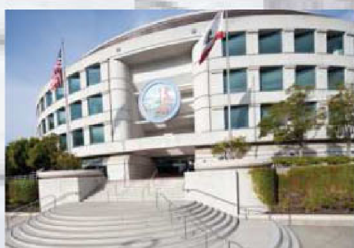
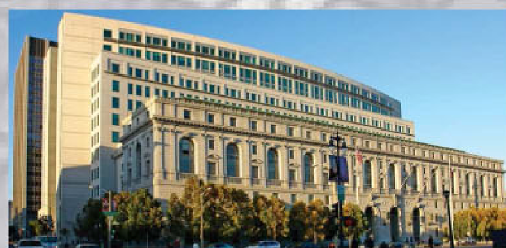
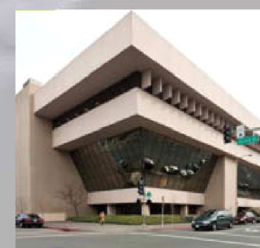
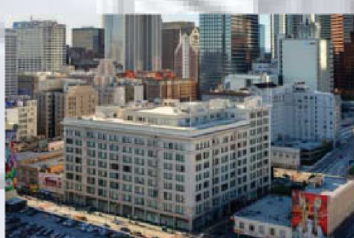
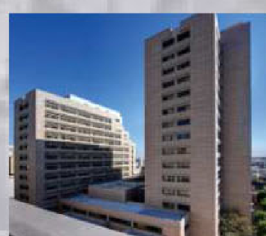
Department of General Services

California Department of General Services

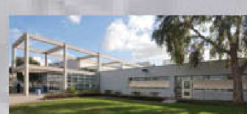
CB RICHARD ELLIS

# Sale Lease-Back of the Golden State Portfolio -

# Best and Final Offer


Proposal By:

FRANKLIN L. HANEY COMPANY



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California Sale Lease-Back of State Owned Office Buildings - Best and Final Offer

May 11, 2010

CB Richard Ellis, as Exclusive Advisor to
The State of California Department of General Services
990 W. 190th St., Suite 100, Torrance, CA 90502
Attn: Kevin Shannon, Vice Chairman

**Re: Golden State Portfolio Sale and Leaseback Proposal**

Dear Mr. Shannon:

The Franklin L. Haney Company, LLC (The Haney Company) is pleased to present our letter of intent to purchase the entire Golden State Portfolio and lease it back to the State of California (State). Since the 1970's, The Haney Company has concentrated on financing and developing federal and state buildings as well as infrastructure projects based on lease financing for the Haney family owned portfolio. We have a long history of successful partnerships with state and federal agencies in purchase and lease back structures. Similar to other experiences across the United States, we look at the Golden State Portfolio as an opportunity to partner with California leaders to develop another positive long term partnership with a state tenant.

Our Proposal is to purchase the entire Golden States Portfolio. In terms of price, it is our understanding that the State prefers to use a 20-year lease and not utilize tax-exempt certificates of participations (COPs). Based on this structure, the initial purchase price offer would be approximately $1.660 billion to $1.987 billion depending on the State's interest in securing tax-abatements and passing these along to us in the form of increased net operating income.

Additionally, we have provided five different proposals which are shown in the table on page 13. We have provided a menu of other possible prices assuming either a 25 or 30 year lease term rather than a 20 year term and, with each alternative, assuming the use of tax exempt certificates of participation (COPs) as opposed to taxable financing. The 25 year term proposals provide, in addition to the purchase price offered, abatement of base rent (but not operating and maintenance costs) for the first two years of the lease term in order to help accommodate the State's short term financial crisis. In the table on page 13, we have shown the total benefit to the State including both the purchase price we are offering and the rent payments saved (labeled as yearly cash flow).

As the buyer, we have no preference as to the selected structure. However, we wanted to provide the State with as much information as possible as to how different financing structures impact purchase price since the range varies drastically from $1.660 billion to $2.830 billion depending on lease and financing structure. Our offer is to purchase at the price set forth for the selected structure in the table on page 13. Our offer in this letter of intent is conditioned on acceptable definitive purchase agreements and leases and on verification during diligence of the conditions set forth in our response to your question 13 on page 16. In addition, we have indicated the changes we will need in lease terms on page 18.

We look forward to closing and working with you on this exciting investment.

**FRANKLIN L. HANEY COMPANY, LLC**

By: Franklin L. Haney



# Golden State Portfolio Details

| Region | # | Property Name | Address | Rentable Area (SF) | # of Floors | Year Built | LEED Certification | Projected Year 1 NOI |
|---|---|---|---|---|---|---|---|---|
| SF / BAY AREA | 1 | **Public Utilities Commission Building** | 505 Van Ness Avenue<br>San Francisco | 270,768 | 5 | 1984 | LEED Silver | $6,098,050 |
| SF / BAY AREA | 2 | **San Francisco Civic Center**<br>(Earl Warren & Hiram Johnson Buildings) | 350 McAllister Avenue &<br>455 Golden Gate Avenue<br>San Francisco | 912,387 | 6 & 14 | 1922 & 1999 | LEED Gold (1 bldg) | $22,040,256 |
| SF / BAY AREA | 3 | **Elihu Harris Building** | 1515 Clay Street<br>Oakland | 700,589 | 24 | 1998 | LEED Certified | $12,613,763 |
| SF / BAY AREA | 4 | **Judge Rattigan Building** | 50 D Street<br>Santa Rosa | 92,368 | 4 | 1983 | Registered | $1,040,445 |
| | | | SUBTOTAL | **1,976,112** | | | | |
| LOS ANGELES | 5 | **Junipero Serra State Building** | 320 West 4th Street<br>Los Angeles | 431,856 | 10 | 1914, 1999<br>(Renovated) | Registered<br>(w/ certification goal of "Silver") | $6,799,418 |
| LOS ANGELES | 6 | **Ronald Reagan State Building** | 300 South Spring Street<br>Los Angeles | 739,158 | 14 & 16 | 1989 | Registered<br>(w/ certification goal of "Silver") | $12,195,530 |
| | | | SUBTOTAL | **1,171,014** | | | | |
| SACRAMENTO | 7 | **Attorney General Building** | 1300 I Street<br>Sacramento | 376,866 | 17 | 1995 | LEED Gold | $9,708,584 |
| SACRAMENTO | 8 | **Capitol Area East End Complex** | 1430 N Street; 1500, 1501,<br>1615, and 1616 Capitol Avenue<br>Sacramento | 1,474,705 | 6 and 7 | 2002 & 2003 | LEED Platinum (1 bldg), LEED Gold (4 bldgs) | $35,543,577 |
| SACRAMENTO | 9 | **Department of Justice Building** | 4949 Broadway<br>Sacramento | 381,718 | 2 | 1982 | Registered | $4,936,426 |
| SACRAMENTO | 10 | **Franchise Tax Board Complex** | 9645 Butterfield Way<br>Sacramento | 1,814,056 | 1 to 4 | 1984, 1993,<br>2003 & 2005 | LEED Gold (4 bldgs),<br>LEED Silver (2 bldgs) | $34,310,182 |
| SACRAMENTO | 11 | **Cal EMA** | 3650 Schriever Avenue<br>Rancho Cordova | 116,687 | 1 and 2 | 2002 | Registered | $2,921,246 |
| | | | SUBTOTAL | **4,164,032** | | | | |
| | | PORTFOLIO DETAILS | **GRAND TOTAL** | **7,311,158** | | | | $148,207,477 |

Image courtesy of CBRE.



## FLH Company Background and Experience

The Franklin L. Haney Company LLC (The Haney Company) is a national commercial real estate firm with a broad based development and financing history.  With a 40-year legacy of highly successful development and financing history, The Haney Company has acquired and/or developed a portfolio of over $10 billion in value.  The Haney Company continues to lead the way in providing solutions in the acquisition, disposition, and leasing of various types of properties. The Haney Company was founded in 1967 and met with success early with the completion of multi-unit housing, parking facilities, luxury hotels and office buildings.  The Haney Company remains family owned and acquires and develops projects exclusively for the Haney family members.

In the 1970's, The Haney Company developed public-private partnerships with Federal and State governments on such projects as the 523,000 square foot Internal Revenue Service Building in Memphis, TN and the 700,000 square foot Social Security Payment Center in Birmingham, AL. Other examples of commercial real estate developments during this period included the Palm Beach County Governmental Complex in Palm Beach, FL., and the 150,000 square foot Tennessee Valley Authority computer center in Chattanooga, TN. The Haney family continued to broaden its asset base with the purchase of the 2,000-acre Dawson Ridge Development in Castle Rock, CO currently slated for residential housing and commercial development by The Haney Company.

In the 1990's, The Haney Company co-developed with Republic Properties Corporation Portals Phase I and II, a 1 million square foot office complex in Washington, DC, which is currently the headquarters of the Federal Communications Commission (FCC). The total Portals development includes over 2.5 million square feet of office space and a luxury Mandarin Oriental Hotel with a total development cost of over $850 million. Similar developments during this period included the purchase and refinancing of the Dulles-Greenway Toll Road in Northern Virginia, a six-lane privately owned toll road that stretches 13 miles between Dulles International Airport and Leesburg, Va... At the time this was the only privately held toll road in the country.  The Haney Company structured and completed three innovative long term securitized financings of the Greenway starting in 1999 through 2006 totaling over $1.3 billion.

While The Haney Company has extensive experience as a developer, our true strength and focus is in structuring debt and equity. We have arranged both private and public financing ranging from $4.85 million for design and construction of the GSA Building in Florida to over a billion for the Dulles Greenway project in Virginia. Today, with a combined development portfolio of $10 billion that includes a range of project values from $1 million to $500 million, and a total of over 15 million square feet throughout the country, the Haney family has a unique and stable platform for future growth. The Haney Company now looks forward to expanding its interests in California by doing what the company does best: innovative financing, imaginative acquisitions, and creative planning for a better tomorrow.



As evident from our Company's background, The Haney Company has been doing these types of transactions for over 40 years. Our structure is based on long term ownership of properties. All of the projects of The Haney Company are acquired and/or developed for ownership by the Haney family for the long term. We hire the absolute top tier third party operators as an extension of our core staff to insure that all of our properties are being run with the highest level of quality and efficiency. We look forward to being the State's long term landlord.



## Lead Team Members

### Franklin L. Haney

*Founder and Chairman*

Franklin L. Haney founded the Franklin L. Haney Company as a sole proprietorship in 1967 and continues to oversee all aspects of The Haney Company.

### Franklin L. Haney, Jr.

*President*

Frank Haney is responsible for securing and structuring new projects as well as restructuring the financing of existing projects owned by the Franklin L. Haney Company, LLC and its family owned affiliates. He is an expert in large-scale, complex development projects and has led many of the firm's transactions such as the Portals office complex in Washington, DC and Dulles Greenway Tollroad in Loudoun County, VA. Frank's specific expertise lies in locating new projects for the company throughout the United States, working with the local governments on the projects and developing the business and financial structure to complete the projects. Frank is also highly experienced in structured finance and has secured more than $1 billion in financing for the projects listed below.

#### Relevant Experience

- The Portals Office Complex, Washington, D.C.
- The Dulles-Greenway Toll Road, Loudoun County, VA
- The Chattanooga TVA Computer Center, Chattanooga, TN
- The Social Security Payment Center, Birmingham, AL
- The TVA Chestnut Street Tower Buildings, Chattanooga, TN

### Mary Alice Haney

*Executive Vice President, Media and Business Relations*

Mary Alice Haney has been a resident of California for fifteen years. She received her MFA in Los Angeles and has worked as the West Coast representative for several global magazines including GQ, Allure and Marie Claire. While West Coast editor of these publications she served as a liaison between celebrities, politicians and the PR and media worlds. She currently works as executive VP of media and business relations for The Haney Company. Mary Alice is a liaison between The Haney Company and the political and business community and has been actively investigating business development opportunities on the West Coast for the company. She is heavily involved in the environmental community and is on the Leadership Council for the National Resources Defense Fund and currently resides in Pacific Palisades, California.

### Larry Blust, Esq.

*Attorney*

Larry Blust is a partner in Barnes & Thornburg LLP and head of its business, tax, and real estate departments in its Chicago office. In addition to the Chicago office, Barnes & Thornburg has offices in Washington D.C., Minneapolis, Atlanta, Michigan, Ohio, Delaware and Indiana. With over 450 attorneys, it is among the 100 largest law firms in the U.S.

Larry has represented The Haney Company and the Haney family in their various development



projects and investments since 1994. He is a recognized specialist in real estate development and finance, mergers and acquisitions, securities and infrastructure financing, and taxation.

Larry brings extensive experience in real estate development. From 1989 to 1996, he represented D.C.-based developer Western Development Company and its subsidiary Western Urban Development, which he took public as the Mills Corporation. While working with Western Development Company, he worked on its office and shopping center projects such as Washington Harbor, a multiuse, water-oriented complex in D.C.; Market Square, a multiuse residential and commercial project on Pennsylvania Avenue; and Potomac Mills, Sawgrass Mills and Ontario Mills, each a 2,000,000-square-foot shopping complex in Virginia, Florida and California respectfully. Larry is a recognized expert in innovative financing techniques and has worked extensively with various investment bankers on innovative financing techniques and transactions. Larry has worked on numerous projects in California including Post Place in San Francisco and Tribal Resort and Casino projects in Palm Springs and San Diego. He may draw on the attorneys in the Chicago, Atlanta, Indianapolis, and Minneapolis offices of Barnes & Thornburg LLP as needed for this project.

Relevant Experience

- Ontario Mills
  Ontario, CA
- Cabazon Fantasy Springs Casino and Resort
  Indio, CA
- Spotlight 29/ Trump 29 Casino
  Twenty Nine Palms, CA
- The Portals Office Complex,
  Washington, D.C.
- The Dulles-Greenway Toll Road,
  Loudoun County, VA
- Washington Harbor,
  Washington, D.C.
- Market Square
  Washington, D.C.
- Potomac Mills
  Woodbridge, VA
- Sawgrass Mills
  Sunrise, FL

## Jeff Dorso, Esq.

*Attorney*

Based in Sacramento, Jeffrey K. Dorso is a partner and the chair of Diepenbrock Harrison's Land Use and Environmental Law Department. Jeff's practice spans all of California and focuses on large scale complex real estate development and natural resource projects. These projects, often in-fill developments, include public/private partnerships, financing, due diligence, hazardous materials, entitlements, and environmental review under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). Some recent representative projects include the development, financing, and entitlement of the Sacramento Railyards (one of the largest urban infill projects in the country with over 2,000,000 sq./ft of office space and 12,000 residential units on 61 city blocks), negotiating the development for riverfront property within the Bridge District in West Sacramento (The Bridge District was allocated over $24,000,000 in Proposition 1C funds), and the successful development of Granite Regional Park, a regional public/private partnership with over 2,000,000 sq./ft. of office. Jeff is admitted to practice before all California courts and the United States District Court for the Eastern District of California.

## Joel Erb, Esq.

*Attorney*

Joel Patrick Erb is a partner in Diepenbrock Harrison's Real Estate and Business Law Department. Joel has extensive experience representing clients with, and providing solutions and resolutions to, complex real property projects and transactions. Representative projects include the multi-party acquisition/partial sale, financing and development of the historic Sacramento Railyards, site acquisition, development and leasing of the Oxbow Public Market in Napa, and the leasing of the renowned Ferry Building in San Francisco. Joel's practice includes all legal aspects of real estate transactions, including drafting and negotiating real estate leases, sales agreements, loan documents, title policies and other related documentation. His practice covers all aspects of the real estate industry, including office, industrial, and retail properties, with a particular focus on infill redevelopment. He received his law degree from the University of California, Berkeley's Boalt Hall School of Law following his participation in the prestigious Boalt-Harvard Law School exchange program. Joel is admitted to practice in both California and New York.



## Description of Proposals

As set forth in the table on the page 13, in addition to a basic 20 year taxable sale and lease-back proposal, which yields a price of approximately $1.660 billion for the entire portfolio, we have provided the State with five other alternatives for the entire portfolio. While these alternatives may not address other state concerns, they result in a higher purchase price. As previously stated, The Haney Company has no preference as to structure.

Each of our proposals assume the same basic structure, a sale to a special purpose entity or entities established by The Haney Company, with the buildings leased back to the State for one of the three minimum lease periods at the rental terms stated in the materials. The entire purchase price would be paid in cash on closing with a portion of the purchase price used to pay or defease the existing debt on the properties. In two of the proposals the State would also benefit from rent abatement for the first two years. In each proposal, options on a five year basis with a 10% rent increase on the start of each period as you propose would be provided for at the end of the minimum term so that the State would be assured of the ability to occupy the buildings for a total of 50 years if it exercises all renewal rights. For each of the three minimum lease periods, an option to allow the State to benefit by lower tax exempt financing rates is offered if the State will agree to a few additional restrictions on subleasing as described below.

### Alternative Maturities

With long term fixed rate lease financing, a longer term lease to a credit tenant will to some extent increase the value of the property to the landlord. For this reason, we have proposed a 30 year term as an alternative to the 20 year minimum lease term you proposed. By agreeing to be obligated to a 30 year lease, we can increase the sale price from $1.660 billion in the taxable financing assumption to $1.992 billion. In the 30-year tax exempt assumption, the price increases from $1.913 billion to $2.387 billion.

If tax abatements can be utilized and go to Net Operating Income (NOI) instead of being rebated to the State, we can increase the sale price on a 30-year lease from $1.987 billion in the taxable financing assumption to $2.377 billion. In the 30-year tax exempt assumption, the price increases from $2.277 billion to $2.830 billion. I have broken the tax abatements by region so you can easily evaluate how these increases effect the purchase price by region and you can deduct if one region secures an abatement and one does not.

We also provided an alternative which has proven attractive to some other states and municipalities in regard to leases we have proposed or entered into in what for most states is viewed as a temporary period of reduced state and local tax revenues for the next year or two until the economy fully recovers. To aid the State in this economic climate, we have proposed an alternative 25 year term with a total abatement of base rent for the first two years. This would allow the State to reduce its cash flow needs (referred to in our tables as “Yearly Cash Flow”) by an aggregate for the entire portfolio of $297.1 million for the first two years of the lease term based on the net income assumptions in your model. In order to partially offset the effect on the purchase price on closing of less revenue, we propose extending the minimum lease term to 25 years. While the purchase payment for the entire portfolio would be reduced by $82 million from the 20 year term



taxable financing proposal, this is more than offset by the projected $297.1 million decrease in cash requirements for the first two years. The purchase payment for the entire portfolio would actually increase by $13 million from the 20 year tax-exempt financing proposal in addition to the projected $297.1 million decrease in cash requirements for the first two years. If tax abatements can be utilized, the purchase payments in both scenarios would increase by $207 million in a taxable financing proposal and $303 million in a tax-exempt proposal in addition to the $297.1 million decrease in cash requirements for the first two years.

## Tax Exempt Financing Alternative

Due to the useful life of the buildings for tax purposes, the minimum length of the lease back, the renewal options, the lease terms on operating and maintenance and the absence of any option to purchase the properties at the end of the lease term, the State should be deemed, for tax purposes only, to be the owner of the buildings during the lease period. The State lease payments thus should be viewed for tax purposes as installment purchase payments for the repurchase of the buildings. In such a case, certificates of participation ("COPs") in State lease payments could be sold as tax exempt debt if the State agrees to certain minimal restrictions on use of the buildings described within this package. The Haney Company is willing to give the State the benefit of lower debt service costs realized as a result. On the entire portfolio this increases the purchase price by $290, $386 and $453 million respectively in the 20 year, 25 year and 30 year proposals in the optimal scenario that utilizes all tax abatements.

It is important to emphasize that the use of tax-exempt COPs will not create or increase State debt. COPs are simply a way to sell, tax-exempt, an interest in the payments the State would be obligated to make in any event as base rent. This approach thus would not impact the State's debt or its credit rating.

The use of tax-exempt financing would require the State to agree to the restrictions required to avoid private business use of the buildings during the minimum lease term. Basically this means that the State could not sublease to or allow the use of its space by any subtenant other than another state or local government entity or an organization qualifying as a 501(c)(3) charitable exempt user under the Internal Revenue Code during the minimum term without providing funds upon any such non-qualifying lease sufficient to pay all or a portion of the financing beyond the 10% private use exception. We understand that the future ability to sublease to private users is very important to you. The 10% exception to the private use rule would allow the sublease of substantial space immediately to a private user. More importantly, if private use is only anticipated later in the lease term, the amount of private use this exception would allow may be much greater due to the way the exception is computed over the entire lease term. Given the 10% exception and the State's projection of a future need for additional space rather than less space in these three locations, this should not be a concern and the additional restrictions would certainly be justified by the increased purchase price. Moreover, should the State foresee a need to sublease more than the 10% in the aggregate of a portion of one or more of the buildings to a private user sometime during the minimum term, we can structure the ability to do so by requiring the sub-lessee tenant to redeem or defease existing tax-exempt debt on that space by issuing taxable debt to cover the cost.



## Summary

We believe that the six options we have proposed provide the State with the ability to maximize its previous investment in these buildings with flexibility depending on the State's willingness to commit to minimum lease terms, to the restrictions required for tax-exempt financing and the utilization of tax abatements to increase net operating income. Other variations on these proposals are obviously possible. Since The Haney Company specializes in these types of proposals and the Haney family will retain ownership, we can offer other alternatives if the State wishes to explore other terms.



## Purchase Options for Entire Portfolio

The Haney Company is interested in purchasing the entire Golden State Portfolio with State option for sale price listed below based on different financing options we previously listed on pages 10-11.

| Purchase Options for Entire Portfolio | | | |
|---|---|---|---|
| | **Option 1**<br>**20-Year Lease**<br>(Straight Term) | **Option 2**<br>**25-Year Lease**<br>(2-Year Abatement) | **Option 3**<br>**30-Year Lease**<br>(Straight Term) |
| **Golden State Portfolio Summary** | | | |
| **Taxable** | | | |
| Sales Proceeds | 1,660,000,000 | 1,578,000,000 | 1,992,000,000 |
| Yearly Cash Flow | 0 | 297,135,792 | 0 |
| **Total Purchase Price Without Tax Abatements** | **1,660,000,000** | **1,875,135,792** | **1,992,000,000** |
| Tax Abatement (4 in Sacramento) | 184,000,000 | 181,000,000 | 218,000,000 |
| Tax Abatement (4 in San Francisco) | 80,000,000 | 78,000,000 | 94,000,000 |
| Tax Abatement (4 in LA,Santa Rosa & Oakland) | 63,000,000 | 60,000,000 | 73,000,000 |
| **Total Purchase Price With Tax Abatements** | **1,987,000,000** | **2,194,135,792** | **2,377,000,000** |
| | **Option 4**<br>**20-Year Lease**<br>(Straight Term) | **Option 5**<br>**25-Year Lease**<br>(2-Year Abatement) | **Option 6**<br>**30-Year Lease**<br>(Straight Term) |
| **Tax-Exempt** | | | |
| Sales Proceeds | 1,913,000,000 | 1,926,000,000 | 2,387,000,000 |
| Yearly Cash Flow | 0 | 297,135,792 | 0 |
| **Total Purchase Price Without Tax Abatements** | **1,913,000,000** | **2,223,135,792** | **2,387,000,000** |
| Tax Abatement (4 in Sacramento) | 206,000,000 | 204,000,000 | 251,000,000 |
| Tax Abatement (4 in San Francisco) | 89,000,000 | 88,000,000 | 108,000,000 |
| Tax Abatement (4 in LA,Santa Rosa & Oakland) | 69,000,000 | 65,000,000 | 84,000,000 |
| **Total Purchase Price With Tax Abatements** | **2,277,000,000** | **2,580,135,792** | **2,830,000,000** |
| **Deduction Btw Taxable and Tax-Exempt** | **(290,000,000)** | **(386,000,000)** | **(453,000,000)** |

## Answers to Best and Final Offer Letter

The Haney Company specifically addresses and attempts to satisfy the following terms and conditions stated in CBRE's BAFO letter.

**Question 1) As part of your participation in the "Best & Final," the State has requested that you review and reconcile into your final pricing the following recently-commissioned documents that are now available in the war room upon return of the attached Confidentiality Agreement.**

- ***Property Condition Reports prepared by Marx Okubo**
- ***Phase I Environmental Reports prepared by Kleinfelder**
- **ALTA Surveys**
- **ADA Surveys**
- **Best and Final Bid Form**
- **Revised Year One Operating Budgets**
- **Revised Argus Models**
- ***Building, Floor, Site Plans and Specifications**

The Haney Company has reviewed the above documents and we have reconciled them into our BAFO.

**Question 2) Buyer ("Buyer"): Please identify the Buyer and the ownership structure intended to take title.**

A limited liability company (LLC) special purpose bankruptcy remote entity would be established to purchase each of the buildings. A Haney family entity would be the manager of each LLC and the Haney family members would be members directly or indirectly.

If tax exempt financing is utilized, the land would be owned by the special purpose entities described above subject to the leases and the leases would be treated as ground leases with the lessee thus treated as owning the buildings during the lease term. A portion of the rents paid would be assigned to a trustee in a true sale transaction and the trustee would issue certificates of participation therein to bond purchasers.

**Question 3) Purchase Price**: **Please state your best purchase price and verify whether the offer is an all cash offer or is subject to a new loan. The stated price should reflect purchasing the asset after reconciling the new information referenced above.**

As set forth in the table on page 13 and described in detail on pages 10 through 12, The Haney Company has set forth a proposal based on your preferred terms of a 20 year lease with no tax exempt financing yielding a purchase price of $1.660 billion to $1.987 billion depending on the use of tax abatements plus five innovative alternatives to raise the effective purchase price to the State. The alternatives provide purchase prices (including the value of the two year rent abatement in the 25 year maturity proposal) ranging from $1.875 billion to $2.830 billion as shown in the table on page 13 based on the lease term, whether taxable or tax exempt financing is utilized and the use of tax abatements. These will be all cash transactions with each dependant on the sale of taxable bonds or tax exempt certificates of participation as described below.

All financing will be based on lease payments.

**Question 4) Source of Equity: Please identify the intended source of funds for the transaction and the capability of the Buyer to complete this transaction. If this transaction involves a loan, please state the desired loan amount with timing, if applicable. If this will**



**be an "all cash" transaction, please describe the internal approval process and/or level of discretion if investing on behalf of a third-party.**

The primary source of funds in all scenarios is a publicly offered bond or COP with investment grade ratings underwritten/placed by Wells Fargo Securities or another internationally recognized underwriter. The timing of closing is 45 to 90 days after the leases are signed. The Haney Company has access to substantial Haney family cash and assets. This cash will be used to fund all pre-closing costs and any and all equity needed to close the transaction with no approvals needed to fund said equity. The Haney Company can assure the State of closing once leases are signed.

**Question 5) Operating Lease**: **Please indicate that you have reviewed the leases that are on the document center and have reconciled the terms and conditions into your "Best and Final" pricing. Please confirm that you are agreeing to adhere to the terms and conditions and will adhere to the Operating Lease. The Lease is intended to be treated as an Operating Lease on behalf of the State, under current FASB/GASB rules governing Operating Lease standards (i.e. FAS 13, FAS 66 and FAS 98). Please confirm that your purchase offers will comply with these standards.**

We have reviewed the leases and reconciled their economic terms into our BAFO pricing. However, some of the non-economic terms in the lease form provided would make the leases non-financeable in the judgment of our underwriters, preliminary discussions with the rating agencies and our attorneys. The required changes to make these financeable leases are set forth on page 18. The changes we would require would not affect the ability of these leases to be identified as operating leases by the State under FASB/GASB rules. Because the tax rules as to what constitutes ownership with installment lease debt are different from the FASB/GASB rules as to what constitutes a capital lease versus an operating lease and the State will have no fixed price purchase option at the end of the term, the leases logically should be viewed as operating leases even if tax exempt COP financing is utilized.

**Question 6) Year One Operating Budgets: Please be advised that the Year One Operating Budgets have been revised for the following properties: •**

- **Removal of Security – San Francisco Civic Center**
- **Parking Modifications – Public Utilities Commission, Elihu Harris, San Francisco Civic Center, Junipero Serra, Ronald Reagan, Capital Area East End and Attorney General Buildings.**

**Theses revisions have been incorporated in the revised Argus models that are on the document center. Please reconcile these changes into your Best and Final pricing.**

We are so advised and have incorporated these changes within our pricing.

**Question 7) Operating Expenses**: **Please confirm that your offer reconciles your firm's analysis, review and modification (if applicable) of the projected Year One Operating Budgets that are on the document center. This would include reconciliation of third party costs (i.e. insurance, management, administration, etc.)**

Confirmed.

**Question 8) Property Condition**: **It is extremely important to the State that the contract price ultimately becomes the**



**closing price. The Portfolio will be delivered in an "As Is" condition. Please advise that you have reviewed and reconciled the Marx Okubo report.**

We have reviewed the Marx Okubo report and we have put a summary table within this proposal and compared that to the original deferred maintenance schedules we were given at the beginning of this process. As you can see from the tables the numbers are extremely different and during the due diligence phase we need to confirm the deferred maintenance expenses and make sure we meet the LEED certification that is required within the lease. To date we have deducted the costs of these expenses from our purchase price, but if expenses go up or down during the due diligence phase this deduction needs to be changed accordingly. Please see the Deferred Maintenance Table on page 20.

**Question 9) Plans and Specifications: The document center has Building, Floor, Site Plans and Specifications for the Portfolio. Please acknowledge that you have reviewed this information and that you have reconciled this into your Best and Final pricing.**

Confirmed.

**Question 10) Earnest Money Deposit: The State intends on opening the escrow with as large an initial deposit as possible.**

We capable and more than willing to put up a refundable earnest money deposit on award. This deposit would be contingent on getting signed leases with terms revised as outlined below. We are willing to negotiate the earnest money amount with the State pre or post award.

**Question 11) Time For Transaction**: **The State is desirous of having the due diligence period expire as soon as possible. Additionally, the closing date should occur as soon as possible after the due diligence date. Please specifically state your most expeditious due diligence and closing timeline.**

We can close quickly. We assume the due diligence phase can occur during lease negotiations with closing to occur 45 to 90 days after lease signing due to document production and marketing of bonds. Please see the Schedule on page 20.

**Question 12) Allocation of Escrow & Transaction Costs**: **The State intends to have the Buyer pay all closing costs in connection with this transaction (e.g., escrow fees, CLTA policy premium; ALTA premium). The State shall not be subject to transfer taxes associated with the sale of this Portfolio. Estimated Title and Escrow fees shall be provided at a later date for review. State shall be responsible for paying CB Richard Ellis a brokerage fee per a separate written agreement.**

We are prepared to pay all closing cost associated with above except the CBRE brokerage fee that the State will pay. When we get estimates of these costs, we will factor them into the purchase price.

**Question 13) Additional Information: Please inform the State of any other material conditions that you feel are relevant.**

- Operating Lease terms as outlined on page 18.
- Deferred Maintenance expenses confirmed, see table on page 19.
- LEED certification and associated expenses determined.
- Operating and Maintenance expenses confirmed.
- No material shift in the bond market.



- The cost of flood and earthquake insurance recently added to the insurance requirements must be determined and reflected in the computation of the purchase price.

**In addition to the above, please note that, in connection with the delivery of this letter to you, and the delivery of any other documents pertaining to the Property, you understand and acknowledge the following:**

**A. Confidentiality. You shall keep confidential any confidential information or data received regarding the Property in accordance with a separate Confidentiality Agreement. The Purchase and Sale Agreement will provide for any confidentiality agreements regarding the terms of the sale.**

We understand and acknowledge.

**B. Brokers. Please acknowledge if you have engaged a broker or finder in connection with this transaction and provide written acknowledgment that, pursuant to State's listing agreement with CB Richard Ellis, said broker or finder will be paid by Buyer. State will pay the CB Richard Ellis commission only.**

We have not employed any third party broker or finder.

**C. Disclaimer. Prior to entering into the Purchase and Sale Agreement, neither the State's broker nor the State nor any of their representatives or agents are making or shall be deemed to have made any express or implied representation or warranty of any kind or nature regarding (a) the leasing, physical or financial status of the Property, (b) the Property's compliance with applicable laws, (c) accuracy or completeness of any information or data provided or to be provided by the broker of the State or State's agents, or (d) any other matter relating to the Property or the State.**

We understand and acknowledge.

**D. Non-Binding. No obligation or liability will be created by reason of this letter or any statements made herein. Any costs incurred or actions taken by you in the absence of any executed Purchase and Sale Agreement will be at your sole risk. Until all conditions have been satisfied and legally binding documents have been negotiated, executed and delivered, the State will not be obligated to proceed with this transaction.**

We understand and acknowledge.

**You acknowledge that the Property will not be taken off of the market, and State reserves the right to sell or dispose of the Property in any way it so determines prior to entering into a written Purchase and Sale Agreement with you, or any other party. You further acknowledge that because this letter does not constitute an agreement, neither you nor the Buyer, if it is a party other than you, shall be entitled to bring any actions against the State in law or in equity arising out of this letter. In that regard, you and the Buyer, if it is a party other than you, expressly waive any remedy of specific performance against the State, and any right to proceed with any legal action or to record or file a lis pendens or similar notice against the Property in connection with any alleged default by the State.**

We understand and acknowledge.



## Lease Document Changes

The lease forms contain provisions which in the opinion of our underwriter and attorneys make them unsuitable for financing. Although the lease forms vary somewhat, the following are the general provisions which must be modified to make the leases financeable keyed to the Sections in the Attorney General Building lease form:

Section 4. Additional Rent. Instead of CPI increase, the leases must provide for an increase in rent by any actual increase in operations and maintenance expenses above the amount for the prior year per a reasonable estimate thereof adjusted to actual. Lessee is paying electricity and gas directly and reimbursing the landlord for actual property tax increases (subject to a 2% cap which, as stated below, must be eliminated). Thus, the State is already accepting the risk of actual increases as to the most significant costs. A similar change must be made in Section 36.

Section 4. Abatement. The leases must provide for an automatic extension of the term if abatement occurs.

Section 5. Property Tax. If the option to pass through the benefit of any abatements to the landlord in exchange for a higher purchase price is selected, this section must be modified accordingly. Even if this option is not selected, the 2% cap on property tax increases must be eliminated.

Section 6. Parking. The landlord will collect any parking fees the State desires to charge and reimburse the State therefore but the parking revenues in the model are included with financeable rent in computing the purchase price. Thus, the State must agree to pay the specified amount to the landlord for parking within the rental payments.

Sections 8, 10 and 11. Operations, Maintenance and Compliance Expenses. The tenant's right to terminate if these obligations are not met must be eliminated. The tenant may have the right to complete these requirements itself if the landlord has not done so after notice and an adequate cure period and to offset the cost thereof against the additional rent plus the O&M base amount set forth in Section 2 but not against the balance of base rent. It must be clear that item(11) in Section 11 (carpet replacement) is limited as in Section 12. All the items in these sections must be included in the additional rent adjustment of Section 2.

Section 14. Assignment and Subletting. This section should be clarified to assure that the State will not be required to be released from liability on any assignment. If the tax exempt financing alternative is selected in regard to the purchase price, this section must be revised to incorporate the change in use requirements applicable to tax exempt bonds.

Section 31. Insurance. Insurance cost changes will be included in determining additional rent. The termination right in g.6 must be clarified to assure it is subject to notice and a 30 day right to cure.

Section 37. LEED Termination. This section must be clarified to insure that loss of LEED certification will not alter the tenant's obligations. LEED requirements are subject to change and the landlord cannot guarantee that they will be met forever.



## Deferred Maintenance Comparison

| | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|
| 1 | **Deferred Maintanance Comparison Between Orginal information Given and the Marx Okubo Report** | | | | | | | |
| 2 | | | | | | | | |
| 3 | | **Marx Okubo** | **Marx Okubo** | **Marx Okubo** | **Marx Okubo** | **Marx Okubo** | **Original** | |
| 4 | | **Deferred** | **Deferred** | **Deferred** | **Deferred** | | **Deferred** | **Difference** |
| 5 | | **Maintanance** | **Maintanance** | **Maintanance** | **Maintanance** | **Total** | **Maintanance** | |
| 6 | | **Immediate** | **Year 1-3** | **Year 4-6** | **Year 7-10** | | | |
| 7 | **Attorney General Building** | $600 | $372,900 | $0 | $519,400 | $892,900 | $0 | **$892,900** |
| 8 | **California Office of Emergency Services** | $5,000 | $310,000 | $14,000 | $50,000 | $379,000 | $0 | **$379,000** |
| 9 | **San Francisco Civic Center-Hiram Johnson Center** | $0 | $782,400 | $49,500 | $12,000 | $843,900 | $2,792,000 | **($1,948,100)** |
| 10 | **DGS CA- San Francisco Civic Center** | $4,000 | $0 | $280,000 | $15,000 | $299,000 | $2,792,000 | **($2,493,000)** |
| 11 | **Ronald Reagan State Building** | $27,600 | $3,256,900 | $564,200 | $1,063,200 | $4,911,900 | $5,026,000 | **($114,100)** |
| 12 | **Judge Rattigan Building** | $0 | $161,300 | $43,200 | $118,200 | $322,700 | $1,872,000 | **($1,549,300)** |
| 13 | **Capitol Area East End Complex 1430 N Street, Sacramento, California** | $0 | $128,800 | $0 | $62,900 | $191,700 | $3,604,000 | **($3,412,300)** |
| 14 | **Capitol Area East End Complex, 1501,1500,1615, and 1616 Capitol Avenue, Sacramento, Ca** | $0 | $617,200 | $340,000 | $21,500 | $978,700 | $3,604,000 | **($2,625,300)** |
| 15 | **Department of Justice** | $0 | $1,025,200 | $1,086,800 | $98,700 | $2,210,700 | $2,096,000 | **$114,700** |
| 16 | **Bldg E Franchise Tax Board Complex** | $0 | $2,822,300 | $135,900 | $248,600 | $3,206,800 | $2,124,000 | **$1,082,800** |
| 17 | **Elihu Harris Building** | $15,500 | $138,400 | $90,000 | $55,000 | $298,900 | $2,541,000 | **($2,242,100)** |
| 18 | **Junipero Serra State Building** | $0 | $691,040 | $193,000 | $187,000 | $1,071,040 | $4,300,000 | **($3,228,960)** |
| 19 | **Public Utilities Commission** | $5,000 | $3,086,700 | $396,500 | $376,000 | $3,864,200 | $6,424,000 | **($2,559,800)** |
| 20 | | | | | | | | |
| 21 | **Grand Totals:** | **$57,700** | **$13,393,140** | **$3,193,100** | **$2,827,500** | **$19,471,440** | **$37,175,000** | **($17,703,560)** |



## Schedule

The Haney Company is prepared to meet or exceed the State's timeframe (as shown below), and can close on the portfolio per the State's July, 2010 schedule:

| | |
|---|---|
| 05/11/2010 | The deadline for potential buyer's Best and Final Offer submittal |
| 05/11/2010 to 05/25/2010 | State evaluation of Best and Final Offers and selection of purchaser. |
| 05/25/2010 to 06/15/2010 | Negotiation and finalization of purchase and sale agreements and leases and due diligence period. |
| 06/15/2010 | Leases and purchase and sale agreements signing and closure of due diligence period. |
| 07/30/2010 to 09/15/2010 | Closing, 45 to 60 days after signing |

California Sale Lease-Back of State Owned Office Buildings - Best and Final Offer

## Revenue and Expense Model

**The Golden State Cash Flow Projections: Entire Portfolio (11 Office Buildings)**

**7,311,158 Total Square Feet**

| | FY 2011 $/SF/YR | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | | | | |
| Scheduled Base Rent | | | | | | | | | | | | |
| Gross Potential Rent | 30.83 | 225,389,042 | 225,389,042 | 225,389,042 | 225,389,042 | 225,389,042 | 247,927,946 | 247,927,946 | 247,927,946 | 247,927,946 | 247,927,946 | 272,720,741 |
| Absorbtion & Turnover | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Base Rent Abatements | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Scheduled Base Rent | 30.83 | 225,389,042 | 225,389,042 | 225,389,042 | 225,389,042 | 225,389,042 | 247,927,946 | 247,927,946 | 247,927,946 | 247,927,946 | 247,927,946 | 272,720,741 |
| Expense Reimbursements | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Parkign Revenues | 0.81 | 5,951,880 | 6,130,436 | 6,314,349 | 6,503,780 | 6,698,893 | 6,899,860 | 7,106,856 | 7,320,062 | 7,539,664 | 7,765,853 | 7,998,829 |
| State of CA Expense Increase | 0.00 | 0 | 2,191,228 | 4,442,958 | 6,756,898 | 9,134,811 | 11,578,504 | 14,089,841 | 16,670,737 | 19,323,165 | 22,049,151 | 24,850,782 |
| **Total Gross Revenues** | 31.64 | 231,340,922 | 233,710,707 | 236,146,349 | 238,649,720 | 241,222,746 | 266,406,310 | 269,124,643 | 271,918,745 | 274,790,774 | 277,742,950 | 305,570,352 |
| General Vacancy Loss | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Effective Gross Revenue** | **31.64** | **231,340,922** | **233,710,707** | **236,146,349** | **238,649,720** | **241,222,746** | **266,406,310** | **269,124,643** | **271,918,745** | **274,790,774** | **277,742,950** | **305,570,352** |
| **Operating Expenses** | | | | | | | | | | | | |
| Security | (0.61) | (4,485,284) | (4,619,843) | (4,758,438) | (4,901,191) | (5,048,227) | (5,199,673) | (5,355,664) | (5,516,334) | (5,681,824) | (5,852,278) | (6,027,847) |
| Cleaning | (2.43) | (17,801,356) | (18,335,397) | (18,885,459) | (19,452,022) | (20,035,583) | (20,636,650) | (21,255,750) | (21,893,423) | (22,550,225) | (23,226,732) | (23,923,534) |
| Repairs and Replacements | (2.10) | (15,385,676) | (15,847,246) | (16,322,664) | (16,812,344) | (17,316,714) | (17,836,215) | (18,371,302) | (18,922,441) | (19,490,114) | (20,074,817) | (20,677,062) |
| Utilities | (0.14) | (1,020,926) | (1,051,554) | (1,083,100) | (1,115,593) | (1,149,061) | (1,183,533) | (1,219,039) | (1,255,610) | (1,293,279) | (1,332,077) | (1,372,039) |
| Management Fees | (0.20) | (1,492,572) | (1,537,349) | (1,583,470) | (1,630,974) | (1,679,903) | (1,730,300) | (1,782,209) | (1,835,675) | (1,890,746) | (1,947,468) | (2,005,892) |
| Onsite Office Expenses | (0.13) | (937,543) | (965,669) | (994,639) | (1,024,479) | (1,055,213) | (1,086,869) | (1,119,475) | (1,153,060) | (1,187,651) | (1,223,281) | (1,259,979) |
| Admin (Excl. Mgt Fee) | (0.41) | (2,996,512) | (3,086,407) | (3,179,000) | (3,274,370) | (3,372,601) | (3,473,779) | (3,577,992) | (3,685,332) | (3,795,892) | (3,909,769) | (4,027,062) |
| Lot & Landscaping | (0.14) | (1,006,212) | (1,036,398) | (1,067,490) | (1,099,515) | (1,132,500) | (1,166,475) | (1,201,470) | (1,237,514) | (1,274,639) | (1,312,878) | (1,352,265) |
| Parking | (0.04) | (324,197) | (333,923) | (343,941) | (354,259) | (364,887) | (375,833) | (387,108) | (398,721) | (410,683) | (423,004) | (435,694) |
| Real Estate Taxes | (3.58) | (26,178,023) | (26,701,583) | (27,235,615) | (27,780,327) | (28,335,934) | (28,902,653) | (29,480,706) | (30,070,320) | (30,671,726) | (31,285,161) | (31,910,864) |
| Insurance | (1.39) | (10,138,645) | (10,442,804) | (10,756,088) | (11,078,771) | (11,411,134) | (11,753,468) | (12,106,072) | (12,469,255) | (12,843,332) | (13,228,632) | (13,625,491) |
| **Total Operating Expenses** | (11.18) | (81,766,946) | (83,958,174) | (86,209,904) | (88,523,844) | (90,901,757) | (93,345,450) | (95,856,787) | (98,437,683) | (101,090,111) | (103,816,097) | (106,617,728) |
| **Net Operating Income** | **20.46** | **149,573,976** | **149,752,532** | **149,936,445** | **150,125,876** | **150,320,989** | **173,060,860** | **173,267,856** | **173,481,062** | **173,700,664** | **173,926,854** | **198,952,624** |
| **Capital Costs** | | | | | | | | | | | | |
| Tenant Improvements | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Leasing Commissions | 0.00 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capital Reserves | (0.15) | (1,079,171) | (1,111,546) | (1,144,892) | (1,179,239) | (1,214,616) | (1,251,055) | (1,288,586) | (1,327,244) | (1,367,061) | (1,408,073) | (1,450,315) |
| State of CA- Paint & Carpet | 0.00 | 0 | 0 | 0 | 0 | 0 | (14,358,942) | 0 | 0 | 0 | 0 | (28,717,884) |
| **Total Capital Costs** | (0.15) | (1,079,171) | (1,111,546) | (1,144,892) | (1,179,239) | (1,214,616) | (15,609,997) | (1,288,586) | (1,327,244) | (1,367,061) | (1,408,073) | (30,168,199) |
| **Operating Cash Flow** | **20.31** | **148,494,805** | **148,640,987** | **148,791,553** | **148,946,637** | **149,106,373** | **157,450,864** | **171,979,270** | **172,153,818** | **172,333,603** | **172,518,781** | **168,784,425** |
| **Tax Abatements added back to NOI** | | | | | | | | | | | | |
| Sacromento & Rancho Cordova Region | | 14,851,341 | 15,148,368 | 15,451,335 | 15,760,362 | 16,075,569 | 16,397,080 | 16,725,022 | 17,059,523 | 17,400,713 | 17,748,727 | 18,103,702 |
| San Francisco Region | | 6,391,656 | 6,519,489 | 6,649,879 | 6,782,876 | 6,918,534 | 7,056,905 | 7,198,043 | 7,342,004 | 7,488,844 | 7,638,621 | 7,791,393 |
| LA,Santa Rosa & Oakland Region | | 4,935,026 | 5,033,727 | 5,134,401 | 5,237,089 | 5,341,831 | 5,448,667 | 5,557,641 | 5,668,794 | 5,782,170 | 5,897,813 | 6,015,769 |
| **Total Tax Abatements TO NOI** | | 26,178,023 | 26,701,583 | 27,235,615 | 27,780,327 | 28,335,934 | 28,902,653 | 29,480,706 | 30,070,320 | 30,671,726 | 31,285,161 | 31,910,864 |
| **Total Operating Cash Flow With Tax Abatments** | | **174,672,828** | **175,342,570** | **176,027,168** | **176,726,965** | **177,442,307** | **186,353,516** | **201,459,976** | **202,224,138** | **203,005,329** | **203,803,941** | **200,695,289** |