

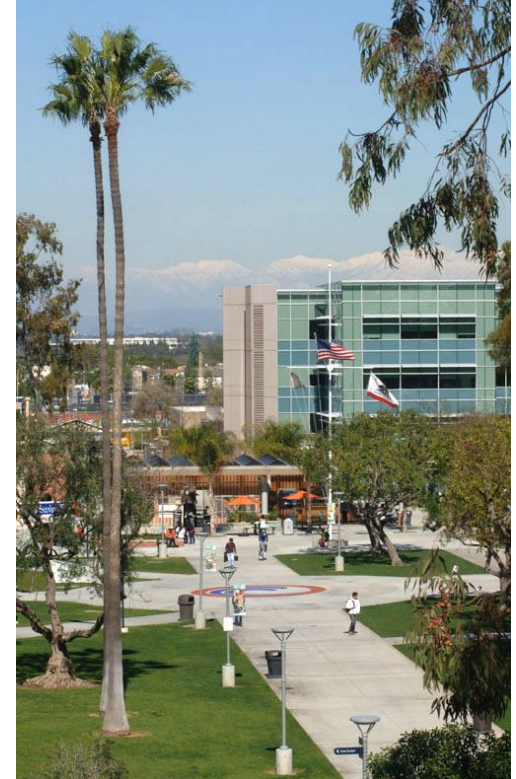
Examining the Opportunities and Risks of Public-Private Partnerships

Fall 2018 ACBO Conference

Introduction

- Orange Coast Junior College District established in 1947
- Coast Community College District expanded to include Golden West College (1966) and Coastline College (1978)
- Serves 105 square miles in Orange County including 10 suburban coastal communities
- Weather, beaches, and attractions make our location a popular destination
- Community development activities limited to “in-fill” and redevelopment projects
- Median home prices are approximately \$750,000
- Current rental vacancy is less than 2%
- Why leave?

People want to come here, but we have no place to put them!



Presentation Overview



From concept to completion Coast Community College District will have invested approximately six years in developing our P3 Student Housing project. This presentation will review fundamentals, examples, and lessons learned in four subject areas:

- Is P3 For Me? (Exploring Project Feasibility)
- Selecting a P3 Partner
- Putting together a viable deal (Pre-development Phase)
- Where are we going? (Executing the deal)



Is P3 for Me? (Exploring Feasibility)

- 3.5 years -

Overview of P3



- A public-private partnership (P3) is a cooperative arrangement between two or more public and private sectors, typically long-term in nature
- P3 can cover hundreds of different types of contracts with a wide range of risk allocation, funding arrangements, and statutory requirements
- Typically involves a private entity financing, constructing, or managing a project in return for a promised stream of payments from a government entity or from users over the life of the project

If you have done one P3 deal...you have done one P3 deal!

P3 in Higher Education



- Student Housing
- Athletic/Event Space
- Research Facilities
- Food Services and Coffee Houses
- Parking Structures
- Student Unions

Any project in which a revenue component creates a “realistic opportunity for positive return.”

Preliminary Feasibility (14 months)



- Conduct a preliminary feasibility study to determine “realistic opportunities for positive return.”
- Coast conducted a comprehensive Asset Management Study
- Student Housing at Orange Coast College, amongst other projects, were suggested as potential opportunities
- Results of this study were presented to BOT at which time the Board directed further exploration of Student Housing project

After a preliminary financial feasibility assessment, it became apparent that Coast wanted the value of a P3 project to extend beyond just finances

LESSON #1: CHANGING OUR MINDSET

- ◆ Educational Outcomes
- ◆ Enrollment Management
- ◆ Campus Community
- ◆ Financial Performance



Establish a set of strategic goals and objectives that addresses student needs, institutional mission, and financial viability

Develop Strategic Drivers



- ◆ Enhance the campus experience for all students, faculty and staff.
- ◆ Create a campus location supportive of a 7-day a week campus.
- ◆ Achieve completion of student housing by summer 2020.
- ◆ Create a financing mechanism that enables a ground lease between 20 and 30 years.
- ◆ Provide positive cash flow for OCC to support indirect costs of adding housing to campus.
- ◆ Create substantial programmatic and spatial ties to academic and student services to support student development.
- ◆ Support OCC's Campus Facilities Master Plan.
- ◆ Create opportunities for increased pedestrian and bicycle access to the Project.
- ◆ Achieve significant facility and operational savings from efficient design.
- ◆ Maintain student housing affordability within the local market.

Strategic Drivers (cont.)

- ◆ Provide economic development for the Costa Mesa community.
- ◆ Provide a sustainable, environmentally appropriate facility that is energy and water efficient.
- ◆ Minimize the cost and funds required to develop, design, construct, finance, operate and maintain the Project.
- ◆ Maximize, to the extent reasonably practicable, the use of firms and entities resident in Orange County.
- ◆ Seek private sector innovation and efficiencies, and encourage financing and design solutions that respond to actual and anticipated environmental concerns, permits and commitments.
- ◆ Enhance the College's strategic goal of being a preferred destination for learning.
- ◆ Provide broad based services to keep students on campus.
- ◆ Integrate with non-residential life activities / facilities.
- ◆ Minimize risk to the District's operating budget and obligations.

Detailed Feasibility (30 months)



- Constituent Meetings, Focus Groups, & Intercept Interviews
- Qualitative & Quantitative Surveys
- Product Analysis & Local Housing Market Analysis
- Zoning and Entitlement
- Financial Analysis
 - Use strategic drivers and risk tolerance to narrow in on potential P3 structures
 - Long-term Revenue Projection
 - Underwriting Research
 - Indirect & Operational Cost Impact

Financial Analysis



18 different legal and financial P3 structures were identified based on the project Strategic Drivers. Institutional risk tolerance further reduced our study to 5 options.

Risk Assessment



	College	Aff. 501(c)(3)	Nation. 501(c)(3)	Debt / Equity	100% Equity
Risk Profiles					
Occupancy Risk	Highest	High	Moderate	Low	Low
Construction/Schedule Risk	High	Moderate	Moderate	Low	Low
Financing Risk	Low	Low	Low	High	Moderate
Return/Impact Profiles					
Project Development Control	High	Moderate	Moderate	Low	Low
Financial Return to College	Highest	High	High	Low	Moderate to Low
Operational Control	Highest	High	High	Moderate to Low	Moderate to Low

LESSON #2: EMPOWER YOUR EXPERTS

- ◆ You won't have all the answers! Development advisors have vast experience in P3 ventures
- ◆ Allow advisors to work directly with constituents, answer questions, and address concerns
- ◆ Provide updates to constituents early and often in the process
- ◆ Provide continual reassurance and steadily increase support in an otherwise unfamiliar endeavor

Changing institutional culture takes time, and you must take every opportunity to make constituents more comfortable with the idea

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Selecting a Private Partner

- 10 months -

Procurement Options



- Sale or Lease with Option to Purchase (Ed Code §81360 et seq)
 - Subject to all requirements under Surplus Land Act
- Ground Lease (Ed Code §81378 et seq)
 - Pass a resolution (2/3rd vote) establishing a minimum price and terms
 - Set a time not less than 3 weeks thereafter at which sealed proposals will be received and considered by the Board
 - “Sealed proposal that is the highest” shall be accepted (or reject all)
 - Board of Governors may grant a waiver from requirement to accept highest responsible bid
- Joint Occupancy (Ed Code §81393 et seq)
 - “Let to any private person, firm, or corporation...”
 - Must provide construction or improvement for the joint use of District and private entity
 - Resolution to declare the Board’s intent to consider proposals not less than 90 days thereafter
 - Board may “select the proposal which best meets the needs of the District”

Selection Process



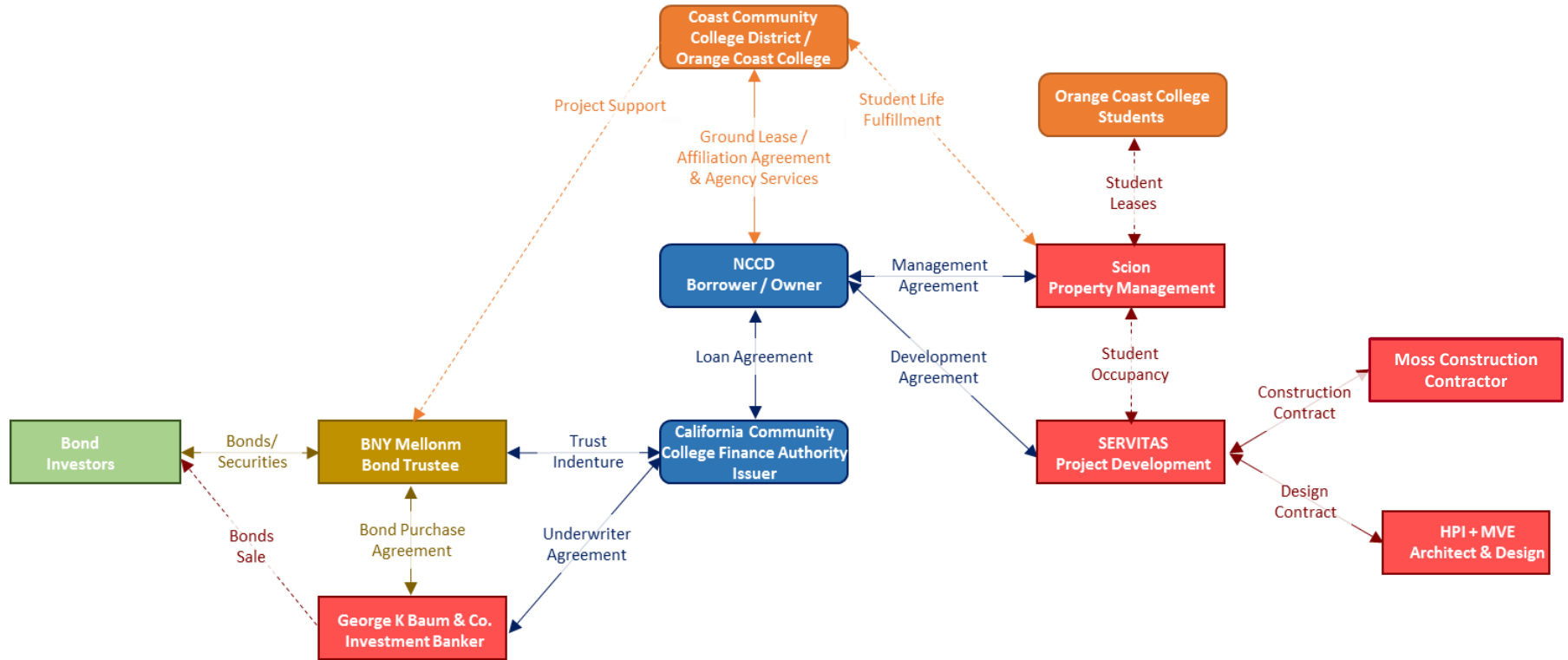
- Two-step process:
 - RFQ
 - Development history, staffing plan, case studies (references), development approach
 - Interview to determine “best fit” with College objectives
 - Shortlisted from 10 to 4 teams
 - RFP
 - Conceptual Plans/Cost Estimate
 - Financial Model
 - Operations Plan
 - Confidential Pre-proposal Meetings
 - Site Visits

Key Considerations



- Single Developer vs. Development Team (local expertise)
- Experience with transitioning from commuter to residential population (UNLV)
- Positive feedback from other institutions
- Seamless integration into existing campus operation

Coast Structure



Coast Structure (cont.)



LESSON #3: UNDERSTAND THE 4Ps

- ◆ Problem: What are the needs that we are addressing?
- ◆ Project: How is the project going to solve the Problem?
- ◆ Priorities: How does it support the strategic goals of the institution?
- ◆ Politics: How does it impact the political environment?

This will be a complicated deal and each party has needs to satisfy. You're preferred partner should demonstrate an understanding of the 4Ps for your project.

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Putting Together a Viable Deal (Pre-Development)

- 20 months -

Pre-Development Agreement



- Sets forth terms and conditions for all activities prior to the financial close of the project (parties, schedule, insurance, etc.)
- Pre-Development Costs (\$6M)
 - Design & Engineering Costs
 - Permit Fees
 - Legal Fees
 - Financing/Title Fees
 - Pre-Construction (i.e. estimating, V.E., constructability)
 - District Staff Costs
 - District Development Advisor Cost
- All pre-development expenses are reimbursed at financial closing

Pre-Development Agreement



- Termination
 - District Termination for Convenience: District to reimburse developer for all pre-development expenses to date (NTE \$4M)
 - Breach of Contract: Developer to reimburse District for expenses (NTE \$2M)
 - Project Viability: If the parties mutually agree that the project is not viable:
 - (1) District shall pay 50% of the developer's incurred expenses
 - (2) Developer shall pay 50% of the District's incurred expenses
 - (3) District does not have obligation to pay Development Fee unless it wishes preserve the right to move forward without developer, at a later date.
 - (4) District agrees to reimburse developer 50% of its prorated development fee for the transfer of plans, designs, and other work product.
- Agree on a monthly expense schedule and cumulative pre-development costs for use in the event of termination
- Set committee, Cabinet, and Board approval milestones consistent with the pre-development expense schedule

Design



Design (cont.)

Orange Coast College Student Housing is one of the first significant on-campus student housing in the California Community College system, providing an affordable housing option for students.

Project Includes

Residence:

- 323 Units
- 814 Beds

Amenities:

- Study lounges
- Mail center
- Exterior courts to enhance student's experience



Design (cont.)



LESSON #4: Consider this a “school” project

- ◆ DSA jurisdiction: “Dwellings for pupils or teachers on the school site”
- ◆ Prevailing Wage: Commercial, residential, or not at all
- ◆ Construction Costs: Construction is procured as an open book GMP. Economic risk is shared until the GMP is established
- ◆ Unforeseen Conditions: How good are your as-builts?
- ◆ Public Relations: The school, not the developer, will be dealing with public comments, questions, and concerns

LESSON #5: Investment Grade Rating is a Must

- ◆ Leverage your Government Bond Rating
 - ◆ BB (Speculative) vs. AA (High Grade)
 - ◆ Investment grade (BBB-) yields \$500,000 savings in annual debt service
- ◆ District must bear some risk in supporting the project


Live-on Requirement	Require certain student groups, honors students, international students, out-of-state to live on-campus to account for 10% of beds
Subordination of Electrical Expenses	Subordinating electricity to debt service will strengthen the debt coverage ratio. District will receive reimbursement of this expense only after debt service payment is received
Leasing RA Beds	District directly leases Residents' Assistant rooms, contributing a limited revenue stream in support of the Project
Short-term lease guarantee	District to make a pledge, with a cap of 25%, to lease beds should the debt service coverage not be satisfied. This provision terminates two years after stabilization

- ◆ S&P Bond Rating Evaluation Service (RES)

Management Agreement



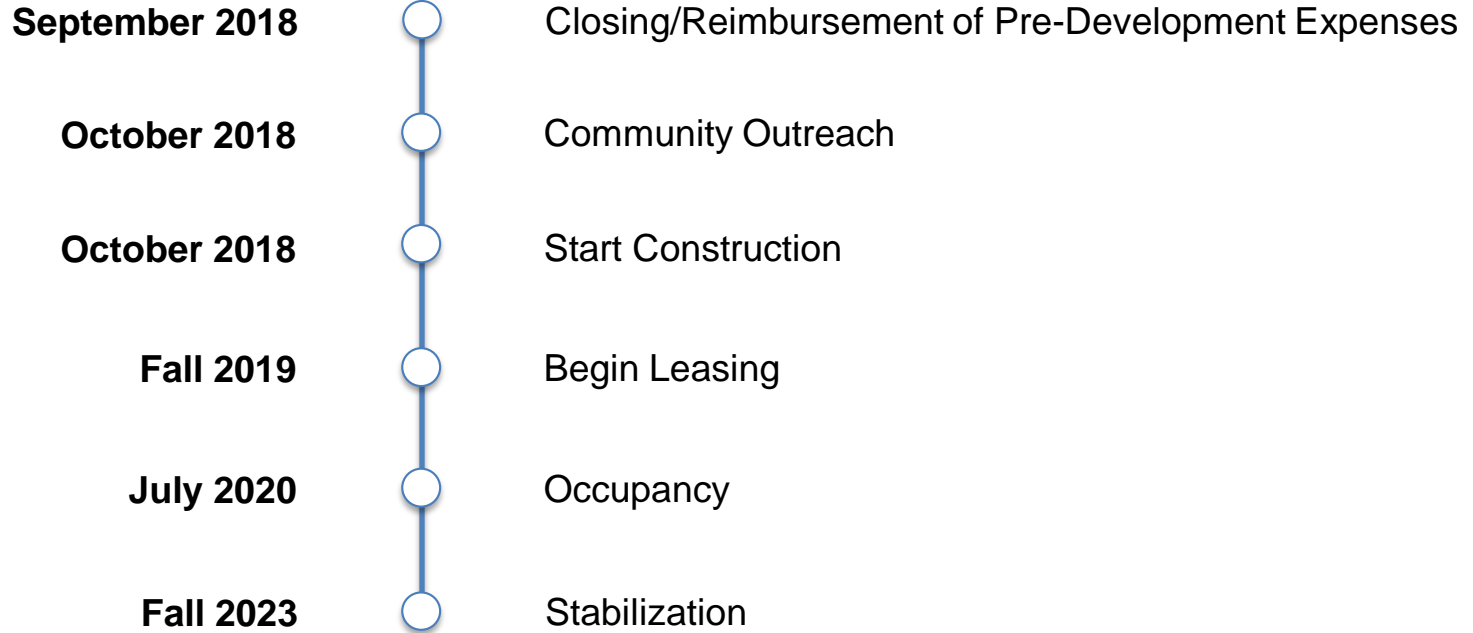
- District is not a signatory to the Property Management Agreement, but should be a “consenting” party
- Key Provisions:
 - Collection of Rent / Enforcement of Collections
 - Lease Requirements (term, security deposits, parking, roommate pairing, etc.)
 - Marketing Duties
 - Personnel Requirements
 - Maintenance and Care of the Property
 - Housing Rules and Regulations
 - Administrative Duties and Reporting

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Where are we going?
(Executing the deal)

-22 months-

Development Timeline



Mitigating Financial Risk



- Financial proforma should include the following:
 - Conservative Occupancy Assumption (80%)
 - Annual Repair & Maintenance Budget
 - “Turn Cost”
 - Construction Contingency
- Establish Special Revenue Account
 - Deposit Reimbursement for Pre-Development Expenses
- Establish Reserve Account
 - Until Short-term Lease Guarantee Expiration
 - After Short-term Lease Guarantee

Thank you



- Dr. Andy Dunn, Vice Chancellor of Administrative Services & Technology
- Jerry Marchbank, Senior Director Facilities Planning and Construction
- Dr. Rich Pagel, Vice President of Administrative Services – Orange Coast College