

# Ohio State University utility lease, US

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The Ohio State University (OSU) has become the first US university to complete a leased-based privatisation of on-campus energy asset. Though the [\\$1.165 billion transaction with Engie North America and Axiom Infrastructure](#) is novel, it builds on OSU's experience of using private finance to fund infrastructure.

In 2012, OSU successfully tendered a \$483 million on-campus parking lease concession, which is the only US university parking privatisation to date. Under that 50-year lease agreement, a consortium comprising Australia's Queensland Investment Corporation (QIC) and US parking operator LAZ Parking took over operation and management of the university's 17 garages, 156 parking lots and roughly 36,000 parking spaces.

While that deal was not replicated, universities across the US are increasingly exploring long-term private sector concessions for on-campus assets beyond the traditional student housing schemes.

As part of OSU's latest deal, the Engie-Axiom team brought a sizeable private placement bond to close in July 2017, which was larger than the \$663 million private placement bonds issued for a bundle of on-campus assets including student homes at the University of California's Merced campus in August 2016.

## The financing

Although a roughly \$600 million private placement solution was committed by the sponsors Engie and Axiom at bid stage, *IJGlobal* understands from several sources close to the transaction that the bond was eventually upsized in the weeks preceding financial close in early July to \$850 million, reflecting strong demand and growing appetite among institutional investors for diverse long-term US infrastructure assets.

OSU's previous parking lease deal featured a commercial bank club backed term-loan and capex facility to cover the upfront payment at financial close in 2012. A portion of this debt was [later refinanced by QIC in the capital markets through a \\$285 million bond issue](#) in 2014 supported by strong institutional investor commitments under tighter pricing terms.

The recent private placement was split into two tranches;

- A \$460 million tranche on the operating company level
- A \$390 million at the holding company level.

The private placement was backed by up to eight institutional investor accounts, with MetLife Private Capital Investors being lead investor. MetLife was also lead investor on the bonds that refinanced OSU's parking lease. The remaining investors remain confidential at this stage but the deal is understood to have included Canadian institutional accounts. The notes begin to mature in 2027 through to final maturity in 2037 and were competitively priced, sources said. RBC Capital Markets was lead placement agent and bookrunner.

The increased size of the bond reduced bank debt to a \$125 million revolving capex loan with a five-year tenor and \$15 million letter of credit facility, instead of a larger bridge to bond facility. The short-tenor revolving debt facility was backed by:

- RBC Capital Markets
- MUFG
- CIBC
- Santander

MUFG, CIBC and Santander were also co-placement agents on the notes issue. The \$125 million revolving capex loan priced at 112.5bp over Libor with a 75bp up-front fee. The pricing was reflective of a utility financing, sources said. The revolving facility will be drawn down as needed for ongoing maintenance agreements as part of the contract agreement. Engie and Axium will each contribute 50% of the roughly \$175 million project equity.

#### **Energy management agreement**

Ohio State University awarded a 50-year lease concession to the Engie North America and Axium Infrastructure US team on 31 March 2017. The agreement was approved by OSU's board of trustees on 7 April.

The Engie-Axium team's total bid value of \$1.165 billion represents a \$1.015 billion upfront payment to the university and a \$150 million commitment to support academics in specific areas requested by students, faculties and staff during the bidding process. The proposal also includes the establishment of a \$50 million Energy Advancement and Innovation Center for energy research and technology commercialisation. OSU will also be using proceeds from the leasing contract to finance scholarships, research, and academics and philanthropy.

The sponsors established Ohio State Energy Partners (OSEP), the special purpose holding company for the project. OSEP will be overseen by an eight-member board of directors with four individuals appointed by each consortium company. The formal transfer of management of the central systems that heat, cool and power the OSU's Columbus campus was handed over to Engie Services on 6 July by the university. Engie Services will operate these systems on behalf of OSEP under the 50-year lease agreement.

The concessionaire also plans to make additional capital investments for the university's electric, steam, gas, heating, cooling, and associated central (production and distribution) assets serving the university's Columbus campus.

In return, Ohio State University will pay OSEP an annual utility fee that includes; a fixed fee that starts at \$45 million and grows 1.5% a year and an operating fee to cover costs (starting at \$9.2 million based on a three-year average of university costs).

The Columbus campus, Ohio State's primary campus, is located in the City of Columbus on a 1,904-acre site and is said to be one of the largest individual campuses in the country.

#### **Advisers**

OSU was advised by:

- Barclays (financial)
- Jones Day and Ice Miller (co-legal)
- Burns & McDonnell (technical) advised

The sponsors were advised by:

- RBC Capital Markets
- Allen & Overy

Milbank was legal counsel to the lenders.

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