



AGENDA ITEM

B-5. Authorization of Predevelopment Agreement– ASU Rick Whitfield

Situation: Appalachian State University requests that the Board of Governors authorize Appalachian to enter into a predevelopment agreement in connection with a project to redevelop student housing facilities, replace approximately 1,797 existing beds, add approximately 325 new beds, and add related surface and structured parking (the “project”) on Appalachian’s Millennial Campus. The project is to be executed in multiple phases, the first of which includes the construction of approximately 608 new beds and a structured parking facility.

Background: The Board of Governors is authorized under G.S. 116-198.34 (1) to designate real property held by a constituent institution as a millennial campus of the institution, (2) to provide for the acquisition and construction of projects located on the millennial campus, and (3) to enter into contracts and agreements related to the acquisition and construction of such projects.

At Appalachian’s request, the Board previously designated a portion of the campus as a millennial campus to facilitate the development of multiple facilities. ASU conducted a competitive selection process, which included a request for qualifications followed by requests for proposals in order to qualify potential developers and solicit public-private partnership proposals for the development of the project. Based on the results of that process, Appalachian determined that, when compared to Appalachian’s traditional delivery and financing options, a public-private partnership model would deliver additional value and savings to Appalachian, reduce the time frame for project delivery, and result in lower student rental rates necessary to support the project.

Appalachian is requesting the Board’s authorization to enter into a predevelopment agreement with the developer selected through a competitive procurement process to advance the design and development plans of the first phase of the project.

Assessment: The predevelopment agreement will allow Appalachian and the developer to continue to refine design concepts and related cost estimates to ensure project feasibility and affordability without causing a delay in the project’s anticipated timeline. Under the predevelopment agreement, Appalachian will be responsible for up to \$3,970,683 of the developer’s advance planning costs (including design work, testing, research, and limited-site development) prior to the negotiation and approval of the ground lease for the first phase of project development. The predevelopment agreement will provide that Appalachian be obligated to pay its share of the total advance planning only if the project fails to move forward. If owed, such funds will be payable from housing reserves funded from housing receipts. The developer will be responsible for at least the same amount of costs related to predevelopment activities defined in the agreement unless Appalachian determines that it is in its best interests to unilaterally terminate the predevelopment agreement without cause, in which case Appalachian may elect to purchase the work product from the developer. Appalachian will seek authorization

APPENDIX K

from the Board prior to exercising the option to purchase the work product if the purchase price exceeds \$3,970,683. If the project reaches financial close, all advance planning costs will be financed from the proceeds of the financing provided by the nonprofit owner of the project. Appalachian will request Board approval of the ground lease's terms and conditions once those terms have been finalized.

Action:

This item requires a vote by the committee, with a vote by the full Board of Governors through the consent agenda.

Appalachian State University Pre-Development Agreement Discussion

Presented to the UNC Board of Governors
by Vice Chancellor for Business Affairs Paul Forte

May 2018



Selection Process

Procurement Process Participants	
App State Evaluation Committee	Physical Plant University Housing Student Affairs Finance & Administration Auxiliary Services Faculty Representation Student Representation
Advisors	App State General Counsel Brailsford & Dunlavey, Inc. First Tryon Advisors Bryant Miller Olive
Campus Community	Open Sessions Faculty Senate Student Government

Overview of the RFQ Process

- On September 29, 2017, App State issued a Request for Qualifications (“RFQ”) to potential developers outlining the general program parameters developed by the committee, attracting responses from seven firms with significant national housing experience.
- The committee invited four firms to submit proposals as part of the Request for Proposals (“RFP”) process.

Overview of the RFP Process

- The committee interviewed the four developer teams, including representatives from the developer, contractor, design firm, underwriter, and nonprofit owner/asset manager.
- The committee developed a rubric to evaluate each proposal based on criteria contained in the RFP, as summarized below:



Project Concept



Value Assessment: Project Costs



Transaction Structure	RISE Proposal	App State Self-Develop
Delivery Method	Public-Private Partnership	Construction Manager at Risk
Financing Structure	501(c)3 Tax-Exempt Bonds	App State Gen. Revenue Bonds
Program	RISE Proposal	App State Self-Develop
Unit Types	Apartments/Semi-Suites	Apartments/Semi-Suites
Phase I Total Beds	913	913
Phase II Total Beds	505	505
Phase III Total Beds	684	684
Total Beds	2,102	2,102
Total Residential Square Feet	529,329	529,329
Delivery Years	2020-2022	2022-2024
Project Costs	RISE Proposal	App State Self-Develop
Residential Hard Costs	\$127,373,795	\$224,540,153
Residential Hard Costs per Bed	\$60,596	\$106,822
Project Fees: Developer Fee	\$4,917,514	\$0
Project Fees: 501c3 Owner Fee	\$374,625	\$0
Total Project Costs	\$182,011,272	\$255,653,141
Residential	\$162,722,718	\$255,653,141
Parking	\$18,394,738	-
Dining	\$893,815	-
Total Project Cost Per Bed	\$86,590	-
Residential Cost per Bed (Excludes Parking and Dining)	\$77,413	\$121,624

Value Assessment: Financing / Rates



Project Financing / Operations	RISE Proposal	App State Self-Develop
Interest Rate	4.60%	3.85%
Term	38 years	30 years
Housing Debt Service (Year 4)*	\$8.9 million	\$14.6 million
Target Debt Coverage Ratio (DCR)	1.20x	1.10x
Operating Expenses Per Square Foot	\$10.34	\$10.34
Annual Reserves Per Bed (2020)	\$219	\$219

Financial Projections	RISE Proposal	App State Self-Develop
Proposed Effective Rental Rate	\$3,148	\$3,148
Projected DCR at Proposed Rates	1.23x	0.79x
Rent Increase Required to Achieve Target DCR	N/A	\$997
Cumulative Cash Flow at Proposed Rate (40 yrs)	\$184,568,835	\$73,717,633
Net Present Value at Proposed Rate (40 yrs @ 5%)	\$37,503,530	(\$21,329,580)

Pre-Development Agreement

Overview of the Predevelopment Agreement

- In a typical P3 transaction, the university and the developer enter into a predevelopment agreement early in the negotiation process to establish the basic parameters of the relationship between the two parties and their respective obligations.
- The PDA allows the parties to continue to refine the project's design and negotiate material deal terms prior to financial close, which avoids delays and allows App State to continue to search for efficiencies and value.
- Under the terms of the PDA, the developer will front all advance planning costs, which the 501c3 owner of the project will repay from bond proceeds at financial close.
- RISE will be responsible for up to \$1,700,000, which represents the advance planning soft costs through the date of financial close.
- App State will be responsible for up to \$3,700,000, which represents the developer's site development costs through negotiation and approval of the ground lease.

Value Proposition



Project Objectives	P3 Approach	Rationale
Cost Assurance	✓	Accelerated delivery and longer amortization reduce rental rate impact
Debt Capacity	✓	Project-finance structure and off-balance sheet treatment may reduce financing impact
Project Scale	✓	Multi-phased approach provides a global solution for App State's housing needs
Transformational Design	✓	Holistic development team and comprehensive approach enable dramatic campus revitalization
Accelerated Project Delivery	✓	Structure shifts portion of delivery risk to private sector and reduces timeframe for completion
Private-Sector Expertise	✓	Process allows App State to tap into development team's experience to reduce costs

Campus Request



Section 1. *Authorization of the Pre-development Agreement.* The authority to enter into a Pre-development Agreement with RISE is hereby authorized and the authorization to execute and deliver the Pre-development Agreement is hereby delegated to the Chancellor of ASU, or in the Chancellor's absence, the Chancellor's designee. The form and content of such Pre-development Agreement shall be in a form acceptable to the Chancellor, or in the Chancellor's absence, the Chancellor's designee, (the "*Authorized Officer*"). The authorization to enter into the Predevelopment Agreement is limited such that ASU may not be responsible for more than \$3,700,000 representing the limited site development costs and RISE shall be responsible for up to \$1,700,000 representing all of the predevelopment soft costs through financial close, except in the case that ASU unilaterally terminates the Pre-development Agreement without cause, in which case ASU may elect to purchase the work product from RISE for an amount not to exceed \$1,700,000; provided, however, ASU will seek authorization from the Board prior to exercising the option to purchase the work product.

Appalachian State University Pre-Development Agreement Discussion

Presented to the UNC Board of Governors
by Vice Chancellor for Business Affairs Paul Forte

May 2018

