

CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)

STAFF REPORT

EXECUTIVE SUMMARY

Borrower:	California State Teachers' Retirement System ("CalSTRS")	Par Amount Requested:	Not to exceed \$19,000,000
Borrower Description:	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.		
Type of Bonds:	Tax-exempt Lease Revenue Green Bonds – Climate Bond Certified		
Project:	The proceeds of the proposed California Infrastructure and Economic Development Bank Lease Revenue Bonds ("CalSTRS Headquarters Expansion"), Series 2022 (Green Bonds) ("2022 Bonds") will provide funds to (i) complete the construction, furnishing and equipping of an expansion to the existing headquarters of the California State Teachers' Retirement System ("CalSTRS") (the "Project") in the City of West Sacramento, California; and (ii) pay costs of issuance of the 2022 Bonds.		
Project Site:	100 Waterfront Place, West Sacramento, CA 95605 (Yolo County)		
Plan of Finance:	The proceeds from the 2022 Bonds would be used to (1) fund the Project and (2) pay certain costs of issuance.		
	<p>Type of Issue: 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.</p> <p>Tax Status: Tax-exempt</p> <p>Term: Not to exceed December 1, 2049</p> <p>Credit Enhancement: None</p> <p>Credit Rating: Expected ratings of A+ from Standard & Poor's and A+ from Fitch Ratings.</p>		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Tax-exempt Bond Proceeds	\$18,310,000	Project Fund Deposit	\$18,500,000
Premium	\$663,589	Costs of Issuance	\$363,729
		Underwriter Discount	\$109,860
TOTAL SOURCES	\$18,973,589	TOTAL USES	\$18,973,589
Financing Team:	<p>Bond Counsel – Stradling Yocca Carlson & Rauth</p> <p>Disclosure Counsel - Stradling Yocca Carlson & Rauth</p> <p>Underwriter – To be selected by the State Treasurer (if negotiated sale) or pursuant to a competitive sale</p> <p>Municipal Advisor - Montague DeRose and Associates, LLC</p> <p>Agent for Sale - State Treasurer's Office</p> <p>Trustee – The Bank of New York Mellon Trust Company, N.A.</p>		

Public Benefits: The Project has been designed to meet a number of environmental Standards and CalSTRS anticipates the new building will achieve LEED Platinum, WELL Gold, and LBC Materials, Beauty, and Place Petals, and ZNE respectively.

The projected present value savings of bond financing the Project is approximately \$3.2 million compared to funding the Project directly from the CalSTRS Trust fund.

The Project, at full utilization, will provide working space for approximately 1,200 CalSTRS employees. The 2019 Bonds and 2022 Bonds related Project has created 1,076 temporary construction jobs.

Date of Board Meeting:
November 16, 2022

Resolution Number:
22-15

Prepared by:
John Belmont

Staff Recommendation: Staff recommends approval of Resolution No. 22-15 authorizing the issuance of tax-exempt lease revenue bonds in a par amount not to exceed \$19,000,000 for the benefit of the California State Teachers' Retirement System.

SUMMARY

The California State Teachers' Retirement System ("CalSTRS") is requesting IBank to issue the 2022 Bonds to fund completion of the Project. The Project will be acquired, designed, constructed, and equipped with proceeds of the 2019 Bonds or the 2022 Bonds, together with site development, landscaping, utilities, fixtures, furnishings, equipment, improvements, and appurtenant and related facilities, situated on the Site, and any Substituted Property. On November 2, 2022, 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 \$19 million to finance the cost of the Project and pay certain costs of issuance.

Project Description

The Project is located in the City of West Sacramento, on a ten level, approximately 510,000 square foot structure, consisting of a five level, approximately 260,000 square foot office structure atop a five level, approximately 250,000 square foot parking structure. The office structure includes approximately 36,000 square feet of active ground floor for a childcare center, café, and general purpose rooms for use by employees and the public, as well as the building lobby. The Project will be located on an approximately 1.1 acre parcel. The parking structure portion of the Project is an extension of the existing garage and is expected to provide 480 additional parking spaces. The Project, at full utilization, will provide working space for approximately 1,200 CalSTRS employees. The Project is adjacent to, and will be connected with, CalSTRS' existing headquarters building. Construction of the Project began in August 2019 with site clearing activities, structural foundation work commenced November 19, 2019 and substantial completion of the Project is expected to occur no later than March 28, 2023.

The Project is approximately 75% complete as of September 2022, with the foundations, parking and building structure completed, including 85% of the curtainwall and roof completed. The Project is expected to be substantially completed by March 28, 2023. The final six months of construction is primarily dedicated to completing the interior building construction, startup and testing of the mechanical and electrical systems, installation of the perforated metal garage panels and closing up the curtainwall in December. All of the major mechanical and electrical equipment is installed, all of the critical interior finish materials are stored onsite, and all of the supporting utilities are connected. During the first quarter of 2023, the interior finishes will be completed, the furniture installed on the office floors, and the fire life safety systems will be commissioned. All required permits have been issued, and the CalSTRS Project team has meetings with local agencies overseeing the Project. The Project was initially scheduled for completion in July 2022. However, unusual circumstances caused delays such as the plan check duration caused by a labor shortage at the California Office of the State Fire Marshall, which is the authority having permitting jurisdiction. Due to staffing constraints caused by the heavy fire season in 2020 and restrictions due to the COVID-19 pandemic, it took fifteen months, rather than the planned 6 months to obtain the final permits. Once the final permit was obtained, subsequent further code interpretations were issued by the inspection staff. This coordination effort lasted until June of 2022, when the final schedule impacts were resolved. There can be no assurances that a resurgence of COVID-19 will not cause additional delays. The primary remaining risks are the standard ones for high rise construction. Final interpretations of the approved documents by the Fire Marshall can also result in delays. To mitigate these risks the design and construction team has prepared a written procedure for testing and commissioning of the critical systems and scheduled extended time for these activities.

Revised Project Cost Summary

In addition to the delays in completion of the Project, total cost of the Project is projected to exceed the initial estimates. The table below is summary of the currently projected costs of the Project. The remaining projected costs of the Project (approximately \$91.1 million) will be paid from remaining unspent proceeds of the 2019 Bonds, and the proceeds of the 2022 Bonds.

Cost Types	Original Budget (as of 12/15/19)	Costs to Date (as of 9/30/22)	Projected Costs to Complete	Total Projected Project Costs
Hard Costs	\$240,897,497	\$189,123,445	\$64,217,920	\$253,341,365
Hard Cost Contingency	\$7,141,879	\$3,361,413	\$3,780,466	\$7,141,879
Owner Contingency¹	-	-	\$5,849,931	\$5,849,931
Total GMP²	\$248,039,376	\$192,484,858	\$73,848,317	\$266,333,175
Soft Costs	\$44,104,938	\$34,733,359	\$15,427,711	\$50,161,070
Owner Contingency¹	\$7,855,686	\$192,788	\$1,812,967	\$2,005,755
Overall Project Cost	\$300,000,000	\$227,411,005	\$91,088,995	\$318,500,000

1- Contingency funds are maintained by CalSTRS. As of September 30, 2022, the Owner Contingency is about \$7.7 million, which will be partially depleted by two change orders to be processed in Oct in the approximate amount of \$4.4 million.

2- Guaranteed Maximum Price.

Green Bonds Designation and Environmental Benefits

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 enlisted 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 2022 Bonds meet the CBI standards. Kestrel Verifiers will also provide assurance to CBI that the 2022 Bond proceeds have been allocated properly. In addition, the certification requires ongoing reporting to CBI through the life of the 2022 Bonds to ensure ongoing eligibility for the certification.

The Project has been designed to meet various environmental standards, including Leadership in Energy and Environmental Design (“LEED”) standards issued by the U.S. Green Building Council, WELL Building Standard version 2 (“WELL”) issued by the International WELL Building Institute and Living Building Challenge Petal Certification (“LBC”) issued by the International Living Future Institute. CalSTRS anticipates the new building will achieve LEED Platinum, WELL Gold and LBC Materials, Beauty, and Place Petals, respectively. CalSTRS intends to apply for these certifications once the Project is completed, however it is not obligated to do so. The Project will also include onsite renewable energy to assist CalSTRS in achieving a zero net energy facility which will provide more efficient mechanical, electrical, and plumbing systems while minimizing maintenance costs.

CalSTRS Prior Green Bonds – Climate Bond Certified

IBank issued CalSTRS Headquarters Expansion, Series 2019 (Green Bonds – Climate Bond Certified) (“2019 Bonds”) on December 19, 2019 in the principal amount of \$272,605,000 with the True Interest Cost (TIC) of 3.209%. The outstanding balance of the 2019 Bonds as of Oct 31, 2022 is \$272,605,000.

Please see Attachment B 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 administer 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. As of June 30, 2022, CalSTRS employed over 1,200 staff statewide. CalSTRS, with \$301.6 billion in portfolio assets, as of June 30, 2022 (unaudited), is the largest educator-only pension fund in the world and the second largest pension fund in the United States.

CalSTRS serves over 1,002,000 members and their families and there are 1,800 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 administers a hybrid retirement system consisting of a defined benefit plan, two defined contribution plans, a post employment benefit plan and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS benefit payments generated approximately \$13.4 billion in economic activity to over 237,410 retirees living in California during CalSTRS fiscal year 2021-22

PLAN OF FINANCE

IBank Term Sheet California State Teachers' Retirement System Date: November 16, 2022

Bond Par Amount:	Not to exceed \$19,000,000; tax-exempt lease revenue bonds
Type of Offering:	Public Offering in one or more series or combinations
Underwriter:	To be selected by the State Treasurer (if negotiated sale) or pursuant to a competitive sale
Credit Enhancement:	None
Expected Credit Rating:	Expected ratings of A+ from S&P Global Ratings and A+ from Fitch Ratings.
True Interest Cost*:	True Interest Cost not to exceed 5.75%
Maturity*:	Not to exceed December 1, 2049
Collateral:	Absolute and unconditional pledge of all base rental payments by CalSTRS pursuant to a Facility Lease, as amended by the First Amendment to Facility Lease.
Expected Closing Date:	12/22/2022
Guarantees:	None
Transaction:	The 2022 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 2022 Bonds.

**True Interest Cost and Maturity are subject to change.*

Financing Terms

The 2022 Bonds are being issued under and pursuant to the Trust Agreement dated as of December 1, 2019 by and between The Bank of New York Mellon Trust Company, N.A., as Trustee and IBank, and a First Supplement to the Trust Agreement, to be dated December 1, 2022. The 2022 Bonds are payable from revenues and available amounts in certain funds and accounts established under the Trust Agreement on a parity with the 2019 Bonds. CalSTRS plans to sell the 2022 Bonds through a negotiated sale pursuant to a Bond Purchase Agreement or a competitive sale pursuant to a Notice of Sale. The method of sale will be determined by the State Treasurer, as agent for sale for the 2022 Bonds and CalSTRS. The 2022 Bonds will be issued as fully registered bonds without coupon in denominations of \$5,000 and any multiple thereof.

The obligation of CalSTRS to make base rental payments will commence after the construction of the Project is substantially complete, which is expected to be no later than March 28, 2023. The 2019 Bonds debt service payment will commence on August 1, 2023. CalSTRS will use the amounts on deposit in the Capitalized Interest Fund (established at the time of issuance of the 2019 Bonds) to pay debt service of the 2019 Bonds due on February 1, 2023. Concurrently with the issuance of the 2022 Bonds, CalSTRS will deposit legally available funds with the Trustee in an amount sufficient to pay debt service with respect to the 2019 Bonds and the 2022 Bonds on August 1, 2023. Total 2019 Bonds Debt Service due on August 1, 2023 that will be paid at the Closing of the 2022 Bonds is \$11,860,125. The estimated 2022 Bonds Debt Service due on August 1, 2023 to be prepaid at the Closing will be approximately \$1,079,736, resulting in the total estimated Debt Service prepaid amount to be approximately \$12,939,861.

No reserve fund was established for the 2019 Bonds and no reserve fund is being established with respect to the 2022 Bonds.

SECURITY AND SOURCES OF REPAYMENT FOR THE 2022 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 2022 Bonds. The base rental payments, under the Facility Lease and existing law are continuously appropriated regardless of fiscal year.

PUBLIC BENEFITS

The Project has been designed to meet a number of environmental Standards and CalSTRS anticipates the new building will achieve LEED Platinum, WELL Gold, and LBC Materials, Beauty, and Place Petals, and ZNE respectively.

CalSTRS, could complete the Project by tapping into the Trust Fund for additional funds; however, CalSTRS cost of borrowing internally would be about 7% in comparison with the estimated cost of bond financing at about 4.36%. The projected present value savings of bond financing the Project is approximately \$3.2 million compared to funding the Project directly from the CalSTRS Trust fund.

The Project, at full utilization, will provide working space for approximately 1,200 CalSTRS employees. The 2019 Bonds and 2022 Bonds related Project has created 1,076 temporary construction jobs.

RECOMMENDATION

Staff recommends approval of Resolution No. 22-15 authorizing the issuance of tax-exempt lease revenue bonds in a par amount not to exceed \$19,000,000 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).

CalSTRS Board Members		
Name/Title	Specialty Position	Expiration of Term
Harry M. Keiley	Board Chair, K-12 Classroom Teacher	12/31/2023
Sharon Hendricks	Board Vice Chair, Community College Instructor	12/31/2023
Denise Bradford	Board Member, K-12 Classroom Teacher	12/31/2023
Michael Gunning	Board Member, Public Representative	12/31/2025
William Prezant	Board Member, Public Representative	12/31/2022
Fiona Ma	Ex-Officio Member, State Treasurer	-
Joe Stephenshaw	Ex-Officio Member, Director of Finance	-
Ken Tang	Board Member, School Board Representative	12/31/2023
Tony Thurmond	Ex Officio Member, State of California Superintendent of Public Instruction	-
Jennifer Urdan	Board Member, Public Representative	12/31/2023
Karen Yamamoto	Board Member, Retiree Representative	12/31/2023
Betty Yee	Ex-Officio Member, State Controller	-

Executive Staff	
Cassandra Lichnock	Chief Executive Officer
Lisa Blatnick	Chief Operating Officer
Brian J. Bartow	General Counsel
Christopher J. Ailman	Chief Investment Officer
Julie Underwood	Chief Financial Officer
Ashish Jain	Chief Technology Officer
Melissa Norcia	Chief of Administrative Officer
William Perez	Chief Benefits Officer
Teresa Schilling	Public Affairs Officer

ATTACHMENT B – ARCHITECTURAL RENDERINGS