





January 2019 Special Called Meeting

Schedule	Tuesday, January 29, 2019 10:00 AM — 11:00 AM CST
Venue	University Center Fountain View Suite - UC 350
Organizer	Chelsea Connor

Agenda

1. Call to Order and Opening Remarks Presented by Alan Graf	1
2. Roll Call and Declaration of Quorum Presented by Melanie Murry and Alan Graf	2
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1. Call to Order and Opening Remarks

Presented by Alan Graf

2. Roll Call and Declaration of Quorum

Presented by Melanie Murry and Alan Graf

3. Repurposing and Renaming of the Tigers of Memphis Athletic Foundation as the Auxiliary Services Foundation

Presented by Raajkumar Kurapati

The University of Memphis Board of Trustees

Recommendation

For Approval

Date: January 29, 2019

Recommendation: Authorize the repurposing and renaming of the Tigers of Memphis Athletic Foundation to the University of Memphis Auxiliary Foundation

Presented by: Raaj Kurapati, Chief Financial Officer

Background:

As the traditional model for financing public higher education shifts from a heavy reliance on stable State support to an expectation of greater reliance on self-generated revenues, the University of Memphis must think differently about approaches to funding and financing institutional operating needs and capital investments. The goal is to position ourselves to remain nimble and explore creative solutions to these issues.

To this end, the University would like to repurpose its Tigers of Memphis Athletic Foundation as an Auxiliary Foundation. The mission of this entity is to hold and operate auxiliary enterprises which directly benefit the University of Memphis.

Motion:

Motion to authorize the repurposing and renaming of the Tigers of Memphis Athletic Foundation, a 501(c)(3), as the University of Memphis Auxiliary Foundation. This entity shall be governed by a Board of Directors comprised of community members and members of the senior administration of the University of Memphis.

Justification for an Auxiliary Services Foundation for the benefit for the University of Memphis

Overview:

As the traditional model for financing public higher education shifts from a heavy reliance on stable State support to an expectation of greater reliance on self-generated revenues, it is incumbent on universities to think differently about approaches to funding and financing institutional operating needs and capital investments.

Core Mission:

So, what is the core mission? Given our academic expectations and our march toward Carnegie R1 status, the core mission of the institution, arguably, is academic, research and service, with all other services/priorities directly or indirectly contributing to such.

The question then becomes how we identify and isolate what is core and what are the other operations that support the core as many are so closely tied to the success. One obvious delineation is to bucket auxiliary-type operations as those which directly or indirectly contribute, at varying degrees, to promoting the core mission. Examples of such operations include, but are not limited to, Conference and Event Services, Student Housing, Dining Services, Bookstore, Athletics, etc.

Affiliated Entities:

The University of Memphis currently has three affiliated entities which help support its mission: The University of Memphis Foundation, The University of Memphis Research Foundation and Tigers of Memphis Athletic Foundation.

The University of Memphis Foundation (UMF)

Established as a separate 501(c)(3), the UMF exists to primarily receive, invest and manage donations from third parties for the benefit of the University of Memphis. It is governed by a Board of Directors comprised largely of members of the community but also has representation from senior leadership of the institution (President, Chief Development Officer and Chief Financial Officer). Management of the Foundation's affairs are delegated to a Director of the Foundation and staff who are employees of the Foundation. Given the nature of its governance structure, UMF is treated as a discrete component unit for the purposes of the University's financial statement presentation.

The University of Memphis Research Foundation (UMRF)

Also a separate 501(c)(3), the UMRF was created for the purposes of promoting and supporting the research mission of the University. It is also governed by an independent Board of Directors comprised of both community members and members of the senior administration of the University. Per its charter, representation of the Board of Directors shall always be comprised of one voting member from the community over the number of voting members who are employees of the University. UMRF is managed by an Executive Director, who is an employee of the University.

Tigers of Memphis Athletic Foundation (TOM)

Established in 2014 as 501(c)(3) to support the University's Athletic endeavors. This Foundation was never utilized and was administratively dissolved by the Secretary of State in 2018. The Foundation has been put back in good standing as of January 2019.

Issue/Challenge:

The current administrative structure that governs public institutions of higher education at times impedes the University's ability to react quickly to opportunities and think creatively to take advantage of alternative mechanisms to sustain the current infrastructure and expand services to support future growth. The University needs to be nimble to take advantage of alternative opportunities to make investments in infrastructure and address strategic priorities, including:

- Our goal to reach Carnegie R1 classification and recognition as a Tier 1 institution in the next five years.
- The need to grow our research activity to meet the expectations of the R1 classification.
- The need to grow our overall student base, especially in STEM fields, to ultimately increase graduate production.
- A commitment to keep tuition and fees as low as possible given that many of our students come from challenging socio-economic backgrounds.

Given the above, the traditional approach of relying solely on student tuition and fees and effectively taxing students to make these investments is not appropriate nor sustainable. Additionally, State matching requirements for funding academic infrastructure is increasing and the national trend is to expect public institutions of higher education to do more on their own.

Another significant limitation is that our current University of Memphis Foundation has made it a practice to not hold real estate and has elected to outsource such opportunities. This further limits the University's ability to explore creative solutions to these issues.

Recently, the US Federal Government created a program to provide financial incentives for businesses and individuals to invest in areas designated as "opportunity zones." Under this program, businesses and individuals can defer and potentially be forgiven of taxes on capital gains by investing those funds in designated opportunity zones. A significant portion of the properties around the University of Memphis have been designated as opportunity zones, and this allows us to seek out investments in these properties for the benefit of the University's core mission. Again, there is not a clear mechanism currently in place that enables us to fully capture the benefit of the program.

4. The Gather on Southern

Presented by Raajkumar Kurapati

The University of Memphis Board of Trustees

Recommendation

For Approval

Date: January 29, 2019

Recommendation: The Gather on Southern

Presented by: Raaj Kurapati, Chief Financial Officer

Background:

The University of Memphis would like to enter into a partnership with Municipal Acquisitions in which the University will manage and eventually acquire the Gather on Southern, a 435 bed property adjacent to the Memphis campus. Additionally, the University would like to accept the donation of the Real Property (land) on which the Gather Properties (Gather I and Gather II) are located, and further enter into a lease agreement with Municipal Acquisitions for the land to coincide with the term of the Management and Maintenance Agreement on the related properties. This partnership will enable us to quickly expand our housing capacity without negatively impacting debt and other CFI ratios.

Motion:

Motion to approve to enter into an agreement with Municipal Acquisitions to manage and eventually acquire the Gather on Southern, accept the donation of the Real Property on which the Gather on Southern is located, and enter into a land lease for the Real Property to coincide with the term of the Management and Maintenance Agreement on the related properties. This action is subject to the University complying with the applicable processes and approvals required by the State of Tennessee.



Opportunity to Acquire the Gather on Southern (435 beds)

*Raaj Kurapati
Chief Financial Officer*

*Board of Trustees
Special Called Meeting*

January 29, 2019
University Center



Summary of Municipal Acquisitions' (MA) Proposal

- **Student Targeted Partnerships**

- Some schools allow 3rd parties to develop “student targeted” housing projects in return for a minimum 50-year ground lease (*typically* 75-99 years). While this is off balance sheet and off credit, the school gives up control and ownership for 50-99 years. Compared to MA’s 30-year solution, the lost economic benefit to the school (specifically in years 30 and 50+) can be in the 10’s, if not 100’s of millions of dollars. Under the MA solution, beginning in year 31, all net income and future economic benefit is enjoyed by the University, 20+ years sooner.

- **Manage & Maintain Structure**

- University is hired to manage the residence halls for 30 years. MA looks solely to the project revenues for repayment of its investment with no financial guarantee by University. Also note, this solution keeps the control where it belongs, with the University, and not with a 3rd party owner for 50+ years.
 - Full exculpatory language will restrict University from making any pro forma payment whatsoever
 - Municipal Acquisitions’ return is derived exclusively from operating revenues and in no way guaranteed by the University
 - Municipal Acquisitions has carefully constructed the M&M structure to be rating agency neutral based upon current rating agency guidelines

Overview of Proposal

- Municipal Acquisitions proposes to acquire Raelcorp's ~ 435 bed portfolio adjacent to The University of Memphis's ("University") campus (representing ~ 17% of the total housing inventory).
- Municipal Acquisitions will fund 100% of the total cost of the acquisition.
- Managed by University under our proprietary Manage & Maintain ("M&M") Agreement (explained herein):
 - University will be able to control, manage, and program this facility similar to the rest of the University's student housing portfolio
 - University may elect to self-manage or is permitted to keep the current facilities / property management team in place to continue to run day-to-day operations - a fee will be paid (to University or 3rd party PM) from project revenues
- The ability to control and program these beds as part of University's overall student housing strategy will enable us to gain access to valuable "swing space."
 - Gather on Southern asset is virtually brand new compared to the older inventory of housing found on-campus.
 - If sold to another real estate investor, these beds become competition and may work at odds with the University's long term student life vision.

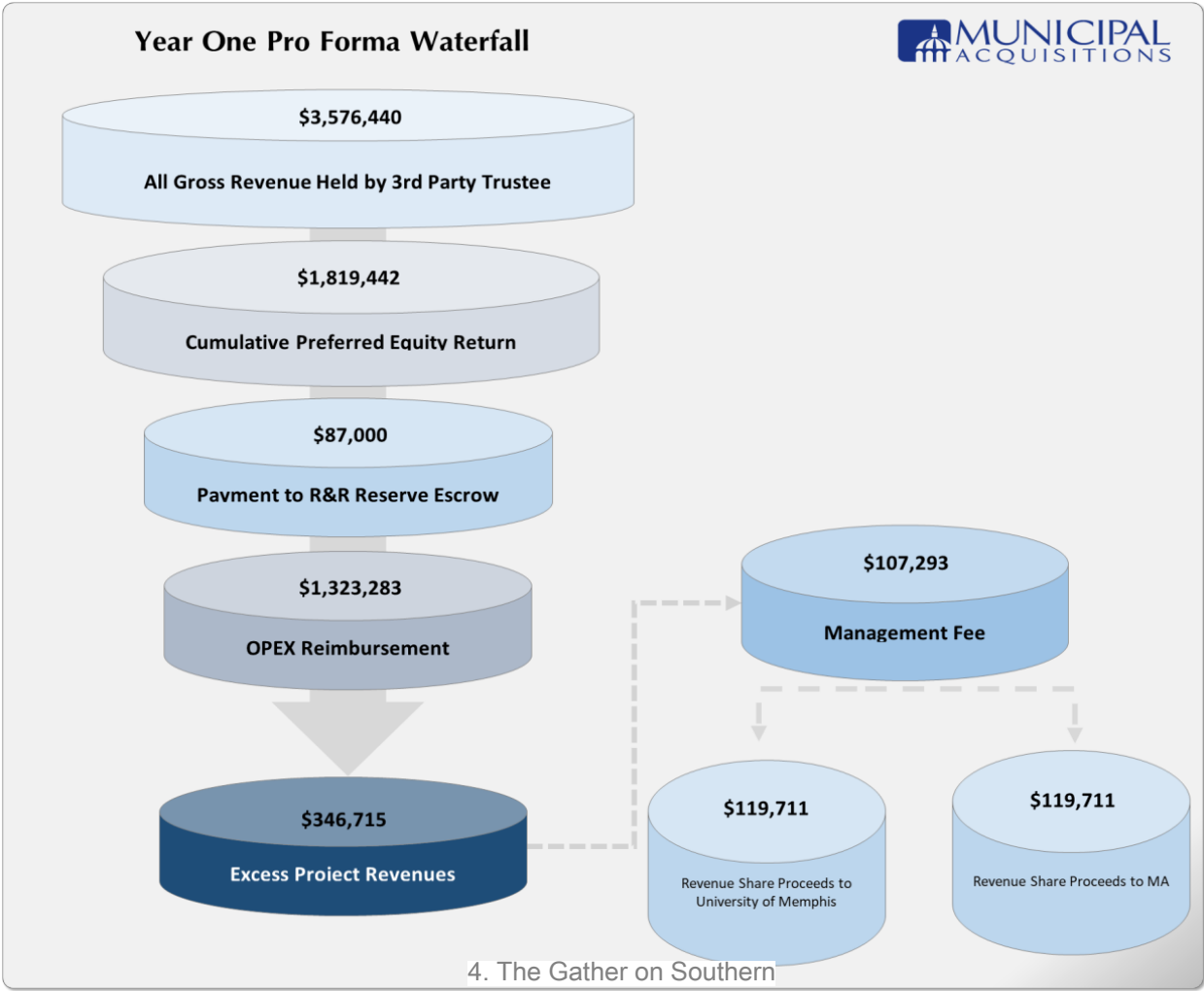
Overview of Proposal (cont.)

Overview of the Gather on Southern Asset:

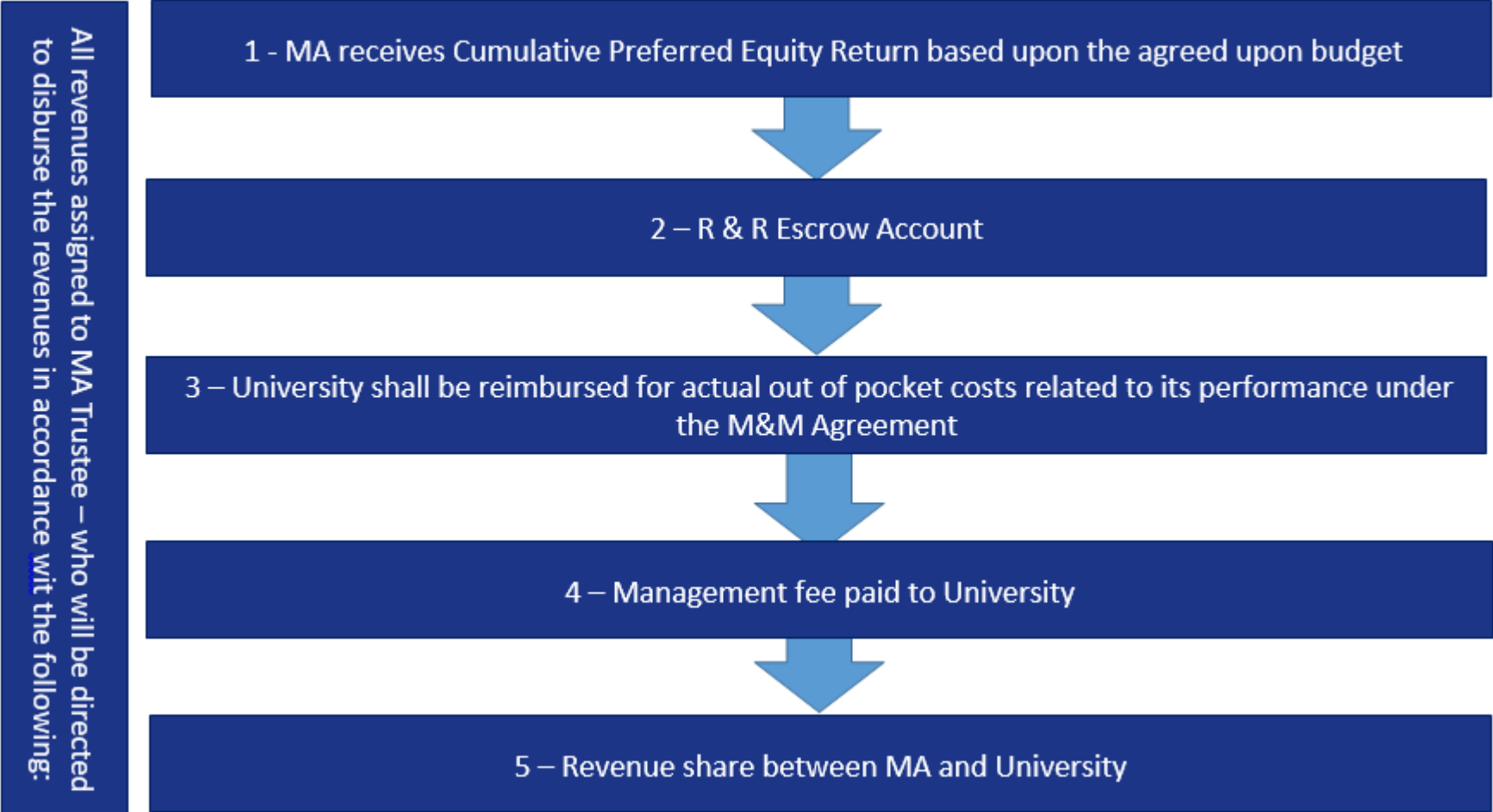
- Immediately adjacent to campus
- Irreplaceable location (MA will donate the land to the University at closing)
- Prior to construction, University had considered buying the building site for future development
 - The University currently only has capacity to house 12% of its students
 - The current University Master Plan calls for several on-campus residence halls to be torn down, renovated, or repurposed which will require future swing space/beds
 - Nearby off-campus, “student targeted” assets are currently more than 95% occupied confirming market demand for modern, purpose built student housing
- Gather on Southern facility would be purchased immediately by MA and would not need to follow the traditional lengthy RFP or development process, at **below replacement** cost (approximately \$66.7K / bed)
- Asset offers a full amenity package including **bed / bath parity**, stainless steel appliances, high-quality fixtures, 24-hour fitness center, study lounge, computer lab, and game room, to name a few
- 50 / 50 revenue share to the University

- Municipal Acquisitions and the University of Memphis will enter into a series of transactions at closing:
 - MA will donate the land underneath the Gather on Southern facility at closing
 - MA will simultaneously execute a 30-year nominal sum ground lease for the land (this is the shortest term available in the marketplace)
 - MA and University will enter into a M&M Agreement for a 30-year term, coterminous with the ground lease, as described more fully herein
 - At the end of the 30-year term, the improvements will merge with the land and University will hold lien free title to the land and improvements, retaining all future economic benefits

Details of M&M Program



M&M Agreement Revenue Waterfall



Key Benefits to UofM

- Students will now be able to set up payment plans for their housing charges.
- Increases bed stock that would appeal to upperclassmen.
- Proximity to campus and ability to integrate programming to support the student experience.
- Positions the University to take some existing inventory offline, if needed.
- Occupancy at the Gather has not adversely impacted occupancy at Carpenter Complex.
- We can get creative in how to offer assignments and potentially target graduate students differently.
- UofM Balance Sheet is boosted by the value of the Building, net of land.
- UofM's debt ratios and other CFI ratios are not negatively impacted.
- UofM's financial statements receive the benefit of Asset appreciation by the value of the land when the Auxiliary Services Foundation is consolidated.
- Immediate addition of 435 beds to our housing inventory.
- Access to prime land adjacent to UofM property.

Other Factors the institution must consider:

- **Enrollment projections** – Occupancy will be directly tied to enrollment. We need to have concrete understanding of enrollment projections and yield strategies to enroll more students.
- **Affordability** – Data review of estimated family contribution of incoming classes. Students may sign up for on-campus housing, but realize after the census date that they cannot afford to remain. They opt for the \$750 cancellation fee. Financial staff will need to be included in conversations to ensure that we are processing and maximizing aid to ensure that students are able to afford housing in their aid package.
- **Institutional Rules** – Many students opt to live off campus to avoid university and Resident Life regulations. There may be some students who are not interested in compliance with expectations. We will also have some students who we will not be able to extend lease renewals to if they have been removed/suspended/expelled from the institution.
- **Institutional Resources** – We must understand the impact to some institutional resources to roll this property into our inventory. Some include Physical Plant; Res Life Maintenance & Housekeeping; Disability Resources; Campus Police, etc. Information Technology will need to be engaged to give cost estimates on adding needed technology and security cameras.

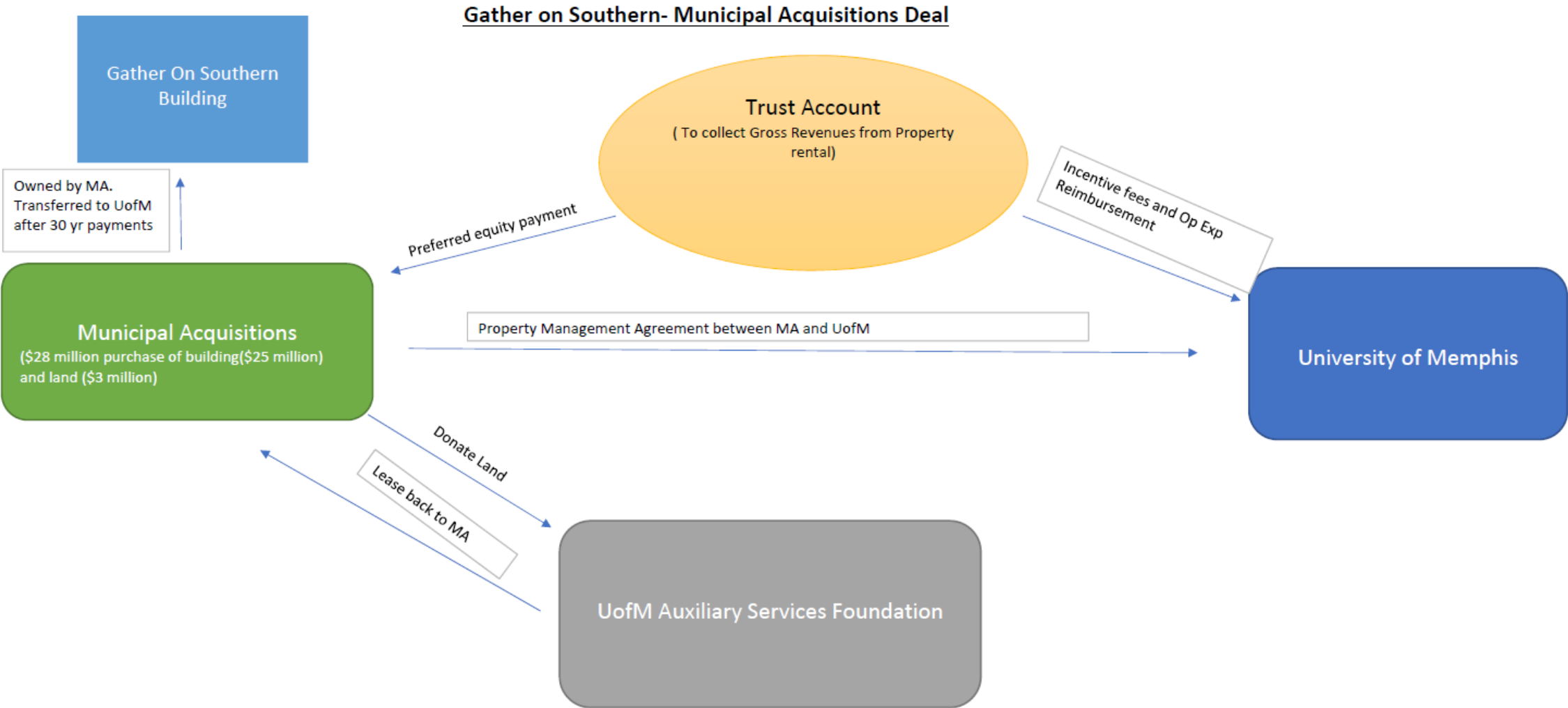
Land:

- Record the land in the UofM or UofM Auxiliary Services Foundation – Estimated at \$3M
- The land is leased back to MA for 30 Years

Building (Application of GASB 60):

- University of Memphis records the Building at FMV, net of land (\$25M)
- University of Memphis records a corresponding liability for contractual commitments (operating reimburse less actual outlays) at present value (assumed in our analysis @ a max. \$100K a year or \$3M@30Yrs and a corresponding Deferred Inflow of \$22M, much like deferred revenue, for the difference between the value of the Asset and the Contractual Commitments Liability)
- Revenue is recognized in a systematic and rational manner over the 30-year term

Municipal Acquisitions Deal



Impact on Financial Statements (Proforma Example – Estimates)



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Statement of Net Position (SNP)

UofM Auxiliary Foundation or UofM		UofM (Opening SNP)		UofM (Closing SNP)	
Land	\$ 3,000,000	Building	\$ 25,000,000	Building	\$ 24,444,444
		(Per GASB 60)		(Per GASB 60)	
			Contractual commitment to pay operating expenses (\$100k/yr for 30 yrs)		Contractual commitment (\$500 per yr 30 yrs)
			Deferred Inflow		Deferred Inflow
			\$ 22,000,000		\$ 21,544,444
			\$ 25,000,000		\$ 24,444,444

Note: Deferred inflow is merely the difference between the Value of the asset and the Contractual commitment.

Statement of Revenue, Expenses and Changes in Net Position (SRECNP)

UofM Auxiliary Foundation or UofM		UofM	
		Amortization of Building	
		(Per GASB 60)	
Gift revenue	\$ 3,000,000		Decrease in contractual commitment to pay operating expenses (\$100k/yr for 30 yrs)
			Deferred Inflow
			\$ 733,333
			\$ 833,333

Note: The remaining contractual commitment to pay op. expenses could swing significantly from year to year.

4. The Gather on Southern
It most likely will not be a straight line decrease. To that extent the credit to SRECNP could also swing from one year to the next.

5. Adjournment

Presented by Alan Graf