

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Sanford Consortium for Regenerative Medicine (Borrower or Sanford)	Amount Requested:	Not to exceed \$62,000,000
Applicant Description:	A nonprofit corporation formed by the Burnham Institute, now operating as the Sanford-Burnham Medical Research Institute, the Salk Institute for Biological Studies, The Scripps Research Institute and The Regents of the University of California on behalf of the San Diego Campus	Date of Board Meeting:	April 27, 2010
		Resolution Number:	10-16
Project Site:	2880 Torrey Pines Scenic Drive, La Jolla, CA 92037	Prepared by: Derrick Moore	
Project Description:	The project (Project) involves constructing a 145,087 square-foot biomedical research facility in which scientists will work in focused teams to address critical health issues using cutting-edge science and technology. The Project will include a laboratory facility comprising four stories over a basement that will house a vivarium and imaging suite and an auditorium.		
Uses of Bond Proceeds:	Bond proceeds will be used to pay the costs of the Project, including capitalized interest, and costs of issuance of the bonds.		
Public Benefits:	Sanford's biomedical research facility is intended to address an urgent need in scientific research for collaboration across multiple, specialized technical disciplines to develop tools to diagnose and treat human disease through stem cell research. Sanford estimates that approximately 350 research and support jobs will be created in a key State industry sector. It is expected that the Collaboratory will earn LEED gold certification by incorporating reuse of 50% of water that would otherwise be discharged; natural ventilation, demand controls systems and lighting interior space naturally		
Financing Structure (the "Bonds"):			
Type of Issue:	Publicly-offered fixed-rate securities in minimum denominations of \$5,000 or any integral multiple thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds.		
Term:	30 years.		
Credit Enhancement:	Debt Service Payment Agreement pursuant to which the Regents of the University of California will unconditionally agree to pay any debt service due on the Bonds that the bond trustee is unable to pay from funds received from Sanford.		
Credit Rating:	The Bonds will be rated at least A- in accordance with the I-Bank rating policy. It is expected that the Bonds will be are expected to be rated "A+" by Standard & Poor's and "Aa3" by Moody's Investors Service.		
Total Est. Sources of Funds:		Total Est. Uses of Funds:	
Bond Par Amount	\$61,815,992	Project costs	\$119,339,722
Charitable Gift	22,000,000	Capitalized Interest & Bond Issuance Costs	7,476,270
CIRM Prop 71 Funding	43,000,000		
TOTAL SOURCES	\$126,815,992	TOTAL USES	\$126,815,992
Financing Team:			
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Underwriter's Counsel:	Nixon Peabody LLP		
Underwriter:	Barclays Capital		
Trustee:	Bank of New York Mellon Trust Company, N.A.		
Staff Recommendation:			
Staff recommends approval of Resolution 10-16 for an amount not to exceed \$62,000,000 for Sanford Consortium for Regenerative Medicine.			

BACKGROUND AND HISTORY

The Sanford Consortium for Regenerative Medicine is an independent non-profit corporation formed as San Diego Consortium for Regenerative Medicine in March 2006 by the Burnham Institute, now operating as the Sanford-Burnham Medical Research Institute, the Salk Institute for Biological Studies, The Scripps Research Institute and The Regents of the University of California on behalf of the San Diego campus (The Regents), (collectively, the Participating Organizations. In September 2008, in recognition of a \$30 million donation made by T. Denny Sanford, the Consortium was renamed the Sanford Consortium for Regenerative Medicine.

Sanford was formed to facilitate collaborative stem cell research among Participating Organization scientists. Stem cell research, often referred to as regenerative medicine, studies how organisms develop from a single cell and how healthy cells replace damaged cells in adult organisms and may enable future cell-based therapies to treat disease. Sanford utilizes a collaborative approach to medical research and has established major research programs in cancer, neuro-degeneration, diabetes, and infectious, inflammatory, and childhood diseases. The Institute is especially known for its world-class capabilities in stem cell research and drug discovery technologies.

Sanford Consortium Board	
Edward W. Holmes, MD	President & CEO;
Louis R. Cofman	Vice President
Gary Matthews	Vice President, Secretary
Gary Raisl	Vice President, Treasurer
Malin Burnham	Co-Chairman
Irwin Jacobs, Sc.D	Co-Chairman
John Moores	Co-Chairman
T. Denny Sanford	Co-Chairman
William R. Brody	President, Salk Institute for Biological Studies
Mary Anne Fox, Ph.D.	Chancellor, University of California San Diego
Richard Lerner, M.D.	President, The Scripps Research Institute
John C. Reed, M.D., Ph.D.	President & CEO, Sanford-Burnham Medical Research Institute

PROJECT DESCRIPTION

Termed a “collaboratory,” the biomedical research facility will be located on a site accessible to all Participating Organizations on land currently owned by The Regents. The Regents have conveyed the right to occupy the site pursuant to a 52-year ground lease. Ground rent payable is based on a 10% annual return on \$19 million, which is the mutually agreed fair market value of the land. The Ground Lease specifies that the ground rent payable is reduced to the extent that all or a portion of the building is occupied and used by Sanford or any permitted user for permitted uses. Based on

committed and planned use of the building, the 'net' ground rent will be zero. Every 15 years, the ground rent is subject to fair market value adjustment. To the extent that the building continues to be used by Sanford or any permitted user, as expected, the rent reduction will continue to offset the ground rent payable. At termination of the ground lease, title to the building will be conveyed to The Regents.

The Collaboratory is designed to accommodate multidisciplinary teams in a manner that facilitates collaboration among basic, translational and preclinical research teams. The Collaboratory will provide sufficient laboratory and office space for approximately 336 researchers. Research space can be efficiently reconfigured to accommodate changes in the focus and size of research teams.

The Collaboratory is designed to include a 16,000 square foot vivarium to house animals used in research, primarily as animal models of disease. The knowledge gained from this research is used to develop treatments for diseases. The Borrower states that the facility will be operated in accordance with the highest standards of animal care and use in the research it supports, and will adhere to all state and federal regulations and policies that ensure ethical use of animal models. Additional space will be devoted to sophisticated imaging technologies (including MRI, electron and light microscopy), conference facilities and a 4,000 square foot auditorium.

It is expected that the Collaboratory will earn LEED gold certification by incorporating reuse of 50% of water that would otherwise be discharged, natural ventilation, demand controls systems and lighting interior space naturally.

FINANCING STRUCTURE

Total cost to construct and equip the Collaboratory is estimated to be \$126.8 million.

The Borrower is requesting approval for the issuance and sale of the Bonds in an amount not to exceed \$62,000,000. It is expected that the Bonds will carry a rating of A+ by Standard & Poor's or Aa3 by Moody's Investor Service.

Payment of principal and interest on the Bonds will be paid from Sanford's gross revenues, including license fees paid by Participating Organizations and other permitted users for space used exclusively for 'stem cell research'; and lease income paid by The Regents for 'excess' space until such time as such excess space is required for stem cell research; investment income; and any unrestricted gifts or grants received by Sanford. The total Collaboratory space is currently 100% leased or licensed at rates that will enable Sanford to service the debt.

In order to provide additional security for the bonds and obtain a higher credit rating, The Regents have agreed to execute a Debt Service Agreement pursuant to which The Regents will unconditionally guarantee, from legally available funds, to pay any debt service payable that the trustee is unable to pay from revenue received from Sanford.

The *California Stem Cell Research and Cures Initiative (Proposition 71)* was approved by California voters in November 2004. Proposition 71 established the California Institute for Regenerative Medicine (CIRM), a new state agency, and authorized the issuance of \$3 billion in bonds to fund CIRM and stem cell research in California. Approximately \$300

million of the \$3 billion in public bond funds authorized by Proposition 71 was earmarked to fund capital projects. In May 2008, CIRM awarded \$43 million to Sanford to fund construction and equipping of the Collaboratory (\$21 million for construction and \$22 million for equipment).

Additional sources of funds include \$22 million of a \$30 million charitable gift from T Denny Sanford.

Construction costs are expected to be no greater than \$83.3 million, as a result of a guaranteed maximum price contract entered into by Sanford and its construction contractor.

In no event shall the Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Bonds. The Bonds shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in a loan agreement between the I-Bank and Sanford.

PUBLIC BENEFITS

Sanford's biomedical research facility is intended to address an urgent need in scientific research for collaboration across multiple, specialized technical disciplines. The Collaboratory is intended to house biologists, chemists, bioengineers, computer scientists and clinicians from nonprofit research institutions in open laboratories. The Collaboratory furthers Sanford's mission of rapidly translating the findings of stem cell research into tools to diagnose and treat degenerative diseases such as Parkinson's and Alzheimer's diseases, spinal cord injury, stroke, burns, heart disease, diabetes and arthritis.

Sanford's initiative is intended to provide a framework for expansion of the biotechnology industry in California. In addition, Sanford estimates that approximately 350 research and support jobs will be created.

It is expected that the Collaboratory will earn LEED gold certification by incorporating reuse of 50% of water that would otherwise be discharged; natural ventilation, demand controls systems and lighting interior space naturally.

OTHER PROJECT DATA

PROJECT PERMIT STATUS	
Compliance with local land use and zoning	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
Local approvals and permits obtained (other than construction permit)?	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
TEFRA	
Date of TEFRA	April 23, 2010 and May 3, 2010 ¹
Publications	<i>The Sacramento Bee</i> <i>San Diego Transcript</i> <i>San Diego Union Tribune</i>
Oral/Written Comments	As to the April 23, 2010 hearing: <input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Borrower 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. Borrower is capable of meeting the obligations incurred under the proposed loan agreement and tax agreement and, in particular as to its loan repayment obligations which secure the Bonds as a result of having met the requirements of The Regents to provide a Debt Service Payment Agreement securing the Bonds. 3. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project. 5. Sanford has represented that the Project is consistent with any existing local or regional comprehensive plans.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-16, for an amount not to exceed \$62,000,000 for the Sanford Consortium for Regenerative Medicine.

¹ Bond counsel advises that the April 23, 2010 TEFRA hearing was sufficient for tax law purposes. However, staff will be undertaking an additional, broader publication of the TEFRA notice in the San Diego Union Tribune and will be holding an additional hearing on May 3, 2010, in order to comply with usual I-Bank practices. In the event any objections to the Project are received at this subsequent hearing, Staff will return this Project to the Board for consideration in light of any such objections.

APPENDIX A - PROJECT PICTURE



Building 104 where the main Museum will be housed.

Architectural rendering of the proposed collaboratory of the Sanford Consortium for Regenerative Medicine.