



Development Finance: Structured Lease

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

For a sizable project, this financing structure can reduce construction costs dramatically.

For More Information Contact:

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Benefits of a Structured Lease

In lease financings, The Port'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's ownership of the asset is a condition of using this incentive. For a project with ~\$5 million or more in hard construction costs, this financing structure can reduce construction costs through sales tax savings.

Capital Lease Structure

Under Structured Lease arrangement, The Port holds title to the project. The Port enters into a Capital 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 Capital 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

The Port may:

- Own the project (via fee simple interest or ground lease)
- Lease the project directly to the business or to a master lessee
- 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, the business and the developer.

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



Development Finance:
Lease Structure Example

Benefit: Sales Tax Exemption on Building Materials

In lease financings, The Port’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 construction materials. As such, The Port’s ownership of the asset is a condition of using this incentive.

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EXAMPLE PROJECT SAVING SCENARIO

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

\$25,000,000
new construction project (hard costs)

\$12,500,000
assume 50% of hard cost is for construction materials

Hamilton County sales tax of 7.80%

GOAL: 80% of savings retained by client post transaction fees and expenses

\$780,000
Estimated Total Savings to the Client

EXAMPLE PROJECTS

Madison Square (Med Pace Campus)
Madisonville, City of Cincinnati, Ohio

JTM Production Facility and Freezer Expansion
Harrison, Ohio

The Barrister Apartment Building
Downtown, City of Cincinnati, Ohio