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## Little known group helps projects to fly

• ***The National Development Council has built 17 projects here using tax-exempt bonds. Public entities lease the buildings until the debt is paid and then take ownership.***

By JON SILVER  
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**One Tacoma city official said he credits the National Development Council's financing help for successfully delivering the Urban Waters project.**

For a group that owns property around Puget Sound worth more than \$1.3 billion, the National Development Council keeps a pretty low profile.

NDC has had a hand in developing a number of high-profile public-private projects, including Redmond City Hall, Tacoma's Center for Urban Waters and Harborview Medical Center's Ninth and Jefferson Building.

The New York-based nonprofit was founded in 1969 to increase investment, jobs and community development in underserved and rural areas.

One of its main tools is something called 63-20 bond financing, which allows NDC to issue tax-exempt bonds for new buildings and then lease them to public entities until the debt is paid off. Ownership then transfers from NDC to the public entities for little, if any, cost.

John Finke, senior Western region director for NDC, wants to get the word out about the group, which has built 17 projects in the greater Seattle area with 63-20 financing, on time and with no cost overruns. "That story has never been told."

NDC also provides small-business lending and affordable housing financing, offers a program that exchanges tax credits for equity, teaches public employees about development financing, and performs contract consulting services for states and municipalities.

### **9th & Jefferson**

Finke said King County's Ninth and Jefferson Building on First Hill is one of the group's success stories. The project was already facing a \$15 million cost overrun when high bids put additional work on hold. Meantime, \$15 million from its budget was reassigned to a neighboring project, the Norm Maleng Building, also under construction at the time.

NDC worked with the county to resurrect the project in 2006. Original plans for a two-building phased project were scrapped in favor of a larger standalone building to save time and money. The project went from a cost of \$800 per square foot to \$450 per square foot, Finke said.

The land was leased to an NDC nonprofit corporation, NJB Properties, which issued tax-exempt bonds to finance the project. The county will lease the building from NJB until around 2035, when the bond debt is retired, and then assume ownership.

The term 63-20 financing refers to a 1963 Internal Revenue Service ruling that was intended to help nonprofits obtain tax-free financing. The financing approach soon slipped out of fashion for nonprofits.

"It was a poor mechanism to finance a nonprofit facility," Finke said, "but it is great to finance a government facility."

Local governments using the 63-20 approach can get financing for the same cost as a public bond, but develop the project privately since it's owned by a nonprofit.

Private developers can typically deliver projects for less than municipalities could on their own, Finke said. The low-bid approach most public projects take doesn't offer incentives for quality, experience or efficiency.

"You can build a public building and lease it to the local government for the cost of debt plus operating expenses," he said. "When the bonds are paid off, the government saves 20 to 30 percent or more on the overall development cost."

## **Urban Waters**

Tacoma turned to NDC to develop Urban Waters, a LEED platinum office and laboratory building on the Thea Foss Waterway that will have its grand opening in August. Officials decided to use 63-20 financing after considering other delivery methods. The complexity of the \$37 million project convinced them to seek a delivery structure where the project team could work together from the outset.

Jim Parvey, Tacoma's assistant public works director, said the 63-20 approach provides better cost control. Urban Waters was his first experience with 63-20.

NDC set up a single-purpose nonprofit corporation, Tacoma Environmental Services Properties, to sell tax-exempt bonds to fund the project. Lorig Associates is the developer.

Parvey said there were a few rough spots during the project, particularly when the bond market crashed in 2008, and the city fretted that interest rates could escalate as bond prices fell. Also, early costs were coming in over budget.

In the end, he said, everything turned out OK: The city was able to sell the bonds at a lower interest rate than it originally expected, and the project was completed under budget.

Parvey said he credits the 63-20 approach for delivering Urban Waters successfully.

## **UW biomedical**

When 63-20 isn't available, NDC sometimes uses a 501(c)(3) structure. That's how it helped finance the first two phases of the University of Washington's South Lake Union biomedical campus.

The method is used when an encumbrance like a ground lease prevents the smooth handover of a property to the public client once the bonds are paid off.

Finke acknowledged that the 63-20 approach has received its share of criticism, including fears that public clients could end up ceding control of their projects to NDC and its developers. But he said the design process is collaborative and there's room for the public client to change its mind.

Parvey said Tacoma held regular design meetings with Lorig as Urban Waters progressed. The city was insistent about some features, but allowed the developer more leeway on others.

"None of the deals we've built have resulted in anything other than the government being thrilled with the final product," Finke said.

The federal New Markets Tax Credit program has allowed NDC to contribute more than \$200 million to in-state projects since 2003. The program directs funds to distressed communities for mixed-use or nonresidential projects such as grocery stores, health clinics or even museums.

The Greenbridge Early Learning Center, which opened in March in White Center, received \$4.9 million in tax credits with NDC's help. The Recovery Cafe, which supports people coping with homelessness, addiction and mental health challenges, received nearly \$10 million in tax credits to buy and renovate its space in the Denny Triangle.

Michelle Morlan, an NDC director, said tax credits are a way of drawing private investment into distressed communities, but she warns the program is not for the faint of heart.

"It's a cumbersome Rube Goldberg structure," she said, "and understanding it takes effort."

Since the start of the recession, NDC's development activity has been "pretty stable," Finke said, but demand has been growing for its U.S. Small Business Administration loans. NDC is one of 12 non-bank lenders authorized to guarantee SBA loans.

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