

Because of their various governmental powers and sales tax-exempt status, port authorities have the advantage of passing savings on to economic development projects, thus making projects possible that might not otherwise happen. The Clermont County Port Authority can facilitate economic development projects in the following ways:

- Loaning monies at competitive rates and terms, either as a direct loan or a “pass-through” bond based on the credit of the entity for which the bonds are being issued;
- Constructing, owning and/or operating public infrastructure facilities (such as parking structures) as a component of a public-private project;
- Acquiring and selling property for economic development projects;
- Providing an exemption of Ohio sales tax on construction materials for projects using the Port for conduit financing (see detailed example on second page).

### **OPTION 1: BOND FINANCING**

The Clermont County Port Authority may issue Economic Development Special Obligation Bonds, the proceeds of which can be used for:

- Land acquisition;
- Site preparation;
- Extension or upgrading of private and public infrastructure such as roadways, bridges, parking facilities, water/sewer lines, stormwater facilities, electric, gas and telecommunication infrastructure;
- Funding a reserve amount and paying for the cost of issuance.

Depending upon the credit backing the bonds, the financing may be sold as private placement or as fully registered taxable bonds, in denominations of \$100,000 or integral multiples of \$5,000. Taxable tranches of bonds with a credit rating of “A” could be sold with maturity dates ranging from 1 year (at current market rates) to 20 years. A Bond Pricing Summary with detailed payment schedule could be provided after determination of credit backing/enhancement.

Any public infrastructure components of the project, such as public road/water/sewer/stormwater improvements, could be issued as tax-exempt municipal bonds. The tranches and maturity dates would be similar to the taxable bonds, with rates usually lower for Aa rated financing.

The project also benefits by not paying Ohio sales taxes on construction materials purchased in Ohio (see graphic on page 3 for detailed example).

### **OPTION 2: CONDUIT FINANCING – PRIVATE PLACEMENT**

The Clermont County Port Authority would act as a conduit for a privately placed transaction with a financing source selected by the developer. The proceeds of the financing transaction would be made available to the developer on whatever terms are agreed to by the developer and the financing source, and the financing source would essentially “purchase” the transaction from the Port Authority operating as a conduit for the transaction. The funds could be used

for any purpose allowable by the funding source, but the developer could not begin purchasing construction materials until the Port Authority agreements are in place.

Structurally, most often the Port Authority would take a ground lease interest in the project for a nominal amount, and the developer would lease the project back from the Port Authority. Often the lease payments and the payments made to the developer's funding source would be calculated in such a manner so that the lease payments through the port functionally service the debt to the funding source. In exchange for the Port Authority's assistance, the developer would agree to complete the project through a construction-manager-at-risk agreement. At the conclusion of the lease periods, the developer would repurchase the improvements from the Port Authority for a nominal payment.

The advantage of financing the project through this method would be to save significant costs associated with a traditional bond issuance, such as bond counsel, underwriter's counsel and rating agency fees. These fees are typically paid out of the bond proceeds and often do not impact the amount of proceeds available for the project, but obviously the fees increase the total cost of capital for the project.

The project benefits by not paying Ohio sales taxes on construction materials purchased in Ohio (see graphic on page 3 for detailed example).

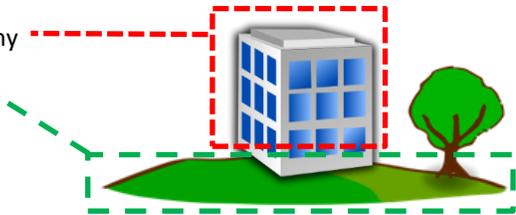
### **OPTION 3: CONDUIT FINANCING – STRUCTURED LEASE**

The Clermont County Port Authority would act as a conduit for a self-financed transaction with a financing source selected by the developer. The Port Authority, as owner of the structure for a recommended minimum period of five years, provides the benefit to the end user of the Port's tax-exempt status. At the conclusion of the lease periods, the developer would repurchase the improvements from the Port Authority for a nominal payment. The project benefits by not paying Ohio sales taxes on construction materials purchased in Ohio (see graphic on page 3 for detailed example). The general steps and schedule for this process are as follows:

- Term Sheet – a term sheet is developed between the Port Authority and client, and outlines the terms and structure of the project and various agreements (ground lease, project lease, project fee, etc.). Once the term sheet is accepted by both parties, a deposit is typically made by the client to cover Port Authority legal costs for development of project agreements. Typical time frame is 2 weeks.
- Project Agreements – the following documents are typical components of a Structured Lease project, but may vary depending upon specific project requirements and financing structure arranged by the client. The documents are developed concurrently and are typically completed within 3-6 weeks, depending in part upon the complexity of the project.
  - Ground Lease – Port Authority leases land from the client. This provides site control to the client and keeps the Port Authority out of the chain of title.
  - Project Lease – Port Authority leases structure being constructed or improved to client, which provides the benefit of tax exempt status on Ohio sales taxes for construction materials.
  - Bill of Sale – This document recognizes the transfer of assets (the structure being constructed or improved) to the Port Authority.

- SNDA – The “Assent, Subordination, Non-Disturbance and Attornment” agreement, if needed, allows the Port Authority to subordinate its interest in the property to a Mortgagee, and guarantees the Port Authority will not assign, transfer or otherwise encumber its interest in the property.
- Tax Exemption Certificate – This document is presented to the client upon execution of all other project documents, and is used by the project construction manager and any sub-contractors purchasing construction materials in Ohio. The certificate should be provided to any vendor from which materials are being purchased so that Ohio sales taxes are not charged on the purchase.

The following example illustrates how the Port can facilitate economic development projects to provide up-front savings of Ohio sales taxes on construction materials.

| SALES TAX EXEMPTION ON CONSTRUCTION MATERIALS |  |
|---|--|
| PROJECT:                                      | A company is constructing a new building with a budget of \$42M for real property improvements (roofing, concrete, steel, framing, HVAC components, etc.).   |
| STRUCTURE:                                    | <p><b>Port</b> owns building and leases it to company</p> <p><b>Company</b> owns land and leases it to Port</p>    |
| TERM:   | Port will entertain options for early termination on a case-by-case basis, but typically a minimum of five years after completion of project.  |
| BENEFIT:                                      | Because the real property improvements are owned by the Port, the construction materials are exempt from Ohio sales taxes. For a \$252M project with a materials cost of \$126M, the average savings would be \$8.8M, based on the Hamilton County sales tax rate of 7%. |
| FEES:   | The Port will typically collect 10% - 15% of the savings plus recover its legal fees. The amount of any legal fees is highly dependent upon the structuring needs of the developer, and an estimate can be provided once a suitable structure is identified.             |