

The Nuts & Bolts of Public-Private Partnerships

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ABOUT UT DALLAS

- Nearly 27,000 students
- Added more than 3.5 million sq. ft. of new or renovated interior space to campus since 2007
- Challenge: Matching infrastructure to rapid enrollment growth



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What is a P3?

- A contractual arrangement between a public agency (federal, state or local) and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public. In addition to the sharing of resources, each party shares in the risks and rewards potential in the delivery of the service and/or facility.

(National Council of Public Private Partnerships)



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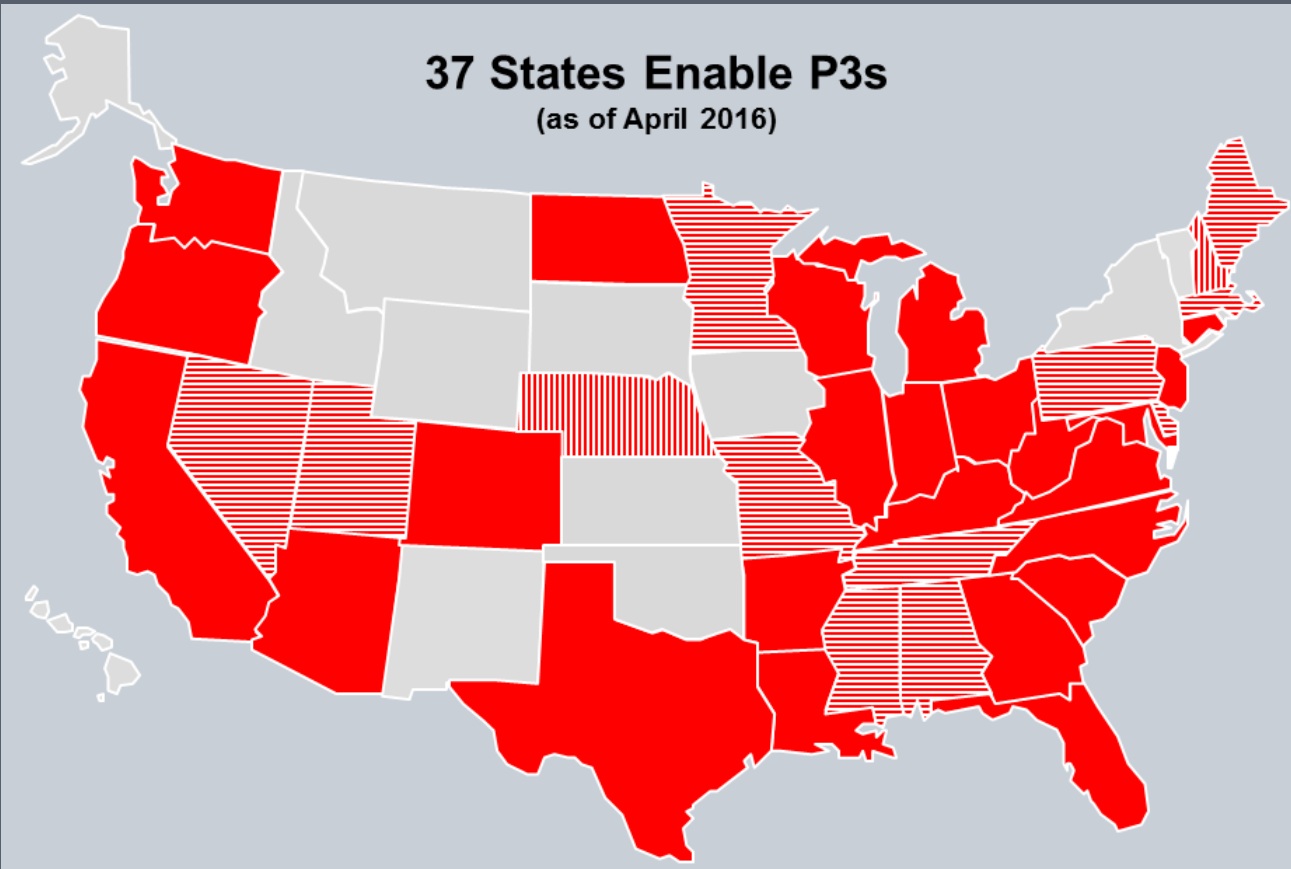
STATE LEGISLATURE




- Started with: Code of Virginia Title 56 Chapter 22.1 – The Public-Private Education Facilities and Infrastructure Act of 2002
- Goal: develop or improve infrastructure that serves a public need or purpose through a more timely and cost-effective process
- Texas Government Code Title 10 Chapter 2267 – The Public and Private Facilities and Infrastructure Act of 2011



37 States Enable P3s

(as of April 2016)



-  **Enabling vertical and horizontal P3s to some degree**
(23 states and DC)
-  **Enabling only vertical P3s to some degree**
(3 states)
-  **Enabling only horizontal P3s to some degree**
(11 states and PR)

Note: 36 states and DC authorize P3s by statute/regulations or limited partnerships. In these states, P3s may be authorized on a specific project(s) or project type.

([Source: Associated Builders and Contractors, Inc](#))



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TEXAS STATE LEGISLATURE GOALS

- Encourage investment in the state by private entities and other persons redevelopment of underdeveloped and underutilized properties, share risk and expense, and participate in cash flow performance
- Facilitate financing to expand and accelerate financing for qualifying projects that improve and add to public convenience
- Provide governmental entities with greater flexibility in contracting with private entities or other persons to provide public services through qualifying projects



AUTHORITY

- Texas Government Code Chapter 2267
- Higher Education System/Institution Governing Board may have authority through Texas Education Code
- Governing Board can choose to develop/ enter into P3 agreements pursuant to either authority if it has its own authority



P3 STRATEGY

- Goals
- Consideration
- Financing and Costs
- Location
- Transaction Structures



GOALS

- Define goals of a proposed transaction
- Goals can be implicit
- University's goals and counterparty's goals must mesh: WIN-WIN
- Consider how goals might change over time



CONSIDERATION

- Texas Constitution requires adequate consideration for assets/services provided by the State
- Counterparty needs a commercially reasonable return on investment for assets/services
- Quantify any non-monetary consideration



CONSIDERATION

➤ THERE IS NO FREE LUNCH



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FINANCING

- Often P3 decisions are “make or buy” decisions and should be thought of in such terms
- Off-balance sheet but often on-credit
- Debt capacity is affected – see Moody’s Guidance



MOODY'S GUIDANCE

- Project characteristics determine effect on university's debt capacity; and may be re-evaluated
- Location on campus?
- How strategic to the university?
- Core asset or function to the university?
- University involvement in operations? Guaranty?
- Transaction structure does not matter



COSTS

- Relative costs of financing?
- Effect of private party profit? State procurement requirements?
- Tax-exemption? State agencies must own and use for a mission purpose to be tax exempt
- Non-profit entities can be structured to maintain tax exemption – at a cost



LOCATION

- Location affects what can be done (market forces), and level of control needed by university
- The more core the location, the greater level of control needed by the university
- Uses must meet market criteria like any other real estate development



TRANSACTION STRUCTURE

- Structure must be legal, enforceable, and financeable – usually a lease
- Allocate risk and rewards to party that controls such risk or reward
- How does structure affect costs?
- Term is ideally driven by business needs –
TENSION: LONG TERM FOR FINANCING VS.
SHORT TERM FOR OPERATIONS



THE PROCESS

- Determine the objective or vision
 - What are we trying to create?
- Establish the mechanics
 - Do you own the land?
 - What type of mix-use development? (Public, Private with local agency, etc.)
- Initiate a market study
 - Housing – Who do you want your tenants to be?
 - Retail – must be able to sustain itself year-round



THE PROCESS

- Determine how to get infrastructure support
 - Are there any TIFs, CDAs, tax credits?
- Establish business and legal terms
- Establish operational terms
- Develop a periodic review process



KEEP IN MIND

- Must make business sense
- Needs to be part of a master plan
- A strong, dedicated project manager is required
- Consider management issues, such as traffic, safety and security
- Think long-term and protect yourself in your contract (i.e. rent reset)

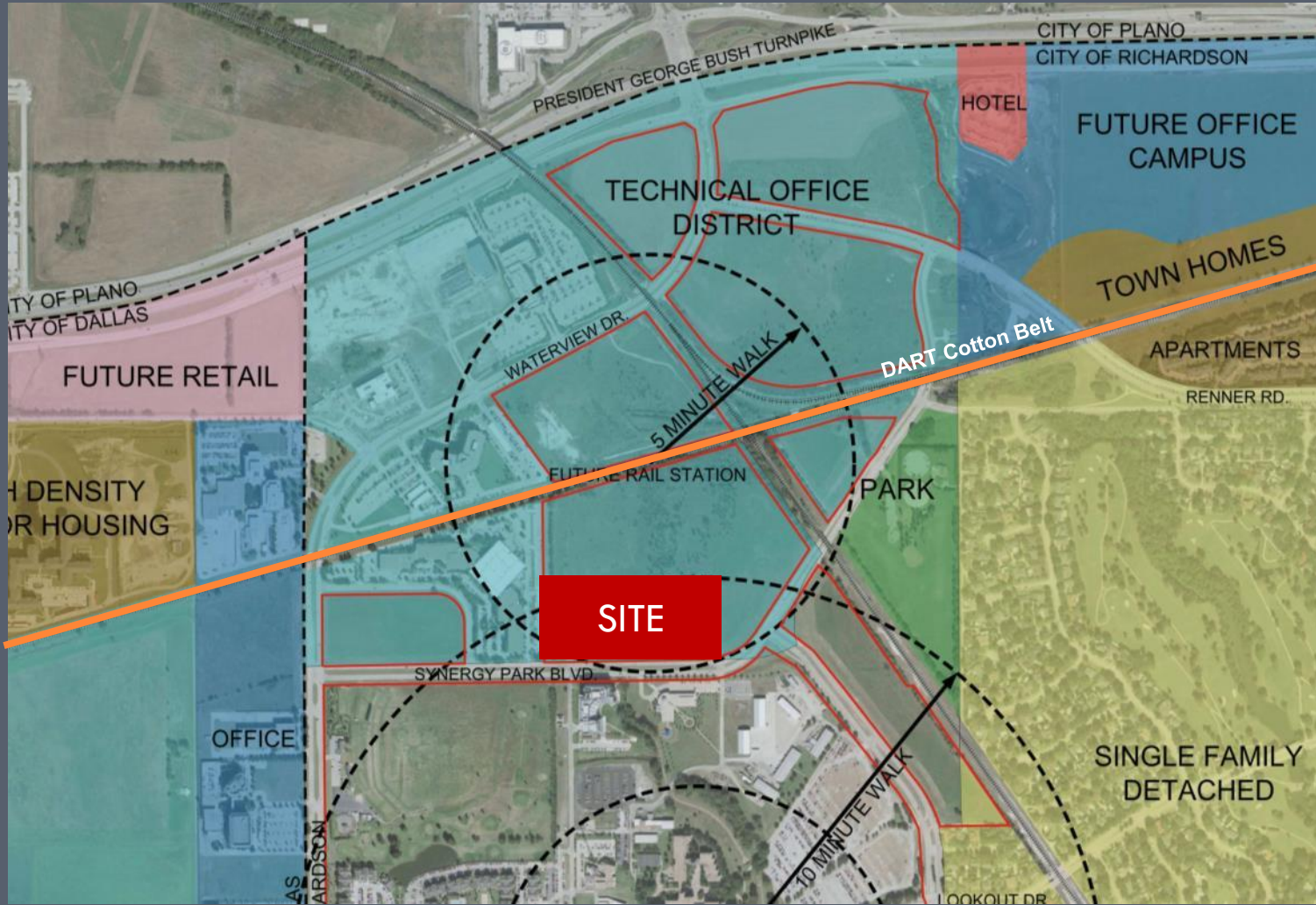


UT DALLAS VISION FOR NORTHSIDE

- 60-year land lease to co-developers
- Goal is to eventually have a north entrance to campus off of Waterview Pkwy. and George Bush
- Northside, a.k.a. “Comet Town,” to attract graduate students, young professionals, faculty and staff
- Apartments, townhomes and a mix of campus-oriented and mainstream retail, restaurants and entertainment
- Campus and community events – open space



AERIAL VIEW OF NORTHSIDE SITE

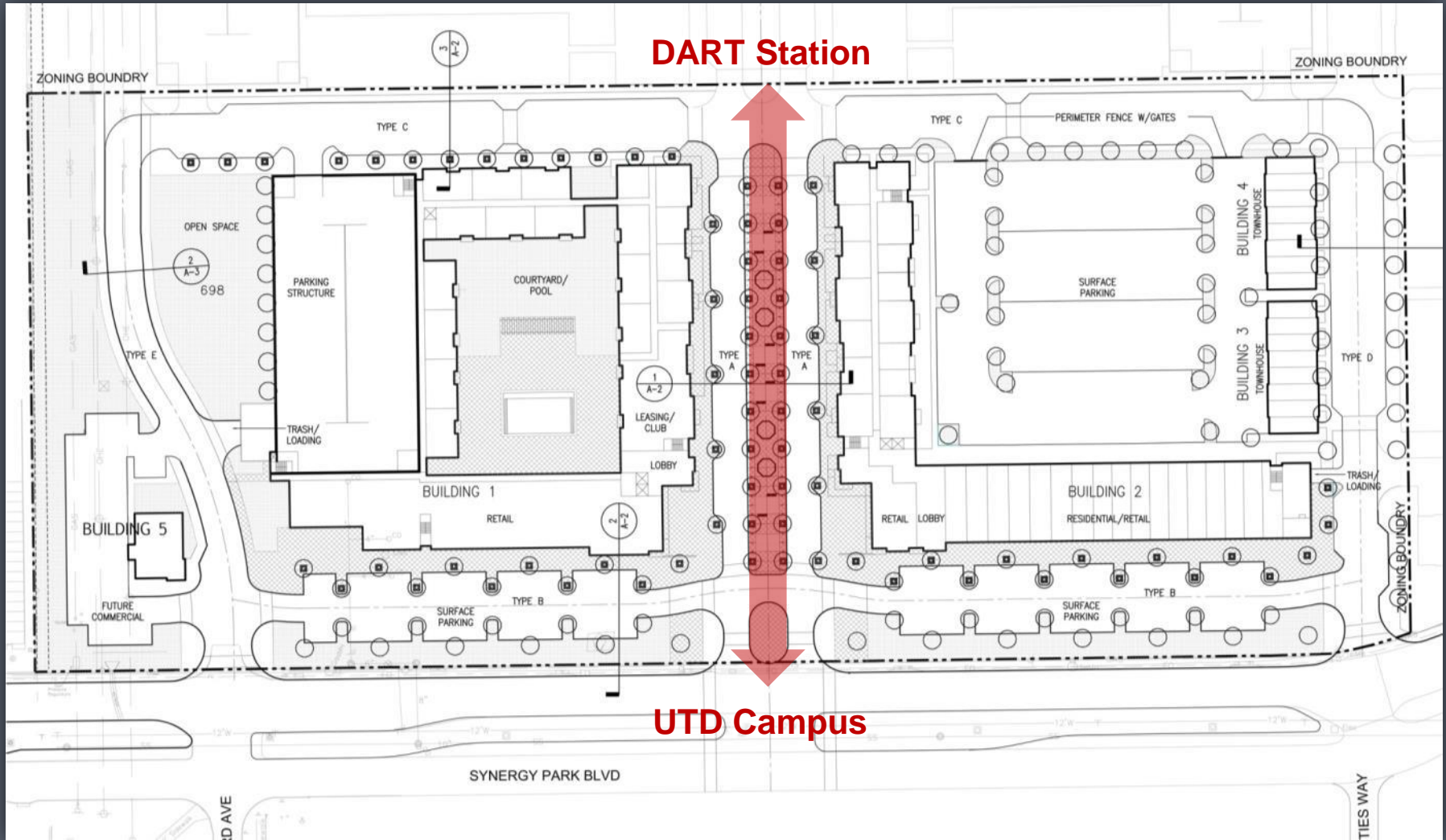


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PHASE 1 CONCEPT PLAN



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PROJECT CHARACTER



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SCHEMATIC ELEVATIONS



4 SCHEMATIC ELEVATION OPTION B @ RESIDENTIAL
SCALE: NTS



2 SCHEMATIC ELEVATION OPTION A @ RESIDENTIAL
SCALE: NTS



1 SCHEMATIC ELEVATION OPTION B @ RETAIL
SCALE: NTS



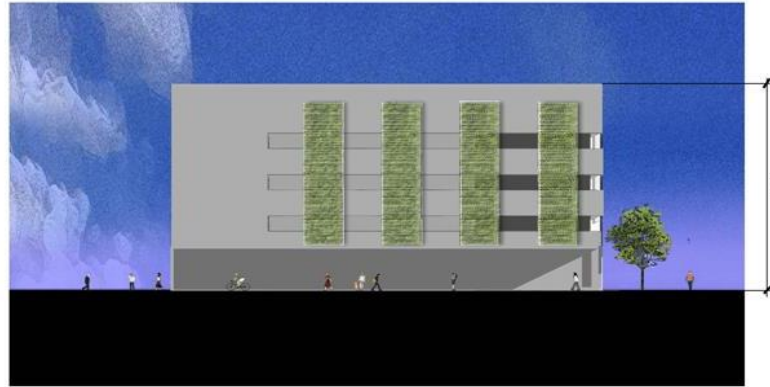
1 SCHEMATIC ELEVATION OPTION A @ RETAIL
SCALE: NTS



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SCHEMATIC ELEVATIONS



2 SCHEMATIC NORTH ELEVATION GARAGE
SCALE: NTS



1 SCHEMATIC WEST ELEVATION GARAGE
SCALE: NTS



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FRONT VIEW



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CURBSIDE VIEW



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FESTIVAL VIEW



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SPINE



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GROUND BREAKING



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CONSTRUCTION



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NORTHSIDE SPINE



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NORTHSIDE RETAIL



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NORTHSIDE INTERIOR



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NORTHSIDE CLUBHOUSE



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NORTHSIDE CLUBHOUSE



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NORTHSIDE CLUBHOUSE

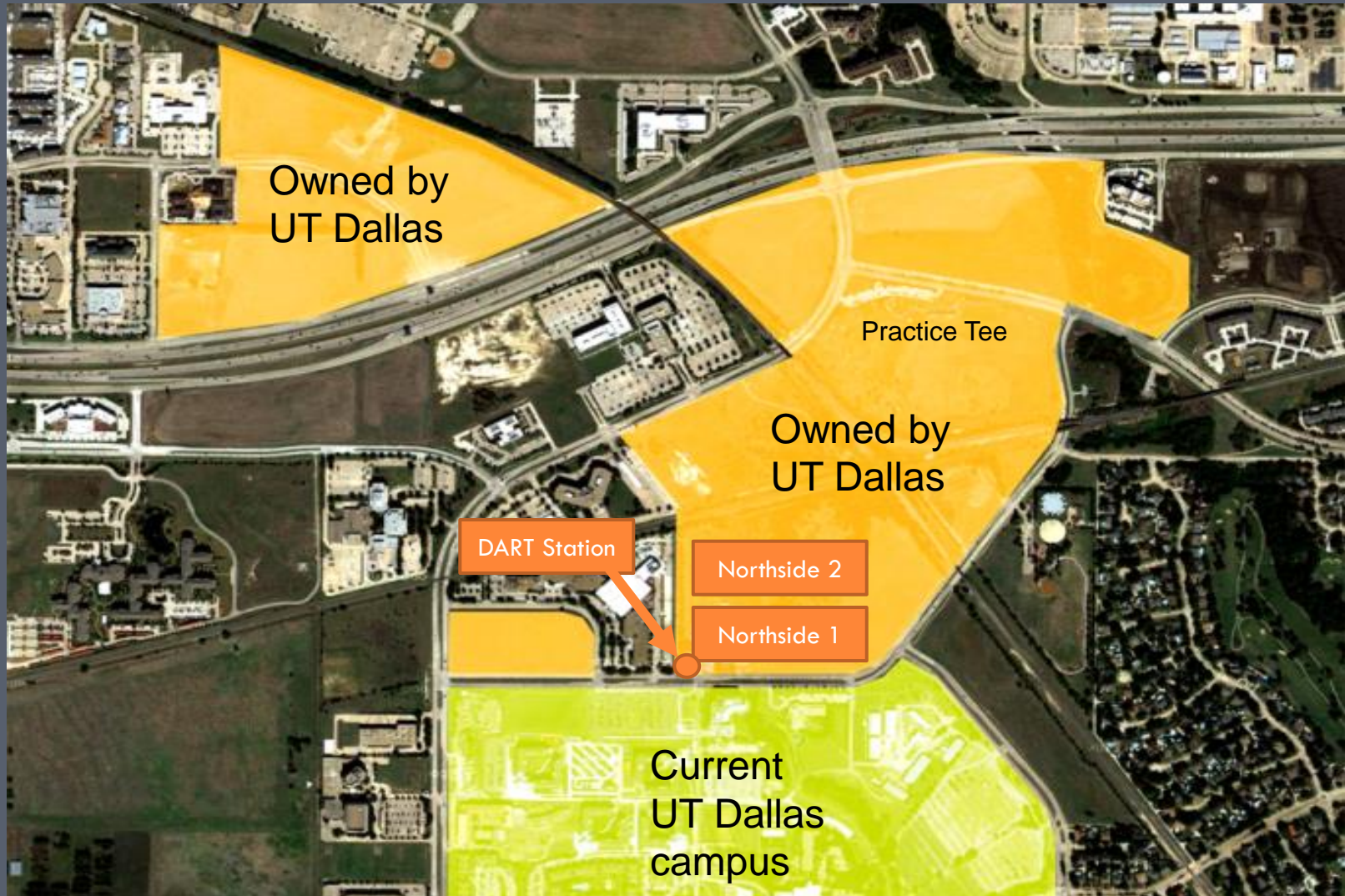


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REAL ESTATE NORTH OF CAMPUS



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LONG TERM AT NORTHSIDE

- DART Station (Transit-Oriented Development)
- Research Park
- Event Center
- Retail opportunities
- Community partnerships



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OTHER P3 EXAMPLES THROUGHOUT UT SYSTEM



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HILTON GARDEN INN - UTEP

- Ground Lease by UTEP of land on campus edge in 2004 for a hotel to High Desert Investors
- 150-room Hilton Garden Inn with conference facilities
- The hotel has been successful, with occupancy over 70%
- Provides an amenity to the university



HILTON GARDEN INN - UTEP



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WATERVIEW PARK APARTMENTS – UTD

- Ground Lease by UTD of land in 1989 - 1995 for on-campus student apartments - 32 acres total
- Tenant refinancing limited rent and tenant's financial flexibility
- UTD later built its own student housing and managed separately - CONTROL
- UTD bought out the leasehold interest in 2010



WATERVIEW PARK APARTMENTS – UTD



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FITNESS CLUB – UTHSC-SA

- Lease of shell building by UTHSC-SA in 2007 for a fitness club
- UTHSC-SA students are all members of the fitness club in lieu of a campus gym
- The club has non-student members, making for a bigger pie and creating sufficient scale
- Provides an amenity to the university



FITNESS CLUB – UTHSC-SA



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GROUND LEASE RETAIL – UT AUSTIN

- Ground Lease by UT of land in 2003 to SPG Arborwalk for a retail center developed by Simon Property Group
- Near Pickle Research Center, 7 miles from the main campus
- No programmatic aspect; high occupancies; income to the university is goal



GROUND LEASE RETAIL – UT AUSTIN



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Questions?



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