Mandelbaum
SALE - LEASEBACK ADVISORS

Presentation to:

Board of Regents
Nevada System of Higher Education

Regarding:

Private Lease-Based Financing Solutions

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Lease-Based Financing Overview

Mandelbaum Sale-Leaseback Advisors can arrange extremely cost-effective and efficient private lease-based financing solutions for the Nevada System of Higher Education (together with the nine separate institutions that comprise it, "NSHE"). Typically, under such a transaction:

- The investor acquires an existing facility from NSHE, or acquires or ground-leases land from NHSE and builds a project to NHSE's specifications.
  - These transactions are often referred to as *"sale-leaseback," "build-to-suit and leaseback,"* or *"lease-purchase"* financing, depending on the specifics of the transaction.
  - This transaction can be simply a financing, or a complete turnkey development solution.
- NSHE occupies the property under a long-term lease as if it were the owner.
  - NSHE operates the property (or contracts out the operations) and retains all operating profits from the facility. Because of the low financing rates, student housing projects are typically self-funding or operate at a profit.
- The project is fully financed by relying on NSHE's credit rating, but it does not become an actual debt obligation of NSHE.
- At the end of the lease the property can revert back to NSHE, be acquired by NSHE at a fixed price or at fair market value, or NSHE can continue to lease the property via lease extension options.
  - Lease structuring is driven by the particular requirements of NSHE. Both on-balance sheet (*"capital lease"*) and off-balance sheet (*"operating lease"*) structures are available.

Lease-Based Financing Criteria

Private lease-based financing can represent an attractive financing solution for a variety of NSHE real estate assets. General parameters include:

- Transaction sizes ranging from $5 million to $500 million.
  - Transactions that are too small for bond financing can still work for lease-based financing.
- Either existing facilities (*“sale-leaseback”*) or new construction projects (*“build-to-suit”*).
- A wide variety of property types and infrastructure, both revenue-generating and non-revenue generating, including:
  - Student housing and dormitories
  - Stadiums, auditoriums and athletic facilities
  - Parking garages
  - Classrooms, laboratories and research facilities
  - Administrative offices
  - Power plants and water treatment facilities
  - Hospitals and other medical facilities
- The land can be leased from NSHE or owned fee simple by the sale-leaseback investor.

Lease-Based Financing Benefits

A lease-based financing transaction offers multiple benefits to NSHE.

- **Competitive cost of funds.** Private lease-based financing is generally very cost competitive with tax-exempt bonds of a similar term when all the hidden costs of the bonds are factored in (including reserve requirements, underwriting discounts, arbitrage rebates and other administrative costs).

- **Faster and easier than bond financing.** Sale-leasebacks can close as quickly as 90 days from execution of a letter of intent. Furthermore, sale-leasebacks contain no financial covenants, arbitrage rebates or special reporting requirements, resulting in a low-maintenance form of capital that will not constrict NSHE's ability to raise future debt.

- **Finance 100% of real estate value.** Sale-leasebacks provide 100% of fair market value or the cost of new construction, versus lenders that may offer only 65%-75% of value or bond financing that may have reserve requirements that hold back up to 10% of the proceeds, which significantly increases the cost of capital.

- **No refinancing or interest rate risk.** Sale-leasebacks never need to be repaid or refinanced. When the initial lease term expires, NSHE can exercise its lease extension options, vacate or repurchase the property, or receive ownership of the property free and clear, depending on how the transaction is structured. Furthermore, because the lease payments are known in advance, NSHE faces no risk of fluctuating interest rates over time.

- **Budgeting and balance sheet advantages.** Sale-leasebacks turn capital budget items into an operating budget items, eliminating the need for real estate capital budget expenditures for new construction. They can also qualify for off-balance sheet accounting treatment, thereby improving capital ratios.

Achieving Off-Balance Sheet Accounting Treatment

Off-balance sheet operating lease accounting treatment should be possible for NSHE by inserting a "non-appropriations" clause in the lease.

- The key highlights of the non-appropriations clause are that:
  1. NSHE will seek appropriations every year for the lease payments,
  2. If NSHE does not receive the appropriations, then it does not have to lease the property,
  3. NSHE will vacate the property if it cancels the lease due to not receiving the appropriations, and
  4. NSHE will not purchase or lease a different property as a substitute for vacating the subject property.

The Municipal Securities Rulemaking Board (MSRB) specifically created the non-appropriations clause to allow government entities to avoid recognizing long-term leased-based financing as debt on their balance sheets.

- Lease payments are considered payment for a service (the use of the facility) as opposed to repayment of debt. Non-appropriation clause[1] is defined by the MSRB as:

  A provision of a bond contract that allows the government to terminate a lease securing a long-term certificate of participation or other revenue obligation financing if its appropriating body does not appropriate funds for the lease payments. This clause permits a long-term financing without technically incurring debt. Such obligations are not considered debt in most states and thereby generally are not subject to debt limitations because the lease payments are characterized as payments for use of the facilities rather than as payments on a promise to repay bonded debt.

1. Source: www.msrb.org/msrb1/glossary/view_def.asp?param=NONAPPROPRIATIONCLAUSE.

Lease-Based Transaction Overview

Property Valuation

- New construction is typically funded at 100% of construction cost. FF&E can be included in the funding amount as well.
- Existing properties typically have rents set at market levels. Applying a below-market cap rate generated by the sale-leaseback can lead to proceeds above 100% of fair market value.

Lease Pricing

- Determined by NSHE's credit profile, the characteristics of the real estate, and the cost of debt financing.

Lease Structuring

- Initial lease term is typically 20 to 30 years.
- Leases can have flat rental payments or increases in rent over time, depending on NSHE's structuring preferences.
- NSHE retains complete operational control and responsibility for all building repairs, maintenance, operating expenses and real estate taxes, if applicable, through an absolute triple-net lease.

Ground Acquisition / Title

- NSHE can ground lease land or sell land to the investor, or the investor can acquire land from a third party.
- In a ground lease scenario, NSHE can retain title to property during the lease term.

Lease-Based Transaction Overview (continued)

Operating Lease vs. Capital Lease Accounting Treatment

- Depending on how a sale-leaseback is structured, it can be considered an off-balance sheet (*"operating lease"*) or an on-balance sheet (*"capital lease"*) transaction.
- Using a non-appropriations clause would prevent the lease from being considered as debt under MSRB rules.

Building Reversion / Repurchase Option

- Under a typical transaction structure, the building would revert back to NSHE at the end of the lease term at no cost.
- Alternatively, a repurchase option can often be structured at NSHE's choice of fair market value or a fixed value.

Timing

- Transactions typically close within 90 days of execution of a letter of intent. Timing can sometimes be accelerated to meet a seller's needs.

Transaction Fees

- Third-party reports such as appraisal, environmental and property condition are usually paid by NSHE. NSHE would be responsible for any transfer taxes. Each side pays its own legal fees.
- Our advisory fee would be paid by the buyer.

The Transaction Process

The process can be slightly different with each buyer, but the general timeline is as follows. Note that timing can often be accelerated to meet NSHE's requirements.

Stage	Typical Timing	Activities
Evaluation / Underwriting	2 days – 2 weeks	▪ The investor conducts its real estate analysis and credit underwriting. Timing is driven by the complexity of the transaction and the requirements of NSHE. Preliminary investment approvals are obtained.
Letter of Intent / Negotiation	2 days – 2 weeks	▪ The letter of intent is a non-binding agreement on the major points of the transaction. Timing is driven by NSHE's decision-making process.
Investment Committee Approvals / Contract Negotiations	1-2 weeks	▪ The buyer visits the properties and obtains formal (internal) investment committee approvals. Binding purchase & sale agreements are negotiated and executed. Leases may also be negotiated and executed at this time.
Due Diligence	1-4 weeks	▪ Third-party reports (title, survey, environmental, appraisal, property condition) are ordered and received. This process is accelerated to the extent NSHE possesses/orders the required reports in advance.
Closing	2-6 weeks	▪ Transaction is fully documented and funded.

Who is Mandelbaum Sale-Leaseback Advisors?

Mandelbaum Sale-Leaseback Advisors ("MSLA") is a leading boutique advisory firm specializing in sale-leaseback transactions with publicly-traded, private equity-backed, and privately-held companies.

In our current and previous work experience, the two principals of MSLA have:

- Over 25 years of combined corporate and real estate advisory experience.
- Arranged over $200 million of sale-leaseback transactions.
- Presented viable and competitive offers for over $3 billion of additional sale-leasebacks.
- Participated in the acquisition of over $3 billion of real estate and real estate operating companies.
- Helped advise publicly-traded companies on over $15 billion of completed M&A transactions.
- Earned degrees from the nation's top undergraduate business school and the top graduate business school.
- Held positions at leading investment banking, corporate private equity and real estate acquisitions firms on Wall Street.

MSLA – Background

MSLA was formed in 2000 to provide companies access to sale-leaseback capital. The firm is led by Chad and Sean Mandelbaum, who are both natives of Des Moines, Iowa:

- **Chad Mandelbaum** earned a bachelor degree from the Wharton School at the University of Pennsylvania, after which he earned his CPA certificate.

  Prior to founding MSLA Chad worked on Wall Street, first as an M&A specialist in the investment banking division of Bear Stearns, and later as a principal acquisitions specialist for a $1.5 billion private equity fund at Blackstone Real Estate Advisors. Most recently, he worked at Starwood Financial (now iStar Financial) leading various financing and acquisition initiatives for the Chief Financial Officer.

- **Sean Mandelbaum** earned an MBA from the Kellogg School of Management at Northwestern University, and bachelor degrees from the Wharton School and the College of Arts & Sciences at the University of Pennsylvania through the Huntsman Program in International Studies & Business. He is conversational in Japanese.

  Prior to joining MSLA Sean worked on Wall Street, first as a financing and M&A specialist in the investment banking division of Bear Stearns, and later as an investment specialist for the $1.5 billion private equity fund at Bear Stearns Merchant Banking.

Our Sale-Leaseback Investors

MSLA has formed a broad and deep network of trusted institutional sale-leaseback investors. Collectively, these buyers can acquire a wide variety of property types throughout the country, with varying tenant credit quality.

- We have aligned ourselves with the strongest buyers in the sale-leaseback field. Our client base includes:
  - Publicly-traded real estate investment trusts (REITs),
  - Private REITs,
  - Real estate private equity funds,
  - Financial institutions,
  - Private investment firms, and
  - High net worth individuals who focus on sale-leaseback transactions.

- Our buyers collectively own over $25 billion of real estate assets. Because our buyers have diverse investment criteria, we can identify the optimal solution for a wide variety of sale-leaseback opportunities.

- Furthermore, because our buyers have fully-discretional capital, many have been active acquirers throughout the credit crunch. Our buyers have consistently provided capital when other sources of liquidity have dried up or become unattractive.

MSLA Representative Transactions

We specialize in analyzing and structuring complex sale-leaseback transactions.

The transactions below provide an overview of the breadth of our experience, whether by property type, transaction size, location or credit quality:

- **Retail & distribution portfolio transaction / public company:** We arranged a $71 million sale-leaseback of a portfolio of 11 PetSmart retail stores and a distribution center.
- **Cold storage distribution center / large single asset transaction:** We arranged a $51 million sale-leaseback for a cold storage distribution center in Tulsa, Oklahoma for Fleming Foods.
- **Athletic clubs/secondary market / private company:** We arranged a $22.5 million sale-leaseback for a portfolio of Courthouse Athletic Clubs in Salem, Washington.
- **Light manufacturing / difficult financing environment:** We arranged a $10.5 million sale-leaseback of two manufacturing facilities for JJD Industries, a family-owned business in Chicago that closed on-time during the week of Lehman Brothers' bankruptcy and the Federal government's takeover of AIG.
- **Light manufacturing / acquisition financing / private equity-backed company:** We arranged a $9.1 million sale-leaseback of a mattress manufacturing facility in Tampa, Florida for Spring Air Company, an H.I.G. Capital portfolio company, to help finance an add-on acquisition.
- **Medical office / secondary market / private company:** We arranged a $5.5 million sale-leaseback for the medical offices of the privately-held Valley Diagnostic Clinic in Harlingen, Texas.

MSLA – Contact Information

Mandelbaum Sale-Leaseback Advisors
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Private Public Partnership Investment
Compared to
Municipal Bond Financing For Municipalities and Government

In a municipality or governmental project the largest benefit in using our investment program is replacing typical bond financing. With our structure, we can finance the cost to build & own a facility or asset for a government agency. The agency only has to agree to an irrevocable payment stream over the term of the debt to pay off the debt such as a NNN lease of a real estate property or a long term capacity/usage fee for using a non-real estate asset such as a public works project or infrastructure asset ie: energy, utility, sewer, roads etc.

The bond rating of the governmental entity is used to qualify as a credit worthy tenant or user of the asset. Typically the developer would take a fee on top of the project costs for profit.

Benefits include:

1) Bond rating is utilized for the credit approval purposes, but not bonding capacity. This frees up the governmental entity to utilize their bonding capacity for other types of transactions. It also may lower their total debt by utilizing this program vs. their bonding, which may in turn increase their rating.

2) Payments are made from the governments operating budget vs. a capital budget outlay.

3) Timing - The process can be performed very quickly. Avoiding the need to wait for the bonds to be approved by the taxpayers and issued, special outlays for the capital improvements, etc. The government simply has to agree to make the payments for the term of the financing.

4) Unlimited funding. Usually a governmental entity is limited to their bonding capacity for project size. In other words they may have a $100M capacity, but 75% of that may be used. In using their rating they are not limited. Again, keeping the 25% available for other projects and freeing up credit.

5) Smaller deals ($5M - $10M) the government won't typically bond for.

6) Cost of money doesn't matter because the government is just making a payment not incurring a loan or debt obligation such as bond.

7) The funding is in line or better than bonding because there are typically large fees involved in the bond issuance.

8) Instead this method allows the contractors to come in and build the project for the government without the government having to spend any of their own money up front. This can include architect, engineering fees, and consultant costs as well. All can be lumped into the project payment.

9) The project is self-bonded for the developer and the government because the money is placed into an escrow account at closing for use in construction. In this case if anything happens to the developer, money is escrowed to allow the government to step in and bring in a new contractor to finish the project.

10) Many bonds required designated revenue streams to support the bond funding for Revenue bonds in this case no need to increase taxes or pledge additional revenue stream.

Contract and/or Lease Terms: 20 to 30 years

Types of Real Estate Leases: NNN or Bonded, non-appropriation clauses acceptable

Locations: Nationwide

Size: $5 MM +

Minimum Credit Needed: Standard & Poor's or Moody's: BBB-/Baa3 or better

Perfect for: Counties, Cities, Special Use Municipal Authorities such as School Authorities, State Government's and Agencies and Federal Government, Colleges and Universities, Hospitals and other Healthcare

Sample Project Types:

- Administration or Municipal Buildings; courthouses, correctional facilities, city halls, community centers and others
- Convention Centers or Tourism related developments
- Sporting Venues
- Hospitals and Healthcare facilities (profit and non-profit)
- Economic Development Focused Initiatives that involve real estate or other asset development needs
- Airports and Public Transportation
- Infrastructure, Public Works and Utilities, energy, water, sewer etc.
- Public Housing
- Universities and Colleges as well as all types of academic related facilities

EXECUTIVE SUMMARY QUALIFICATIONS
FOR
COLLEGES AND UNIVERISTIES

NATIONAL STANDARD FINANCE LLC/VIESTE LLC

National Standard Finance, LLC is a public / private investment management company, providing long term, low cost, sale-leaseback and build-to-suit lease-based real estate and infrastructure solutions. Our clients are domestic and international municipalities, government agencies, healthcare operators and energy providers. Our professionals manage real estate and infrastructure investment portfolios worldwide.

VIESTE, LLC is the investor's representative and capital program management arm of National Standard Finance, enabling clients to receive total turn-key or ala carte services ensuring the maximum flexibility and highest value in project delivery.

Collectively, our companies can plan, design, build, finance and acquire various types of real estate and infrastructure assets that are essential to local, state and federal government agencies as well as corporations that operate healthcare or energy related facilities. Specifically in the area of education, our principals and affiliates have overseen over major projects internationally and throughout the United States in local, county state and federal jurisdictions.

TURN-KEY PARTNERS

We enjoy a very strong strategic partnering relationship with Perini Building Company and Balfour Beatty Construction. Their specific experience, combined with our capital funding model, creates a delivery team has unparalleled collective experience in the college and university market.

PERINI BUILDING COMPANY is an affiliate of Tutor Perini Corporation. Tutor Perini Corporation is a leading civil and building construction company offering diversified general contracting and design/build services to private clients and public agencies throughout the world. The company has provided construction services since 1894 and has established a strong reputation for being on time and within budget while adhering to strict quality control measures.

Perini Building Company builds projects in specialized niche building markets including corrections, government, transportation, retail and mixed use, commercial, residential and senior living, healthcare, high tech, education, sports, entertainment and convention facilities.

BALFOUR BEATTY CONSTRUCTION is a key supplier to the education markets in the UK and US, through a variety of procurement models.

In the US, the K-12 and higher education sectors are core markets for both Heery and Balfour Beatty Construction US. Heery has experience of more than $20 billion in K-12 projects within 165 school districts. Its portfolio also includes a wide variety of projects for more than 400 colleges and universities throughout the region. Balfour Beatty Construction US has been involved in 120 educational projects across the country for, again, the K-12 and university/college environments.

<u>DELIVERY MODEL/PROJECT APPROACH</u>

Our team can offer the following:

- ***An unparalleled team experienced at the municipal, county, state and federal level of government and, specifically, education.***

- ***Provide 100% of the capital required to complete the project through a long term structured sale-leaseback transaction.***
- ***Provide a true turn-key delivery alternative, including oversight and direction to all aspects of the capital project including planning, design, construction, furnishing, equipping and commissioning.***
- ***Provide facilities management, including capital replacement programs.***
- ***Prioritize local employment for both construction and development to maximize local economic benefit.***

A **partial** list of representative projects by our turn-key development team members includes:

Eastern Connecticut State University	Student Housing
University of California – Berkley	Life Sciences Building Renovation
Boston College	Science Center
Michigan State University	Food Safety & Toxicology Center
Florida Atlantic University	Student Housing
Southern Polytechnic State University	School of Architecture
Eastern Michigan University	Intramural Athletics & Recreation Facility
University of San Francisco	Health & Recreation Center