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## Capital Markets Discussion and Case Studies



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April 8, 2014

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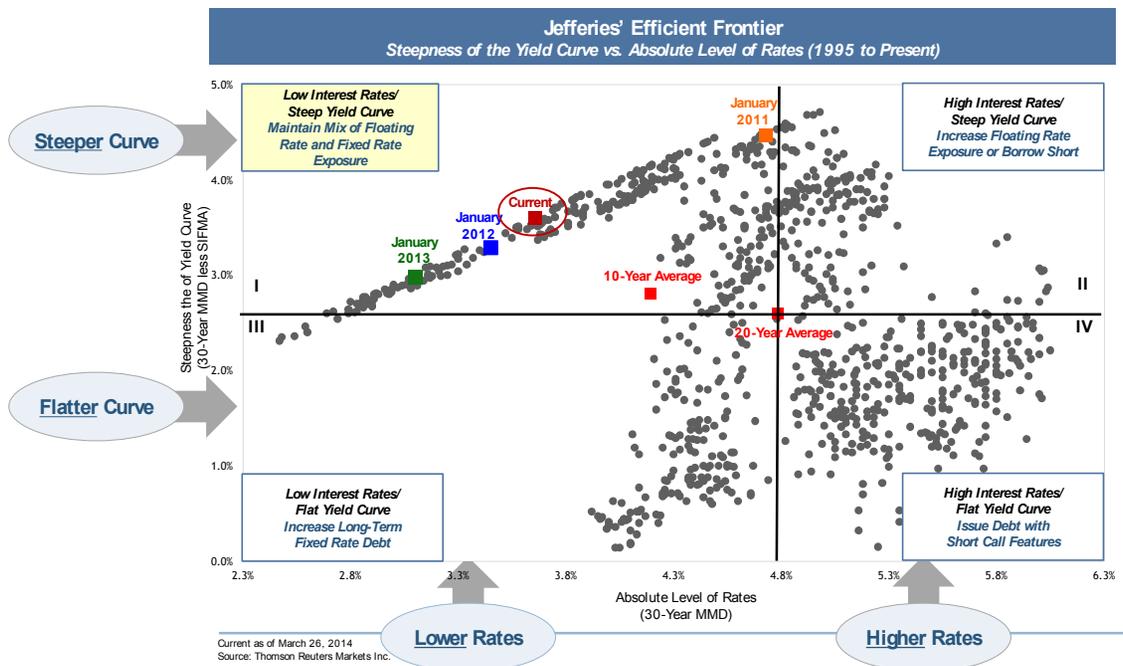
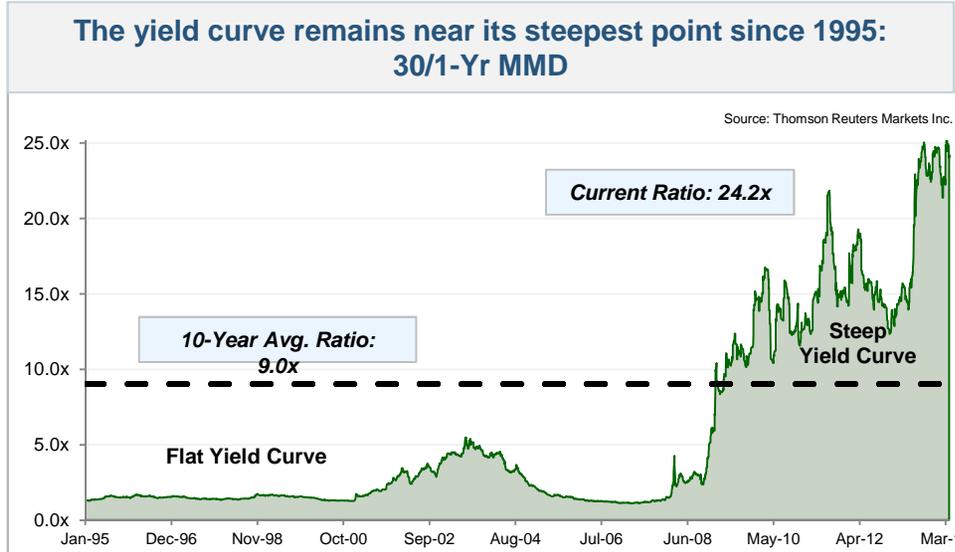
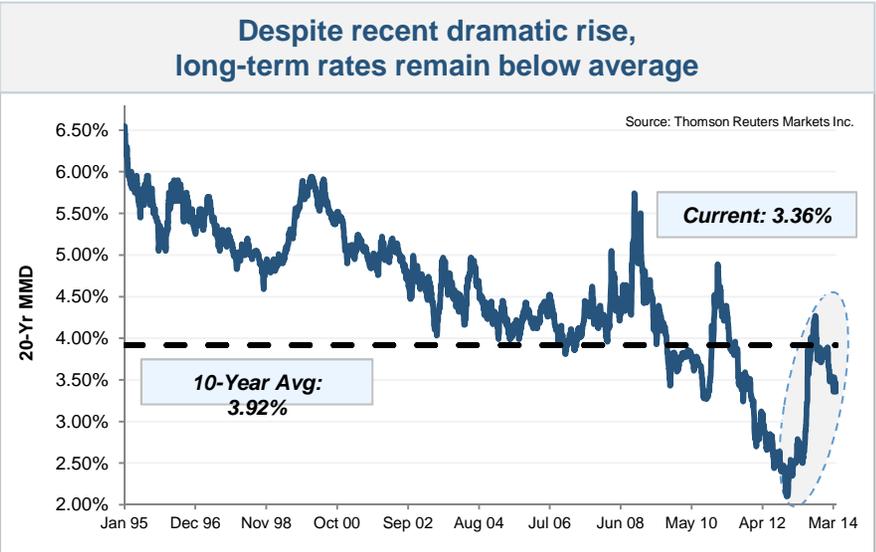
**Jefferies**

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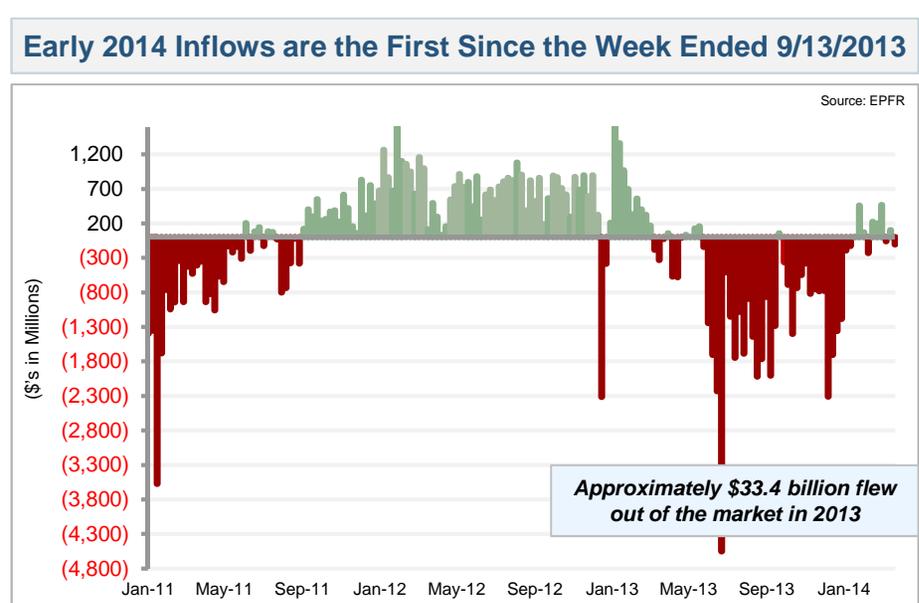
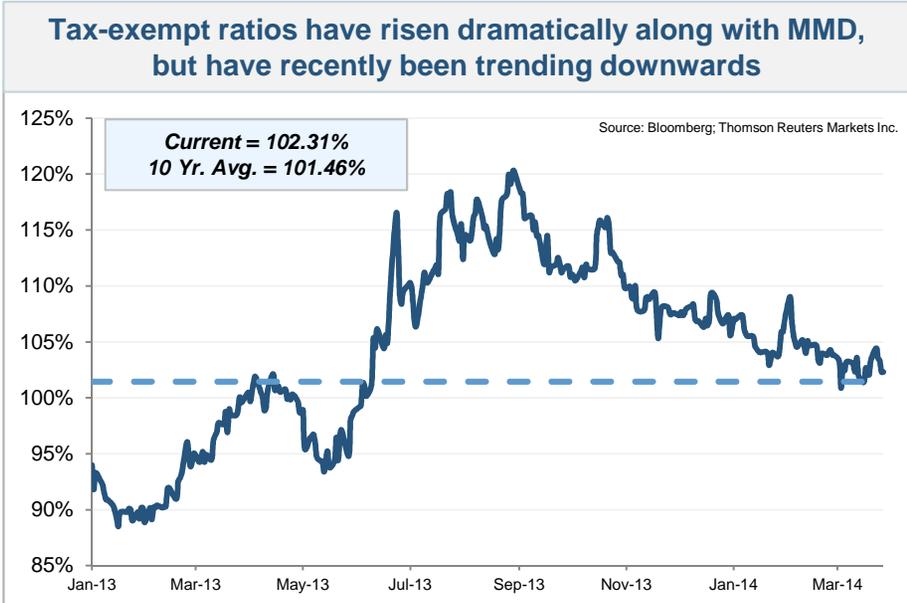
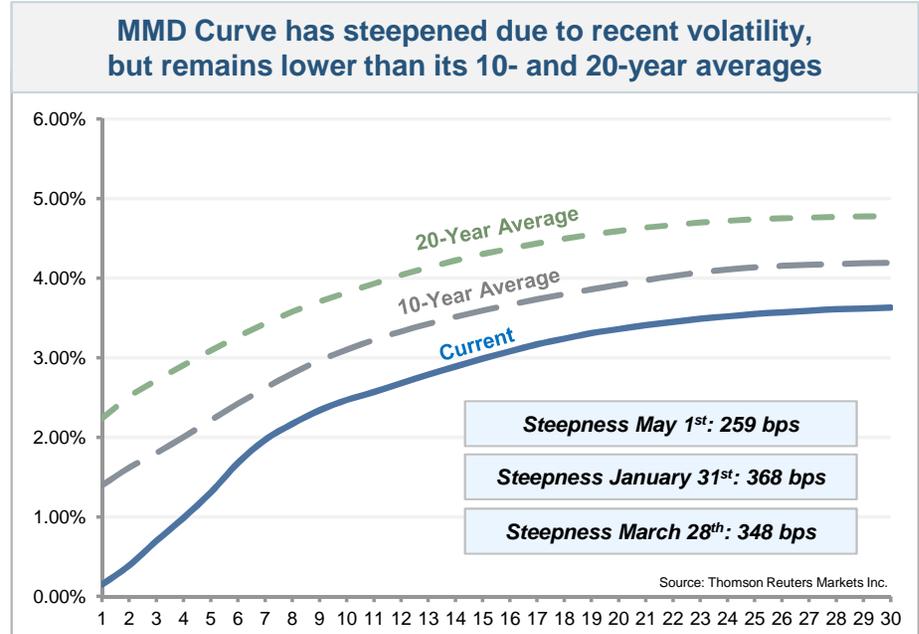
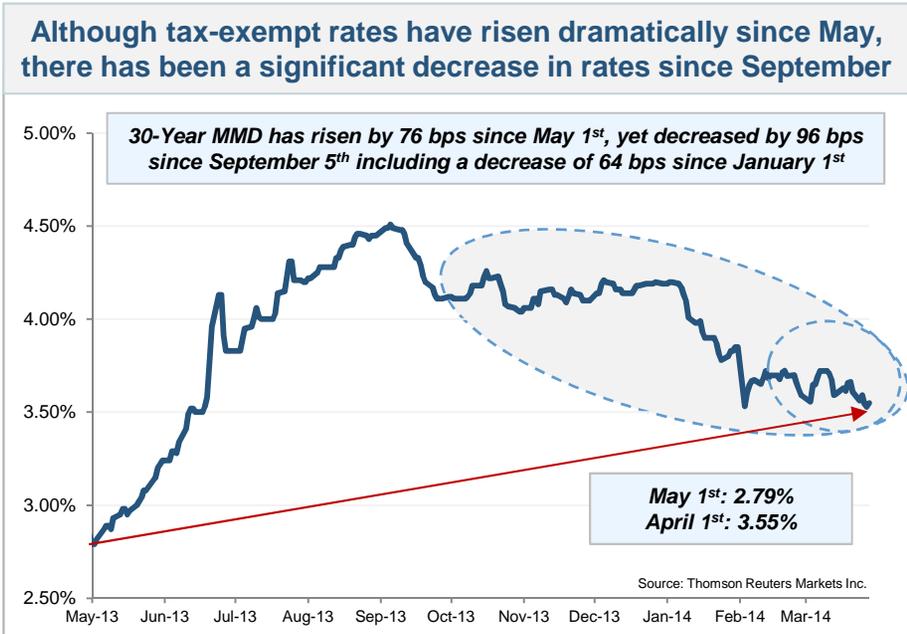
## **The Market**

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# Rates over the last 20 years...

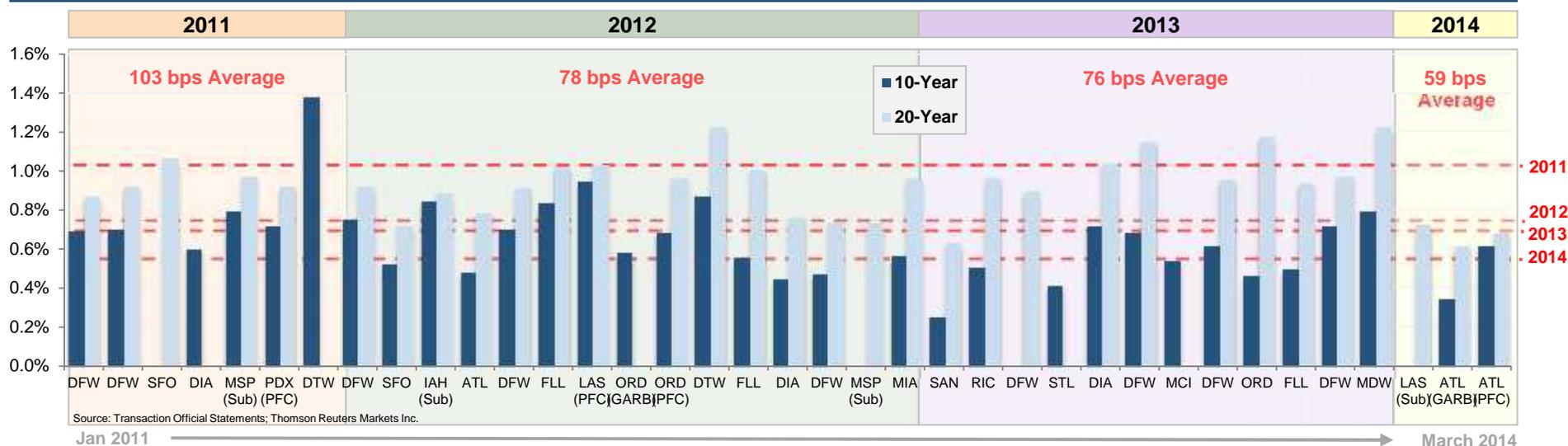


# More recently...the interest rate environment has remained very volatile

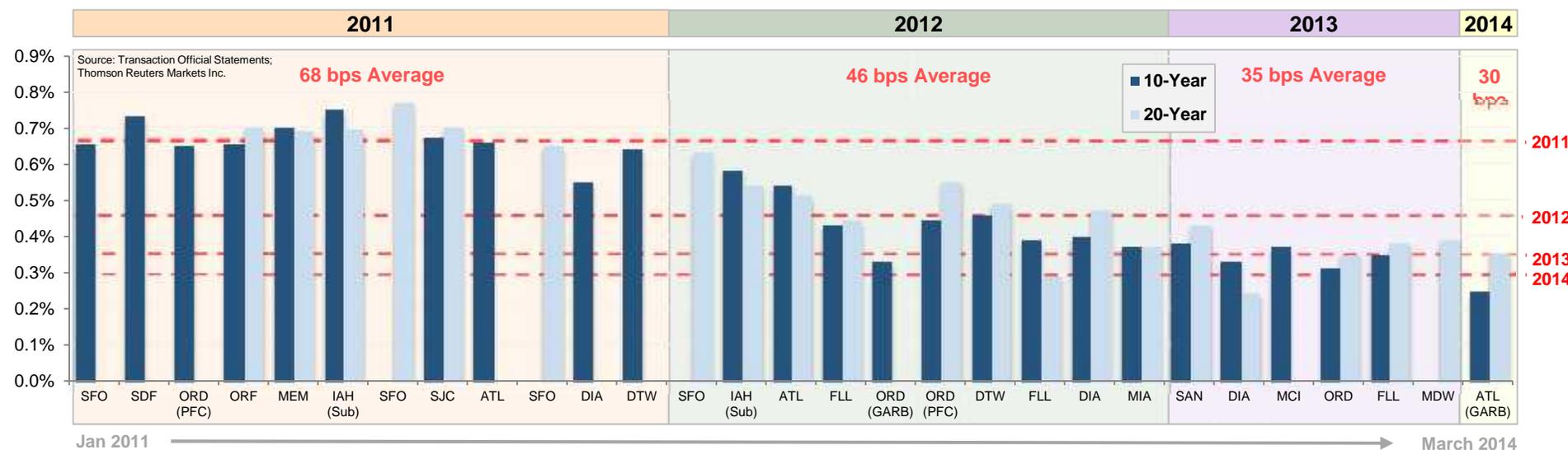


# Extraordinary demand had led to tighter credit spreads and AMT premiums in 2012/2013 and into 2014

## "A" Rated Credit Spreads



## "A" Rated AMT Penalty



Notes: 10-year spreads represent average spreads in years 1-10; 20-year spreads represent average spreads in years 11-20. Only uninsured spreads are displayed.

## Where are rates heading?

- The consensus among Wall Street economists is a continuation of higher rates in the future
- Since October 2011, the Fed has financed the overwhelming majority of long-term Treasury debt, having purchased 96% of the increase in 30-year Treasury bond issuance; the Fed had been buying \$85 billion per month
- In December, the Fed announced the beginning of “tapering,” reducing its monthly purchases
  - Over the last few months, the Fed has reduced its monthly asset purchases from \$75 billion (effective January 2014) to its recently announced \$55 billion (effective April 2014)
  - The Fed will buy longer-term Treasuries at a rate of \$30 billion per month and mortgage-backed securities at a rate of \$25 billion per month starting in April
- Bloomberg economists are forecasting an increase of 86 bps by Q2 2015

### 30-Year UST (2011-Present)



Current as of March 28, 2014

### Interest Rate Forecast

	2014				2015	
	Current	Q2	Q3	Q4	Q1	Q2
<b>Bloomberg Economists</b>						
10-Year UST	2.72%	3.05%	3.21%	3.36%	3.48%	3.61%
30-Year UST	3.56%	3.95%	4.08%	4.20%	4.29%	4.42%
Rate Increase	N/A	+39 bps	+52 bps	+64 bps	+73 bps	+86 bps

Source: Bloomberg

- The current 10-year MMD is 2.47% – 90.7% of the 10-year Treasury
- The historical 10-year average of 10-year MMD/Treasury ratio is 91.9% – implying a 10-year MMD of 3.32% in Q2 2015 (an increase of +85 bps)

### What should issuers consider?

Mitigate Higher Rates

*Backload borrowings to lock-in current long-term rates or accelerate borrowing on some portion of new money needs*

Capitalize on Yield Curve Steepness

*Consider use of shorter duration borrowings or variable rate products for some portion of new money needs*

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## **Case Studies**

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## Case Study: Port of Lake Charles

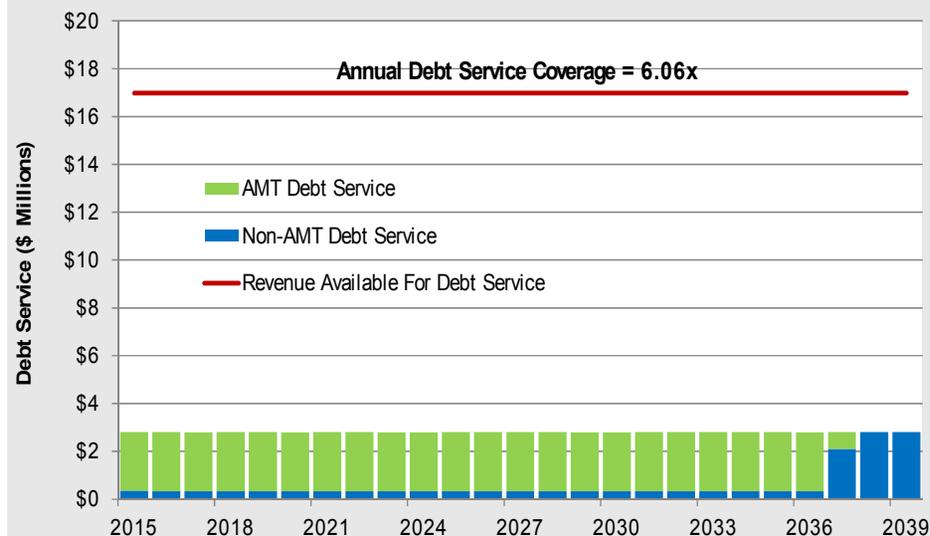
LAKE CHARLES HARBOR AND TERMINAL DISTRICT  
\$39,615,000  
STATE OF LOUISIANA



\$6,995,000 REVENUE BONDS SERIES 2013A (Non-AMT)  
\$32,620,000 REVENUE BONDS SERIES 2013B (AMT)

Underlying Ratings: A3 (Moody's) / A- (S&P)  
Insured Ratings: A2 (Moody's) / AA- (S&P)

### Port of Lake Charles Amortization and Debt Service Coverage



### Transaction Takeaways

- In-depth project by project tax analysis –
  - General / public use facilities: tax-exempt bonds
  - Qualified use / Dock & Wharf Facility Bonds (AMT)
  - Private use: taxable bonds
- Bond structuring –
  - Cost of debt for different project components
  - Interim financing/multiple tranches/take-out
  - New credit to market – bond covenants including rate covenant, additional bonds test, debt service reserve fund, and use of rollover cash

### Project List

- |  |  |
|--|--|
| <ol style="list-style-type: none"> <li>1. Wharf &amp; Transit Shed</li> <li>2. GSA Project</li> <li>3. New Administration Building at City Docks</li> <li>4. Industrial Canal Railroad</li> <li>5. New Road at BT1 along railroad</li> <li>6. Berth 8 Deck Repairs</li> <li>7. Water Main at BT-1</li> <li>8. Road Repairs Along Warehouses</li> <li>9. Farquhar/Reamer Heirs Land Acquisition</li> <li>10. LCCE Offload Improvements</li> <li>11. Loop Tracks at City Docks</li> <li>12. DMMP Dikes and Land Acquisition</li> <li>13. IC Dockside Monopile</li> <li>14. Rehab/Upgrades to Ship Unloader</li> <li>15. Phoenix Development Property</li> <li>16. New Docks at BT-1</li> <li>17. Conveyor 6A Rehabilitation</li> </ol> | <ol style="list-style-type: none"> <li>18. Truck wash at BT1</li> <li>19. Manlift Purchase</li> <li>20. BT1 Security Access/Guard House</li> <li>21. New wall at stacker/reclaimer at BT1</li> <li>22. Paint BT1 water tower (inside &amp; out)</li> <li>23. Dock Rehab at City Docks</li> <li>24. Conveyor 5A repairs</li> <li>25. Berth 8 Dredging</li> <li>26. Ship Loader Rehab</li> <li>27. Sallier Lead Rail Relocation</li> <li>28. Relocation of Alcoa at BT-1</li> <li>29. Calcine Dumper Rehab</li> <li>30. Sallier Lead Rail Crossing &amp; Signalization</li> <li>31. 4, 5, &amp; 6 Berth/Transit Shed</li> <li>32. Mx/Operations Shop at City Docks</li> <li>33. Berth 2 &amp; 3 Reconstruction</li> <li>34. BT1 Open Cell Bulk Head</li> </ol> |
|--|--|

## Case Study: MAS Energy / Coca-Cola – Industrials Seeking Micro Energy Solutions

Jefferies executed a \$25.7 million transaction for the construction of a landfill gas fired plant

- Jefferies priced the \$25.7 million taxable municipal bonds for the Development Authority of Fulton County – on behalf of MAS ASB Cogen, LLC Project
- Proceeds of the bonds were used to finance the acquisition, construction, and equipping of a portion of a landfill gas fired combined heat and power generating facility for the benefit of Coca Cola (“Company”)
- This project alone will reduce the Company’s international carbon footprint by nearly 5%
- The capacity payment paid by the Company is designed to cover debt service and fixed operating expenses and the underlying contract is structured with a built-in pass-through mechanism that shifts most variable rate costs to the Company
- The Cogen Facility consists of three GE Jenbacher 2.125 MW reciprocating engines (total of 6.375 MW), three heat recovery steam generators, post combustion exhaust clean-up systems and one 1050 ton JCI steam turbine chiller
- In order to take advantage of the QECB allocation, Jefferies worked with MAS Energy and the Investor to initiate a bond exchange



Issuer:	Development Authority of Fulton County
Issue:	Taxable Municipal Offering
Ratings:	BBB-
Principal Amount:	\$25,677,000
Equity Contribution:	\$6,419,250
Pricing Date:	March 3, 2011
Settlement Date:	March 11, 2011
Final Maturity:	April 1, 2032
Structure:	\$25.677 million maturing 4/1/2032 (6.79% Coupon)
Yields:	15.2Y T + 305 bps (6.79%)
Offering Type:	Private Placement
Placement Agent:	Jefferies, LLC

***Could be applicable for solar, wind, biomass, landfill gas and/or natural gas projects.***

# Case Study: CPS Energy (San Antonio) – Muni Selling Non-core Asset

Jefferies acted as Sole Financial Advisor to CPS Energy on the Sale of its Communications Tower Portfolio to Crown Castle

## Key Points

January 2014



**\$41,000,000**

Sale of Communications Tower Portfolio to



Sole Financial Advisor

Jefferies was selected to serve as sole sell side advisor based on our long-standing Municipal relationship with CPS Energy and expertise in the wireless infrastructure sector

Transaction represents a joint effort of the Jefferies Municipal Finance and Media & Telecom groups and the first marketed sale of municipal towers in the US

Success of the transaction provides validation and support for other municipalities to consider monetizing non-core telecom assets



- **City Public Service of San Antonio** (“CPS Energy” or the “Company”) is the nation’s largest municipally owned natural gas and electric company, providing service to approximately 741,000 electric and 331,000 natural gas customers in the Greater San Antonio area
- The Company provides electricity from coal, nuclear energy, wind, solar, landfill-generated methane gas, and natural gas
- CPS Energy owned 71 communications towers throughout the San Antonio, Texas area, with an average tower height of 174 feet
- Founded in 1942 and is based in San Antonio, Texas



- **Crown Castle International Corp.** (“Crown Castle”) is the largest independent owner and operator of shared wireless communications infrastructure in the U.S.
- Crown Castle owns, operates and manages over 40,000 and approximately 1,700 wireless communication sites in the U.S. and Australia, respectively
- LTM 9/30/2013 Revenue and EBITDA of \$2.9 billion and \$1.7 billion, respectively
- Market Capitalization of \$24.8 billion
- Founded in 1994 and headquartered in Houston, Texas

## Transaction Rationale

- CPS Energy monetized a non-core asset, while retaining use of a portion of the tower space for internal needs at no cost
- Crown Castle will now own and manage the communications towers and take over third party leases
- CPS Energy has used the proceeds from the sale to pay down existing debt

## Transaction Highlights

- On January 15, 2014, Crown Castle acquired CPS Energy’s communications tower portfolio for \$41 million
  - Acquisition represents a cash value per tower of \$578k and an implied purchase price per tower of \$789k<sup>(1)</sup>
- Jefferies organized an accelerated process, fast-tracking Tier 1 bidders through on-site visits and data room access privileges
  - Process successfully produced indications of interest from nearly all of the Tier 1 bidders, and Jefferies was able to extract additional upfront value from the winning bidder during the final round of negotiations
- Establishes a framework that Jefferies is leveraging to assist other municipal clients divest towers as well as other non-core assets such as fiber and data centers

(1) Implied purchase price per tower adjusted for the present value of utility payments from tenants/licenses and the present value of foregone lease payments, net.

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