

**MINUTES OF THE  
CALIFORNIA INFRASTRUCTURE AND  
ECONOMIC DEVELOPMENT BANK**

For the meeting held on  
Tuesday, February 27, 2018 at 2:00 p.m.  
Steinberg Conference Room, Suite 1700  
1325 J Street, 17th Floor  
Sacramento, California 95814

Chair Panorea Avdis called the meeting of the California Infrastructure and Economic Development Bank (IBank) Board to order at approximately 2:00 p.m.

**1. Call to Order and Roll Call**

The following Board members were in attendance:

Chair, Panorea Avdis for the Governor's Office of Business and Economic Development  
Steve Juarez for the State Treasurer's Office, and  
Todd Jerue for the Director of the Department of Finance

IBank staff members in attendance were

Teveia Barnes, Nancee Trombley, Stefan Spich, and William Pahland

**Information Item**

**2. Executive Director's Report**

Executive Director Teveia Barnes began by noting that, by request of the borrower, Resolution 18-02 would not be heard at the February meeting and would be delayed until the March meeting. A representative of the borrower would be available for questions during the public comment period.

Ms. Barnes then turned the floor over to Ms. Emily Burgos, Small Business Finance Center Manager, who provided an update on the Jump Start Loan Program. She noted that while no new loans had been made in January, 10 new individuals had received 32.5 hours of technical assistance, bringing the totals to 115 individuals provided with 288 hours of technical assistance.

**Consent Item**

**3. Approve minutes from the meeting held on January 23, 2018**

Mr. Juarez made a motion to approve the Minutes and Mr. Jerue seconded. The Board members voted unanimously to approve the January 23, 2018 Board Meeting Minutes.

**Action Items**

- 4. Resolution No. 18-03 approving lending Infrastructure State Revolving Fund Program funds to the City of Sacramento in an amount not to exceed \$15,000,000 to finance an eligible project known as the Memorial Auditorium Renovation Project located in the City of Sacramento.**

Mr. Tom Dear, Loan Origination Manager, introduced Resolution No. 18-03. Representing the borrower were Mr. Brian Wong (Treasury Manager, City of Sacramento), and Desmond Parrington (Senior Project Development Manager, City of Sacramento). Chair Avdis thanked Mr. Dear, welcomed the borrower representatives and asked if they had any comments.

Mr. Parrington introduced the project as a series of interior improvements to the Auditorium that would enhance the facility's capabilities, including improvements to lighting, rigging and acoustics. In the near term, the improvements will allow the City to relocate the Sacramento Philharmonic, Choral Society, Speaker Series and the California Music Theater to the Auditorium, while their current home at the Community Center Theater is remodeled. Thereafter the improvements will allow the Auditorium to host a greater variety of events with an improved visitor experience.

The Board had a few questions for the representatives. Mr. Juarez first asked about the City's overall finances and how other related planned projects to the Sacramento Convention Center Complex would fit into a plan of finance. Mr. Parrington responded that the City planned to tap the bond market in fall 2018, with a goal of starting construction on the other projects in early 2019. He noted that improvement of the Auditorium was a prerequisite to undertaking later phases. Mr. Parrington concluded that the City expected to return to IBank to finance future portions of these other related projects. Mr. Brian Wong added that City staff was working with the Mayor and the City Council to structure the funds available for these additional projects. He noted that the City was being advised in its financial modelling by Morgan Stanley, and that the City was currently stress testing the Transient Occupancy Tax in preparation for future financings. Mr. Juarez thanked the representatives.

Chair Avdis asked how Memorial Auditorium would be managed after the project was completed. Mr. Parrington responded that the City would be booking talent internally through its talent booking manager, Sid Garcia-Herberger. He noted that the Auditorium had been booked for 33 of the 52 weekends this year, in addition to regularly scheduled immigration naturalization and graduation events. Mr. Parrington concluded by noting the City was working on a comprehensive management plan for the Convention Center Complex (which includes the Auditorium and Community Center Theater) which would seek to manage costs, maximize facility usage and generate economic activity for downtown Sacramento. Mr. Juarez asked how many City employees worked on the City's talent booking team. Mr. Parrington responded he did not know the exact size of the staff but would follow up with Mr. Juarez on this issue.

Chair Avdis thanked Mr. Parrington, and Mr. Wong and asked for further questions or comments from the Board. After asking for and hearing no public comment, Chair Avdis moved to vote, which was seconded by Mr. Jerue. The Board voted unanimously to pass Resolution 18-03. Chair Avdis thanked the representatives.

### **Reporting/Non-Action Business**

There were no further items of importance to discuss.

### **Public Comment**

Chair Avdis asked if there were any questions or comments from the public.

Ms. Barnes introduced Mr. Russ Penniman, former President of the Board of Directors of the 22<sup>nd</sup> District Agricultural Association (22<sup>nd</sup> District) to the Board. Mr. Penniman thanked the Board and IBank staff for their professionalism in the application process. He began with a background on the increased racing activity at Del Mar, which was now the 2<sup>nd</sup> busiest track nationally, and led the nation in amounts wagered. Mr. Penniman then

focused on the two projects currently underway at the Del Mar Fairgrounds. One was an environmental remediation project related to water quality that had begun but was currently waiting for bids to come in. The other project was the conversion of a portion of the Surfside Race Place off-track betting facility into a concert venue and a separate restaurant. The Surfside facility had originally been designed for 5,000 daily visitors and was now seeing only 10% of that capacity. The goal of the project was to repurpose the space by downsizing the off-track betting portion of the facility while creating new uses to maximize economic activity, including a restaurant and concert venue. Mr. Penniman then discussed a few of the other 300+ annual activities at the Fairgrounds including the upcoming Horse Show, San Diego County Fair, the Del Mar Racetrack racing season, and the 3-day Kaaboo Festival in the fall.

Mr. Penniman then discussed the RFP process that the 22<sup>nd</sup> District had undertaken for talent procurement and booking. He noted that the preliminary RFP decision had led to challenge from Kaaboo, who had not been selected. The 22<sup>nd</sup> District Board then decided to pull the RFP and to instead book talent in-house, using its own staff. Mr. Penniman noted that that the 22<sup>nd</sup> District internally booked all the live talent for the San Diego County Fair, which was the nation's longest running and 5<sup>th</sup> largest and had a \$3 million annual talent budget. Mr. Penniman concluded by noting that he was aware that Kaaboo had made phone calls and sent a letter to IBank and that he was ready to address any questions the IBank Board may have.

Chair Avdis thanked Mr. Penniman, noted that she had not been contacted by Kaaboo and asked which Board members had. Mr. Jerue said he had not personally. Mr. Juarez confirmed he had taken a meeting and phone calls with representatives for Kaaboo prior to today's meeting and that he had a number of questions.

Mr. Juarez began with questions regarding the feasibility report that supported the conversion of the Surfside facility and whether the report's mention of a local vendor created the appearance of a conflict of interest. Mr. Penniman responded that the vendor had not approached the 22<sup>nd</sup> District, instead the 22<sup>nd</sup> District's Board had consulted with the vendor on preliminary technical issues such as acoustics and seating, provided at no cost. He continued that, based upon this initial technical advice, the 22<sup>nd</sup> District's Board sought to validate their project's financial stability by requesting two separate feasibility studies undertaken by graduate finance students and by undergraduates at Cal State San Marcos. The studies concluded that the financial model for the project was sound and, based upon the studies, Mr. Penniman wrote a white paper that the Board used to decide to move forward on the Surfside project. Currently, the architectural drawings are complete and the project is in the construction bid process. Mr. Juarez asked whether the 22<sup>nd</sup> District was comfortable that these actions did not create a conflict of interest. Mr. Perriman responded that the 22<sup>nd</sup> District's Board was aware of the risk of an appearance of a potential conflict and this was the reason for rescission of the RFP.

Mr. Juarez then asked about Cal State San Marcos' experience in conducting feasibility studies. Mr. Perriman responded that Cal State San Marcos had undertaken a number of such marketing studies for major projects across Northern San Diego County. Mr. Juarez asked for copies of such prior studies.

Mr. Juarez then asked about what portions of the IBank financing would be applied to the Surfside conversion as compared to the environmental remediation portion. Mr. Penniman responded that the distribution of the IBank financing would be driven by what portions of each project required taxable as compared to non-taxable debt. The Surfside project requires taxable debt due to the inclusion of for-profit entities, but the exact numbers are still being determined. The environmental remediation project will be non-taxable. Mr. Penniman noted that tax attorney would brief the Board specifically on this issue at the

March Board meeting. Ms. Teveia Barnes added that the breakdown between taxable and tax-exempt costs could only be determined after the final bids were in hand and costs determined, but that a number of bids were still outstanding. She noted that this breakdown would be finalized in the transaction documents and that the taxable portion of the financing would be funded from IBank equity, and the tax-exempt portion from bond funds. Ms. Nancee Trombley then discussed IBank's invoicing and disbursement procedures for such projects. Mr. Juarez stressed that understanding this breakdown was essential to an informed vote on this application. Ms. Barnes responded that the upcoming Staff Report for the 22<sup>nd</sup> District project would include total cost information for both the environmental and the Surfside conversion projects. Mr. Juarez noted that even an approximate breakdown would help the Board better consider the financing. Mr. Penniman then briefly discussed preliminary project costs (\$12 million for environmental remediation, and \$17 million for the Surfside conversion and related A/C) and amounts that the 22<sup>nd</sup> District had already spent (\$1.5 million on environmental remediation). Mr. Juarez confirmed that some portion of the financing would fund the Surfside project, with the remainder spent on environmental remediation. Mr. Penniman agreed that the environmental mitigation project was large enough to absorb any financing not allocated to the Surfside project.

Mr. Juarez then asked how voiding the RFP might impact operations at the proposed concert facility and whether the 22<sup>nd</sup> District's in-house talent booking staff were a capable substitute. Mr. Penniman noted that the 22<sup>nd</sup> District's CEO would be at the March meeting to specifically address these administrative and operations issues. He briefly discussed the 22<sup>nd</sup> District's in-house talent management and booking experience from its current operations, the District's good industry relationships, and noted the Surfside project was an expansion of work already routinely undertaken by the 22<sup>nd</sup> District. Mr. Juarez suggested that the 22<sup>nd</sup> District's CEO be prepared to discuss its talent booking capabilities as successful booking of top talent would be highly relevant to ability to repay the loan. Ms. Barnes noted that IBank did not include the revenues from the Surfside facility in the loan repayment analysis. Ms. Trombley confirmed that the 22<sup>nd</sup> District had strong historical debt coverage ratios, as high as 2.02 last year, without taking into consideration revenues from the Surfside concert venue. Mr. Juarez asked for a 5-year projection of debt service coverage ratios going forward, from the repayment sources to be pledged to the loan. Mr. Jerue clarified that the 22<sup>nd</sup> District would be using the Surfside revenues for its own purposes, but that these revenues were not included in IBank's underwriting analysis of the proposed loan. Ms. Barnes agreed that IBank had looked at historical revenues and not project specific revenues. Mr. Juarez asked whether conversion of the Surfside facility would impact these historical revenues by reducing the off-track-betting operations. Mr. Penniman responded that the off-track betting facility operations would be retained with capacity to serve their current customer base and only the unused portions of the betting facility would be the subject of the renovation project. Mr. Penniman further noted that, dependent on federal legislative action, the Surfside facility would likely house a sports book betting facility. This new gambling opportunity would be expected to greatly increase betting revenues for the 22<sup>nd</sup> District. Mr. Juarez asked for a comprehensive picture of the revenue sources of the 22<sup>nd</sup> District, beyond what was described in the Staff Report. Mr. Jerue added that it was important for the Staff Report to analyze whether these projects put any historical revenue sources at risk.

Chair Avdis then asked whether the RFP was specifically related to the Kaaboo Festival or was for all cultural events at the Del Mar facilities. Mr. Penniman responded that the RFP was unrelated to the Kaaboo Festival, and was solely focused on booking talent. For the Festival, Kaaboo leased the entire Del Mar facility for the three day festival period under a five year lease with multiple lease options thereafter. Mr. Jerue asked about how various events fit in the busy summer schedule, and Mr. Penniman provided a brief overview of the event dates and how they all fit together.

Mr. Juarez then asked about the 22<sup>nd</sup> District's operation and maintenance plans and capital improvement plans going forward in light of rapid advancements in technology. Mr. Penniman responded that the 22<sup>nd</sup> District annually budgeted for and undertook an extensive operations and maintenance plan to keep the property ready for its various uses. Regarding capital improvements, Mr. Penniman noted that the 22<sup>nd</sup> District was closely watching capital expenditures to determine their utility. As an example he said the 22<sup>nd</sup> District was currently deciding whether to lease or purchase the sound system, noting the risk of technological obsolescence. In the larger view, the 22<sup>nd</sup> District directed capital expenditures to develop the entire fairgrounds complex with harmonious and complimentary uses (such as the beer garden next to the concert venue), thereby maximizing and usage and revenues. Mr. Juarez reiterated his requests for information on the feasibility studies, cash-flow projections, the breakdown between the environmental remediation and Surfside projects, and the 22<sup>nd</sup> District's in-house booking staff, and thanked Mr. Penniman for his time. Mr. Penniman agreed he would bring this information to the March meeting.

Mr. Penniman concluded by noting that he had served on the 22<sup>nd</sup> District Board for 15 years, and had been specifically working on revising and improving the uses of the property for the past 5 years. He noted that there was plenty of demand for use of the property, evidence by over 300 distinct annual events, and that the flexible and multi-use approach the District had decided on sought to capitalize on that economic potential.

Chair Avdis asked whether Mr. Juarez had received answers to all of the questions resulting from his meeting with Kaaboo. Mr. Juarez said he thought so but that he would send additional questions to Teveia to ensure the State Treasurer had all the information needed before making a decision. Mr. Jerue added that he would discuss with his Department of Finance colleagues whether there were any further questions outstanding and be sure to address these to IBank staff.

Mr. Jerue asked whether the final breakdown of the project might impact the interest rate for the financing. Ms. Barnes responded that the interest rate would remain the same if the project closed by the end of May. However, if the project did not close within that time, general increases in interest rates in the market would mean a higher interest rate for this project. Ms. Barnes finished by confirming that the same interest rate would apply to the entire loan.

Chair Avdis thanked Mr. Penniman.

### **Adjournment**

Chair Avdis declared the meeting adjourned at approximately 2:58 p.m.