

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
501(c)(3) REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Discovery Science Center of Orange County dba Discovery Cube (Discovery or Borrower)	<b>Amount Requested:</b>	Not to exceed \$18,000,000
<b>Applicant Description:</b>	Discovery is a California nonprofit public benefit corporation, founded in June 15, 1998 that operates as an interactive science center located in Santa Ana, CA, with focus on children up to 14 years old.		
<b>Type of Financing:</b>	Tax-exempt obligations		
<b>Project Description:</b>	The project (Project) involves the following three phases: 1) Renovation of the existing 57,000 square foot Discovery building and the expanded 44,500 square foot California Natural Resources Pavilion scheduled to be completed by June 11, 2015; 2) a new Life Sciences Building and Discovery Environmental Pavilion and construction of a green parking lot scheduled to be completed by 2018; and 3) remaining scope of campus expansion, including buildings, exhibits, and the IMAX Theater estimated to be completed by 2021.		
<b>Project Site:</b>	2500 North Main Street, Santa Ana, CA 92705 and 301 Main Place Drive, Santa Ana, CA 92705 (Orange County)		
<b>Plan of Finance:</b>	<p>IBank will issue fixed rate tax-exempt obligations in the principal amount not to exceed \$18 million (the "Tax-Exempt Obligations") through private placement to Farmers &amp; Merchant Bank of Long Beach (the "Lender") to loan the proceeds of the Tax-Exempt Obligations to the Borrower to a) refinance the costs of the Project (the "Borrower Loan: and together with the Tax-Exempt Obligations, the "Transaction"), b) to provide for the payment of the principal of, premium, if any, and interest on the Tax-Exempt Obligations with revenues derived from the Borrower's payment of the Borrower Loan, and c) to take and authorize certain other actions in connection with the foregoing.</p> <p><b>Type of Issue:</b> Private Placement, Fixed Rate Obligations  <b>Tax Status:</b> Tax-Exempt  <b>Term:</b> 26 Years  <b>Credit Enhancement:</b> None  <b>Credit Rating:</b> Unrated  <b>Fees:</b> Application Fee \$1,500; Issuance Fee \$35,500; Annual Fee \$500 per year</p>		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Direct Loan	\$18,000,000	Construction Loan	\$15,000,000
		Parking Lot/Improvements	2,765,000
		COI	235,000
<b>TOTAL SOURCES</b>	<b>\$18,000,000</b>	<b>TOTAL USES</b>	<b>\$18,000,000</b>
<b>Financing Team:</b>	<b>Bond Counsel:</b> Kutak Rock LLP <b>Borrower's Counsel:</b> Stradling, Yocca, Carlson & Rauth LLP <b>Financial Advisor:</b> Dowdell Consulting <b>Purchaser/Lender:</b> Farmers & Merchants Bank of Long Beach (F&M Bank)		
<b>Public Benefits:</b>	The Discovery's campus expansion projects will allow the Borrower to support over 750,000 children and adults through its educational programs and exhibits. The Project is expected to add 50 additional staff to the Discovery's current 175 staff. Discovery also has over 1500 volunteers, and provides vital and critical educational support programs to moderate to low income students and educators including some of California's most economically distressed areas. The Project will also allow Discovery to reduce its energy and water costs by \$36,000 per year, in addition to reducing debt services costs by \$130,000.		
<b>Date of Board Meeting:</b> 5/26/2015	<b>Resolution Number:</b> 15-09	<b>Prepared by:</b> John Belmont	

**Staff Recommendation:** Staff recommends approval of the Resolution 15-09 authorizing the issuance of Tax-Exempt Obligations in an amount not to exceed \$18,000,000 to be sold to F&M Bank as a direct purchase transaction and loaning the proceeds of the sale of the Tax-Exempt Obligations to Discovery.

## BACKGROUND AND HISTORY

Discovery is an interactive science center located in Santa Ana, CA, which focuses on children up to 14 years old. Discovery is a private 501(c)(3) corporation whose mission is, “to inspire and educate young minds through science based programs and exhibits, to create a meaningful impact on the communities we serve”. Discovery founded in 1998, and has been at its current 59,000 sq. ft. facility in Santa Ana since then.

Since its establishment in 1998, Discovery has not had a major renovation. The new expansion will double the current exhibit space and provide even more hands-on educational programming in support of core initiatives: Science, Technology, Engineering, Math Proficiency, Environmental Stewardship, Early Learning, and Healthy Living.

Discovery has been recognized for its superior quality of education and guest service by national and local media including Parents Magazine, the Travel Channel, the Orange County Business Journal, Best of LA, and the Orange County Register. In addition, it was recently awarded the “National Medal of Service” by the Institute of Museum and Library Services. Discovery is ranked in the top 25 among U.S. science centers for the number of visitors.

Current leadership is listed in Appendix A.

## PROJECT DESCRIPTION

The Discovery Science Center of Orange County - Santa Ana campus expansion is projected to cost \$22 million dollars, which includes all building and exhibit construction development, and the land acquisition and development of property adjacent to Discovery into a surface parking lot. This scope will be scaled into three phases, with priority given to Phase I that generates the highest return on investment via incremental revenues driven by attendance. Project costs and the proposed phases are:

**Phase I:** a renovation of the existing 57,000 square foot Discovery Science Center building, and the expanded 44,500 square foot CA Natural Resources Pavilion. Phase I building improvements will be completed by June 11, 2015.

**Phase II:** A new Life Sciences Building & Discovery Environmental Pavilion, and construction of the Greenest Parking Lot in the World. Phase II improvements are scheduled to be completed by 2018.

**Phase III:** The remaining scope of the campus expansion, including all remaining buildings, exhibits, and the IMAX Theater. The final phase of the improvement plan is estimated to be completed by 2021.

See Appendix B--Project Photos.

## FINANCING STRUCTURE

Discovery is willing to refinance their \$18,000,000 taxable debt (current interest rate - 4%) with F&M Bank, which was used to finance the Phase I expansion, into tax-exempt debt. F&M will purchase the loan on a private placement basis from IBank evidenced by the IBank loan obligation and IBank will loan it to the Borrower evidenced by the Borrower loan under the Loan Agreement. The Loan is non-revolving. Any portion of the Loan repaid may not be relent. Purpose of financing is:

- a) Refunding of the Borrower's prior obligations (the obligations of the Borrower under certain Promissory Note, dated December 17, 2013, in the original aggregate principal amount of \$18,000,000 and currently outstanding in the aggregate principal amount of \$15,000,000.);
- b) To reimburse the Borrower for certain preliminary expenditures uncured in connection with the Project and to pay certain costs of issuance in connection with the loan; and,
- c) To reimburse the F&M Bank for certain closing costs. F&M Bank shall disburse the remaining loan proceeds to the IBank by depositing the portions thereof in the Project fund.

Loan Payments will be made on 1<sup>st</sup> day of each month after the Closing Date based on the following schedule: Interest only from: July 1, 2015 – August 1, 2016; Principal and Interest payments from: August 1, 2016 – June 1, 2041 in the amount of approximately \$99,764.69 based on a 25 year amortization schedule with all outstanding principal and interest due at maturity. Interest rate for the first 10 years will be fixed at 2.95%. The Loan is subject to prepayment but can be extended by the F&M Bank for an additional 15 years.

Discovery will provide 1st Trust Deed & UCC-1 filing on 2500 N. Main Street, Santa Ana, CA & 301 Main Place Drive, Santa Ana, CA (both Project sites) including all development assets of the project as collateral to F&M Bank.

The Discovery may select to prepay the loan. Per Loan Agreement, a premium will be applied to the amount of principal and interest amount due at the time of prepayment. The premium (expressed as percentage of the amount to be prepaid) which shall apply only to the portion of prepaid principal of the loan during any consecutive 12-month period in excess of 10% of the principal amount outstanding at the time of the prepayment is:

<b><u>Prepayment Date</u></b>	<b><u>Prepayment Premium</u></b>
After June 1, 2015 and before May 31, 2016	3.0%
On or after June 1, 2016 and before May 31, 2017	2.0%
On or after June 1, 2017 and before May 31, 2018	1.0%

This financing will reduce interest expense while by implementing the Project it will improve Discovery's energy and water usage. Discovery has partnered with the City of Santa Ana and Southern California Edison in a net reduction of its carbon footprint and reduced water usage. Discovery will be able to reduce its energy and water costs by \$36,000 a year, and reduce debt service costs by \$130,000.

## Limited Obligations of IBank

None of IBank, its officers, its employees or any person executing this Loan Agreement on behalf of IBank shall be liable personally on IBank Loan Obligation or subject to any personal liability or accountability by reason of the execution hereof. IBank Loan Obligation is a limited obligation of IBank, payable solely from and secured by the pledge of the Payments hereunder. Neither IBank, the members of its Board of Directors, the State of California, nor any of its political subdivisions shall be directly, indirectly, contingently or morally obligated to use any other moneys or assets to pay all or any portion of the debt service due on IBank Loan Obligation, to levy or to pledge any form of taxation whatever therefor or to make any appropriation for their payment. IBank Loan Obligation is not a pledge of the faith and credit of IBank, the State of California or any of its political subdivisions nor do they constitute indebtedness within the meaning of any constitutional or statutory debt limitation. IBank has no taxing power.

IBank shall not be liable for payment of the principal of, Prepayment Premium, or interest on the Loan or any other costs, expenses, losses, damages, claims or actions of any conceivable kind on any conceivable theory, under or by reason of or in connection with this Loan Agreement or any other documents, except only to the extent amounts are received for the payment thereof from the Borrower under this Loan Agreement.

## PUBLIC BENEFITS

The Projects is being funded with tax-exempt proceeds, which will allow Discovery to support over 750,000 children and adults through its educational programs and exhibits. Discovery's exhibits, field trips and assembly programs allow kids to think and have hands on experiences. It also offers professional development for educators to provide cutting-edge methods for instruction, high quality lesson plans, and hands-on activities to integrate into the classroom. Currently Discovery employs more than 175 staff, in addition to the over 1,500 volunteers, enabling Discovery to deliver programs throughout Los Angeles, Orange, Riverside and San Bernardino counties. The Project will further allow Discovery to expand their programing and add 50 additional staff as a direct result of this financing. In addition, Discovery provides vital and critical educational support programs for moderate to low income students and educators through its programs to some of California's most economically distressed areas.

In addition to hosting permanent and traveling science exhibits at its Santa Ana campus, Discovery also offers off-site programs in schools including science classes, a national after school program, teacher professional development, and science camps, reaching approximately 250,000 people in the community in addition to the 458,000 visitors in the past fiscal year.

### Accomplishments:

- "National Medal of Service" – In 2013, First Lady Michelle Obama and The Institute of Museums and Library Services honored Discovery for making significant and exceptional contributions to its community. It is only the fifth science center in the US, and the first in California, to receive this award.



## APPENDIX A GOVERNANCE AND MANAGEMENT

BOARD OF DIRECTORS	
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MR. ROBERT MYERS	CHIEF FINANCIAL OFFICER & CHIEF OF STAFF, WEST COAST REGION, WELLS FARGO
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MS. CINDY OMIYA SECRETARY	SENIOR VICE PRESIDENT & CONTROLLER, THE CAPITAL GROUP COMPANIES

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MR. JAMES "WALKIE" RAY	GENERAL PARTNER, SANDERSON J. RAY DEVELOPMENT
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MR. DEL STAGG, PH.D.	COMMUNITY LEADER

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Mike McGee	Vice President and Chief Financial Officer & Human Resources
Janet Yamaguchi	Vice President - Education
Kellee Preston	Vice President - Operations
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\* Kirk Dowdell, Financial Advisor, has confirmed that "Mark [Skaist] recused himself from any Board decision to retain Stradling."

APPENDIX B PROJECT PHOTOS





