



FitchRatings

Higher Education P3s

Fitch Credit Considerations

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Financing Models for University Projects

Financing Structure	Key Characteristics
University Debt	<ul style="list-style-type: none">• University Issues Bonds – General Revenue or Auxiliary• University Retains all Control on Development/Construction• University Retains all Net Project Cashflows
Non-Profit Project Debt	<ul style="list-style-type: none">• Long Term Ground Lease, Financing With Non-Profit Lessee• More Limited Control and Oversight, Shared With Developer• More Limited Security & Net Cashflow Receipt
P3 Debt	<ul style="list-style-type: none">• Developer Arranges Financing –Debt and/or Equity• Developer Assumes Most Responsibilities & Risks• Developer Retains Most or All Net Project Cashflows
Developer Debt	<ul style="list-style-type: none">• Off-Campus Projects; Developer Financed & Owned• Developer Assumes All Completion and Operational Risks• Developer Project May Benefit or Compete with University Interests

Fitch Views on Project Financing in University P3s

- ◆ May Lead to Faster Procurement & Delivery
- ◆ Universities Have Opportunities for Various Levels of Risk Transferring
- ◆ P3 May Allow for Efficient Off-Balance Sheet Financing for Project Development
- ◆ Some Lose Oversight & Control
- ◆ May Restrict Future Development
- ◆ Complex Structures than Typical University Bonds

Questions to be Asked in Project Debt and P3 Models

- Is Project Core to University's Mission and Operations?
- What Will Be Both Short-Term and Long-Term Benefits?
- What Will be University's Retained Role in the Project?
 - Rate Setting
 - Marketing
 - Perform Some or Most of Operational Requirements
- What Are Financial Incentives to University in the Project?
- Are There Market Risks to the Project?
- What Steps Can be Taken If Project Fails?

Peculiarities of University Sector P3 Projects: Long Term Considerations

Enrollment and Demand Trends

- Historic Enrollment
- Application Level
- Acceptance/Matriculation
- Retention

State Policies for Higher Education Investment

- Tuition Discounting
- Pricing Flexibility
- Student Demographics

Changes in Academic Focus Areas

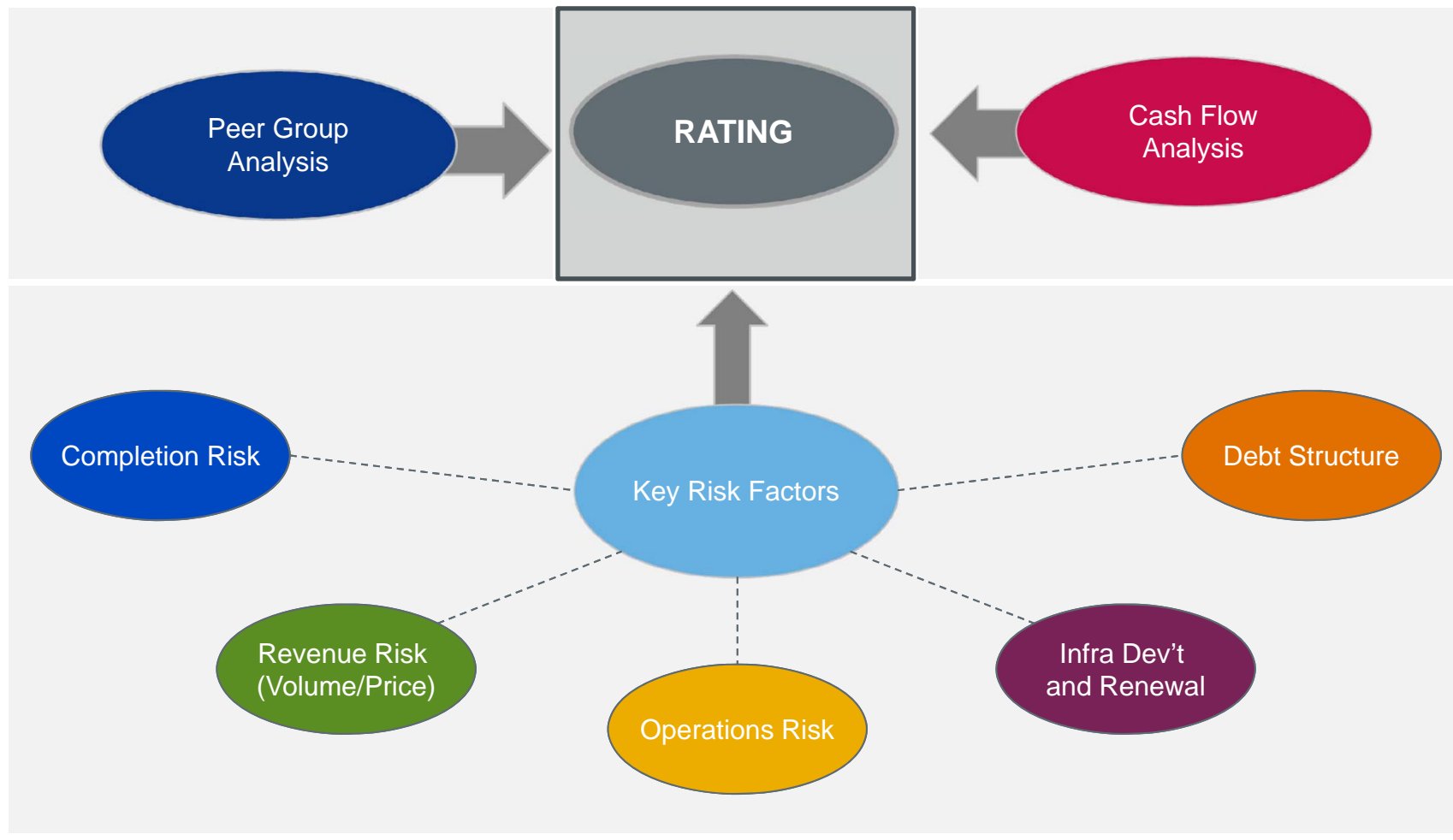
- Broaden or Narrow Course and Degree Offerings
- Competitive Profile: Distinguish Versus Other Institutions

Role of Technology

Basic Factors for a Successful University P3 Project

- **Project intrinsically Adds Value**
 - Core to Mission of University, Clear Demand Indicated
- **Appropriate Legal Framework and/or Quality of Contract**
 - Framework: How Precedent Circumstances Solved
 - Contract: Clarity, Comprehensiveness, Flexibility, Predictability
- **Balance of Risk Sharing**
 - Identify, Measure, Allocate, Price, Monitor
- **Management of Construction and Life Cycle Cost**
 - Competence and Financial Security Adequately to Cover Complexity
- **Financial Robustness: Capacity to Sustain Stress Scenarios**

Analytical Framework – Infrastructure & Project Transactions



Security & Structural Features Drives Rating Methodology

Demand
Based

Hybrid
Transaction

Availability
Pay



Key Rating Drivers: Revenue Risk (Demand)

Demand Risk Tied to University Profile, Local Market Demand for Project, and Framework Agreements

Relevant Factors for Facility Demand

- Student Residency Requirements
- Campus Location of Housing Project & Alternatives on/off Campus
- Historical Number of Beds & Occupancy Rates
- Legal Protections for the Revenue Base

Stronger	Mid Range	Weaker
<ul style="list-style-type: none">• Positive Enrollment Trends• Demonstrated Facility Need• Rate Setting Flexibility• University Supported	<ul style="list-style-type: none">• Stable Enrollment Trends• Some Market Risk to Utilization & Rates• University Neutral Involvement	<ul style="list-style-type: none">• Volatile Enrollment• Elevated Market Risk• Limited Rate Setting• Competition to University

Fitch Expects Most IG Projects Need to be Assessed at Stronger or Midrange

Key Rating Drivers: Revenue Risk (A/P)

Potential for variability in revenues through performance deductions or exposure to elements of demand or price risk

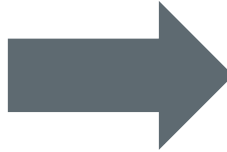
Relevant Benchmarks

- Credit quality of public sector grantor
- Contractual provisions for grantor performance
- Framework of deduction mechanism
- Cure period provisions

Stronger	Mid Range	Weaker
<ul style="list-style-type: none">• Grantor Obligations rated 'A-' or Higher• Clear Deduction Framework• Robust Cure Period	<ul style="list-style-type: none">• Grantor Obligations Rated 'BB+' or 'BBB-'.• Exposure to Qualitative Assessments in Deductions• Adequate Cure Periods	<ul style="list-style-type: none">• Grantor Obligations Rated 'BB' or Lower• Open-ended Deduction Regime• Inadequate Cure Periods

Fitch Expects Most IG Projects Need to be Assessed at Stronger or Midrange

University Grantor_{PPP}



Linkage to Project Rating

Clear Legal Framework



Grantor Control on Asset



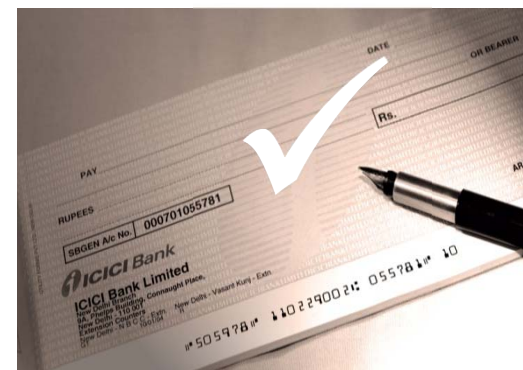
Integrated Financing



Essential Asset



Termination Payment



Key Rating Drivers: Completion Risk

Evaluation of risks that may cause the facility not to be completed on time, on budget, and/or up performance standards

Relevant Benchmarks

- Project Complexity and Scale
- Contractor Expertise and Implementation Plan
- Contractor Replacement
- Contract Terms

Stronger	Mid Range	Weaker
<ul style="list-style-type: none">• Low Complexity• Successful Contractors• Replacement Contractors• Fixed-Price, Date-Certain• High Liability Caps	<ul style="list-style-type: none">• Some Complexity• Contractors with Track Records• Fixed—Price, Date-Certain• Adequate Liability Cap	<ul style="list-style-type: none">• High Complexity• Less Experienced Contractors• Target Price/Date Contract

Fitch Expects IG Projects Need to be Assessed at Stronger or Midrange

People in pursuit of answers

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