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NEWS RELEASE

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ARIZONA DEPARTMENT OF ADMINISTRATION ANNOUNCES \$735 MILLION SALE-LEASEBACK TRANSACTION

The Director of the Department of Administration, on behalf of the State, moved forward yesterday with the successful sale of its Series 2010A Certificates of Participation in association with the sale and lease-back of State assets. As a result of the sale of the Certificates, the State will receive approximately \$735.4 million of proceeds for deposit to the State's General Fund. This financing approach will help offset the projected shortfall in the General Fund and address cash flow needs for the current fiscal year.

The sale and lease-back of State assets was authorized by the Legislature and approved by the Governor as part of the budget solutions enacted for fiscal year 2009-10. Under this approach, key State assets are nominally sold to a bank trustee and simultaneously leased back to the State for the approximate 20-year term of the financing. By nominally selling the assets, the State is able to retain control of the facilities and continue to operate them as it normally would, subject to making the annual lease payments. The bank trustee uses the proceeds of the Certificates sold to investors to purchase the facilities from the State. The State then deposits this money into the General Fund. At the end of the financing term when the Certificates are repaid, the facilities are automatically released as collateral for the Certificate financing.

Investor interest in the State's Certificates was very strong over the two-day order period, with over \$1 billion in orders to purchase the Certificates. Despite the State's weakened fiscal condition and need to address projected budgetary shortfalls in the current and future fiscal year, investor interest was high due to the mission critical nature (or essentiality) of the facilities being used as collateral in the financing. The facilities include the Executive Tower, the Legislative buildings, the Department of Public Safety Headquarters, various State prison facilities and other assets of the State. According to David Raber, Interim

Director of the Department, “Many of the large institutional investors noted the importance of the critical facilities being used as collateral as an important consideration in their decision to invest in the State’s financing.”

As a result of the strong response from investors, the State was able to secure this important funding for the State’s General Fund at an overall true interest rate of approximately 4.57%, well below the expectation of many financial experts. According to Mr. Raber, “For the State to be able to borrow \$735.4 million over a twenty-year period at an interest rate of 4.57% is very helpful in addressing the State’s fiscal challenges, and reflects well on investors’ view of the State and the Governor’s efforts to address budgetary concerns going forward.”

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