

STUDENT HOUSING PROJECT PROSPECTUS

In November 2002, Shepherd College engaged Brailsford & Dunlavey (B&D) to complete a Student Housing Feasibility Study. The final plan evaluates the extent to which the Residence Life Office (RLO) is contributing to the College's institutional goals, keeping pace with national and regional housing trends and addressing future demand for student housing. Accordingly, B&D completed a comprehensive market analysis, financial analysis, and phasing strategy for maintenance and improvements to Shepherd College's RLO program. This analysis includes detailed on- and off-campus market analysis, demand projections, system-wide financial analysis and a development strategy.

The B&D Report has been previously distributed for review by the members.

B&D confirmed the demand and financial feasibility for the College's commitment to the long-term development of additional residential facilities in order to meet most of the identified on-campus housing demand. This commitment to housing development is an important component of the institutional mission, the Student Affairs' objectives, and the goals of RLO.

B&D's market analysis determined that, despite the large number of students that currently live at home with their families, there is a growing demand for additional student housing facilities at Shepherd College. The demand is being driven primarily by single students in every year of school who desire additional beds and additional variety in the accommodations offered. In addition, there is a core group of non-traditional students that are interested in family housing accommodations on campus. Much of this demand is being driven by the lack of appropriate and inexpensive student housing available in Shepherdstown.

Developing the RLO facilities and programs is key to developing a critical mass of students on campus that would support the presence of other "quality of life" facilities, including dining services and recreation facilities. The success of campus life facilities and programs are generally linked to each other, with housing frequently serving as an anchor.

In response to these findings, B&D worked with the College to create a ten-year student housing program comprised of sequential construction phases. The College could develop residence accommodations for 500 students and be well within the feasibility margins of the B&D report. The ten-year plan allows for capital improvements for the existing facilities. For fall 2006, the plan calls for the opening of a 300-400 apartment-style beds, each with many single occupancy rooms. The plan also calls for up to 200 residence hall beds in fall 2008.

Brailsford and Dunlavey provided information in their Student Housing Feasibility Study – Final Report regarding four critical areas to consider as we move toward the financial aspects of the new residence housing for FY06 and FY08. These critical areas are financing, delivery, ownership, and management. Below provides a summary of their recommendations and the staff recommendations as they relate to each of the aforementioned areas.

Financing

Brailsford and Dunlavey emphasize that housing is a critical aspect to the mission of the College. Their review of our finances, including debt capacity, indicates that the College could finance the residence hall project internally.

The College's overall debt capacity should be considered in the deliberation of the various financing options. According to Moody's Investor Services, the determination of the College's debt capacity requires a detailed analysis of many factors. These include:

- market position
- financial reserve levels and ability to manage and grow reserves
- capital funding needs and sources for capital investment
- operating performance
- the relationship with the State, including consistency of funding,
- management competence and sophistication

The most important consideration is the students' ability to pay the debt service incurred by the College. Therefore, debt assumed by an external organization that is dependent on revenues from students, in the case of a private ownership model, would have an impact on the College's debt capacity. Debt capacity can change over time, depending on the College's financial health and market position. The College's willingness to assume debt also has an influence on debt capacity.

Shepherd College's market position is strong. The population in its market area is growing, and competition from other institutions is not a significant issue. Its academic programs are strong. Recent upgrades to its facilities include a new science addition, a library addition, and a football stadium addition.

The College's tuition and fees are below the market level. There will be continued pressure from the Legislature to minimize the tuition and fee increases related to education and general operations for in-state students. Capital fees have not been included in any ceiling on tuition and fees set by the Legislature. The gap between the College's in-state tuition and market rates should continue. This will leave room for the College to fill the gap with capital fees, if it chooses to do so. Out-of-state fees have not been limited by the Legislature.

Auxiliaries projects that are being considered for possible financing through the issuance of debt include:

Housing Facilities Fiscal Year 2006	\$16,500,000
Wellness Center Addition to Butcher Center	7,000,000
College Center/ Dining Facility	10,000,000
Parking Garage	5,000,000
Housing Facilities Fiscal Year 2010	<u>9,000,000</u>
Total	\$47,500,000

The housing facilities debt service would be paid from student rental payments, but this expense does represent a significant commitment of the margin of elasticity for capital project debt that will be paid for by students. Housing fees for the new units would be set, and housing fees from existing halls would also be pledged, to cover all expenses related to the construction bonds, including debt service, as well as operating costs. Tax- exempt, auxiliary facility bonds issued by the College would finance the entire project. The bonds would only need the approval from the Shepherd College Board of Governors and the Higher Education Policy Commission on a consent agenda.

Financing Recommendation

It is recommended that the College should choose internal financing for the housing project. Investors are concerned primarily with the revenue stream that supports a particular bond issue rather than the total amount of debt. Capacity would be a concern if the total charges to residence students would be at a level that would price the residence halls out of the market.

There is no advantage regarding debt capacity with an external financing, since rating agencies consider the total debt burden to be paid by student fees and charges in their determination of a school's debt capacity. The impact on the College's debt capacity would not vary significantly from the impact of an off-balance sheet financing because rating agencies include off-balance sheet financings in institutional leverage profiles. There are fewer approval steps with internal financing.

Delivery

1. Project Management

The delivery of the housing project includes a review of whether the College's existing project management structure can provide oversight for this particular project (FY06 and FY08 housing) while handling all other duties required. Brailsford and Dunlavey recommended an internal audit to help address this issue.

The College currently employs an engineer/project manager with over 20 years of experience in construction project management. His most recent experiences include the renovations in the College's residence halls and stadium facilities building, the Library and Frank Center additions, and parking lot.

It will be important to continue and strengthen the relationship between Facilities/Project Management and Residence Life/Student Affairs throughout the entire housing project. At a minimum, the Assistant Vice President / Director of Residence Life will be involved in all final project decisions. The Director of Residence Life brings over 15 years of experience in residence halls and knowledge of student development that will be integral in the overall design of the new apartments/residence halls.

Shepherd College Facilities/Project Management is able to respond immediately to questions and field conditions that arise daily. These issues can be dealt with and resolved in consultation with appropriate College personnel. Issues that deal with existing conditions at the College can be addressed through existing field knowledge or through the ability to access drawings and documents quickly.

2. **Design**

Delivery also includes the issue of design and construction. Two options could be appropriate for this construction project:

Option A: Use a Design-Build strategy to focus project responsibility solely on the DB contractor. It makes the beginning of the design phase process more critical, but reduces the potential for change orders arising from contractor complaints of design deficiencies. In order to decrease any concerns of quality of the construction, the RFP would provide detailed specs on all aspects of the project.

The West Virginia Department of Administration has established legislative rules for the selection of design-builders under the design-build procurement act. These rules require state agencies to obtain the West Virginia Design-Build Board's approval that a project is appropriate as a design-build project for any project that is constructed and owned, potentially owned or ultimately owned by any agency.

An agency must employ a registered project or engineer, to be known as the Performance Criteria Developer. The architect or engineer may be an employee of the agency. The agency must consider education, training and general experience; prior experience with projects of similar size, scope, and complexity; and prior experience with design-build contracts, as appropriate or substantially similar experience. The Performance Developer must be retained through the final completion of the project to monitor adherence to the performance criteria.

A performance criteria package must be prepared with the aid of the Performance Criteria Developer. A request for proposal, consisting of a qualitative proposal and a cost proposal must be developed and sent to selected design-build firms.

A Technical Review Committee established by the Department of Administration would be responsible for rating and scoring the qualitative proposals submitted by the firms. This committee's membership would include, at a minimum, a representative of the agency, the Performance Criteria Developer as a non-voting member, a representative who will use the facility, and at the discretion of the Secretary of Administration, the Secretary of Administration or his designee.

The current form of BOG Policy 23 does not authorize design-build processes and would require amendment by the Board.

Option B: Design-Bid-Build can increase the process time, but provides the owner with checks and balances in the design and construction. Bids would be issued for an architect and upon completion of this design phase another bid is generated for the contractor using the architectural work. This is the standard process for state government capital projects. A thorough design process provides a fixed price for the bidding of construction. The process is can be more time-consuming as the design process is completed before any solicitation of bids for construction, but this process maximizes owner control over the project when managed properly.

Delivery Recommendation

It is recommended that the College utilize its internal Project Management to oversee the design and construction of the new student housing facilities. Project management will be conducted in consultation with Residence Life/Student Affairs.

It is recommended that the project proceed following the Design-Bid-Build model.

Ownership

The feasibility study has assessed the options of private ownership and traditional, internal development of the housing facility.

1. Private Development

A private developer would lease the land from the College and develop, finance, own and operate the facility. College students would lease the units directly from the developer. The only involvement from the College would be leasing the land to the developer and terms determined in the ground lease. The project would have to be financed like a traditional real estate deal and would use taxable debt.

The Higher Education Policy Commission Series 12, Capital Projects, requires that the governing boards and institutions shall not approve or promote projects that give competitive advantage to new private sector projects over existing West Virginia businesses, unless the Policy Commission determines such private sector projects are in

the best interest of the students, the institution and the community to be served. This rule could restrict the options for a private-sector project.

Advantages

- College not responsible for assignments
- Depending on the situation, there may not be an occupancy guarantee
- Since land is still owned by the College, development may not incur property taxes, which lowers rents for students

Disadvantages:

- Potential restriction to West Virginia Developers
- Unknown amount of time required to comply with the Department of Administration's Legislative rule
- College Control of the project is minimal
- Significant control by the Department of Administration over the procurement process
- May not have access to tax exempt financing
- Rents could be higher for students
- May have occupancy guarantees
- Limited ability to construct unique designs

2. College-Financed/ Traditional Housing Development

In this approach, the College would be responsible for developing, owning, and operating the new student housing. The College can select Architects and contractors without direct oversight from the West Virginia Department of Administration.

Investors are concerned primarily with the revenue stream that supports a particular bond issue rather than the total amount of debt. Capacity would be a concern if the total charges to residence students would be at a level that would price the residence halls out of the market.

Advantages

- Lowest Cost of Capital
- Fast approval process
- Highest level of control
- Familiar process
- Surplus cash flow remains with the College

Disadvantages

- Actual project debt service and housing's contribution may not be the same, if occupancy rates are inadequate

3. Affiliated Non-Profit-Sponsored Development

The Shepherd College Foundation or a non-profit entity created by the College would develop the project and then lease the facility to the College. Generally, this is a 501(c) 3 organization that has the ability and capacity to take on debt. The project may use tax-exempt financing backed by the College's master lease. In addition to the approvals by the Shepherd College Board of Governors and the Higher Education Policy Commission, the approval of the Shepherd College Foundation would also be required.

Since the non-profit entity's financial statements would appear as a component of the College in the College's annual financial report, the debt would be considered by rating agencies.

Advantages

- Low cost of capital through use of tax-exempt debt
- College can still have control over the project
- Can be fairly straightforward to organize

Disadvantages

- More approval steps for financing
- Construction must be handled as a public works project
- Some private 501(C) 3 have been under increased scrutiny by the IRS
- Slightly higher cost to student than traditional- financed projects
- Loss of some College control of project
- Still may be considered college debt by underwriters

4. Private Development with a College Master Lease

A private developer would lease the land from the College and develop and own the facility. The College would lease the entire facility from the developer and be responsible for all or part of the operations. The project could be funded using either tax-exempt or taxable financing backed by the College's master lease, depending on the situation.

The Higher Education Policy Commission Series 12, Capital Projects, would apply if the developer was responsible for all or part of the operations.

Advantages

- Do not need an affiliated arm of the college
- Many experienced developers
- Minimizes financial risk for College of construction cost overruns
- College could receive net revenues from the project

Disadvantages

- College does not receive cash flows that fund the developer's profits
- Potential restriction to West Virginia Developers
- Construction must be handled as a public works project
- Less College control due to third party involvement
- Higher costs to students

Based on the mission of the College, ownership of the land considered for the structure, and capital, Brailsford and Dunlavy recommend ownership of the new residence halls.

Shepherd College concurs with the consultants and their reasoning. It is also important to note that the current location of the new housing will be near the center of the aggregate west campus

property. Not owning the building could create long-term management problems based on the significance of this location and the future of Shepherd College.

Ownership Recommendation

It is recommended that the college financed/ Traditional Housing Project approach be utilized. This alternative provides more financial benefit to the College over the life of the project. The debt financing would be less costly and require fewer approvals than if the College used the foundation or other private third parties. The College would have control of the facilities. The College would not have to use a West Virginia firm for development.

Management

Finally, Brailsford and Dunlavey recommend that Residence Life continue the management of the new halls as the housing and other residence life programs and services are central to the mission of the College. The consultants believe that the Residence Life program is currently managing the existing facilities well and the benefits of the continued relationship are important.

Management Recommendation

It is recommended that the new student housing project be managed by Shepherd College Residence Life, consistent with current practices.

Additional student housing has been identified consistently in the College's capital development planning for several years. The West Campus location is identified in the current Master Plan and is ratified in the prospective Master Plan update which is nearing completion.

Total project budget is currently \$17 million dollars to reach completion of phase one of the Student Housing Project. Phase One would provide an increase of 300-400 apartment-style beds. Limited amounts of early expenses would be covered by current capital reserves. The substantial bulk of these expenses would be covered through institutional bond sales.

The following resolution is recommended for adoption by the Board:

RESOLVED, That the Shepherd College Board of Governors approves the Student Housing Project Prospectus as presented in the agenda book, including all staff recommendations contained therein, and authorizes the President to undertake the management of the Student Housing Project.

FURTHER RESOLVED, That the Shepherd College Board of Governors authorizes the President to employ Bond Counsel and Underwriters, for the purpose of development of a bonding program for the Student Housing Project, the final issuance of which shall be subject to the further review of the Board.