

SAMPLE PRIVATE USE ANALYSIS

UW Sample Building

UW – Sample Building

- **Project** – The UW Building is a 4-story research facility located in UW Medicine’s South Lake Union campus. It was developed by a 501(c)(3) developer.
- **Financing** – The building was financed in 2014 with \$30,747,209 of tax-exempt bond proceeds and a \$5,000,000 cash contribution from UW. The issuance costs were \$ 417,054.
- **Size** – The building has 4 floors, with 69,466 of total assignable square feet.

Additional Assumptions

- The measurement period was determined to start on the day of the bond issue (1/9/2014).
- The final maturity date of the bonds is 6/1/2034, making the term of the measurement period 245 months.
- Required financial information for this analysis includes:
 - Proceeds of refunded bonds: \$30,747,209
 - Qualified Equity: \$5,000,000
 - Issuance Costs of Refunding Bonds: \$417,054

Private Use in the UW Building

- **Use of Facilities** – The University uses the facility for biomedical research and associated administrative and academic purposes. The following four sources of private use were identified in the facility:
 - Private Lease - The University negotiated with a private party to sublease a portion of the facility.
 - Ownership Interest - The land was owned by a private party and leased to the University through a ground lease. Any residual value of the Building at the end of the ground lease is private use.
 - Research Contracts – several research contracts that do not meet the Safe Harbors.
 - Issuance Costs – the bonds were issued as 501(c)(3) bonds and therefore have a 2% limit on costs of issuance that must be included as private use.

Measuring Private Use in Leased Space

- A portion of the 2nd floor was leased to a private company for a term of three years (36/245 months or 14.7%)

Use	ASF	Proceeds (\$)	PBU (%)	Time-Weighted PBU (%)	PBU (\$)
Floor 1 – University	17,367	\$7,582,538	-0-	-0-	-0-
Floor 2 – Private Leased Space	3,193	\$1,395,187	100%	14.7%	\$205,092
Floor 2- University	14,174	\$6,187,351	-0-	-0-	-0-
Floor 3 – University	17,367	\$7,582,538	-0-	-0-	-0-
Floor 4 - University	17,367	\$7,582,538	-0-	-0-	-0-
Issuance Costs	N/A	\$417,054	100%	100%	\$417,054
Total	69,466	\$30,747,209			\$622,146 2.02% (\$622,146/ \$30,747,209)

Proceeds Allocated to Floor by Square Footage (*explanation of prior slide*)

Floor/Use	Assignable Square Feet (%)	Proceeds Allocated*
Floor 1 – University Space	25% (17,367/69,466)	\$7,582,538 (\$30,330,155 x 25%)
Floor 2 – Private Leased Space	4.6% (3,193/69,466)	\$1,395,187 (\$30,330,155 x 4.6%)
Floor 2 – University Space	20.4% (14,174/69,466)	\$6,187,351 (\$30,330,155 x 20%)
Floor 3 – University Space	25% (17,367/69,466)	\$7,582,538
Floor 4 – University Space	25% (17,367/69,466)	\$7,582,538
Total:		\$30,330,155

* When allocating the proceeds among the floors, exclude the costs of issuance. Or in this case: \$30,747,209 - \$417,054 (COI) = \$30,330,155.

Measuring Private Use in Ownership Interest

- The building was built on land owned by a private party, with a ground lease to the University. Any residual value of the building at the end of the ground lease is treated as private business use. This value was determined by an appraiser to be .45% of the value of the building, or \$158,986.

Use	ASF	Proceeds (\$)	PBU (%)	Time-Weighted PBU (%)	PBU (\$)
Floor 1 – University	17,367	\$7,542,792	-0-	-0-	-0-
Floor 2 – Private Lease	3,193	\$1,386,816	100%	14.7%	\$203,771
Floor 2- University	14,174	\$6,155,977	-0-	-0-	-0-
Floor 3 – University	17,367	\$7,542,792	-0-	-0-	-0-
Floor 4 - University	17,367	\$7,542,792	-0-	-0-	-0-
Ownership Interest (Ground Lessor)	N/A	<u>\$158,986</u>	100%	100%	\$158,986
Issuance Costs	N/A	\$417,054	100%	100%	\$417,054
Total	69,466	\$30,747,209			\$779,811 2.54% (\$779,811/ \$30,747,209)

Proceeds Allocated to Floor by Square Footage* (explanation of prior slide)

Floor/Use	Assignable Square Feet (%)	Proceeds Allocated*
Floor 1 – University	25% (17,367/69,466)	\$7,542,792 (\$30,171,169 x 25%)
Floor 2 – Private Lease	4.6% (3,193/69,466)	\$1,386,816 (\$30,171,169 x 4.6%)
Floor 2 – University	20.4% (14,174/69,466)	\$6,155,977 (\$30,171,169 x 20.4%)
Floor 3 – University	25% (17,367/69,466)	\$7,542,792
Floor 4 – University	25% (17,367/69,466)	\$7,542,792
<i>Ground Lessor Interest</i>	N/A	\$158,986
Total:		\$30,330,155

* Proceeds are reallocated to account for the Ground Lessor interest of \$158,986 so that total proceeds, including those allocated to the Ground Lessor, add up to \$30,330,155. The proceeds are recalculated based on \$30,171,169 (30,330,155 - \$158,986). *Note: totals are based on unrounded numbers and may differ slightly from calculations shown.*

Measuring Private Use in Research Contracts

- Research that benefits private parties (as defined in the IRS Code) counts as private use. This can be measured by calculating a percentage of the value of all research contracts that benefit parties, and applying that same percentage to space in the building.
- **Research Expenditures from 1/1/2014 – 12/31/2014:**
 - PBU: \$321,714
 - Total: \$20,259,385
 - PBU %: 1.59%
- **Proceeds allocated to Research Expenditures:**
 - The private use from research contracts will be calculated by allocating the 1.59% across the remaining portion of the Building that is used for “good” or “governmental” use (or for research purposes, if that can be easily determined).
 - This is determined by multiplying the 1.59% (as weighted for time – here, only 12 out of 245 months, or 4.9% of the time) by the bond proceeds allocated toward governmental use (\$29,967,392, as calculated on the following slide).
 - $(1.59\% \times 4.90\%) \times \$29,967,392 = \$23,308$ of bond proceeds allocated to private use from the private research contracts

PBU Computation – Research Contracts

Use	ASF	Proceeds (\$)	PBU (%)	Time PBU (%)	Weighted PBU (%)	PBU (\$)
Private Lease	3,193	\$1,386,816	100%	14.7%	14.7%	\$203,777
Ground Lessor	N/A	\$158,986	100%	100%	100%	\$158,986
<i>Subtotal (Private Use):</i>						\$362,763
Remaining University Use	66,273	\$29,967,392*	-0-	-0-	-0-	-0-
Private Research Contracts	N/A		1.59%	4.90% (12/245)	.08% (1.59% * 4.90%)	\$23,308**
Issuance Costs		\$417,054	100%	100%	100%	\$417,054
Total	69,466					\$803,125 2.61% (\$803,125/ \$30,747,209)

* Remaining UW Use represents the remaining portion of the building that contains good, governmental use. Expressed in terms of bond proceeds, this equals: Net Sale Proceeds minus Private Use Proceeds (\$30,330,155 - \$362,763 = \$29,967,392).

** PBU from Private Research Contracts is calculated by multiplying the remaining building space not already reserved for private use times the weighted PBU %, or: \$29,967,392 X .08% = \$23,308 (totals based on unrounded numbers and will differ slightly from calculations shown)

How is equity assigned in measuring private business use?

- The private business use limitations only apply to tax-exempt bonds. In a building partially financed with University funds or taxable bonds (qualified equity), the qualified equity can offset some private business use.
- The Undivided Portion Allocation Method:
 - Recent tax regulations provide for a particular method for allocating the qualified equity: the undivided portion allocation method.
 - Under this method, tax-exempt bond proceeds and qualified equity are allocated to undivided portions of a project. Qualified equity is first allocated to all private business use, with any remaining equity then allocated to governmental use. As a result, if the percentage of the project financed with qualified equity is less than the percentage of private business use of the project, all of the qualified equity is allocated to private business use, resulting in 0% private business use for purpose of our calculations.
 - [For 501c3 Bonds, like our sample bonds, qualified equity may not be allocated to costs of issuance, so some private business use may remain, even where there is a large amount of qualified equity to allocate.]

PBU Computation – Allocating the Qualified Equity

- **Undivided Portion Method:**

- Dollars spent on PBU:

- Net Bond Proceeds: \$ 30,330,155*
- Total PBU \$: \$ 386,071*

- Allocate Qualified Equity to PBU:

- Qualified Equity: \$ 5,000,000
- Total PBU: \$ 386,071*

Since Qualified Equity \$ > PBU \$, no tax-exempt debt is used for PBU.

* Numbers exclude costs of issuance. Qualified equity cannot be allocated to cover private use associated with costs of issuance. As a result, costs of issuance totaling \$417,054, or 1.36% of project costs are still private use. Costs of issuance are only treated this way for 501(c)(3) bonds.

Sample Spreadsheet

- Attached is a copy of the private use tracking spreadsheet for this building.
- A similar tracking spreadsheet is being created for each University facility financed with tax-exempt bonds.