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LSU Deal Fuels $575M Baton Rouge Campus P3

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BRADENTON, Fla. - Louisiana's flagship university will price the first financing for its largest privatization effort, a $575 million project that has taken a toll on the Baton Rouge-based institution's ratings.

The Louisiana Public Facilities Authority is expected to bring $226.14 million of bonds to market next week as the conduit issuer of the debt that will benefit Louisiana State University.

The LPFA transaction is the first of three, totaling $476 million, planned as part of the financing for fund LSU's Nicholson Gateway Project, which will develop seven residence halls and retail and parking facilities on nearly 30 acres at its main campus and another 422-bed dormitory outside that footprint.

RBC Capital Markets LLC will be the sole underwriter.

Kutak Rock LLP is bond counsel. Foley & Judell LLP is underwriters' counsel.

The LPFA deal is structured with $217.64 million of tax-exempt bonds and $8.5 million of taxable bonds.

The fixed-rate debt has a final maturity in 2056.

The deal is expected to price around Sept. 14, according to Fitch Ratings.

The bonds are rated A by Fitch and A3 by Moody's Investors Service. Both assign stable outlooks.

Ahead of the deal, LSU's $419 million of outstanding auxiliary revenue bonds were downgraded to A-plus from AA-minus by Fitch and to A2 from A1 by Moody's.

"The downgrade reflects LSU's substantial increase in leverage, including the current borrowing and $200 million expected in the next two years, combined with pressured operations as net tuition revenue growth moderates," said Moody's analyst Karen Kedem.

The "significant increase" in LSU's debt position places stress on auxiliary operations and could adversely affect debt service coverage, according to Fitch analyst Sahil Khera.

The lease revenue bonds are limited obligations of the LPFA.

Under the P3 structure, LSU will make rental payments from gross auxiliary revenues that are subordinate to debt service on the outstanding bonds.

Founded in 1853, LSU is the flagship institution in the Louisiana State University System.

The main campus is on 2,000 acres in East Baton Rouge Parish, which was among many southern Louisiana parishes stricken by widespread flooding last month.

The LSU campus was not severely impacted by the floods, experiencing about $1.1 million in damage primarily caused by leaking roofs and water intrusion in the basements of older buildings, according to a disclosure in the preliminary official statement.

The Nicholson project site was not impacted by rising water, the POS said, and LSU does not anticipate material changes in enrollment due to the floods.

The Baton Rouge campus P3 is aimed at transforming the university's largest underdeveloped tract of property adjacent to the campus core into a "gateway district," according to LSU's website on the plan.

"It is the largest privatized housing-retail project for LSU," university spokesman Ernie Ballard said in an email. "It is not LSU's first P3 in general, but it is our first P3 in the housing area."

LSU has already privatized its bookstore, dining operations, and mail center operations, he said.

The Nicholson project will include 1,531 new on-campus beds, a 10,000-square-foot recreation facility, 38,000 square feet of retail space, and 1,625 parking spaces.

The project is expected to create approximately 1,025 temporary construction jobs and an estimated 125 new permanent jobs in the local economy, according to the State Bond Commission, which approved the upcoming deal last month.

It is estimated that $218 million in new revenue will be generated for LSU housing and related purposes over 40 years, an SBC analysis said.

Using the P3 development model to replace housing will allow LSU to accelerate replacement and renovation of some older units by as much as five years, the analysis said.

The public-private partnership is between LSU, the LSU Property Foundation, Provident Resources Group, and RISE Tigers, a subsidiary of Valdosta, Ga.-based RISE Development Inc., a firm that has developed 75 campuses across the country.

Provident will be the nonprofit borrower to ensure that most of the bonds can be tax-exempt, and also will be responsible for handling bond and tax obligations and reporting requirements, the SBC said.

The lease-leaseback financing structure will enable LSU to expedite the development and modernization of its housing stock, and lowers development costs, according to Moody's.

"By financing the project and assuming responsibility for all of the operating expenses, LSU retains a high level of construction and operating risk," Kedem said.

The university's master plan, which has been in development since 2012, will be done in three phases to increase the number of beds by 40%.

An LSU market study concluded that there is demand for more than 1,600 on-campus beds.

"This aggressive plan provides the potential for improved recruiting and retention results," Kedem said. "LSU's ability to translate its brand and this project into increased geographic diversity and stronger growth of net tuition revenue would partially mitigate the higher debt burden from funding the project."

The current offering will be followed by another $200 million for Phase II in the next 2 years and $50 million for Phase III in 2020, analysts said.

The lease-revenue bonds are limited obligations of the LPFA.

LSU's obligation is to make subordinated rental payments from gross auxiliary revenues on athletics, housing, parking and transportation, student union, student health center, and university stores, according to Fitch.

The auxiliary enterprise revenues have historically generated solid coverage of related debt service.

Gross revenues totaling $222 million in fiscal 2015 covered pro forma maximum annual debt service of $32.3 million on senior lien bonds by a 6.9 times.

On a net basis, revenues of $56.8 million resulted in coverage of 1.8 times.

Auxiliary revenues in fiscal 2015 increased by 9.2% over the prior year, largely as a result of enrollment growth, Fitch said.

"However, the additional leverage as a result of series 2016 [bonds] places stress on LSU's auxiliary operation," Khera said. "Fitch is no longer confident that auxiliary revenues would grow commensurate with the debt."

LSU projected that gross auxiliary revenues will conservatively grow at 3% annually.

Steady headcount enrollment growth by 9.6% over the past six years to 31,527 in the fall 2015 supports system operations, particularly as the state continues to reduce financial support, Fitch said.
