

DC BALLPARK

JANNEY FIXED INCOME STRATEGY

April 22, 2010



DISTRICT OF COLUMBIA BALLPARK REVENUE BONDS

TAX FREE

Series 2006 B-1
\$354,965,000
Baa1/BBB/BBB+

Series 2006 B-2
\$250,000,000
Aa3/AA+
Auction Rate converted to Variable
Rate (5-08)

TAXABLE

Series 2006 A-1
\$78,425,000
Baa2/BBB/BBB
Taxable - Institutional only

Series 2006 A-2
\$76,410,000
Baa2/BBB/BBB
Taxable (DC tax Free)

ALAN SCHANKEL

Managing Director
215 665 6088
aschankel@janney.com

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PROJECT

Bond proceeds along with \$39 million of revenues from DC and \$20 million from the Washington Nationals baseball team, were primarily used to acquire the site and build National Park. The facility, located south of the capitol in south-east Washington, is owned by the District and leased to the Nationals under a thirty year lease

SECURITY FOR BONDS

- Taxable issues - Series A-1 taxable bonds are secured by annual lease payments from the Nationals. The series A-2 taxable bonds are backed by a 4.25% tax imposed by DC on ticket sales and souvenirs at the stadium. Series A-1 and A-2 are further secured by a cross collateralization provision against the revenue stream of series B (see below) on a subordinate basis after series B obligations are met.
- Tax free issues - All series B issues are secured by a diverse revenue stream comprised of (1) a Ballpark Fee levied annually on businesses in the District with gross receipts of \$5 million or more, (2) a Utilities Tax on non-residential customers covering land line phone service, mobile phone services, electricity, natural gas and heating oil, and (3) a 5.75% tax imposed by DC on ticket sales, souvenirs and parking at the stadium.
- Debt service reserve funds are funded by a surety bond from FGIC. We do not believe the surety bond liability transferred to National (MBIA), so based on FGIC's low credit quality, it's of questionable value.
- Offsetting the shaky DSR is a Ball Park Stabilization Fund, a reserve fund which is funded at \$20 million (12-1-09). This is not quite equal to debt service requirements (\$31,891,550-2010). The DC CFO is required to use amounts in this fund to make up deficiencies in debt service accounts.

TAX FREE BONDS

The tax free bonds have a diverse revenue stream, largely uncorrelated with ballpark related revenues. The Ball Park Fee, despite the name, is a fee imposed on larger businesses throughout the district and the Utility Tax is also broad based. Only the 5.75% tax is directly related to the stadium and the Nationals' ability to attract fans. Revenues from available sources covered annual debt service 2.07 times and 2.13 times respectively in 2008 and 2009.

Tax Free Revenue and Debt Service Coverage

	Ball Park Fee	Utility Tax	5.75% Stadium Tax	Total Revenues	Debt Service Tax Free	DS Coverage Tax Free
2008	\$24.6MM	\$12.9MM	\$9.5MM	\$47.0MM	\$22.7MM	2.07 x
2009	\$29.4MM	\$12.0MM	\$6.5MM	\$47.8MM	\$22.4MM	2.13 x

Source: Janney Fixed Income Strategy; Official Statements, Issuer Financial Reports

TAXABLE BONDS

The taxable bonds are primarily secured by the 4.25% stadium tax, but they also receive excess revenues from the tax free revenue stream, on a subordinate basis, if needed. As noted in the table, revenues from the stadium tax did not provide enough revenue to support the bonds.

Taxable Series A-2 Revenue and Debt Service Coverage

	Excess Revenues	4.25% Stadium	Total Revenues	Taxable A-2 DS	DS Coverage A-2
2008	\$24.3MM	\$4.1MM	\$28.4MM	\$4.9MM	5.79 x
2009	\$25.4MM	\$2.7MM	\$28.1MM	\$4.7MM	6.02 x

Source: Janney Fixed Income Strategy; Official Statements , Issuer Financial Reports

CURRENT FINANCIAL SITUATION

The good news is that the stadium came in on time and on budget. Overall revenues have been more than sufficient to cover debt service, although the mix was not as projected. Debt service coverage is strong. Although coverage margins noted on taxable issues are larger than that of the tax frees, it is important to note that tax frees have essentially first lien on the majority of revenues. In a severe stress situation the priority lien the tax frees have on revenues such as the Ball Park Fee and Utility Tax would favor the tax frees, thus the higher ratings from Moody's and Fitch.

STRENGTHS

- Funded \$20 million Ball Park Stabilization Fund as a reserve
- Broad based, non ball park dependent revenue sources
- Strong post completion debt service coverage

WEAKNESSES

- Debt service reserve fund is in form of FGIC surety bond. FGIC's financial outlook is extremely uncertain
- Scheduled annual debt service increases are significant - to \$51 million in 2036 for tax frees, a 35% increase and almost \$9 million for taxables A-2, an 89% increase

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Tax free debt service coverage was 2.07 x in 2008 and 2.13 x in 2009.