

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Borrower:</b>	California State Teachers' Retirement System ("CalSTRS")	<b>Par Amount Requested:</b>	Not to exceed \$350,000,000
<b>Borrower Description:</b>	CalSTRS, a component unit of the State of California (the "State"), is the largest educator-only pension fund in the world and the second largest pension fund in the United States. CalSTRS provides retirement, disability and survivor benefits for full-time and part-time California public school preK-12 teachers, community college instructors, and public school administrators.		
<b>Type of Bonds:</b>	Tax-exempt Lease Revenue Green Bonds		
<b>Project:</b>	The proceeds of the proposed California Infrastructure and Economic Development Bank Lease Revenue Bonds ("CalSTRS Headquarters Expansion"), Series 2019 ("Green Bonds")("2019 Bonds") will fund construction of CalSTRS' Phase II headquarters building in the City of West Sacramento (the "Project" or "Phase II") and other costs related to issuing the 2019 Bonds. The Project is adjacent to CalSTRS' Phase I Headquarters Building.		
<b>Project Site:</b>	West Sacramento, CA 95605 (Yolo County)		
<b>Plan of Finance:</b>	The proceeds from the 2019 Bonds would be used to (1) fund Project design, construction, furnishing, and equipping; (2) pay capitalized interest with respect to the 2019 Bonds; and (3) pay certain costs of issuance.		
<b>Type of Issue:</b>	One or more series of publicly offered securities sold in denominations of \$5,000 or any integral multiple of \$5,000 not exceeding the Amount Requested.		
<b>Tax Status:</b>	Tax-exempt		
<b>Term:</b>	Not to exceed December 1, 2049		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Expected ratings of A1 by Moody's Investors Service and A+ by Standard & Poor's and A+ from Fitch Ratings.		
<b>Estimated Sources of Funds:</b>		<b>Estimated Uses of Funds:</b>	
Series 2019 Par Amount	\$289,715,000.00	Project Costs	\$300,000,000.00
Premium	\$52,542,100.40	Capitalized Interest	\$40,131,928.01
		Costs of Issuance	\$1,400,884.89
		Underwriter Discount	\$724,287.50
<b>TOTAL SOURCES</b>	<b>\$342,257,100.40</b>	<b>TOTAL USES</b>	<b>\$342,257,100.40</b>
<b>Financing Team:</b>	<p><b>Bond Counsel</b> – Orrick Herrington &amp; Sutcliffe LLC</p> <p><b>Disclosure Counsel</b> - Stradling Yocca Carlson &amp; Rauth</p> <p><b>Underwriter</b> – RBC Capital Markets LLC, as Senior Manager; Great Pacific Securities as Co-Senior Manager; and such other underwriters as Co-Managers as may be selected by the State Treasurer</p> <p><b>Municipal Advisor</b> - Montague DeRose and Associates, LLC</p> <p><b>Agent for Sale</b> - State Treasurer's Office</p> <p><b>Trustee</b> – Bank of New York Mellon Trust Company, N.A.</p>		

**Public Benefits:**

CalSTRS estimates that issuing the 2019 Bonds will result in a cost savings of approximately \$55.8 million, as compared to the alternate financing plans CalSTRS considered. This cost savings will enable CalSTRS to focus additional funds on providing pension and other post-employment benefits to the State's public school teachers and administrators. Additionally, the Project is designed to achieve a number of environmental certifications. Finally, the Project is designed to include onsite renewable energy, which will assist the Project in being designated as a zero net energy facility.

**Date of Board Meeting:**

August 28, 2019

**Resolution Number:**

19-15

**Prepared by:**

John Belmont

**Staff Recommendation:**

Staff recommends approval of Resolution No.19-15 authorizing the issuance of tax-exempt lease revenue bonds in a par amount not to exceed \$350,000,000 for the benefit of the California State Teachers' Retirement System.

## SUMMARY

The California State Teachers' Retirement System ("CalSTRS") is requesting IBank to issue the California Infrastructure and Economic Development Bank Lease Revenue Bonds (CalSTRS Headquarters Expansion), Series 2019 (Green Bonds) (the "2019 Bonds") to fund the design and construction of CalSTRS' Phase II headquarters building in the City of West Sacramento (the "Project" or "Phase II"), pay capitalized interest on the 2019 Bonds, and pay certain costs of issuance. On November 2018, the CalSTRS Board approved the Project at a cost not to exceed \$300 million (excluding the cost of financing) utilizing bond financing. On May 8, 2019 the CalSTRS Board approved a resolution authorizing CalSTRS to enter into a financing arrangement with IBank in which IBank would issue bonds for CalSTRS in an amount not to exceed \$350 million to finance the cost of the Project, pay capitalized interest, and pay certain costs of issuance.

### **Project Description**

The Project will be located in the City of West Sacramento, adjacent to CalSTRS' existing approximately 409,000 sq. ft. Headquarters building (Phase 1). Phase II will be located on a parcel currently used for surface parking. The approximately 510,000 sq. ft. structure and will consist of five-stories (approximately 260,000 sq. ft.) over a five-level parking garage (approximately 250,000 sq. ft.). The parking structure will provide approximately 450 parking spaces.

Phase II will include a childcare center, café, and general purpose rooms for use by employees and the public. A pedestrian bridge will connect Phase II to Phase I. At full utilization, approximately 1,200 CalSTRS employees are expected to work in the Phase II office space. CalSTRS estimates that Phase II will be complete and ready for occupancy by early-2022. CalSTRS intends to fully occupy Phase II once it is complete. This will result in approximately 200,000 square feet of vacant office space in Phase I. CalSTRS plans to lease the vacant Phase I office space to third-parties until CalSTRS' growth requires its use.

Phase II has been designed to meet the following environmental standards: (1) Leadership in Energy and Environmental Design ("LEED") as issued by the U.S., Green Building Council, (2) WELL Building Standard version 2 ("WELL") as issued by the International WELL Building Institute, and (3) Living Building Challenge Petal Certification ("LBC") issued by the International Living Future Institute. CalSTRS anticipates that Phase II will achieve the following certifications: (1) LEED Platinum, (2) WELL Gold, and (3) LBC Materials, Beauty, and Place Petals. Additionally, the Project will include onsite renewable energy systems. CalSTRS anticipates these systems will assist the Project in being designated a zero net energy facility and will increase the efficiency of the Project's plumbing, mechanical, and electrical systems.

CalSTRS' partners include ZGF Architects LLP (architect), Ridge Capital Inc. (construction manager) and DPR Construction (general contractor). Ridge Capital, Inc. will provide construction management services to include ongoing project oversight through every aspect of the Project from inception through the completion of the warranty period.

### **Green Bonds Designation**

The Project supports green building practices, including green technologies, sustainable construction, energy conservation and whole-building integrated energy efficiency measures, in addition to employee wellness goals. Based on these efforts, the Bonds are expected to be designated as "Green Bonds." CalSTRS listed the Climate Bonds Initiative ("CBI"), an independent non-profit organization specializing in climate change solutions and a certifier of Green Bonds.

In order to receive the CBI certification, CalSTRS appointed Kestrel Verifiers, a third-party CBI approved verifier, to provide verification that the 2019 Bonds meet the CBI standards. Kestrel Verifiers will also provide assurance to CBI that the 2019 Bond proceeds have been allocated properly. In addition, the

certification requires ongoing reporting to CBI through the life of the 2019 Bonds to ensure ongoing eligibility for the certification.

The estimated Project Cost Summary is as follows:

Costs Category	Costs
<b>Hard Costs<sup>1</sup></b>	<b>\$ 231,368,850</b>
<b>Hard Cost Contingency</b>	<b><u>\$23,507,967</u></b>
<b>Total Guaranteed Maximum Price (GMP)<sup>2</sup></b>	<b>\$254,876,817</b>
<b>Owner Contingency<sup>3</sup></b>	<b>\$4,016,213</b>
<b>Soft Costs<sup>4</sup></b>	<b><u>\$41,106,970</u></b>
<b>Total Project Costs</b>	<b>\$300,000,000</b>

1. Includes site work, construction of core and shell, tenant improvements and general conditions and liability insurance.
2. GMP is provided for in the Construction Contract.
3. Contingency funds to be maintained by CalSTRS.
4. Includes architect and engineering fees, pre-development consultant fees, development management fees, test, inspection and permit fees, IT/AV, Furniture, Fixture and Equipment costs and moving expenses.

Please see Attachment C for architectural renderings of the Project.

**BACKGROUND**

CalSTRS was established pursuant to State law in 1913 to provide retirement benefits to California’s public school educators from pre-kindergarten through community college and certain other employees of the public-school system. The Teachers’ Retirement Law (California Education Code Section 22000 et seq.), established CalSTRS to administrator education related retirement plans. The Teachers’ Retirement Board controls the administration of the retirement system plans and the investment of funds, makes rules, sets policies and has the authority to hear and determine facts pertaining to application for benefits under the retirement system. CalSTRS with \$236.9 billion in portfolio assets, as of June 30, 2019 (unaudited), is the largest educator-only pension fund in the world and the second largest pension fund in the United States.

CalSTRS serves over 949,000 members and their families and there are 1,740 contributing employers (school districts, community college districts, county offices of education, charter schools and occupational programs). CalSTRS provides retirement, disability and survivor benefits for full-time and part-time California public school pre-K-12 teachers, community college instructors, public school educators, and public school administrators.

CalSTRS membership status as of June 30, 2018:

Active/Inactive Members	Member Numbers
<b>Active Members</b>	
Vested	315,082
Nonvested	134,473
<b>Inactive Members</b>	
Vested	40,015
Nonvested	158,171
Retirees and Benefit Recipients	301,629
<b>Total</b>	<b>949,370</b>

CalSTRS administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS benefit payments generate approximately \$11.5 billion in economic activity for benefits paid to over 225,000 retirees living in California during CalSTRS fiscal year 2017-18, creating about 92,000 jobs and approximately \$1.2 billion in tax payments to state and local governments.

**Prior debt**

CalSTRS does not have any prior bond debt. Phase I of the Project was financed with CalSTRS own funds.

## PLAN OF FINANCE

### **IBank Term Sheet California State Teachers' Retirement System Date: August 28, 2019**

<b>Bond Par Amount:</b>	Not to exceed \$350,000,000; tax-exempt lease revenue bonds
<b>Type of Offering:</b>	Public Offering in one or more series or combinations
<b>Underwriter:</b>	RBC Capital Markets LLC, as Senior Manager; Great Pacific Securities as Co-Senior Manager; and such other underwriters as Co-Managers as may be selected by the State Treasurer
<b>Credit Enhancement:</b>	None
<b>Expected Credit Rating:</b>	Expected ratings of A1 by Moody's Investors Service and A+ by Standard & Poor's and A+ from Fitch Ratings.
<b>True Interest Cost:</b>	True Interest Cost not to exceed 4.50%
<b>Maturity*:</b>	Not to exceed December 1, 2049
<b>Collateral:</b>	Absolute and unconditional pledge of all base rental payments by CalSTRS pursuant to a Facility Lease
<b>Expected Closing Date:</b>	12/19/2019
<b>Guarantees:</b>	None
<b>Transaction:</b>	The Bonds are special, limited obligations of IBank, 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.

*\*Interest Rate and Maturity are subject to change.*

## **Financing Terms**

The 2019 Bonds will be issued pursuant to a trust agreement by and between The Bank of New York Mellon Trust Company, N.A., as Trustee and IBank. CalSTRS' issuer ratings are Aa3 (positive outlook) from Moody's Investors Service and AA- (stable outlook) from S&P Global Ratings. The anticipated ratings for the 2019 Bonds are A1 from Moody's, A+ from S&P and A+ from Fitch.

A portion of the 2019 Bonds proceeds will be used to fund capitalized interest during the Phase II construction period through expected occupancy, plus an additional six months. Principal payments are expected to begin on October 1, 2023 and end on October 1, 2049. No reserve account will be established with respect to the 2019 Bonds.

CalSTRS plans to sell the 2019 Bonds through a negotiated sale. The 2019 Bonds will be issued only in registered form in minimum denominations of \$5,000 or any integral multiple of \$5,000.

## **SECURITY AND SOURCES OF REPAYMENT FOR THE 2019 BONDS**

CalSTRS will lease the site to IBank pursuant to a site lease. IBank will lease back the site and following commencement of construction thereof, the Project, to CalSTRS pursuant to a facility lease. CalSTRS will be scheduled to make base rental payments to IBank for the lease of the Project once it is ready for occupancy. The base rental payments are payable from any lawfully available funds of CalSTRS, including, but not limited to available amounts in the State Teacher's Retirement Plan and will be applied to pay principal of and interest on the 2019 Bonds. The base rental payments, under the Facility Lease and existing law are continuously appropriated regardless of fiscal year. CalSTRS may abate base rental payments to the extent it does not have beneficial use and occupancy of Phase II.

## **PUBLIC BENEFITS**

The Project will enable CalSTRS to create an additional 1,227 jobs (1,185 CalSTRS staff; 30 contractors; and 12 daycare employees), plus 1,076 temporary construction jobs. The new headquarters will efficiently serve the CalSTRS mission of "securing the financial future and sustaining the trust of California's educators."

CalSTRS estimates that issuing the 2019 Bonds will result in a cost savings of approximately \$55.8 million, as compared to the alternate financing plans CalSTRS considered. This cost savings will enable CalSTRS to focus more of its funds on providing pension and other post-employment benefits to the State's public school teachers and administrators.

Additionally, the Project will be designed to minimize environmental impacts. Instead of utilizing standard energy and material-intensive construction methods, the Project will be designed to achieve LEED Platinum certification, WELL Gold certification, and LBC Materials, Beauty, and Place Petals. The Project design will also include onsite renewable energy systems sufficient to achieve a Zero Net Energy ("ZNE") facility designation. ZNE buildings provide additional resiliency and less reliance on fossil fuels, as well as protection from rising energy costs. Onsite energy generation systems will include photovoltaic panels (PV).

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-15 authorizing the issuance of tax-exempt lease revenue bonds in a par amount not to exceed \$350,000,000 for the benefit of the California State Teachers' Retirement System.

**ATTACHMENT A - GOVERNANCE AND MANAGEMENT**

The CalSTRS Board consists of members serving four-year terms (excluding ex-officio members).

<b>CalSTRS Board Members</b>		
<b>Name/Title</b>	<b>Specialty Position</b>	<b>Expiration of Term</b>
Sharon Hendricks, Board Chair	Elected Member	December 31, 2019
Harry M. Keiley, Board Vice Chair	Elected Member	December 31, 2019
Keely Bosler	Ex-Officio Member, Director of the Department of Finance	
Dana Dillon	Elected Member	December 31, 2019
Joy Higa	Public Representative	December 31, 2021
Fiona Ma	Ex-Officio, State Treasurer	
William Prezant	Public Representative	December 31, 2022
Tony Thurmond	Ex-Officio Member, State Superintendent of Public Instruction	
Nora E. Vargas	School Board Representative	December 31, 2019
Karen Yamamoto	Retiree Representative	December 31, 2019
Betty Yee	Ex-Officio Member, State Controller	

<b>Executive Staff</b>	
Jack Ehnes	Chief Executive Officer
Cassandra Lichnock	Chief Operating Officer
Brian J. Bartow	General Counsel
Christopher J. Ailman	Chief Investment Officer
Julie Underwood	Chief Financial Officer
Ashish Jain	Chief Technology Officer
Lisa Blatnick	Chief of Administrative Services
Vacant	Benefits & Services Executive Officer
Grant Boyken	Public Affairs Executive Officer



ATTACHMENT B – ARCHITECTURAL RENDERINGS



