



Oakland University
Board of Trustees Meeting
October 4, 2012

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Agenda

- Overview of housing project
- Status update
- The University's housing objectives
- Financial evaluation
 - Evaluation of development options
 - Benchmarking of key metrics
- Bidder feedback
- Next steps

Overview of housing project



- *Task 1 – Confirm the University’s objectives*
 - Meet with University stakeholders to identify critical issues. Throughout our engagement, we met with the following individuals:
 - Board of Trustees: Michael Kramer
 - University Housing: Jim Zentmeyer, Deborah Middlebrook
 - Finance & Administration: John Beaghan, Steve Roberts
 - Division of Student Affairs: Mary Beth Snyder
 - Facilities Management: Terry Stollsteimer
 - Develop and evaluate several business scenarios which take into consideration the University’s objectives and desired level of control
- *Task 2 – Financial Evaluation*
 - Evaluate each business scenario or potential business model / option (public, private, other) based on the University’s key financial and strategic objectives
- *Task 3 – Assist in the RFP Evaluation Process*
 - Provide a recommendation to the University regarding the appropriate housing development model based on the University’s objectives, desired level of control and financial position
 - To the extent there is a desired partnership with a private entity, PFM will participate in interviews with potential developers and assist the University in determining key financial and business terms to be incorporated into a ground lease or other agreement

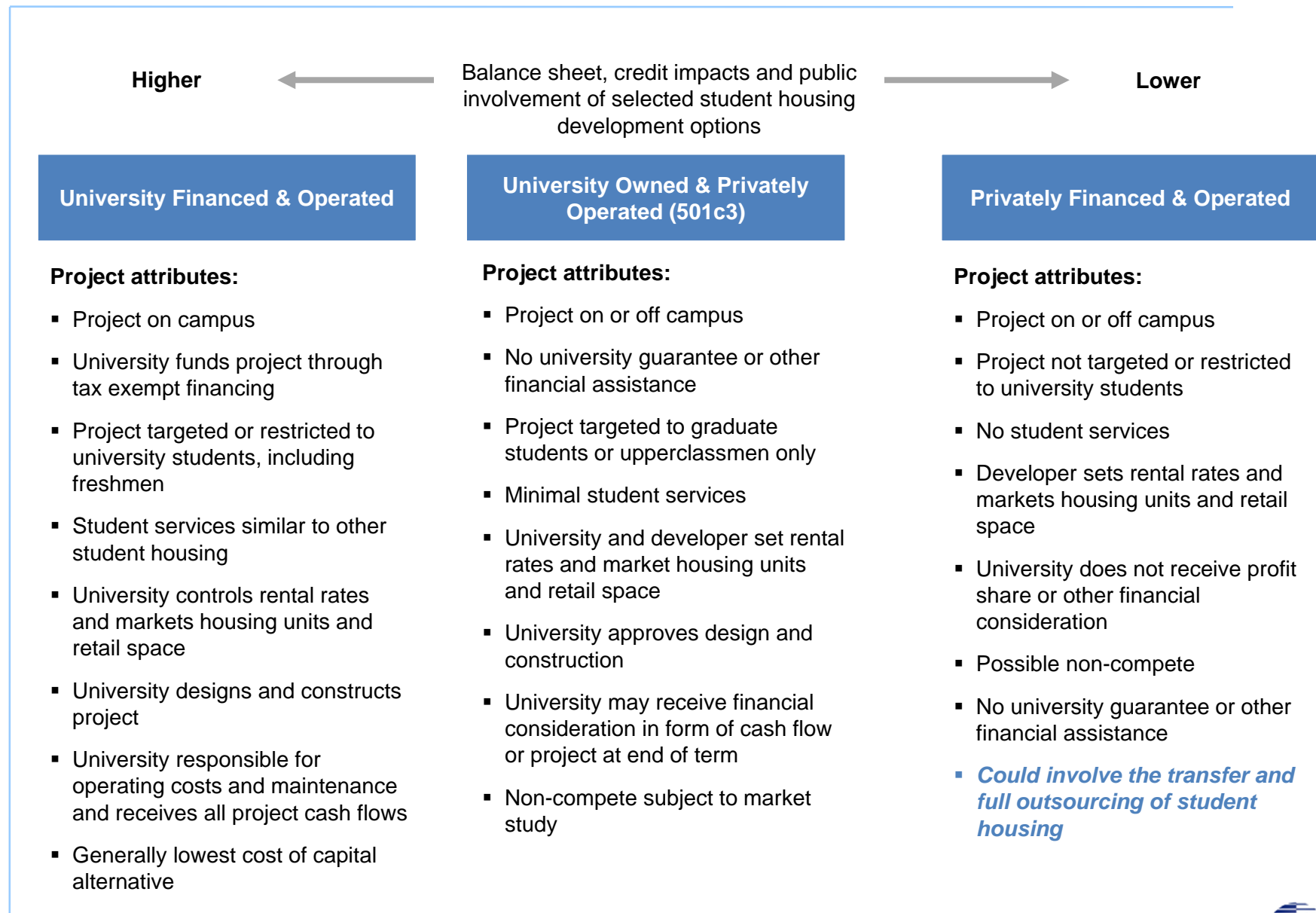
Status update

- Over the past few weeks, we have been assisting the University in the RFP evaluation process
- Issued a re-invitation to the five short-listed development teams to provide feedback on the University's student housing project
- We conducted conference calls with each development team to provide them with the opportunity to present their proposal and posed critical questions relating to financing, risk transfer and benefits
- We have compared feedback from the development teams with the various development models to determine what will meet the University's objectives

The University's housing objectives

- The RFP and stakeholder meetings at the beginning of our engagement confirmed the University's key housing objectives:
 - Increase number of undergraduates in the housing system
 - Retain freshmen and sophomore students
 - Promote on-campus living and improve residential character of campus life
 - Retain rate control and design input
 - Minimize the cost to students and impact on the University's credit
 - Complete much needed renovations to existing residence halls if possible
- Some stakeholders also expressed the following:
 - The University is underperforming compared to its peers due in student housing
 - There is no occupancy risk, and low construction and management risk
 - The housing department is self-funded and providing valuable student services functions without impact the University's general fund
 - Increased and enhanced student housing would result in greater retention among freshmen and sophomore students
 - Desire to further enhance student life through on-campus living
 - The University has enough capacity to support additional debt on balance sheet and on credit

Illustrative spectrum of student housing development options



















Key considerations in managing financial exposure in privately developed student housing

Task 2

Project characteristic	Options that may impact credit or balance sheet
<i>Location</i>	<ul style="list-style-type: none"> • Building student housing on or off campus
<i>Rental rates</i>	<ul style="list-style-type: none"> • Market based rental rates set by private developer • Rent caps • Rental rates established and controlled by the University
<i>Student market segment</i>	<ul style="list-style-type: none"> • Freshman only housing and upper class dorms • Undergraduate and graduate • Non-university tenants
<i>Non-compete clause</i>	<ul style="list-style-type: none"> • Agreement not to build competing housing • Limited non-compete based on market need
<i>Guarantee and support agreements</i>	<ul style="list-style-type: none"> • Rental subsidies • Operating cost subsidies • Debt or loan guarantees
<i>Project site</i>	<ul style="list-style-type: none"> • University or privately owned • Ground lease
<i>Project design and construction</i>	<ul style="list-style-type: none"> • Design control or design oversight by the University
<i>Student services</i>	<ul style="list-style-type: none"> • Level of student life programming on-site
<i>Marketing and management</i>	<ul style="list-style-type: none"> • Level of University marketing • Building management by university or private developer
<i>Retail</i>	<ul style="list-style-type: none"> • Selection of retail tenants

The University's selected benchmarking peer group

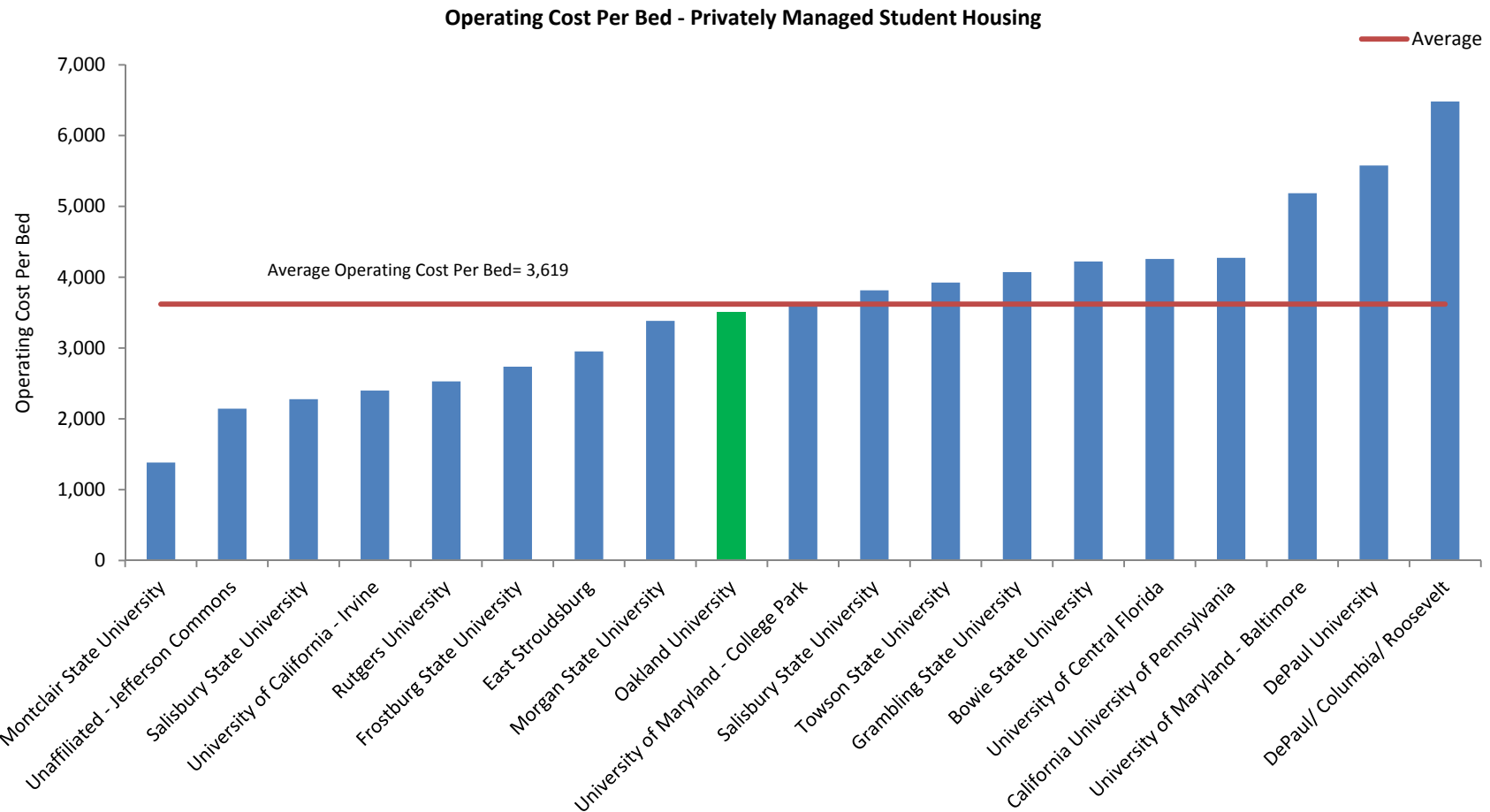
Central Michigan University 	Cleveland State University 	Eastern Michigan University 	Ferris State University 
Grand Valley State University 	George Mason University 	Michigan Technological Institution 	Northern Illinois University 
Northern Michigan University 	Saginaw Valley State University 	Southeast Missouri State University 	Wayne State University 
Western Michigan University 	University of Michigan (Ann Arbor) 	Michigan State University 	Wright State University 

Summary of insights from benchmarking

- Based on the benchmarking completed to date, the University has several strengths, weaknesses and opportunities as they relate to student housing. These considerations will be important in contemplating future investments in housing
 - When compared to privately operated student housing, the University's operating cost per bed is lower
 - The University's freshman retention rate and graduation rates are lower than peers
 - The University has significantly fewer beds on campus per student than its peers
 - Among its peers and immediate competitors there is a correlation between the amount of on campus housing and retention rates

Oakland University's operating cost per bed is lower than the majority of privately managed student housing

Task 2

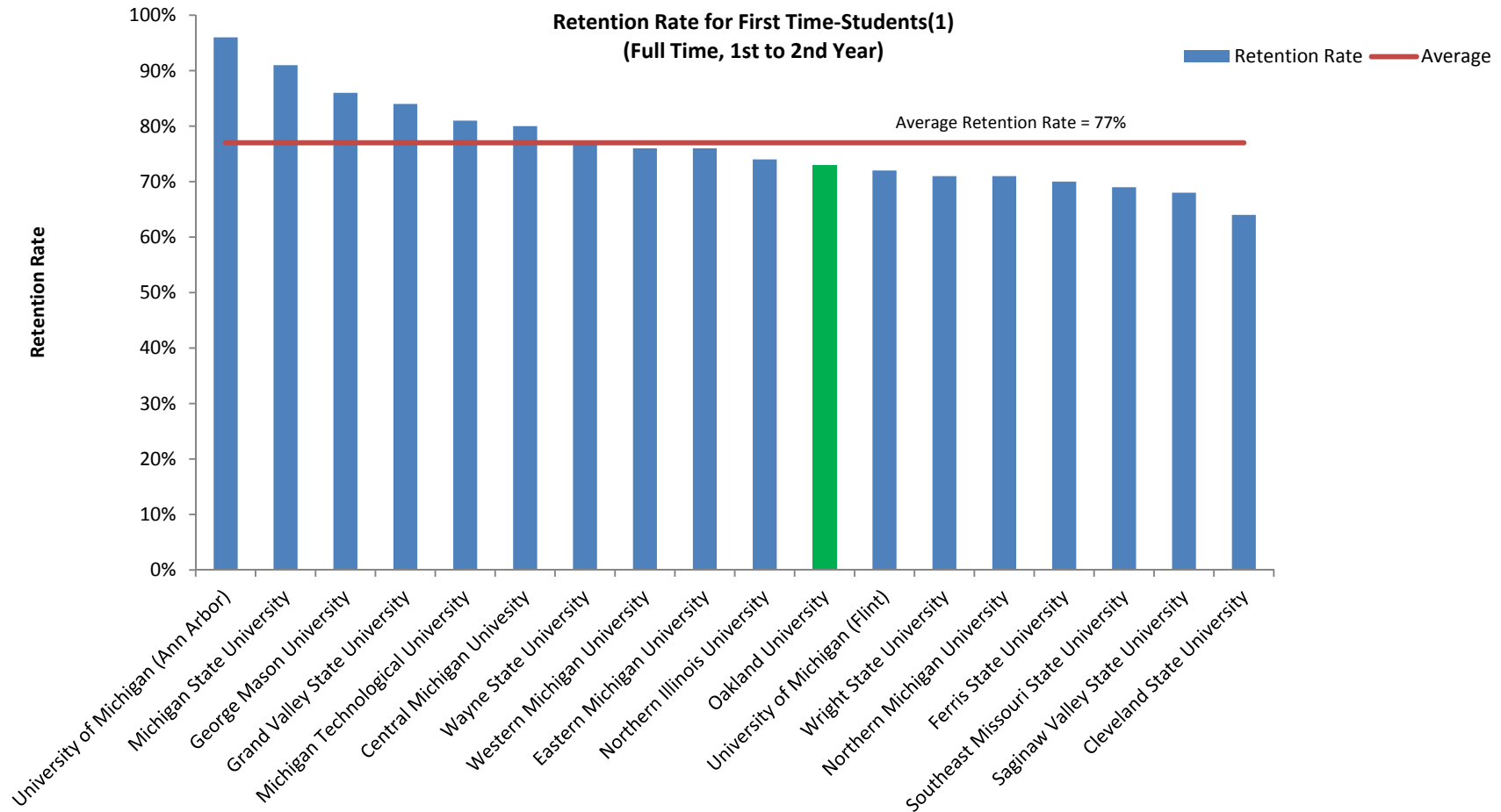


Sources: Moody's Special Comment: "Credit Trends: Privatized Student Housing Financings Demonstrate Credit Stability." February 8, 2012.; Official Statements.



Oakland University's retention rate is lower than the majority of its peers

Task 2



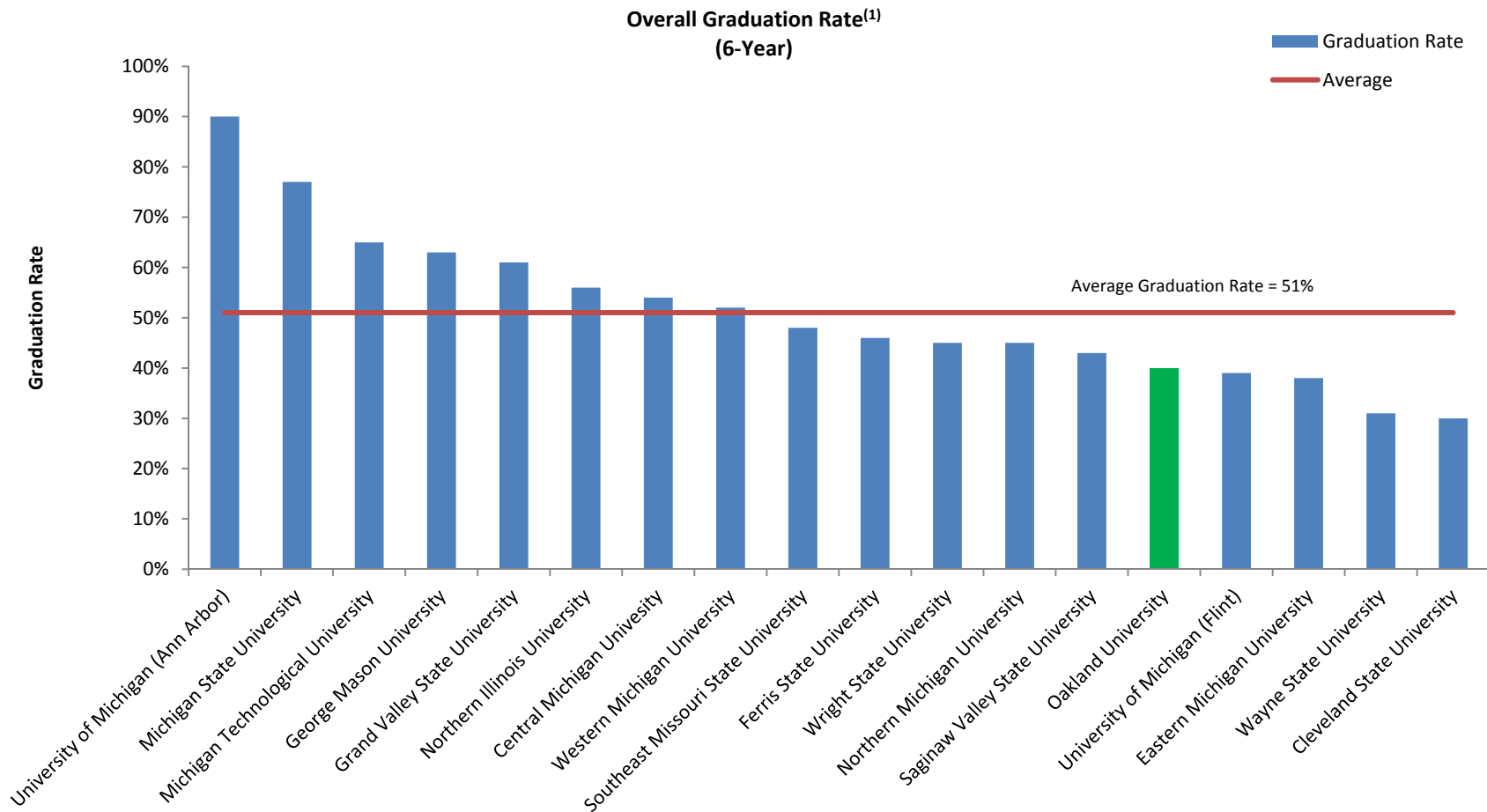
Source: National Center for Education Statistics.

(1) Percentage of students who began their studies in fall 2009 and returned in fall 2010. Measures the percentage of first-time students who are seeking bachelor's degrees who return to the institution to continue their studies the following fall.



Oakland University's graduation rate is significantly lower than its peers

Task 2

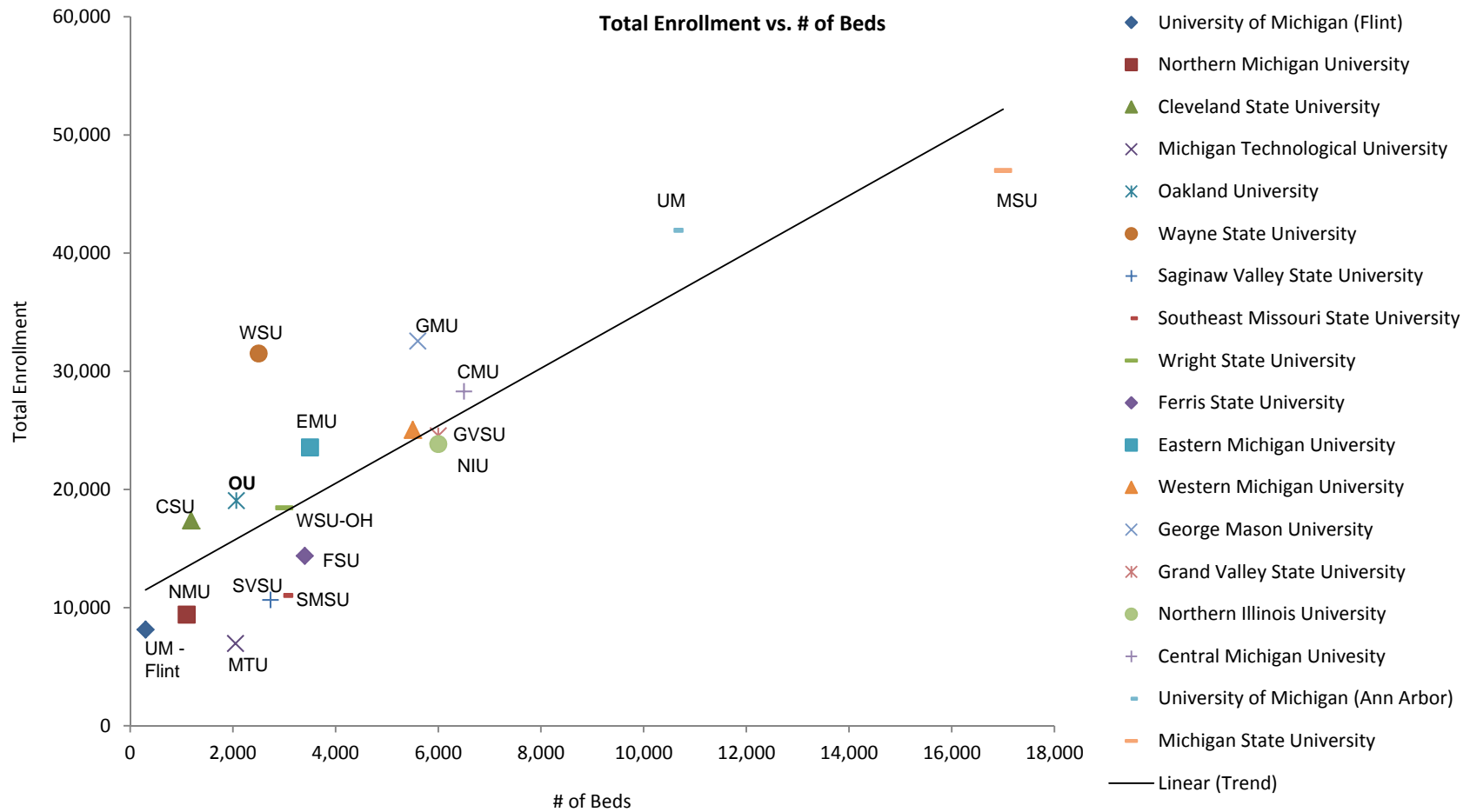


Source: National Center for Education Statistics.

⁽¹⁾ Tracks students who began their studies in Fall 2004. Students who have already attended another postsecondary institution, or who began their studies on a part-time basis, are not tracked for this rate.

Many peers with smaller enrollment have more beds on campus than Oakland University

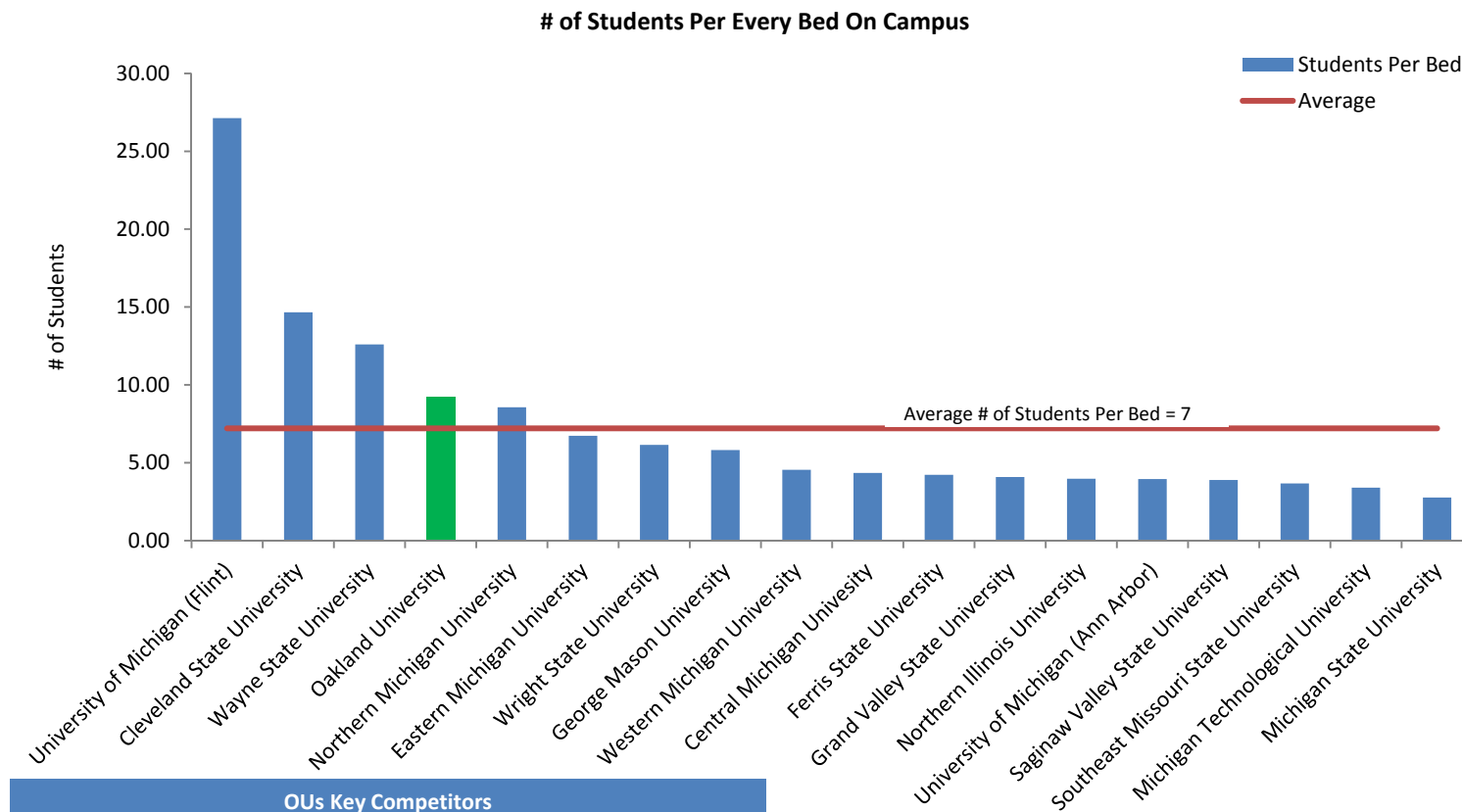
Task 2



Source: National Center for Education Statistics. 2011-2012.

More than half of Oakland University's key competitors have more than double the beds on campus

Task 2



OUs Key Competitors

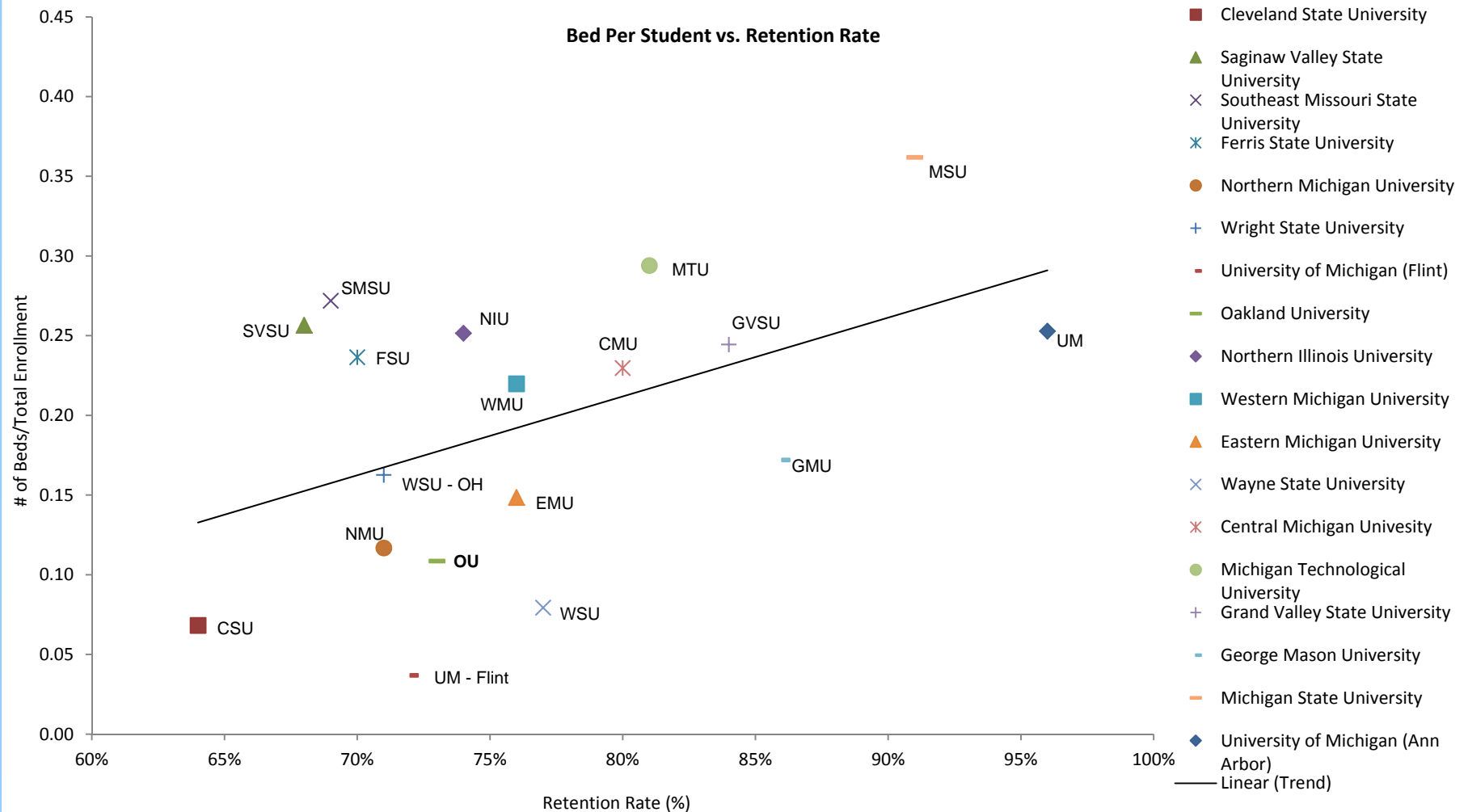
	<u>Beds on Campus</u>	<u>Student Population</u>
Central Michigan University	6,500	28,292
Grand Valley State University	6,000	24,541
Western Michigan University	5,505	25,045
Ferris State University	3,400	14,381
Wayne State University	2,500	31,505
Oakland University	2,068	19,053

Source: National Center for Education Statistics. 2011-2012.



There is a high level of correlation between campus housing supply and retention

Task 2



Bidder feedback process

Task 3

- The purpose of the re-invitation was to seek feedback from the short-listed development teams to determine whether moving forward with a private development partner would accomplish the University's objectives for its student housing program, especially with respect to accessing private capital and transferring project-related risk
- In addition to receiving written feedback, trustees that were available, the University staff and PFM conducted conference call meetings with each team to allow them to present their proposal and go into further detail on any aspect they deemed appropriate
- Each feedback session was conducted in an identical format and to the same three questions to each team:
 - Under what terms, if any, would you propose the use of private financing for the University's student housing project? Given current market conditions, discuss your cost of debt and equity?
 - Discuss the project related risks you are willing to assume?
 - Please describe in more detail the benefits of using a private developer to expand and improve the University's housing program?
- As of October 1st, interviews with 4 of the 5 teams were conducted with the final one scheduled for October 3rd

Key learnings from discussions with the development teams

Task 3

- **Overall impressions**
 - Each of the meetings were useful and yielded insights that will be helpful in deciding the appropriate development model for the University's student housing project
 - None of the responses were the same but each identified transferring schedule and budget risk, as well as, accessing best practices as the primary benefits of engaging a private developer
- **Private capital**
 - Feedback on this topic varied
 - All teams emphasized that the University would benefit most from either University issued debt (either on its own or through a 501C3) as it offers the lowest cost of capital
 - Several teams expressed a willingness to commit private capital to the project with expected equity returns in the 7-8% range with debt financing of 60-95% depending on the structure
 - Those teams willing to commit private capital indicated that some level of control would be necessary, especially with respect to rental rates and restrictions on future housing projects
- **Transfer of project risks**
 - All teams are willing to take on design-build risks, including schedule delivery and cost overrun risk
 - If longer term maintenance is a requirement, it is likely that the private partner would need to control at a minimum the business and property management aspects of the project
- **Other potential benefits**
 - Teams indicated that they offer the University design flexibility and extensive resources as they bring significant experience in developing student housing
 - Potential minimization of credit rating and minimal balance sheet impact
- **Timing**
 - Given the objective that new beds be available for the Fall of 2014, schedule and the need to finalize decisions with respect to the project is becoming more urgent

Next steps

- Complete analysis of the financing alternatives and select approach most advantageous to meet the University's objectives
- Begin drafting project agreement and other documents necessary to complete transaction
- Determine further short-list of potential development teams and conduct further interviews and meetings as required
- Determine cost and viability of including renovation of existing housing in the project
- Solicit final proposals and evaluate proposals based on quality and value to the University
- Develop recommendation for the Board of Trustee consideration