

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
CONDUIT 501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	The Scripps Research Institute (TSRI) (Borrower)	Amount Requested:	Not to Exceed \$180,000,000
Applicant Description:	TSRI is a California nonprofit public benefit corporation that conducts biomedical research and educational training programs for scientists, and maintains a regular faculty and curriculum on behalf of a student body pursuing doctoral degrees.		
Type of Financing:	The Borrower requests issuance of \$180,000,000 in conduit Tax-exempt and Taxable Fixed Rate bonds (Bonds).		
Project Description:	The project (Project) consists of 1) refunding all of the Borrower's outstanding tax-exempt TSRI Series 2000, Series 2005A, and Series 2005B Bonds; 2) financing construction of approximately 190,000 sf of replacement laboratory space (New Construction); and 3) paying certain costs of issuance in connection with the issuance and sale of the Bonds.		
Project Site:	10590 John J. Hopkins Drive, San Diego, California; 10466 North Torrey Pines Road, 10596 North Torrey Pines Road, 10650 North Torrey Pines Road, and 10660 North Torrey Pines Road, La Jolla, California; 10620 John J. Hopkins Drive, 10630 John J. Hopkins Drive, 10640 John J. Hopkins Drive, and 3528 General Atomics Court, San Diego, California (All buildings are located in San Diego County)		
Plan of Finance:	IBank will issue up to \$180,000,000 in Bonds. The proceeds of the Tax-exempt Bonds will be used to (1) finance a portion of the cost of the New Construction, (2) refund the Series 2000 Bonds, the Series 2005A Bonds and the Series 2005B Bonds, and (3) pay costs of issuance and the Federally Taxable Revenue Bonds proceeds which be used to (a) finance a portion of the cost of the Project and (b) pay costs of issuance.		
Type of Issue:	Public Offering		
Tax Status:	Tax-exempt and Taxable		
Term:	30 years		
Credit Enhancement:	None		
Credit Rating:	Fitch Ratings [A+], Moody's A1		
Fees:	Application Fee \$1,500; Issuance Fee \$75,000 ;STO \$10,000; Annual Fee \$500/year		

Estimated Sources of Funds:			Estimated Uses of Funds:		
	Par Amount	\$166,260,000		Project Fund	\$122,000,000
	Bond Premium	\$13,740,000		Refunding Escrow Deposits:	
				Cash Deposit	\$32,260,000
				SLG Purchases	\$9,802,706
				Delivery Date Expenses:	
				Capitalized Interest Fund	\$13,085,555
				Cost of Issuance	567,310
				Underwriter's Deposit	856,019
				Contingency	1,428,410
TOTAL SOURCES		\$180,000,000	TOTAL USES		\$180,000,000
Financing Team:					
	Bond Counsel:	John R. Myers, Orrick, Herrington & Sutcliffe			
	Underwriter:	Merrill Lynch, Pierce, Fenner & Smith Inc.			
	Borrower's Counsel:	Anna Rienhardt, Esq. Latham & Watkins			
	Trustee:	U.S. Bank National Association			
Public Benefits:	The Project will enable TSRI to expand their research facilities in molecular medicine and chemical biology, provide an estimated net present value savings of over \$5,600,000 compared to existing debt service, and create approximately 400 new jobs.				
Date of Board Meeting:		Resolution Number:		Prepared by:	
May 24, 2016		16-13		John Weir	
Staff Recommendation: Staff recommends approval of Resolution No. 16-13 authorizing the issuance of Conduit, Tax-exempt and Taxable Fixed Rate Bonds, not to exceed \$180,000,000 for the benefit of The Scripps Research Institute.					

BACKGROUND AND HISTORY

TSRI, a non-profit public benefit corporation headquartered in La Jolla, California with a sister facility in Jupiter, Florida¹, is a nonprofit biomedical research organization with over 2700 scientists, technicians, graduate students and other staff. TSRI focuses on the creation of basic knowledge in the biosciences for the application of medical discoveries searching for fundamental scientific advances through interdisciplinary programs and collaborations and the education and training of researchers through its graduate and post-graduate education programs.

TSRI was founded by philanthropist Ellen Browning Scripps as the Scripps Metabolic Clinic in 1924. In 1955, Scripps Clinic and Research Foundation (SCRF) was established. TSRI, established as an operating division of SCRF, was incorporated separately and independently to assume SCRF's basic biomedical operations in 1991.

To carry out these operations, TRSI organization is comprised of twelve institutes and centers and thirteen academic departments dedicated to:

- Cancer Biology
- Cell and Microbial Science
- Chemical Physiology
- Chemistry
- Committee on the Neurobiology of Addictive Disorders
- Immunology and Microbial Science
- Integrative Structural and Computational Biology
- Infectious Diseases
- Metabolism and Aging
- Molecular and Cellular Neuroscience
- Molecular and Experimental Medicine
- Molecular Therapeutics
- Neuroscience

TSRI scientists have made recent breakthroughs in studies of Alzheimer's disease, HIV/AIDS, Cancer, Ebola Virus, Addiction, Parkinson's disease, and Multiple Sclerosis and Ulcerative Colitis.

Grants and contracts provided funding for a significant portion of TSRI's research activities. This revenue is derived primarily from the National Institutes of Health and other federal agencies. Gifts from individuals and private foundations also provide an important source of funding.

The California Secretary of State reports active status for the Borrower. TSRI leadership is listed in Appendix A.

¹ *The Scripps Florida campus and assets will not be pledged to and will not be used for payment of the Bonds.*

PROJECT DESCRIPTION

TSRI is requesting approval for the issuance of conduit tax-exempt and taxable bonds in an amount not to exceed \$180,000,000. The proceeds of the tax-exempt Series 2016 Bonds will be used to (1) finance a portion of the cost of the acquisition, construction, furnishing and equipping of the New Construction, (2) refund the Series 2000 Bonds, the Series 2005A Bonds and the Series 2005B Bonds, and (3) pay cost of issuance. The proceeds of the Federally Taxable Revenue Bonds will be used to (1) finance a portion of the cost of the Project and (2) paying costs of issuance.

The New Construction consists of, (i) approximately 190,000 square feet of replacement laboratory space to be located in two newly constructed buildings developed on existing TSRI plants in California (California Property) by the Borrower that is currently a parking lot and several smaller structures, including but not limited to the demolition and removal of such parking lot and existing parking and a new vivarium² and mass spectrometry core lab and related infrastructure; (ii) development of underground parking and a new approximately 715 space parking structure to serve the new buildings; (iii) deferred maintenance on California Property.

Environmental Review (CEQA)

Under the California Environmental Quality Act (CEQA), Projects cannot be scheduled for a decision or public hearing until either the project is determined to be exempt from CEQA or the appropriate environmental document has been distributed for public review and then finalized. The TSRI project was determined to be non-exempt due to its size, however it is likely to qualify for a Mitigated Negative Declaration (MND) per the Project Environment Engineer. TSRI has prepared a preliminary MND and will submit after the City of San Diego (City) approval of the Project's greenhouse gas emission study. The City needs to establish a method to determine greenhouse gas emission compliance per CEQA. TSRI anticipates that the City's Development Services Department (DSD) will present their proposed method of measurement for compliance for approval to the City and the Planning Commission in May 2016. If the method is accepted in May 2016, then the TSRI CEQA may receive approval in July or August 2016. TSRI has no other Environmental issues.

The TSRI project is also required to be reviewed by the DSD's Community Planning Group. Clearance of this item is dependent on the CEQA approval (Estimated date: July 2016).

² An enclosure for keeping and raising animals or plants for research.

Refunding and Defeasance of Prior Bonds:

TSRI is refunding the following bonds:

Bond Issue	Issue Amount	Outstanding as of December 1, 2015	Maturity Date	Purpose
Series 2000	\$16,000,000	\$10,980,000	July 1, 2030	Construction and equipping of the Dorris Neuroscience Center - Completed
Series 2005A	\$36,280,000	\$21,280,000	July 1, 2029	Construction and equipping of the Immunology Building - Completed
Series 2005B	\$8,150,000	\$8,150,000	July 1, 2023	Construction and equipping of the Immunology Building - Completed

The IBank Revenue Bonds (The Scripps Research Institute) Series 2000 Bonds, dated July 19, 2000 were issued to finance the construction and equipping of the Dorris Neuroscience Center which is fully completed.

The IBank Revenue Bonds (The Scripps Research Institute) Series 2005A (Tax-exempt) and Series 2005B Bonds (Federally Taxable), dated February 23, 2005 were issued to finance the construction and equipping of the Immunology Building which is fully completed. TSRI Series 2005B Bonds are not subject to optional redemption prior to July 1, 2019.

The Project is comprised of the following properties:

Immunology Building

10466 & 10596 North Torrey Pines Road
La Jolla, CA 92037

The Arnold and Mabel Beckman Center for Chemical Sciences Building

10650 & 10660 North Torrey Pines Road
La Jolla, CA 92037

Dorris Neuroscience Center Building

3528 General Atomics Court
San Diego, CA 92121

New Building Project

10590, 10620, 10630 & 10640 John J. Hopkins Drive
San Diego, CA 92121

(see Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet The Scripps Research Institute Date: May 24, 2016

Par Amount:	Not to exceed \$180,000,000, tax-exempt and/or taxable Bonds
Type of Offering:	Public Offering in one or more series or combinations
Underwriter:	Merrill Lynch, Pierce, Fenner and Smith Inc.
Expected Credit Rating:	Moody's Investors Service: A1 Fitch Ratings, Inc.: A+
True Interest Cost*:	True Interest Cost Not to exceed 4.5%
Maturity:	January 1, 2047
Collateral:	Absolute and unconditional pledge of payment by the Borrower (expecting therefrom property of the Borrower in Florida); restriction on encumbrances and disposition of property.
Expected Closing Date*:	June 29, 2016, subject to the Borrower obtaining all necessary approvals and permits required prior to the issuance of the Bonds, including compliance of the Project with the California Environmental Quality Act.
Conduit Transaction	The Bonds are a special, limited obligation payable solely from the payments made by the Borrower under the Transaction Documents, and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payments to be made pursuant to the Bonds.

*Please note that True Interest Cost and Closing Date are subject to change.

Plan of Finance

The Bonds will be secured by an Indenture and sold pursuant to a Bond Purchase Agreement. The proceeds of the Bonds will be loaned to Borrower pursuant to a Loan Agreement. The Bonds will be sold in a public offering through Merrill Lynch, Pierce, Fenner & Smith as fixed rate securities in two series; a Tax-Exempt 2016A and a Taxable 2016B. The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. The outstanding Series 2005B Bonds to be refunded are not subject to optional redemption until July 1, 2023. A portion of the Bonds will be deposited into an escrow account to defease the Series 2005B Bonds through July 1, 2023.

Limited Obligations of IBank

The Bonds are payable solely from and secured solely by the pledge of the Borrower's payments under the transaction documents. Neither IBank, nor any of the members of its Board of Directors, nor any of its officers or employees, nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

PUBLIC BENEFITS

TSRI's mission includes the development of understanding of human biology with a view towards improving the human condition around the world.

The construction of new laboratory facilities will include new state of the art instruments and facilitate the recruitment of new faculty. In addition to expanding research, the new facilities will reduce costs by eliminating the need for leased space. The new facilities will also provide about 400 new jobs and opportunity to spend a projected \$27 million in research. The new facilities are a part of a ten-year strategic plan to build a new model for translational research and new centers for molecular medicine and chemical biology. Translational research involves applying knowledge and discovery gained from the basic sciences to its application in clinical and community settings, thereby accelerating laboratory discoveries into treatments for patients. It is expected that the new facilities will help achieve TSRI's current goals of achieving a top-ten ranking for all its departments that will provide the means to translate biomedical research discoveries into new treatments for a broad range of public health needs.

Some of the TSRI researches resulted in discoveries about various therapies for rheumatoid arthritis, autoimmune disease, infant respiratory distress, leukemia, lupus, TTR-FAP (dysesthesia, orthostatic hypotension, paresthesia, difficulty walking, diarrhea, constipation (TTR-FAP) is an irreversible, progressive neurodegenerative disease. *Source: <http://www.recognizingttr-fap.com>*), hemophilia, gastric and lung cancer, and childhood cancer neuroblastoma.

In addition to advancing research discoveries, the new building project will lower reimbursable indirect costs and moving from leased space to the Torrey Pines Mesa Building at San Diego, will provide required space for the TSRI \$14.4 billion scientific research and development plants.

The refunding of the outstanding Series 2000, Series 2005A and Series 2005B Bonds will also result in future cost savings compared to current debt service. The combined reduction in overall debt service, savings can be passed on to all grantors in the form of lower reimbursable indirect costs.

The aggregate debt service savings through 2030 is estimated to be approximately \$6,466,431. Additionally, the savings from the refunding of the outstanding bonds is estimated by TSRI to be approximately \$5,672,523 on a present value basis, or 14.04% of the refunded par amount.

The following tables show the debts service savings per year for each bond series.

Refunding of the Series 2000 Bonds:

Approximate Savings by Year			
Date	Prior Debt Service	Refunding Debt Service	Savings
7/1/2016	\$512,910	\$0	\$512,910
7/1/2017	1,110,688	939,281	171,406
7/1/2018	1,112,000	935,550	176,450
7/1/2019	1,111,625	939,550	172,075
7/1/2020	1,109,563	937,050	172,513
7/1/2021	1,110,813	938,300	172,513
7/1/2022	1,109,300	933,050	176,250
7/1/2023	1,110,775	936,550	174,225
7/1/2024	1,109,950	933,300	176,650
7/1/2025	1,111,825	938,550	173,275
7/1/2026	1,111,113	936,800	174,313
7/1/2027	1,112,813	938,300	174,513
7/1/2028	1,111,638	935,900	175,738
7/1/2029	1,112,588	937,300	175,288
7/1/2030	1,110,375	937,300	173,075
Total	\$16,067,972	\$13,116,781	\$2,951,191

Refunding of the Series 2005A Bonds:

Approximate Savings by Year			
Date	Prior Debt Service	Refunding Debt Service	Savings
7/1/2016	\$1,962,289	\$0	\$1,962,289
7/1/2017	2,983,250	2,796,200	187,050
7/1/2018	2,987,500	2,802,000	185,500
7/1/2019	761,500	707,250	54,250
7/1/2020	761,500	707,250	54,250
7/1/2021	761,500	707,250	54,250
7/1/2022	761,500	707,250	54,250
7/1/2023	1,696,500	1,507,250	189,250
7/1/2024	2,819,750	2,632,250	187,500
7/1/2025	2,814,500	2,629,000	185,500
7/1/2026	2,819,250	2,631,000	188,250
7/1/2027	2,813,250	2,627,750	185,500
7/1/2028	2,816,750	2,629,250	187,500
7/1/2029	2,814,000	2,625,000	189,000
Total	\$30,589,750	\$25,708,700	\$3,864,339

Refunding of the Series 2005B Bonds:

Approximate Savings by Year			
Date	Prior Debt Service	Refunding Debt Service	Savings
7/1/2016	\$18,256	\$0	\$18,256
7/1/2017	410,760	466,017	-55,257
7/1/2018	410,760	461,250	-50,490
7/1/2019	2,050,760	2,104,250	-53,490
7/1/2020	2,053,104	2,105,000	-51,896
7/1/2021	2,056,164	2,106,500	-50,336
7/1/2022	2,054,688	2,108,500	-53,812
7/1/2023	1,118,676	1,170,750	-52,074
Total	\$10,173,168	\$10,522,267	-\$349,099

It should be noted that while a negative savings will result from the refunding/defeasance of the Series 2005B Bonds, TSRI would like to include this series in the transaction in order to restructure their covenant package and documents to more accurately track their current business models and operating divisions. When the Series 2005 Bonds were issued, TSRI Florida had just opened and given the structure of its operations and grants currently in place, TSRI wants to update the disclosure covenants to make clear that the obligations of the Borrower under the Loan Agreement will be nonrecourse against the Plant and Equipment of the TSRI situated in the State of Florida (Florida Property) and Florida assets are not available to pay debt service and to reduce unnecessary complications and costs. By including the Series 2005B Bonds in this refunding transaction, TSRI will have the opportunity to reorganize their documents, update their covenants and disclosures to more accurately reflect current business structure and still achieve overall savings.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA Publication:	May 2, 2016
Publications:	<i>The San Diego Business Journal and The Daily Recorder</i>
Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. The Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by the Borrower to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments. See Appendix C for Financial Statements. 4. The proposed financing is appropriate for the Project.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date: N/A

RECOMMENDATION

Staff recommends approval of Resolution No. 16-13 authorizing the issuance of Conduit Tax-exempt and Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$180,000,000, for the benefit of The Scripps Research Institute.

APPENDIX A: GOVERNANCE AND MANAGEMENT

OFFICERS

Peter G. Shultz, Ph.D.	Chief Executive Officer and Vice Chair
Steve A. Key, Ph.D, D.Sc.	President
Douglas A. Binham, Esq.	Executive Vice President and COO and Secretary
Jared Machado, C.P.A.	Vice President, Finance, and Treasurer and Acting CFO
Tamara L. Barnas	Executive Administrator and Assistant Secretary

BOARD OF TRUSTEES

Richard A. Gephardt - Chair of the Board	President and CEO Gephardt Government Affairs and former Majority Leader, U.S. House of Representatives.
Peter G. Schultz, Ph.D.	Vice Chair of the Board and CEO The Scripps Research Institute
Peter C. Farrell, Ph.D., D.Sc.	Chairman and CEO ResMed
Patrick R. Griffin, Ph.D.	Chair, Dept. of Molecular Therapeutics The Scripps Research Institute
James E. LaBelle, M.D.	Chief Medical Officer and Corp. Sr. VP The Scripps Research Institute
Claudia S. Luttrell	President of The Skaggs Institute for Research (Scripps)
William H. Molloie	Partner PricewaterhouseCoopers LLP
Mark Pearson	Co-Founder, Vice Chairman of the Board Drawbridge Realty Trust
Bernard Saint-Donat	President Saint-Donat & Co.
Lynn Schenk	Former Member U.S. House of Representatives
Linda A. Sherman, Ph.D.	Professor The Scripps Research Institute
Mark S. Skaggs	Board Member The ALSAM Foundation
Richard Sloane	Managing Partner Ocean Via Realty LLC

APPENDIX B: PROJECT PHOTOS



Site Plan

Campus Environment

The Scripps Research Institute is located in the La Jolla Pines Technology Center, an area of integrated architectural and landscape systems which unify architecture within a tremendously unique natural environment. The goal of the planning guidelines is to ensure the development of a research community with a campus atmosphere. The new TSRI development will create a gateway to the most prominent scientific community in the world, and confirm the commitment to collaborative science teams working synergistically to innovate life saving therapeutics.

Artist Rendering of New Facilities



APPENDIX C: FINANCIAL STATEMENTS 2013–2015