

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	SRI International (“SRI” or “Borrower”)	Par Amount Requested:	Not to exceed \$11,700,000
Applicant Description:	SRI International is a California nonprofit corporation providing research leading to the discovery and application of science and technology for knowledge, commerce, prosperity and peace for various clients in computing, communications and engineering technologies; pharmaceuticals and biotechnology; chemistry and physics; and public policy areas of education, health and economic development.		
Type of Financing:	Conduit Tax-Exempt and/or Taxable Variable Rate Obligations (“Obligations”).		
Project Description:	(1) Refund outstanding IBank Variable Rate Demand Revenue Bonds (SRI International Project) Series 2010 (“Series 2010 Bonds”), the proceeds of which were used to (a) finance and/or refinance the acquisition, construction, improvement, restoration, and general development of existing laboratories in Buildings P (Physical Sciences Division and a portion of Biosciences Division) and T (Biosciences Division); seismic retrofit of Building E (Information Computing Sciences Division and Engineering Sciences Division); and acquisition and installation of site chiller equipment and related infrastructure, and (b) pay the costs of issuance; (2) pay for certain costs of issuance.		
Project Site:	333 Ravenswood Avenue, Menlo Park, CA 94025 (San Mateo County)		
Plan of Finance:	The Borrower intends to refund its Series 2010 Bonds into a bank direct purchase in order to eliminate annual fees, remove remarketing risk and systematic put risk.		
Type of Issue:	Private Placement		
Tax Status:	Tax-exempt and/or Taxable		
Term:	Up to 30 years		
Credit Enhancement:	None		
Credit Rating:	Not applicable		
IBank Fees:	Application Fee \$3,000; Issuance Fee \$45,000; Initial Annual Fee \$1,000 per year		
STO Fees:	Agent for Sale \$6,000		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Tax-Exempt Obligations Par Amount	\$11,700,000	Refunding Series 2010 Bonds	\$11,500,000
		Costs of Issuance	\$200,000
TOTAL SOURCES	\$11,700,000	TOTAL USES	\$11,700,000
Financing Team:			
Bond Counsel:	Kutak Rock LLP		
Private Purchaser:	Wells Fargo Bank, N.A.		

Public Benefits:	<p>Proceeds of the Series 2010 Bonds enabled the Borrower to fund necessary facility improvements to ensure the safety of its workforce, maintain state of the art environments to conduct research activities under contract with governmental and private clients and help foster job growth and business expansion directly and indirectly in California.</p> <p>Refunding the outstanding Series 2010 Bonds is expected to result in cash flow savings of approximately \$40,000 per year by eliminating Variable Rate Demand Revenue Bonds (VRDB) annual fees, which translates into a total estimated present value savings of \$397,000 or 3.5% of the par amount. Refunding will also remove remarketing and systematic put risk, and reduce renewal risk with a longer term direct purchase loan for up to 5 years versus a 1 year letter of credit term.</p> <p>The estimated savings of the refunding will allow SRI to apply the released resources to new research in support of its mission.</p>	
Date of Board Meeting: September 25, 2018	Resolution Number: 18-13	Prepared by: John Weir
Staff Recommendation: Staff recommends approval of the Resolution No. 18-13 authorizing the issuance of Conduit Tax-exempt and/or Taxable Variable Rate Obligations, in an amount not to exceed \$11,700,000, for the benefit of SRI International.		

BACKGROUND AND HISTORY

SRI International (“SRI”), a California nonprofit corporation, was originally founded in 1946 as the Stanford Research Institute with the mission of conducting research leading to the discovery and application of science and technology for knowledge, commerce, prosperity, and peace. SRI International is an independent research and innovation organization serving government agencies, commercial businesses and other nonprofit entities by providing basic and applied research; laboratory and advisory services; technology development and licenses; deployable systems, products, and venture opportunities. The areas of focus include:

- Advanced Technology & Systems
- Biosciences
- Education
- Global Partnerships
- Information & Computing Sciences
- Integrated Systems and Solutions

For over 70 years, the U.S. government, foreign governments, and some of the world’s largest companies have been working with SRI to develop groundbreaking innovations by collaborating with experts to move innovation forward. In the last decade, SRI has conducted more than \$4 billion of sponsored research and development for government agencies and corporate clients.

SRI operates with funding received through research and development contracts, licensing royalties, and revenues generated as a result of spin-off ventures, though most of its funding is from federal government contracts and grants. The revenue generated by the research and development projects, commercialization activities, and marketplace solutions is reinvested in SRI capabilities, facilities and staff to advance its mission. SRI’s annual revenue is approximately \$540 million. SRI’s innovations include:

- The Siri virtual personal assistant (now part of Apple’s iPhone);
- The computer mouse;
- The first comprehensive demonstration of personal computing (video, windows, hypertext and real-time editing);
- The first wired and wireless internet transmissions;
- Automatic check processing for the banking industry;
- Minimally invasive robotic surgery; and
- Ultrasound imaging for medical diagnostics.

SRI moved from the Stanford University campus to its current site and main campus in 1947. The SRI 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 currently employs 1,655 staff of which 1,013 staff are located in Menlo Park Campus, including scientists, engineers, technologists, policy researchers, and corporate and support staff. Many are recognized leaders in their fields with more than 25 percent having doctorates and another 45 percent having advanced degrees. SRI also has facilities throughout the United States and overseas. The Series 2010 Bonds to be refunded financed only projects located in California.

Previous IBank Financing

The Borrower's previous financings with IBank are as follows:

Bonds Issued	Par Amount	Outstanding Balance as of June 30, 2018	Purpose
Series 2003	\$25,000,000	\$0	Acquisition, construction, installation and equipping of research facilities on the Borrower's main campus.
Series 2010	\$15,000,000	\$11,490,000	Acquisition, construction, restoration, general development and improvements and financing of three existing laboratory facilities, and the acquisition and installation of site chiller equipment.
Series 2012	\$18,590,000	\$13,445,000	Refund the outstanding 2003A Bonds and pay certain costs of issuance.

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 the Obligations to refund the Series 2010 Bonds the proceeds of which were used to finance and/or refinance the acquisition, construction, improvement, restoration, and general development to existing laboratory facilities in Buildings P and T; seismic retrofit of Building E; and, acquisition and installation of site chiller equipment and related infrastructure located at SRI's main campus in Menlo Park (the "Facilities") and to pay for certain costs of issuance.

Upgrades to Facilities

Building P houses SRI's Physical Sciences Division and a portion of its Biosciences Division. Due to the activities of the Biosciences Division in the areas such as cancer, infectious diseases, drug addiction and inflammatory diseases, the site needed upgrades due to the chemicals and special materials used in its laboratories. The improvements to Building P included the installation of new fire management systems and upgrades to modernize the existing laboratories to meet client research project requirements.

Building T is also used by the Biosciences Division primarily in the areas of anti-infective therapeutics and vaccines, cancer therapeutics, and brain imaging agents. Improvements to

Building T included replacement of the air handling system of the original building which had exceeded its useful life.

Building E houses SRI's Information Computing Sciences Division and Engineering Sciences Division. The improvements to Building E consisted of seismically retrofitting the building to ensure the safety of its workforce.

SRI also installed a new site chiller next to its existing cogeneration facility and constructed related infrastructure for heating and cooling buildings on campus.

The Series 2010 Bonds were issued in March 11, 2010 with final maturity on September 1, 2031. The Series 2010 Bonds were secured by an irrevocable letter of credit in the amount of \$15,216,987. The letter of credit renews annually.

The Facilities financed with the proceeds of the previous bonds is located at:

333 Ravenswood Avenue, Menlo Park, CA 94025

All of the original projects financed by the Series 2010 Bonds have been completed.

(see Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet SRI International Date: September 25, 2018

Par Amount:	Not to exceed \$11,700,000, in conduit Tax-exempt and/or Taxable Obligations.
Type of Offering:	Private Placement
Private Purchaser:	Wells Fargo Bank, N.A.
Credit Enhancement:	No Credit Enhancement
Expected Credit Rating:	No Credit Rating expected
Interest*:	Variable interest rates, expected to be a percentage of LIBOR plus a spread and subject to adjustment as set forth in the Transaction Documents.
Collateral:	First Deed of Trust on the Facilities
Expected Closing Date*:	October 4, 2018
Conduit Transaction:	The Obligations 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 Obligations.

*Please note that Interest Rate and Closing Date are subject to change.

Financing Structure

The Obligations will be secured by an Indenture and directly purchased by Wells Fargo Bank, N.A. The proceeds of the Obligations will be loaned to the Borrower pursuant to a Loan Agreement. The Indenture permits issuance of multi-modal obligations. Transfer of the Obligations will be limited to Qualified Institutional Buyers and subject to the transfer restrictions set forth in the Indenture.

The Obligations will be structured as variable rate demand Obligations and will include a covenant allowing the Borrower to change to variable interest rate modes with longer terms, or to convert to a fixed interest rate and term.

Limited Obligations of IBank

The Obligations are payable solely from and secured solely by the pledge of the Borrower's payments under the transaction documents. 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 Obligations or

subject to any personal liability or accountability by reason of the execution thereof. The Obligations 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

For over 70 years, SRI has been working with US and foreign governmental and private entities across the globe to develop groundbreaking innovations by collaborating with experts to work on a single issue to move innovation forward. In the last decade, SRI has conducted more than \$4 billion of sponsored research and development for government agencies and corporate clients. SRI employs 1,655 worldwide of which 1,013 work in Menlo Park Campus including scientists, engineers, technologists, policy researchers, and corporate and support staff. Many are recognized leaders in their fields with more than 25 percent having doctorates and another 45 percent having advanced degrees.

Refinancing Prior Bonds

Proceeds of the Series 2010 Bonds enabled the Borrower to fund necessary facility improvements to ensure the safety of its workforce and maintain state of the art environments to conduct research activities under contract with governmental and private clients and help foster job growth and business expansion directly and indirectly in California.

Refunding the Series 2010 Bonds into a bank direct purchase will provide the Borrower present value savings of approximately \$40,000 per year by eliminating VRDB annual fees, which translates into a total estimated present value savings of \$397,000 or 3.5% of the par amount. The refunding will also remove remarketing and systematic put risk, and reduce renewal risk with a longer term direct purchase loan for up to 5 years versus a 1 year letter of credit term.

The estimated savings of the Refunding will allow SRI to apply the released resources to new research in support of its mission.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA	
Date of TEFRA Publication:	9/11/2018
Publications:	<i>The Daily Journal and Daily Recorder</i>
Date of TEFRA Hearing:	9/25/2018
Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all -IBank 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 the Resolution No. 18-13 authorizing the issuance of Conduit Tax-exempt and/or Taxable Variable Rate Obligations in an amount not to exceed \$11,700,000, for the benefit of the SRI International.

APPENDIX A: GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS

<p>Mariann Byerwalter Chairman JDN Corporate Advisory LLC Chairman of the Board, SRI International</p>	<p>Chairman of the Board of SRI International, and serves on the boards of Pacific Life Insurance, Franklin Resources, Inc., Burlington Capital Group, Redwood Trust, Inc., WageWorks, Lucile Packard Children’s Hospital, and Stanford Health Care.</p>
<p>David A. Hoyt Senior Executive Vice President [Retired] Wells Fargo & Company</p>	<p>Serves on the boards of the Montana State University Alumni Foundation and Eagle Hill School</p>
<p>Dr. William Jeffrey President & CEO SRI International</p>	<p>Serves on the board of TE Connectivity (a Swiss company). Also serves on the Office of Director of National Intelligence (ODNI) Technical Advisory Board. He is on the Lawrence Livermore National Lab External Review Committees.</p>
<p>Lt. Gen. Leslie F. Kenne Independent Consultant</p>	<p>Serves on the boards of Harris Corporation and Oshkosh Corporation. [No foreign affiliations.]</p>
<p>Dr. David Liddle Partner Emeritus U.S. Venture Partners</p>	<p>Serves on the boards of AltoBeam, Ltd., Inphi, Public Library of Science, and B612 Foundation. [AltoBeam is registered as a Cayman Islands company, and has its headquarters and operations in Beijing, PRC.]</p>
<p>Deborah Rieman Executive Chairman [Retired] Metamarkets</p>	<p>Serves on the board of Corning. Also serves on the advisory council for a private company called Carbon.</p>
<p>Isaac Stein Founder and President [Retired] Waverly Associates</p>	<p>Serves as Chairman of the Board on the American Balanced Fund, Inc., International Growth and Income Fund, Inc., and The Income Fund of America, Inc. (all affiliated with The Capital Group Companies). He is also a director of The James Irvine Foundation.</p>
<p>Dr. Wendell Wierenga Independent Consultant – Previously EVP of R&D in Biotech/Pharma</p>	<p>Serves on the following public company boards: Cytokinetics, Inc., Apricus Biosciences, Inc., Concert pharmaceuticals, and Ocera Therapeutics, Inc., and three private company boards: Patara Pharma, Crinetics, and Dermata Therapeutics. Also serves on the scientific advisory boards of Ferring Research Institute and aTyr Pharma, and an ongoing advisor to Hovione (Lisbon, Portugal) and the Life Sciences Institute/ University of Michigan.</p>
<p>Laura H. Wright Independent Consultant – Previously Senior Vice President and Chief Financial Officer Southwest Airlines Co.</p>	<p>Serves on the Boards of Directors of TE Connectivity (a Swiss company), CMS Energy and its subsidiary Consumers Energy, and Pebblebrook Hotel Trust. Wright is also a Board of Regent for the University of North Texas System.</p>

<p>Hon. John J. Young, Jr. President JY Strategies, LLC Partner E6 Partners, LLC</p>	<p>Serves on the boards of Saab Sensis Corporation, the Potomac Institute for Policy Studies, Tenax Aerospace, HDT Global, Ultra Electronics, Luminati, and SRI International. He is also an advisory board member with Cubic Defense Applications, FedBid, Liquid Robotics, and SpaceX. Serves on the Executive Advisory Committee of Georgia Tech Research Institute. [Saab Sensis Corporation is foreign. John also consults with Armatek, which is in Canada.]</p>
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OFFICERS

<p>William Jeffrey</p>	<p>Chief Executive Officer</p>
<p>Barry Broadus</p>	<p>Chief Financial Officer</p>
<p>John McIntire</p>	<p>General Counsel</p>
<p>Stephen Ciesinski</p>	<p>President</p>

Note Regarding SRI’s Board of Directors

Bond Counsel confirmed that the following Board Member of the Borrower recused himself from attending the Board of Directors meeting and did not participate in the vote on the Borrower’s Obligations.

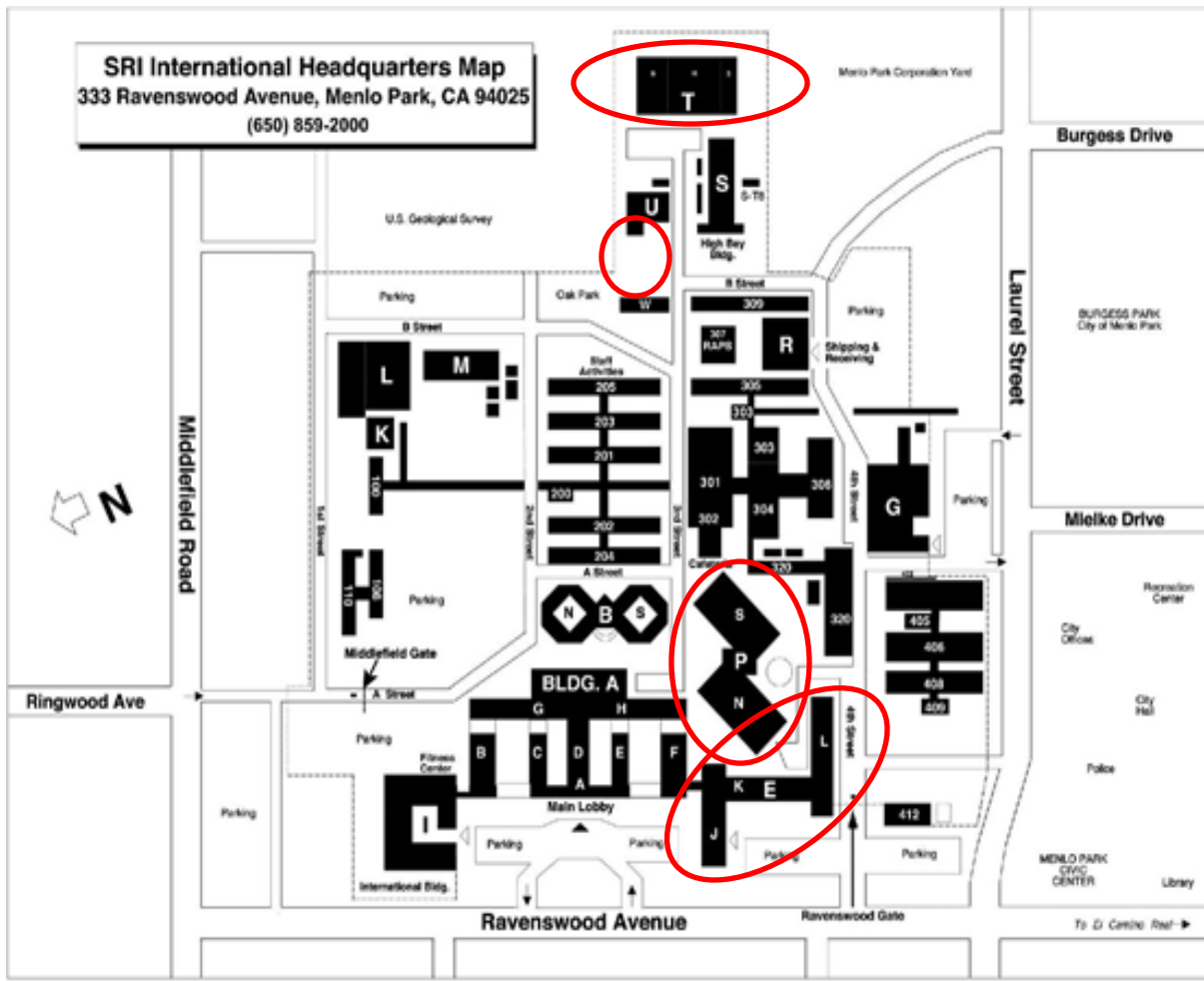
David A. Hoyt

Senior Executive Vice President
[Retired]
Wells Fargo & Company

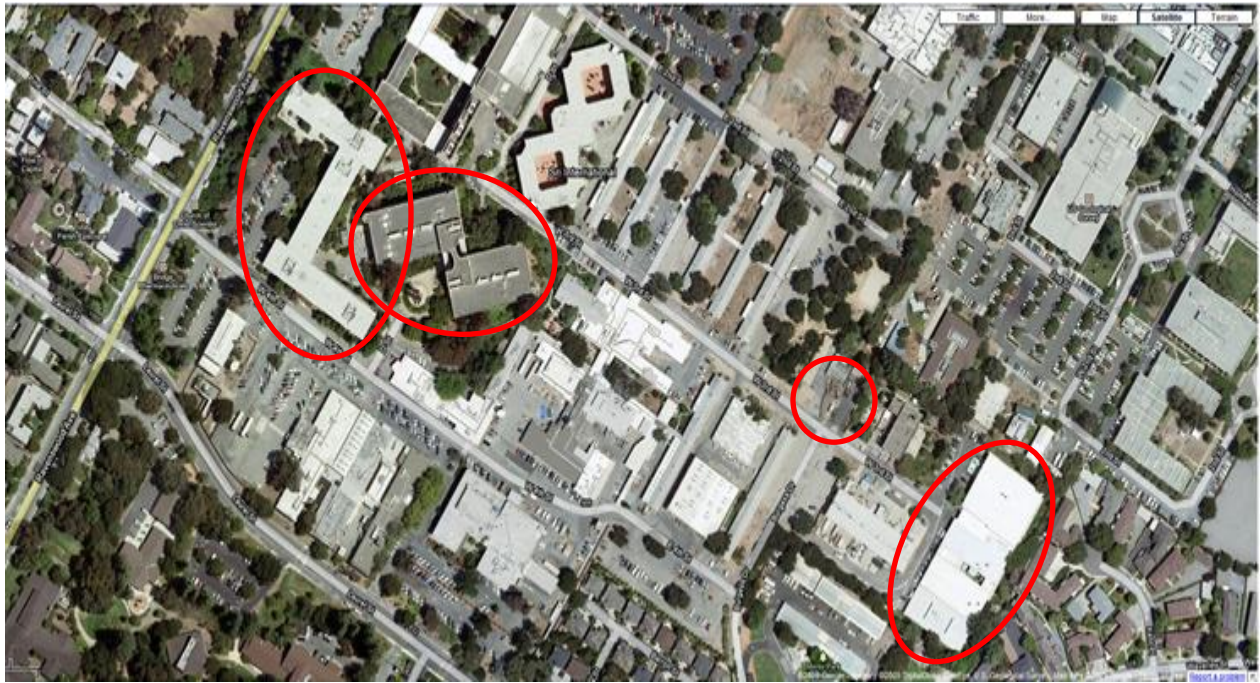
APPENDIX B: PROJECT PHOTOS



Main Entrance to Corporate Headquarters in Menlo Park



SRI International - Buildings E, P and T and where the chiller will be located.



APPENDIX C: FINANCIAL STATEMENTS 2015 – 2017