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**One James Center
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Lease Financing

May 23, 2008

**2008 Spring
Virginia GFOA Conference**

Weather Update

It is currently Sunny and 70° outside.



Topics to be Covered

- Overview of:
 - Lease Revenue Bonds
 - Master Leases

- Advantages and Disadvantages
 - Issuance
 - Administration / Post Issuance
 - Costs

Lease Revenue Bonds

- Lease Revenue Bonds are Appropriation-Backed bonds
 - Annually appropriated during the Budget Process
- Legislation requires issuance through IDA/EDA conduit
- Used to avoid constitutional debt limits or other legal restrictions on the use of General obligation bonds such as Referendums
- Is very flexible and can be used to expedite the financing process

Lease Revenue Bonds

- Not binding on future governing bodies; Therefore is not legally “debt”
- Rating Agencies do count these bonds in debt calculations
- If the financing meets certain criteria the rating is generally one notch off the issuers GO rating (from Aa3/AA- to A1/A+)
- “Failure to make an appropriation will result in a downgrade” of both the Lease Revenue Bond rating and the General Obligation rating [S&P 2007 criteria book]
 - “Reflection on the willingness of an entity to make good on its obligations”

Lease Revenue Bonds

- Security – Leasehold Deed of Trust
 - Governmental Obligor grants the Lessor title or first lien (leasehold interest) on the leased property for the life of the bonds (or usually a few years past the final maturity)
 - Lessor is the IDA/EDA; typically assign the rights to a Trustee who acts on behalf of the bond holders
 - If there is non-appropriation then the Lessor has the right to take possession of the leased property for the period outlined in the documents
 - What is the Trustee going to do with the leased property?

Lease Revenue Bonds

- Financing Lease – “We promise to pay it back.”
- Title Insurance; maintenance and other Insurance
- DSRF or Surety Bond
- Bond Insurance
- Negotiated vs. Competitive Sales

Lease Revenue Bonds

➤ Master lease

- Structure is setup to allow many leases under same documents
- Can be setup to allow “cross-collateralization”; legislative body won’t be able to choose which projects to make lease payments on (“single line-item appropriation”)

Lease Revenue Bonds

- Types of Projects
 - Government Buildings
 - Courthouses
 - Administration
 - Public Safety (Police/Sheriff, Jails, Fire & Rescue)
 - Maintenance Facilities
 - Social Services/Health Dept.
 - Schools
 - Water & Sewer Plants
- Non-Essential
 - Library
 - Landfills

Advantages/Disadvantages

➤ Advantages

- Flexibility – Timing
- No Referendum Needed – Build Project Faster which could save money
- Flexibility – Structuring Cash Flows
- Does not count against legal debt margins

Advantages/Disadvantages

➤ Disadvantages

- Number of Documents
- Lower rating typically means higher cost
 - Fixed Costs (Trustee vs. Paying Agent)
 - Interest Cost (rating differential or bond insurance premium)
- DSRF or Surety Bond
- Surveys, Title Insurance etc.

Other than that it is similar to a GO financing

- Go through the Rating Process
- Issue POS/NOS if publicly sold
- Continuing Disclosure Requirements
- Counts against Debt Ratios



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