

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	San Francisco Ballet Association (Ballet or Borrower)	Amount Requested:	Not to exceed \$45,000,000
Applicant Description:	A privately endowed, nonprofit public benefit corporation that trains and houses dancers that perform a variety of contemporary and classical ballets.		
Type of Bonds	Refunding		
Bonds to be Refunded	<ul style="list-style-type: none"> California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2008 (San Francisco Ballet Association); California Infrastructure and Economic Development Bank Revenue Bonds, Series 2010A (San Francisco Ballet Association); California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2010B (San Francisco Ballet Association) (collectively, Prior Bonds). 		
Prior Project(s)	Capital projects of facilities owned and operated by the Ballet and located in the City and County of San Francisco, California (Prior Projects) – see Plan of Finance contained herein.		
Prior Project Address(s):	Multiple locations in San Francisco, CA – see Background and History contained herein.		
Plan of Finance:	The I-Bank will issue tax-exempt limited obligations (Tax-Exempt Obligations) and the proceeds will be used to refund the Prior Bonds, and pay for costs of issuance.		
Type of Issue:	Privately placed limited obligations with First Republic Bank, a Qualified Institutional Buyer, a portion of which will bear interest at a fixed rate and a portion of which will bear interest at a variable rate.		
Tax Status:	Tax-exempt.		
Term:	25 years.		
Enhancement:	None.		
Credit Rating:	None; private placement with a qualified institutional buyer exception is applicable.		
Est. Sources of Funds		Est. Uses of Funds	
Tax Exempt Obligations	\$44,513,850	Refund Series 2008	\$15,600,000
		Refund Series 2010A	23,880,000
		Refund Series 2010B	4,580,000
		Costs of Issuance	453,850
TOTAL SOURCES	\$44,513,850	TOTAL USES	\$44,513,850
Financing Team	Special Counsel: Orrick Herrington & Sutcliffe LLP Borrower's Counsel: Pillsbury Winthrop Shaw Pittman LLP Private Placement Purchaser: First Republic Bank		
Public Benefits	By refunding the Prior Bonds, the Ballet will eliminate future credit risk associated with letter of credit renewal and estimates it will achieve approximately \$350,000 in debt service savings per year. As a result, the Ballet will continue to provide the same level of cultural activities to the San Francisco Bay Area.		
Date of Board Meeting:	Resolution Number:	Prepared by:	
May 21, 2013	13-04	Tara Dunn	
Staff Recommendation:			
Staff recommends approval of Resolution 13-04 authorizing the issuance of tax-exempt obligations in an amount not to exceed \$45,000,000, to be sold through private placement and loaning the proceeds to the San Francisco Ballet Association.			

BACKGROUND AND HISTORY

The Ballet, founded in 1933 as America's first professional ballet company, is a privately-endowed, California nonprofit public benefit entity organized for the advancement of the art of ballet, the training of dancers and the development of the cultural appreciation of ballet. The Ballet is one of the three largest ballet companies in the United States, with a current roster of seventy-four dancers and over one hundred performances annually, both locally and internationally. In addition to its performance seasons in the fall and winter, which include performances of Nutcracker and productions of contemporary and classical ballets, the Ballet tours the United States and abroad and operates one of the largest professional ballet schools in the western United States.

Based in San Francisco, the Ballet stages the productions of its repertory season at the San Francisco War Memorial Opera House (Opera House), which is part of San Francisco's War Memorial and Performing Arts Center that also includes the Louise B. Davies Symphony Hall and the Herbst Theatre. The Ballet's modern rehearsal studios for both the resident ballet company and the Ballet school students, along with its administrative headquarters are located in a building adjacent to the Opera House.

The Ballet's endowment funds are held and managed by the San Francisco Ballet Endowment Foundation, a California nonprofit public benefit corporation (Foundation). The Foundation will be a guarantor of the Tax-Exempt Obligations. The Foundation is legally separate from the Ballet and is exempt from federal income taxation pursuant to section 501(c)(3) of the Internal Revenue Code.

The Ballet's current corporate officers and Board Members are listed in Appendix A.

Previous I-Bank Financing

Since 2002, the I-Bank has issued several series of bonds to finance the acquisition, construction, renovation and equipping of the facilities owned by the Ballet and to refinance previously issued bonds also used for the development of its facilities. All capital projects associated with the bonds listed below are complete. The current outstanding series of bonds issued by the I-Bank are as follows:

Series	Issue Date	Original Principal Amount	Outstanding Principal Amount
Series 2008 (Series 2008 Bonds)	08/01/2008	\$44,900,000	\$15,600,000
Series 2010A and 2010B (2010 Bonds)	12/30/2010	30,000,000	28,460,000
Total Outstanding:			\$44,060,000

In 2010, the Ballet refunded a portion of the Series 2008 Bonds as bank qualified bonds to take advantage of favorable provisions applicable at the time under the American Recovery and Reinvestment Act of 2009 that permitted financial institutions to purchase municipal bonds as bank qualified bonds, up to a temporarily increased limit of \$30 million.

Furthermore, in 2010, the letter of credit provided by Allied Irish Banks that secured the remaining outstanding Series 2008 Bonds was substituted by a letter of credit provided by First Republic Bank and a stand-by letter of credit provided by the Federal Home Loan Bank (FHLB)

of San Francisco. The stand-by letter of credit underwritten by the FHLB, which was temporarily available under The Housing and Economic Recovery Act of 2008 until December, 31, 2010, allowed the Ballet to achieve the highest (AAA/Aaa) credit ratings at the time from Standard & Poor's and Moody's, respectively.

PLAN OF FINANCE

The Ballet requests the I-Bank to issue its tax-exempt obligations (Tax-Exempt Obligations)¹ in an amount not to exceed \$45,000,000 to effect the refunding of the outstanding Series 2008 Bonds, Series 2010A and Series 2010B Bonds (collectively, Prior Bonds). The Prior Bonds were used to finance and refinance a portion of the acquisition, construction, renovation, improvement and equipping of capital projects, all of which are constructed, installed or located at various facilities of the Ballet (Prior Projects) as further described below.

Prior Projects	Facility
Costs of renovating, upgrading and repairing the Ballet's administration and rehearsal building, construction of an annex	455 Franklin Street – The Ballet Building (administrative and rehearsal studio)
Ballet production costs including construction of two full-length ballet sets including hard and soft costs, properties and costumes	Housed at 301 Van Ness Ave – War Memorial Opera House or 2400 Cesar Chavez – The Ballet Warehouse
Acquisition, construction, renovation, and equipping of the Ballet's warehouse space	2400 Cesar Chavez – The Ballet Warehouse
Student living facilities	3016 Jackson Street – Student Residence
Improvements to the War Memorial Opera House	301 Van Ness Ave – War Memorial Opera House

The Tax Exempt Obligations will be used to (i) refund the Prior Bonds, and (ii) pay for costs of issuance.

The purpose of the refunding is to lower the interest rates on the Ballet's tax-exempt debt and eliminate the need to maintain a letter of credit to secure a portion of the Prior Bonds. The Tax Exempt Obligations are to be sold in a private placement with First Republic Bank and the proceeds are then loaned to the Ballet pursuant to a loan agreement between I-Bank, the Ballet and First Republic Bank (Loan Agreement).

The Loan Agreement will have a stated term of 25 years. First Republic Bank is a Qualified Institutional Buyer (QIB) as defined in Section 144(A) promulgated under the Securities Act of 1933, as amended.

¹ Tax-Exempt Obligations means an issuer loan obligation and a borrower loan obligation.

The principal and interest due under the Tax-Exempt Obligations shall be paid solely from the revenues to be received, by the I-Bank, consisting primarily of the Ballet's payment of its obligations under the Loan Agreement. In no event shall the Tax-Exempt Obligations be deemed to constitute a debt or liability or obligation of the State or any political subdivision thereof except as limited obligations of the I-Bank, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a limited obligation of the I-Bank payable from payments made by the Ballet under the Loan Agreement.

In accordance with the I-Bank "Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities" (Policies), the I-Bank's general policy is to issue revenue bonds or similar obligations bearing certain minimum ratings. The Policies provide that the I-Bank may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the I-Bank. Each investor must be a qualified institutional buyer (QIB) within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the I-Bank.
2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the I-Bank may require conditions for the resale of the obligations after initial issuance.
3. **Minimum Denomination.** The I-Bank will require a minimum denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The Tax-Exempt Obligations will only be offered to and subsequently purchased by First Republic Bank, and thus constitute a private placement. In order to meet the I-Bank's requirements for private placements, First Republic Bank must provide a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a QIB; (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Tax-Exempt Obligations and that it is able to bear the economic risks of such investment; and (iii) provisions in the Loan Agreement that prohibit the sale of First Republic Bank's interest in the Tax-Exempt Obligations except to another QIB or an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act as well as provisions that impose minimum denomination requirements.

PUBLIC BENEFITS

By refunding the Prior Bonds, the Ballet will eliminate future credit risk associated with letter of credit renewal and estimates it will achieve approximately \$350,000 in debt service savings per year and will eliminate future credit risk associated with letter of credit renewal. Under the new structure, the fixed and variable interest rates will be reduced by approximately 1.05%, ensuring the Ballet will continue to provide the same level of cultural activities to the San Francisco Bay Area and abroad on tours.

ATTACHMENT A - GOVERNANCE AND MANAGEMENT

Below is a list of the Ballet's current executive staff and Board Members.

Executive Board Members

John S. Osterweis	Chair of the Board and Executive Committee
J. Stuart Francis	Vice Chair and Treasurer
Lucy Jewett	Vice Chair
Robert M. Smelick	Vice Chair
Margaret G. Gill	Vice Chair
James D. Marver	Vice Chair
Diane B. Wilsey	Vice Chair
James H. Herbert, II	Vice Chair
Carl F. Pascarella	Vice Chair
Jennifer J. McCall	Secretary
Susan S. Briggs	Assistant Secretary
Helgi Tomasson	Artistic Director and Principal Choreographer
Glenn McCoy	Executive Director (ex officio)
Richard C. Barker	Immediate Past Chair
Chris Hellman	Chair Emeritus

Executive Staff

Helgi Tomasson	Artistic Director and Principal Choreographer
Glenn McCoy	Executive Director
Kimberly O. Carim	Chief Financial Officer
Debra Bernard	General Manager
Thomas W. Flynn	Director of Development
Mary Beth Smith	Director of Marketing and Communications