



# Third Sector Partnerships for Community Development

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**NATIONAL DEVELOPMENT COUNCIL**

*Partners in Community Development Since 1969*





# Who is NDC and What Do We Do?

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- Oldest (since 1969) national non-profit community development organization in the U.S.
- Mission: increase the flow of capital to underserved urban and rural areas for job creation and community development
- Core services:
  - Development Based Technical Assistance
  - Small Business Credit
  - Equity for Community, Economic and Housing Development Project
    - Low Income Housing Tax Credits
    - Rehabilitation Tax Credit
    - New Markets Tax Credits
  - Financing/Developing Public Facilities
  - Economic and Housing Development Finance Training
  - Economic Development Policy Advocacy



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- Hallmark: creating new financing methods or new ways to use “old” methods



# Third Sector Partnerships: A New Model for Community Development

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- Familiarly, “not-for-profit”. Not public: not part of government. Not private: publicly-designated and publicly accountable because of tax-exemption and declared public purpose.
- A Third Sector development partner combines public mission and access to public financing tools with private sector knowledge and skills



# Third Sector Partners

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## Must have

- A specific and relevant mission AND
- Experience and achievements AND
- Knowledge of public sector requirements AND
- Knowledge of private sector processes including development and asset management AND
- Understanding of bond compliance AND
- Commitment to return benefit back to public sector AND
- Commitment to accountability and transparency AND
- Structure: single-asset, bankruptcy-remote entity



# Third Sector Partnerships

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## Three Examples

- Stand alone project designed to achieve a specific public policy goal
- Stand alone project designed to solve both a specific public policy goal and promote a specific redevelopment objective
- A multi-project financing plan using an integrated financing structure to achieve an overall redevelopment objective
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## Third Sector Partners can Access Tax-Exempt Financing

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- 63-20: Revenue Ruling 63-20 allows a Not-for-Profit Corporation to issue debt to finance a facility for a tax-exempt purpose IF
  - A local government endorses the financing
  - The facility will be occupied by a tax-exempt entity
  - The facility reverts to the ownership of the endorsing local government at the retirement of the debt
- 501(c)(3): Recipient of bonds issued through a conduit issuer with a lease to the municipality/not-for-profit



## Similarities

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- Both achieve access to lower cost financing for development projects
- Both allow a not for profit to assume the role of developer/owner



# Differences

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## **63-20**

- Third sector partner is the issuer of its own bonds
- Ownership reverts to the municipality upon maturity of the bond

## **501(c)(3)**

- The bond is issued through a conduit
- “True Lease” reversion cannot occur at bond maturity

# A Closer Look: King Street Center

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- King County, Washington leased thousands of square feet of office space in downtown Seattle
- Owning space would save money
- A willing developer who owned an option on an appropriate site had a permitted building ideal for the County's needs





## Two Problems

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- The County could acquire the site but its development process would take too long and cost too much.
- The developer could build the building and lease or sell it to the County, but with the higher costs of private financing



# Solution

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- County issued Request for Proposals for a third-sector developer and selected NDC.
- Site assigned to NDC, who hired the developer to build the project
- The developer guaranteed completion and price
- The County agreed to lease the building from NDC upon completion
- NDC issued tax exempt 63-20 bonds to finance the project
- Upon retirement of the debt, the County will own the building



# Results

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- King County has the LEED Gold Certified building it wants
- County achieved fixed rents at a cost savings they estimate at 20 percent
- County has control of the building through a long-term lease and will own it at the retirement of the bond debt
- County was able to Transfer Development Risk to the Private Sector

# Solving Larger Problems

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## Ninth and Jefferson

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- Medical Office Building for the Harborview Medical Center

The Problem:

King County started Design Build

Budget \$105 million

Foundation excavated

\$15 million over budget



## Ninth and Jefferson

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- County turned to NDC  
NDC worked to redesign the Building  
Partnered with private developer  
Constructed a larger more efficient building  
Saved County \$30 million  
Method of financing Tax-Exempt  
63/20

# Yonkers Public Library and Board of Education Building

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## Problem:

- Distressed Waterfront and Downtown.
- Strategy: build a key public facility to stimulate investment
- 20 years of unsuccessful effort to finance and build




# Solution

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- City of Yonkers turned to NDC as its Third Sector Partner because NDC...
  - Understood public policy needs
  - Helped the community conserve financial resources
  - Accessed capital markets at tax-exempt rates
  - Brought efficiencies of private-sector development to a public project
  - Left both control and benefit in the public sector
  - Preserved accountability and transparency
  - Kept risks and benefits balanced





## What did NDC- the Third Sector Partner- Do for Yonkers?

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- NDC used Tax-Exempt Revenue Bonds to build development
- Public sector leases the building and gets ownership at end of the lease **at no cost.** Benefit to the public, risk borne by NDC.

# Outcome

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- Billions of dollars of new residential, commercial and entertainment development completed or underway.
- Thus: Blending the cost advantages of tax-exempt financing with the efficiencies of the private sector building processes and accountability achieved best results





# Third Sector Fits the Bill

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## Step 1

- Municipal parking identified by University as a prerequisite for a downtown presence
- NDC provided its knowledge of public financing and experience with private development to use 501(C)(3) bonds to build the parking garage



# Another Role: Structuring and Access to Equity

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## Step 2

### **Class A office space for the University**

NDC's New Markets Tax Credits provide equity to leverage needed debt financing

- Class A Office Space suitable for Cornell's purposes
- Hotel and Conference Space
- Retail space



# Additional Development

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## Step 3

Promote Additional

Development: Cayuga Place

- 34,000 s.f. Retail
- 12,000 s.f. 5 Screen Theater
- 68 Residential Rental Units
- 45 Condominiums
- Transportation HUB





# Results

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- Cornell University made an investment in the community and moved its Development Department downtown
- The City received a municipal parking garage without taking development risk or increasing its GO Debt
- The City now has Class A office space, additional retail and commercial development, new market rate housing a theater and hotel and conference space downtown



# Partnerships get Large-Scale Development Done

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Partnerships with third sector entities that can provide:

- Real Estate and public/private financing technical assistance
- Access to dept
  - Capital Markets
    - Tax Exempt and Taxable
  - Public sector lending and guarantee programs
    - HUD 108; SBA; USDA; EDA; HUD
- Access to equity
  - LIHTC, HPTC, NMTC, State and local credits

Help communities achieve their development goals.



## Bottom Lines

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- Third sector partners bring a unique solution to development challenges
- Third sector partnerships preserve and protect the public interest, with accountability and transparency
- Third sector partnerships give communities access to financial resources they would not otherwise have.

# Contact Information

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