

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

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	The Salvation Army (Borrower)	<b>Amount Requested:</b>	Not to exceed \$56,000,000
<b>Applicant Description:</b>	The Borrower is a nonprofit religious corporation organized and existing under the laws of the State of California and provides a variety of social services dedicated to improving the quality of life for people and communities in California and the western part of the United States and various territories.		
<b>Type of Financing:</b>	The Borrower requests issuance of \$56,000,000 in conduit tax-exempt fixed rate bonds entitled California Infrastructure and Economic Development Bank Refunding Revenue Bonds, Series 2016 (The Salvation Army Western Territory) (Bonds).		
<b>Project Description:</b>	The project will provide funding to (i) refund the outstanding tax-exempt IBank Refunding Revenue Bonds, Series 2006 (The Salvation Army Western Territory) (Series 2006 Bonds), the proceeds of which were used to finance or refinance the acquisition, construction, renovation, equipping and furnishing of certain capital facilities of the Borrower and (ii) pay costs of issuance (Project).		
<b>Project Site:</b>	<p><b>Community and Day Care Center:</b> 7651 South Central Avenue, Los Angeles, CA (Los Angeles County)</p> <p><b>Administrative Offices:</b> 2320 Fifth Avenue, San Diego, CA (San Diego County)</p> <p><b>Gymnasium:</b> 10200 Pioneer Road, Tustin, CA (Orange County)</p> <p><b>Fine Arts Center:</b> 1532 11th Street, Los Angeles, CA (Los Angeles County)</p> <p><b>Community and Fine Arts Center:</b> 6611 University Drive, San Diego, CA (San Diego County)</p> <p><b>Administrative Headquarters:</b> 180 East Ocean Boulevard, Long Beach, CA (Los Angeles County)</p> <p><b>Temporary Women's Shelter:</b> 1300 South Lewis Street, Anaheim, CA (Orange County)</p> <p><b>Temporary Men's and Women's Shelter:</b> 423 Chapala Street, Santa Barbara, CA (Santa Barbara County)</p>		
<b>Plan of Finance:</b>	IBank will issue conduit, tax-exempt refunding revenue bonds in a principal amount not to exceed \$56,000,000 to (i) refund the outstanding Series 2006 Bonds and (ii) pay the costs of issuance.		
<b>Type of Issue:</b>	Public Offering		
<b>Tax Status:</b>	Tax-exempt		
<b>Term:</b>	21 years		
<b>Credit Enhancement:</b>	None		
<b>Credit Rating:</b>	Moody's [A1], Standard & Poor's [A]		
<b>Fees:</b>	Application Fee \$1,500; Issuance Fee \$55,500 (including STO Fee of \$8,000); Annual Fee \$500 per year		

<b>Estimated Sources of Funds:</b>			<b>Estimated Uses of Funds:</b>	
	Par Amount	\$51,680,000	Escrow Account (Cash Deposit)	\$60,573,062
	Premium	\$8,039,278	Underwriter's Discount	\$267,691
	Transfers from Debt Service Fund	\$1,373,062	Costs of Issuance	\$250,000
			Additional Proceeds	\$1,587
<b>TOTAL SOURCES</b>		<b>\$61,092,340</b>	<b>TOTAL USES</b>	
<b>TOTAL SOURCES</b>		<b>\$61,092,340</b>	<b>TOTAL USES</b>	
<b>Financing Team:</b>				
	<b>Bond Counsel:</b>	Kutak Rock, LLP		
	<b>Underwriter:</b>	Merrill Lynch, Pierce, Fenner & Smith Incorporated		
	<b>Co-Underwriter:</b>	RBC Capital Markets		
	<b>Underwriter Counsel</b>	Latham & Watkins, LLP		
	<b>Financial Advisor:</b>	Hilltop Securities, Inc.		
	<b>Trustee:</b>	The Bank of New York Mellon Trust Company, N.A.		
<b>Public Benefits:</b>	Refunding the outstanding Series 2006 Bonds will provide an estimated net present value savings of over \$9,800,000 compared to the existing debt service. The reduction in debt service will allow the Borrower to reinvest its resources towards its primary mission.			
<b>Date of Board Meeting:</b>		<b>Resolution Number:</b>		<b>Prepared by:</b>
June 28, 2016		16-18		John Weir & John Belmont on 6-6-2016
<b>Staff Recommendation:</b> Staff recommends approval of Resolution No. 16-18 authorizing the issuance of Conduit, Tax-exempt Fixed Rate Bonds, in an aggregate par amount not to exceed \$56,000,000 for the benefit of The Salvation Army Western Territory.				

## BACKGROUND AND HISTORY

The Salvation Army was founded in London, England in 1865 as a not-for-profit international religious organization and charitable movement. The organization is an evangelical part of the universal Christian Church and is operated with paramilitary ranks and uniforms and its mission is to preach the gospel of Jesus Christ and to meet human needs in His name without discrimination. The Salvation Army's international operations remain headquartered in London, and its outreach has expanded to more than 127 countries and provides services in 175 different languages.

In the United States, The Salvation Army is divided geographically into four territories coordinated under the direction of a National Commander and a National Chief Secretary headquartered in Alexandria, Virginia. Each territory is under the leadership of a commander, holding the rank of Commissioner. The territories are organized as separate federally tax-exempt corporations and the National Commander serves as president.

The Salvation Army – Western Territory (Borrower) represents all programs and operations of The Salvation Army within the Western Territory of the United States, and is incorporated as 501(c)(3) corporation. The Borrower conducts operations in the States of Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington and Wyoming, the City of El Paso Texas, Guam, the Marshall Islands and the Federated States of Micronesia. The Borrower's headquarters for the Western Territory is located in Long Beach, California.

The Borrower offers social services to the needy, performing a wide spectrum of sectarian and non-sectarian activities for the communities in which it is located, without any requirement for the beneficiaries to adhere to any religious principles. None of the Borrower's religious activities or functions will be financed with the proceeds of the proposed bonds.

As of December 2015, The Salvation Army ranks as the second largest charity in the U.S. with total revenues of \$4.11 billion. Its sources of revenues consist of public support, fees and grants from government agencies and other revenues, including thrift store sales, and allocations from funding organizations like the United Way. The Borrower is best known for its Christmas-season kettles to collect donations.

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

## PROJECT DESCRIPTION

Proceeds of the Bonds will be used to (i) refund the outstanding IBank Refunding Revenue Bonds, Series 2006 (The Salvation Army Western Territory), the proceeds of which were used to finance or refinance the following capital improvements: (a) a community and day care center at 7651 South Central Avenue in Los Angeles; (b) a gymnasium at 10200 Pioneer Road in Tustin; (c) administrative offices at 2320 Fifth Avenue in San Diego; (d) a fine arts center at 1532 11th Street in Los Angeles; (e) a community and fine arts center at 6611 University Avenue in San Diego; (f) an administrative headquarters at 180 East Ocean Boulevard in Long Beach; and (g) temporary shelters, including a women's shelter located at 1300 South Lewis Street in Anaheim and a men's and women's shelter at 423 Chapala Street in Santa Barbara and (ii) pay costs of issuance. Each such Facility is operated by the Borrower.

**Previous IBank Financing:**

Bond Issue	Par Amount	Outstanding	Purpose
Series 2001	\$100,000,000	\$0	Construction of gymnasiums, shelters, child care center, temporary residence, dining room, community/fine arts centers
Series 2006	\$74,625,000	\$61,000,000	Refunded Series 2001

**Refunding of Prior Bonds:**

The IBank Refunding Revenue Bonds, Series 2006 were issued to prepay and retire the outstanding tax-exempt commercial paper notes issued by IBank in 2001. The refunding transaction provided the Borrower an opportunity to take advantage of fixed rate, long term financing that provided cash flow and debt service certainty for budgetary planning purposes. The 2001 Series financed the community and day care centers, gymnasiums, fine arts classrooms, child development centers, temporary men’s and women’s residences and the Borrower’s administrative headquarters described above.

(see Appendix B--Project Photos)

**ELIGIBILITY FOR FINANCING BY A STATE AGENCY**

As noted above, the Borrower is a California non-profit religious corporation. In connection with the issuance of the conduit Bonds, Kutak Rock LLP (Bond Counsel) provided a memorandum (Memo) to IBank confirming that issuance of the conduit Bonds would not violate applicable constitutional prohibitions of the “establishment of religion” (Constitutional Prohibitions).

Under California law, so long as certain conditions, set forth in opinions of the California Supreme Court are met, the use of Bond proceeds issued by a public entity, such as IBank, for the benefit of a religious institution, such as The Salvation Army, would not violate the Constitutional Prohibitions. Bond Counsel performed the necessary legal analysis and concluded that the proposed issuance of the conduit Bonds by IBank meets the conditions as articulated in the controlling case of California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4<sup>th</sup> 788 (CSCDA) as well as supported by related cases (collectively, Applicable Law).

Applicable Law provides a four-part test for determining whether issuance of government bonds benefiting a pervasively sectarian institution violates Constitutional Prohibitions: (1) bond program must serve public interest and provide no more than incidental benefit to religion, (2) program must be available to both secular and sectarian institutions on equal basis, (3) program must prohibit use of bond proceeds for religious projects, and (4) program must not impose any financial burden on government.

Based on its analysis of Borrower documents and Applicable Law, Bond Counsel concluded in the Memo that the issuance of the conduit Bonds obligations for the benefit of the Borrower meet the conditions of Applicable Law. IBank attorneys reviewed the Applicable Law as well as the Memo and concur in the conclusion that there are no constitutional obstacles to the issuance of the conduit Bonds.

## FINANCING STRUCTURE

### **IBank Term Sheet The Salvation Army Western Territory Date: June 28, 2016**

<b>Par Amount:</b>	Not to exceed \$56,000,000; tax-exempt Bonds
<b>Type of Offering:</b>	Public Offering in one or more series or combinations
<b>Underwriter:</b>	Merrill Lynch, Pierce, Fenner & Smith Incorporated & RBC Capital Markets
<b>Expected Credit Rating:</b>	“A1” from Moody's Investors Service and/or “A” from Standard & Poor's Ratings Services. A rating of at least “A-” required as a condition to closing.
<b>Interest*:</b>	Interest Rate will be fixed upon the sale of the Bonds
<b>Maturity:</b>	Not later than September 1, 2036
<b>Collateral:</b>	Unsecured general obligation of The Salvation Army
<b>Closing Date*:</b>	September 1, 2016
<b>Conduit Transaction:</b>	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**

The Bonds will currently refund the outstanding IBank Refunding Revenue Bonds, Series 2006 (The Salvation Army Western Territory) and be secured by an Indenture and sold through public offering to Bank of America Merrill Lynch, Pierce, Fenner & Smith Incorporated & RBC Capital Markets pursuant to a Bond Purchase Agreement as fixed rate securities in a single series. The Bonds are issuable as fully registered Bonds in denominations of \$5,000 and any integral multiple thereof. The prepayment date of the Series 2006 Bonds is expected to be on September 1, 2016 and the Bonds are scheduled to be closed within 90 days of the prepayment date.

### **Limited Obligations of IBank**

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

The Salvation Army is an international Christian organization dedicated to meeting individual's needs without discrimination. Approximately 82% of donations are used to fund programs in support of those most in need.

The Borrower's charitable programs provided in the Western Territory consist of:

- (i) Adult Rehabilitation Centers (Centers):**  
The Centers provide long-term residential recovery programs for individuals with addiction problem. The program provides education, medical and psychological assistance, individual and group counseling, Twelve Step groups, HIV education and testing, vocational training and counseling and more. Thrift store sales support the Centers programs.
- (ii) Care Group Services:**  
These services include among other activities, community centers that provide education and recreational services, assistance for the poor, disabled and retired, homeless shelters, children's homes, day care centers and camping activities.
- (iii) Silvercrest Residences:**  
The Borrower has established 37 nonprofit public benefit corporations to operate housing facilities for low-to-moderate income elderly. Thirty-four of these housing programs are known as "Silvercrests" and are owned and managed by the Borrower.
- (iv) Emergency Disaster Services:**  
The Borrower's disaster response team comprised of staff and volunteers provide services at disaster sites throughout the world. Services include provision of food and shelter, basic commodities, financial assistance, assistance in reconstruction, and counseling.

A list of services offered include the following:

- Addiction and rehabilitation programs
- Housing and homeless services
- Holiday assistance
- Family thrift stores
- Food programs
- Emergency assistance
- Youth programs
- Kroc centers – recreation, health/fitness, performing arts, after-school programs
- Emergency disaster services
- Senior services
- Missing persons
- Armed services – military personnel, veterans and humanitarian aid
- Maternity Homes – homes for women in need

- Community service clubs – community events
- Counseling – medical, career, family, marriage, substance abuse, violence
- Family services – case work and counseling
- Mentoring programs – services for at risk youth
- Service units – working with other community centers
- Women and children – disadvantage and special needs

### Refunding of the Series 2006 Bonds

The refunding of the outstanding Series 2006 Bonds is expected to result in an aggregate debt service payment savings of approximately \$13,194,184 through 2030. Additionally, the savings from the refunding of the outstanding bonds is estimated by the Borrower to be approximately \$9,872,184 on a present value basis, or 16.18% of the refunded par amount.

The following table displays the debt service savings per year.

<b>Approximate Savings by Year</b>			
<b>Date</b>	<b>Prior Debt Service</b>	<b>Refunding Debt Service</b>	<b>Savings</b>
9/30/2017	\$4,616,123	\$3,957,999	\$658,124
9/30/2018	\$4,617,623	\$3,957,550	\$660,073
9/30/2019	\$4,614,023	\$3,955,550	\$658,473
9/30/2020	\$4,617,423	\$3,958,550	\$658,873
9/30/2021	\$4,619,767	\$3,962,050	\$657,717
9/30/2022	\$4,616,737	\$3,955,800	\$660,937
9/30/2023	\$4,618,775	\$3,960,050	\$658,725
9/30/2024	\$4,613,525	\$3,954,050	\$659,475
9/30/2025	\$4,617,525	\$3,958,050	\$659,475
9/30/2026	\$4,615,025	\$3,956,300	\$658,725
9/30/2027	\$4,616,025	\$3,953,800	\$662,225
9/30/2028	\$4,615,025	\$3,955,300	\$659,725
9/30/2029	\$4,616,775	\$3,955,300	\$661,475
9/30/2030	\$4,613,825	\$3,953,550	\$660,275
9/30/2031	\$4,618,750	\$3,959,800	\$658,950
9/30/2032	\$4,619,675	\$3,959,600	\$660,075
9/30/2033	\$4,618,400	\$3,959,400	\$659,000
9/30/2034	\$4,614,700	\$3,954,000	\$660,700
9/30/2035	\$4,613,350	\$3,953,400	\$659,950
9/30/2036	\$4,618,675	\$3,957,200	\$661,475
	<b>\$92,231,746</b>	<b>\$79,137,299</b>	<b>\$13,194,184</b>

## OTHER PROJECT DATA

<b>PERMITS AND APPROVAL</b>	
Required?	<input type="checkbox"/> <b>NO</b> <input checked="" type="checkbox"/> <b>YES, Describe:</b> All approvals have been obtained.
<b>TEFRA</b>	
TEFRA process not applicable given there is no change in the final maturity date of the refunded bonds.	
<b>ELIGIBILITY REVIEW</b>	
Applicant meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> <b>YES</b> <input type="checkbox"/> <b>NO</b>	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. The Borrower is capable of meeting the obligations incurred under relevant agreements.</li> <li>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.</li> <li>4. The proposed financing is appropriate for the Project.</li> </ol>
<b>INDUCEMENT CERTIFICATE</b>	
Completed?	<input type="checkbox"/> <b>NO</b> <input type="checkbox"/> <b>YES</b> Certificate No.: <input checked="" type="checkbox"/> <b>N/A</b> Date:

## RECOMMENDATION

Staff recommends approval of Resolution No. 16-18 authorizing the issuance of Conduit Tax-exempt Fixed Rate Bonds in an aggregate par amount not to exceed \$56,000,000 for the benefit of The Salvation Army Western Territory.



**APPENDIX A: GOVERNANCE AND MANAGEMENT****BOARD OF DIRECTORS**

Commissioner David Jeffrey	Chairman of the Board
Commissioner James Knaggs	President
Lt. Colonel Douglas Riley	Vice President
Lt. Colonel Victor Doughty	Treasurer
Terry Hughes	Secretary
Lt. Colonel Edward Hill	Director
Commissioner Carolyn Knaggs	Director
Tom Melott	Assistant Treasurer

**OFFICERS**

Commissioner James Knaggs	Territorial Commander
Lt. Colonel Douglas Riley	Chief Secretary
Lt. Colonel Victor Doughty	Secretary for Business Administration
Terry Hughes	General Counsel
Lt. Colonel Edward Hill	Territorial Secretary
Commissioner Carolyn Knaggs	Territorial Secretary for Program
Tom Melott	Territorial Financial Secretary

**APPENDIX B: PROJECT PHOTOS**

**Salvation Army Family Store  
Sacramento**



**Kitchen at the Ray and Joan Kroc Community Center in Suisun City, CA**

