UTAH SYSTEM OF HIGHER EDUCATION

MEMORANDUM

TAB A

January 14, 2021

Salt Lake Community College – Non-Traditional Arrangement

Board Policy R712, *Non-Traditional Arrangements for Development of Facilities on Campuses*, requires the Board to approve development projects by outside entities on institutional land. Salt Lake Community College requests authorization to contract with a private developer to develop and operate student housing on the Taylorsville-Redwood Campus. In working with an outside consultant, the college finds demand for affordable student housing in the Taylorsville area and that a public-private partnership will provide the best option for the construction and operation of the facilities. The project will be presented to the SLCC Board of Trustees in the January 13, 2021, meeting. Additional information about the project is provided in the attached letter and presentation materials.

Commissioner's Recommendation

The Commissioner recommends the Board authorize Salt Lake Community College to partner with a selected private developer to develop and operate student housing as presented, contingent on continued communication and review by the Attorney General's Office.

Attachments:

Salt Lake Community College

30 December 2020

Board of Higher Education
c/o Commissioner David R. Woolstenhulme
Two Gateway; 60 South 400 West
Salt Lake City, UT 84101-1284

RE: Student Housing at Salt Lake Community College

Commissioner:

In accordance with policy R712, *Nontraditional Arrangements for Development of Facilities on Campuses*, SLCC is requesting permission to pursue a student housing project on the Taylorsville-Redwood Campus. Specifically, the College would like to explore an arrangement for construction and operation of a housing initiative in accordance with Section 5 of the policy referred to above, that is: *Facilities Developed and Owned by an Outside Party on Leased Institutional Land*.

The College has engaged the Scion Group, which is a consulting company with expertise in student housing initiatives. Scion has conducted both a demand analysis and a financial analysis of placing student housing on the Taylorsville-Redwood Campus and found that such a project is not only needed and financially feasible, but would also advance the strategic goals of Salt Lake Community College. Based on the unique opportunity and challenge such a project presents, the College is of the opinion that pursing a Public-Private Partnership (P3) arrangement would be the most prudent model under which to structure this initiative, thus the desire to discuss with the Board the requirements set forth in R712-5, as referred to previously. The College believes that a P3 arrangement offers the following advantages:

- Preserves College capital and borrowing capacity
- Transfers development risk to a 3rd party and operational risk to a not-for-profit entity who owns the improvements during the term of the ground lease
- Leverages private sector resources for College use
- Provides residual cash flow to the College, assuming sufficient project performance

VICE PRESIDENT FOR FINANCE AND ADMINISTRATION, CFO
P.O. Box 30808 | BVP | Salt Lake City, Utah 84130-0808 | Phone 801-957-4250 | Fax 801-957-4445 | www.slcc.edu

The College has followed a thoughtful and deliberate process to date in considering the impact student housing might have on our campus. This process has included extensive discussions internally with executive administration, and externally with our financial advisors, counselors, and consultants – as well as Commissioner's Office staff. Even though pursuing this "nontraditional arrangement" takes us down a new path not previously trodden by SLCC or other institutions of higher education in the State, SLCC feels the time is right to consider and pursue these types of partnerships – for the overall benefit of our students and their success.

Thank you for your consideration and support of this request. We look forward to discussing this further with the Finance & Facilities Committee and with the Board of Higher Education as a whole. Let me know if there is anything else you need regarding this agenda item.

Respectfully submitted,

Jeffrey J. West
Vice President for Finance & Administration/CFO


Salt Lake Community College
Student Housing Study
Housing Delivery Options and Implications
Salt Lake Community College
scion ADVISORY SERVICES

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Agenda

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Engaged & Collaborative Process

Go / No Go Decision

Phase 1 - Project Initiation & Strategic Objectives
- Project Initiation and Preliminary Data Gathering
- Strategic Objectives Alignment Session
- Campus Tour
- Stakeholder Interviews
- Student Focus Groups

Phase 2 - Student Housing Market and Demand Analysis & Financial and Feasibility Analysis
- Online Student Surveys
- Off-Campus Market Analysis
- Proprietary Tools to Test Performance
- Scenario Settings for Risk vs. Control
- Determine Financial Return
- Analyze Different Delivery Methods
- Presentation and Discussion of Findings
- Recommendations, Implementation Plan

Phase 3 - Procurement
- RFQ/P Drafting/Issuance
- Pre-Proposal Conference
- Evaluation of RFQs and Short List/Distribute RFP
- Suggested Interactive Working Session
- Interviews and Developer Selection
- Negotiation of Pre-Development Agreement

Phase 4 – Project Facilitator/Owner's Representation
- Strategic Objectives Implementation
- Process Management/Lead
- Staff Augmentation
- Project Facilitator
- Design Oversight
- Development Schedule and Budget Oversight

SALT LAKE COMMUNITY COLLEGE Student Housing Study: Delivery Options & Implications // January 2020

Scion // **3**

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Market & Demand Analysis Findings

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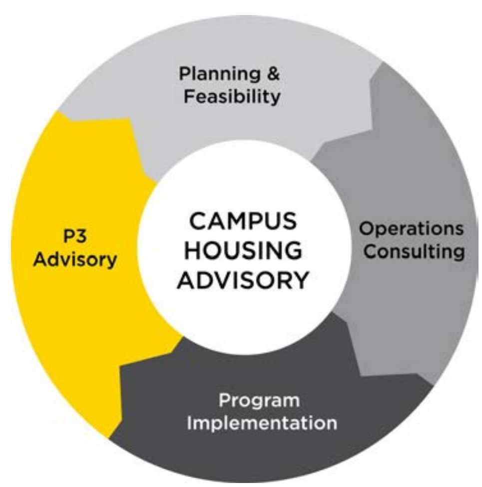
Market & Demand Analysis Summary

- Student housing would advance identified strategic objectives: *Affordability*, *Student Recruitment* and *Completion.*
- Strong demand for housing for single students (518 – 643 beds) and students with families (607 – 679 units), with both cohorts preferring apartment-style housing.[1]
- 94% of students believe offering housing will be important for attracting future students and 89% believe it will be important for retaining future students.
- College Leadership generally favors the advancement of student housing to support the needs of SLCC students.

[1] Calculation of demand based on Fall 2019 enrollment and does not include demand for students enrolled in 0.5 to 5.5 units. Demand range based on survey-tested rates at the low end and then increase in demand if discounted rates were available. Rates for by-the-bed housing were decreased by 13%-17%, while rates for by-the-unit housing were discounted 5%-10%.

The Scion Group

- Campus housing – **only focus** since 1999
- Worked with **250+ campus markets, 30+ at community colleges** throughout North America; including several at various stages of P3 implementation (Centennial College, Orange Coast Community College, Tacoma Community College and Santa Rosa Junior College)
- Multidisciplinary advisors with combined **100+ years** of on-campus housing experience and **50+ years** in finance and economics, planning, research and owner's representation
- **$5 billion+** of new/renovated student housing facilities supported by our work
- **Stand-alone** advisory services practice, within the largest privately held portfolio in the country – **58,000 student housing beds**
- Scion is **not a developer**
- Offices in Chicago ♦ Dallas ♦ Irvine ♦ Washington, D.C. ♦ Toronto



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Implementation Strategy

College Owned Traditional Model

- College owns and controls 100% of the community.
- College retains 100% of economic benefit and risk.
- College issues tax-exempt bonds on its own or through a public conduit.
- Repayment of debt is a College obligation and new liability is reflected for balance sheet and credit purposes.
- Becomes an item of the College's debt profile and therefore, credit rating.
- College or third party manages project.

Nonprofit/Foundation Owned Tax-Exempt Model (P3)

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Implementation Strategy

Potential College credit enhancement structures:

- Expense subordination
- Direct revenue support
- Contingent master leasing
- Master leasing for certain residents (athletes, foreign, etc.)
- Direct leasing of administrative/support space in building
- Additional reserve capitalization through project cash flow

College Owned Traditional Model

Nonprofit/Foundation Owned Tax-Exempt Model (P3)

- Nonprofit corporation owns community and issues tax-exempt bonds secured by project revenue.
- College credit enhancement is sometimes required to achieve optimal pricing on bonds.
- Developer earns development fee but maintains no on-going ownership interest or claim on community's annual net revenue.
- College or third party manages the community.
- College limits risk and debt capacity impact, but also realizes economic benefit from residual cash flow and maintains control over major project decisions.
- Project/improvements revert to the College once the outstanding debt is retired.

Control vs. Risk

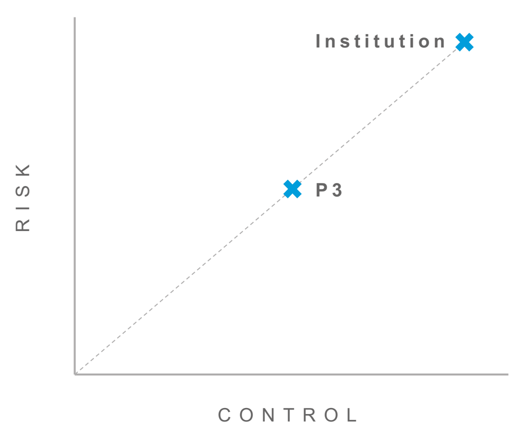
Balancing to Achieve Goals

Sample Control Items:

Mission Alignment
Program Design
Construction Standards
Schedule
Operations – Program & Cash Flow

Sample Risk Items:

Cost Impact – Upfront & Ongoing
Credit Impact
Reputation Impact



Case Study: Financing Structure Comparison

College Funded

Pros

- Lowest cost of capital compared to other deal structures
- Control over key project decisions
- College receives all project cash flow

Cons

- College assumes all risk associated with the project
- Direct impact on College debt capacity
- Speed of delivery

P3

Pros

- Project designed to be fully self-funded
- Tax-exempt debt
- Typically limited financial commitment
- Low-to-moderate cost of capital
- Residual cash flow to the College
- Preserves debt for other capital projects
- Balance of control and risk
- Speed of delivery

Cons

- Cost of capital typically higher than College Funded
- Limited control compared to College Funded
- Potentially varying degrees of financial commitment
- Additional project costs (Developer fee, DSRF, Capitalized Interest)

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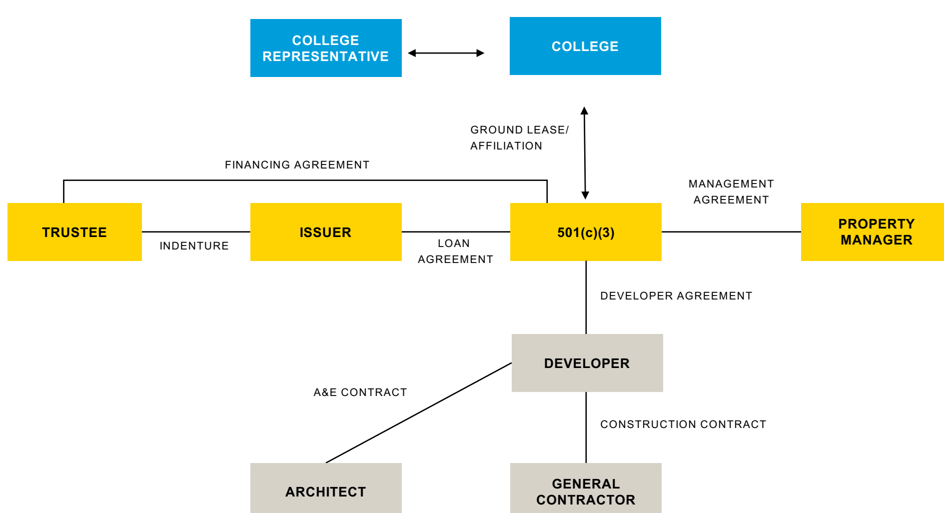
Example P3 Structure



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Tested Housing Program

Intended Cohort	Single Students
Bed Count	350 beds
Unit Type	Apartments

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Rate Comparison

Delivery Method	College Funded	P3
Unit Types	**Monthly Rates (By-the-Bed)**	**Monthly Rates (By-the-Bed)**
Studio	$1,008	$1,200
4 Bedroom Apartment	$714	$850
2 Bedroom Apartment	$798	$950
2 Bedroom Apartment (Double)	$630	$750

P3 rates represent the rates tested on the survey.

P3 programs may require some form of support from the College for credit enhancement purposes.

College funded scenarios experienced a decrease in rates because:

- Lower cost of capital
- Decreased debt service coverage requirement

Rate Comparison

Scenario	Median Monthly Rate Per Person
College Funded*	$725
P3*	$863
Off-Campus Market Analysis**	$863
Self-Reported – Full-Time**	$750
Self-Reported – Part-Time**	$800

P3 weighted median rate represent the rates tested on the survey.

P3 programs may require some form of support from the College for credit enhancement purposes.

College funded scenarios experienced a decrease in rates because:

- Lower cost of capital
- Moral obligation pledge from State of Utah to bondholders
- ‘AA’ S&P rating on moral obligation-backed bonds

Median off-campus rates per person in-line with P3 weighted median rates.

**P3 and College Funded median rates are weighted based on unit types in conceptual 350-bed program.*
***Includes rent and utilities.*
Note: “Self-reported” reflect the data SLCC students reported in the online survey administered as part of the Market and Demand Analysis.

Next Steps to Advance On-Campus Housing

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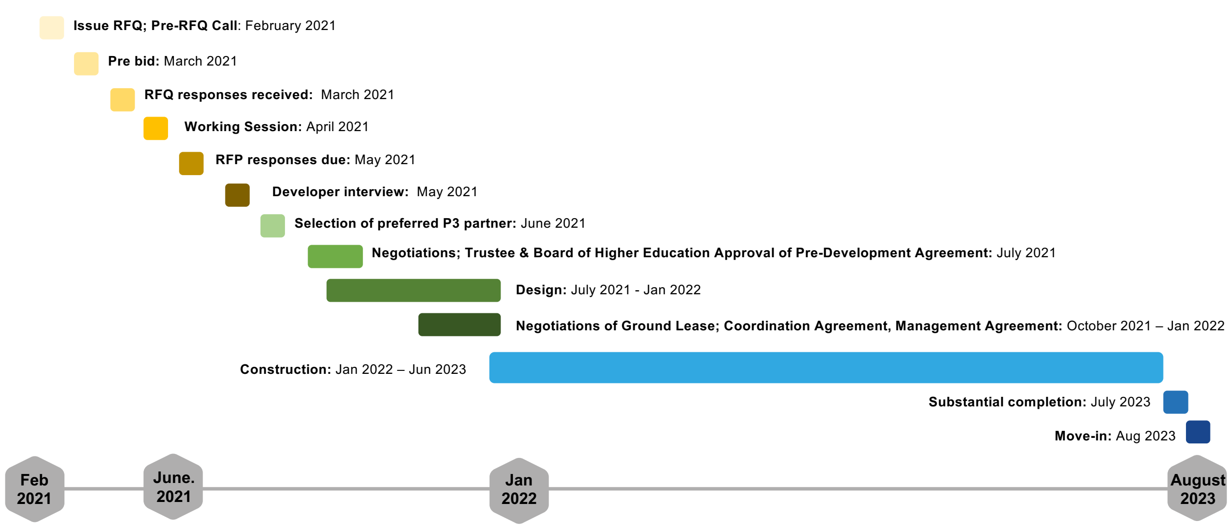
Example Project Timeline (Hypothetical Fall 2023 Move-in)



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Summary

The following summarizes the conclusions from the Market & Demand Analysis and financial testing within the context of the implementation strategies, as previously outlined.

- Several feasible programs to provide housing for students, with the opportunity to serve single students and/or students with families.
- Tested projects likely to attract P3 development partners, even with conservative demand in tested programs. Project sizes between 60% and 63% of total demand by cohort.
- Operational efficiencies through larger programs or a bundled project, may result in lower rental rates.
- Potential for new revenue through residual project cash flow to support College mission.
- Delivery methods have varying impacts on affordability, risk and control.

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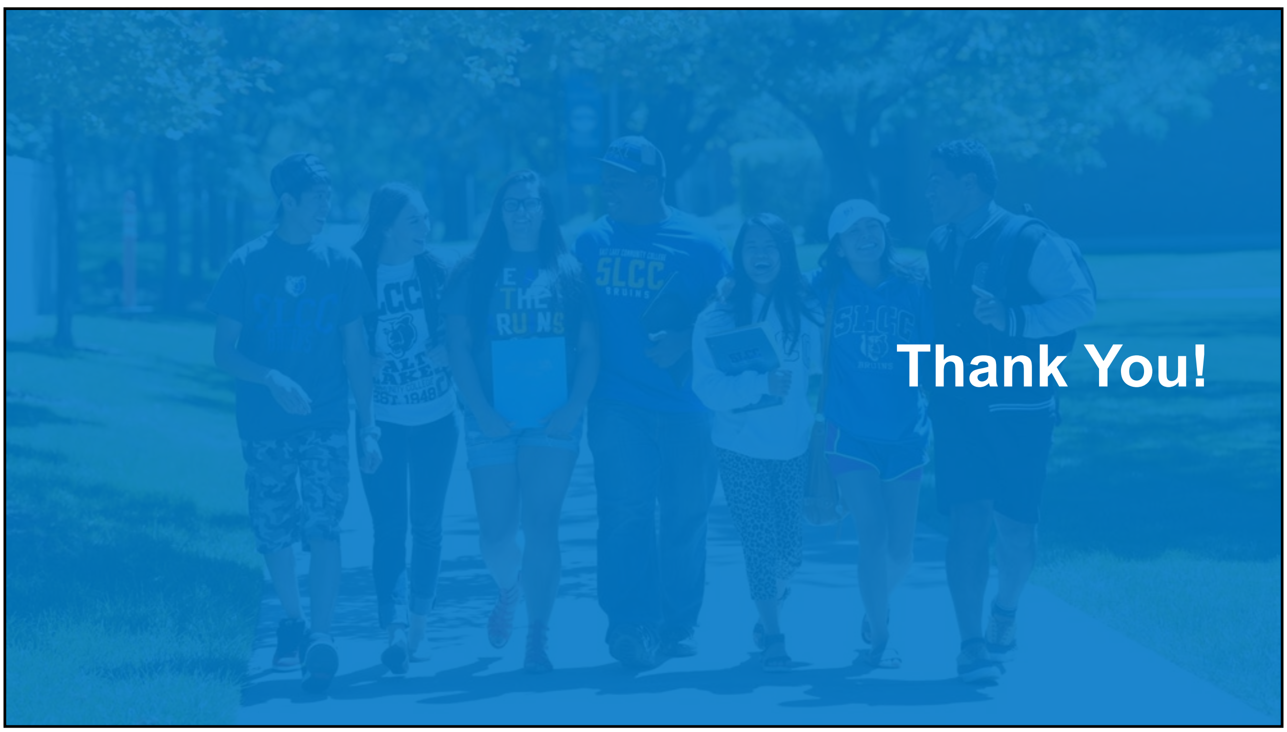

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