



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



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



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

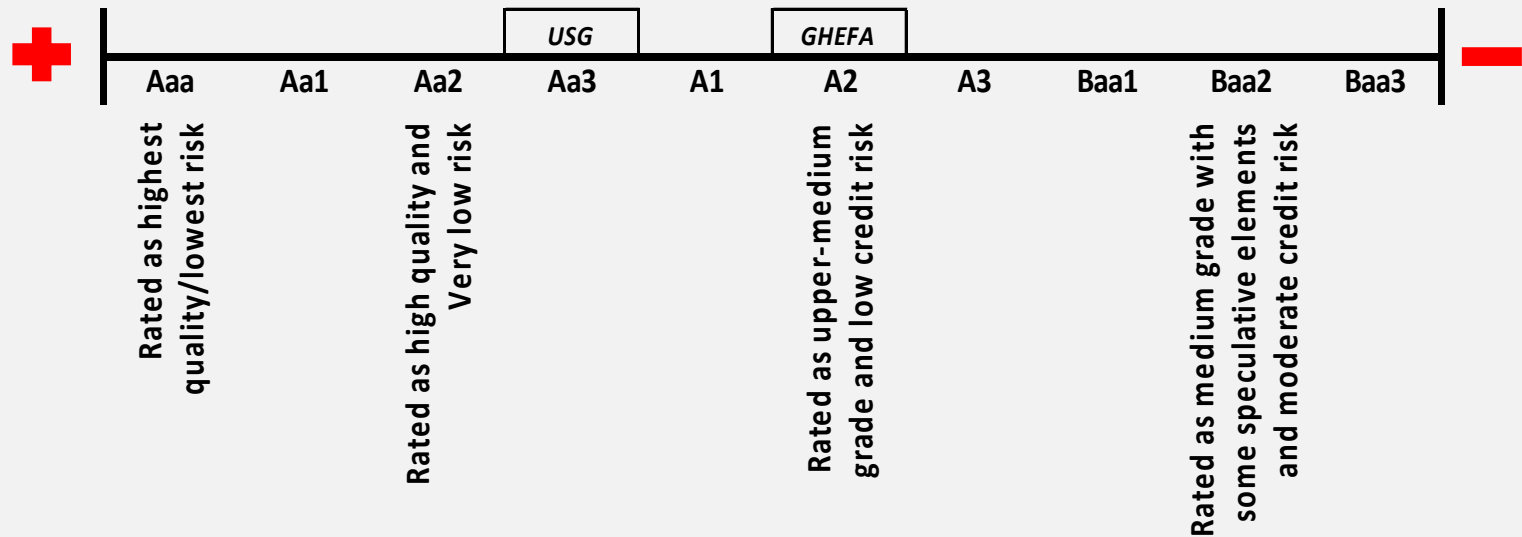
	<u>G.O. Bonds</u>	<u>Traditional PPVs</u>	<u>GHEFA</u>
Security	State Credit	Project Revenue/ System Lease	Project Revenue/ System Lease
Repayment Source	State Debt Sinking	Auxiliary, Fees and Non-State	Auxiliary, Fees and Non-State
Maximum Capacity	Constitutional – 10% of prior year revenue	No Firm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

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Moody's Ratings

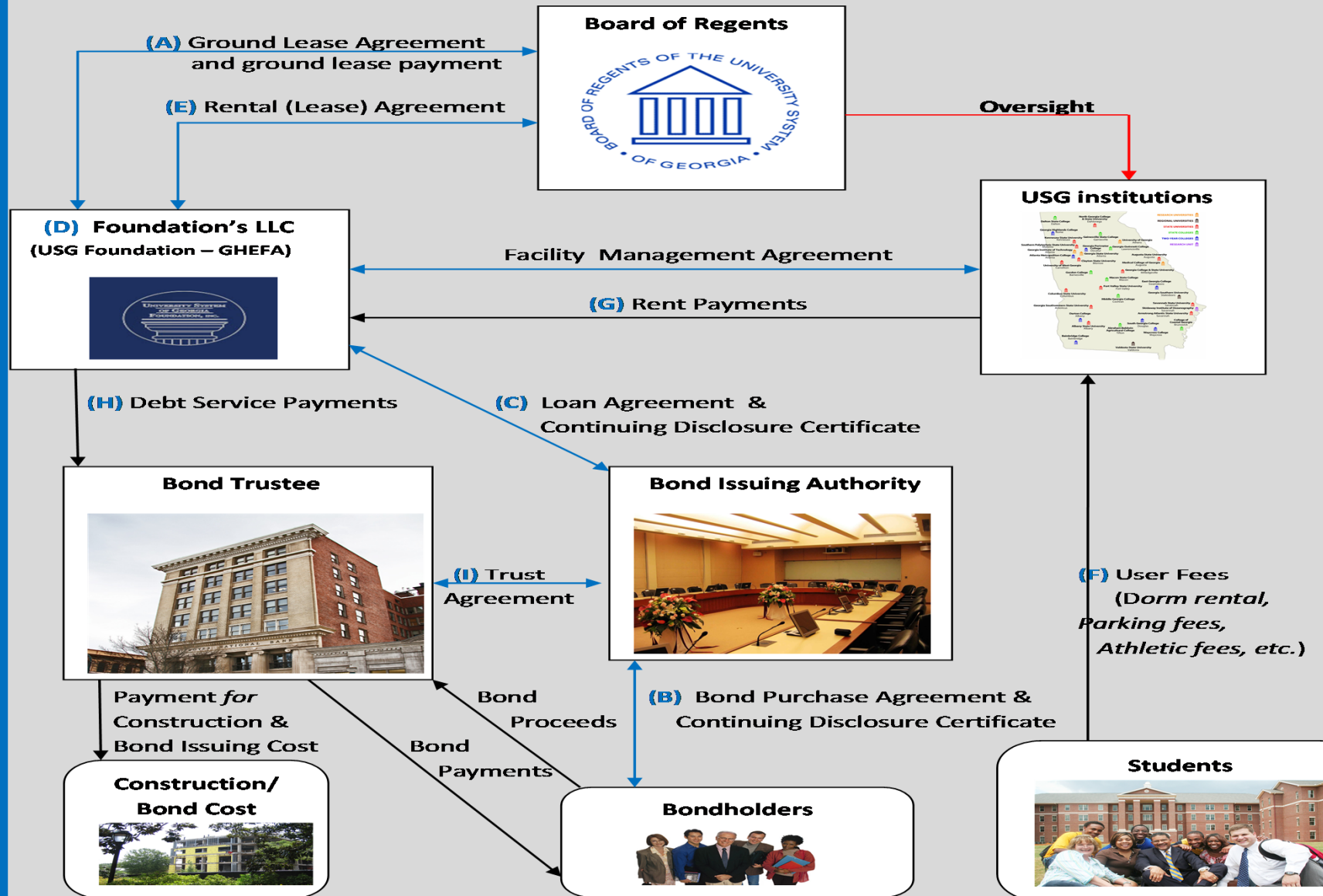
Institutions	0	2	2	2	8	10	3	1	0	0
Sample Rates	3.61%	3.76%	3.91%	4.06%	4.26%	4.41%	4.56%	4.81%	5.06%	5.36%



Standard and Poor's also rates some PPV issues.

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Public Private Venture – Financing Structure





PPV and GHEFA Projects

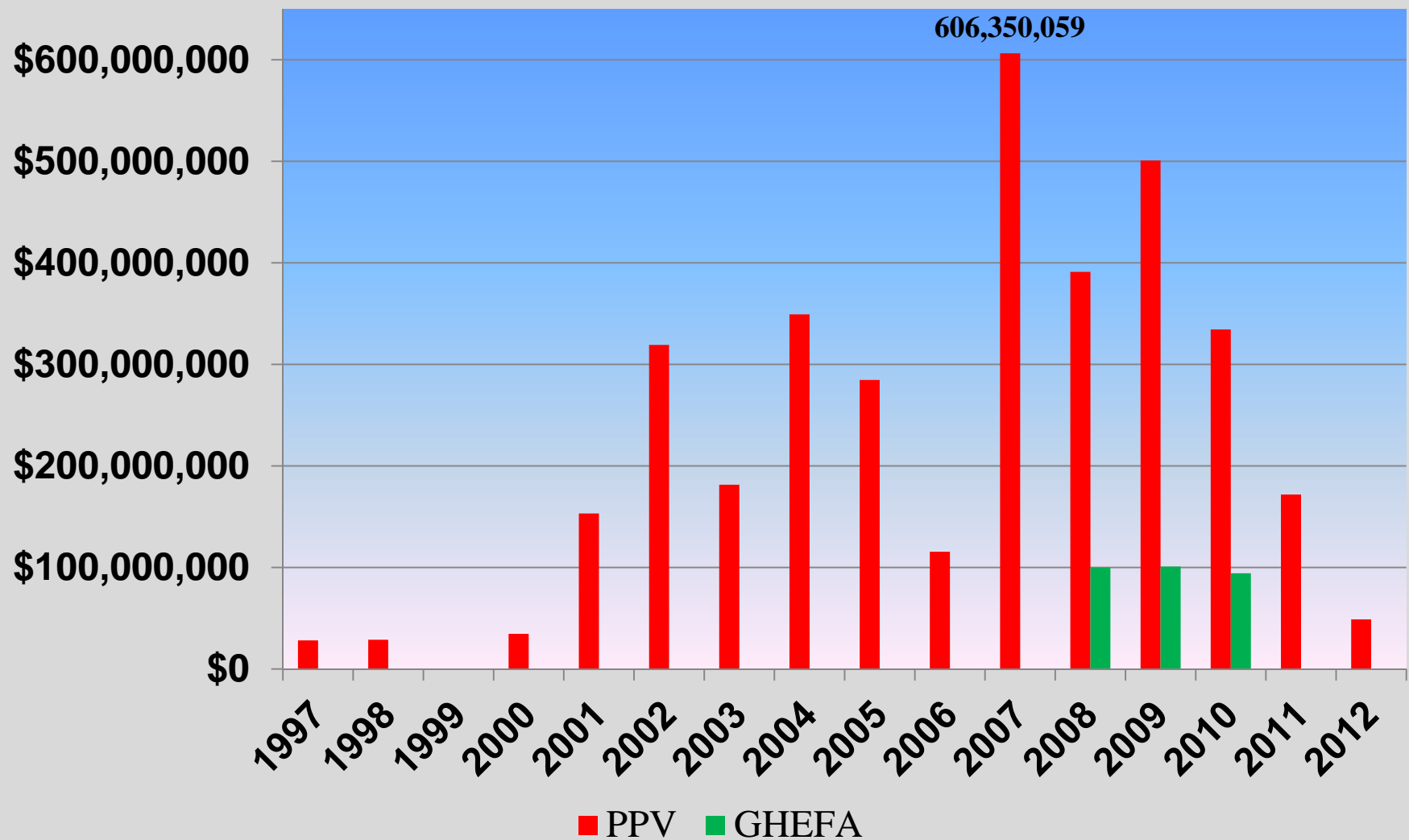
(Through June 30, 2012)

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

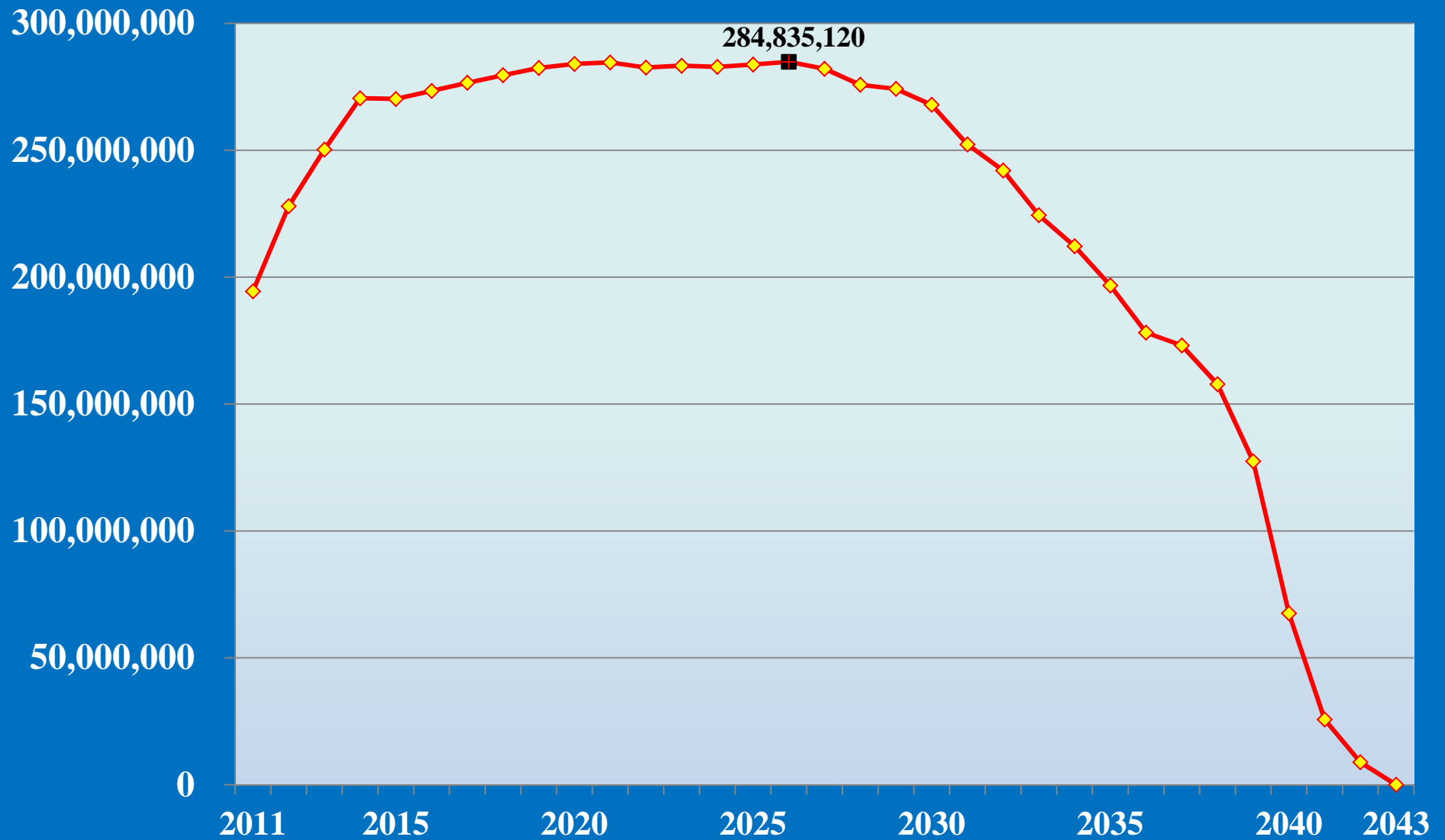
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PPV-GHEFA Financing By Year

(Total = \$3,647,708,986)

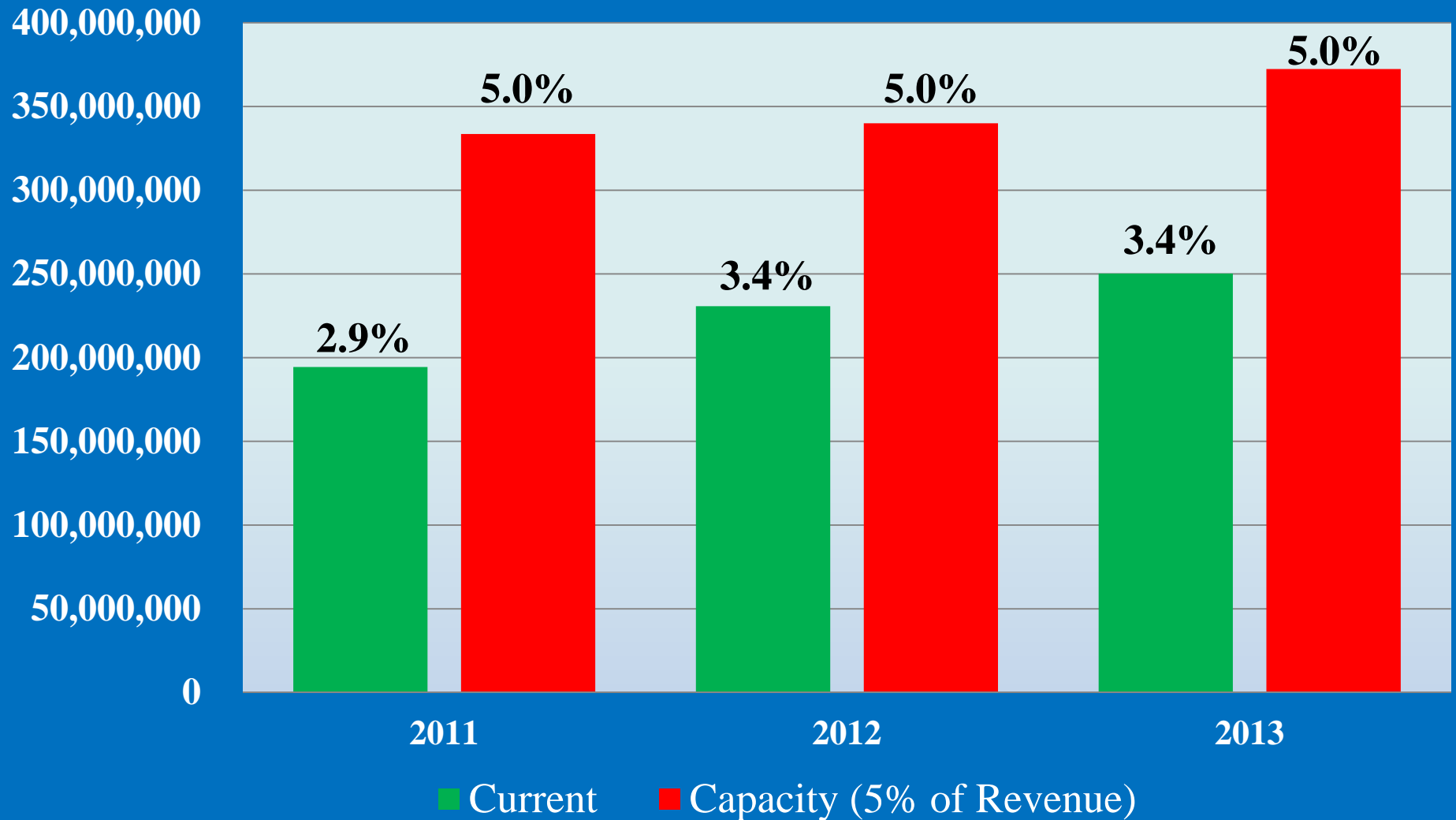


Annual Lease Payment Obligations



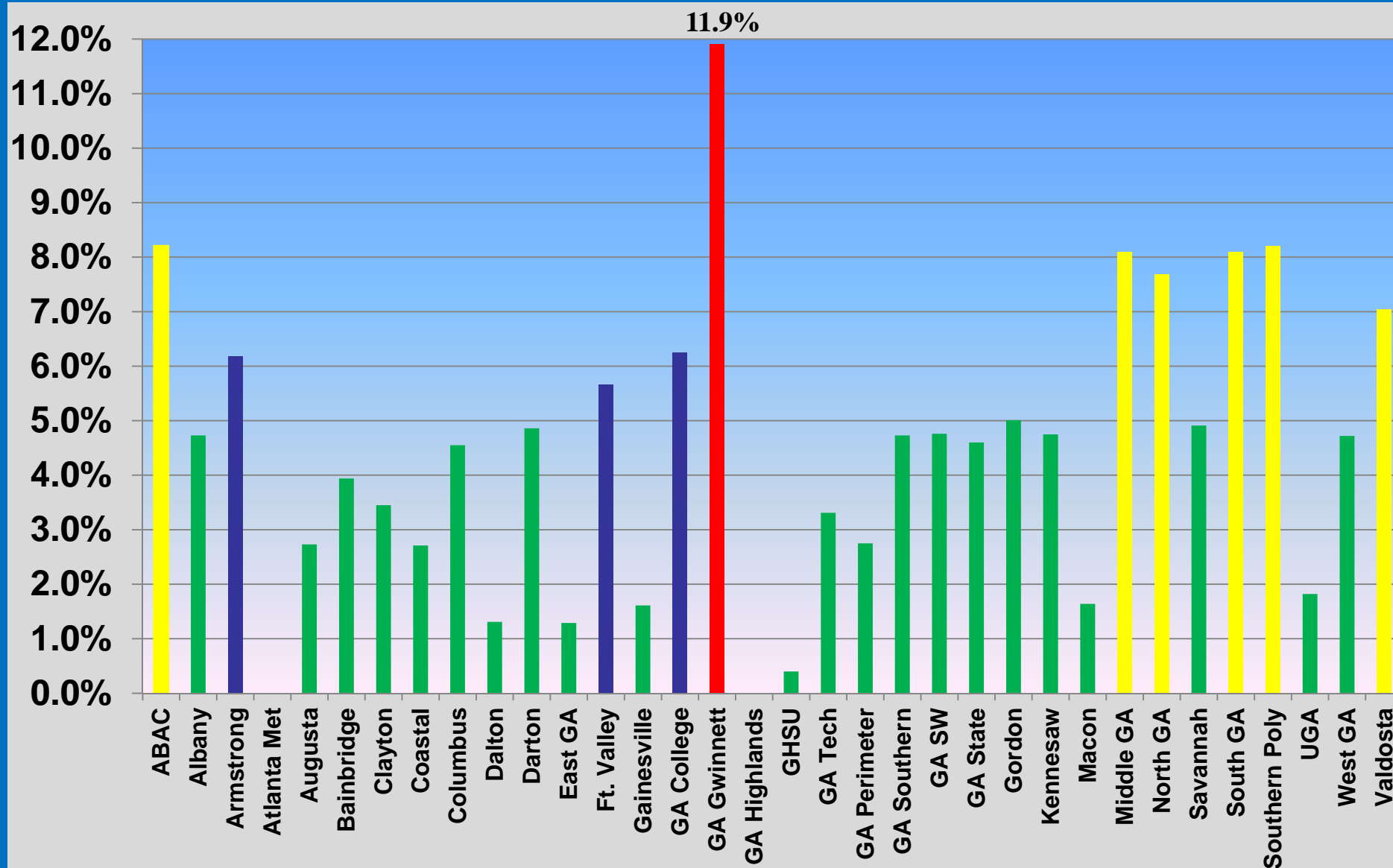
University System Capacity

(Assumes 5% of Revenues as System Maximum)



Remaining System Capacity : Approximately \$1.2 Billion

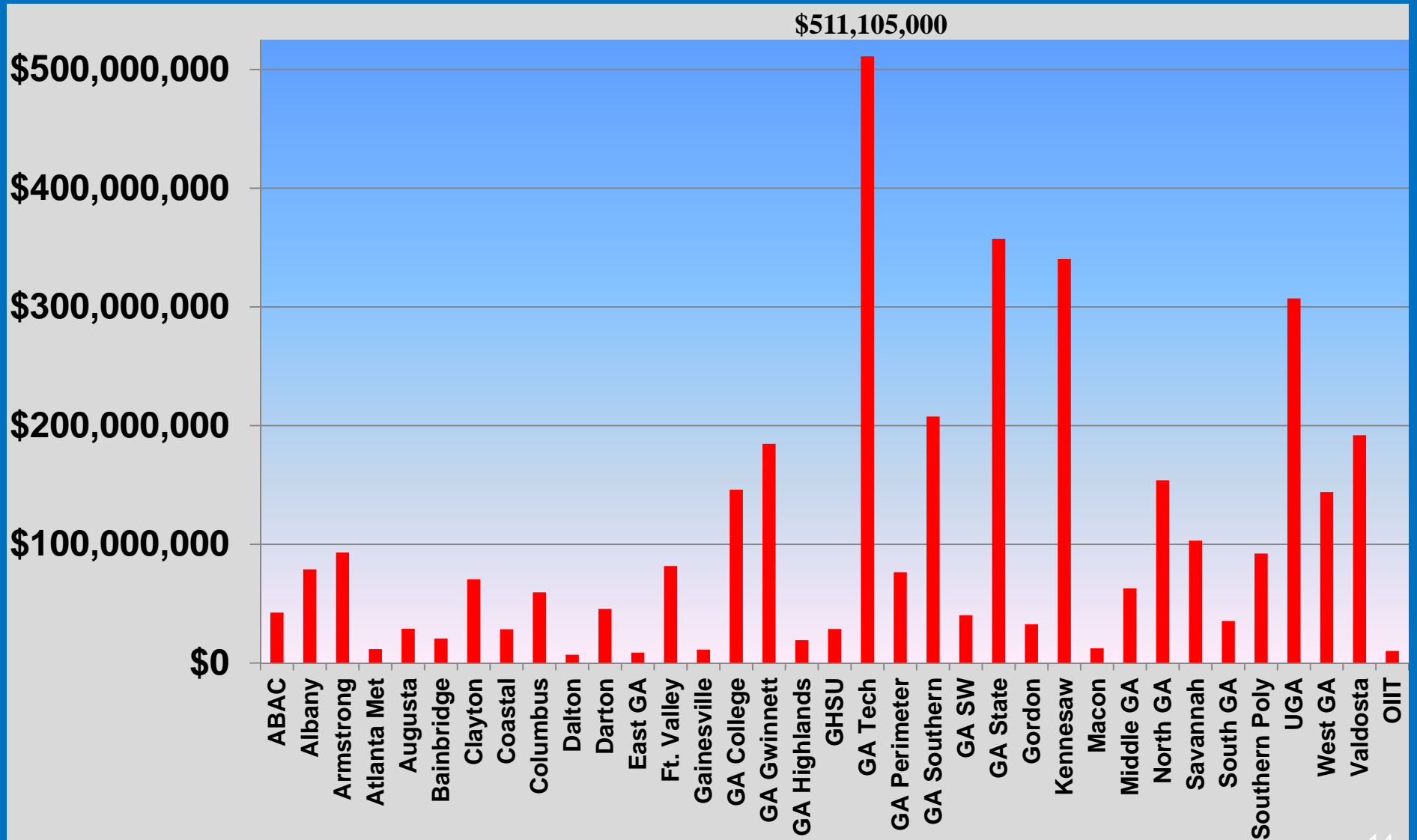
Debt Ratio By Institution – FY 2012



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

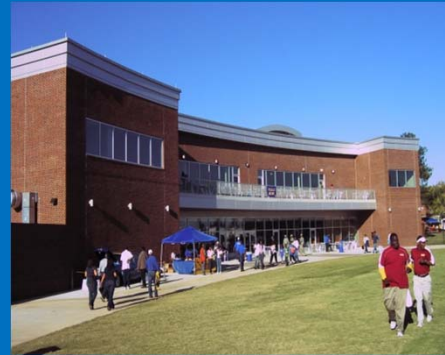
Completed Projects



Dalton State College
Parking Deck



Dartmouth 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



Policy Addition: Maximum Capacity

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.



Policy Addition: Refinancing

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



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)



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

PLAN ELEMENTS

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

PLAN ELEMENTS

Replacement Reserves

- Monitor actual vs. projected repair & replacement reserve funds
- Assess capital expenditures

On-Site Evaluation

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