Project Financing

Association of University Architects
Financial Stewardship

Presented by Diana Hoadley, Steve Allen, Terry Hull
and Ron Long

June 26, 2006

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Presented by Diana Hoadley,
Managing Director and Head of Higher Education / Non-Profit Finance at JPMorgan

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There are multiple parties involved in shaping major capital projects at the outset

President

- Vision of new facilities attracting students and improving the institution's demand profile
- Fundraising potential

Chief Financial Officer

- "Dollars and cents" viewpoint
- Attentive to the project's role in a master capital plan, costs of ongoing maintenance, etc

Architect

- Design-centric viewpoint
- Project will be a part of the architect's portfolio

What costs can be financed with tax-exempt bonds?

The Federal Tax Code is very specific in describing permitted uses for tax-exempt bond proceeds

Permitted uses include:

- **Capital costs**
  - ★ Construction costs (including "soft costs")
  - ★ Equipment purchases to be made in the next 3 years
  - ★ Other capital improvements
- **Capitalized interest**
  - ★ All interest payments due (e.g. two years of interest) on the bonds during the construction period and six months after certificate of occupancy is signed
- **Working capital**
  - ★ Up to 5% of the bond issue may be used for operating costs
- **Debt Service Reserve Fund ("DSRF") (equal to one year's debt service)**
  - ★ If a DSRF is necessary, it may be funded with bond proceeds
  - ★ DSRF amount is typically one year of principal and interest payments
- **Bond insurance**
- **Costs of issuance ("COI") - up to 2%**

Non-Permitted Uses

- Operating costs (except those provided within the 5% working capital limit)
- Equipment that will not be purchased within 3 years
- Any buildings or equipment that will be used by a private company

Taxable financing alternatives

- **Two considerations are most important**
  - Achieving the lowest cost of capital
  - Providing flexibility to pay down taxable debt as soon as possible

- **Interim financing vehicles**
  - Commercial paper
  - Bank loan
  - Money market loan
  - Bond anticipation notes
  - Operating cash

Interim financing strategy details

	Interest Rate Mode	Term	Details
Bridge Loan	• Variable • Taxable	• Short-Term	• Allows quick access to capital • Flexible funding • Usually higher interest cost
Bond Anticipation Notes	• Fixed • Tax-Exempt	• Short-Term	• Ideal when specific needs and timing is known • Usually refinanced 1-5 yrs. after issuance
Commercial Paper Program	• Variable • Can be taxable or tax-exempt	• Short-Term or Long-Term	• Finance long-term projects • Issued as funds are needed
Money Market Loan Program	• Variable • Taxable	• Short-Term or Long-Term	• Can be used for working capital • Can be refinanced on a taxable or tax-exempt basis
Cash / Endowment Spending	• N/A	• N/A	• Immediate access • Opportunity cost of potential investment earnings (spread to tax-exempt rates)

What is a debt policy meant to do?

- Codify and document institutional controls around an area of financial risk and complexity
- Facilitate delegation of authority
- Communicate financial risk philosophy to stakeholders
- Provide comfort and protection to the Board
- How does it fit the institution
  - Culture and tradition of the institution
  - Degree of involvement, sophistication, risk appetite of Board
  - Size of the institution
  - Degree of financing and investing activity
  - Credit rating
  - Peer group and competition

Key steps in the financing process

- Prepare and execute Reimbursement Resolution to recapture all costs intended to be a part of a tax-exempt bond issue
  - Allows the institution to maximize its tax-exempt financing proceeds
- Examine cost effectiveness of various financing scenarios
- Examine all uses of bond proceeds
  - Minimize potential “bad” money uses
- Determine how debt is to be repaid - Project “P&L”
  - Identify revenue sources (student fees, indirect cost recovery, 3rd party leases, institution GO)
  - Identify costs of operating the building (OpEx, debt service)

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Presented by Steve M. Allen, Director of Finance and Administration
The University Financing Foundation, Inc.

June 26, 2006

Technology Square and Midtown Atlanta Development

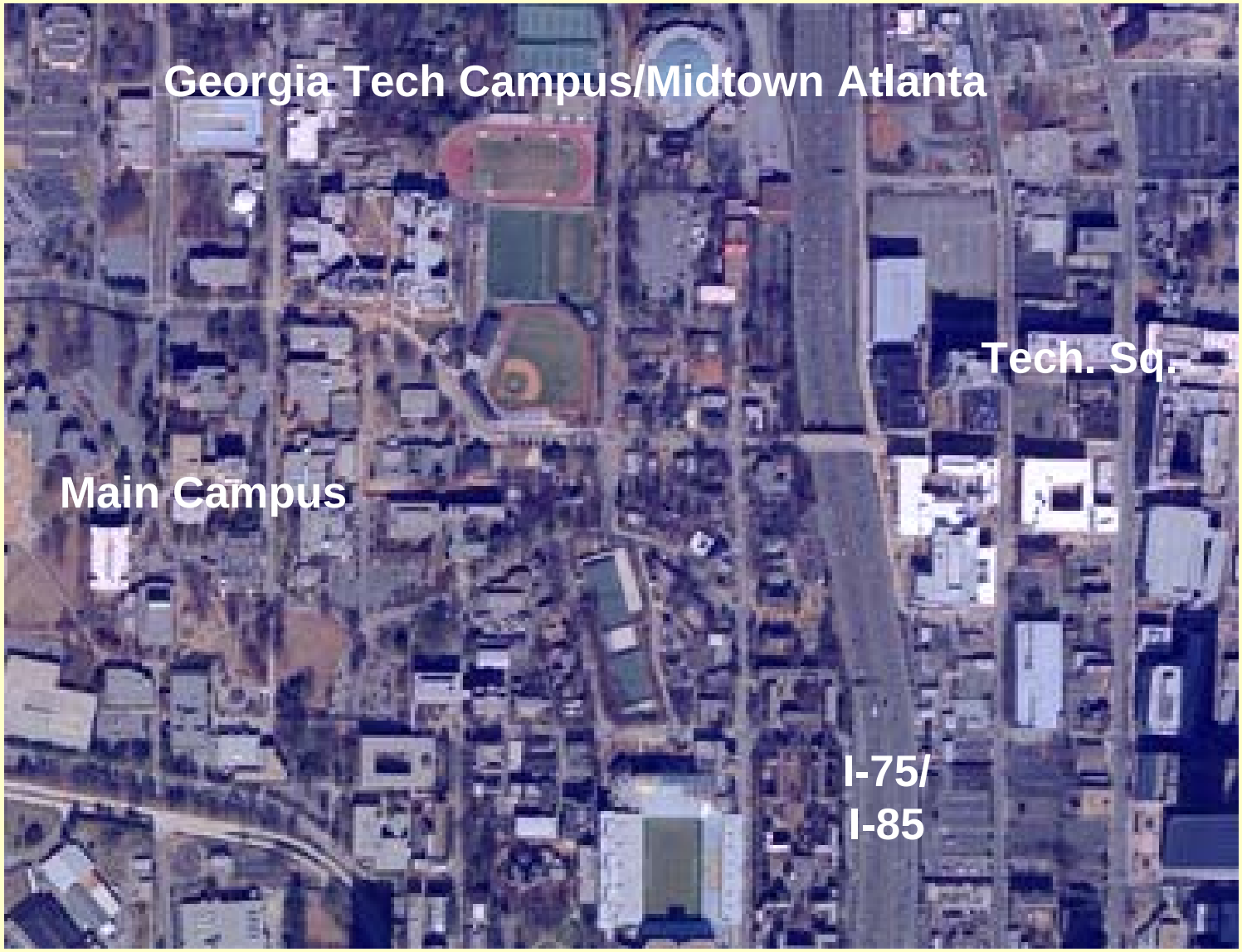
Key Initiatives/Issues and Stakeholders

Initiatives/Issues:

- Campus Master Plan/Capital Expansion
- Broadband Technology Research and Development
- Economic Development
- Intown Housing Demand
- Midtown Revitalization
- Limited State/Public Funding

Stakeholder(s)

- Georgia Institute of Technology
- State of Georgia
- Georgia University System Board of Regents
- Local Government
- Private Enterprise
- Civic/Non-Profit Community


Georgia Tech Campus/Midtown Atlanta
Tech. Sq.
Main Campus
I-75/
I-85

Georgia Tech and Technology Square

- Capital Campaign generated $712 million
- Technology Square Project - Georgia Tech Foundation (GTF): A $180 million, eight acre, multi-building complex encompassing education, retail, hospitality and parking covering two city blocks in Midtown Atlanta.

The complex includes the following:

- Dupree College of Management
- Hotel/Conference Center
- Global Learning and Conference Center
- Economic Development Institute/Center for Quality Growth
- Barnes & Noble @ Georgia Tech Bookstore
- Various Retail and Restaurant Spaces

- Debt Issued: $184 million in revenue bonds borrowed by the GTF


Technology Square Complex
Centergy One
TSRB
GLC
Hotel/Conf
Bookstore
College of Mgmt.
EDI/CQG

Technology Square - GTF: Funding Sources

Facility	Funding Sources
Dupree College of Management	Educational Allocations
Hotel/Conference Center	Facility's Revenues
Global Learning/Conference Center	Program Fees and Educational Allocations
Bookstore	Store/Sales Revenues
Retail/Restaurants	Rental Income from Leasing of Space

TUFF and Technology Square

- The University Financing Foundation (TUFF): A national 501 © 3 non-profit, private operating foundation established to provide low cost financing of real estate facilities and equipment for colleges and universities

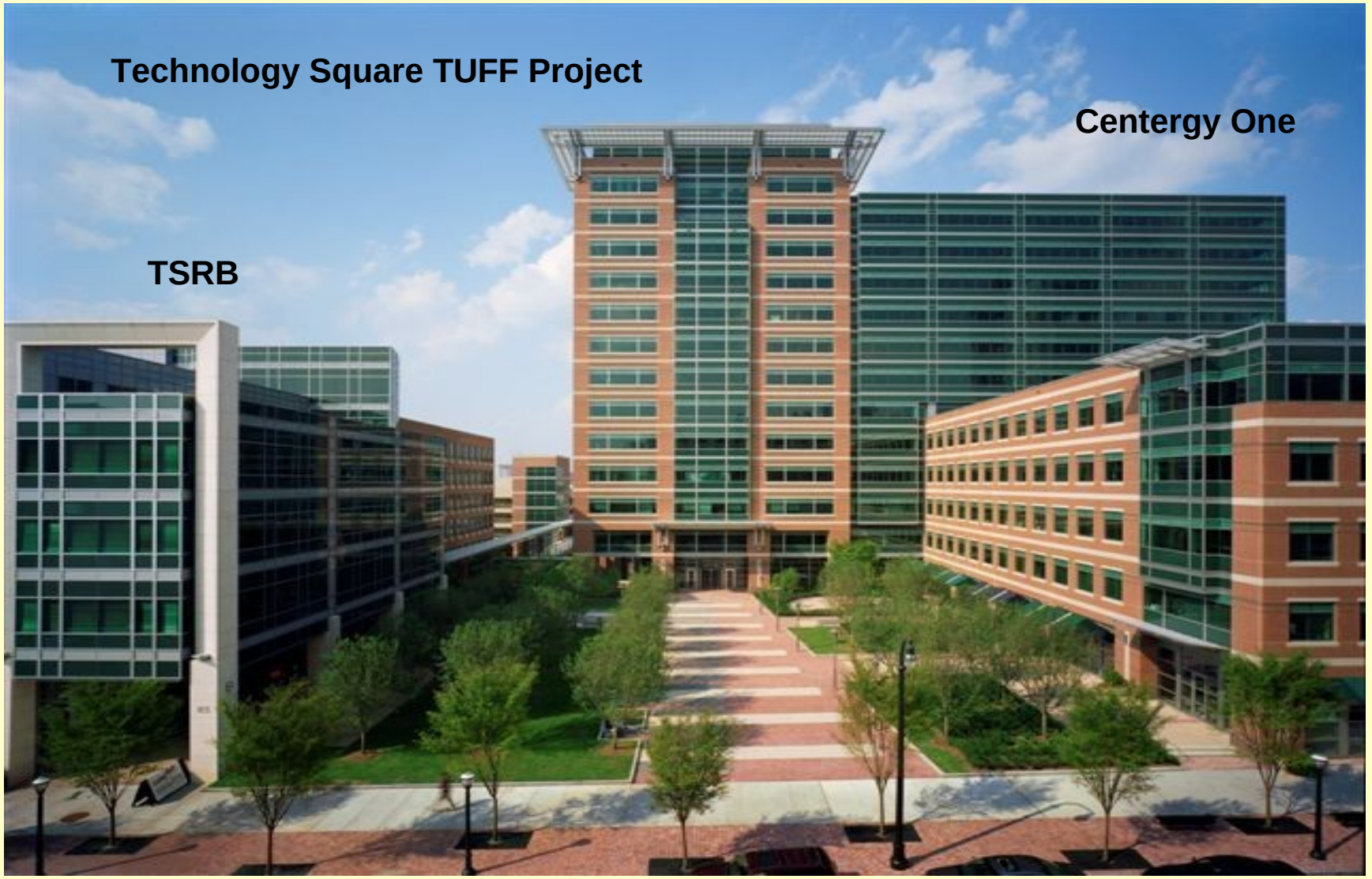
- Technology Square Project - TUFF: A multi-building complex housing classroom, research, class A office space and a parking deck. Details of the facilities are as follow:

1) Technology Square Research Building (TSRB) - A 218,000 square foot academic classroom and research building housing the Georgia Electronic Design Center, the Graphics Visualization and Usability Center, and the Georgia Tech Center for Research on Embedded Systems and Technologies, as well as small retail businesses on the ground floor.

2) Centergy One Building *- TUFF acquired 233,478 square feet (Floors 1-5) of condominiumized class A office and dry lab space in the 13-story, 487,011 square feet office tower adjacent to the TSRB. This space houses the Advanced Technology Development Center (ATDC) and Georgia Tech's business incubator, as well as the Georgia Department of Technical and Adult Education's Quick Start work-force training program. Amenities include a four-star restaurant on the ground floor and an LA Fitness center on the terrace level.

3) Parking Deck - A 1,500 space parking deck serving both the TSRB and Centergy One buildings.

*Note: The remaining portion of the building is owned by Centergy One Associates, LLC, a private development team. The space houses a variety of public and private tenants interested in Georgia Tech, economic development, other business/academic affiliations and proximity to Technology Square such as Accenture, Georgia Dept. of Economic Development and various public utilities' development offices.


Technology Square TUFF Project
Centergy One
TSRB

TUFF Technology Square Project Funding

- Debt Issued: $130 million in revenue bonds borrowed by TUFF ($112 million tax-exempt, $18 million taxable)

- Other Project Costs: Funded by grants from a non-profit foundation

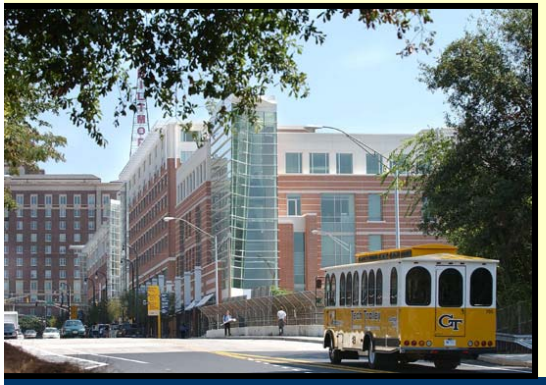
- On-Going Funding Sources: Rental income from leases with Georgia Advanced Technology Ventures, Inc. (GATV) a Georgia non-profit corporation supporting Georgia Tech, as well as a lease with the Georgia Board of Regents

Technology Square Area - Before Development


Technology Square Area After Development

Case Study Summary: Technology Square

- Total Bonds Issued: $315 million
- Total Square Footage Developed: 1.1 million
- Construction Timetable - 9 to 36 months
- % Funded By Project Financing: Approx. 98%
- Public-Private Partnerships Critical Success Factors
- Live-Work-Play Community (2K resid. units within 3 blks)



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Presented by Terry Hull, Director of Finance,
The University of Texas System

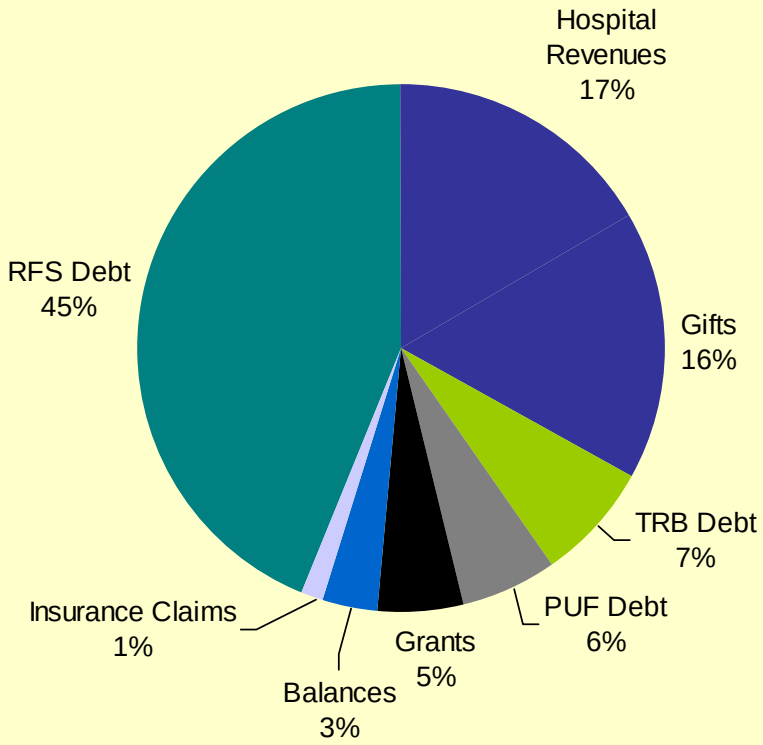
June 26, 2006

U.T. System Capital Planning

- The Capital Improvement Program (CIP) is the System's long-range plan to preserve and enhance facility assets
- The CIP is a six-year projection of major repair and rehabilitation and new construction projects
- The CIP begins with institutions determining and prioritizing capital needs, but is ultimately approved by the Board of Regents
- While the CIP is formally updated every 2 years, it is dynamic and changes as institutional opportunities arise or other changes occur
- Projects must have identifiable funding sources in order to be included in the CIP

U.T. System Capital Improvement Program by Funding Source

$4.66 Billion CIP as of May 31, 2006



Case Study: North Campus Phase 4 Research Building

- The North Campus Phase 4 project is a major capital project at U.T. Southwestern Medical Center in Dallas with a total project cost of $307.6 million
- The project will provide 1.1 million gross square feet of new facilities including a 16-story research tower, underground parking, a radiation oncology center and advanced imaging center along with expansion of the thermal energy plant and site and utility infrastructure
- Project was initially added to the CIP in February 2000, received design approval in May 2001 and is expected to be occupied during June 2006

Case Study: North Campus Phase 4 Research Building

- Funding sources of the North Campus Ph. 4 project are:

Revenue Financing System Bonds	$	100,000,000
Tuition Revenue Bonds		96,000,000
Permanent University Fund Bonds		80,000,000
Gifts		30,279,000
Grants		1,321,000
Total Project Cost	$	307,600,000

Case Study: North Campus Phase 4 Research Building

- Revenue Financing System Bonds: Secured by a consolidated revenue pledge of all System institutions. Each institution responsible for debt service related to its projects

- Tuition Revenue Bonds: Secured by consolidated revenue pledge of all System institutions, but State historically funds debt service authorized by the legislature

- Permanent University Fund Bonds: Secured by Constitutionally-established state endowment fund. Debt service paid from distributions from the endowment and not by individual institutions

- Gifts and Grants: Gifts and grants are non-debt funding sources that must be used as specified by the granting agency or donor restrictions. Because these are non-debt sources, there is no ongoing debt service obligation

Case Study: North Campus Phase 4 Research Building

- U.T. Southwestern will conduct federal research in the North Campus Ph. 4 research tower. In addition to funding the direct research, Federal agencies also reimburse institutions for indirect costs, such as facilities and overhead costs

- The indirect cost recovery rate is generally a negotiated percentage of the direct research conducted by the institution

- U.T. Southwestern is able to utilize a portion of the indirect cost recoveries generated on federal research conduction in the North Campus Ph. 4 project to cover debt service on the Revenue Financing System debt

Project Financing

Rice University Case Study

Presented by Ron Long

Case Study: Collaborative Research Center

Central to research mission

- Collaborative research efforts with the Texas Medical Center
- Faculty recruiting and retention

Strategic location

- Between campus and the TMC
- Land owned by Rice University

Rice and five TMC institutions

- 4 private, 2 public institutions
- Investment grade credit ratings

Off Balance Sheet/Off Credit

- Leases, third party development are off balance sheet alternatives
- Project debt can be attributed to an entity even if the project is off balance sheet
  - Lease obligations absorb debt capacity
  - The more strategic a project is, the less chance of keeping it “off credit” even if it is “off balance sheet”
  - Facts and circumstances based analysis

Off Balance Sheet/Off Credit Considerations

- For:
  - No dominate partner
  - Partners can afford to let project fail
  - All partners have same financial strength
- Against:
  - Project primarily benefits one partner
  - Project is strategic to one partner's mission
  - One financially strong partner
  - Name association with a partner

CRC Case Study
First Model

- Each partner pulls its own weight
  - Rice would cause shell to be built
  - Each partner would pay for its portion of the shell costs
  - Each partner would pay for its own TI
  - Only the debt related to cost of Rice's space would be on Rice's balance sheet
- Issue – partner wanted 'traditional' lease

CRC Case Study
Second Model

- 3rd party development
  - Each partner would lease shell space
    - Lease for shell space would be “on credit”
  - Each partner would pay for TI
    - Debt for TI would be “on balance sheet”
- Issues:
  - Risk of project debt being attributed to Rice
  - More complex and expensive

CRC Case Study
Third Model

- Rice to develop the project
  - Rice as landlord will lease out shell space
- All debt for the shell "on balance sheet"
  - Leases sufficient to cover debt service
    - Non-cancellable leases
    - Term of leases = term of the debt
      - Public institutions limited as to length of lease term
- Project debt "mitigated" by leases