



# ***Innovative Approaches to Financing Municipal Buildings***

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# **National Development Council**

**Housing and Economic Development Corporation**

Recent Projects in the  
Northwest

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# Pacific Place Parking Garage

## Community Development Properties King County II

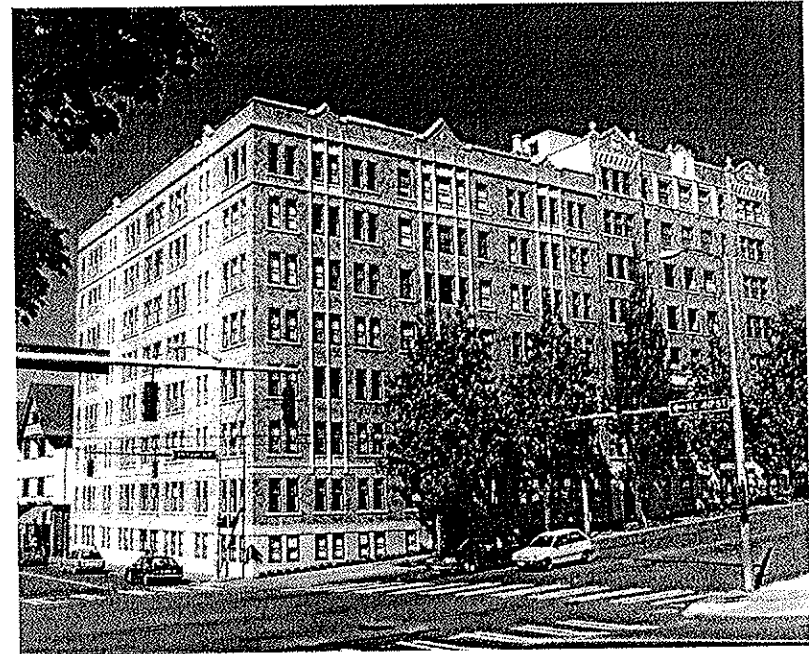
- 1,200-space Parking Garage
- Anchored a \$400 Million Downtown Development Project
- Financing: 501(c)(3) Bonds



# Commodore Duchess Apartments

## University of Washington, Seattle

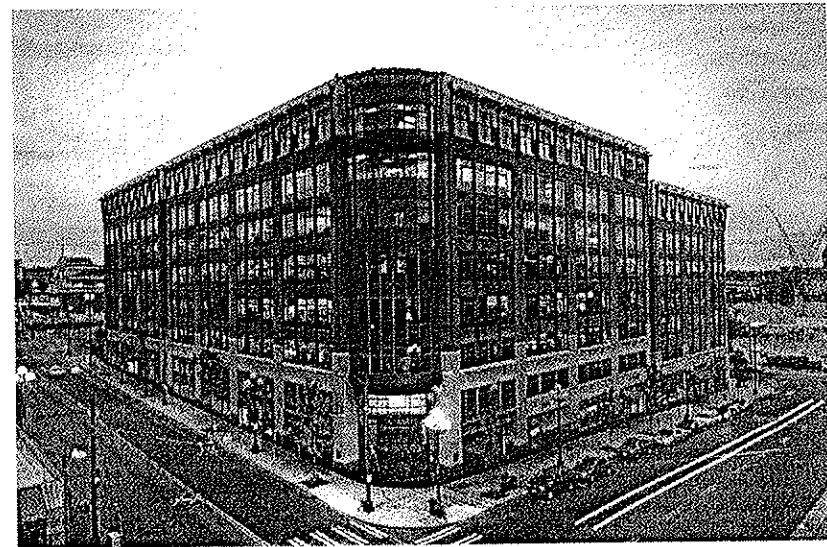
- 139-unit Student Housing
- 50 Percent Cost Savings over the University's own estimates
- Financing: 63-20 Bonds



# 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

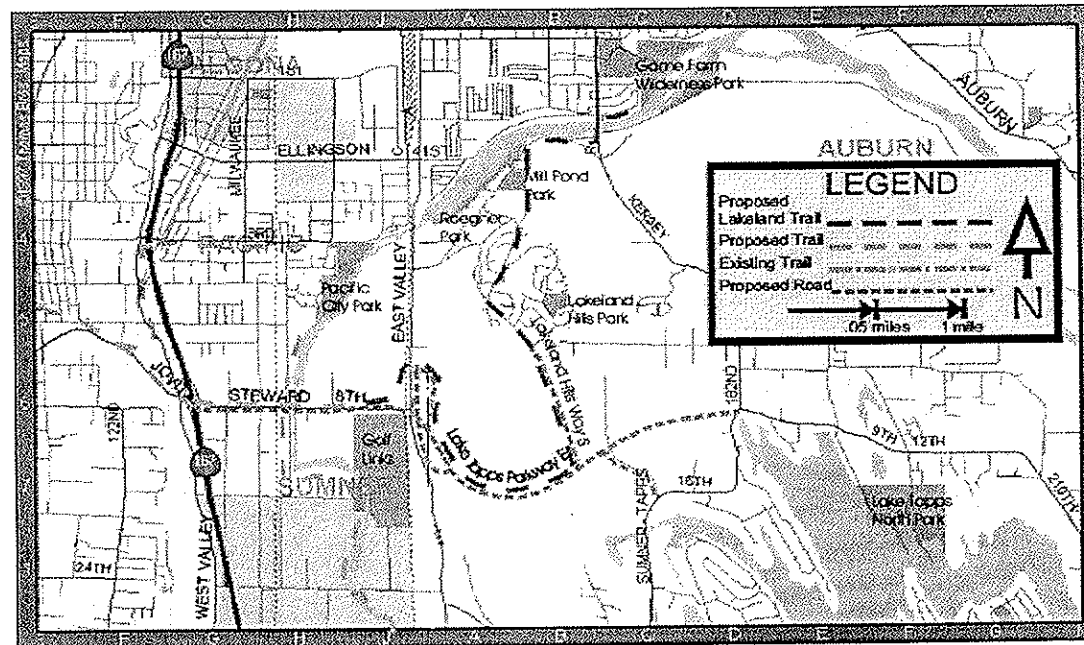
- 127,717 sq. ft. Medical Office Building
- Acquisition and Modest Rehabilitation
- Allowed the University of Washington to Acquire Leased Space and Stabilize its Occupancy Costs
- Financing: 63-20 Bonds



# 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

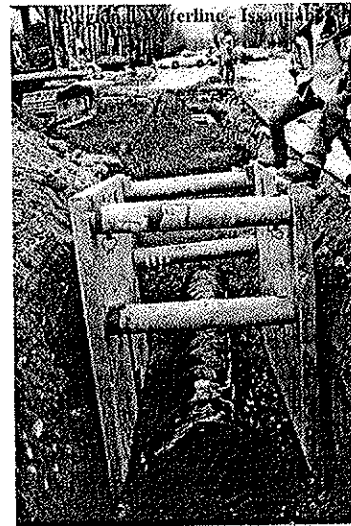




# Issaquah Highlands

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

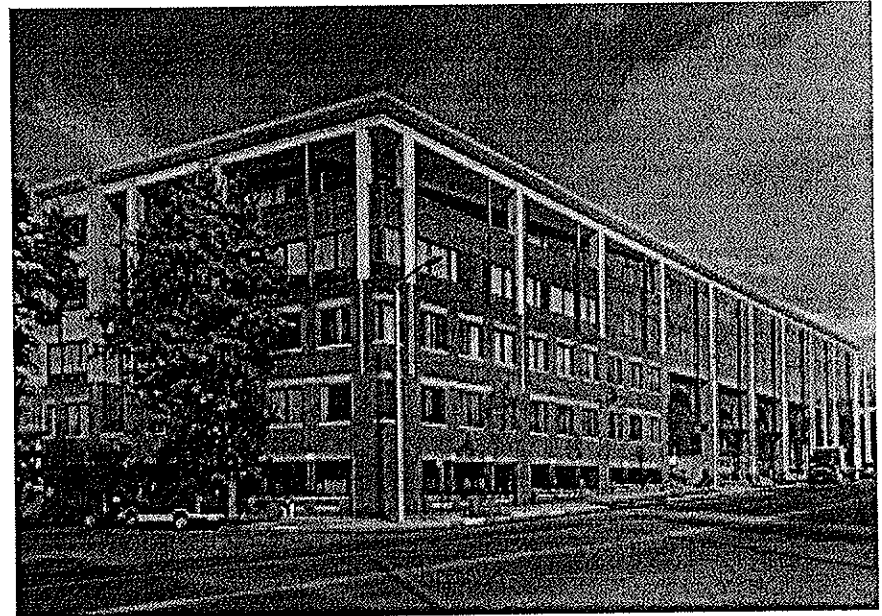
- 460-bed, 146-unit University of Washington Student Housing
- 18-month Development Timeline / 20 percent Cost Savings
- Financing: 63-20 Bonds



# 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

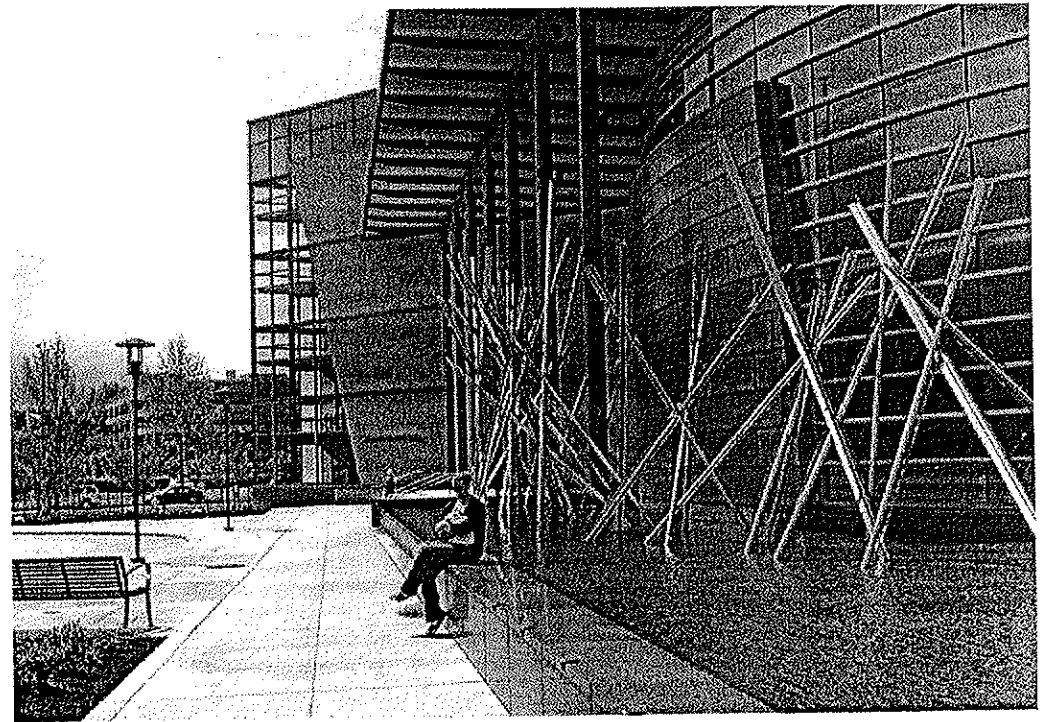
- 200,000 sq. ft. State of Washington Office Building with Surface Parking for 670 Cars
- Significantly Shortened the Development Process – Resulting in Cost Reduction
- Financing: 63-20 Bonds
- LEED Gold



# Redmond Community Properties

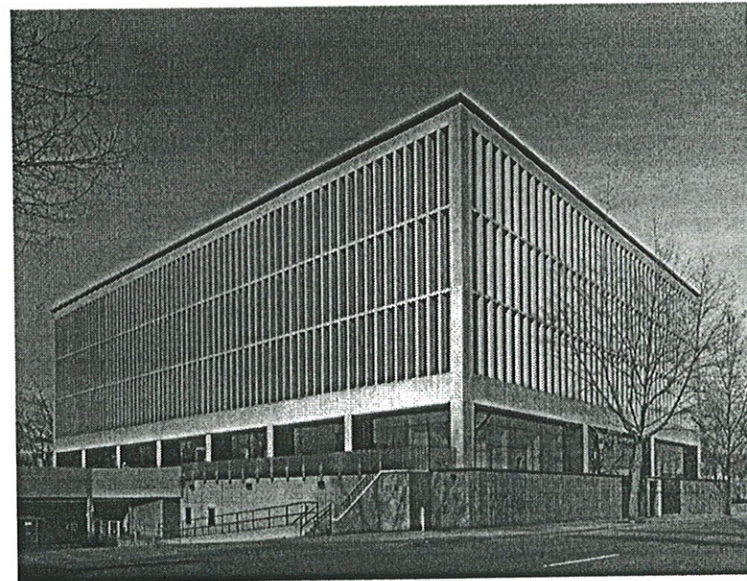
## Redmond, Washington

- 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

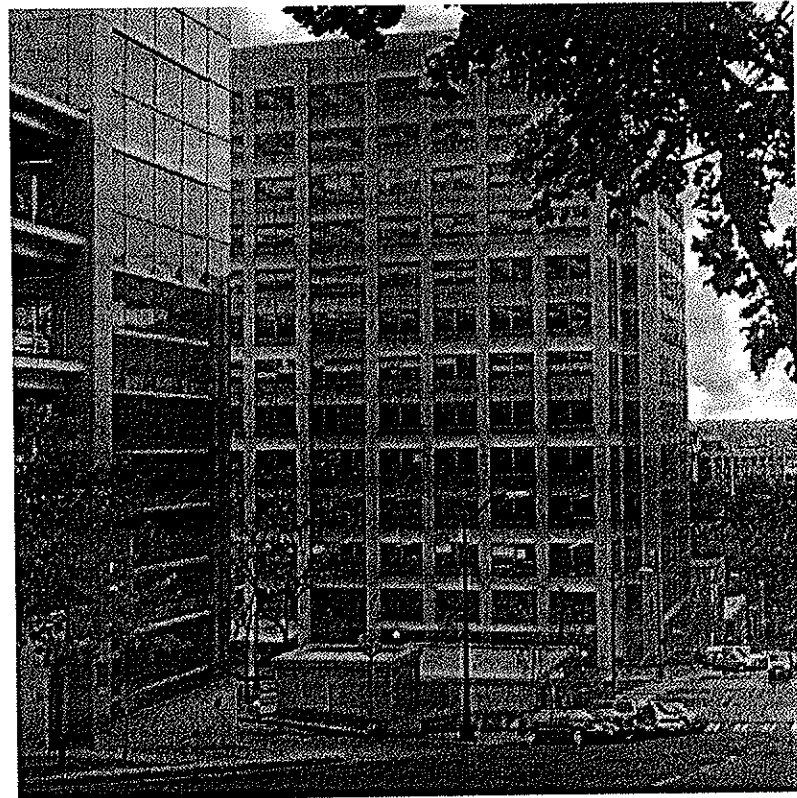




# Goat Hill Properties

## King County, Washington

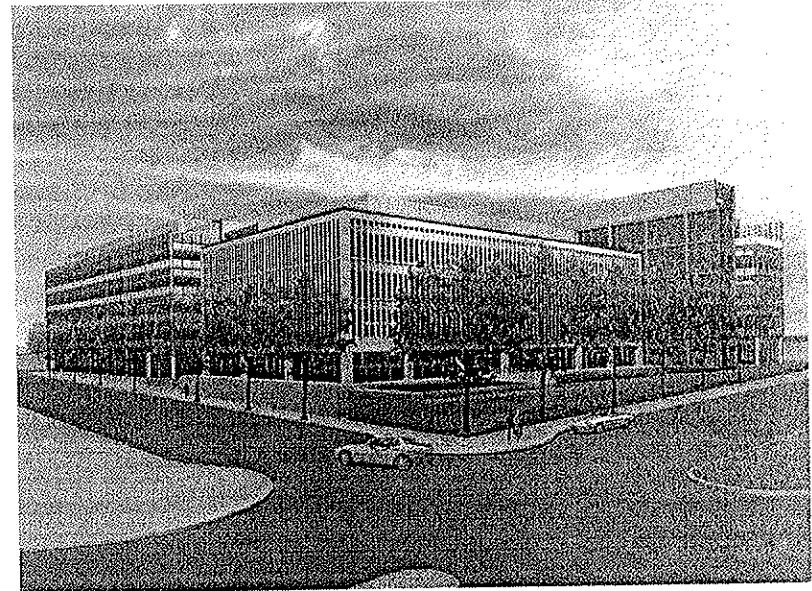
- 295,000 sq. ft. King County Municipal Office Building with Detached 817-space Parking Garage
- Significantly Reduced the Development Timeline and Development Budget
- Financing: 63-20 Bonds



# WBRRP Phase II

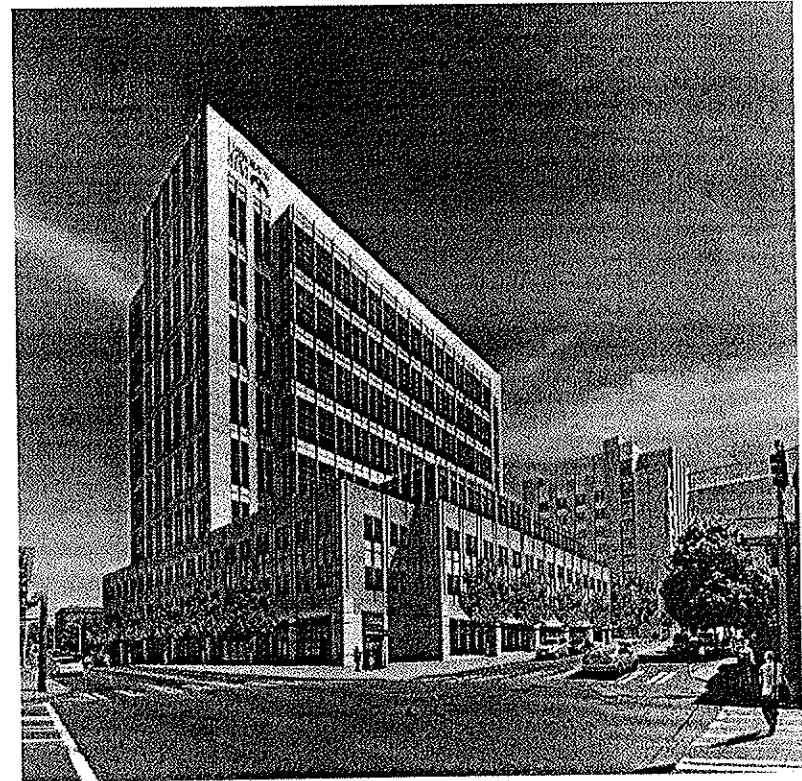
## University of Washington

- 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 20<sup>th</sup> 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 to 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

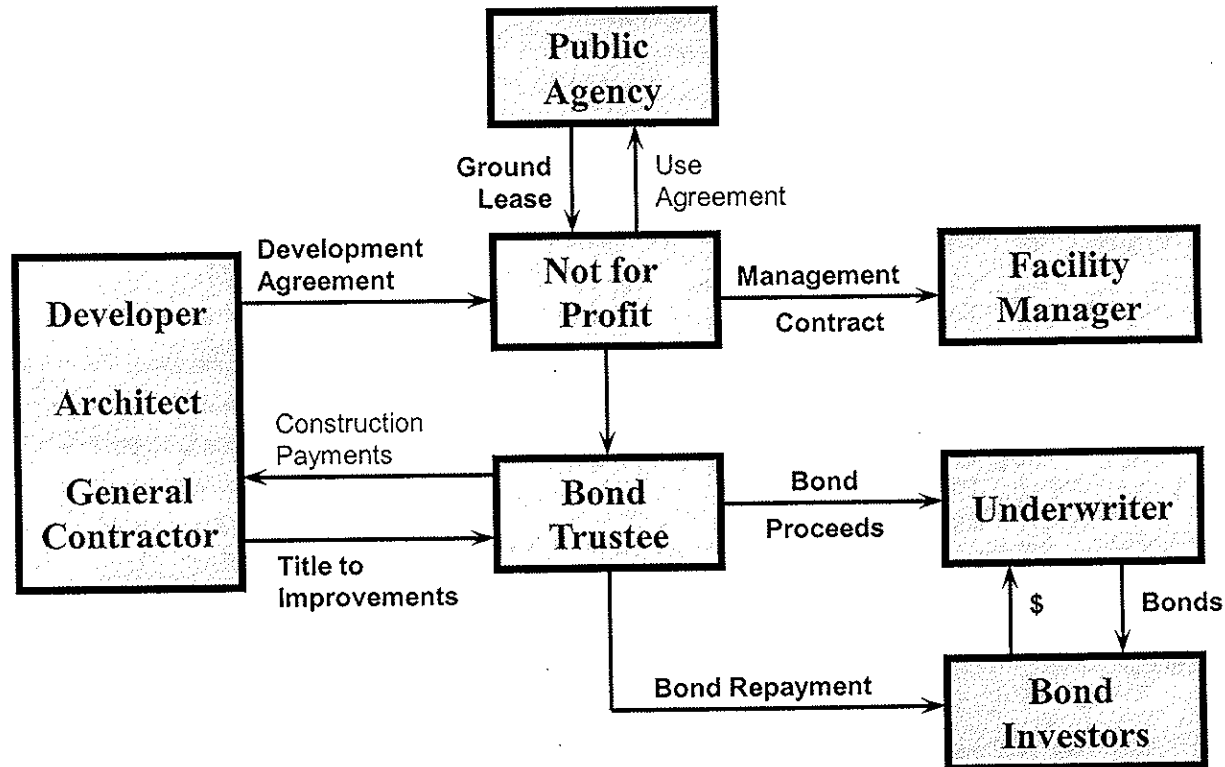
- Review Construction and Process Construction Draws
- Asset Management
  - Oversee property manager
  - Process lease payments
- Bond Compliance
  - Annual audits
  - Annual certification and reporting
- Oversee Repairs and Upgrades

# 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

(859) 578-4850

[www.nationaldevelopmentcouncil.org](http://www.nationaldevelopmentcouncil.org)

John Finke

(206) 448 5244

[finkeja@aol.com](mailto:finkeja@aol.com)