

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	SRI International (SRI or Borrower)	Amount Requested:	Not to exceed \$23,000,000
Applicant Description:	SRI is a nonprofit corporation providing research, technology development and consulting services.		
Type of Bonds:	Refunding Bonds		
Bonds to be Refunded:	California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds, Series 2003A (Prior Bonds).		
Prior Bonds Project:	Capital improvements of certain research facilities owned and operated by SRI including renovation and upgrade of its Microelectronics Fabrication Facility (Building S), and expansion of its Pharmaceutical Development Facility (Building T), both located in Menlo Park, California. (Prior Projects).		
Prior Project Site:	333 Ravenswood Avenue, Menlo Park 94025		
Plan of Finance:	Bond proceeds (2012 Bonds) will be used to (i) refund the Prior Bonds, and (ii) pay for costs of issuance. The refunding will allow SRI to convert from variable rate bonds to fixed rate bonds and eliminate the letter of credit (credit enhancement) associated with the Prior Bonds.		
Type of Issue:	Publicly-offered fixed rate, tax-exempt securities sold in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds.		
Term:	17 years.		
Credit Enhancement:	None.		
Credit Rating:	Expected to be rated at least "A3" by Moody's Investors Service based upon the financial strength of SRI.		
Est. Sources of Funds:		Est. Uses of Funds:	
2012 Bond Proceeds	\$22,455,000	Refund Prior Bonds	\$20,005,000
Equity Contribution	145,000	Debt Service Reserve Fund	1,875,000
		Costs of Issuance	595,000
		Interest Contingency	125,000
TOTAL SOURCES	\$22,600,000	TOTAL USES	\$22,600,000
Financing Team:	Bond Counsel: Orrick Herrington & Sutcliffe LLP Underwriter: Prager & Co., LLC Underwriter's Counsel: Office of Rossi A. Russell Trustee: Union Bank, N.A.		
Public Benefits:	The restructuring of tax-exempt debt from a variable interest rate to a fixed interest rate will allow SRI to eliminate interest rate risk, counterparty risk and liquidity renewal risk.		
Date of Board Meeting:	Resolution Number:	Prepared by:	
April 24, 2012	12-04	Tara Dunn	
Staff Recommendation:	Staff recommends approval of Resolution 12-04 authorizing the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$23,000,000 for SRI International.		

BACKGROUND AND HISTORY

SRI International (SRI) was originally founded in 1946 as the Stanford Research Institute for the purpose of research leading to the discovery and application of science and technology for knowledge, commerce, and prosperity. SRI conducts client-supported research and development for government agencies, commercial businesses and other nonprofit entities. Focus areas include:

- information, communications and engineering technologies;
- pharmaceuticals and biotechnology;
- chemistry and physics; and,
- the public policy areas of education, health and economic development.

SRI operates under funding received through research and development contracts, royalties received from licensing, and revenues generated as a result of spin-off ventures. Approximately 88% of SRI's funding is from federal government contracts with the remaining received from commercial clients. Under the Bayh-Dole Act enacted in 1980, also known as The Patent and Trademark Law Amendments Act, SRI may retain intellectual property control of its inventions and other intellectual property that resulted from federal funding, under certain provisions including retaining a nontransferable, irrevocable, paid-up license for any Federal agency to practice the invention or have the invention practiced throughout the world by or on behalf of the Government of the United States. As a result, SRI has more than 1,000 patents and patent applications worldwide and has launched more than 40 ventures with a total market capitalization that exceeds \$28 billion.

SRI's main campus consists of approximately 63 acres located in Menlo Park (Menlo Park Campus) including roughly 750,000 square feet of research laboratories and offices for technical staff, and 500,000 square feet of administrative office space, storage, campus utilities and maintenance, and facilities for employees. SRI also leases facilities throughout the United States as well as Tokyo, Japan, and employs approximately 2,440 employees worldwide, with 1,430 employees located at the Menlo Park Campus. Approximately 68% of SRI's employees are involved in research-related activities.

Appendix A includes a listing of SRI's current governance and management.

Previous I-Bank Financing

In 2003, I-Bank issued two series of bonds (2003 A Bonds and 2003 B Bonds), totaling \$25 million (collectively, Prior Bonds) on behalf of SRI to renovate and upgrade its Microelectronics Fabrication Facility (Building S), and to expand its Pharmaceutical Development Facility (Building T) at the Menlo Park Campus (Prior Project). The Prior Project was completed in 2006. Currently, \$20,005,000 of tax-exempt 2003A Bonds remain outstanding while the taxable 2003B Bonds have been redeemed in full.

In 2010, I-Bank issued \$15 million (2010 Bonds) to finance costs of construction and improvements to three facilities (Buildings E, P and T) and to install a new chiller at the Menlo Park Campus (2010 Project). The 2010 Project was completed by March 2012. Currently the 2010 Bonds remain outstanding in the amount of \$14,565,000.

PLAN OF FINANCE

The Borrower requests the refunding of the outstanding Prior Bonds and the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$23,000,000 (2012 Bonds). The 2012 Bonds will be used to (i) refund the Prior Bonds, and (ii) pay for costs of issuance.

The purpose of the 2012 Bonds is to refund the bonds from a variable interest rate to a fixed interest rate and eliminate the letter of credit (credit enhancement) associated with the Prior Bonds. The Borrower is considering an economic defeasance of the Prior Bonds at closing. In an economic defeasance, the Prior Bonds remain outstanding but adequate funds (in this case 2012 bond proceeds and any necessary Borrower contribution) are set aside in trust to repay them. Under this arrangement, the Prior Bonds will remain outstanding and be secured by the letter of credit until their optional redemption date, which would occur approximately two weeks after issuance of the 2012 Bonds. The letter of credit provider's written consent to this arrangement would be required.

The 2012 Bonds will be issued pursuant to an indenture between the I-Bank and Union Bank, N.A. as Trustee, and a loan of the proceeds of the 2012 Bonds will be made through a loan agreement between the I-Bank and SRI. The 2012 Bonds are expected to be rated at least "A3" by Moody's Investors Service based solely on the financial strength of the Borrower.

In no event shall the 2012 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 2012 Bonds. The 2012 Bonds constitute a limited obligation of the I-Bank, payable solely from revenues consisting primarily of loan repayments made by the Borrower.

PUBLIC BENEFITS

Although SRI does not expect to achieve any immediate net present value debt service cost savings associated with the 2012 Bonds, the restructuring of variable rate debt to a fixed interest rate lowers SRI's exposure to future interest rate fluctuations/risk. Since the 2012 Bonds will be at a fixed rate, the refunding will also eliminate the need to renew the letter of credit associated with the variable rate 2003A Bonds, resulting in expected lower long term borrowing costs, reduced risk associated with the periodic renewal of the letter or credit and reduced counterparty risk in the event of a credit rating downgrade of the letter of credit provider. The refunding is expected to allow SRI to continue to efficiently manage its finances and operation of its programs that provide scientific resources within the State and elsewhere.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA	N/A
Publications	
Oral/Written Comments Received	<input 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	
Financing meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	1. The 2012 Bonds are for a use 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 2012 Bonds as a result of having met the requirements for a rating of at least A3 on the 2012 Bonds, based on the financial strength of the Borrower. 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 and is being used to refinance bonds used for the Prior Project. 5. Borrower has represented that the facilities originally financed with the proceeds of Prior Bonds were consistent with any existing local or regional comprehensive plans.
The 2012 Bonds meet the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
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 12-04 authorizing the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$23,000,000 for SRI International.

ATTACHMENT A - GOVERNANCE AND MANAGEMENT

Executive Officers

Curtis R. Carlson	President and Chief Executive Officer
Thomas J. Furst	Senior Vice President and Chief Financial Officer
Richard Abramson	Vice President, Legal and Business Affairs and general Counsel
Byron P. Rovegno	Treasurer

Board of Directors

Vernon E. Clark, Chairman
Samuel H. Armacost
Richard B. Brewer
Mariann Byerwalter
Curtis R. Carlson
Charles A Holloway
Leslie Kenne
Henry Kressel
David Liddle
Arati Prabhakar
Phillip J. Quigley
John J. Young Jr.