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Tax Exempt Bond Provisions

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THIRTY-SECOND
WILLIAM AND MARY
TAX CONFERENCE

A Special Program on
Tax Reform -- 1986

TAX-EXEMPT BOND PROVISIONS

Conference Center of the
Fort Magruder Inn
Williamsburg, Virginia

Friday-Saturday, December 5-6, 1986

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TAX-EXEMPT BOND PROVISIONS

I. INTRODUCTION

The Tax Reform Act of 1986 substantially rewrites the rules governing tax-exempt bonds. The changes fall into several broad categories. First, bonds issued by state and political subdivisions are divided into "governmental use bonds" and "private activity bonds", with the test for tax-exempt status as a governmental use bond being substantially tougher than under prior law. Private activity bonds will be taxable unless they fit into one of the designated categories of "qualified private activity bonds". A number of project types previously included in the list of activities financeable through tax-exempt bonds have been eliminated from the definition of qualified private activity bonds under the new Act. Those qualified private activity bonds remaining are subjected to more stringent requirements and limitations than under prior law. One significant exception is the treatment of qualified 501(c)(3) bonds which, though subject to more requirements than under prior law, are generally treated much more favorably than other qualified private activity bonds. Certain new requirements apply to all bonds -- governmental use, private activity, and qualified 501(c)(3). The amount of private activity bond limit ("cap") available for allocation to qualified private activity bonds has been greatly reduced, and the types of bonds for which an allocation is required have been dramatically increased. Finally, changes other than in the sections directly dealing with tax-exempt bonds of the Tax Code will reduce the advantages of tax-exempt bonds to the holders.

II. NEW "GOVERNMENTAL USE BOND" TESTS

- A. No more than 10% of the facility may be used in the trade or business carried on by a person other than a governmental unit. (Existing law permits 25% private business use.)
- B. No more than 10% of the debt service on the bond can be secured by an interest in property used for a private business use or paid directly or indirectly by private persons. (Twenty-five percent was allowed under prior law.)
- C. No more than 5% of the proceeds of the bond issue can be used for a purpose unrelated to the governmental use of the proceeds.

- D. New rules for determining when a management contract triggers a determination that the facility is being used in the trade or business of the management company.

III. **ACTIVITIES NO LONGER FINANCEABLE WITH QUALIFIED PRIVATE ACTIVITY BONDS**

- A. No "commercial facilities" (anything which is not "manufacturing") after December 31, 1986 sunset:
 - 1. Hotels;
 - 2. Medical office buildings;
 - 3. Nursing homes, hospitals and other health care facilities operated on a for-profit basis;
 - 4. Office buildings;
 - 5. Shopping centers.
- B. No manufacturing facilities after December 31, 1989 sunset.
- C. Elimination of certain exempt facilities. Unless they can qualify as governmental use bonds, sports facilities, convention and trade show facilities, parking facilities, industrial parks and pollution control facilities will not qualify. Airports, dock and wharves and mass commuting facilities may only be financed if owned by a governmental unit. Multi-family housing projects are still financeable, but are subject to stringent new restrictions and must obtain a cap allocation. (See below.)
- D. New qualifying categories are created for redevelopment bonds and hazardous waste disposal bonds. Qualified redevelopment bonds are those at least 95% of the proceeds of which are used for specified redevelopment purposes (acquisition of real property, clearing and preparation of land, rehabilitation of real property, and relocation of occupants of acquired real property) in a "designated blighted area", designated by the local general purpose governmental unit in the jurisdiction. To qualify,

the bonds must be secured by a pledge of tax revenues.

IV. NEW RULES APPLICABLE TO QUALIFIED PRIVATE ACTIVITY BONDS

- A. Two Percent Test. No more than 2% of bond proceeds may be used to pay the costs of issuance. Issuance costs will probably include issuer fees, underwriter's discount (whether directly realized or derived through sale of the bonds at a price lower than the price at which the underwriter is expected to sell to the public), counsel fees, financial advisor fees, rating agency fees, trustees' fees, accounting fees, printing costs and other disbursements. Credit enhancement fees should not be included unless more is charged than what would be reasonable for the transfer of the credit risk -- that is, the credit enhancement fees should not be pumped up to hide issuance costs less the entire credit enhancement fee might be treated as an issuance cost.
- B. Ninety-Five Percent Test. No more than 5% of bond proceeds may be used for so-called "bad money" or non-qualifying purposes (down from 10% under prior law).
- C. Multi-Family Restrictions. New requirements for multi-family housing bonds. A "qualified residential rental project" must meet the following requirements:
1. 40% or more of the units are occupied by persons having incomes of 60% or less of the area median gross income or
 2. Twenty percent or more of the units are occupied by persons having incomes of 50% or less of the area gross median income.

An apparently irrevocable election must be made by the issuer at the time the bonds are issued, and the requirement, unlike prior law, appears to be satisfied only by actual occupancy. Median gross income must be determined in a manner consistent with Section 8, including adjustments for family size. Income qualification determinations must be made at least annually

on the basis of the tenant's current income, rather than, under existing law, the tenant's income at initial occupancy. To avoid a requirement that a tenant be evicted to attain compliance, a continuing resident will remain a qualified resident unless the resident's income exceeds 140% of the applicable limit and a unit of comparable or smaller size becomes available and is occupied by a new resident who does not qualify.

More liberal rules apply to a deep-rent skewed project in which 15% of the 20% or 40% units required to be occupied by low-income tenants make less than 40% of the area median gross income.

3. The minimum qualified project period, for which the income restrictions are maintained and the project is kept as rental property, has been lengthened from 10 to 15 years. The period is measured from the first day on which 10% of the units are occupied and ends on the latter of the date 15 years after the date on which 50% of the units are occupied, the first day on which no bond is outstanding, or the date on which any Section 8 assistance terminates.
 4. The operator of the project must certify compliance annually. Failure to meet this requirement will not cause interest on the bonds to become taxable, but will cause a penalty under Section 6652(j) to be assessed against the developer.
- D. Arbitrage Rebate. The arbitrage rebate requirements, previously applicable only to small issue IDBs, will now be applied to all tax-exempt bonds. Generally, if bond proceeds are not spent within six months of the date of issuance, all arbitrage earnings except for up to \$100,000 of earnings accumulated in a bona fide debt service fund (a sinking fund established for the purpose of matching revenues and debt service payments and which is depleted at least annually) must be rebated to the Treasury.
- E. Change in Use. Under the Act, a change from qualifying use to a nonqualifying use will result

in the loss of the income tax deduction for rent, interest, etc. paid by the person using the bond-financed facility. 501(c)(3) organizations will realize unrelated business income with respect to any such use. Applies (prospectively) to multi-family housing bonds where developer fails to meet tenant income requirements.

V. SMALLER VOLUME CAP, MORE BONDS INCLUDED

A unified volume cap of \$75 per capita will apply for the balance of 1986 and 1987. After December 31, 1987, the volume cap will drop to \$50 per capita. Included in the cap are all bonds other than governmental use bonds, qualified 501(c)(3) bonds, and bonds used to finance publicly-owned airports, docks and wharves and solid waste disposal facilities. Major additions to the list of bonds included in the volume cap are multi-family housing bonds, student loan bonds and qualified mortgage bonds. The statistics from prior years of bond issuance in Virginia afford a feel for the impact of the new cap. 1985 issuances of single family mortgage bonds aggregated \$470.4 million, for multi-family housing bonds, \$1,233.6 million, and for industrial development bonds, \$845.4 million. \$75 per capita comes to about \$427 million, and \$50 per capita approximately \$285 million.

VI. PROVISIONS NOT IN SECTION 103 WHICH AFFECT BONDS AND BONDHOLDERS

- A. Alternative Minimum Tax: Interest on qualified private activity bonds (excluding qualified 501(c)(3) bonds) is a preference item for corporations and individuals, effective for bonds issued after August 7, 1986. All other bonds are included in book income preference for corporations only.
- B. Loss of Cost of Carry Deduction. Deduction for interest on debt incurred by financial institutions to purchase or carry tax-exempt obligations is disallowed. Prior law allowed 80%. Effective for bonds acquired after August 7, 1986. \$10,000,000 per issuer exception for qualified 501(c)(3) bonds and governmental use bonds.
- C. Reduction of Reserve Deduction for Property and Casualty Insurance Companies. Reserve deduction is reduced by 15% of tax-exempt income and the deductible portions of dividends received. Affects

stocks and bonds acquired after August 7, 1986.

- D. Depreciation. Straight line depreciation over ADR midpoint life required if bond-financed. Residential rental property financed with tax-exempt bonds has been lengthened to 27.5 years (from 19 years under prior law). Other tax-exempt financed real property must be depreciated over 40 years.
- E. Tax Credit. Tax credit for low-income housing provided annually for ten years from new construction and rehabilitation expenditures; 4% per year if use bonds; 9% per year if financed conventionally. Credit applies only to low income units. In addition to having to meet the 20%/50% or 40%/60% low income set-aside requirements set forth above, rents on low income units may not exceed 30% of the applicable income limit.
- F. Reporting Requirements. New requirement that tax-exempt interest be reported on tax returns filed after December 31, 1987.
- G. Reduction in Tax Rates. Reductions in marginal tax rates may reduce the after-tax yield of tax-exempt obligations for bondholders.

VII. EFFECTIVE DATES

As a general rule, the Act applies to all bonds issued after August 15, 1986. Transitional rules exempt projects induced before September 25, 1985 if (1) construction commenced before September 26, 1985, (2) a binding contract to incur significant construction expenditures were entered into before September 26, 1985, or (3) a binding contract to acquire were entered into prior to September 26, 1985.

The following provisions of the Act apply without regard to the transitional rule exceptions:

the 5% test, the 2% test, the arbitrage rebate requirement, and the change in use provisions.

VIII. REFUNDINGS

Bonds issued to currently refund bonds issued before August 15, 1986 are generally exempt from the new tax-exempt

bond provisions provided that (1) the principal amount of the refunding bonds does not exceed the outstanding principal amount of the prior bonds, and (2) either (a) the weighted average maturity of the refunding bonds does not exceed 120% of the weighted average reasonably expected economic life of the facilities in question, or (b) the maturity of the refunding bonds does not exceed 17 years after the date of issuance of the prior bonds. Such refunding bonds, however, will be subject to the 2% limit, the arbitrage requirements, and the change in use provisions.

Qualified refunding bonds are further exempt from the alternative minimum tax.

- A. Housing Bonds. Qualified refundings of bonds issued before August 16, 1986 are generally grandfathered and do not have to comply with the volume cap, the new tenant income restrictions and longer qualified project period and family size adjustments applicable to multi-family housing bonds. The net proceeds of the refunding issue must be used to redeem the refunded bonds within ninety days from the date of issue of the refunding bonds.

- B. Commercial/Manufacturing Bonds. Refunding of bonds for commercial and manufacturing facilities after December 31, 1986 and December 31, 1989 is permitted, notwithstanding the respective sunset dates, if (1) the refunding issue has a maturity date not later than that of the refunded bonds (note different test), (2) the amount of the refunding issue does not exceed that of the refunded bonds, (3) the interest rate on the refunding issue is lower than that of the refunded bonds, and (4) the net proceeds of the refunding issue are used to redeem the refunded bonds within ninety days from the date from the issue of the refunding bonds (no advance refundings).

- C. Advance Refundings. An advance refunding bond (an obligation issued to refund another obligation more than 90 days prior to the redemption of the refunded obligation) may not be issued to a private activity bond other than a qualified 501(c)(3) private activity bond. The refunding bond must be either (a) the first advance refunding bond of the original bond if the original bond were issued after January 1, 1986, or (b) the first or second advance refunding of the original bond if the original bond were issued before

January 1, 1986.

IX. **TAXABLE BONDS AS A SUPPLEMENT OR ALTERNATIVE**

- A. Taxable bonds issued on parity with tax-exempts can fund issuance costs in excess of 2% limit, and bad money in excess of 5% limit. (See Appendix A.)
- B. Despite equivalent or higher rate of interest when credit enhancement fee is added than conventional financing, taxable bonds present certain advantages:
 - 1. Familiar lender who is easy to work with;
 - 2. Construction and permanent financing available;
 - 3. Fixed rate, long term;
 - 4. Wider variety of types and sizes of projects financeable.
- C. State tax exemption (See Appendix B.)
- D. GIC-backed pools. (See Appendix C.)
- E. Rate swaps.

APPENDIX A

In the opinion of Bond Counsel, under existing statutes, regulations, rulings and court decisions, interest on the Series 1986 A Bonds (but not the Series 1986 B Bonds) is exempt from all Federal income taxes upon the conditions and subject to the limitations stated in the section herein entitled "Exemption from Federal Taxation," except in the case of a "substantial user" of the Project described herein or a "related person" within the meaning of Section 103 (b) (13) of the Internal Revenue Code of 1954, as amended. In the opinion of Bond Counsel, if H.R. 3838, as passed by the United States House of Representatives on December 17, 1985, is enacted into law in its present form interest on the Series 1986 A Bonds will continue to be exempt from Federal income taxation under the provisions of such law, except that (i) interest on any Series 1986 A Bond held by individuals or corporations after December 31, 1985 may be subject to the alternative minimum tax imposed by H.R. 3838, and (ii) interest on any Series 1986 A Bond held by property and casualty insurance companies during tax years beginning after December 31, 1987, under H.R. 3838 may affect adversely the manner in which such companies calculate their taxable income for Federal income tax purposes. Further, under the United States Senate's version of H.R. 3838, passed on June 24, 1986, interest on any Series 1986 A Bonds held by corporations may adversely affect the calculation of taxable income by such corporations. In the opinion of Bond Counsel, under existing statutes, interest on the Series 1986 A Bonds and the Series 1986 B Bonds is exempt from income taxation by the Commonwealth of Virginia and any political subdivision thereof. See "Virginia Income Tax Exemption."

NEW ISSUE

RATING: A+

In the aggregate,

\$7,850,000

Chesapeake Redevelopment and Housing Authority

Multi-Family Housing Revenue Bonds — Series 1986

(Cedar Associates Project)

Consisting of

\$6,600,000

**Multi-Family Housing
Revenue Bonds
Series 1986 A**

\$1,250,000

**Multi-Family Housing
Revenue Bonds
Series 1986 B**

and

(Exempt as to Federal and Virginia income taxation)

(Exempt as to Virginia income taxation only)

Dated: July 1, 1986

Due: July 1, as shown below

The Series 1986 Bonds (collectively, the "Bonds") are limited obligations of the Authority issued for the purpose of making a loan to Cedar Associates, a Virginia limited partnership (the "Partnership"), to finance the acquisition, construction and equipping of a 272-unit apartment project in the City of Chesapeake, Virginia. The Bonds and the interest thereon are payable from revenues to be derived from a non-recourse promissory note delivered by the Partnership to the Authority in the principal amount of \$7,850,000 (the "Note") and are secured by an irrevocable stand-by letter of credit in the initial amount of \$8,162,000 (an amount equal to the aggregate principal amount of the Bonds plus 180 days' interest thereon) which expires January 1, 1997 (the "Letter of Credit") issued by

SOVRAN BANK, N.A.

a national banking association duly organized and validly existing under the laws of the United States of America (the "Bank"), in favor of Sovran Bank, N.A., as trustee (the "Trustee").

The Bonds are issuable in two series — the Series 1986 A Bonds (the "Series A Bonds") will be exempt from Federal and Virginia income taxation purposes, and the Series 1986 B Bonds (the "Series B Bonds") will be exempt from Virginia income taxation purposes only. The Bonds are issuable as fully registered bonds without coupons in the denomination of \$5,000 each or any integral multiple thereof and will bear interest payable each July 1 and January 1, commencing January 1, 1987, by check or draft mailed to the registered owner. Principal will be payable at the principal office of the Trustee. The Series A Bonds are subject to optional, extraordinary optional, mandatory redemption prior to maturity and purchase incident to remarketing as set forth herein. The Series B Bonds are subject to optional and extraordinary optional redemption as set forth herein.

INTEREST PAID OR ACCRUED ON THE SERIES B BONDS IS NOT EXEMPT FROM FEDERAL INCOME TAXATION AMOUNTS, MATURITIES AND RATES

\$6,600,000	7 3/4%	Series 1986 A Term Bonds due July 1, 2016
		(Mandatory purchase or redemption on July 1, 1996)
\$1,250,000	9.0%	Series 1986 B Term Bonds due July 1, 1996

Initial Public Offering Price: 100%
(plus accrued interest from July 1, 1986)

The Series A Bonds are subject to mandatory purchase by the Partnership or its designee, or mandatory redemption by the Authority if not so purchased, on each Remarketing Date (July 1, 1996, July 1, 2001, July 1, 2006 and July 1, 2011 each a "Remarketing Date"), at a price of par plus accrued interest. Any Series A Bond not delivered to the Trustee at least two (2) business days prior to a Remarketing Date shall be deemed lost and a new Series A Bond issued in place thereof, shall from such Remarketing Date cease to bear interest, shall not be entitled to any rights under, or be secured by, the Indenture, but shall have only the right to receive the amount due therefor as a result of purchase or redemption. See "The Bonds — Redemption of the Bonds — Mandatory Purchase or Redemption of the Series A Bonds on Remarketing Dates."

The Bonds are limited obligations of the Authority payable solely from the revenues and receipts specifically pledged therefor. Neither the commissioners of the Authority nor any persons executing the Bonds shall be liable personally on the Bonds by reason of the issuance thereof. The Bonds shall not be a debt of the City of Chesapeake, the Commonwealth of Virginia or any political subdivision thereof (other than the Authority), and neither the City of Chesapeake, the Commonwealth of Virginia nor any political subdivision thereof (other than the Authority) shall be liable thereon, nor in any event shall the Bonds be payable out of any funds or properties other than those of the Authority specifically pledged thereto. The Bonds shall not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. The Authority has no taxing power.

The Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to the approval of their validity by Willcox & Savage, P.C., Norfolk, Virginia, Bond Counsel, as described herein, and to certain other conditions. Certain legal matters will be passed upon by Graber & Knickerly, P.C., Williamsburg, Virginia, counsel to the Authority; by Willcox & Savage, P.C., Norfolk, Virginia, counsel to the Bank; by Thomas M. Ammons, III, Esquire, Virginia Beach, Virginia, counsel to the Partnership, and by Messrs. Hirschler, Fleischer, Weinberg, Cox & Allen, Richmond, Virginia, counsel to the Underwriter. It is expected that the Bonds in definitive form will be available for delivery in Richmond, Virginia, on or about August 14, 1986.

Craigie Incorporated

The date of this Official Statement is August 14, 1986.



COMMONWEALTH of VIRGINIA

*Department of Taxation
Richmond, Virginia 23282*

July 18, 1986

Mr. Robert R. Kaplan
Hirschler, Fleischer, Weinberg, Cox & Allen
P.O. Box 10
Richmond, VA 23202

Mr. Guy R. Fridell, III
Willcox & Savage, P.C.
1600 Sovran Center
Norfolk, VA 23510

Re: Request for ruling; income tax
Interest on obligations of a political subdivision

Dear Messrs. Kaplan and Fridell:

This is in response to your letter of July 14, 1986, requesting a ruling on the taxability of interest on bonds to be issued by your client, the Chesapeake Redevelopment and Housing Authority (the "Authority.") The Authority is a political subdivision of Virginia created under the Virginia Housing Authorities Law, Chapter 1, Title 36 of the Code of Virginia.

The Authority proposes to issue two series of bonds. Series A would be issued in such a manner that the interest on the bonds would be exempt from taxation under federal law. Series B bonds will not qualify for federal exemption. Therefore the interest on Series B bonds will be taxable under federal law and included in the bondholder's Federal Adjusted Gross Income (for individuals) or Federal Taxable Income (for corporations.) You request a ruling as to whether the interest on Series B bonds will qualify for the subtraction under §§ 58.1-322C2 and 58.1-402C2 for ". . . interest on obligations of this Commonwealth or of any political subdivision or instrumentality of this Commonwealth."

Messrs. Kaplan and Fridell
Page 2
July 18, 1986

DETERMINATION

The regulations under the two sections of the Virginia Code cited above treat the subtraction for interest on U.S. obligations and Virginia obligations in a similar manner. See V.R. 630-2-322C2(a) and 630-3-402C1(a). However, upon careful analysis of the two subsections allowing the subtractions I conclude that the General Assembly intended that a different standard be applied to interest on U.S. obligations than to interest on Virginia obligations.

The subsection authorizing a subtraction for interest on U.S. obligations qualifies that subtraction by adding the clause ". . . to the extent exempt from state income taxes under the laws of the United States . . ." The subsection authorizing a subtraction for interest on Virginia obligations does not contain any such limitation. Compare subsections C1 and C2 of §§ 58.1-322 and 58.1-402.

I construe the subtraction for interest on U.S. obligations as applying only to interest which Virginia is prohibited from taxing under the U.S. Constitution and statutes. Therefore the Virginia regulations properly limit the subtraction for interest on U.S. obligations.

There is no prohibition against Virginia taxing the interest on its own obligations, however the General Assembly has chosen not to do so. The subsection authorizing a subtraction for obligations of Virginia, its political subdivisions and instrumentalities is not qualified in any way except that the interest must be included in Federal Adjusted Gross Income (for individuals) and Federal Taxable Income (for corporations.)

The Authority is clearly a political subdivision of Virginia. The Series B bonds will be issued pursuant to § 36-29 and will be obligations of the Authority. The interest will be included in Federal Adjusted Gross Income (for individuals) and Federal Taxable Income (for corporations.) Accordingly, I am of the opinion that the interest on the Series B bonds will qualify for the subtraction under §§ 58.1-322C2 and 58.1-402C2.

Sincerely,


W. H. Forst
Tax Commissioner

APPENDIX C

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RESOLUTION OF INTENT
OF THE
HAMPTON REDEVELOPMENT AND HOUSING AUTHORITY
REGARDING THE ISSUANCE OF ECONOMIC, COMMERCIAL
AND RESIDENTIAL DEVELOPMENT ASSISTANCE REVENUE BONDS

WHEREAS, there has been presented to the Hampton Redevelopment and Housing Authority (the "Authority") by and on behalf of Drexel Burnham Lambert Incorporated and Craigie Incorporated (collectively, the "Underwriters") a plan of financing involving the issuance of the Authority's Economic, Commercial, and Residential Development Assistance Revenue Bonds (the "Bonds") in a principal amount not to exceed \$400,000,000 to provide funds to the Authority to loan to private enterprises to finance the cost of facilities approved by the Authority and to provide funds to enable the Authority to retire bonds previously issued by it; and

WHEREAS, the Underwriters have described to the Authority the benefits which the plan of financing and the issuance of the Bonds will bring to the City of Hampton and other cities and counties in the Commonwealth of Virginia; and

WHEREAS; the Authority believes that the plan of finance described to it by the Underwriters and the issuance of the Bonds in an amount not to exceed \$400,000,000 will benefit the inhabitants of the Commonwealth of Virginia through the increase of their welfare, commerce and prosperity.

NOW, THEREFORE, BE IT RESOLVED BY THE HAMPTON REDEVELOPMENT AND HOUSING AUTHORITY:

1. The Authority finds and determines that the issuance of the Bonds in an amount not to exceed \$400,000,000 by the Authority to provide funds to the Authority to loan to private enterprises to finance the cost of facilities approved by the Authority and to provide funds to enable the Authority to retire bonds previously issued by it will be of benefit to the inhabitants of the Commonwealth of Virginia and will be consistent with the general purposes of the Authority and the Virginia Housing Authorities Law, Chapter 1, Title 36 of the Code of Virginia of 1950, as amended.

2. The Authority hereby directs the Underwriters to proceed in developing the plan of finance, including terms, rates of interest and other financial details, and to present the same to the Authority as soon as possible for the Authority's consideration and approval. In connection with the issuance of the Bonds, the Authority hereby appoints Drexel Burnham

APPENDIX C

Page 2 of 4

Lambert Incorporated and Craigie Incorporated as co-underwriters for the issuance of the Bonds. The Bonds will be guaranteed or otherwise secured as required by the Underwriters and as approved by the Authority.

3. The Authority appoints the firm of Willcox & Savage, P.C. as Bond Counsel to supervise the proceedings and approve the issuance of the Bonds.

4. All costs and expenses in connection with the financing of the issuance of the Bonds will be paid from the proceeds of the Bonds. It has been represented to the Authority that should the plan of finance not be approved by the Authority and should no Bond Purchase Agreement be executed and delivered by the Authority for any reason, the Authority shall have no liability whatsoever to the Underwriters for any services rendered in connection with their preparation of the plan of financing or to Willcox & Savage, P.C., as Bond Counsel, for any services rendered in connection with their preparation of the plan of financing.

5. The Authority shall perform such other acts and adopt such other proceedings as may be required to implement its undertakings as herein set forth. Prior to the issuance and delivery of the Bonds, there shall be submitted to the Authority for its approval a Bond Resolution approving (a) the issuance of the Bonds, and (b) such other documents as may be necessary in the opinion of Bond Counsel to complete the transaction.

ADOPTED THIS 22nd DAY OF OCTOBER, 1986.

HAMPTON REDEVELOPMENT AND
HOUSING AUTHORITY

By: _____
Chairman

ATTEST:

Secretary

APPENDIX C

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RESOLUTION OF INTENT
OF THE
PENINSULA PORTS AUTHORITY OF VIRGINIA
REGARDING THE ISSUANCE OF ECONOMIC AND
COMMERCIAL DEVELOPMENT ASSISTANCE REVENUE BONDS

WHEREAS, there has been presented to the Peninsula Ports Authority of Virginia (the "Authority") by and on behalf of Drexel Burnham Lambert Incorporated and Craigie Incorporated (collectively, the "Underwriters") a plan of financing involving the issuance of the Authority's Economic and Commercial Development Assistance Revenue Bonds (the "Bonds") in a principal amount not to exceed \$400,000,000 to provide funds to the Authority to enable it to finance the cost of Authority facilities for lease or sale to private enterprises approved by the Authority and to provide funds to enable the Authority to retire bonds previously issued by it; and

WHEREAS, the Underwriters have described to the Authority the benefits which the plan of financing and the issuance of the Bonds will bring to the Cities of Hampton, Newport News, Poquoson and Williamsburg and the Counties of James City and York; and

WHEREAS, the Authority believes that the plan of finance described to it by the Underwriters and the issuance of the Bonds in an amount not to exceed \$400,000,000 will benefit the inhabitants of the Commonwealth of Virginia through the increase of their welfare, commerce and prosperity.

NOW, THEREFORE, BE IT RESOLVED BY THE PENINSULA PORTS AUTHORITY OF VIRGINIA:

1. The Authority finds and determines that the issuance of the Bonds in an amount not to exceed \$400,000,000 by the Authority to provide funds to the Authority to enable it to finance the cost of Authority facilities for lease or sale to private enterprises approved by the Authority and to provide funds to enable the Authority to retire bonds previously issued by it will be of benefit to the inhabitants of the Commonwealth of Virginia and will be consistent with the general purposes of the Authority and Chapter 46 of the Act of Assembly of 1952, as amended.

2. The Authority hereby directs the Underwriters to proceed in developing the plan of finance, including terms, rates of interest and other financial details, and to present the same to the Authority as soon as possible for the Authority's consideration and approval. In connection with the issuance of the Bonds, the Authority hereby appoints Drexel Burnham

APPENDIX C

Page 4 of 4

Lambert Incorporated and Craigie Incorporated as co-underwriters for the issuance of the Bonds. The Bonds will be guaranteed or otherwise secured as required by the Underwriters and as approved by the Authority.

3. The Authority appoints the firm of Willcox & Savage, P.C. as Bond Counsel to supervise the proceedings and approve the issuance of the Bonds.

4. All costs and expenses in connection with the financing of the issuance of the Bonds will be paid from the proceeds of the Bonds. It has been represented to the Authority that should the plan of finance not be approved by the Authority and should no Bond Purchase Agreement be executed and delivered by the Authority for any reason, the Authority shall have no liability whatsoever to the Underwriters for any services rendered in connection with their preparation of the plan of financing or to Willcox & Savage, P.C., as Bond Counsel, for any services rendered in connection with their preparation of the plan of financing.

5. The Authority shall perform such other acts and adopt such other proceedings as may be required to implement its undertakings as herein set forth. Prior to the issuance and delivery of the Bonds, there shall be submitted to the Authority for its approval a Bond Resolution approving (a) the issuance of the Bonds, and (b) such other documents as may be necessary in the opinion of Bond Counsel to complete the transaction.

ADOPTED THIS ____ DAY OF _____, 1986.

PENINSULA PORTS AUTHORITY
OF VIRGINIA

By: _____
Chairman

ATTEST:

Secretary