
2016 AUA Case Study

How To Become A Piñata

KU and the P-3 Process

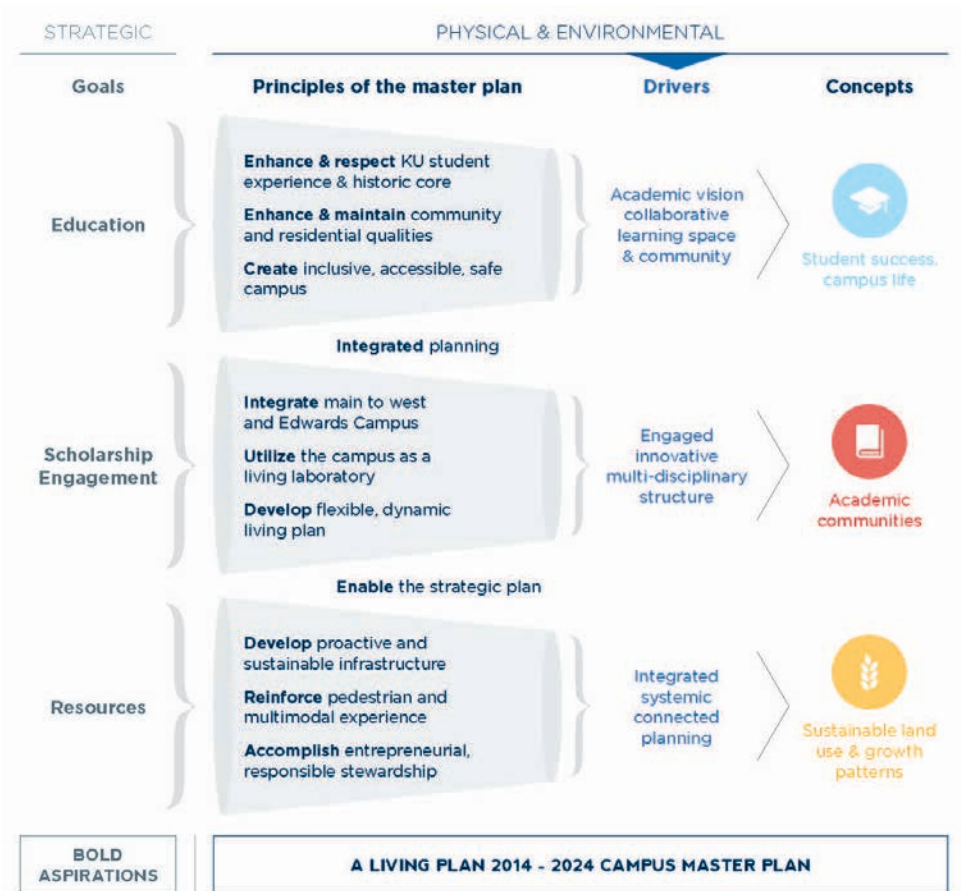
June 2016



Campus Master Plan

PRINCIPLES, DRIVERS, & CONCEPTS

- 5th Major Master Plan
- Implementing the Strategic Plan
- Bold Aspirations - Goals
- Building for the Future

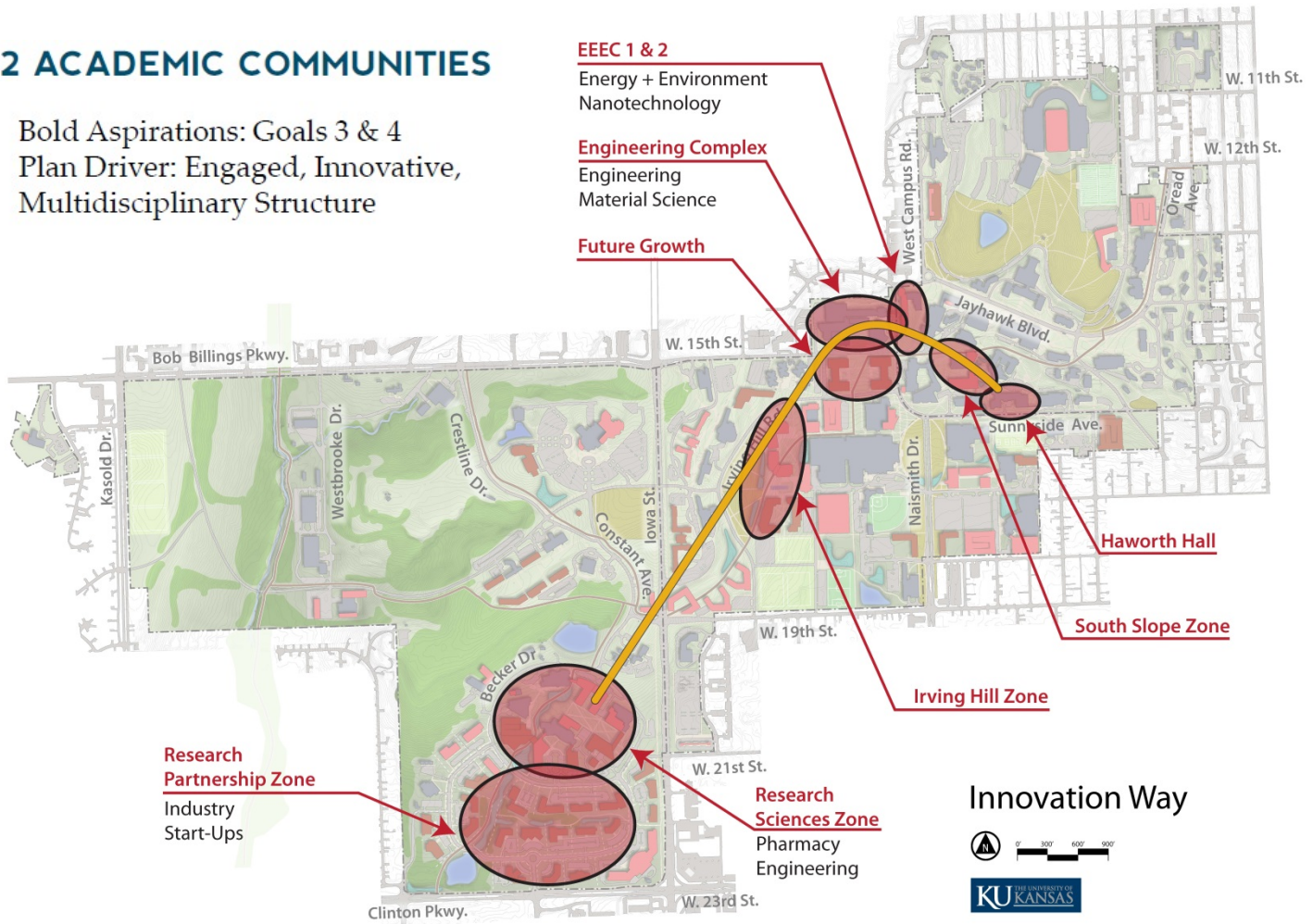


Innovation Way

CONCEPT 2 ACADEMIC COMMUNITIES



Bold Aspirations: Goals 3 & 4
Plan Driver: Engaged, Innovative,
Multidisciplinary Structure



“The Need” Lab Comparison

Malott Hall



GOAL



Projected Growth and Enrollment

- **Campus Master Plan – Goal 12% Growth in Ten Years**
- **Pharmacy – Health Care Initiative**
- **Engineering – Building on Excellence Initiative**
- **Out of State/International Recruitment - Increase Enrollment**



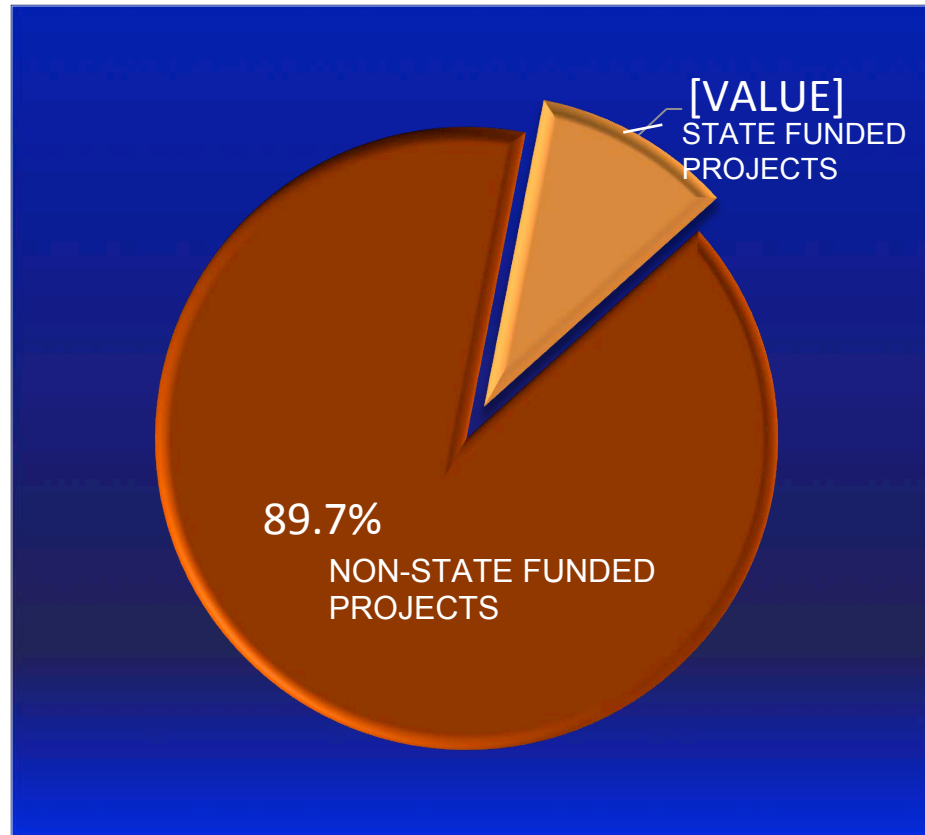
State of KU Facilities & Infrastructure

- BoR Reported Deferred Maintenance for KU - \$320 M
- BoR's Annual Allocation to KU for DM \$9.4 M
- KU's Historical Annual growth – Approx. \$30 M/yr
- VFA Report – In 20 years DM at KU exceed \$1.8 billion

Category	----- 20-Year Outlook -----		
	Total Computed Renewal Needs	Whole-Building Renovations (assumed 80% of total)	As-Needed Repairs & Rehabilitation (assumed 20% of total)
Centrally Funded Assets, R&R-Eligible	\$ 1,085,815,913	\$ 868,652,730	\$ 217,163,183
Centrally Funded Assets, R&R-Ineligible	\$ 243,691,226	\$ 194,952,981	\$ 48,738,245
Auxiliaries (R&R-Ineligible)	\$ 552,135,113	\$ 441,708,090	\$ 110,427,023
Affiliates (R&R-Ineligible)	omitted	omitted	omitted
Total	\$ 1,881,642,252	\$ 1,505,313,802	\$ 376,328,450

Historic Funding of Physical Development

27 Year History of Project Funding



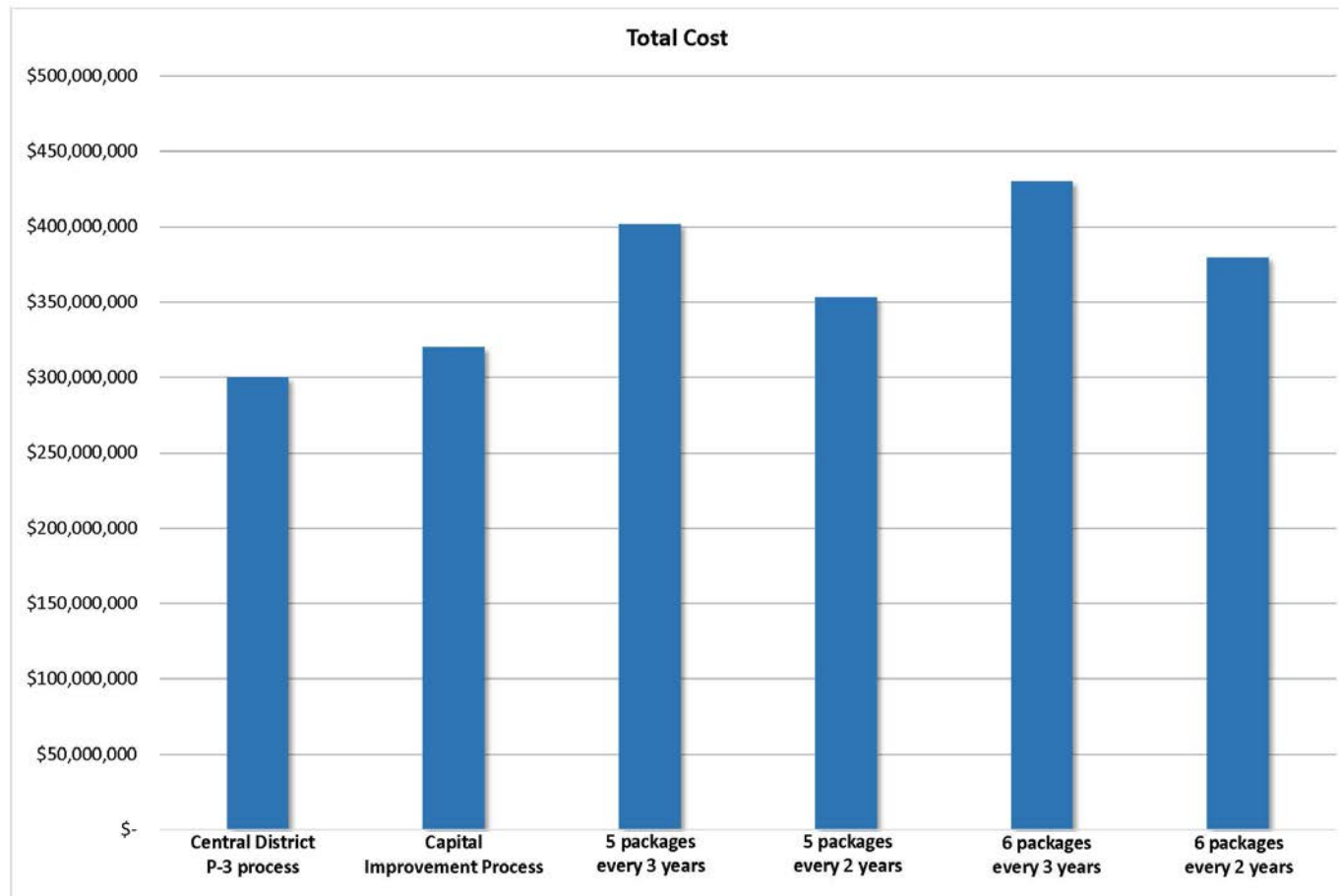
Cost Implications

- Inflation
 - \$33K to \$42K/Day
 - \$1 M to \$1.25 M/Mo.
 - \$12 M to \$15 M/Year
- Speed to reduce cost impacts



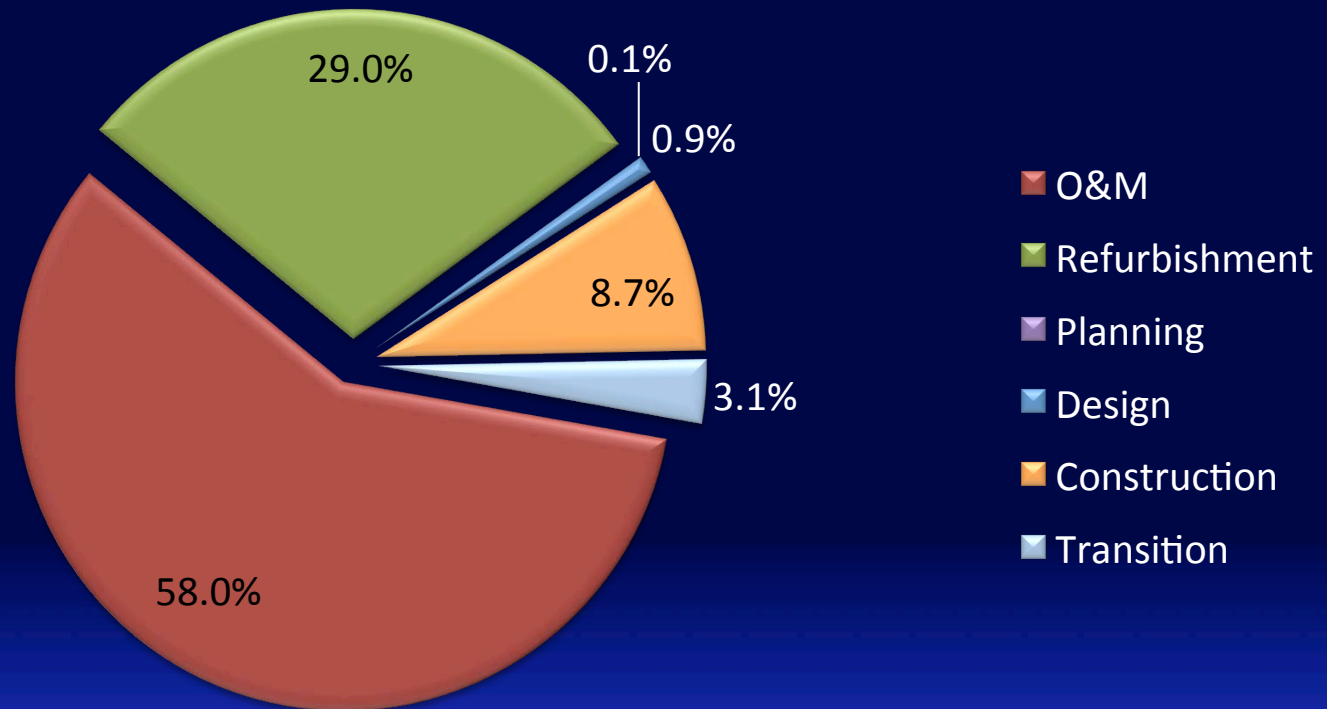
Historic Funding of Physical Development

- **Cost Comparison of Business as Usual vs. New P-3 Process**



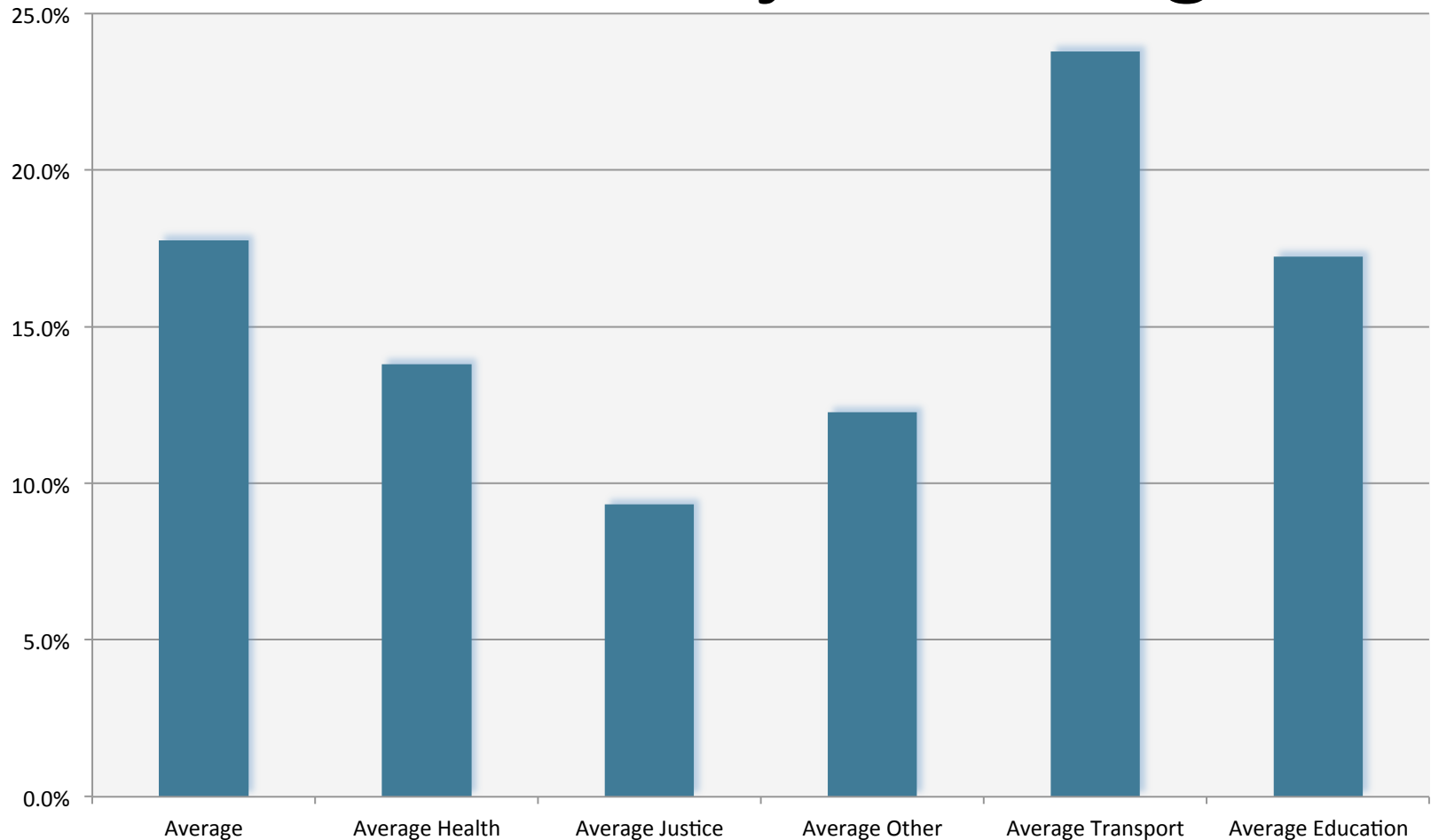
Tenets Related to Facilities

40 Year Facility Cost of Operations¹



Note 1: From July 2010 Healthcare BIM Consortium, An Organization consisting of Department of Defense Military Health System (DoD MHS), Department of Veterans Affairs (DVA), Kaiser Permanente (KP), and Sutter Health, representing \$26B of Healthcare construction

Documented Project Savings % ¹



¹ Net present value of savings as a % of Project NPC (Canadian experience) as per published value for money reports on the procurement agencies websites. Total number of projects: 51 with total net present value of \$31 Billion

Political Influences

- **Decreasing State Funding for Capital Improvements**
- **Governor/Legislature – Don't ask for funding or bonding authority. Operate like a business**
- **Board of Regents has authority to approve leases**
- **Board of Regents has authority to approve bonding for affiliated corporations**



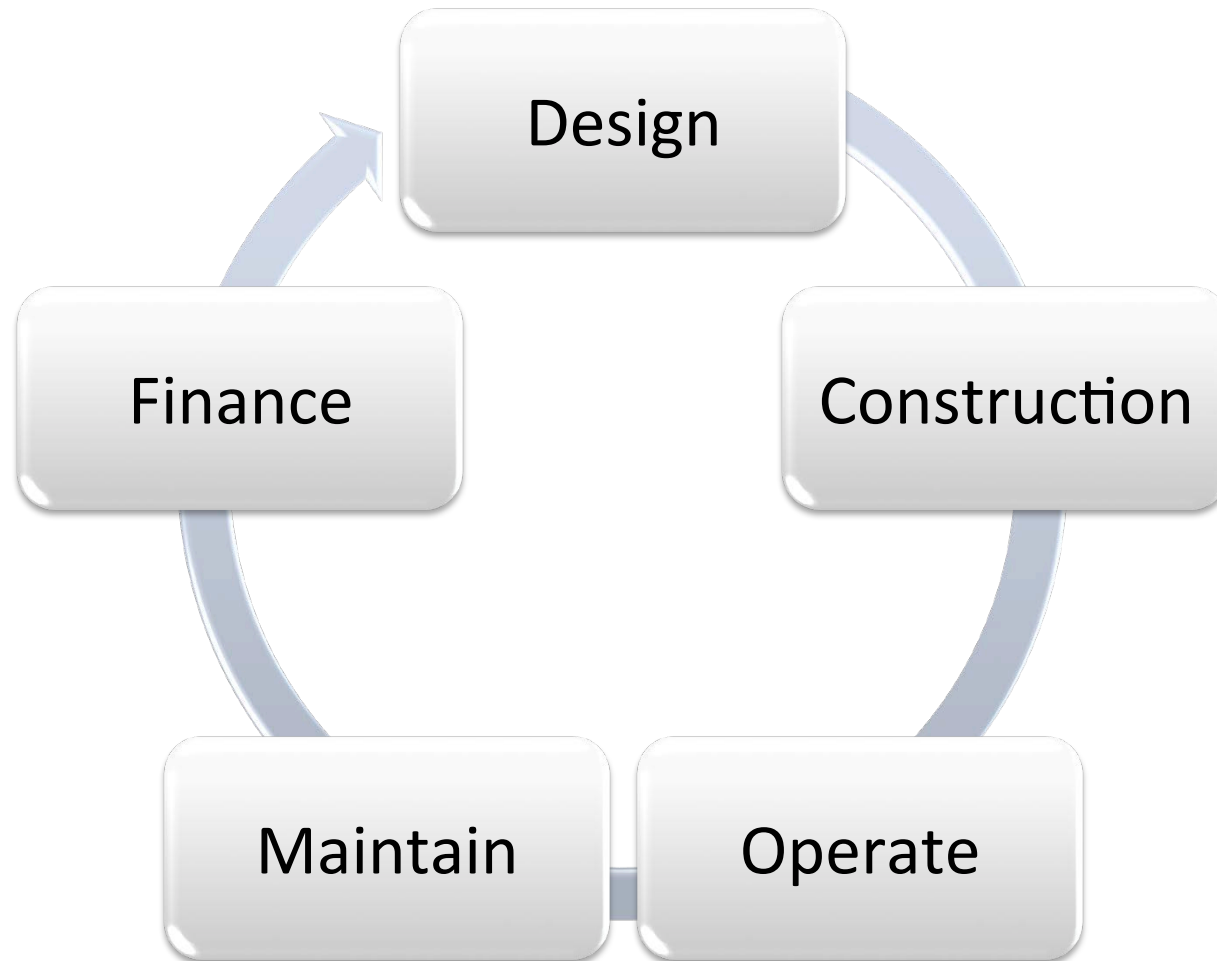
Structure Evaluations

Collaborative Discussion between KU, P3 Partner, and Outside Legal Counsel

- **Evaluation of Various P3 Financing Models**
- **State Statutes**
- **Non-Profit Corporation**
- **Legal Structure Has Been Vetted and Approved**



Public Private Partnership (P3) Model



Recapping the Process

Strategic Planning – Launched fall of 2010

Bold Aspirations/Changing for Excellence 2012 to Current

Science & Campus Master Planning – 2012 to 2014

P3 – Working Groups: 2014 to Current

Stakeholder / Legal

Finance

Programming / Site Planning

Housing

Parking & Infrastructure

Steering Committee / Executive Committee

KBOR / KS Legislature 2014 to Current

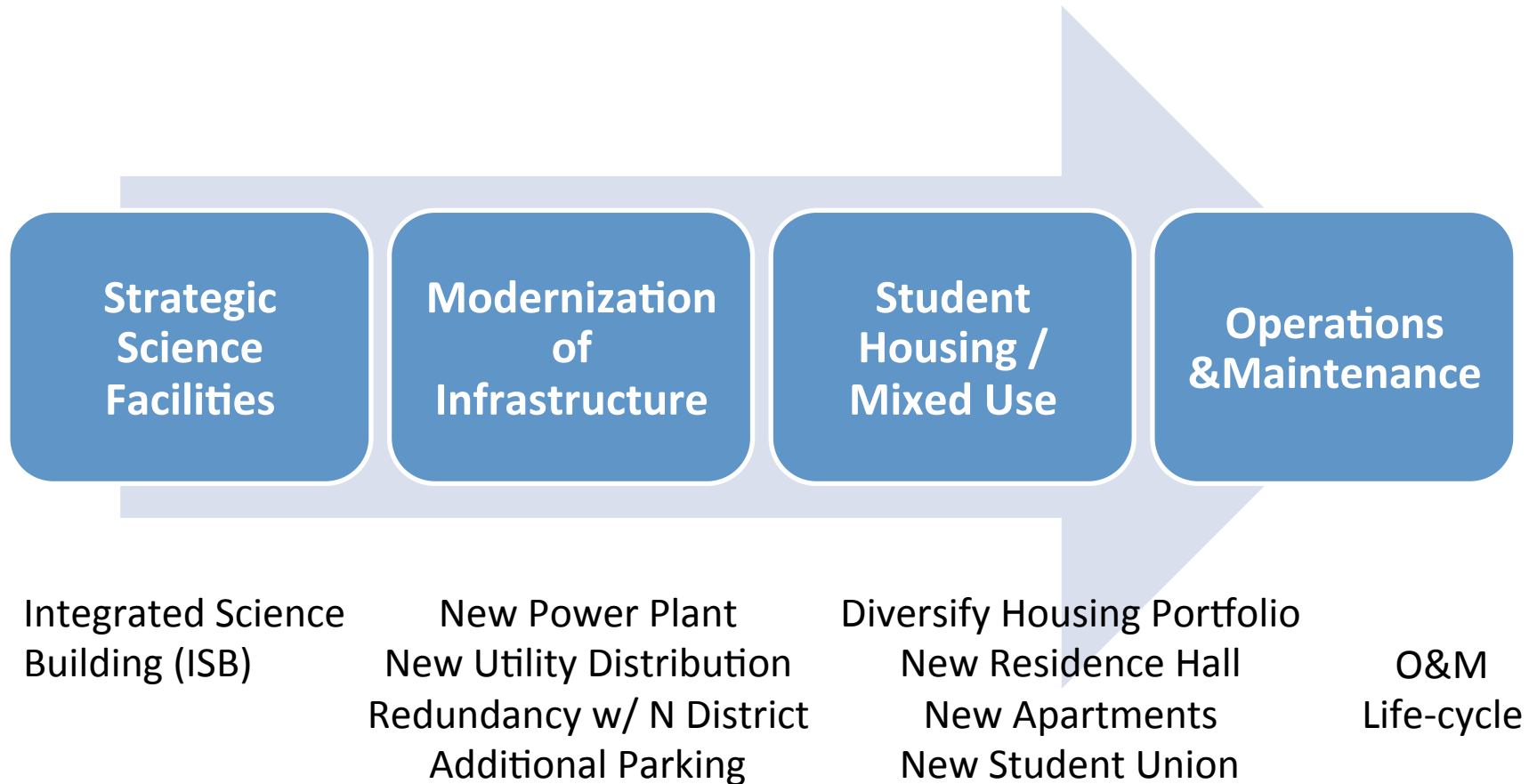
RFQ – 14 Proposals, Spring 2015

RFP – 3 Proposals, Summer 2015

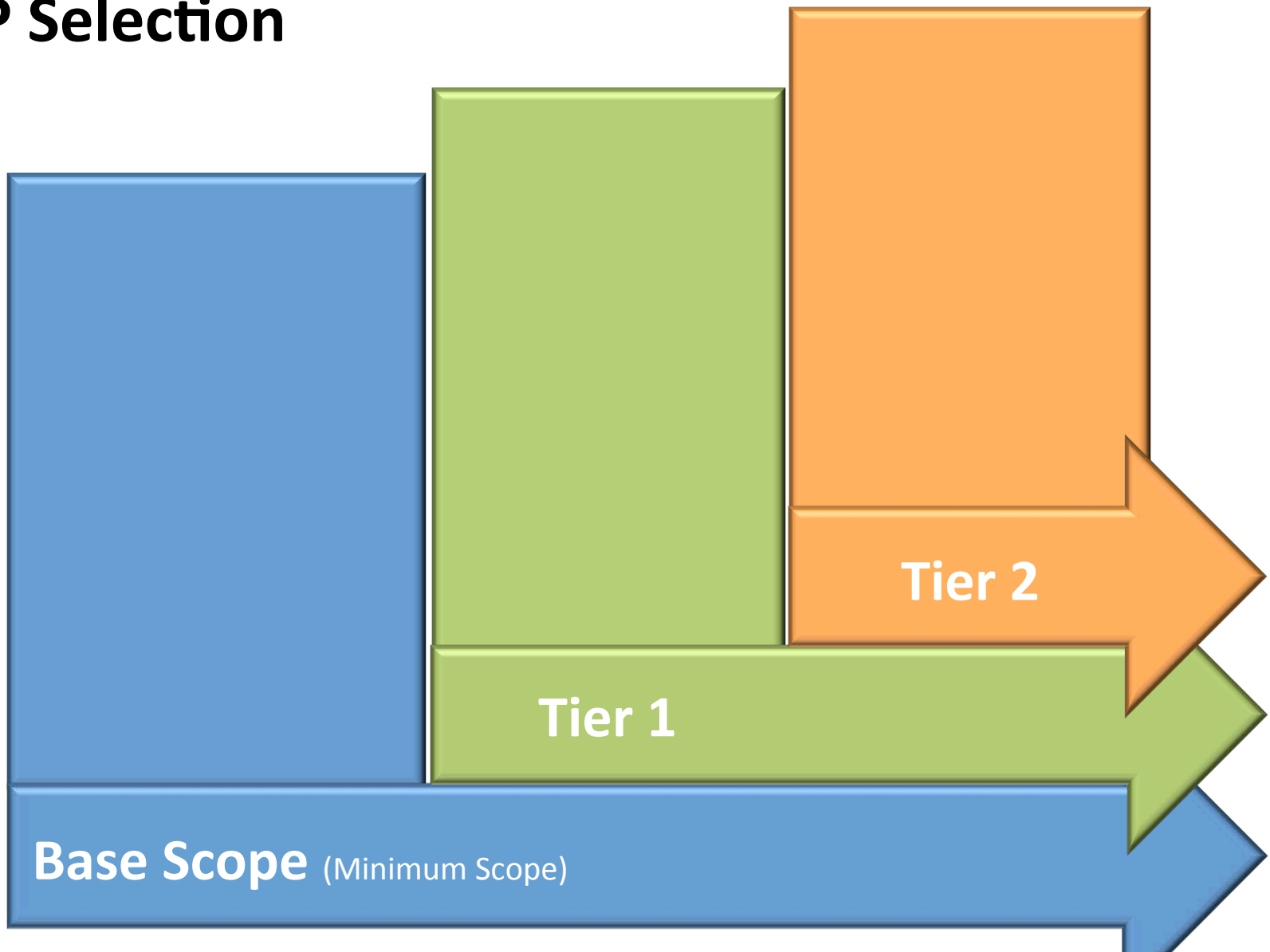
Project Review & Approval Process

- **KU Executive Committee** – Initial approval to explore – Spring 2014; Approval to issue RFQ/RFP-Fall 2014; Final approval to select P3 Partner June 2015
- **Board of Regents Fiscal Affairs & Audit** – May 2014, May 2015, October 2015, November 2015 and December 2015
- **Joint Committee State Building Construction** – September 2014, February 2015 and October 2015
- **Final KBOR (full Board) Approval** - Lease and proposed bond financing – November 2015

Project Goals / Project Scope



RFP Selection



How the P3 Partner Was Selected

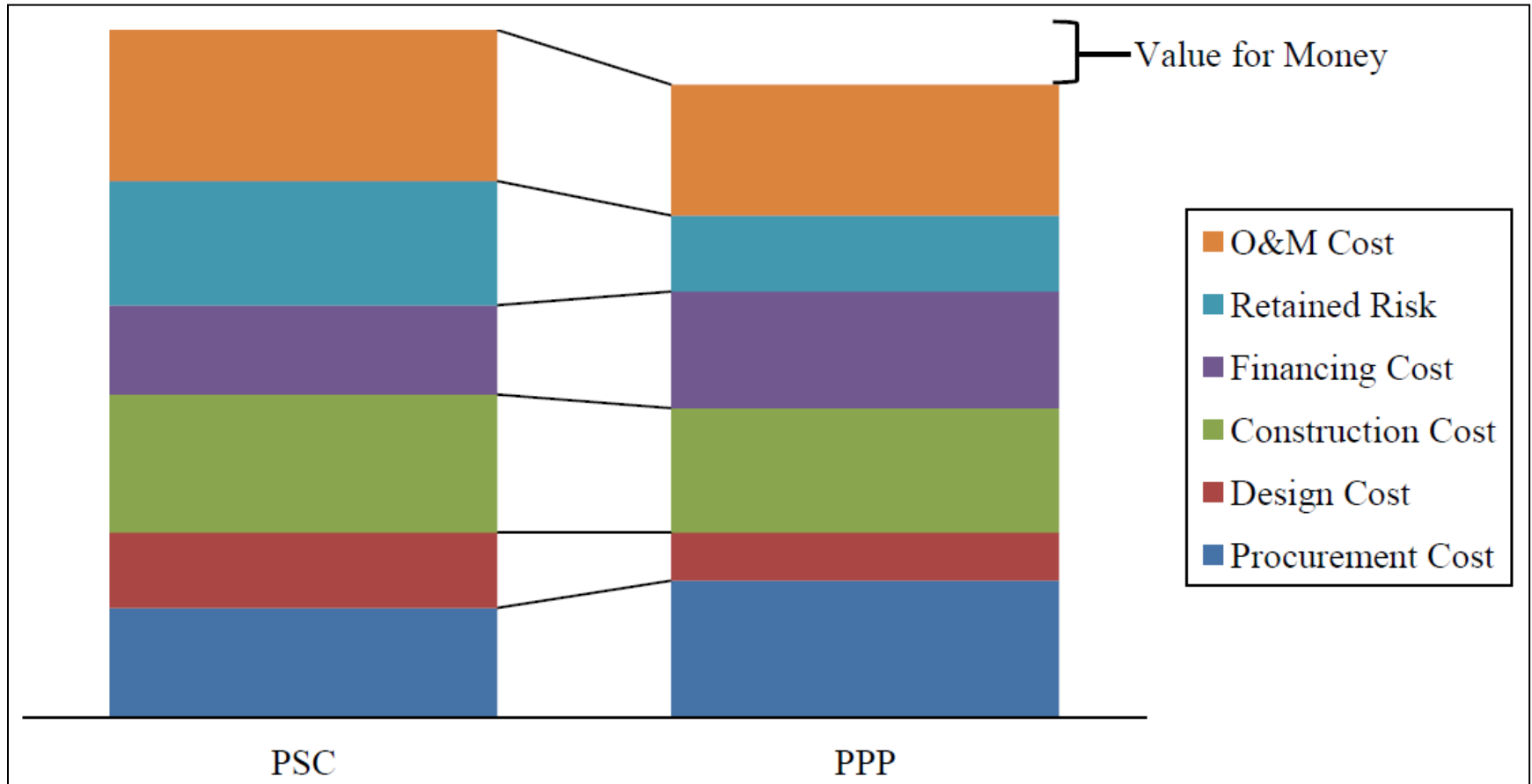
P3 RFP Approach – The ‘Kansas Model’

Value for Money (VfM) +/- \$325M

Scope Ladder – Base, Tier 1, Tier 2

1. Risk
2. Financing
3. Design
4. Construction
5. Operations & Maintenance (O&M)

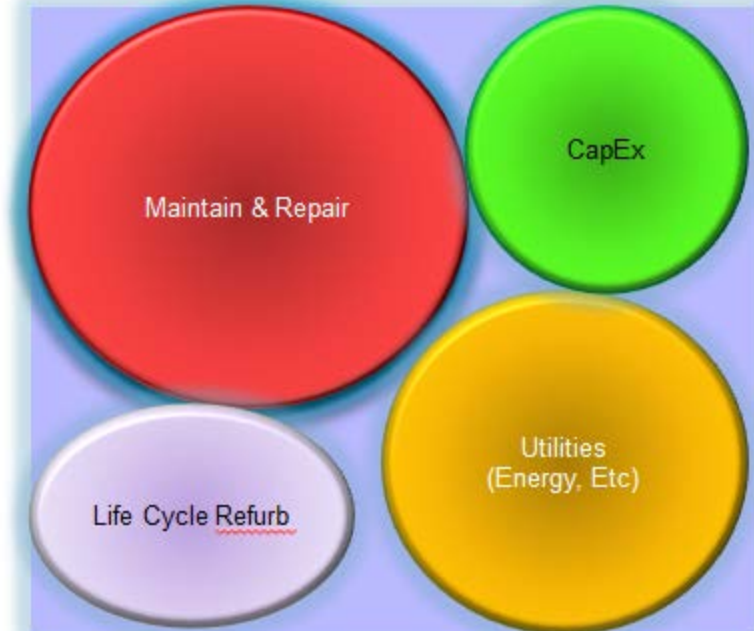
P3 – Value for Money Analysis



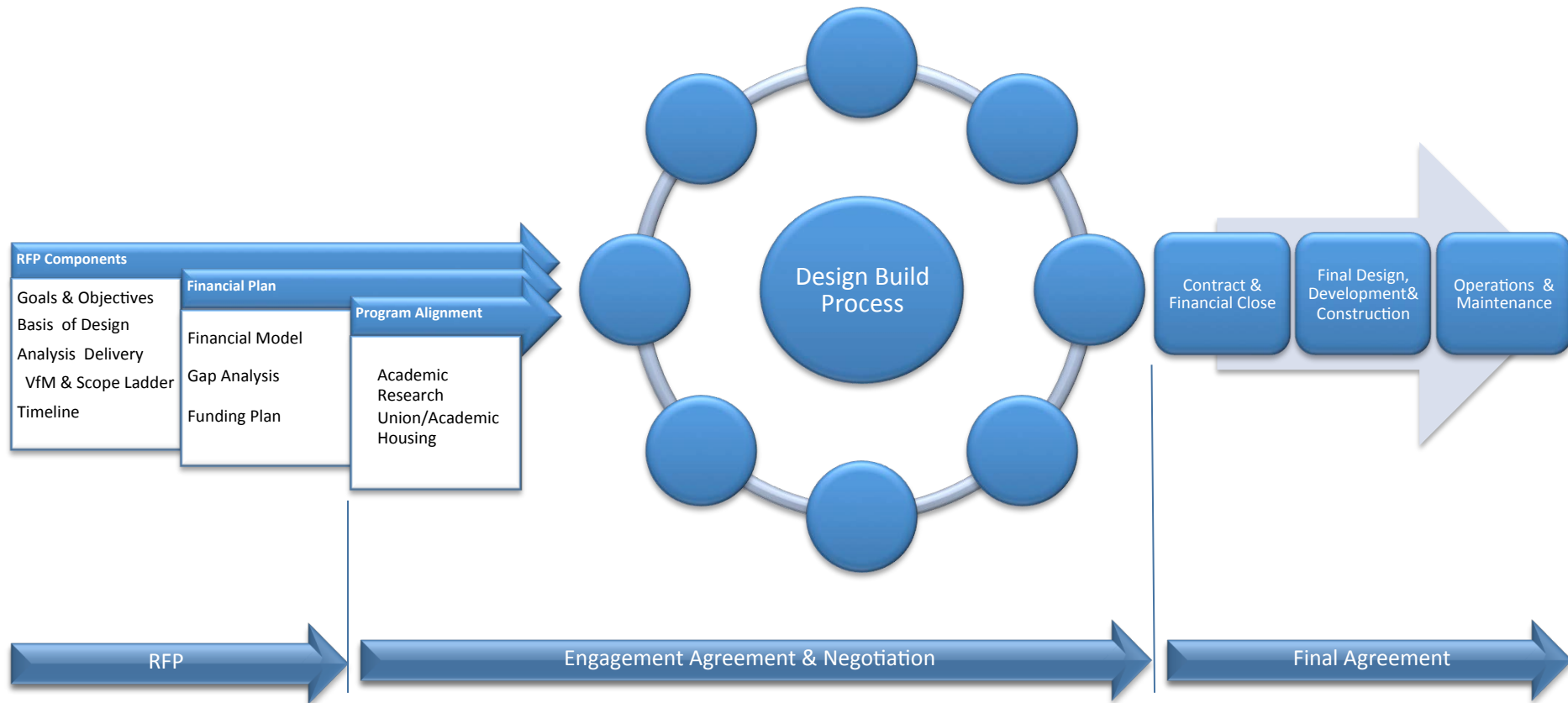
Operations & Maintenance

Categories

- Operations
- Maintenance
- Deferred Maintenance
- Capital Expenditures
- Utilities
- Life-cycle Cost Analysis
- FCI Index - .70



P3 | KU Model – Next Steps



Project Funding – Overview of the Identified ‘Revenue Levers’

The revenue levers and contributions outlined below have been identified as potential funding sources for the project (10/2015)

Available Revenue Levers	
<u>Source</u>	<u>Annual Amount</u>
Student tuition / fees	<u>\$7-8 million⁽¹⁾</u>
Central contribution	<u>\$7-8 million</u>
State contribution	TBD
Sponsorship / Endowment	TBD ⁽²⁾
Parking contribution from net income ⁽¹⁾	<u>\$1-2 million</u>
Housing Income	<u>\$6-7 million</u>
Gap Funding (other)	TBD

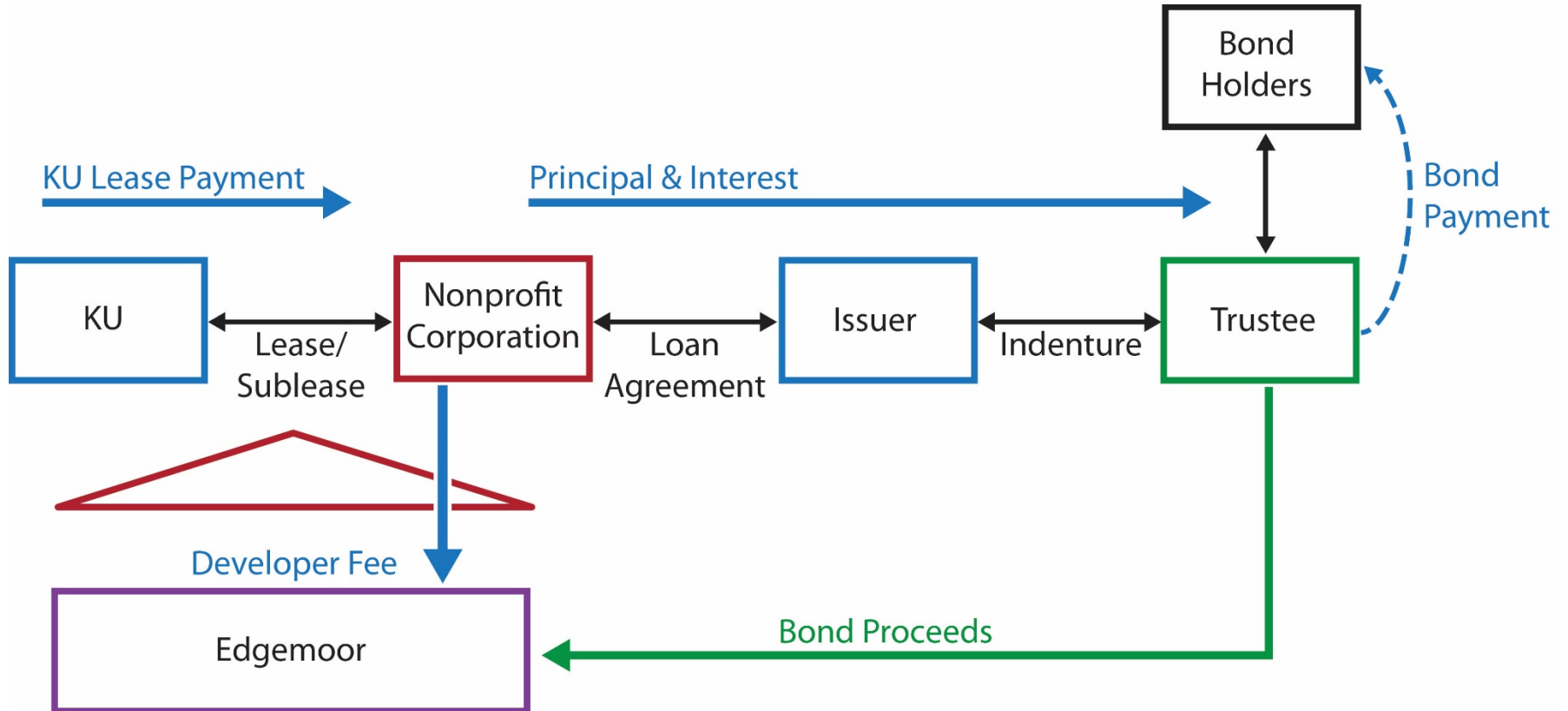
(1) Begins in FY '2018, the first year the parking system coverage exceeds \$1.0 million. Incremental student fee as a revenue lever by the year 2018.

(2) Corporate / Campus Sponsorship program. Endowment - requesting funding from KUEA.

Legal Structure

- **Three way Development Agreement between KU, Edgemoor and Nonprofit Corporation covering the construction, operation, maintenance and life cycle costs and responsibilities.**
- **The University leases property to the Nonprofit Corporation for a term of 30 to 40 years.**
- **The Nonprofit Corporation leases the completed facility back to the University under a long term lease in an amount sufficient to cover the debt service on the bonds as well as the O&M/Life Cycle costs.**
- **The University maintains ownership of the ground, building, and all building improvements throughout the term of the lease.**
- **The University may receive compensation from the private entity for the term of the ground lease.**

Structure



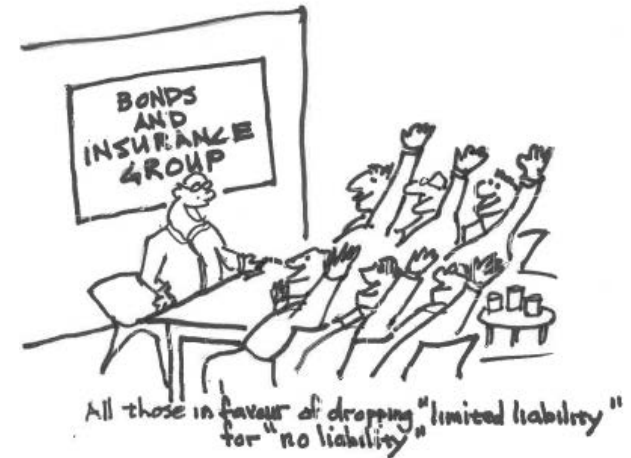
Preventing State Liability

- **Contract Terms**

- Prohibit pass-through liability
- Insurance

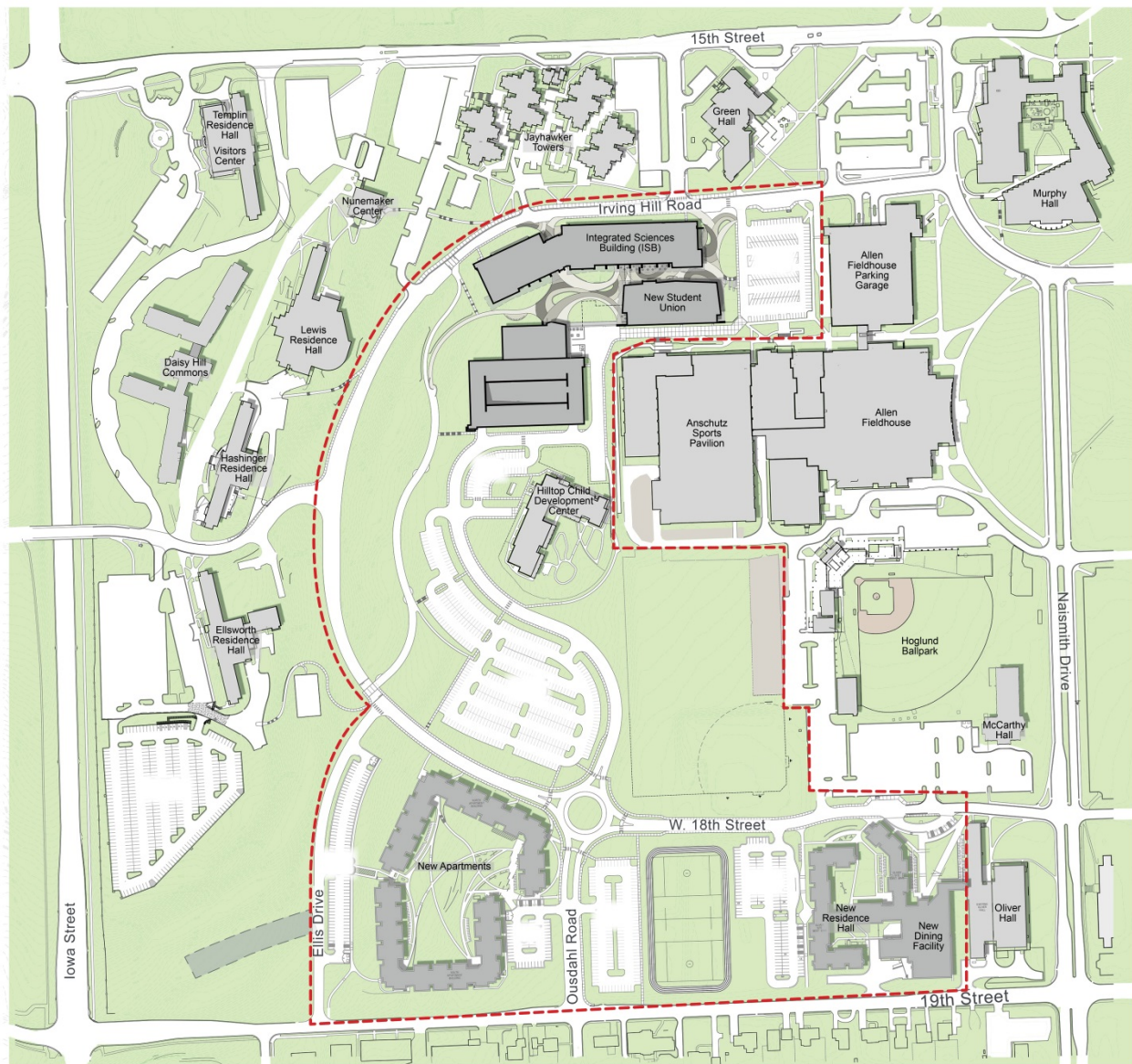
- **Bond Language**

- Bonds shall not be an indebtedness of the state of Kansas, or the Board of Regents, or of the individuals members of the Board.
- Bonds shall be a contract between the non-profit corporation and the bond holder.
- *State ex rel Fatzer v. Board of Regents*, 167 Kan. 587 (1949); *State ex rel Fatzer v. Armory Board*, 174 Kan 369 (1953); Kan. Op. Atty. Gen 06 (1996)



Projected Schedule

Item	Date
RFP Submittals	May 15, 2015
Investment Partner / Developer Selected	June 2015
Engagement Agreement, Initial Design, Begin Negotiations	June 2015
Final Agreements, Final Design, Financial Close	Winter 2015/2016
Begin Construction	January 2016
Housing Phase 1	July 2017
ISB Science Building, Burge Union Completion Infrastructure, Housing Phase 2 Completion	July 2018*
* 12 – 18 Months Ahead of 'Business as Usual'	



Central District
Site Boundary

⊕ 04/14/2016



Central District Development – Looking Southwest



ISB/Union/Plaza/Jayhawk Trail – Looking East

Legislative Fallout

- Accused of not informing legislature
- Accused of not getting legislative authorization
- Legislature continued to accept responsibility if agreement defaults
- Proposed legislation to create default
- Series of proposed bills to severely restrict budgets
- Legislative bill to severely restrict opportunities for gift and P-3 projects
- Proposed interim commission to address P-3 enabling legislation



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Lessons Learned

- Take time to learn before starting
- Must commit to a true partnership approach – 3 Year Relationship
- Must be flexible
- Need a CHAMPION of the process
- Micromanager – won't work
- Empowerment of team members
- Preplan with regulatory authorities
- Communicate, communicate, communicate
- Document all meetings – attendees and minutes

YEARS
LESSONS LEARNED			

Stay Tuned, More To Come The End



April 18, 2016

Partners in P-3 Development

- Edgemoor Infrastructure and Real Estate – Developer
- Clark/McCown Gordon – ISB/Union/CUP/Garage/Site - Construction
- CBG – Residence Hall/Dining/Apartments – Construction
- Perkins + Will/AEI – ISB/Union – Design
- Momenta/AEI/Walter P. Moore - CUP/Garage – Design
- Treanor/Langford Fendler/Antella – Residence Hall, Dining, Apartments – Design
- Confluence/PEC – Site Development/Infrastructure – Design
- U.S. Engineering – North Power Plant – Design Assist
- Faith Technologies – Entire Project – Design Assist
- Johnson Controls – Operations & Maintenance