Public-Private Partnerships

NDC's American Model™ for Financing Social Infrastructure

ICMA Annual Conference
Kansas City, MO

September 27, 2016

National Development Council

Partners in Community Development Since 1969

NDC's work focuses on HOMES, JOBS and COMMUNITY. Founded as a national nonprofit in 1969, NDC has worked for almost 50 years fulfilling its mission to increase the flow of capital for investment in low-income communities. NDC directs capital to support the development and preservation of affordable housing, the creation of jobs through training and small business lending and the advancement of livable communities through investment in social infrastructure.

HOMES
JOBS
COMMUNITY

IMPACT AT A GLANCE

$610M	$704M	$2.5B	$210M	70K+	100+
in Equity Raised by Private Investors	in New Markets Tax Credit Allocation	in Public-Private Partnership Development	in Small Business Loans	Practitioners Trained	TA Client Communities

Homes Jobs Community

COMMUNITY

NDC Economic Development- P3

Using The NDC American Model™ approach to financing and building social and traditional infrastructure, we bring the public and private sector together to work in a collaborative development process which combines private sector expertise with the benefits of public sector financing.

We have financed over 40 projects totaling over $2.5 Billion, encompassing 3.7 million square feet and over 11,000 structured parking spaces

Recent Projects Using 63-20 and Related Approaches

UW Medicine South Lake Union

Phase 1 of UW Medicine South Lake Union)

- Phase 1 of a multi-phase bio- medical research campus development
- 105,000 sq. ft. Biomedical Research Laboratory
- Building Rehabilitation
- Cost savings of 10 to 20 Percent
- Financing: 501(c)(3) Bond
- Bond Issue: $38,225,000

Recent Projects Using 63-20 and Related Approaches

UW Medicine South Lake Union

Phase 2 of UW Medicine South Lake Union)

- Phase 2 of a multi-phase bio-medical research campus development
- 300,000 sq. ft. Biomedical Research Laboratory for the University of Washington School of Medicine
- 15 percent estimated cost savings
- UW Medicine Phase 2 received a 2011 AIA Northwest & Pacific Region Merit Award
- Financing: 501(c)(3) Bonds
- Bond Issue: $159,465,000

Recent Projects Using 63-20 and Related Approaches

UW Medicine South Lake Union

(Phase 3.1 of UW Medicine South Lake Union)

- Phase 3.1 of a multi-phase bio-medical research campus development
- Over 300,000 gross square feet, 7 story structure to the existing Biomedical Research campus
- Underground parking garage consisting of approximately 250 parking spaces and loading dock
- LEED Gold
- Financing: 63-20 Bonds
- Bond Issue: $165 Million

Recent Projects Using 63-20 and Related Approaches

UW Medicine South Lake Union

(Phase 3.2 and 3.3 of UW Medicine South Lake Union)

PUBLIC/PRIVATE PARTNERSHIPS

THE PUBLIC SECTOR PERSPECTIVE

& COMPARISON CASE STUDY

JILL MORELLI, FAIA, DIRECTOR OF FACILITIES,
UW SCHOOL OF MEDICINECOLLEGE & UNIVERSITY SCIENCE FACILITIES: TRADELINE CONFERENCE
OCTOBER 27 & 28, 2013

University of Washington South Lake Union

Molecular Science Building

SIMILARITIES

•••

SLU 3.1 (P3) & MolES (GC/CM)

- Scientists like working in both buildings
- Wet bench science
- Urban sites
- LEED Gold
- Layout of typical floor
- Seattle permitting/review processes
- Tax deferral on equipment & research
- Second phase not constructed but included support work in first phase
- Contingencies, furniture, equipment in “soft costs” are considered all spent

UW School of Medicine

DIFFERENCES

...

SLU 3.1 (P3)

- 216,019 GSF (7 flrs+)
- 128,891 ASF
- BSL-3/SA, 2 interstitial spaces, 4 bay loading dock; pad built for 3.1 + 3.2
- $109.6M TPC (adj.)
- $ 92.0M TCC (adj.)

MolES (GC/CM)

- 90,374 GSF (4 flrs)
- 47,060 ASF
- minimal vibration and electromagnetic interference; radiant floors; bldg. expandable for Phase 2.
- $72.6M TPC (adj.)
- $58.6M TCC (adj.)

Timeliness

…

SLU 3.1 (P3)

- Modified IPD
- Ground breaking: July 2011
- Opened: April 2013
- Construction time:

  21 months

- Impacts: fire June 16, 2012. All space built out; all space fully occupied 8 weeks after opening.

MolES (GC/CM)

- GC/CM, subs as advisors
- Ground breaking: October 2009
- Opened: September 2012
- Construction time:

  35 months

- Impacts: fit out designed during construction; not fully occupied at time of opening.

SLU 3.1 was delivered in 14 months less time.

UW School of Medicine

NDC

Comparison Worksheet: SLU 3.1 and MolES: 7 October 2013

Jill Morelli

Between 2009 to 2013, the Schoolof Medicine and the College of Engineering both built a wet bench laboratory building using different project delivery methods. SoM 3.1 was constructed using a 501(c)3; the CoE building was constructed using the GC/CM process through UW's CPO.

PROJECT COSTS: WITHOUT FINANCING & MUP COSTS

Project Name	Adj. Project Cost (TPC)	Total Construction Cost (TCC)	% of Const. cost to TPC	GSF	ASF	TPC/GSF	TPC/ASF	TCC/GSF	TCC/ASF	Typ. floor efficiency	Typ. Bldg. efficiency
SLU 3.1	$109,595,788	$92,032,232	84%	216,109	128,891	$507.13	$850.30	$425.86	$714.03	87%	60%
MolE building	$72,600,000	$58,600,000	81%	90,374	47,060	$803.33	$1,542.71	$648.42	$1,245.22	76%	51%
SLU is cheaper than MolES by....						37%	45%	34%	43%		
when modified for smaller scale of MolES (1.13 reduction factor)											
SLU 3.1						$507.13	$850.30	$425.86	$714.03		
MolES						$710.91	$1,365.23	$573.82	$1,101.96		
SLU is cheaper than MolES by....						29%	38%	26%	35%		

PROJECT COSTS: INCLUDING FINANCING (and other costs associated with rent, broker fees etc)

Project Name	Adj. Project Cost (TPC w/F)	Total Construction Cost (TCC)	% of Const. cost to TPC	GSF	ASF	TPC/GSF	TPC/ASF	TCC/GSF	TCC/ASF
SLU 3.1	$131,513,206	$92,032,232	70%	216,109	128,891	$608.55	$1,020.34	$425.86	$714.03
MolE building	$72,600,000	$58,600,000	81%	90,374	47,060	$803.33	$1,542.71	$648.42	$1,245.22
SLU is cheaper than MolES by..						24%	34%	34%	43%
when modified for smaller scale of MolES									
SLU 3.1						$608.55	$1,020.34	$425.86	$714.03
MolES						$710.91	$1,365.23	$573.82	$1,101.96
SLU is cheaper than MolES by..						14%	25%	26%	35%

Summary of Case Study …

Timeliness

- perception: P3's take less time
- reality: **True; SLU 3.1 took less time by 13%-33%**

Quality & Control

- perception: P3's are of a lower quality
- reality: **False: a different approach to maintenance drives different decisions**
- Perception: institution has many decision making entities
- Reality: **True; SLU designated SOM decision-makers.**

Cost

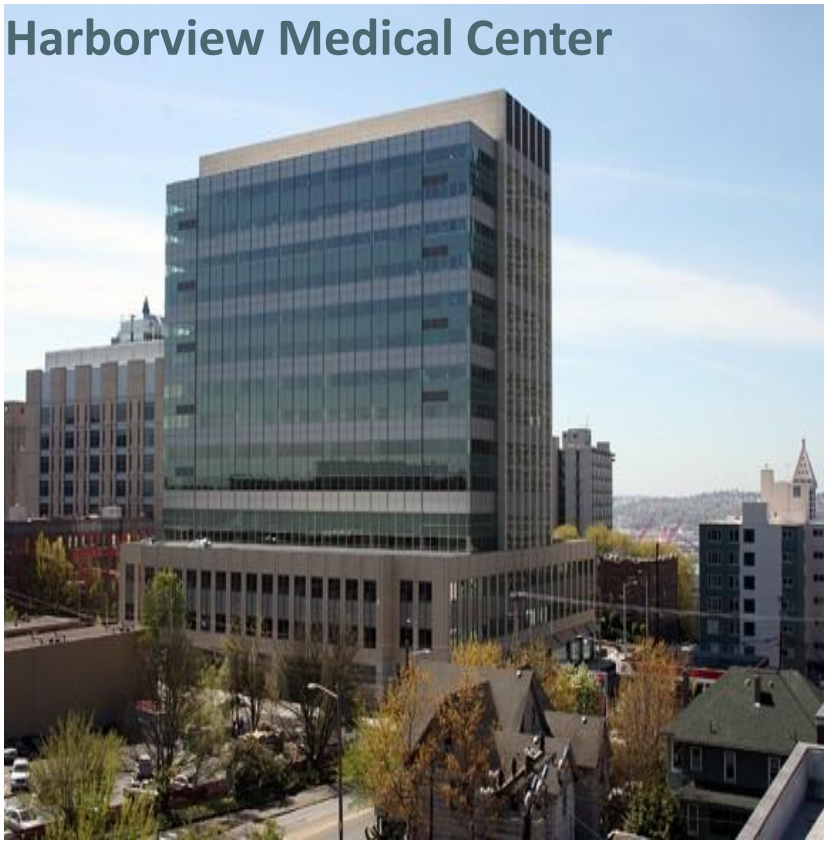
- perception: P3's cost less
- **reality: True: by 14% to 29%**

UW School of Medicine

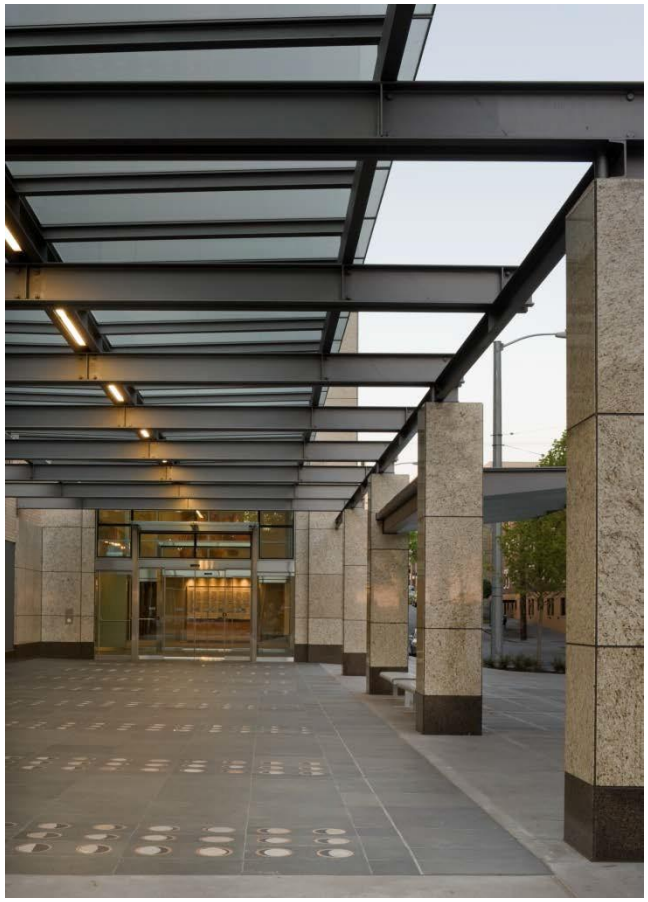
Recent Projects Using 63-20 and Related Approaches

Ninth and Jefferson Building

- King County, Washington
- 440,000 sq. ft. Medical Office Building
- LEED Gold
- Erased a $30,000,000 project overrun on previous GC-CM process
- The BOMA 2011 Outstanding Building of the Year (TOBY) award for excellence in the medical office category
- Financing: 63-20 Bonds
- Bond Issue: $189,720,000



A Profile in Public Benefit



By the time the original GCCM group finished excavating the site, they were facing a **$15 MILLION** budget overrun

The University's renovation of the Inpatient Expansion Building (IEB) had a similar **$15 MILLION** budget overrun

King County elected to transfer $15 MILLION from the Ninth and Jefferson Building to fill the gap on the IEB.

This left King County with a **$30 MILLION** budget gap; effectively killing the NJB project.

A Profile in Public Benefit

King County and University of Washington Partnered with National Development Council to assist with financing and development.

A development Team was assembled; NDC as Owner, Wright Rundstad as Developer, NBBJ as Architect, and Turner as Construction Manager.

This team was able to triple the usable square feet within the existing footprint and reduce development costs from $800 per sq. ft. to $450 per sq. ft.

Erasing the $30 Million deficit.

A Profile in Public Benefit

Ninth and Jefferson Building Project

Final Report to Government Accountability and Oversight Committee

Tina Rogers, Capital Projects Oversight Manager
Tom Wood, Oversight Analyst
March 15, 2011

King County

KING COUNTY AUDITOR'S OFFICE
CAPITAL PROJECTS OVERSIGHT PROGRAM

- "Budget was well managed"
- "Approximately $7.6 Million joint savings achieved on shell and core."
- "Restructured project was delivered at substantial savings compared to initial project estimate"
- "The medical office building cost 50% less per square foot"

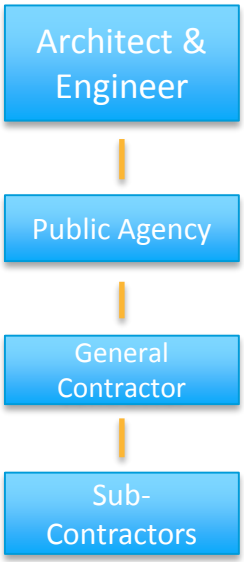
The Development Process

Typical Forms of Public Delivery

1. Design Bid Build
2. GC-CM (Construction Manager at Risk)
3. Design Build or its now Infamous Cousin, Design Finance Build Operate and Maintain
4. Collaborative Design (Integrated Project Delivery)

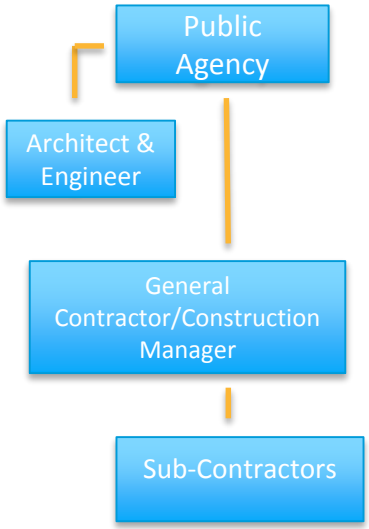
The Development Process

Three Common Forms of Public Delivery:



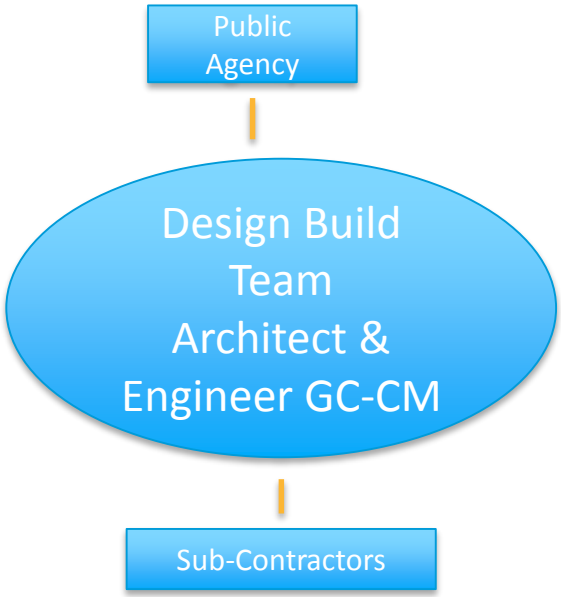
Design-Bid-Build

Linear in character understood and explained. Supported by extensive legal precedent and framework



GC-CM

Design team outside of GC-CM Contract. GC-CM procurement governed by alternative public works rules sub-contractor bidding usually a low bid process.



Design-Build

Design team and GC-CM procured as a team. Control and cost savings issues.

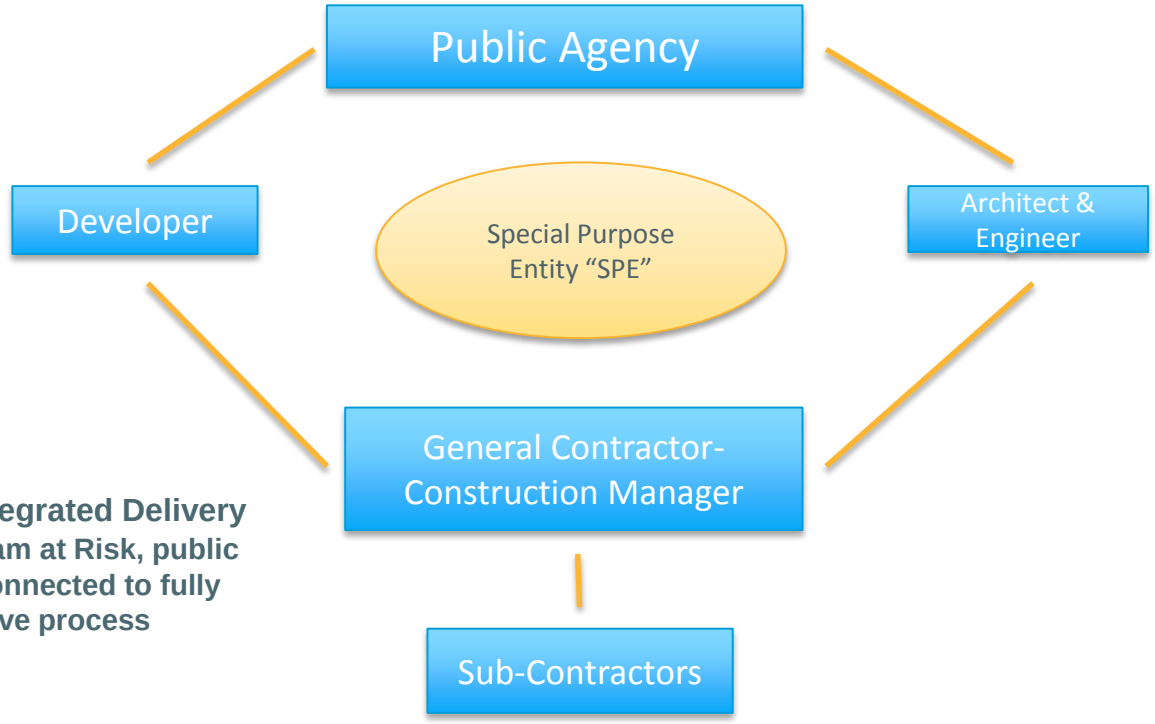
The Development Process

Principles of Effective Project Delivery:

1. Early Involvement of Key Participants
2. Collaboration in Design and Delivery
3. Trust and Respect among all Participants
4. Commitment to Teamwork for a Successful Outcome
5. Incentives to Perform

The Development Process

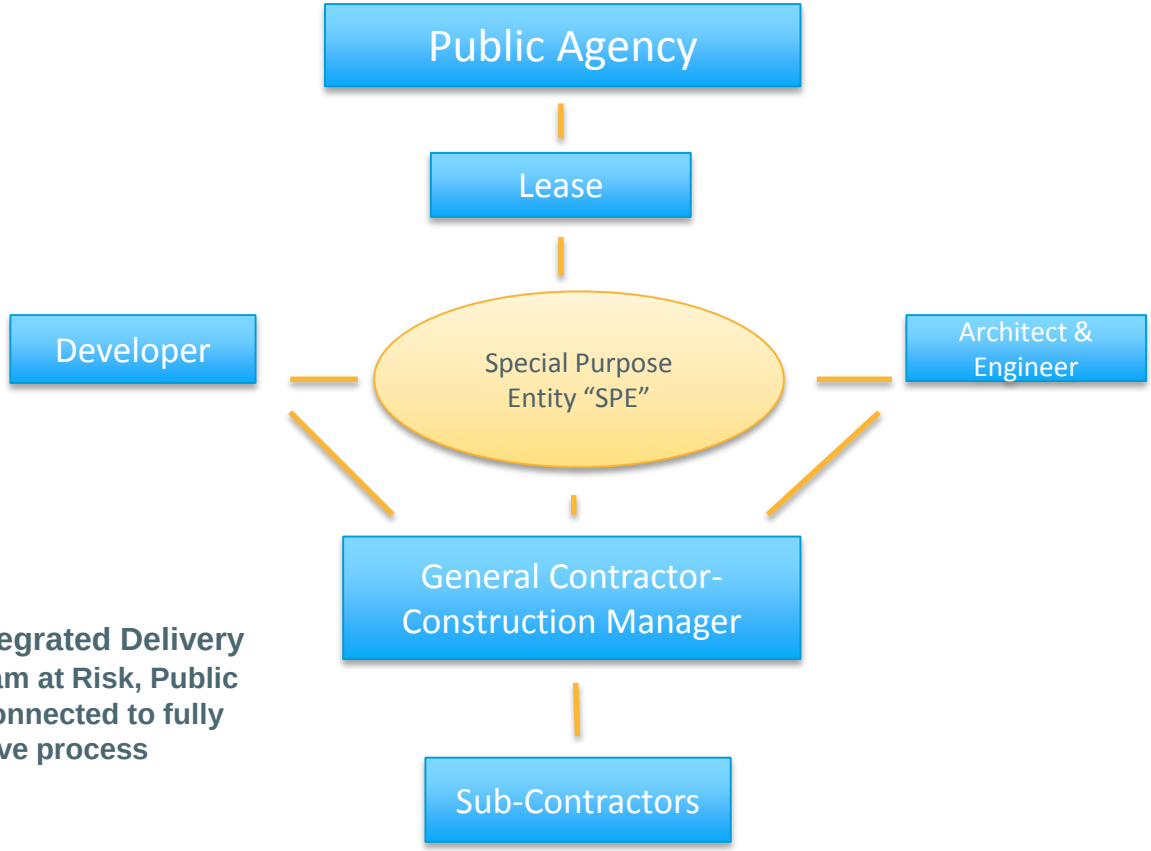
Public Delivery Forms Continued: Construction



Collaborated/Integrated Delivery
Development Team at Risk, public agency stays connected to fully collaborative process

The Development Process

Public Delivery Forms Continued: Rental



Collaborated/Integrated Delivery
Development Team at Risk, Public Agency stays connected to fully collaborative process

The Development Process

The NDC Approach "American Model"™:

Bonds - Direct Issue or Conduit

Revenue Ruling 63-20 allows a not-for-profit corporation to issue debt to finance a facility for tax exempt purposes, and IRC Section 145 allows 501(c)(3)'s to have tax-exempt debt issued on its behalf, provided:

- A local governmental entity endorses the financing
- The facility will be occupied by a governmental or tax exempt entity
- The facility reverts to the ownership of the endorsing local governmental entity at the retirement of the debt with a 63-20 and through a Ground Lease reversion with a 501(c)(3) Conduit Issue

The Development Process

The NDC Approach "American Model"™:

Using 63-20 Bonds for Municipal Facilities

Advantages

- Tax exempt debt
- Private development process
- Greater knowledge and efficiency = lower development costs
- Risk transfer to the private partner
- 100% financing

Disadvantages

- Slightly greater up-front cost
- Slightly higher interest rate - 5-40 basis points

The Development Process

The NDC Approach "American Model"™:

When does it make sense to use 63-20 or 501(c)(3) bonds for municipal facilities?

- When a public development is likely to be more costly than a privatized approach because of time delay or process
- When conventional general obligation bonds are not a good alternative
- When specialized development skills are necessary

The Development Process

The NDC Approach "American Model"™:

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 length of 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

The Development Process

The NDC Approach "American Model"™:

- **Developer**
  - Works for the not-for-profit to oversee development
  - Must be substantial
  - Must be willing and able to guarantee completion and price
  - Must have direct experience in the project type
- **Architect**
  - Works for the not-for-profit, under the direction of the developer
- **Contractor**
  - Works for the not-for-profit, under the direction of the developer

The Development Process

The NDC Approach "American Model"™:

Tax-Exempt Bond: Project Characteristics

- Must be public in nature
- Should be of substantial size - $15 million or larger
- Must be income-generating, either lease, or fee revenue
- Must be credit-worthy

The Development Process

The NDC Approach "American Model"™:

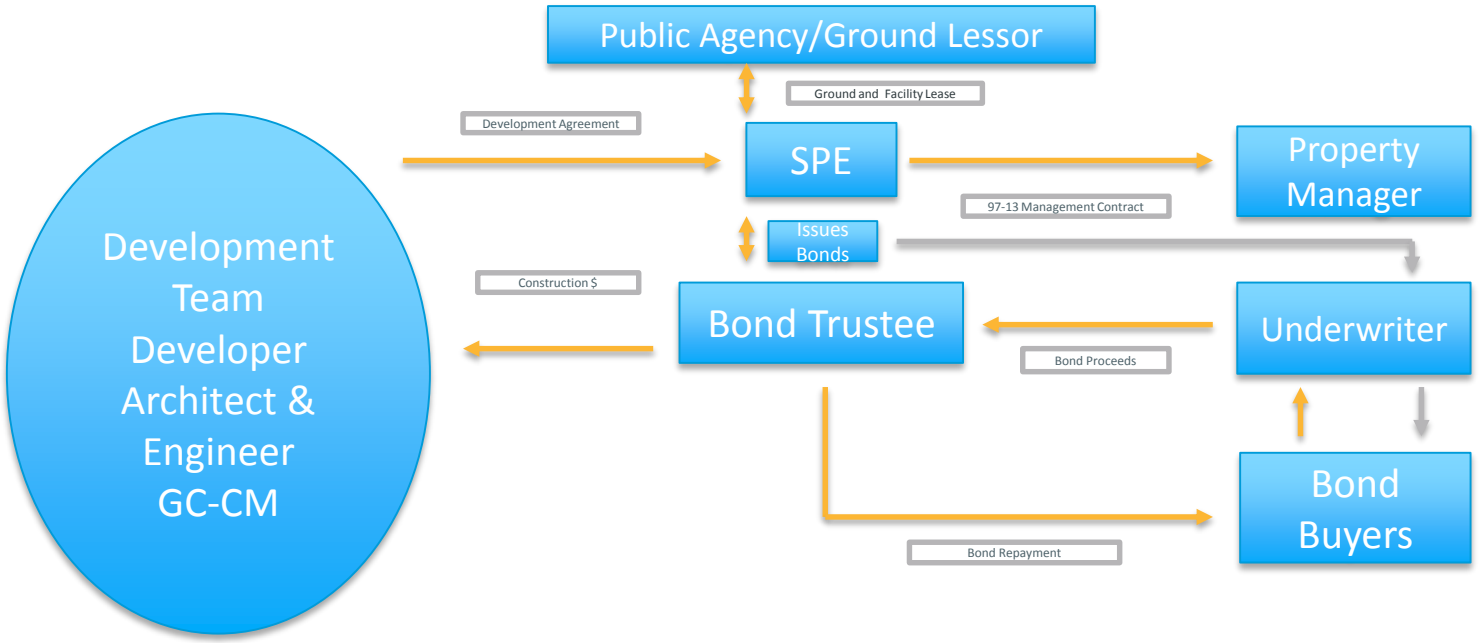
Steps in the P3 Development Process

1. Public agency decides to use an alternative development process
2. A not-for-profit is selected - RFP or negotiation
3. A developer is selected - usually by RFP
4. Design process starts
5. Contracts are drafted
    - Lease
    - Development Agreement
    - Architect Contract
    - Bond Documents
    - Preliminary Official Statement / Official Statement
    - Trust Indenture

The Development Process

The NDC Approach "American Model"™:

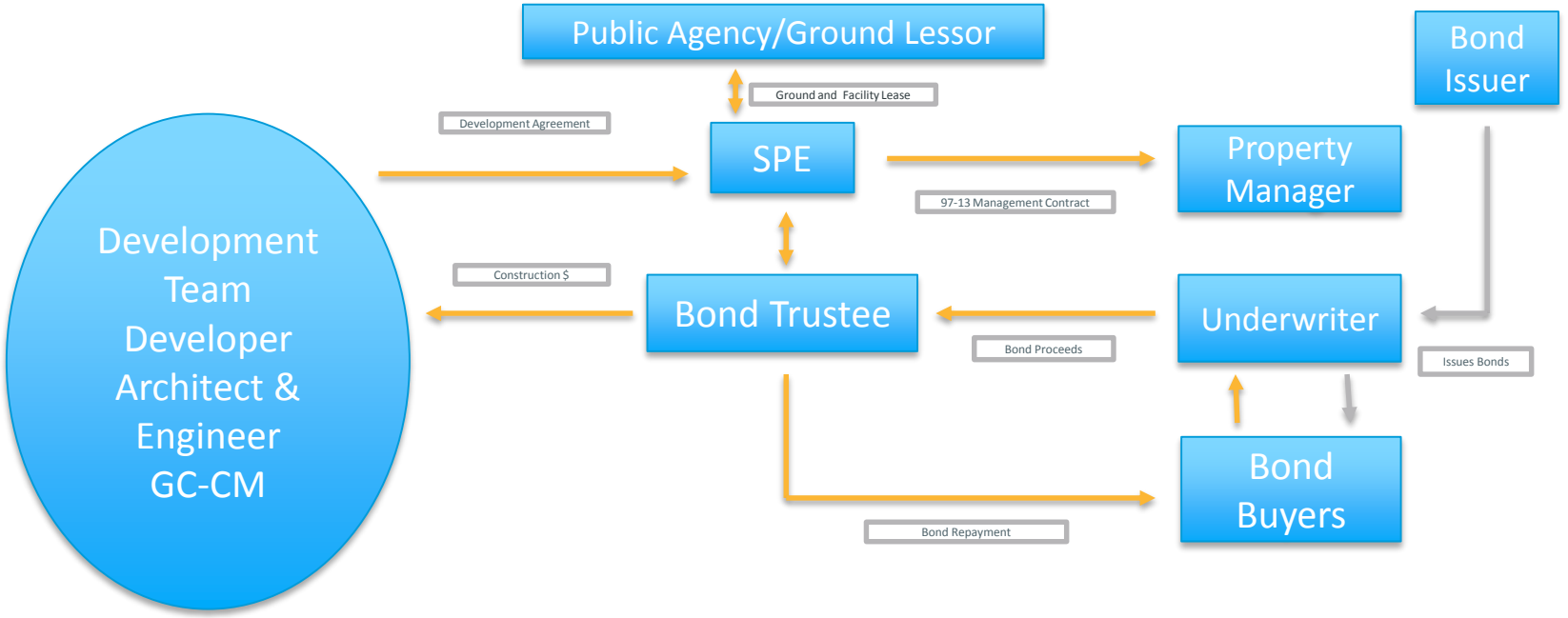
Key Players in the 63-20 Finance Process



The Development Process

The NDC Approach "American Model"™:

Key Players in the Section 145 Conduit Issue Finance Process



The Development Process

Other Recent Projects Using the "American Model"™:

Wood Center Food Services

- University of Alaska Fairbanks
- 34,000 square foot new construction and 6,000 square foot renovation to the existing Wood Center building
- Dining addition adds 320 additional dining seats
- New student activities office and renovated main entrance
- Financing: 63-20 Bonds
- Bond Issue: $23,649,000

The Development Process

Other Recent Projects Using the "American Model"™:

Scranton, Pennsylvania

- Scranton Municipal Parking System
- Non-Profit Ownership Combined with Private Operations and Maintenance. Excess Cash Flow Supports Eligible 501(c)(3) Projects in Scranton
- $32 Million Up-Front Payment to the City of Scranton
- 45-Year Concession/Lease, 40-Year Tax-Exempt Financing
- Financing: 501(c)(3) Bonds
- 2,659 Spaces in 6 Garages and 1,479 On-Street Meters

Contact Information

Daniel Marsh, Executive Vice President

24 Whitehall Street
Suite 710
New York, New York 10004
212.682.1106
www.Dmarsh@ndconline.org