

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (iBank)
CONDUIT 501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

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| Applicant: | Powerhouse Science Center (“PSC” or “Borrower”) | Par Amount Requested: | Not to exceed \$45,000,000 |
| Applicant Description: | PSC is a California nonprofit public benefit corporation founded in 1951, dedicated to engaging and inspiring children to explore the wonders, possibilities, and responsibilities of science and nature through interactive programs and exhibits. | | |
| Type of Financing: | (1) Tax credit Qualified Zone Academy Bond (“QZAB”), and (2) Tax-exempt Fixed Rate 501(c)(3) Bond (the “501(c)(3) Bond” and together with the QZAB, the “Bonds”). | | |
| Project Description: | The proceeds of the Bonds will be used to (1) construct, renovate, rehabilitate, repair, and/or equip an educational and museum facility at 400 Jibboom Street, Sacramento, California (the “Facilities”), (2) fund a debt service reserve fund, and (3) pay certain costs of issuance in connection with the issuance of the Bonds. | | |
| Project Site: | 400 Jibboom Street, Sacramento, CA 95811 (Sacramento County) | | |
| Plan of Finance: | The Facilities will be financed by issuing the Bonds and loaning the proceeds to the Borrower. The QZAB will be secured by a senior leasehold deed of trust and the 501(c)(3) Bond will be secured by a junior leasehold deed of trust. Each Bond will also be secured by a specific revenue pledge. PSC will have six STEM Academies (a school for Science, Technology, Engineering and Mathematics) at the Facilities, which qualified the Borrower for QZAB financing. | | |
| Type of Issue: | Private Placement | | |
| Tax Status: | Tax credit and tax-exempt | | |
| Term: | 30 years | | |
| Credit Enhancement: | None | | |
| Credit Rating: | N/A | | |
| iBank Fees: | Application Fee \$3,500; Issuance Fee \$55,000; Initial Annual Fee \$2,500 per year | | |
| STO Fees: | Agent for Sale Fee \$8,000 | | |
| Estimated Sources of Funds: | | Estimated Uses of Funds: | |
| QZAB Bond Proceeds | \$19,600,000 | New Construction | \$2,500,000 |
| Tax-exempt Bond Proceeds | \$15,471,000 | Renovation/Retrofit | \$34,698,000 |
| City of Sacramento Grant | \$2,650,000 | Equipment/Furniture | \$8,000,000 |
| PSC Other Donor Pledges | \$9,477,000 | Soft Costs | \$2,000,000 |
| TOTAL SOURCES | \$47,198,000 | TOTAL USES | \$47,198,000 |
| Financing Team: | Bond Counsel: Orrick, Herrington & Sutcliffe Private Placement Agent: George K. Baum & Co. Private Purchasers: BluePath Finance LLC and UMPQUA Bank Trustee: U.S. Bank, National Association | | |

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| <p>Public Benefits:</p> | <p>The Facilities will allow PSC to expand its programs and exhibits and to provide science educational program for students at different grade levels. Construction of the Facilities will also enrich the local economy with the creation of approximately 390 construction jobs and 60 full and part-time employees.</p> <p>The rehabilitation and reuse of the existing historic PG&E Power Station building will result in less adverse environmental impact than would new construction per Preservation Green Lab – National Trust for Historic Preservation analysis on 2011. The Facility is designed to achieve Leadership in Energy and Environmental Designing (“LEED”) certification.</p> <p>PSC expects that the Project will generate annual revenues of approximately \$1.3 million for public agencies in the form of sales taxes (\$1.1 million) and transient occupancy taxes (\$0.2 million).</p> | |
| <p>Date of Board Meeting: December 19, 2017</p> | <p>Resolution Number: 17-23</p> | <p>Prepared by: John Weir on 11/30/2017</p> |
| <p>Staff Recommendation: Staff recommends approval of Resolution No. 17-xx authorizing the issuance of a Conduit Fixed Rate (1) QZAB and (2) 501(c)(3) Bond in an aggregate amount not to exceed \$45,000,000, for the benefit of the Powerhouse Science Center.</p> | | |

BACKGROUND AND HISTORY

The Powerhouse Science Center (“PSC”) was originally founded in 1951 as the California Junior Museum. Beginning as an agricultural and small animal exhibit located on the original State Fairgrounds in Sacramento, CA, the California Junior Museum moved to its present 13 acre campus in 1976 (the “Existing Campus”). Following this move, PSC underwent a series of name changes in an effort to keep pace with the times, ultimately selecting the name “Powerhouse Science Center” in 2013.

PSC is governed by a 20-member Board of Directors (the “PSC Board”) that includes an Executive Committee made up of PSC Board officers and senior staff. The PSC Board manages PSC’s business and affairs, and all corporate powers are exercised by or under its direction. In addition, there are committees that provide guidance and assistance to staff in the areas of finance, development, education, special events and marketing.

PSC currently offers a variety of educational opportunities for children and families in addition to school field trips. PSC currently features four permanent interactive programs: Challenger Learning Center, Dig up the Past, Planetarium, and Hands-on Labs. In addition, PSC offers rotating self-guided exhibits throughout the year.

The Challenger Learning Center is a replica of a NASA mission control room. Participants are able to take on various roles that mimic a real space flight. Typical activities include crafting robotic arms, performing various science experiments, learning about probes, and the process of training and supporting astronauts.

The Dig up the Past archaeology exhibit simulates a full archaeological investigation. During the activity, participants will uncover clues and use scientific inquiry to study the past while using various subjects such as math, history, reading, and science.

The Planetarium has been an exhibit at PSC since the 1950’s. The Hands-on Lab allows participants to engage in age-appropriate experiments and activities from Kindergarten to 8th grade.

PSC also conducts a mobile classroom program in which a PSC representative travels to a school classroom, bringing along either animals, environmental samples, or a combination of both. The PSC representative then discusses with the students the items brought from the PSC. These PSC-led discussions typically wrap-in key aspects of the students’ current curriculum.

Since 2007, the center has been working with the City of Sacramento (“City”) to relocate to the vacant historic PG&E Power Station in order to expand its facilities and exhibits in a high profile location. To accomplish this goal, the City is prepared to provide both upfront and annual financial support to PSC. The target date for relocation and re-opening is the summer of 2020.

On November 7, 2017, the Sacramento County Office of Education received a \$24 million QZAB allocation from the California Department of Education for the Powerhouse Science Center project. QZAB proceeds must be spent on educational programs. In order to qualify for QZAB financing, PSC has designed a curriculum for teaching science, technology, engineering, and mathematics (the “PSC STEM Academy”) with a local educational

agency. The Sacramento County Office of Education (“SCOE”) will work in collaboration with PSC to assist with this initiative as the local educational agency. QZAB proceeds will support qualified expenditures under the QZAB regulations, related to the PSC STEM Academy. The PSC STEM Academy will supplement and enhance science curriculum of other schools. PSC intends to offer a STEM Life Science Academy and a STEM Energy Academy at each of the school grade levels. The curriculum is aligned with California Next Generation Science Standards, approved by the California State Board of Education in November 2016.

The California Secretary of State reports active status for the Borrower. Current leadership is listed in Appendix A.

PROJECT DESCRIPTION

The Borrower is requesting the issuance of a QZAB and a 501(c)(3) Bond in an aggregate amount not to exceed \$45,000,000, in one or more series, to (1) finance the construction, renovation, rehabilitation, repair, and/or equipping of an educational and museum facility at 400 Jibboom Street, Sacramento, California, (2) fund a debt service reserve fund, and (3) pay certain costs of issuance in connection with the issuance of the Bonds.

History of Project Site

The former PG&E Power Station, which will be the centerpiece of the new Facilities, was built in 1912 by noted Bay Area architect, Willis Polk, in the Classical Revival Style that was popular at the time. By 1924, it was operating as the largest steam turbine power plant in the region. By the early 1950’s, it was decommissioned and stripped of all equipment and interior improvements. The building was sold in 1957 to a junkyard operator, whose operations were later discovered to have caused extensive environmental contamination from battery and metal recycling activities. In the early 1960’s, the building was purchased by the State of California as part of a larger parcel for construction of Interstate 5 and remained vacant.

In the late 1990’s the site was classified as a Superfund site by the federal Environmental Protection Agency and received extensive environmental remediation that featured a containment strategy consisting of an earthen clay cap. In 2010, it was designated a national historic site by the U.S. National Register of Historic Places due to its architectural and engineering significance.

The City purchased the site in 2002 in order to build a water intake facility located to the south of the PG&E building. Also, in conjunction with a larger plan (constructing Robert T. Matsui Waterfront Park), the City began efforts to locate an active user for the historic building. In 2007, the City granted PSC the right to repurpose the PG&E building and develop the surrounding site.

Due to neglect, the PG&E building has deteriorated into poor condition. Rehabilitation of the building will require the following:

- Seismic Upgrades: new foundations and a new steel frame building constructed inside the historic concrete walls;
- New roof structure;

- New windows and doors;
- New structure for floors;
- Repairs to exterior historic ornamental plaster;
- New mechanical, electrical and plumbing systems; and
- Interior improvements.

The proposed Facilities will be designed to achieve LEED Platinum certification with a goal to have a zero-net energy facility.

Construction, Occupancy and Lease of Facilities

The Project site currently consists of raw land and the aged and largely unfinished PG&E building (collectively, the “Site”). The City owns the Site and will lease it to the Borrower for a nominal rental payment. The Borrower will cause the construction of the Facilities and then lease the Facilities back to the City in return for the City’s annual rental payment of \$1 million (the “City Lease”). This “lease-leaseback” structure is used to ensure the City’s annual payments to the Borrower will not conflict with the California Constitutional Debt Limit. The City will lease the Facilities back to the Borrower in return for the Borrower’s agreement to operate and manage the Facilities. This final lease is necessary to grant the Borrower a possessory interest in the Facilities sufficient to enable the Borrower to operate within the Facilities.

Project Address

400 Jibboom Street
Sacramento, CA 95811

(see Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet Powerhouse Science Center Date: December 19, 2017

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| Bond Par Amount: | Not to exceed \$45,000,000 in one or more tax-exempt series and one or more taxable series. |
| Bond Types: | Series A Bond: Qualified Zone Academy Bonds (tax credit bond) Series B Bond: Tax-Exempt Bonds |
| Type of Offering: | Private Placement |
| Placement Agent: | George K. Baum & Co. |
| Private Purchaser: | A member bank of Heartland Financial USA, Inc. (Series A Bond) and UMPQUA Bank (Series B Bond) |
| Expected Credit Rating: | No credit rating expected |
| True Interest Cost*: | Series A Bonds: True interest cost not to exceed 6.00% Series B Bonds: True interest cost not to exceed 6.00% |
| Maturity: | Series A Bonds: Final maturity no later than 30 years from the date of issuance Series B Bonds: Final maturity no later than 30 years from the date of issuance |
| Collateral: | Revenue Pledge, Senior Leasehold Deed of Trust on Series A Bonds; Junior Leasehold Deed of Trust on Series B Bonds |
| Closing Date*: | December 22, 2017 |
| Conduit Transaction: | The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds. |

*Please note that interest rate and Closing Date are subject to change.

Financing Structure

Each Bond will be issued and secured under its own trust indenture. The Proceeds of each Bond will be loaned to the Borrower under a separate Loan Agreement. The Borrower's repayment of the QZAB Bond will be secured by a senior leasehold deed of trust, while the Borrower's repayment of the 501(c)(3) Bond will be secured by a junior leasehold deed of trust. Further, repayment of each Bond will be secured by a separate revenue stream. The QZAB will be secured by, and generally payable from, revenues generated from the City Lease. PSC's right to receive payment under the City Lease will be assigned to the trustee under the QZAB indenture. The 501(c)(3) Bond will be secured by, and generally payable from, revenues generated from PSC's operations, including, but not limited to, parking fees, entry fees, donations, and gift shop sales. The QZAB and 501(c)(3) Bond are each deliverable in the form of registered Bonds without coupons in the minimum denomination of \$100,000 or any integral multiple of \$5,000 above that amount.

Qualified Zone Academy Bonds

IBank will issue the QZAB under Sections 54A and 54E of the Internal Revenue Code. The rules governing QZABs require that a State Education Department allocate QZAB volume. The California Department of Education allocated \$24,000,000 to be issued under a QZAB for the Facilities. Programs established with QZABs must have the goal of enhancing the academic curriculum, increasing graduation and employment rates, or better preparing students for college and the workforce. The PSC STEM Academy is designed to satisfy these requirements.

The QZAB program, first authorized under Section 226 of the Taxpayer's Relief Act of 1997, is structured as a tax credit program, where bondholders receive a Federal Government tax credit that approximately equals the interest paid to holders of taxable bonds. The annual federal income tax credit received is based on a tax credit rate set by the U.S. Treasury, multiplied by the par value of the bond sold. After an allowance of a maximum of 2 percent for cost of issuance, 100 percent of the remaining bond proceeds must be used for a "qualified purpose" which includes, but not limited to building renovation, equipment purchase, curricula development, and school personnel training. However, QZABs cannot be used for new construction. The Facilities and the PSC STEM Academy are designed to meet these requirements.

To meet QZAB eligibility criteria, an educational facility must be (i) located in either an Empowerment Zone or an Enterprise Community (as designated by the Federal Government), and (ii) have at least 35% of its students eligible for free or reduced-price lunch under the National School Lunch Act. The educational facility must also have an education program designed in cooperation with business, receive a private contribution, the net present value of which is not less than 10 percent of the proceeds of the bond, and have an education plan that is approved by its local educational agencies ("LEA"), while the students must be subject to the same standards and assessments as other students in the LEA. PSC reports that it has, or will at the appropriate time, satisfy all of these requirements.

Investment in QZABs is restricted to qualified financial institutions, including banks and corporations actively engaged in the business of lending money. The purchase of Series A will be executed by BluePath Finance LLC, a Qualified Institutional Buyer.

Limited Obligations of IBank

The Bonds are payable solely from the Borrower's payments under the transaction documents and the assets pledged thereunder. Neither IBank; nor any of the members of its Board of Directors; nor any of its officers or employees; nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

PUBLIC BENEFITS

Construction and rehabilitation of the historic vacant PG&E Power Station will provide PSC with a larger space to grow its programs and expand its exhibits in a centrally located, high profile venue. An added benefit to the community is the rehabilitation of a deteriorating historic building, owned by the City. The rehabilitation and reuse of the existing historic building will lessen environmental impacts as compared to new construction per the 2011 analysis of Preservation Green Lab – National Trust for Historic Preservation.

Upon completion, the Project will have created approximately 390 construction jobs and will employ 60 full and part time employees. According to PSC, attendance at the Facilities is expected to increase by 92,000 to 300,000 per year, generating an estimated \$27.4 million to \$29.7 million annually in off-site spending for the local economy. PSC expects that the Project will generate annual revenues of approximately \$1.3 million for public agencies in the form of sales taxes (\$1.1 million) and transient occupancy taxes (\$0.2 million).

The PSC STEM Academy at the Facilities will include six programs and will be offered at the primary, intermediate and middle school grade levels. The curriculum will offer a full school day experience intended to supplement and enhance the science curriculum taught on school campuses. PSC has proposed offering a STEM Life Science Academy and a STEM Energy Academy at each of the primary, intermediate, and middle school grade levels. The curriculum is aligned to California Next Generation Science Standards, approved in November 2016 by the California State Board of Education. The SCOE will work in collaboration with PSC to assist with this initiative. SCOE would be the cooperating Local Educational Agency and would serve in an advisory capacity in assisting in the creation and revisions of the curriculum for the PSC Academy.

OTHER PROJECT DATA

| PERMITS AND APPROVAL | |
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| Required? | <input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained. |
| TEFRA | |
| Date of TEFRA Publication: | November 29, 2017 |
| Publications: | <i>The Daily Recorder</i> |
| Date of TEFRA Hearing: | December 13, 2017 |
| Oral/Written Comments: | <input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain: |
| ELIGIBILITY REVIEW | |
| Applicant 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. The Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by the Borrower to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments. See Appendix C for Financial Statements. 4. The proposed financing is appropriate for the Project. |
| 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 No. 17-23 authorizing the issuance of conduit Fixed Rate QZAB and Tax-exempt Bonds, in an aggregate amount not to exceed \$45,000,000, for the benefit of the Powerhouse Science Center.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD MEMBERS

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| Michael Galane, Board President | Retired VP, HP Enterprise |
| Binda Mangat, Vice President | President & CEO, Quorum Technologies |
| Raymond Loyd, Treasurer | Ernst & Young |
| Dr. Judy Kjelstrom, Secretary | Professor, UC Davis |
| Harry Laswell, Member | Self-employed |
| Ray Burnell, Member | Director of Education, CA Catholic Conference |
| Kristen Castanos, Member | Senior Deputy City Attorney, City of Sacramento |
| Celese Chin, Member | Community Organizer |
| Pete Cova, Member | Retired VP, Aerojet Rocketdyne |
| Lennee Eller, Member | City of Sacramento Convention & Cultural Services |
| Patrick Kennedy, Member | Supervisor, Sacramento County |
| Andrew Kramer, Member | Retired Principal, West Office Exhibition Design |
| Kate Meis, Member | Executive Director, Local Government |
| Dusty Miller, Member | Medical Group Administrator, Kaiser Permanente |
| Warren Smith, Member | President, Sacramento Republic Soccer |
| Jon Snyder, Member | CEO, Snyder Commercial Real |
| Anne Staines, Member | President, Sagnet Marketing |
| Sue Stickel, Member | Retired Deputy Superintendent, Sacramento County Office of Education |
| Michele Wong, Member | CEO, Cleanworld |

OFFICERS

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| Harry Laswell | Interim Executive Director |
| Rita Hoffstadt | Deputy Director |
| John Lowe | Director of Finance & Operations |

APPENDIX B: PROJECT PHOTOS



Children examining exhibit in the Hands-on Lab



NASA Mission Control and Apollo Capsule Replicas at the Challenger Learning Center



Audience waiting for Planetarium exhibit



Rendering of New Powerhouse site

