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BOARD OF TRUSTEES COMMUNITY COLLEGE DISTRICT NO. 508

DECEMBER 7, 2012

REINVENTION

Presentation to the CCC Board of Trustees

December 7, 2012

CITY COLLEGES of CHICAGO
Center for Operational Excellence
Education that Works

Malcolm X: Finance & delivery methods

FINANCE

PFM report:

•CCC has strong balance sheet

•Alternate bonds are the recommended route

CONSTRUCTION

After consultation with construction adviser Jacobs and Mayer Brown, CCC is recommending a fast-track design-bid-build approach:

•Allows for risk transfer via Guaranteed Maximum Price

•Contractor commits to Substantial Completion date

•Allows CCC to meet current completion schedule (late 2015)

•No new statutory authority required – can be done under CCC's existing design-bid-build power, and subject to ICCB approval as with all CCC projects.

Fast-track vs. design-build

•Fast-track captures the key benefits of design-build (speed and financial risk transfer)

•Design-build requires CCC to secure new authority by March 2013 either through the General Assembly or one agency with authority such as the City of Chicago (City Council action required), which could delay the project.

Tax-Exempt Financing Options						
Financing Option	**Issuer**	**Security/Source of Payment[1]**	**Legal/Authorization Considerations**	**Projected Rating[2]**	**Max Debt Term**	**True Interest Cost[3]**
Revenue Bonds	CCC	Tuition and Fees; PPRT	No referendum or voter initiated referendum required	A-	30 years	4.41%
Alternate Bonds	CCC	Tuition and Fees; Additional backup pledge (i.e. property tax); PPRT	Possible voter-initiated referendum 1.25x (or 1.10x) coverage	AA-	40 years	4.05%
CCC G.O. Bonds	CCC	All available revenues; Levy a special property tax unlimited as to rate or amount; PPRT	Referendum required	AA-	20 years	3.36%
City of Chicago G.O. Bonds	City of Chicago	Property tax	No referendum or voter initiated referendum required City Council approval	Aa3/A+/AA-	30 years	3.97%
PBC Bonds	PBC	Tuition and Fees; Property tax; PPRT	Dependent on the financing structure and security	A- or AA- range	30 years	4.05%-4.41%[4]

(1) CCC does not intend to increase tuition or fees to pay for the project.

(2) Ratings are solely at the discretion of the rating agencies.

(3) Based on current market conditions on October 26, 2012. No capitalized interest period. Malcolm X project fund size of $251 million. Revenue constraint of $10.6 million in PPRT revenue from FY 2013-FY 2015 with 1% annual increase thereafter.

(4) Does not include the 3% debt service fee.

Alternate bonds

- Alternate (or double-barreled) bonds:
  - obligations payable from a primary revenue source, such as enterprise revenues or sales taxes
  - second level of security is a full faith and credit tax levy that is available to provide payment in the event the primary revenue source is insufficient to pay the bonds

- Alternate bonds typically carry a more favorable interest rate than revenue bonds due to their dual security feature.

- The intent is that the primary revenue source will be sufficient to pay the bonds so that the taxes levied for their payment in the second level of security will not in fact be extended.

- Alternate bonds may be issued whenever a community college district has a lawfully identified revenue source sufficient to provide, in each year, not less than 1.25 times (1.10 times if the revenue source is a governmental revenue source, like PPRT) debt service on all outstanding alternate bonds payable from such revenue source and the alternate bonds projected to be issued.

- No referendum required, though one must be held if 7.5% petition to do so within 30 days following publication of the governmental unit's intent to issue.

Fast-track replaces sequential approach with overlapping process

"Traditional" design-bid-build

•Only when design phase is over is RFP issued to ask contractors to bid on the project based on the completed design.

•Because they did not control or have input in the design, contractors are less inclined to guarantee maximum price, forcing the client to retain a large amount of risk.

Fast-track approach

•Contractors are asked for a fixed price bid on the project at the point when the design documents are 50 percent complete (90 percent of building is designed, including envelope and main systems).

•The selected contractor then overlaps with the design firm to understand the design and weigh in as appropriate. Upon design completion, the contractor is allowed to revise their bid up to a pre-agreed maximum capped increase that must be justified point-by-point. Then a guaranteed maximum price contract is agreed to.

Key consideration: *Always a key success driver in any construction project, identifying a strong construction manager early is critical to manage a fast-track process and coordinate the joint work of the designer and contractor firms.*

Comparison of possible delivery models for Malcolm X Campus

Traditional (Design/Bid/Build)

Potential benefits:

- Generally lower cost of capital
- Known procurement process
- Maximizes opportunity for internal stakeholder involvement
- Incentive / penalty related to schedule requirements
- Full control of design process

Considerations:

- Risk of delays and cost overruns
- Statutory restrictions regarding debt
- Ongoing operating and maintenance requirements
- Internal capability to execute project
- Longer project delivery schedule

Fast-Track Design-Bid-Build

Potential benefits:

- Generally lower cost of capital
- Risk transfer through Guaranteed Maximum Price
- More control on schedule than traditional DBB
- No need to go to GA or City Council
- Retain more overall control than with design-build
- Proven approach in private sector

Considerations:

- Risk of delays and cost overruns
- Newer approach for local government
- Need strong CM, CCC needs to hire in-house construction expertise
- No bid-build-operate component in this approach

Design-Build

Potential benefits:

- Generally lower cost of capital
- Partial risk transfer to private party
- Incentive/penalty related to schedule requirements
- Opportunity for cost savings and design innovation
- Guaranteed maximum cost

Considerations:

- Statutory authority to engage in Design-Build
- Retained risks
- Less stakeholder input and involvement
- Ongoing operations and maintenance requirements
- Level of design specification
- Internal capability to execute project

Performance Based Infrastructure

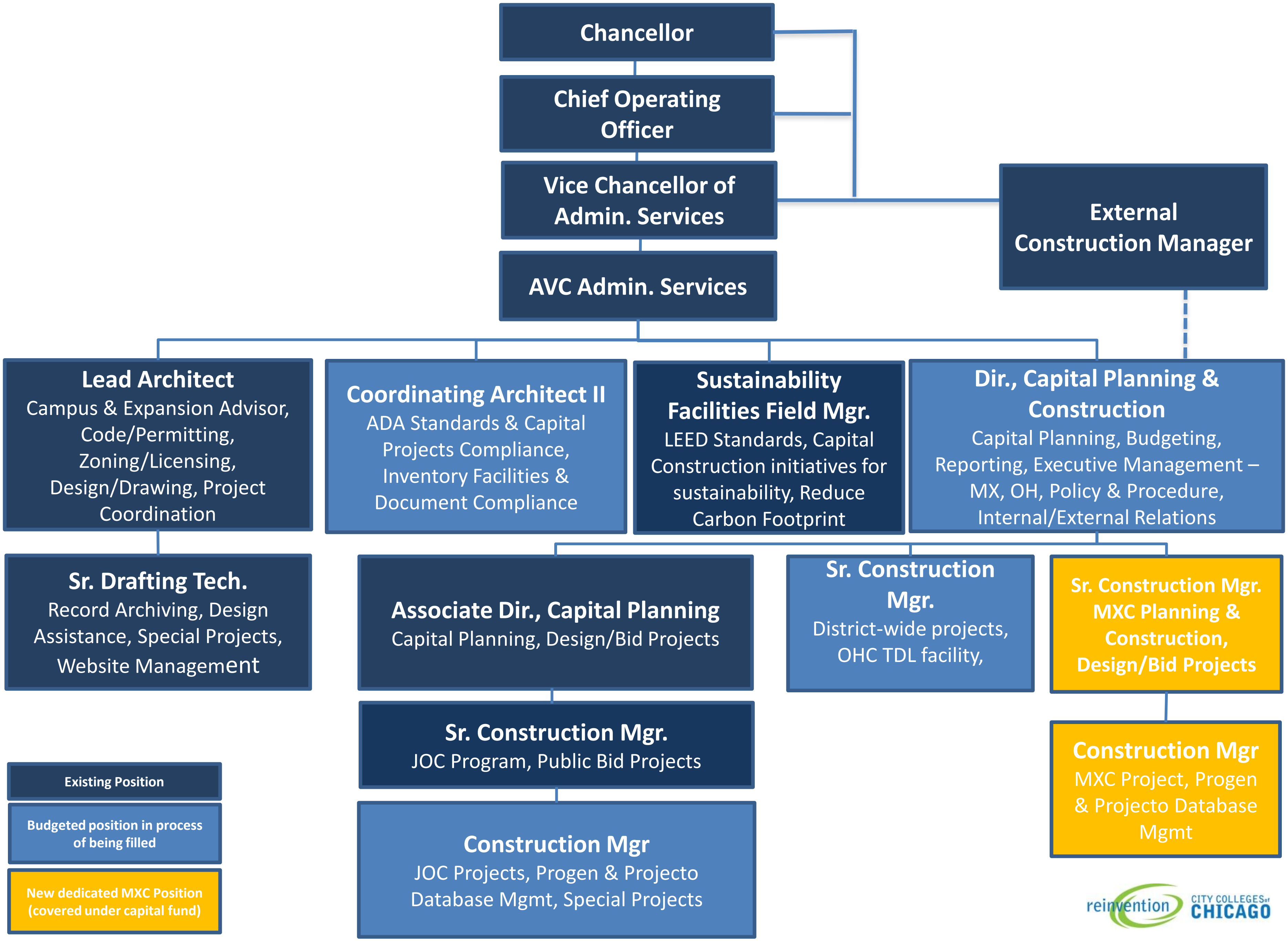
Potential benefits:

- Greater risk transfer to private party
- Greater opportunity for cost savings
- Multiple design approaches and opportunity for innovation
- Opportunity for life cycle savings
- Transfer operations and maintenance costs
- Stronger incentives for performance – no payment of CCC funds until project is delivered

Considerations:

- Statutory authority to engage in PBI
- Generally higher cost of capital
- Newer process/time to reach close
- Limited ability to modify contract terms
- Limited stakeholder involvement
- Internal requirements for oversight

CAPITAL PROJECTS MANAGEMENT STRUCTURE



PROJECT EXAMPLES

- Government has been slow in capitalizing on industry trend; Chicago could be a leader in this regard
- Projects our construction advisers are involved in include – all are Guaranteed Maximum Price:
    - 100-bed, $100-million facility for Chinese Hospital Association, San Francisco – construction starts Jan. 1
    - 300-bed, $100 million Texas hospital – 75% complete
    - 400-bed, $28 million dorm at University of Texas – completed 2011
    - New $64 million theater building at DePaul University (in progress)