

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

INTRODUCTION

The California State Teachers' Retirement System ("CalSTRS") requests that the IBank Board of Directors (the "Board") adopt an "Inducement Resolution" to (1) express IBank's reasonable expectation to issue tax-exempt conduit lease revenue bonds in the aggregate principal amount of up to \$350,000,000 to finance CalSTRS construction of its Phase II Headquarters Building, and (2) facilitate the reimbursement of CalSTRS initial capital expenditures on its Phase II Headquarters Building.

BACKGROUND AND HISTORY

CalSTRS is in charge of the pension plan for public school educators in California, serving over 949,000 public school educators and their families from California's 1,700 school districts, county offices of education and community college districts.

CalSTRS benefit payments generate approximately \$11 billion in economic activity, generating about 92,000 jobs and about \$1.2 billion in tax payments to state and local governments.

Prior debt

CalSTRS does not have any prior bond debt. CalSTRS' Phase I Headquarters Building was self-financed.

PROJECT DESCRIPTION

CalSTRS is in the beginning stages of developing its approximately 500,000 square foot Phase II Headquarters Building ("Phase II" or the "Project") in the City of West Sacramento. Phase II will be adjacent to CalSTRS approximately 409,000 square foot Phase I Headquarters Building ("Phase I"). Phase II is necessary to accommodate CalSTRS' growth plans. CalSTRS expects to occupy Phase II by the middle of 2021.

On May 8, 2019 the CalSTRS Board approved a plan to finance and construct the Project at a total cost not to exceed \$350 million.

CalSTRS intends to occupy fully Phase II once it is complete. This will result in approximately 200,000 square feet of vacant office space in Phase I. CalSTRS plans to lease the vacant Phase I office space to third-parties until CalSTRS growing operations require its occupation.

CalSTRS' partners on Phase II include ZGF Architects LLP (architect), Ridge Capital Inc. (construction manager) and DPR Construction (general contractor). Ridge Capital, Inc. will provide construction management services to include ongoing project oversight through every aspect of the Project from inception through the completion of the warranty period. Ridge Capital participated in the construction of CalSTRS Phase I.

The estimated costs breakdown is as follows:

Cost Categories	Costs
Land	\$ 2,157,100
Hard Costs	
Substructure (garage)	\$ 53,954,558
Core & Shell	93,602,232
On-Site PV/Associated Costs	10,709,793
Amenities Space	15,142,379
Café Build Out	4,681,343
Child Care Build Out	1,773,444
Tenant Improvements	51,288,067
Site work	3,968,308
General Conditions/Contingency	<u>23,095,430</u>
Total Hard Costs	\$258,215,555
Soft Costs	<u>\$39,627,345</u>
Total Costs¹	\$300,000,000

- 1- Please note that CALSTRS current project estimate is for \$300 Million but its Board approved participating in a bond financing with a par amount of up to \$350 Million. The additional \$50 Million was approved to pay for capitalized interest during construction, pay costs of issuance, and to accommodate changes in investor pricing preferences.

PROPOSED IBANK FINANCING

CalSTRS intends to finance Project costs through IBank's issuance of up to \$350 Million of tax-exempt conduit lease revenue bonds (the "Bonds"). The financing plan requires a typical lease-financing arrangement between CalSTRS and IBank. Under the lease-financing structure, before construction starts CalSTRS would lease the Project site to IBank for a nominal rental payment. CalSTRS and IBank would contemporaneously enter into a financing lease, under which IBank would lend the Bond proceeds to CalSTRS to fund Project costs and lease the Project site and the completed Project back to CalSTRS. Pursuant to the financing lease, CalSTRS would make regular "lease" payments to IBank in an amount equal to debt service on the Bonds. IBank would pledge CalSTRS' lease payments to the trustee for the Bonds pursuant to an indenture of trust. CalSTRS' lease payments would be used to pay debt service on the Bonds. CalSTRS financing lease rental payments, together with certain accounts established under the indenture of trust, would be the sole source of payment and collateral for the Bonds. IBank would have no obligation to make any payments on the Bonds except from lease payments received from CalSTRS and certain of the accounts held under the indenture of trust (which accounts would be funded with proceeds of the Bonds and money received from CalSTRS).

As an initial step in the financing process, CalSTRS has requested that IBank adopt an Inducement Resolution. The Inducement Resolution memorializes IBank's reasonable expectation to issue the Bonds and follows certain Internal Revenue Service regulations that permit CalSTRS to reimburse its earlier capital expenditures with the proceeds of the Bonds.

Treasury Regulation 1.150-2 sets forth the procedure for early capital expenditures to be reimbursed with the proceeds of tax-exempt bonds. To facilitate such reimbursement, among other things, the bond issuer must express its official intent that the future bond proceeds be used to reimburse capital

expenditures. IBank would issue the Bonds and so is a proper entity to adopt an Inducement Resolution.

The Board's adoption of an Inducement Resolution would not commit CalSTRS to proceed with the transaction and would not bind IBank to actually issue the Bonds. An Inducement Resolution is only a preliminary step in the financing process.

RECOMMENDATION

Staff recommends approval of Inducement Resolution No. 19-12 expressing IBank's reasonable expectation to issue the Bonds for the benefit of CalSTRS and IBank's official intent that proceeds of the Bonds be used to reimburse CalSTRS's original capital expenditures.

ATTACHMENT A - GOVERNANCE AND MANAGEMENT

The CalSTRS Board consists of members serving four-year terms (excluding ex-officio members).

CalSTRS Board Members		
Name/Title	Specialty Position	Expiration of Term
Dama Dillon, Board Chair	K-12 Classroom Teacher	December 31, 2019
Sharon Hendricks, Board Vice Chair	Community College Instructor	December 31, 2019
Joy Higa, Public Representative	Vice President, Regulatory Affairs UnitedHealthcare' s West and Central Regions	December 31, 2021
Harry M. Keiley, Board Member	K-12 Classroom Teacher	December 31, 2019
Nora E. Vargas, Board Member	School Board Representative	December 31, 2019
Karen Yamamoto, Board Member	Retiree Representative	December 31, 2019
Keely Bosler, Ex-Officio Member	Director of Finance	
Fiona Ma, Ex-Officio Member	State Treasurer	
Tony Thurmond, Ex-Officio Member	State Superintendent of Public Instruction	
Betty Yee, Ex-Officio Member	State Controller	

Executive Staff	
Jack Ehnes	Chief Executive Officer
Cassandra Lichnock	Chief Operating Officer
Brian J. Bartow	General Counsel
Christopher J. Ailman	Chief Investment Officer
Julie Underwood	Chief Financial Officer
Ashish Jain	Chief Technology Officer
Lisa Blatnick	Chief of Administrative Services
Andrew Roth	Benefits & Services Executive Officer
Grant Boyken	Public Affairs Executive Officer