GOVERNMENT CAPITAL
CORPORATION

Facility Improvement Financing for Texas Appraisal Districts

Texas Appraisal Districts are unique in political subdivisions both in the way they operate and are governed, but also in the manner in which they are authorized to finance property acquisitions.

The operations of Texas appraisal districts ("CAD" or "CADs") are governed by Chapter 6 of the Texas Tax Code (the Tax Code). Pursuant to Chapter 6.01 of the Tax Code, CADs are separate and distinct political subdivisions of the State of Texas. *

Further, in Chapter 6.051(a), the CAD board of directors are expressly authorized to "purchase or lease real property and may construct improvements as necessary to establish and operate the appraisal office or a branch appraisal office." However, the Tax Code does not provide CADs the authority to issue debt to pay for the purchase of property or the construction of improvements thereon.

If approved by 3/4 of taxing entities

Because the Texas Legislature has not granted CADs the specific statutory authority to issue traditional debt instruments that are available to other political subdivisions (bonds, certificates of obligation and anticipation notes), CADs must utilize a lease structure to finance the acquisition and construction of their appraisal offices over time. ?

A lease purchase structure has been successfully utilized by many CADs in Texas, including those serving the largest cities and counties in the state.

Once the CAD has identified the property it wishes to purchase, determined how much money it will need to borrow for the acquisition and construction of improvements, the typical lease-purchase transaction structure can be summarized as follows:

1. Since Chapter 6 of the Tax Code does not expressly allow appraisal districts to pledge revenues or property as security for a debt instrument, a non-profit corporation is created (the "Holding Company") to hold fee simple title to the property during the term of the lease purchase agreement. The Holding Company will not be an agency or instrumentality of the CAD but will be governed by a majority of the members of the CAD board of directors.

How does this work?

2. The Holding Company will acquire title to the property and will enter into a loan secured by a deed of trust on the property to finance the acquisition and improvement of the property.

3. The CAD and the Holding Company will enter into a lease agreement under which the Holding Company will lease the property to the CAD and provide funds to the CAD for the construction of the desired improvements. Holding Owns property?

4. The term of the lease agreement will be the same as the Holding Company's loan and the rental payments will be equal to the Holding Company's principal and interest payments under the loan.

5. The lease agreement will include an option for the CAD to purchase the real property at the end of the term for a nominal amount (typically $1.00) and may include options to pay off the lease-purchase agreement early to acquire full title to the property.

6. The Holding Company will assign its rights to the CADs lease payments to the lender as security for the loan. In the event of a payment default by the CAD, the lender will have the right to terminate the lease agreement and foreclose on the property. The loan between the Holding Company and the CAD is a limited recourse loan, so the lender's only remedy in the event of a default is foreclosure and termination of the lease agreement. The Holding Company will have no obligation to make payments under the loan if the CAD does not make its rental payments. why is the Holding Company needed?

7. Upon the termination of the lease agreement and conveyance of the property to the CAD, the CADs board of directors will conclude the affairs of the Holding Company in accordance with the bylaws and terminate its existence.

Any involvement or Approval of CAD.

For additional information regarding the structuring of the financing for your CAD please contact Government Capital Corporation. We can also assist you by providing sample holding company formation documents, authorizing resolutions and other ancillary documentation.

— Need to see these Docs.

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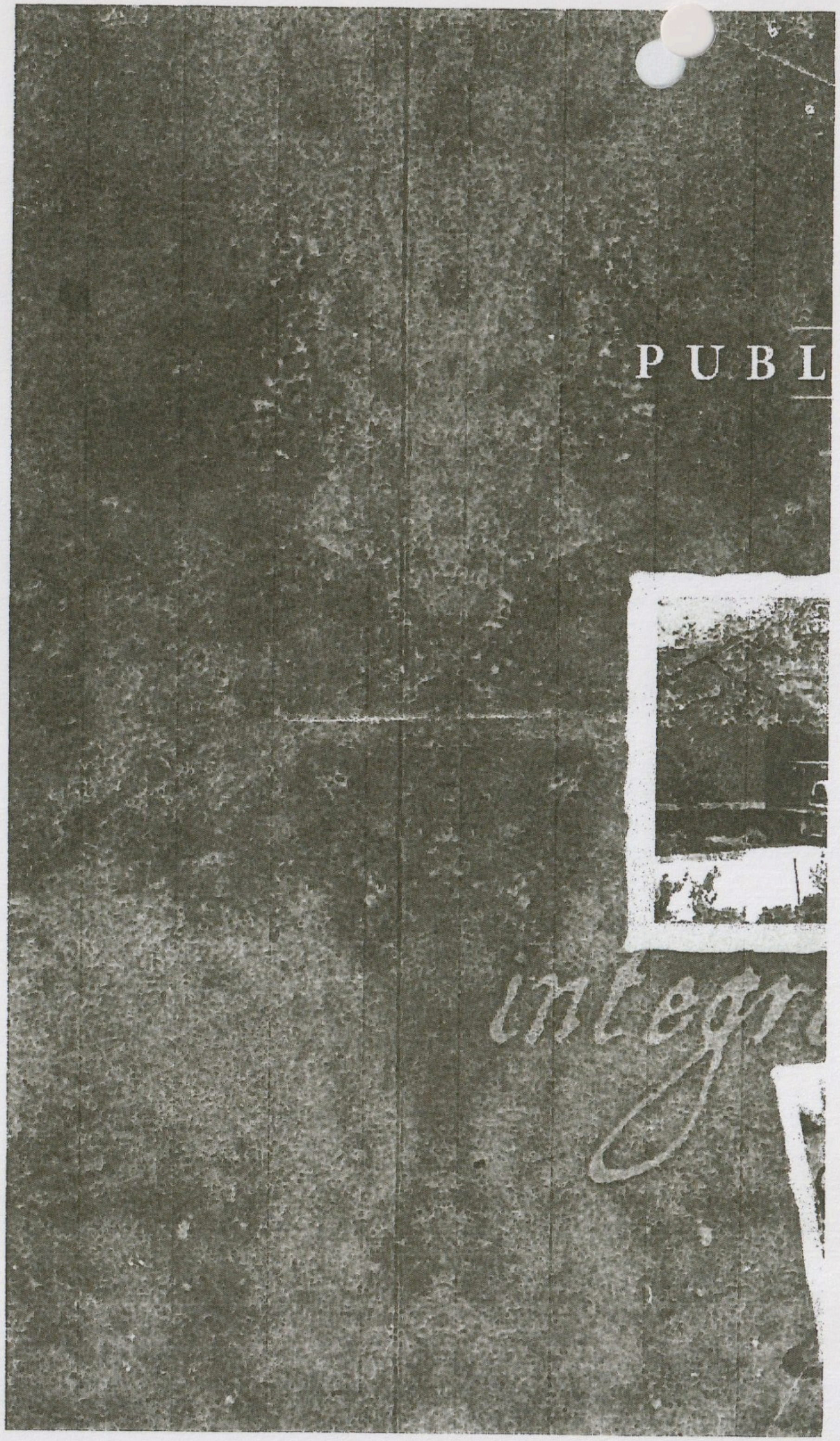

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WITH BILLIONS OF DOLLARS in fundings, GCC has extensive experience in public finance, and serves its clients as a trusted business partner. We at GCC understand local governments are faced with the difficult task of providing increased services to their communities with fewer resources — doing more with less.

"This was the first time our city had financed a technology project, so I want to thank Government Capital for its guidance and attention to detail throughout the process. You were a pleasure to work with." MIKE MADDEN, *Department of Management, Business & Information Service, Evanston, Il*

OUR GOAL is to establish long-term partnerships with our clients in order to fully understand their needs and objectives. This understanding enables us to tailor innovative solutions through our full range of financial services and product offerings.

OUR PARTNERSHIP APPROACH has been very beneficial for our clients. Since 1992, GCC has earned the trust and respect of public officials and equipment suppliers serving the state and local government market. We have completed thousands of successful financing projects nationwide for public entities including:

- Municipalities
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- School Districts
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