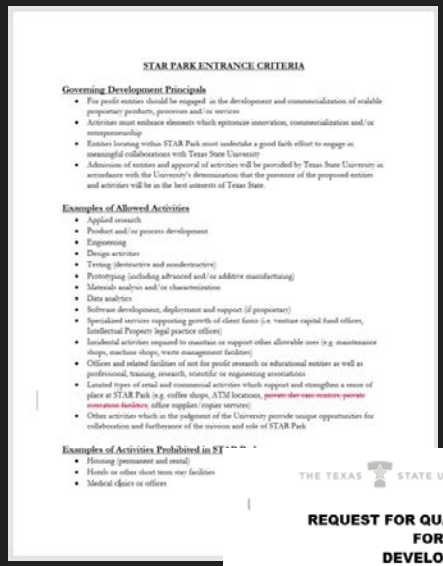
P3 Example

Multi-Tenant Research Facility at Off-Campus Research Park

- Developed and vetted detailed Entrance Criteria, Design Guidelines, and Financial Expectations.

- Issued a detailed RFP.

- Developed a negotiation framework to allow one person the authority to negotiate with some degree of flexibility.



STAR PARK ENTRANCE CRITERIA

Governing Development Principals

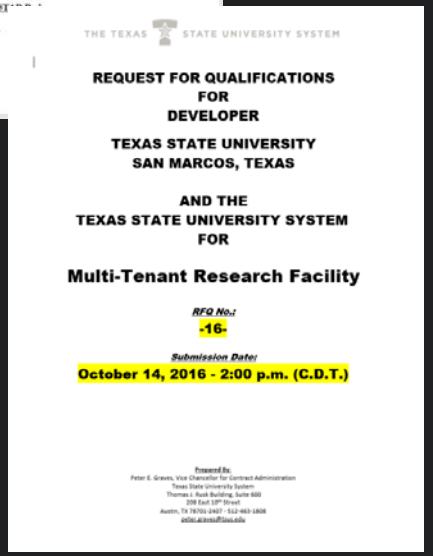
- For profit entities should be engaged in the development and commercialization of scalable proprietary products, processes and/or services
- Activities must embrace elements which epitomize innovation, commercialization and/or entrepreneurship
- Entities locating within STAR Park must undertake a good faith effort to engage in meaningful collaborations with Texas State University
- Admission of entities and approval of activities will be provided by Texas State University in accordance with the University's determination that the presence of the proposed entities and activities will be in the best interests of Texas State.

Examples of Allowed Activities

- Applied research
- Product and/or process development
- Engineering
- Design activities
- Testing (destructive and nondestructive)
- Prototyping (including advanced and/or additive manufacturing)
- Materials analysis and/or characterization
- Data analytics
- Software development, deployment and support (if proprietary)
- Specialized services supporting growth of client firms (i.e. venture capital fund offices, Intellectual Property legal practice offices)
- Incidental activities required to maintain or support other allowable uses (e.g. maintenance shops, machine shops, waste management facilities)
- Offices and related facilities of not for profit research or educational entities as well as professional, training, research, scientific or engineering associations
- Limited types of retail and commercial activities which support and strengthen a sense of place at STAR Park (e.g. coffee shops, ATM locations, ~~private day care centers, private restaurant facilities~~, office supplies/copier services)
- Other activities which in the judgment of the University provide unique opportunities for collaboration and furtherance of the mission and role of STAR Park

Examples of Activities Prohibited in STAR

- Housing (permanent and rental)
- Hotels or other short term stay facilities
- Medical clinics or offices



THE TEXAS STATE UNIVERSITY SYSTEM

REQUEST FOR QUALIFICATIONS
FOR
DEVELOPER

TEXAS STATE UNIVERSITY
SAN MARCOS, TEXAS

AND THE
TEXAS STATE UNIVERSITY SYSTEM
FOR

Multi-Tenant Research Facility

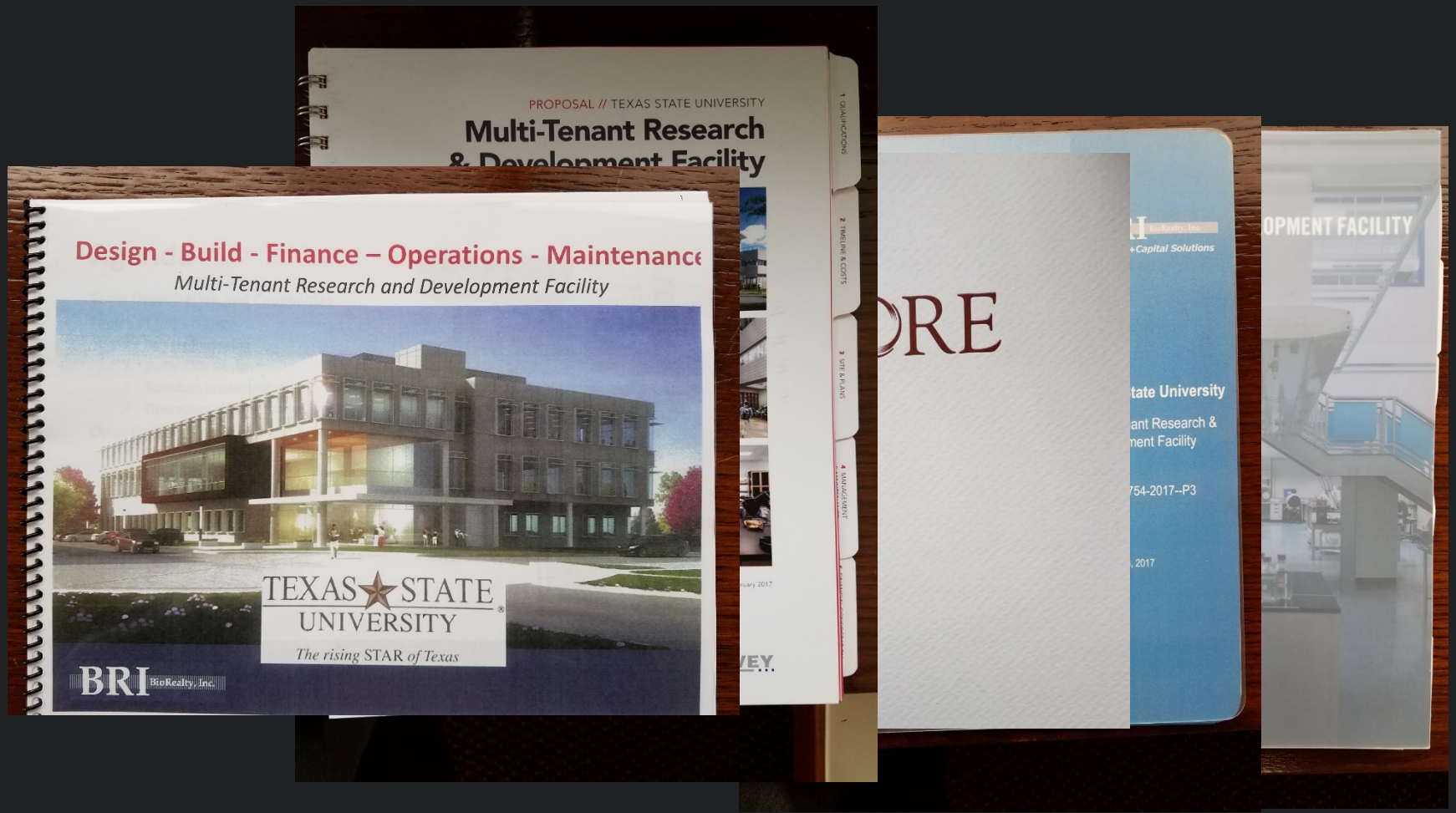
RFQ No.:
-16-

Submission Date:
October 14, 2016 - 2:00 p.m. (C.D.T.)

Prepared By:
Peter E. Graves, Vice Chancellor for Contract Administration
Texas State University System
Thomas J. Rusk Building, Suite 600
208 East 10th Street
Austin, TX 78701-2407 · 512-463-1808
peter.graves@tsus.edu

P3 Example

Multi-Tenant Facility at Off-Campus Research Park



P3 Example
Multi-Tenant Research Facility

- RFP response came from very different companies:
  - Pure Real-Estate Developers
  - Design-Build-Operate
  - Research-Specific Design-Build-Operate-Maintain-Invest

- After deliberation, we selected a respondent with which to negotiate.

P3 Example
Multi-Tenant Research Facility
Negotiation Topics

- Ground Lease Term and Payment
- Credit Enhancements to start-up tenants
- Debt Service Reserve
- Construction Period payments
- Master Lease options
- Marketing effort responsibilities
- Land value
- Escalation mechanism
- Construction responsibility
- Operations responsibility
- Payment subordination
- Up-front contribution
- Parking
- Tenant approval process
- Springing Lease Option
- Equity investment
- Debt
- Land banked for future phases

P3 Example
Multi-Tenant Research Facility

- Next Steps
  - Finalize Developer Agreement, Sign tenant Leases, Start Construction

Questions/Comments
P3 Projects

BEST PRACTICES

What works consistently?

Best Practices

- Involve the right people:
  - Facilities people—include your financial experts in project discussions early
  - Financial people—stay informed, attend planning meetings
- Consult peers, subject matter experts, and people with institutional history to validate assumptions

Best Practices (continued)

- Be honest with yourself and your stakeholders.
- Have a clear delineation of roles and authority.
- Monitor everything and discuss concerns early.

Best Practices (continued)

- Check references
- Expect problems and model a can-do attitude.
- Have sufficient contingencies
- Everyone must own the Timeline

Thank you for you coming. Questions?