Innovative Approaches to Financing Municipal Buildings
National Development Council
Housing and Economic Development Corporation

Recent Projects in the Northwest

Copyright 2005 National Development Council
Pacific Place Parking Garage
Community Development Properties King County II

- 1,200-space Parking Garage
- Anchored a $400 Million Downtown Development Project
- Financing: 501(c)(3) Bonds
Commodore Duchess Apartments
University of Washington, Seattle

- 139-unit Student Housing
- 50 Percent Cost Savings over the University’s own estimates
- Financing: 63-20 Bonds
King Street Center
CDP King County III (Washington)

- 327,000 sq. ft. Municipal Office Building
- LEED Gold
- Saved Two Years in County Development Process
- Financing: 63-20 Bonds
4225 Roosevelt
Educational Research Properties

- 127,717 sq. ft. Medical Office Building
- Acquisition and Modest Rehabilitation
- Allowed the University of Washington to Acquire Leased Space and Stabilize its Occupancy Costs
- Financing: 63-20 Bonds
Lake Tapps Parkway Properties
Pierce County, Washington

- Allowed Pierce County the Opportunity to Complete a Major Roadway, Parks and Storm Water Sewer without Issuing Municipal Debt
- Financing: 63-20 Bonds
Radford Court
University of Washington

- 399-unit University of Washington Married Student Housing
- Allowed for the Development of Student Housing without University Debt
- Saved Two Years in Development Process
- Financing: 63-20 Bonds
Issaquah Highlands
King County, Washington

- Construction of a Regional Water Line
- Facilitated the Commercial and Residential Development within the Urban Growth Boundaries of Suburban King County
- Reduced the Development Costs and Shortened the Development Timeline.
- Financing: 63-20 Bonds
Nordheim Court
University of Washington

- 460-bed, 146-unit University of Washington Student Housing
- 18-month Development Timeline / 20 percent Cost Savings
- Financing: 63-20 Bonds
Patricia Bracelin Steele Building
Broadway Office Properties

- 156,800 sq. ft. Medical Office Building with 198 Parking Stalls
- Tenant -- King County's Harborview Medical Center
- Significantly Reduced the Development Timeline
- Financing: 63-20 Bonds
Wesley Apartments
Nickerson Area Properties

- 156-bed, 40-unit Seattle Pacific University Student Housing
- Privately Built and Financed University Housing on University-leased Land
- 18 Months from Concept to Occupancy
- Financing: 501(c)(3) Bonds
Tumwater Office Properties
State of Washington

- 200,000 sq. ft. State of Washington Office Building with Surface Parking for 670 Cars
- Significantly Shortened the Development Process – Resulting in Cost Reduction
- Financing: 63-20 Bonds • LEED Gold
Redmond Community Properties
Redmond, Washington

- 107,000 sq. ft. City Hall with 453-space Detached Parking Structure
- Cost Savings from Financing Helped Justify the Decision to Build
- LEED Silver (Pending)
- Financing: 63-20 Bonds
Washington Biomedical Research Properties I

- 105,000 sq. ft. Biomedical Research Laboratory for the University of Washington School of Medicine
- Rehabilitation
- Cost Savings estimated at 20 Percent
- Financing: 501(c)(3) Bonds
TSB Properties
University of Washington

- 71,351 sq. ft. University of Washington Computer Center
- Acquisition
- Financing Allowed the University to Meet a Rigid Acquisition Timeline
- Financing: Conventional Bank Loan Taken Out with 63-20 Bonds
Goat Hill Properties
King County, Washington

- 295,000 sq. ft. King County Municipal Office Building with Detached 817-space Parking Garage
- Significantly Reduced the Development Timeline and Development Budget
- Financing: 63-20 Bonds
WBRP Phase II
University of Washington

- 300,000 sq. ft. Biomedical Research Laboratory for the University of Washington School of Medicine
- 20 percent Projected Cost Savings
- Financing: 501(c)(3) Bonds
NJB Properties

- 440,000 Sq. Ft. Medical Office Building
- Erased a $30,000,000 project overrun on previous GC-CM process
- 63-20 Bonds
NDC / HEDC Projects: Cumulative Benefits

- Recent Projects of the National Development Council’s Housing and Economic Development Corporation (HEDC)
  - Seventeen projects over eight years
  - $1.0 billion in construction
  - Over $150 million in local government cost savings
Tax-Exempt Bonds for Municipal Facilities

- Blending Public Sector Finance and the Private Sector Building Process
- Two Models
  - Revenue Ruling 63-20 / Revenue Procedure 82-26
  - 501(c)(3) bonds
Revenue Ruling 63-20/
Revenue Procedure 82-26

- IRS’s 20th Revenue Ruling in 1963
- Revenue Ruling 63-20 Allows a Not-for-Profit Corporation to Issue Debt to Finance a Facility for a Tax-exempt Purpose Provided the Following
  - A local government endorses the financing
  - The facility will to be occupied by a tax-exempt entity, and
  - The facility must revert without encumbrance to the ownership of the endorsing local government at the retirement of the debt
63-20 Bonds for Municipal Facilities

- While 63-20 is not the best financing vehicle for not-for-profits, it is useful for financing government buildings.

- 63-20 bonds allow for the following:
  - Private development of public buildings using private tax-exempt debt
  - Government control of the facility's use under the terms of a long-term lease or use agreement
  - A federal requirement that the facility revert to governmental ownership at the retirement of the debt
63-20 Bonds for Municipal Facilities (cont.)

- Advantages of Using 63-20 Bonds to Finance Municipal Facilities
  - Tax-exempt debt
  - Private development experience

- Disadvantages of Using 63-20 Bonds to Finance Municipal Facilities
  - Slightly greater up front cost
  - Slightly higher interest rate (4 to 10 basis points)
63-20 Bonds for Municipal Facilities (cont.)

- When Does it Make Sense to use 63-20?
  - When a private development process saves more in time and money than the added cost of an alternative tax exempt bond financing
  - When conventional general obligation bonds are not a good alternative
501(c)(3) Bonds for Municipal Facilities

- 501(c)(3) Bonds: The Current Means by which 501(c)(3) Not-for-Profits Finance Facilities

- Requires 501(c)(3) Status
  - The activity must further the not-for-profit’s public purpose
  - The use of the facility must be for an exempt activity
  - The bonds must be issued by a public agency
501(c)(3) Bonds for Municipal Facilities (cont.)

- If the Not-for-Profit Can Meet the Previous Three Tests and Find an Issuer
  - 501(c)(3) bonds can be used to assist municipalities in constructing buildings

- The Reversion to Municipal Ownership, so Valuable in 63-20, can then be Accomplished by Contract
63-20 and 501(c)(3) Bond Processes
Steps and Key Players

- Development of any Type Does Not Happen Easily
  - Steps of the 63-20 and 501(c)(3) development process
    1. Public agency decides to use an alternative development process
    2. A not-for-profit is selected (RFQ or negotiation)
    3. A developer is selected (usually by RFP)
Not-for-Profit Responsibilities

- Review Construction and Process Construction Draws
- Asset Management
  - Oversee property manager
  - Process lease payments
- Bond Compliance
  - Annual audits
  - Annual certification and reporting
- Oversee Repairs and Upgrades
The Not-for-Profit
Both 63-20 and 501(c)(3) Financed Structures

- Not Your Typical Not-for-Profit
  - Must be a single asset entity that has bankruptcy remote characteristics
  - Strength and substance: there should be qualities about the not-for-profit that suggest it will be in existence for the next 30 years (or the length of the term of the bonds)
  - Must have the correct public purpose
  - Must understand real estate development including long-term asset management
  - Must understand the requirements of bond compliance
Typical 63-20 or 501 c 3 Structure Flow Chart
For More Information . . .

- NDC, through Housing and Economic Development Corporation (HEDC), NDC’s Subsidiary Development Arm, has worked with many Municipalities to bring together the Advantages of Tax-Exempt Financing and Private Sector Development Experience.

- Contact us to Learn if we Can Help your Community with its Municipal Building Projects

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