



Development Finance: Structured Lease

What is a Structured Lease?

A structured lease involves the Port Authority owning and leasing a project to a company in order to provide financial or accounting advantages to a corporate user.

Benefits of a Structured Lease

In lease financings, the Port Authority's tax-exempt status can be deployed to help developers and companies control costs of constructing a new building through sales tax exemption on the purchase of project building materials. As such, the Port Authority's ownership of the asset is a condition of using this incentive. For a sizeable project, this financing structure can reduce construction costs dramatically through sales tax savings.

Capital Lease Structure

Under the capital lease the Port Authority holds title to the project. The Port Authority enters into a Lease with the lessee which can be a company or a developer. The Lessee books the asset and any debt on its balance sheet. The lessee receives all ownership benefits for federal tax purposes, i.e. depreciation, interest expenses. Under the lease, the lessee typically has the right to purchase the asset for a nominal amount at the end of the lease. A right for the lessee to purchase the asset prior to the end of the lease term can be negotiated.

Role of the Port Authority

The Port Authority may:

- Own the project (via fee simple interest or ground lease);
- Arrange for construction;
- Lease the project directly to the business or to a master lessee; and
- Issue the lease bond debt (typically under a trust indenture).

The source of repayment for any bonds is the master lease, the terms of which are negotiated among the bondholder, the Port Authority, the business and the developer.

The Port Authority is committed to working with the developer or company to make this structure fit within their goals for the project lease.

About the Port of Greater Cincinnati Development Authority

The Port of Greater Cincinnati Development Authority is an economic development agency that initiates projects to improve property value and promote job creation throughout Hamilton County. It is governed by business and community leaders that comprise its board of directors.

Benefit: Sales Tax Exemption on Building Materials

In lease financings, the Port Authority's tax-exempt status can be deployed to help developers and companies control costs of constructing a new building through a sales tax exemption on the purchase of project construction materials. As such, the Port Authority's ownership of the asset is a condition of using this incentive. For a sizeable project, this financing structure can reduce construction costs dramatically.

In the sample calculation below, the capital lease structure assumes 50 percent of the project cost is construction materials. Note that some of the project savings are used to support the cost of the transaction.

Example:

- \$25 million new construction project (hard costs)
- Assume 50% of hard cost is for construction materials
- Hamilton County tax sales tax of 7.00%
- Goal: 80% of savings retained by client post transaction fees and expenses
- Total Savings to Client: \$700,000

Example Projects:

- Great American Tower at Queen City Square – Cincinnati, Ohio
- 303 Broadway at Queen City Square – Cincinnati, Ohio
- Owens Corning – Toledo, Ohio
- Alumni Lofts (former school for Creative and Performing Arts) – Cincinnati, OH
- 8th and Sycamore Apartments – Cincinnati, OH

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