From higher education to social infra

Ila Patel

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The P3 market in the US is now no longer limited to just the transport sector. It is not even about individual states anymore either. Over the last few years, the focus has shifted to universities procuring student housing projects and setting in motion the potential for other types of social infrastructure projects.

In fact, the higher education has been procuring DBFOM projects – or some element of this model – for many years. But it is only recently that the sector has been subject to increasing exposure as deals increase in size and complexity.

Montclair State University started the trend in 2011 when it sought a private partner to develop housing facilities using a P3 model. Capstone Development Corporation won the project, which was financed through $211 million in tax-exempt bonds issued by the New Jersey Economic Development Authority.

According to research from Brailsford & Dunlavey, a programme management and development advisory firm, the number of deals that have actually reached financial close have been “unpredictable”.

The firm has a database of tracked projects – not including mega deals – that have reached financial close from 2014 onwards with the numbers standing at:

- 2014 – 31 deals
- 2015 – 19 deals
- 2016 – 27 deals
- 2017 – around 19 deals

Capex for projects has varied. “In 2014, the average deal was $82.6 million, before dipping to $72.1 million in 2015 and $66.9 million in 2016. However, 2017 is way up – at $87 million, the highest figure yet. While these figures fluctuate, they do establish a range. We anticipate a 2018 average closing value in this range, between $65 million and $85 million,” according to Brailsford & Dunlavey’s Higher Education: State of the Industry Report 2017.

Public vs private

But how are universities able to procure projects using the P3 model given that many states have faced numerous challenges just to get P3 legislation passed?

Private universities have the authority to procure P3 projects, but procurement authority is very different for public universities. The context for each public university is unique, particularly given differences in state-by-state P3 enabling legislation. In addition, the approval process for public universities often includes a state level agency review and vote. Private universities are able to bypass state level approval processes.

Getting it right

There is a risk that universities facilities management teams – along with internal procurement and finance teams – would be tempted to run the P3 procurement themselves and try to save money on external advice.

Having experienced P3 advisers on board can ease the competitive dialogue with potential private sector partners, increase the project's visibility and competitive tension throughout the procurement.

JF Strayer, head of P3 advisory at Grant Thornton, says: "The limited supply and quality of financial and procurement P3 advisory services available to higher education authorities wishing to enter in to these alternative financing and procurement models may become the bottleneck for increasing the volume of P3 transactions in the industry."

Having experience advisers would result in increased chances of a procurement successfully reaching financial close, while achieving best value-for-money for the university. At the same time meeting a competitively priced rate of return for the private partner: the proverbial P3 "win-win" situation.

With the number of potential university P3 transactions on the rise, poorly managed procurements may erode value-for-money for the university and impact returns to the private partner.

To name but a few…

University projects that have successfully reached financial close include:

- Texas Women's University (TWU) in Denton
- Wayne State University
- University of Texas in Dallas
- University of California Merced
- University System of Georgia
- Texas A&M University
- Ohio State University
- Louisiana State University

Known projects currently in procurement include:

- North Carolina Central University
- Dartmouth College
- Florida Polytechnic University
- Illinois Institute of Technology (IIT)
- Purdue University
- University of Missouri – Kansas City (UMKC)
- Vanderbilt University

Mega projects

Brad Noyes, executive vice-president at Brailsford & Dunlavey, says that the P3 market has recently seen a number of successful projects so they can now see what is possible. "There is a lot more standardisation around larger, multi-asset class, revenue-generating deals which is creating a healthy project pipeline," he says.

The larger projects Noyes refers to are the University of California Merced campus redevelopment PPP (UC Merced 2020) and the Ohio State University's Energy Management project.

Plenary Group reached financial close on the $1.35 billion UC Merced 2020 project on 17 August 2016. The project was partially funded with around $663 million of privately placed bonds backed by about five institutional investors. Legal & General Retirement (LGR) provided a $100 million ticket in the 38-year facility and the university contributed $600 million.

The project was for the DBFOM of new academic, research and student accommodation facilities at the University of California's Merced campus.

The deal represented the largest social infrastructure PPP transaction to close in North America in 2016.

The other large-scale project was the $1.165 billion Engie North America and Axium Infrastructure-backed lease concession for the Ohio State University's utility and energy systems that reached financial close in July 2017.

MetLife Private Capital Investors was the lead investor on the private placement bonds that covered the majority of the debt financing. It was complemented with a short-tenor revolving debt facility backed by commercial lenders and sponsor equity.

Four commercial lenders provided a $140 million credit facility – comprising a $125 million revolving capex loan with a five-year tenor and a $15 million letter of credit facility. The lenders were:

- CIBC
- MUFG Bank
- RBC Capital Markets
- Santander

Engie and Axium provided about $175 million in total equity.

The winning consortium made an upfront payment to support academics in specific areas requested by students, faculties and staff during the bidding process. The proposal also included the establishment of a $50 million Energy Advancement and Innovation Center for energy research and technology commercialisation.

Noyes adds: “I think the political dynamic is interesting. Given that a larger number of projects are reaching the $150 million to $1 billion mark, they are now attracting increased regulatory scrutiny so this is an additional risk factor for firms interested in bidding for these types of projects.

“So far, it has not reduced industry interest in bidding for projects, they definitely remain interested, but they now need to accurately price political risk and ensure they have the necessary resources to tackle this.”

What next?

The universities sector is evolving beyond student accommodation and campus dining to finding smarter energy solutions and other broader campus initiatives. Indeed, this dynamic is also true beyond the universities sector, as we are seeing an increasing volume of social infrastructure projects emerging from states and municipalities going forward. This includes projects like courthouses, sports complexes and government facilities.

Agencies and state authorities must consider whether P3 is the right model to deliver projects. Rather than looking at the upfront costs a private partner can pay, authorities must instead look at the entire life cycle of the project and the benefits and costs associated with that deal.

It is an exciting time if you are active in the US P3 space. The market looks a whole lot different from eight years ago, when all you saw and heard were transport P3 projects. Given that the US has huge infrastructure needs and state governments are severely constrained, partnering with the private sector makes economic sense.