

CITY SQUARE DIF BOND PROGRAM



Lisa Dickinson

UniBank Financial Advisor Services,
Inc.

MAIN OBJECTIVE OF DIF BOND

- City's debt service related to project will never exceed revenue generated by project
- No impact on operating budget

STRUCTURING CONSIDERATIONS

- Federal Tax Laws
- State Borrowing Statutes
- Special DIF Legislation

FINANCING OBJECTIVE

- Develop prudent financing strategy to manage risk, maintain current credit rating and lower overall borrowing costs
- Allows for better flexibility to respond to project/cash flow changes

ASSUMPTIONS

- Create DIF Bond Payment Fund dedicating tax revenues for debt service payments and certain project costs
- All borrowings done at tax-exempt rates backed by full faith and credit of the City
- Bid premiums requested to cover issuance costs

ASSUMPTIONS (cont'd)

- All interest due on short-term financing to be capitalized as well as first 6 month interest payment on first issue of bonds.
- State funds, when received, applied to payment of outstanding short-term notes
- \$57 million City debt and \$25 million State commitment issued for project expenses

FINANCING STRATEGY

- \$57 million City Portion
 - 3 separate issues of Bond Anticipation Notes (BAN's) for 2 year period at NIC of 3.75% based on 40%, 50% and 10% of project costs
 - At maturity of each BAN, interest due added to bonded amount (“capitalized”) and permanently financed for 28 years (30 years total) with 5 year delay of first principal payment
 - Estimated TIC on bonds of 5.50%
 - First issue of bonds includes capitalized first 6 month interest payment

Financing Strategy (cont'd)

- \$25 million State Commitment

- Borrow 50% or \$12.5 million as 1 year BAN at NIC of 3.75%

- At maturity, interest due is capitalized into City portion of Bond issue

- Assume State pays \$5 million each fiscal year at maturity of Notes reducing amount to be renewed

- After 2nd year City will have issued BAN's for full amount of State commitment

- By applying State payment of \$5 million against maturing notes each year, by year 5 all notes retired

DIF SOURCES

Fiscal Year	City Commitment		State Commitment			Total	City Bonding	Bond Issue Costs from Premium
	BAN Borrowing	Interest at Maturity	BAN Borrowing	Interest at Maturity	State Payment	Interest Capitalized		
2006	\$22,780,000		\$0			\$0		\$0
2007	\$28,475,000		\$12,500,000		\$5,000,000	\$0		\$0
2008	\$5,695,000	\$1,708,500	\$20,000,000	\$468,750	\$5,000,000	\$2,177,250	\$25,664,000	\$256,640
2009		\$2,135,625	\$15,000,000	\$750,000	\$5,000,000	\$2,885,625	\$31,360,625	\$313,606
2010		\$427,125	\$10,000,000	\$562,500	\$10,000,000	\$989,625	\$7,059,625	\$70,596
2011				\$375,000	\$0	\$375,000	0	\$0
	\$56,950,000	\$4,271,250		\$2,156,250	\$25,000,000	\$6,427,500	\$64,084,250	\$640,843
					1/2 Bond Int.	\$706,750		
						\$7,134,250		

PROJECT FINANCING

	City	State	6 month	
City	Portion	Portion	Bond	
BAN	BAN Int.	BAN Inc.	Interest	Total
\$22,780,000	\$1,708,500	\$468,750	\$706,750	\$25,664,000
\$28,475,000	\$2,135,625	\$750,000	\$0	\$31,360,625
\$5,695,000	\$427,125	\$937,500	\$0	\$7,059,625
\$56,950,000	\$4,271,250	\$2,156,250	\$706,750	\$64,084,250
Project Costs		\$56,950,000		
Capitalized Interest		\$7,134,250		
Total Bond Issuance		\$64,084,250		

AREAS OF FLEXIBILITY

- If State pays commitment faster, lower borrowing costs and lower capitalized interest costs
- More favorable bond market – shorten term of issue lowering debt service costs applied against DIF Bond Fund
- 3 separate bond issues allows for potential of varying structure across each issue based on current market conditions
- Variable debt, while allowed, not incorporated in strategy due to current rate environment and shape of yield curve as well as increased issuance costs

SUMMARY

- Attain objective of keeping City's debt service connected with DIF project from exceeding revenue generated by project through financially prudent borrowing strategy allowing for flexibility throughout project cash flow to manage risk and maintain strong credit rating lowering overall borrowing costs.

DIF BOND RESERVE FUND

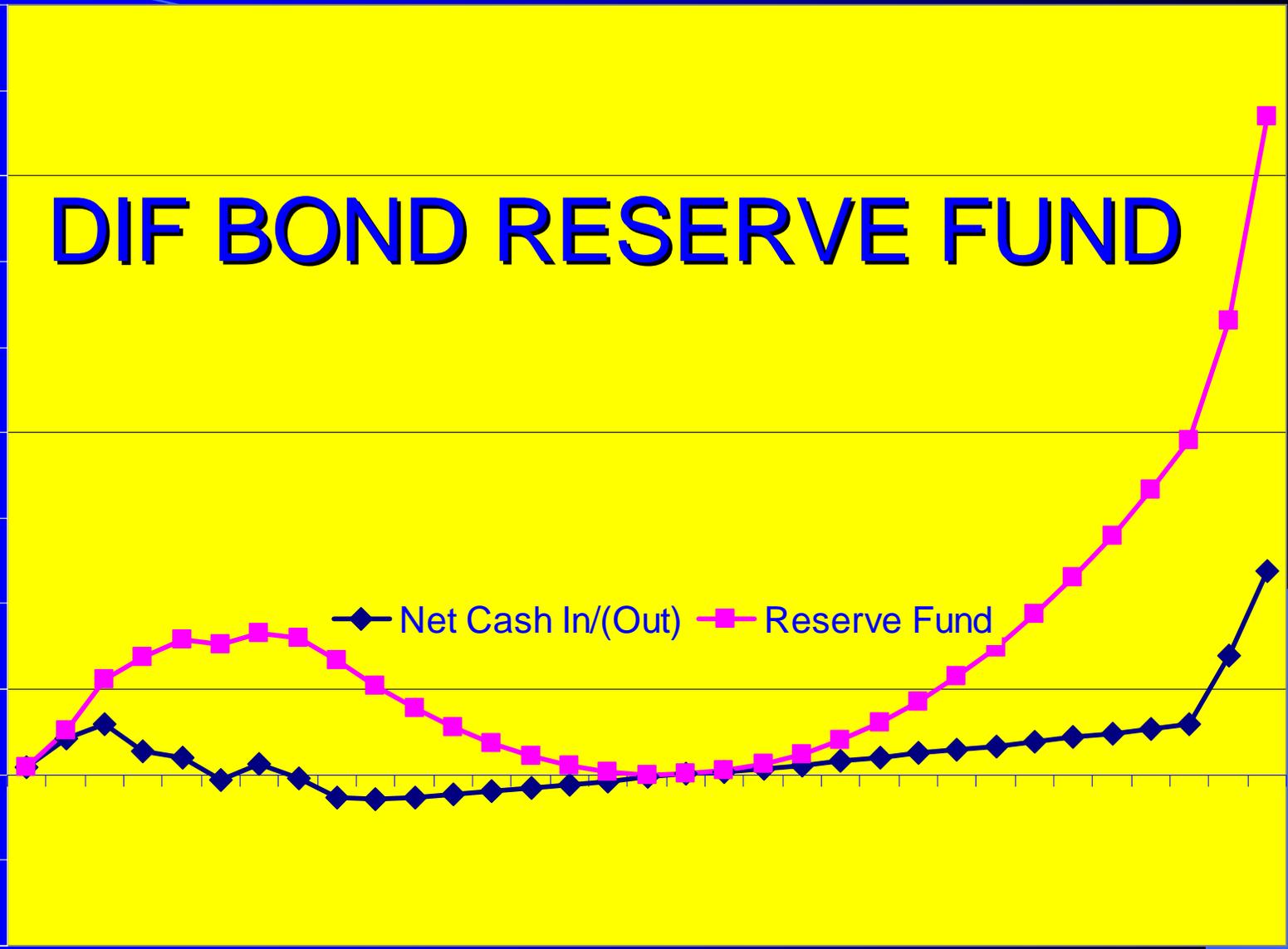
Amount (000)

\$17,500
\$10,000
\$2,500
-\$5,000

◆ Net Cash In/(Out) ■ Reserve Fund

2006 2008 2010 2012 2014 2016 2018 2020 2022 2024 2026 2028 2030 2032 2034 2036 2038

Fiscal Year



CitySquare Property Assessments & Taxes

Robert J. Allard, Jr. M.A.A.
City Assessor

Assessments & Taxes

- ✓ How assessments are made
- ✓ CitySquare assessments
- ✓ CitySquare Taxes at Full Build-Out
- ✓ CitySquare Tax Revenues to Finance DIF Bond

Determining Assessments

- Assessments are made by the three standard approaches to determine market value
 - Cost Approach
 - Income Capitalization Approach
 - Sales Comparison Approach

Cost Approach

- The cost approach to value was not used in determining the DIF Property assessments.
- Why ?
 - Construction costs of large scale projects do not necessarily translate into the actual value of the property on the open market.
 - Example: The West Boylston St. Shaw's supermarket opened at a cost of \$12.4 million and later sold for \$9.3 million. It's 2006 valuation will be about 95% of \$9.3 million.

Income Approach

- The Income Approach is the most universally accepted method to value commercial properties. However, it could not be used at this time to forecast assessments.
- Why ?
 - No finalized leases for the project.
- To value by the Income Approach – the Assessors must know the tenants and their credit history.
- The fixed lease terms and the contract rents must be known to determine appropriate values.
- With this information an income analysis of the property can be performed with a considerable degree of accuracy to arrive at a value that meets acceptable DOR guidelines.

Income Approach

GROSS BUILDING AREA, BUILDINGS A & B	486,359 Square Feet	
RENT PER SQUARE FOOT	<u>\$17.50</u>	
POTENTIAL GROSS INCOME	\$8,511,283	
EST. VACANCY & COLLECTION LOSS	15.00%	<u>\$1,276,692</u>
EFFECTIVE GROSS INCOME		<u>\$7,234,590</u>
EXPENSES	20.00%	<u>\$1,446,918</u>
NET OPERATING INCOME (NOI)		<u>\$5,787,672</u>
CAPITALIZATION RATE	12%	
ASSESSED VALUE (ROUNDED)		\$48,635,900

Sales Comparison

- What is the equalizer ?

For the DIF Project the city used comparable sales in and around Worcester.

- The Sales Comparison method offers the greatest level of confidence in the future valuation of CitySquare at this time.

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MASSACHUSETTS QUITCLAIM DEED

We, AUSTIN F. CANNON and MARY E. CANNON, Husband and Wife, as Tenants by the Entirety, both of Worcester, Worcester County, Massachusetts, being married, for consideration paid, and in full consideration of One (\$1.00) Dollar grant to AUSTIN F. CANNON and MARY E. CANNON, and successors, Trustee of "CANNON REALTY TRUST", dated April 28, 2004, recorded herewith, BK-33492 PG-170 of Worcester, Worcester County, Commonwealth of Massachusetts, with quitclaim covenants, The land in Worcester, Worcester County, Massachusetts, and further bounded and described as follows:

A certain parcel of land with all the buildings thereon, situated in Worcester, Worcester County, Massachusetts, being shown as Lot #1 on plan entitled "Tatuck Acres, Clean-Mower Street, Lots," owned and developed by Dehoven Realty Trust-Max Meenes, prepared by Robinson Engineering, Inc. dated September 3, 1954, recorded with the Worcester District Registry of Deeds in Plan Book 202, Plan 114, bounded and described as follows:

BEGINNING at a point on the easterly side of Olean Street being the northwesterly corner of Lot #1;

THENCE North 66° 01' 57" East one hundred twenty-five and 74/100 (125.74) feet to a point;

THENCE South 22° 45' East sixty-seven and 67/100 (67.67) feet to a point;

THENCE South 67° 15' West one hundred twenty-five and 03/100 (125.03) feet to the easterly line of Olean Street;

THENCE North 23° 22' 31" West sixty-five (65) feet to the point of beginning.

The house thereon being numbered 54 Olean Street.

SUBJECT to restrictions recited in Book 3612, Page 127, insofar as in force and effective without reimposing the same.

Being the same premises conveyed to the Grantors herein by deed of Myrna White, dated July 31, 2001, and recorded with Worcester District Registry of Deeds on July 31, 2001 in Book 24537, Page 360.

Witness our hands and seals this 28th day of April, 2004.

AUSTIN F. CANNON

MARY E. CANNON

COMMONWEALTH OF MASSACHUSETTS

County of Middlesex, ss:

On this 28th day of April, 2004, before me, the undersigned notary public, personally appeared the said AUSTIN F. CANNON and MARY E. CANNON,

both personally known to me, or
 both proved to me through satisfactory evidence of identification, which was
 a driver's license
 (other) _____

to be the persons whose names are signed on the preceding or attached document, and acknowledged to me that they signed it voluntarily for its stated purpose.

Stephen C. Olsson, NOTARY PUBLIC
My Commission Expires: July 31, 2009 son

ATTEST: WORC. Anthony J. Vigliotti, Register

LOCATION OF PROPERTY: 54 Olean Street, Worcester, MA
ADDRESS OF GRANTEE: Same

MAH/
BY S. OLSSON
264 NORTH MAIN ST.
WATUOK, MA 01760

Sales Comparison

- All assessments have been derived from actual sales in the marketplace.
- Our estimates are based on the average sale per square foot for each particular property type.
- Assessments are held constant over thirty years.
- Real estate taxes are assumed to increase at 2% per annum.

Assessments – Worcester

STNO	STREET	SALEPRICE	SALEDATE	PRICE PSF	CLASS
11	NORWICH ST	\$635,000	10/01/04	\$75	340
15	HARVARD ST	\$840,000	02/01/05	\$79	340
171	LINCOLN ST	\$113,000	06/19/03	\$84	326
34	MECHANIC ST	\$401,000	01/08/04	\$95	325
645	CHANDLER ST	\$800,000	02/25/04	\$98	340
346	SOUTHBRIDGE ST	\$250,000	03/21/03	\$100	326
14	HARVARD ST	\$440,000	02/10/04	\$105	340
261	PARK AVE	\$310,000	09/23/03	\$111	325
29	MOUNTAIN ST EAST	\$1,770,000	07/01/03	\$112	340
330	PLEASANT ST	\$250,000	07/18/03	\$116	326
71	ELM ST	\$1,165,000	01/25/05	\$126	340
124	JUNE ST	\$676,000	10/04/04	\$126	325
11	EAST CENTRAL ST	\$1,978,000	10/09/03	\$138	326
110	SUMMER ST	\$7,000,000	08/16/04	\$140	301
428	SHREWSBURY ST	\$467,000	09/28/04	\$150	340
398	BELMONT ST	\$825,000	04/11/03	\$163	325
352	BELMONT ST	\$1,225,000	01/21/05	\$170	340
			MEDIAN	\$112	
			AVERAGE	\$117	

Assessments – Other Communities

LOCATION	SALEPRICE	DATE	SIZE	PSF	TYPE
525 MAIN, ACTON	\$990,000	August-04	12,000	\$83	COMM.
3 GRIFFIN WAY, CHELSEA	\$3,075,000	April-05	33,500	\$92	COMM.
CLARK HILL, FRAMINGHAM	\$9,500,000	November-04	103,000	\$92	OFFICE
25 SOUTH, HUDSON	\$950,000	July-04	10,000	\$95	RETAIL
468 GREAT POND, ACTON	\$1,500,000	August-04	14,845	\$101	OFFICE
BARE COVE, HINGHAM	\$8,625,000	August-04	84,000	\$103	OFFICE
35 WIGGINS, BEDFORD	\$4,850,000	August-04	45,000	\$108	COMM.
380 PLEASANT ST, MALDEN	\$1,200,000	May-04	10,000	\$120	MED. OFF.
1 ORTHOPEDIC, PEABODY	\$5,500,000	August-04	45,819	\$120	MED. OFF.
254 SECOND, NEEDHAM	\$10,900,000	July-04	85,890	\$127	COMM.
1320 W MAIN, WATERBURY	\$975,000	October-04	7,500	\$130	MED. OFF.
966 WATERTOWN, NEWTON	\$1,629,000	October-04	12,485	\$130	RETAIL
84 SOUTHWEST CUTOFF	\$300,000	June-04	1,862	\$161	MED. OFF.
20 HOLLAND, SOMERVILLE	\$25,250,000	February-04	104,051	\$243	MED. OFF.
				MEDIAN	\$114
				AVERAGE	\$122

BISCUIT LOFTS

AREA SF SALE DATE SALE PRICE SALE PSF

UNIT	DESCRIPTION	AREA SF	SALE DATE	SALE PRICE	SALE PSF
1	ENVELOPE TER 102	1,142	10/04/04	\$188,900	\$165.41
1	ENVELOPE TER 111	1,159	10/07/04	\$199,900	\$172.48
1	ENVELOPE TER 106	1,158	10/25/04	\$199,900	\$172.63
1	ENVELOPE TER 108	1,151	10/22/04	\$199,900	\$173.68
1	ENVELOPE TER 113	1,150	10/13/04	\$199,900	\$173.83
1	ENVELOPE TER 110	1,217	10/18/04	\$213,900	\$175.76
1	ENVELOPE TER 107	1,158	10/12/04	\$203,905	\$176.08
1	ENVELOPE TER 116	1,234	11/19/04	\$219,900	\$178.20
1	ENVELOPE TER 101	1,227	10/13/04	\$219,900	\$179.22
1	ENVELOPE TER 109	1,132	10/01/04	\$205,900	\$181.89
1	ENVELOPE TER 104	1,142	10/05/04	\$213,900	\$187.30
1	ENVELOPE TER 103	1,142	10/08/04	\$214,480	\$187.81
1	ENVELOPE TER 105	1,151	10/29/04	\$219,900	\$191.05
1	ENVELOPE TER 114	1,159	10/22/04	\$224,900	\$194.05
1	ENVELOPE TER 204	849	08/23/04	\$173,900	\$204.83
1	ENVELOPE TER 201	1,120	09/17/04	\$230,845	\$206.11
1	ENVELOPE TER 210	1,113	09/13/04	\$229,900	\$206.56
1	ENVELOPE TER 301	1,120	08/13/04	\$239,900	\$214.20
1	ENVELOPE TER 207	849	08/17/04	\$181,900	\$214.25
1	ENVELOPE TER 302	1,114	09/02/04	\$239,900	\$215.35
1	ENVELOPE TER 310	1,110	08/26/04	\$239,900	\$216.13
1	ENVELOPE TER 202	1,114	08/10/04	\$240,950	\$216.29
1	ENVELOPE TER 4	1,215	10/18/04	\$262,900	\$216.38
1	ENVELOPE TER 305	849	08/17/04	\$185,900	\$218.96
1	ENVELOPE TER 209	1,036	08/13/04	\$231,900	\$223.84
1	ENVELOPE TER 307	849	09/13/04	\$194,350	\$228.92
1	ENVELOPE TER 308	849	09/15/04	\$199,900	\$235.45
1	ENVELOPE TER 304	849	09/20/04	\$199,900	\$235.45
1	ENVELOPE TER 303	849	09/10/04	\$199,900	\$235.45
1	ENVELOPE TER 208	849	09/16/04	\$199,900	\$235.45
1	ENVELOPE TER 203	849	01/14/05	\$199,900	\$235.45
1	ENVELOPE TER 306	879	08/12/04	\$209,000	\$237.77
1	ENVELOPE TER 309	1,036	12/08/04	\$249,900	\$241.22
1	ENVELOPE TER 5	822	10/20/04	\$219,900	\$267.52

Assessments Condominiums

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Page: 1 of 1 05/03/2004 11:10 AM

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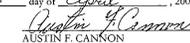
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 MARY E. CANNON

COMMONWEALTH OF MASSACHUSETTS

County of Middlesex, ss:

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both personally known to me, or
 both proved to me through satisfactory evidence of identification, which was
 a driver's license
 (other) _____

to be the persons whose names are signed on the foregoing or attached document, and acknowledged to me that they signed it voluntarily for its stated purpose.


 Stephen C. Olsson, NOTARY PUBLIC
 My Commission Expires: July 31, 2009 *gsm*

ATTEST: WORC. Anthony J. Vigliotti, Register

MAIL
 BY S. OLSSON
 264 NORTH MAIN ST.
 WATICA, MA 01760

Assessments

After performing this analysis, the following assessment levels were established for each type of use proposed by Berkeley.

Use	Valuation per SF
Existing Office	\$100
New Office	\$110
New Retail	\$110
Entertainment	\$90
Housing	\$175

Assessments Phase 1

Area in Square Feet	Unit	Value per Unit	FY 2012 Assessed Value
289,381	A	\$100	\$28,938,100
196,978	B	\$100	\$19,697,800
		Personal Property	\$1,409,900
		Sub-Total	<u>\$50,045,800</u>
75,000	C1	\$110	\$8,250,000
119,000	D	\$110	\$12,610,000
84,300	E	\$110	\$9,273,000
188,000	F	\$175	\$31,405,000
275,000	H or J	\$110	\$30,250,000
19,000	I	\$110	\$2,090,000
		Sub-Total	<u>\$93,878,000</u>
		TOTAL VALUATION	\$143,923,800

Assessments Phase 2

Area (SF)	Unit	Value per Unit	Assessed Valuation
275,000	H or J	\$110	\$30,250,000
250,000	K	\$175	\$43,750,000
25,000	L	\$110	\$2,750,000
TOTAL VALUATION			\$76,750,000

Assessments Phase 3

Area (SF)	Unit	Value per Unit	Assessed Valuation
320,000	C2	\$175	\$56,000,000

Assessments Summary

PHASE 1	Assessed Valuation	\$143,923,800
PHASE 2	Assessed Valuation	\$76,750,000
PHASE 3	Assessed Valuation	<u>\$56,000,000</u>
	Total	\$276,673,800

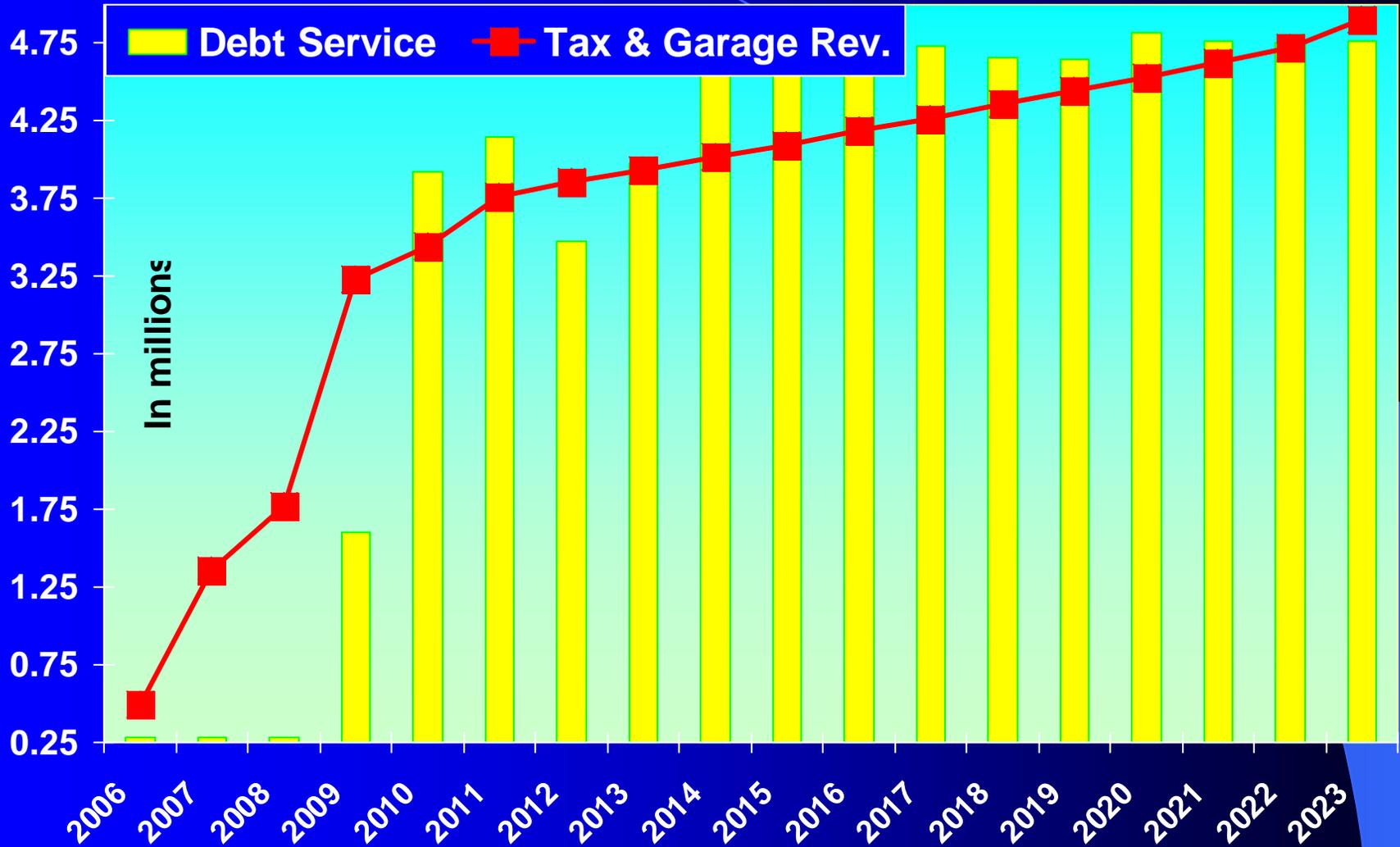
Taxes at Full Build Out

Phase 1 - A and B, Pers. Prop.	\$1,525,048
Phase 1 - C1, D, E, F, H or J, I	<u>\$2,314,365</u>
Sub-Total Phase 1	\$3,839,413
Phase 2 - H or J, K, L	\$1,547,517
Phase 3 - C2	<u>\$738,080</u>
Total	\$6,125,009

Tax Revenue to Finance DIF Bond

Phase 1 Taxes	\$3,839,413
Base Taxes	<u>(\$948,846)</u>
Net Incremental Taxes	\$2,890,567

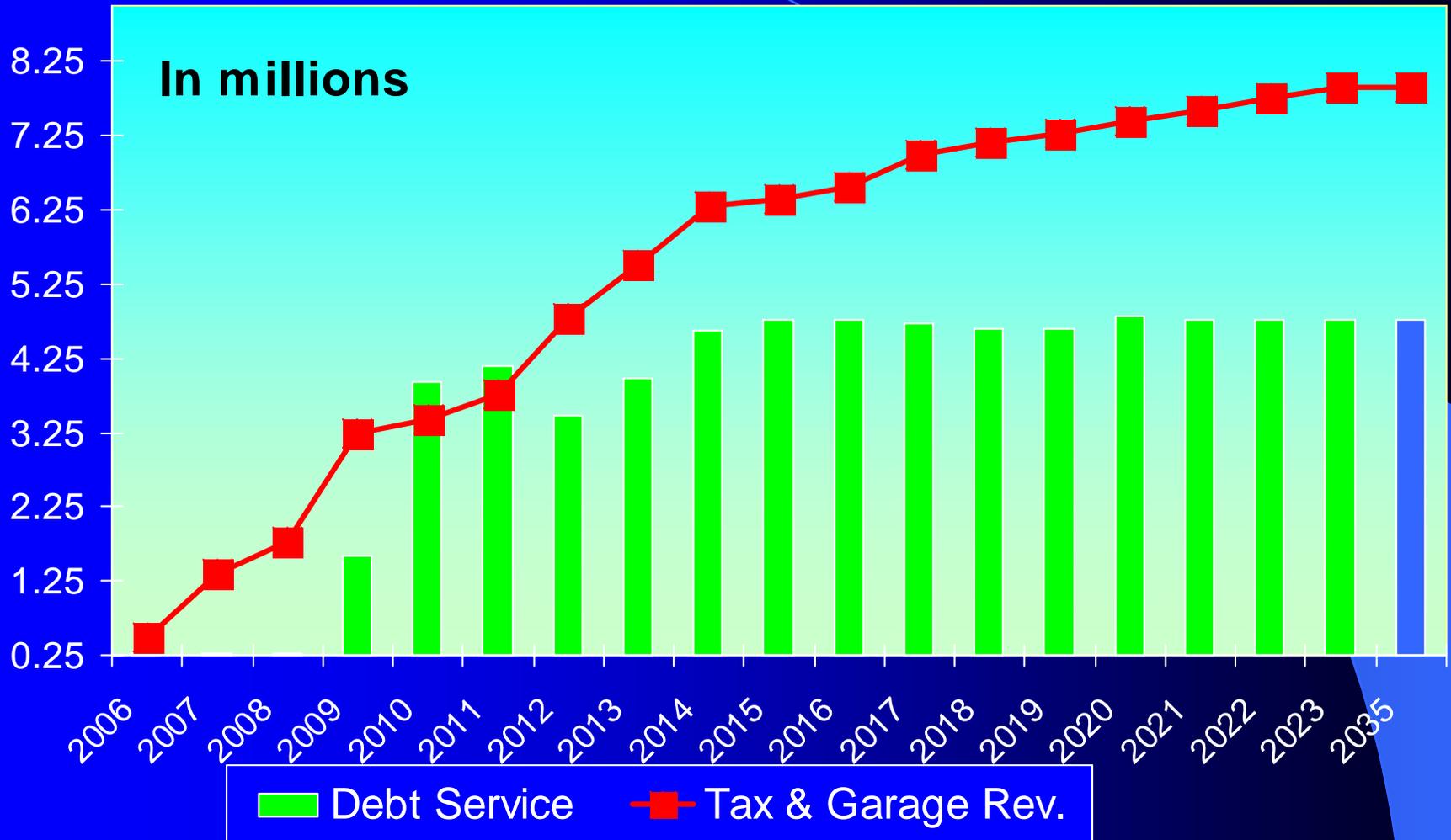
\$ 64.1 Million DIF Bond Financing Plan



Over 60 Million Dollars of Tax and Garage Revenue Generated Above All Obligations over 30 Year Term

DIF Financing Program

Full Development Program



Over 60 Million Dollars of Tax and Garage Revenue Generated Above All Obligations over 30 Year Term