Board of Regents
University System of Georgia
Public-Private Ventures & GHEFA
November 13, 2012

“Creating A More Educated Georgia”
Overview

• Public Private Ventures & GHEFA Financing
  – Methods for Facility Financing
  – Update on Projects (Through 6/30/2012)

• Program Improvements

• Proposed Policy Revision and Additions

“Creating A More Educated Georgia”
General Obligation Bonds

• G.O. Bonds:
  – Full faith and credit of State
  – 10% Constitutional limit (prior-year revenues)
  – State debt typically between 6% to 8%
  – Georgia 1 of 8 “Aaa” States

• G.O. Bonds for “Payback Projects” (1989 - 2000)

• Revenue bonding concerns by state leaders
• Primary method of academic facility financing
• Academic facilities vs. student support facilities

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Public Private Ventures

- PPVs serve as an alternative to G.O. Bonds
- Revenue-producing facilities (student support)
- Institution partners with private entity
- PPV method developed prior to the creation of GHEFA
- Majority of PPV projects from 2001 to present
- As of June 30, 2012 – 157 PPV Projects representing $3.3B in outstanding balances
Georgia Higher Education Facilities Authority (GHEFA)

- GHEFA – signed into law April 2006
  - Five-member board (approval and monitoring)
  - Authorized to issue revenue bonds for BOR and TCSG
  - No TCSG projects to date
  - Original authorization - $300 million maximum capacity
  - Maximum capacity increased to $500 million in 2012
- Alternative for institutions with more limited avenues of financing and/or to gain efficiencies
- First GHEFA bond issue in 2008 (18 Projects)
- University System Foundation serves as borrower
## Financing Comparison

<table>
<thead>
<tr>
<th></th>
<th>G.O. Bonds</th>
<th>Traditional PPVs</th>
<th>GHEFA</th>
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</thead>
<tbody>
<tr>
<td><strong>Security</strong></td>
<td>State Credit</td>
<td>Project Revenue/ System Lease</td>
<td>Project Revenue/ System Lease</td>
</tr>
<tr>
<td><strong>Repayment Source</strong></td>
<td>State Debt Sinking</td>
<td>Auxiliary, Fees and Non-State</td>
<td>Auxiliary, Fees and Non-State</td>
</tr>
<tr>
<td><strong>Maximum Capacity</strong></td>
<td>Constitutional – 10% of prior year revenue</td>
<td>No Firm Limit</td>
<td>$500 Million</td>
</tr>
<tr>
<td><strong>Normal Term</strong></td>
<td>20 Years</td>
<td>25 to 30 Years</td>
<td>30 Years</td>
</tr>
<tr>
<td><strong>Rating (Moody’s)</strong></td>
<td>Aaa</td>
<td>Aa1 to Baa1</td>
<td>A2</td>
</tr>
<tr>
<td><strong>Rating (S&amp;P)</strong></td>
<td>AAA</td>
<td>AA- to A+</td>
<td>A+</td>
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</tbody>
</table>

“Creating A More Educated Georgia”
Moody’s Ratings

<table>
<thead>
<tr>
<th>Institutions</th>
<th>0</th>
<th>2</th>
<th>2</th>
<th>2</th>
<th>8</th>
<th>10</th>
<th>3</th>
<th>1</th>
<th>0</th>
<th>0</th>
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</thead>
<tbody>
<tr>
<td>Sample Rates</td>
<td>3.61%</td>
<td>3.76%</td>
<td>3.91%</td>
<td>4.06%</td>
<td>4.26%</td>
<td>4.41%</td>
<td>4.56%</td>
<td>4.81%</td>
<td>5.06%</td>
<td>5.36%</td>
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</tbody>
</table>

Aaa  | USG  | GHEFA  
Rated as highest quality/lowest risk  
Rated as high quality and very low risk  
Rated as upper-medium grade and low credit risk  
Rated as medium grade with some speculative elements and moderate credit risk  
Rated as low grade with considerable speculative elements and high credit risk

Standard and Poor’s also rates some PPV issues.

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## PPV and GHEFA Projects
*(Through June 30, 2012)*

<table>
<thead>
<tr>
<th>Project Type</th>
<th>Number</th>
<th>Amount Outstanding</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>Student Housing</td>
<td>71</td>
<td>$1,880,809,074</td>
<td>40,273 Beds</td>
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<tr>
<td>Recreation</td>
<td>21</td>
<td>389,119,924</td>
<td>1,183,918 Sq. Feet</td>
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<tr>
<td>Research</td>
<td>9</td>
<td>353,525,000</td>
<td>1,449,421 Sq. Feet</td>
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<tr>
<td>Student Center</td>
<td>22</td>
<td>349,139,811</td>
<td>1,064,148 Sq. Feet</td>
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<tr>
<td>Parking</td>
<td>21</td>
<td>274,487,499</td>
<td>27,697 Spaces</td>
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<tr>
<td>Office</td>
<td>8</td>
<td>96,334,600</td>
<td>999,762 Sq. Feet</td>
</tr>
<tr>
<td>Dining</td>
<td>6</td>
<td>74,766,950</td>
<td>183,489 Sq. Feet</td>
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<tr>
<td>Bookstore</td>
<td>4</td>
<td>33,441,175</td>
<td>149,893 Sq. Feet</td>
</tr>
<tr>
<td>Other</td>
<td>13</td>
<td>196,084,953</td>
<td>1,044,275 Sq. Feet</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>175</strong></td>
<td><strong>$3,647,708,986</strong></td>
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</table>

*“Creating A More Educated Georgia”*
PPV-GHEFA Financing By Year
(Total = $3,647,708,986)
Annual Lease Payment Obligations

284,835,120

2011 2015 2020 2025 2030 2035 2040 2043
University System Capacity
(Assumes 5% of Revenues as System Maximum)

Remaining System Capacity: Approximately $1.2 Billion
Debt Ratio By Institution – FY 2012

Debt Ratio = Lease Payments / Total Revenues
Outstanding Obligations By Institution
(Total Obligations = $3,647,708,986)
Program Success

- PPV & GHEFA have addressed facility needs
- 175 projects completed without G.O. Bonds
- G.O. Bonds now address academic needs
- PPV methods offer a low cost of financing
- Bond issues with overall strong ratings
- No institution has missed a lease payment
Completed Projects

Dalton State College
Parking Deck

Darton College
Student Center

Fort Valley State University
Student Center

Bainbridge College
Student Wellness Center

Gainesville State College
Parking Deck

Georgia State University
Freshmen Housing

Southern Polytechnic
State University
Parking Deck
Completed Projects

Columbus State University
Recreation Center

College of Coastal Georgia
Student Housing

East Georgia College
Student Housing

Georgia College & State University
Wellness & Recreation Center

Savannah State University
Student Center

University of West Georgia
Bookstore
Objectives Behind PPV Program Enhancements

• Confirm projects meet critical needs of the USG and institution
• Ensure fiscal viability of projects
• Protect state and USG credit
• Maintain affordability for students
• Maintain PPV – GHEFA as financing alternatives
Program Improvements

• Implemented Integrated Review Process
  – Projects must address critical needs
  – Ensure fiscal viability
  – Safeguard capital financing method
• Closely Monitor Performance of Projects
• Conduct PPV Audits
• Develop Business Procedures
• Present 3 policy additions and 1 policy revision related to the PPV program

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Background:
- Previous target maximum System capacity was 7% of revenues
  - 7% based on State G.O. Bond experience
  - 10% is State G.O. Bond Constitutional limit
- Similar programs in other states closer to 5% (VA, NC, TX)
- Debt ratio is primary criteria; other ratios and strategic importance of project also used to assess

Recommendation:
- Establish Board Policy 9.8.3 Capital Liability Capacity and Affordability
- Establish 5% as System limit
- Establish 5% as institutional target but provide for flexibility up to 7% not to exceed 10% (moving forward requirement)
Policy Addition: Reserves

**Background:**
- Reserves needed to smooth fluctuations in project performance
- Serve as a safeguard against default
- Reserves vary considerably by institution
- Trustee maintains a debt service reserve but use constitutes default

**Recommendations:**
- Establish Board Policy 9.8.4 Capital Liability Reserve Fund
- Establishes “insurance-type” reserve fund at the Board of Regents
- Not a revolving fund loan fund
- Likely viewed as a credit-positive by bond rating agencies

****Fund only for use to meet capital lease payment obligations after institution has exhausted other available funds. Requires Chancellor’s approval and notification to Board.

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**Background:**
- Increasing number of bond issues subject to call and refinancing
- Current market environment may provide for savings
- Cooperative organization (LLC) directly benefits
- No current requirement to reduce amount of lease payment to cooperative organization (LLC)

**Recommendations:**
- Establish Board Policy 9.8.5 Lease Rental Agreement Revisions: Refinancing
- Require institutions to monitor refinancing and to negotiate with cooperative organization for at least 50% of savings
- Direct institutions to use savings for the benefit of students

“Creating A More Educated Georgia”
Policy Revision: Mandatory Housing

Background:
- Presidents currently may establish mandatory housing for “sound academic reasons” (Board Minutes 1985)
- Board Policy does not provide for notification to Chancellor or specific authority to review decision
- Mandatory housing can significantly increase costs for students

Recommendations:
- Amend Board Policy 9.8.2
- Require presidents to notify Chancellor prior to implementing mandatory housing
- Provide authority for Chancellor to reverse decision
- Effective upon approval of policy (existing institutions exempt)

“Creating A More Educated Georgia”
PPV Operations & Maintenance (O&M) Plan
PPV Operations & Maintenance (O&M) Plan

• Fits hand-in-glove with financial analysis by providing closer look at operations, maintenance and capital renewal activities on PPV projects

• Verifies adequate effort and expenditures are being made to sustain the lifecycle of the asset for the duration of the agreement

• Informs, and responds to results of internal PPV audits
O&M Programs
- Confirm adequacy of O&M and Preventive Maintenance programs

Operating Expenses
- Analyze actual vs. budgeted expenses
- Monitor expenses for warning signs
- Identify key budget risk factors (utilities, materials, labor expenses)

Physical Condition Reports
- Evaluate Engineering and Facilities Condition Assessment reports
- Identify deferred maintenance and capital replacement items
- Ensure deficiencies are addressed
- Monitor actual vs. projected repair & replacement reserve funds
- Assess capital expenditures

- Conduct comprehensive on-site evaluations of facilities with highest risk of operational non-performance
- Cursory walkthrough every 3-5 years