2003-2004 EBD #4.19

Date: **April 13, 2004**

To: **Finance & Audit Subcommittee**

From: **Keith Michael Fiels, Executive Director**
Gregory L. Calloway, AED, Finance

Re: **Financing Purchase of Washington, DC Property**

ACTION REPORT:
Attached is a set of draft working documents related to financing the purchase of the Washington DC property. Three banks have submitted terms sheets, which specify the conditions, rates and other expenses related to financing the building. The Board is not being asked to select a particular bank but action is being requested with regard to approving the reimbursement resolution.

ACTION REQUESTED:
Approval of the Reimbursement Resolution as attached.

ACTION REQUESTED BY:
Keith Michael Fiels, Executive Director
Gregory L. Calloway, AED, Finance

DRAFT OF MOTION:
Recommend to the Executive Board approval of the Reimbursement Resolution pertaining to the purchase and financing of property in Washington DC.

BACKGROUND:
The initial steps in preparing the tax exempt financing for the purchase of property in the Washington DC area requires that the Executive Board state in this resolution that the proceeds of the financing are for the explicit purpose to purchase property with in the guidelines of Treasury Regulation 1.150-2.
Note that the resolution is an action, which is an official expression of the intent of the ALA.

The resolution also provides that ALA may reimburse itself for expenses related to the purchase of the building such as construction costs, interest on the construction, etc.

In addition, the resolution states that management has certain authority to negotiate on behalf of the Association but that all agreements to purchase, and signatures on loan documents, must be approved by the Executive Board.

Attachments

Financing Purchase of Washington DC
Property

Summary

Many tax-exempt borrowers such as cities, towns and counties, hospitals, colleges and universities, and other non-traditional 501(c)(3) organizations have taken advantage of the availability of low short-term borrowing rates through the issuance of variable rate demand bonds or "low floaters." This debt is underwritten by Banc of America Securities ("BAS") and sold to BAS investors. These bonds carry a 7-day put option, meaning the investors have the right to put the bonds back to BAS, the Remarketing Agent, with 7 days' notice and that the interest rate varies on a weekly basis. If bonds are put back, they are immediately sold to other qualified investors. The 7-day put option creates a highly liquid investment which carries lower interest rates than long-term fixed rate bonds.

Also contributing to the low interest rates is the guarantee of principal and interest payments by a third party, typically a commercial bank, which issues a letter of credit to back the bonds. The majority of low floaters are supported by bank letters of credit which provide credit enhancement (thereby allowing the bonds to be rated in the "A" category or higher) and liquidity (which assures investors of repayment when they put their bonds). Borrowers with a credit rating of at least "A+/A1" may be able to secure the bonds with a liquidity facility rather than a letter of credit and an underlying rating(s). The bonds would then receive the long term rating of the borrower and the short-term rating of the liquidity facility provider.

One of the most attractive features of the program is the borrower's ability to pay down principal, either in whole or in part on any interest payment date without penalty with 45 days' notice at par (this option compares very favorably to long-term fixed rate bonds which typically have 10-year call protection). In addition to flexible prepayment provisions and low interest rates, another benefit of the program is its lower up-front issuance costs when compared to long-term fixed rate financings and the elimination of a full disclosure offering document under the Bank of America letter of credit structure.

Interest rate hedging options are available to borrowers who wish to fix their floating rate through an interest rate swap or purchase an interest rate cap. Hedging products have proven successful for client's who have limited budgets, undetermined future revenues or a conservative governing body.

Banc of America Securities has been structuring variable rate demand bond issues since the early 1980's and has proven to be a market leader in terms of product innovations and structures. Currently, Banc of America Securities remarkets over $14.3 billion of variable rate bonds and ranks as the third largest remarketing agent of weekly variable rate bonds in the country. Our experience translates into a smooth and cost-effective financing for our clients.

Advantages of VRDB Financing

- Long-term financing at low short-term rates
- Standard documentation using a letter of credit
- Borrower credit ratings not required if supported by a letter of credit
- No Debt Service Reserve Fund required
- Low up-front costs (compared to fixed rate financings)
- Minimal disclosure requirements
- Ability to pay down principal at any time without penalty at par
- Requires less time to complete than fixed rate

Disadvantages of VRDB Financing

- Variable interest rate risk if not swapped to fixed
- Collateral and bond amortization subject to letter of credit bank approval
- Letter of credit term typically does not match bond maturity (3 -10 year term)
- Letter of credit bank down grading risk (Letter of credit may be substituted)

EXECUTIVE SUMMARY

property photo

OFFERING SUMMARY

Randall Hagner Ltd. of Washington, D.C. is pleased to have been retained by the contract purchaser of 1615 New Hampshire Avenue, N.W., Washington, D.C. as its exclusive representative to solicit offers to purchase condominium interest(s) in this property. This is a prime location within the Central Business District located four blocks from Dupont Circle.

BUILDING INFORMATION

The property is a mixed-use office-residential property planned by the contract purchaser for conversion to condominium ownership. The building is cast-in-place concrete framing with a red face brick and limestone facade and was built in 1987 with excellent architectural features. Floors 1, 2, 3, part of the 4th and the lower level are all currently leased to commercial office tenants, comprising 17,970 square feet of rentable space. The efficient floor layout offers excellent window exposure with a high percentage of perimeter offices. Each tenant space is separately metered. Parking is provided below grade for 9 cars for the commercial portion of the building as well as within the front circular drive. A central lobby is entered from New Hampshire Avenue with handicap access from the rear off of Corcoran Street. One elevator and two stairs serve the office tenants. Office finishes are typical in the market. The lower level has excellent light and standard ceiling height. Heat pumps are split system with electric duct heaters. Domestic hot water is via separate electric water heaters. There is a dry sprinkler system in the basement and there is a central fire alarm and security system.

LOCATION

This Property is located at the northeast corner of Corcoran Street and New Hampshire Avenue. The location is in the Dupont Circle market, one of the premier locations in Washington, DC for both residential and office uses. The Dupont Circle Metro Red Line, Q Street entrance is close by, making travel to Capitol Hill, Bethesda or Silver Spring, and anywhere else in the D.C. Metropolitan area convenient. This central location, near Dupont Circle, also provides easy access to most major CBD office buildings as well as numerous restaurant and hotel choices.

ASKING PRICES

FLOOR	AREA	PRICE	AVAIL
1st Flr & LL	7,375 s.f.	$2,664,000	9/2003
2114 Flr	4,722 s.f.	$1,820,000	2/2005
3rd Flr	4,748 s.f.	$1,780,000	1/2004
4th Flr	1,125 s.f.	$436,000	9/2003
Entire space	***17.970 s.f.***	***$6,700,000***	

• 9 parking spaces in secured underground lot G **$40,000 per space**

Condominium fees: **$4.40/s.f. per annum**

III

Benefits of Borrowing Using Tax-Exempt Bonds

ALA American Library Association

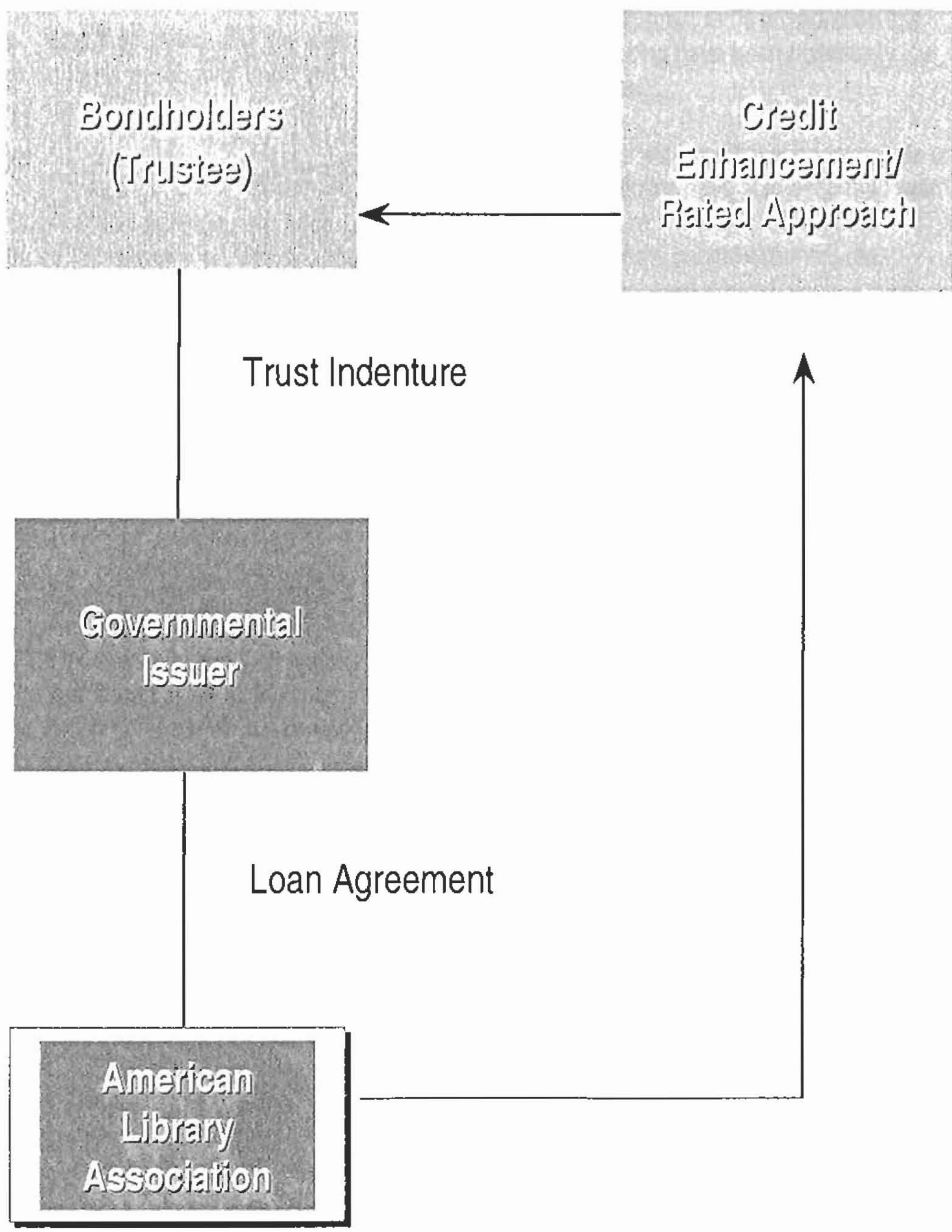
Reasons for 501(c) (3) Institutions to Borrow Using Tax-Exempt Financing

- ❑ All capital expenditures made by 501(c) (3) institutions are financeable with tax-exempt debt.
- ❑ Floating rates have averaged less than 4.0% for 10 years and are below today.
- ❑ Fixed rates are between 4.0% and 5.0%, depending on structure and term.
- ❑ Allows endowment assets to grow at investment returns significantly higher than interest incurred on borrowed funds.
- ❑ Take advantage of low borrowing rates afforded to all not-for-profit institutions.
- ❑ You are in good company – medical centers, universities, secondary independent schools, many industrial companies.

DISADVANTAGES

- ❑ Tax-exempt bonds enhance endowment growth and cannot be used to replace aggressive development efforts.
- ❑ If Board spends more on capital items than it raises due to larger endowment levels.

How To Borrow Tax-Exempt



Tax-Exempt Financing for Not-for-Profit Institutions

Tax-exempt financing provides not-for-profit institutions with interest rates that are 2% lower than conventional borrowing methods. Most institutions that are eligible to borrow on a tax-exempt basis will choose to do so.

What's Financeable ?

As a general rule, any capital expenditures made by an institution with a 501(c)(3) designation are financeable with tax-exempt bonds, as long as the capital expenditures are used by the 501(c)(3) institution to further its charitable purposes, and, as long as the expenditures are covered by a reimbursement resolution designating the capital expenditures for tax-exempt financing.

The SunTrust Advantage

SunTrust is the best financial institution to handle a tax-exempt financing program since, (1) we provide all of the services necessary to execute any type of tax-exempt financing, and (2) we are impartial as to the method of tax-exempt financing chosen. *Many of our competitors provide only 1 or 2 of these services, and are thus biased when giving advice on which approach is best.*

Our underwriting commitment to your organization will be second to none, and our underwriting capabilities go back to our founding days over 100 years ago, when Trust Company Bank (the predecessor to SunTrust Bank, Inc.) underwrote the initial public offering of The Coca Cola Company.

Most of our not-for-profit clients have chosen the letter-of-credit-backed tax-exempt lower floater as the preferred method of tax-exempt financing on the theory that interest rates provided by this method of financing have been historically low through the years.

Most institutions with significant endowments or investment portfolios have also used the lower floater program rather than drawing down investments to fund capital expenditures.

Market Leader in Fixed and Lower Floater Programs

SunTrust has developed an outstanding tax-exempt lower floater program, and has become a market leader in this product. The term "lower floater" comes from the floating rate nature of tax-exempt borrowing and the fact that the rate is "lower" than any other type financing.

Lower floaters are also known as Variable Rate Demand Notes (VRDN's) referring to the variable rate (usually reset every seven days) and the fact that the holders of these instruments may resell these bonds at par to the remarketing agent at any time.

The SunTrust desk remarkets over $6 billion in tax-exempt lower floaters on a daily, 7-day and commercial paper basis secured by SunTrust Bank letters of credit and other banks' letters of credit, which are made available to our customers around the country and the world.

As a part of our service, we believe it is appropriate to advise our clients on the best method of tax-exempt financing.

You have at least the following alternatives:

1. Issue fixed rate debt, unsecured on the borrower's ratings alone;

   or

   Issue fixed rate debt, insured by one of the bond insurers,

2. Issue fixed rate debt, secured by a SunTrust Bank letter of credit,

3. Issue floating rate debt, secured by a SunTrust letter of credit, then convert that floating rate debt into fixed rate debt through the use of a simple swap transaction

4. Simply issue a tax-exempt lower floater and leave the debt outstanding in the floating rate environment.

There are many variations on each of the above approaches. Our thoughts on the advantages and disadvantages of each are:

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1. Use the Borrower's Credit Only or an Insured Fixed Rate Issue

If the Borrower can achieve long-term ratings levels of AA or better, using these ratings alone may be the best borrowing method. However, with ratings of A or lower, if you decide to use credit ratings alone, the transaction that you structure will not perform as well as purchasing a bond insurance policy to credit enhance your bonds. Most of the bond insurers want to insure only A-rated or better credits. To the extent that you fall below the A-rated category, your premium would be either expensive or not available from the first tier insurers.

Your efforts in preparing for a fixed rate issue, using stand-alone ratings or bond insurance, is significantly greater than a letter-of-credit-backed issue. This is generally because the bonds trade on the Borrower's credit, and counsel will require full disclosure about the Borrower, its staff, complete financial statements and, sometimes, stub period audits. The fixed rate issue supported only by the Borrower's credit generally requires a more complicated official statement or prospectus, and, as such, consumes a great deal more of your finance staff's time and attorneys' time.

Additionally, these bond issues are not prepayable until 8-10 years after the date of issuance.

2. Fixed Rate Bond Issue Secured by a SunTrust Letter of Credit

SunTrust Bank carries AA ratings from both S&P and Moody's. This means, that, since there are no AAA-rated banks in the United States, we have one of the highest ratings of any bank in the United States. That rating and the strength of our capital base will provide a lower interest rate should you choose to use a bank letter of credit on either a fixed or floating rate issue. A <u>fixed</u> rate bond issue secured by a bank letter of credit has not been a good tax-exempt financing alternative, since the marketplace does not provide as good an interest rate "all-in" to the Borrower as it would on an insured fixed rate issue. Therefore, we recommend the insured fixed rate issue over a letter-of-credit-backed <u>fixed</u> rate issue.

3. Letter-of-Credit-Backed Lower Floater Swapped Into a Fixed Rate

This transaction is the one chosen by most of our customers when they want a fixed rate. The reason is that a fixed rate in this marketplace can be obtained at a lower "all-in" rate using a lower floater swapped into a fixed rate, than executing a fixed rate bond issue. That is because the swap market is significantly more liquid than the fixed rate tax-exempt bond market.

If you want a fixed rate, we strongly believe that the best approach is to issue a SunTrust letter-of-credit-backed lower floater. This year, that rate has been as low as 2.30% and as high as 3.90%. With a low letter of credit fee and remarketing fee, this lower floater rate swapped into a fixed rate will produce an all-in interest rate that is substantially lower than a fixed rate bond issue.

4. Lower Floater, Kept Floating

Many of our clients use the lower floater and keep it floating. This has been one of the most attractive methods of financing for all of our customers through the years. A borrower might also consider issuing a lower floater and hedging only a portion of that lower floater. For example, you can swap half of your issue for a 10-15 year term, or swap for a shorter period. You can execute swaps in tranches as rates might decline in the future. We can also execute swaps in advance of closing, so you can lock a rate today in anticipation of your closing a couple of months away.

As you can tell, this is the most flexible approach to your financing. This type of bond issue is prepayable at any time without penalty. However, it is important to note that, should you choose to swap your lower floater into a fixed rate, you may have to pay an unwind cost, or, if interest rates have gone up, you may have a gain when you unwind a swap. It all depends on which way interest rates have moved at the time you decide to prepay bonds, and unwind a portion of your swap

We hope this information is meaningful and helpful to you in choosing the correct tax-exempt financing for your institution. There is a lot of money to be made in a tax-exempt borrowing program. Keep in mind that since you have an investment portfolio, the rates on which, will rise as interest rates on your floating rate bond rise, you have an automatic investment hedge in your portfolio. To the extent that you are 100% in equities, your investment portfolio, it may be more appropriate to swap all or a portion of your floating rate financing into a fixed rate.

ALA American Library Association

Advantages and Disadvantages of Letter of Credit and Bond Insurance

Letter of Credit

Advantages

- ✓ Ease of Execution
- ✓ No disclosure of Borrower financials
- ✓ Least expensive
- ✓ Covenants and other terms negotiated with SunTrust

Disadvantages

- ✓ Renewability of letter of credit

Bond Insurance

Advantages

- ✓ Credit enhancement locked in for the term of the financing
- ✓ If fixed rate bonds selected as opposed to swapped floater, best method of execution

Disadvantages

- ✓ Combination of bond insurance premium and liquidity facility more than letter of credit.
- ✓ Least expensive
- ✓ Covenants and other terms negotiated with SunTrust

ALA

Advantages

- ✓ Avoid covenants and terms negotiating
- ✓ Underlying ratings can be useful

Disadvantages

- ✓ Full disclosure
- ✓ Rating agency fees higher
- ✓ Avoid insurance premium but all-in rates significantly higher

V

Floating or Fixed Rates

Interest Rate Structure

Floating

- Historically very low rates
- Rates have averaged 3.15% over last 10 years
- Rarely higher than 6.5%
- Method of financing chosen by most of our not-for-profit and corporate tax-exempt borrowers
- Maximize arbitrage profit on construction fund
- Balance Sheet Management
- All floating now
- Rates may go lower
- Built-in return if use floater

Fixed

- Low fixed rates today

  However, fixed compared to floating over past 10 and 20 years, floating is better

- Low to negative arbitrage on construction fund
- Possible use of reverse swap

- If reinvestment rates fall – negative position against borrowing

If choose floating:
✓ Possible purchase of hedge products
- Swap
- Cap
- Collar

We believe that ALA could benefit significantly by including variable rate obligations in its capital structure. In fact, ALA could prudently and conservatively justify issuing a substantial portion of the new debt as variable rate obligations in a variety of available forms. The following are some of the important advantages and disadvantages of issuing the new bonds as variable rate demand bonds.

Advantages of Variable Rate Debt

- Extremely attractive historical interest rate performance;
- The Variable Rate Demand Bonds ("VRDB") would be callable at any time at par;
- During the construction period, bond proceeds held in the project fund can usually be invested in higher yielding taxable fixed income securities, thereby reducing the possibility of negative arbitrage; this is allowable arbitrage, not subject to the Federal rebate requirements, if certain "spend-down rule" requirements can be met;
- VRDB are generally exempt from the disclosure requirements of SEC Rule 15(c)2-12; disclosure is focused on the letter of credit bank;
- VRDB can usually be completed in less time, with lower up-front costs; and
- Interest rate risk can be efficiently hedged with interest rate swap(s).

Disadvantages of Variable Rate Debt

- Interest rate risk;
- Credit and liquidity support is required and creates renewal risk and downgrade risk (related to the credit and liquidity support provider); however, not a disadvantage for auction bonds;
- Tax law changes could adversely affect the pricing of the VRDB.

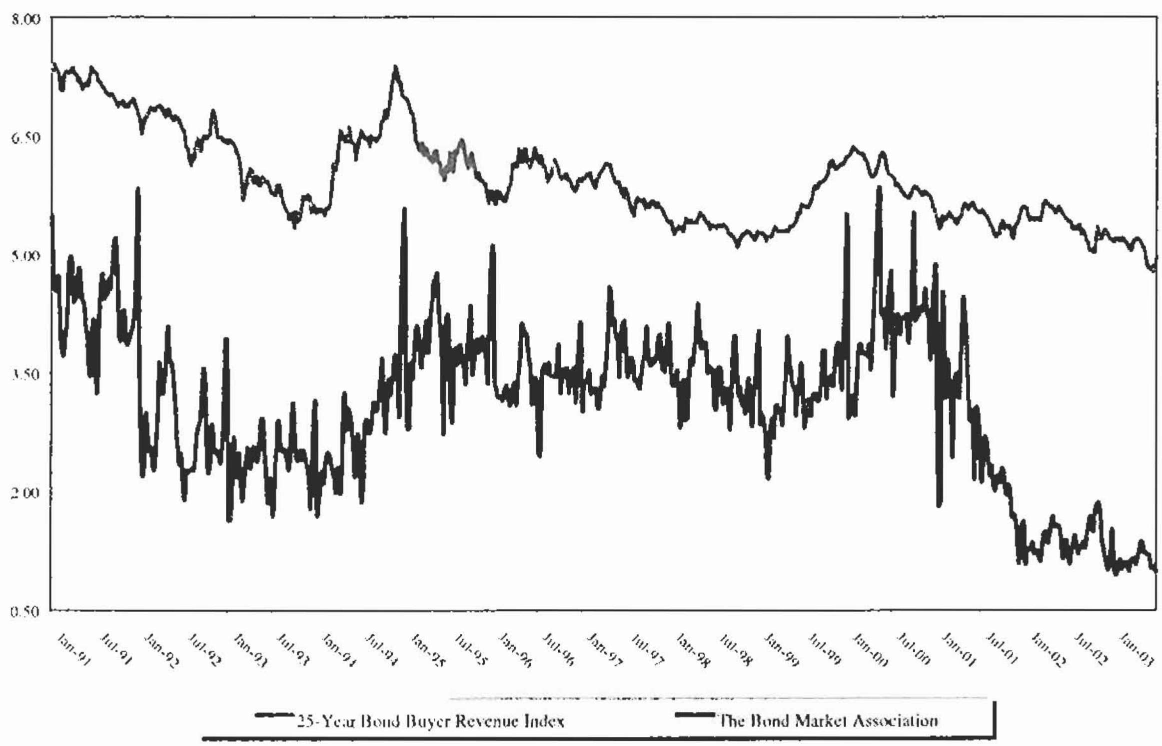
ALA American Library Association

Fixed vs. Variable

Long-term fixed interest rates have been at historically low levels recently. However, tax-exempt variable rates have also been at extremely attractive levels, and they are expected to remain there for the foreseeable future. As illustrated in the graph below, variable rates have historically outperformed fixed rates; they have produced the lowest borrowing costs for borrowers in the tax-exempt markets. Further, the risks associated with variable rate debt can be managed.

25-Year Bond Buyer Revenue Index *versus* The Bond Market Association

January 1991 - June 2003



The tax-exempt and taxable interest rate markets are very low across the entire yield curve. They are not as low as they have been but, by historic standards, both floating and fixed rates are extraordinarily low.

Steepness of Yield Curve

Saying interest rates are low might generally lead a borrower in the direction of fixing interest rates. However, although interest rates across the spectrum are low, both in the tax-exempt and taxable markets, the steepness of the yield curve is probably as steep as it has been at any time history. Therefore, we are still very bullish on executing a substantial portion of any financing in the floating rate markets. As we have stressed in the preceding materials, the uninsured auction rate product is very attractive; the letter-of-credit-backed lower floater is very attractive. The fixed rate tax-exempt bond market hovering in the high 4% interest rate today for ALA is also an extremely attractive number.

In sum, this is a terrific time to be accessing the debt markets. There is no question that there is substantial weight being applied to the tax-exempt interest rate markets because of the compression in interest rates all along the yield curve. You will find in today's marketplace, that the difference between a tax-exempt lower floater rate and a taxable lower floater rate is not much more than 30 to 40 basis points. The historical differential has been as much as 200 basis points. We believe that this compression in rate differential between tax-exempt and conventional rates is driven in substantial part by the fact that rates are so low across the board.

However, because of substantial competing products in the preferred stock area as well as higher dividend paying common stocks, that tax-exempt bonds will find themselves in a more competitive environment going forward. We believe that much of that effect has already been priced into the tax-exempt markets. Therefore, since you are seeing still a significant difference between tax-exempt and taxable rates, we can see no downside to financing all eligible capital costs with tax-exempt debt.

AMERICAN LIBRARY ASSOCIATION
(APRIL,2004)

	Wachovia	SunTrust	Bank of America
Amount	$4 million	$4 million	$4 million
Limit	80% LTV	75% LTV	80% LTV
Term	7 Year Letter of Credit converting to annual auto renewal	5,7,10 year final maturity options May elect a VRDB – May hedge floating rate to fixed rate via interest rate swap	3, 5 year
Amortization	Bonds amortized over 15 to 20 years	25 year amortization schedule	25 year amortization schedule
Rates	Indicative seven year fixed rate based on current interest rate market est. 3.27%	2.9%	Index to 67% of LIBOR 3 – yr 2.57% 5 – yr 3.07% Index BMA(incd) L/C) 3 – yr 2.94% 5 – yr 3.44%
Up-Front Fee	.75 basis	.5% or $30,000 which ever is greater	N/A
Lock-Out		N/A	N/A
Conditions	Local banking done with Wachovia	Mortgage; cap on additional debt (Verbal: Will consider giving a replacement line of credit); primary banking relationship	Primary banking relationship; real estate monitoring; mortgage

	Wachovia	SunTrust	Bank of America
Covenants	Liquidity, minimum net worth	Minimum cash flow to debt service Maintain unrestricted liquidity equal to a percentage of operating expenses Prohibited from add'l borrowing w/o consent	Annual Debt service 1.2:1 Est. reserve equal to annual debt service Min. unrestricted asset balance of $12.0 million
Letter of Credit Fee	.75	42 basis points 45 basis points 49 basis points	3- yr .55 5 – yr .65
Credit Rating- Mooody's Long Term Senior Debt	Aa3	Aa3	Aa1
Remarketing Fee	0.125	0.125	.13
Trustee Fee		.020	
Base Fee	3.27%	2.9	
All in rate	4.145% for 20 years	3.535% Assumes Floating rate Swapped 10yr Fixed rate 67% of LIBOR	3.85

GENBUS/232093.3

GENBUS/232093.3

April 6th, 2004

David C. Smith
~~Vice~~ President
Randall Hagner Ltd.
1321 Connecticut Avenue, N.W.
Washington, D.C. 20036

Re: 1615 New Hampshire Avenue, N.W.
A portion of the LL, 1st & 2nd Floors
Washington, DC

Dear David:

The purpose of this Counter Offer ("Letter") is to set forth understandings between American Library Association ("Purchaser") and PACIFIC HOUSE, LLC the owners of the real property located at 1615 New Hampshire Avenue, N.W. Washington, D.C. 20036 ("Seller") with respect to the purchase of a portion of the Lower Level (LL), all of the First and Second floors, of the office condominium units of the above referenced property (the "Property"). (Approximately 10,000 s.f.). It is the intention of the parties hereto to enter into a real estate purchase agreement (the "Purchase Agreement") that will reflect the terms and conditions set forth herein as well as other terms and conditions with which the parties may reasonably agree.

1. **Purchase Price and Terms**

The total gross consideration paid for the condominium interest shall be Three million four-hundred thousand Dollars and 00/100's ($ 3,400,000). Included in the price are Five (5) assigned Parking spaces in the building garage. The Purchase price shall be paid in full in cash at settlement.

2. **Deposit**

A check in the amount of $250,000.00 shall be tendered at the time of execution of the Purchase Agreement by the parties and shall be held in escrow. Forfeiture of the deposit shall be Seller's sole remedy in the event of a default by Purchaser.

3. **Feasibility Period**

Purchaser shall have thirty (30) days from the date of execution of a mutually-agreed formal Purchase Agreement in which to conduct studies and due diligence and research the condo's structural and financial feasibility to determine whether the project is feasible. The Purchaser may terminate the Purchase Agreement within the thirty (30) day period by giving written notice and receive a refund of the Deposit plus interest with no further liability by either party.

Seller shall promptly upon execution of the Letter of Intent provide Purchaser copies of all of the following: Seller's title insurance policy, all building insurance policies, all service and maintenance agreements, any notices of municipal violations, certificate of occupancy, environmental studies or reports, tank closure letters, real estate tax bills (2 years), building inspection reports conducted within the past two years, and any other data reasonably requested by Purchaser excluding appraisal data.

4. **Settlement**

Purchaser shall cause settlement to occur upon the later of February 1, 2005.

5. **Closing Costs**

Recordation and transfer taxes shall be borne equally by Purchaser and Seller. All other costs of closing will be allocated as is customary in the District of Columbia. Seller shall bear all costs involved in preparing condominium plans, declaration and by-laws.

6. **Closing Conditions**

The Conditions which must be met at closing include, but are not limited to, the following:

(a) The property shall be conveyed by Special Warranty Deed;

(b) The title to the property shall be marketable and good of record and in fact and merchantable subject to restrictions of record as of the date hereof and applicable zoning matters.

(c) There shall be no condemnation or taking, pending or threatened, or any ordinance violations which would preclude commercial office, retail or parking use of the Property.

7. **Tenancy**

Seller shall deliver a vacant condo space.

8. **Inspection**

Purchaser shall have the right of inspection within reasonable hours and with reasonable notice to Seller.

9. **Hazardous Materials**

Seller shall warrant that Seller has not received any notification, order, writ, injunction or other direction or requirement of any governmental authority requiring it to remove, encapsulate or otherwise dispose of any asbestos or other hazardous or toxic substance which may be presently stored or located upon the property or improvements. Except as stated above, Purchaser shall make its own determination concerning environmental matters during the Feasibility Period.

10. **Other**

Upon execution of the Letter by Purchaser and Seller, Purchaser shall prepare the Purchase Agreement which shall conform with the terms of this letter and shall contain such other terms and provisions as are customarily contained in contracts for the purchase of real property in the District of Columbia and may be otherwise reasonable acceptable to the parties. Seller and Purchaser have thirty (30) business days during which to execute the Purchase Agreement. If no binding contract has been executed within such period, this Letter of Intent shall become null and void.

11. **Brokerage Fee**

Purchaser and Seller represent that they have retained the services of Randall Hagner LTD. And Boland Advisory Services ("Brokers") as sole agents for this transaction and each warrant to the other that no other broker is due any commission in connection with this transaction and each shall indemnify the other for any breach of this warranty. Further, the Seller shall be solely responsible for payment due Brokers under terms of a separate agreement.

This Letter of Intent shall expire ten (10) business days from the date hereof if not fully executed, prior to that time, by the Parties.

Sincerely,

John L. Boland
Principal

AGREED AND ACCEPTED:

SELLER

Date

REIMBURSEMENT RESOLUTIONS OF THE EXECUTIVE BOARD OF THE AMERICAN LIBARARY ASSOCIATION

The Executive Board of the American Library Association (the "Borrower") does hereby adopt the following resolutions (these "Resolutions"):

RESOLVED: That the Executive Board (the "Board") of the Borrower deems it advisable and in the best interest of the Borrower to provide for the debt financing (or refinancing) on a tax exempt or taxable basis of all of the costs incurred in connection with the following: (i) the acquisition and renovation of an office condominium unit(s) containing approximately 10,000 square feet located on a portion of the lower level and all of the first and second floors of that building located at 1615 New Hampshire Avenue, N.W., Washington, D.C. (the "Building") and five (5) assigned parking spaces located in the Building's garage; (ii) the purchase of certain equipment and furnishings, together with other property, real and personal, functionally related and subordinate thereto; (iii) the refinancing, in whole or in part, of any then-existing indebtedness; and (iv) certain expenditures associated therewith to the extent financeable, including, without limitation, cost of issuance, construction period interest, and credit enhancement costs (together the "Project").

FURTHER RESOLVED: That it is the intention of the Board and the Board reasonably expects that all expenses of the Borrower incurred hereafter or incurred within the sixty (60)-day period prior to the date hereof, in pursuit of the Project, together with such other financeable costs heretofore incurred, be reimbursed to it out of borrowed funds when such borrowing is made, which borrowing it reasonably expects to be made within eighteen (18) months from the later of (i) the expenditure for payment of such costs, or (ii) the completion of the Project, but, in no event later than three (3) years after the expenditure for payment of such costs.

FURTHER RESOLVED: That the principal amount of the borrowing which the Borrower shall cause to be borrowed with respect to the Project shall not be in excess of four million five hundred thousand dollars ($4,500,000.00), based on issue price without giving effect to original issue discount (and excluding proceeds used to finance any debt service reserve fund).

FURTHER RESOLVED: That no funds from sources other than the above-discussed financing are reasonably expected to be reserved, allocated on a long-term basis, or otherwise set aside by the Borrower, pursuant to the budgetary or financial policies of the Borrower with respect to the expenditures to be reimbursed. The foregoing shall not be construed to prevent the Borrower from expending funds from its operating fund and cash accounts for expenses arising in connection with the Project that will not be reimbursed from the above-discussed financing.

FURTHER RESOLVED: That these Resolutions shall be deemed the official expression of the official intent of the Borrower within the meaning of Treasury Regulation 1.150-2.

FURTHER RESOLVED: That the officers of the Borrower are hereby authorized and directed to take any action and to execute and deliver any and all documents as may be necessary or desirable to facilitate the purposes of these Resolutions, provided, however, that the execution of any loan documents or other evidence of indebtedness by which the Borrower incurs any debt liability and any binding contracts for the purchase of real property (including condominium units) by the Borrower shall require the approval of the Board.

FURTHER RESOLVED: That the Board hereby authorizes, ratifies, confirms, and approves all actions of the Borrower and all actions of all officers and management of the Borrower previously taken on behalf of the Borrower in connection with the Project.

FURTHER RESOLVED: That the officers of the Borrower are authorized and empowered to perform all other acts and to do all other things as they, from time to time, deem necessary, desirable, advisable, or appropriate in the best interest of the Borrower to implement and carry out the intent and purpose of these Resolutions and to complete the Project.

FURTHER RESOLVED: These Resolutions shall be effective as of _________, 2004.

GENBUS/260231.1

WASHINGTON OFFICE
Occupancy Expense Analysis

Bank OPTION / **SUMMARY**	**VALUE**		**LEASE**	**BUY** Suntrust	**BUY** Wachovia	**BUY** Bank of America
PURCHASE PROPERTY	3,400,000.00					
PARKING SPACES(5)	200,000.00					
TENANT IMPROVEMENTS	450,000.00					
FURNITURE/EQUIPMENT	125,000.00					
FEES	200,000.00					
CAPITALIZED CONSTRUCTION INTEREST	112,500.00					
TOTAL	4,487,500.00	Int. Lost				
		0.07				
DOWNPAYMENT	1,000,000.00	70,000.00				
DEBT	3,487,500.00					
SQUARE FOOT			8,800	10,000	10,000	10,000
OPERATING EXPENSE PER SQ FT incldg taxes	7.10					
CONDO FEES	4.40					
BUILD OUT SQ FT	45.00					
CURRENT RENTAL			370,000.00			
CONDO FEES				44,000.00	44,000.00	44,000.00
OPERATING EXPENSES including taxes				71,000.00	71,000.00	71,000.00
LCC+Fees				17,786.25	26,156.25	22,668.75
DEPRECIATION				139,166.67	139,166.67	139,166.67
DEBT SERVICE INTEREST				103,719.43	116,483.29	109,754.54
TOTAL OCCUPANCY/OPERATING EXPENSE			**370,000.00**	**375,672.34**	**396,806.20**	**386,589.96**
DEBT SERVICE PRINCIPLE				$128,903.77	$123,977.92	$126,556.85
TOTAL ALL COSTS			**370,000.00**	**479,391.77**	**513,289.49**	**496,344.50**
COST PER SQ FT			42.05	47.94	51.33	49.63

WASHINGTON OFFICE
Occupancy Expense Analysis

Bank **SunTrust**					
OPTION	**VALUE**		**LEASE**	**BUY**	
PURCHASE PROPERTY	3,400,000.00				
PARKING SPACES(5)	200,000.00				
TENANT IMPROVEMENTS	450,000.00				
FURNITURE/EQUIPMENT	125,000.00				
FEES	200,000.00				
CAPITALIZED CONSTRUCTION INTEREST	112,500.00				
TOTAL	4,487,500.00	Int. Lost			
		0.07			
DOWNPAYMENT	1,000,000.00	70,000.00			
DEBT	3,487,500.00				
SQUARE FOOT			8,800	10,000	
OPERATING EXPENSE PER SQ FT incldg taxes	7.10				
CONDO FEES	4.40				
BUILD OUT SQ FT	45.00				
CURRENT RENTAL			370,000.00		
CONDO FEES				44,000.00	
TAXES					
OPERATING EXPENSES				71,000.00	
LOC+Fees				17,786.25	
DEPRECIATION				139,166.67	
DEBT SERVICE INTEREST				103,719.43	
TOTAL OCCUPANCY EXPENSE			**370,000.00**	**375,672.34**	(5,672.34)
DEBT SERVICE PRINCIPLE				$128,903.77	
			370,000.00	**479,391.77**	(109,391.77)
COST PER SQ FT			42.05	47.94	

WASHINGTON OFFICE
Occupancy Expense Analysis

Bank **Wachovia**					
OPTION	VALUE		LEASE	BUY	
PURCHASE PROPERTY	3,400,000.00				
PARKING SPACES(5)	200,000.00				
TENANT IMPROVEMENTS	450,000.00				
FURNITURE/EQUIPMENT	125,000.00				
FEES	200,000.00				
CAPITALIZED CONSTRUCTION INTEREST	112,500.00				
TOTAL	4,487,500.00	Int. Lost			
		0.07			
DOWNPAYMENT	1,000,000.00	70,000.00			
DEBT	3,487,500.00				
SQUARE FOOT			8,800	10,000	
OPERATING EXPENSE PER SQ FT incldg taxes	7.10				
CONDO FEES	4.40				
BUILD OUT SQ FT	45.00				
CURRENT RENTAL			370,000.00		
CONDO FEES				44,000.00	
OPERATING EXPENSES including taxes				71,000.00	
LOC+Fees				26,156.25	
DEPRECIATION				139,166.67	
DEBT SERVICE INTEREST				116,483.29	
TOTAL OCCUPANCY EXPENSE			**370,000.00**	**396,806.20**	(26,806.20)
DEBT SERVICE PRINCIPLE				$123,977.92	
			370,000.00	**513,289.49**	(143,289.49)
COST PER SQ FT			42.05	51.33	

WASHINGTON OFFICE
Occupancy Expense Analysis

Bank **Bank of America**					
OPTION	**VALUE**		**LEASE**	**BUY**	
PURCHASE PROPERTY	3,400,000.00				
PARKING SPACES(5)	200,000.00				
TENANT IMPROVEMENTS	450,000.00				
FURNITURE/EQUIPMENT	125,000.00				
FEES	200,000.00				
CAPITALIZED CONSTRUCTION INTEREST	112,500.00				
TOTAL	4,487,500.00	Int. Lost			
		0.07			
DOWNPAYMENT	1,000,000.00	70,000.00			
DEBT	3,487,500.00				
SQUARE FOOT			8,800	10,000	
OPERATING EXPENSE PER SQ FT incldg taxes	7.10				
CONDO FEES	4.40				
BUILD OUT SQ FT	45.00				
CURRENT RENTAL			370,000.00		
CONDO FEES				44,000.00	
TAXES					
OPERATING EXPENSES				71,000.00	
LOC+Fees				22,668.75	
DEPRECIATION				139,166.67	
DEBT SERVICE INTEREST				109,754.54	
TOTAL OCCUPANCY EXPENSE			**370,000.00**	**386,589.96**	(16,589.96)
DEBT SERVICE PRINCIPLE				$126,556.85	
			370,000.00	**498,344.50**	(128,344.50)
COST PER SQ FT			42.05	49.63	

Amortization Schedule, mortgage style

			Bank	SunTrust			
			Fee	LOC	Remktg	Trustee	Total
Loan Amount		**$3,487,500.00**		0.49		0.02	0.0051
Annual rate		**3.025%**					
Base rate	0.029						
Remarketng F	0.00125			Base rate			3.025%
Term in years		**20.00**					
Year when Loan originates		**2005**		Total All in rate			3.535%
# of payments in Year One		12.00					
# of months short of Term in years		0.00					
Interest Calculation Method (360/365)		360.00					
Term in months		240.00					
Payment (P & I), monthly		**19,385.27**					
Payment (P & I), annual		**232,623.19**					

Year	Interest payment	Principal payment	Annual payment	Principal balance, year-end	LOC+Fees
Principal balance as of the closing date				**$3,487,500.00**	$17,786.25
2005	$103,719.43	$128,903.77	$232,623.19	$3,358,596.23	$17,128.84
2006	$99,765.57	$132,857.62	$232,623.19	$3,225,738.61	$16,451.27
2007	$95,690.43	$136,932.76	$232,623.19	$3,088,805.85	$15,752.91
2008	$91,490.30	$141,132.89	$232,623.19	$2,947,672.96	$15,033.13
2009	$87,161.34	$145,461.85	$232,623.19	$2,802,211.11	$14,291.28
2010	$82,699.60	$149,923.60	$232,623.19	$2,652,287.51	$13,526.67
2011	$78,101.00	$154,522.19	$232,623.19	$2,497,765.32	$12,738.60
2012	$73,361.35	$159,261.85	$232,623.19	$2,338,503.47	$11,926.37
2013	$68,476.32	$164,146.88	$232,623.19	$2,174,356.60	$11,089.22
2014	$63,441.45	$169,181.74	$232,623.19	$2,005,174.85	$10,226.39
2015	$58,252.14	$174,371.05	$232,623.19	$1,830,803.80	$9,337.10
2016	$52,903.67	$179,719.52	$232,623.19	$1,651,084.28	$8,420.53
2017	$47,391.14	$185,232.05	$232,623.19	$1,465,852.23	$7,475.85
2018	$41,709.53	$190,913.66	$232,623.19	$1,274,938.57	$6,502.19
2019	$35,853.65	$196,769.55	$232,623.19	$1,078,169.02	$5,498.66
2020	$29,818.14	$202,805.05	$232,623.19	$875,363.98	$4,464.36
2021	$23,597.51	$209,025.68	$232,623.19	$666,338.30	$3,398.33
2022	$17,186.08	$215,437.11	$232,623.19	$450,901.19	$2,299.60
2023	$10,577.99	$222,045.20	$232,623.19	$228,855.98	$1,167.17
2024	$3,767.21	$228,855.98	$232,623.19	$0.00	$0.00
2025	$0.00	$0.00	$0.00	$0.00	$0.00
2026	$0.00	$0.00	$0.00	$0.00	$0.00
2027	$0.00	$0.00	$0.00	$0.00	$0.00
2028	$0.00	$0.00	$0.00	$0.00	$0.00
2029	$0.00	$0.00	$0.00	$0.00	$0.00
2030	$0.00	$0.00	$0.00	$0.00	$0.00
2031	$0.00	$0.00	$0.00	$0.00	$0.00
2032	$0.00	$0.00	$0.00	$0.00	$0.00
2033	$0.00	$0.00	$0.00	$0.00	$0.00
2034	$0.00	$0.00	$0.00	$0.00	$0.00
2035	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$1,164,963.85**	**$3,487,500.00**	**$4,652,463.85**		$0.00

Amortization Schedule, mortgage style

		Bank Fee	Wachovia LOC	Remktg	Trustee	Total	
			0.75	0	0	0.0075	
Loan Amount		**$3,487,500.00**					
Annual rate		**3.395%**					
Base rate	0.0327						
Bond fee	0.00125		Base rate			3.395%	
Term in years		**20.00**					
Year when Loan originates		**2005**	Total All in rate			4.145%	
# of payments in Year One		12.00					
# of months short of Term in years		0.00					
Interest Calculation Method (360/365)		360.00					
Term in months		240.00					
Payment (P & I), monthly		**20,038.43**					
Payment (P & I), annual		**240,461.20**					

Year	Interest payment	Principal payment	Annual payment	Principal balance, year-end	LOC+Fees
Principal balance as of the closing date				$3,487,500.00	$26,156.25
2005	$116,483.29	$123,977.92	$240,461.20	$3,363,522.08	$25,226.42
2006	$112,208.12	$128,253.08	$240,461.20	$3,235,269.00	$24,264.52
2007	$107,785.53	$132,675.67	$240,461.20	$3,102,593.33	$23,269.45
2008	$103,210.44	$137,250.76	$240,461.20	$2,965,342.57	$22,240.07
2009	$98,477.58	$141,983.62	$240,461.20	$2,823,358.95	$21,175.19
2010	$93,581.52	$146,879.68	$240,461.20	$2,676,479.27	$20,073.59
2011	$88,516.62	$151,944.58	$240,461.20	$2,524,534.69	$18,934.01
2012	$83,277.07	$157,184.13	$240,461.20	$2,367,350.56	$17,755.13
2013	$77,856.85	$162,604.35	$240,461.20	$2,204,746.21	$16,535.60
2014	$72,249.71	$168,211.49	$240,461.20	$2,036,534.72	$15,274.01
2015	$66,449.23	$174,011.97	$240,461.20	$1,862,522.75	$13,968.92
2016	$60,448.72	$180,012.48	$240,461.20	$1,682,510.27	$12,618.83
2017	$54,241.30	$186,219.90	$240,461.20	$1,496,290.37	$11,222.18
2018	$47,819.83	$192,641.37	$240,461.20	$1,303,649.00	$9,777.37
2019	$41,176.92	$199,284.28	$240,461.20	$1,104,364.72	$8,282.74
2020	$34,304.94	$206,156.26	$240,461.20	$898,208.46	$6,736.56
2021	$27,195.99	$213,265.21	$240,461.20	$684,943.25	$5,137.07
2022	$19,841.91	$220,619.29	$240,461.20	$464,323.96	$3,482.43
2023	$12,234.23	$228,226.97	$240,461.20	$236,096.99	$1,770.73
2024	$4,364.21	$236,096.99	$240,461.20	$0.00	$0.00
2025	$0.00	$0.00	$0.00	$0.00	$0.00
2026	$0.00	$0.00	$0.00	$0.00	$0.00
2027	$0.00	$0.00	$0.00	$0.00	$0.00
2028	$0.00	$0.00	$0.00	$0.00	$0.00
2029	$0.00	$0.00	$0.00	$0.00	$0.00
2030	$0.00	$0.00	$0.00	$0.00	$0.00
2031	$0.00	$0.00	$0.00	$0.00	$0.00
2032	$0.00	$0.00	$0.00	$0.00	$0.00
2033	$0.00	$0.00	$0.00	$0.00	$0.00
2034	$0.00	$0.00	$0.00	$0.00	$0.00
2035	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$1,321,724.01**	**$3,487,500.00**	**$4,809,224.01**		$0.00

Amortization Schedule, mortgage style

Bank Fee	Bank of America LOC	Remktg	Trustee	Total	
	0.65	0	0	0.0065	

Loan Amount		**$3,487,500.00**
Annual rate		**3.200%**
Base rate	0.0307	
Remarketng F	0.0013	
Term in years		**20.00**
Year when Loan originates		**2005**
# of payments in Year One		12.00
# of months short of Term in years		0.00
Interest Calculation Method (360/365)		360.00
Term in months		240.00
Payment (P & I), monthly		**19,692.62**
Payment (P & I), annual		**236,311.39**

Base rate	3.200%
Total All in rate	3.850%

Year	Interest payment	Principal payment	Annual payment	Principal balance, year-end	LOC+Fees
Principal balance as of the closing date				$3,487,500.00	$22,668.75
2005	$109,754.54	$126,556.85	$236,311.39	$3,360,943.15	$21,846.13
2006	$105,644.80	$130,666.60	$236,311.39	$3,230,276.55	$20,996.80
2007	$101,401.59	$134,909.80	$236,311.39	$3,095,366.74	$20,119.88
2008	$97,020.59	$139,290.80	$236,311.39	$2,956,075.94	$19,214.49
2009	$92,497.33	$143,814.07	$236,311.39	$2,812,261.88	$18,279.70
2010	$87,827.18	$148,484.22	$236,311.39	$2,663,777.66	$17,314.55
2011	$83,005.37	$153,306.02	$236,311.39	$2,510,471.63	$16,318.07
2012	$78,026.98	$158,284.41	$236,311.39	$2,352,187.22	$15,289.22
2013	$72,886.93	$163,424.47	$236,311.39	$2,188,762.76	$14,226.96
2014	$67,579.96	$168,731.43	$236,311.39	$2,020,031.32	$13,130.20
2015	$62,100.65	$174,210.74	$236,311.39	$1,845,820.58	$11,997.83
2016	$56,443.42	$179,867.98	$236,311.39	$1,665,952.61	$10,828.69
2017	$50,602.47	$185,708.93	$236,311.39	$1,480,243.68	$9,621.58
2018	$44,571.84	$191,739.55	$236,311.39	$1,288,504.13	$8,375.28
2019	$38,345.38	$197,966.01	$236,311.39	$1,090,538.12	$7,088.50
2020	$31,916.73	$204,394.67	$236,311.39	$886,143.45	$5,759.93
2021	$25,279.31	$211,032.08	$236,311.39	$675,111.37	$4,388.22
2022	$18,426.36	$217,885.04	$236,311.39	$457,226.33	$2,971.97
2023	$11,350.86	$224,960.54	$236,311.39	$232,265.80	$1,509.73
2024	$4,045.60	$232,265.80	$236,311.39	$0.00	$0.00
2025	$0.00	$0.00	$0.00	$0.00	$0.00
2026	$0.00	$0.00	$0.00	$0.00	$0.00
2027	$0.00	$0.00	$0.00	$0.00	$0.00
2028	$0.00	$0.00	$0.00	$0.00	$0.00
2029	$0.00	$0.00	$0.00	$0.00	$0.00
2030	$0.00	$0.00	$0.00	$0.00	$0.00
2031	$0.00	$0.00	$0.00	$0.00	$0.00
2032	$0.00	$0.00	$0.00	$0.00	$0.00
2033	$0.00	$0.00	$0.00	$0.00	$0.00
2034	$0.00	$0.00	$0.00	$0.00	$0.00
2035	$0.00	$0.00	$0.00	$0.00	$0.00
Total	**$1,238,727.88**	**$3,487,500.00**	**$4,726,227.88**		$0.00

SAMPLE CLOSING SCHEDULE
Appropriate Development Authority
Revenue Bonds
(Company Project), Series 2004

Letter of Credit Backed Approach

DATE	TASK	RESPONSIBLE PARTY
Week 1	Company approves financing plan by adopting a Bond Resolution.	B
	Working group assembled including: Borrower's Counsel, Bond Counsel, Bank and Underwriter's Counsel.	All
	Respective Counsel begins drafting financing documents.	BC, UC
	Bond/Underwriter's Counsel contacts issuing Authority to schedule resolution at next meeting.	BC, UC
Week 2 & 3	Distribute first draft of bond and bank documents to working group for review.	BC, UC
	Working group conference call to review and discuss documents.	All
Week 4	Distribute second draft of bond and bank documents to the working group and rating agencies.	BC, UC
Week 5	Working group conference call to finalize all documents.	All
Week 6	Rating for bonds received from rating agencies.	U
Week 7 & 8	Issuing Authority meets to adopt bond resolution approving issuance of bonds.	BC, DA
	TEFRA approval obtained.	BC
Week 9	Pre-closing conference call among working groups to confirm readiness to close.	All
	Print and distribute final official statement.	U, UC
Week 10	Pre-closing to take place at Bond Counsel's office.	All
	Closing and sale of bonds, Borrower receives proceeds.	All

Key: B - Borrower; BC – Bond Counsel; DA – Development Authority; U – Underwriter; UC – Underwriter Counsel