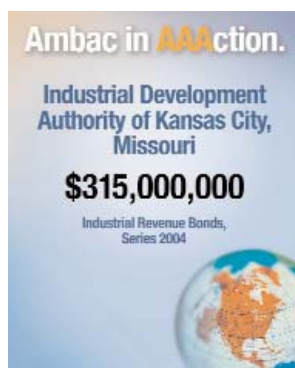


Construction of New IRS Processing Facility Financed in Large Government Lease-Backed Deal



U.S. Federal Government agencies have massive building and equipment needs. These agencies receive their funding from congressional appropriations, which have been severely strained over the past few years. More and more federal agencies are turning to the capital markets to raise funding for these needs and entering into public-private partnerships with developers and contractors to take on construction and performance risks. The agency will then lease the building or equipment from the private sector. An additional complexity to these types of financings is that the Office of Management and Budget prohibits agencies from entering into leases longer than 15 years, while the useful life of a building is considerably longer.

Such was the case for the Internal Revenue Service, which is seeking to consolidate its tax return processing operations in part by building a 1.4 million square foot processing center in Kansas City, Missouri. This state-of-the-art facility would be one of only two permanent campuses designated for paper processing of individual tax returns.

Working through the General Service Administration, the IRS teamed up with a private developer, Pershing Road Development Corporation, to finance and build the facility. The physical size of the project and government restrictions on terms and conditions of the lease brought a number of complexities to the transaction. Ambac Assurance helped structure a workable financing and simplify the risks for investors.

Of particular concern for potential investors was the fact that the government's lease of the facility would not extend for the full term of the bonds. After in-depth analysis and detailed study of the IRS' long-term master plan, Ambac underwriters were confident that the essential nature and unique functionality of the project, combined with its residual real estate value, mitigated lease renewal risk. Ambac and the financing team developed a highly structured offering of \$315 million in taxable secured lease notes amortized over 22 years. The financing, which was lead-managed by Citigroup Global Markets, Inc., was issued as a floating rate offering with a LIBOR-based coupon, then swapped to match the forward-starting fixed rate rental payments under the lease. This structure, combined with the triple-A-rated guarantee from Ambac, ensures the IRS that the building will be completed within their budgetary and regulatory requirements and helps reduce overall financing costs.

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