

Presentation Regarding The Golden State Portfolio Acquisition



May 23, 2010

CBRE
CB RICHARD ELLIS



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Team Members

Leaders Among Peers



California Municipal Finance Authority

- John Stoecker, *Authorized Representative*

- *Statewide JPA with Board Approval to move forward*
- *Represents over 100 California Communities*
- *Host Communities are members of CMFA*



AEW Capital Management

- Pam Herbst, *Head of Direct Investment*
- Tom Mullahey, *Senior Investment Manager*
- Jon Martin, *Director*
- Ed Cassidy, *Head of A&E Group*

- *#1 Real Estate Advisory (Institutional Investor, 2010)*
- *\$40B of Assets under management*



Stone & Youngberg

- Scott Sollers, *Executive Committee*
- Ramiro Albarran, *Managing Director*
- Parker Colvin, *Head of Underwriting*

- *#1 Municipal Real Estate Underwriter*
- *#1 California Underwriter*



Citi

- Chris Mukai, *Head of Western Region Public Finance*

- *#1 National underwriter*
- *#1 National BAB underwriter*



Goodwin Procter

- Lew Feldman, *Partner*
- Doug Praw, *Partner*

- *#1 Real Estate Counsel*



Benefits & Certainty of Execution of GSAAG Proposal

- Benefits of the GSAAG Offer
 - Maximize upfront proceeds
 - Provide residual value to State vs. private sector
 - Retain outright and permanent public ownership of entire Portfolio
 - Manage and maintain portfolio in prime condition

- Certainty of Execution
 - Public approvals in hand
 - Property due diligence completed
 - Financial, tax analysis and appraisal completed
 - Bond underwriting structure and pre-marketing completed
 - Experienced and qualified asset manager, underwriter and bond issuer/owner



Value Proposition of GSAAG Proposal

Ground Lease Structure

Proceeds to the State	
Upfront Cash	\$ 2,150,000,000
Contingency	25,000,000
Present Value of Economic Reversion	850,000,000*
Sub Total Value	\$ 3,025,000,000
Protections	
Capital Reserve	\$ 100,000,000
Debt Service Reserve	50,000,000
Grand Total	\$ 3,175,000,000

* Portfolio value appreciated at 3%/year over Ground Lease term and discounted at State's cost of funds.



Progress

Significant Progress Already Made...

Activity	Status
CMFA Board Approval	Done <input checked="" type="checkbox"/>
Property Inspections	Done <input checked="" type="checkbox"/>
Budget Review	Done <input checked="" type="checkbox"/>
Environmental Assessment	Done <input checked="" type="checkbox"/>
Risk Management	Done <input checked="" type="checkbox"/>
Accounting Analysis	Done <input checked="" type="checkbox"/>
Appraisal	Done <input checked="" type="checkbox"/>
Legal Analysis	Done <input checked="" type="checkbox"/>
Title Review	Done <input checked="" type="checkbox"/>
Real Estate Tax Status	Done <input checked="" type="checkbox"/>



Host Community Approval Status

Strong Support from all Six Communities for GSAAG Offer



Assets:

Cal EMA

Franchise Tax Board, Attorney General Building, Capitol Area East End Complex, Department of Justice Building

San Francisco Civic Center, Public Utilities Commission Building

Total SF:

▪ 1,171,014

▪ 4,047,345

▪ 1,183,155

Status:

▪ Approved on May 17

▪ Approved on May 18

▪ Approved on May 18

Vote:

▪ 5 - 0

▪ 5 - 0

▪ 11 - 0



Assets:

Elihu Harris Building

Judge Rattigan Building

Ronald Reagan State Building, Junipero Serra State Building

Total SF:

▪ 6700,589

▪ 92,368

▪ 1,171,014

Status:

▪ Notice Published

▪ Notice Published

▪ Notice Published

▪ Hearing Scheduled (May 25)

▪ Hearing Scheduled (May 25)

▪ Hearing Scheduled (June 1)



Financing

Full Confidence in Expedient Execution

Senior Bonds (75%)

- Strong ratings (BBB+/A) based on the strength of the State lease, the subordination levels and reserve funds
- Initial discussions with rating agencies affirm approach and rating estimate
- Issue size and ratings lends itself to Build America Bonds (subsidized taxable bonds) which can provide significant yield benefits (65 bps lower effective yields vs. tax-exempts based on 20-year maturities)
- Ability to Execute:
 - Familiarity with the State credit - Stone & Youngberg and Citi both serve as senior managers on State-level credits
 - S&Y – the leading underwriter in total number of issues in the State of California
 - Citi – the national leading underwriter of municipal bonds overall and Build America Bonds
 - Citi accounted for 35% of all secondary market trading in Cal GO BABs in 2010

Subordinate Bonds (25%)

- Expected to be non-investment grade but of exceptional credit quality/size compared to other municipal high yield opportunities
- Detailed discussions with funds shows strong interest in the credit
- High yield municipal bond funds have had strong inflows over the past 9 months with little new product to acquire
- Ability to Execute:
 - S&Y – the leading underwriter in non investment grade municipal real estate related debt
 - Both S&Y and Citi – regular market makers in high yield
 - Citi runs a high yield trading position well above of \$1b
 - Has recently sold sub lien, high yield convertible cabs for large project financings



Financing Schedule

Underwriting Process will move in parallel with State Approvals...

Date	Process	Responsibility	Status
May 21	▪ Best and Final Bids Due	GSAAG	Done
May 23	▪ Finalists Interviews	CBRE, State	
June 2	▪ GSAAG Awarded Portfolio	CBRE, State	
June 3-21	▪ GSAAG Team Works to Document Transaction	GSAAG	In process
June 18	▪ CMFA Board Approves Documents	GSAAG	
Early July	▪ Legislative Approval	State	
July 21	▪ Cal Public Works Board Approval	CPWB	
July 22	▪ Purchase & Sale Agreement Executed	State, CMFA	
July 22	▪ Preliminary Official Statement released	CMFA, S&Y, Citi, GP	
July 28	▪ Bond Pricing	State, CMFA, S&Y, Citi	
July 29	▪ Bond Purchase Agreement Executed	State, CMFA, S&Y, Citi	



Appendix



California CALIFORNIA MUNICIPAL FINANCE AUTHORITY
Municipal Finance Authority *working together to improve the lives of california residents*



Case Studies

Representative On-Point Case Study – California Ground Lease

- **Background**
 - In 2001, Kaiser sought to establish a real estate portfolio program for a 7 large medical office building projects
- **Objectives**
 - Achieve the lowest possible lease cost through tax-exempt eligibility
 - Maintain or achieve off balance sheet operating lease treatment
 - Maintain partial off credit treatment from rating agencies and investors
 - Enable flexibility to purchase, sell or substitute facilities in the future
- **Structure(s)**
 - Special Purpose Entities were established to purchase or construct the facilities
 - SPEs issued tax-exempt debt to finance acquisition and construction. Debt was structured to meet FASB 13 requirements
 - Operating lease was structured between Kaiser and SPEs to support SPEs' debt service payments



