

Stanislaus County Orchestrates Funding for Gallo Center for the Arts

By Patty Hill-Thomas, Assistant Executive Officer, Stanislaus County

In these days when county budgets in California are as taut as a violin string, I am thrilled to share the story of how a non-profit entity and our County Board of Supervisors together are making beautiful music in downtown Modesto. This unique partnership is responsible for the awe-inspiring feat of obtaining financing for the construction of the \$34 million Gallo Center for the Arts. This is the story about the vision and commitment of so many members of the Stanislaus County community to make the dream of a world-class arts facility in downtown Modesto come true.

Since 1997, the County of Stanislaus and a group of civic-minded citizens have been working together to build an unparalleled arts center. The County Board of Supervisors spearheaded the effort by committing \$15 million toward the \$34 million project. The land for the project, which is owned by the County, is valued at \$2.5 million and Stanislaus County vowed to provide the remaining \$12.5 million through bond financing.

“The Gallo Center for the Arts is a core opportunity for the County to invest in the community and partner with our citizens,” says Ray Simon, Chair of the Stanislaus County Board of Supervisors. “Even during the recent economic downturn, our citizens have invested their own money and joined the Board in its efforts to spark a better economy and to improve the quality of life in our county seat.”

Inspired by the County’s commitment, the Ernest and Julio Gallo families contributed \$10 million and the Mary Stuart Rogers Foundation donated \$5 million to create an endowment fund for the arts center. This endowment will be used to help offset the cost of operating the center; therefore, keeping ticket prices affordable, allowing local groups to rent the center at a reduced rate, and ensuring the long-term success of the center. The Stanislaus County Board of Supervisors voted to name the new center the “Gallo Center for the Arts” in honor of the family’s contribution.

Following these initial financial commitments, over 2,200 individual donors and local companies have pledged or contributed over \$17 million to the Central Valley Center for the Arts (CVCA), the non-profit entity that has partnered with the County for the construction of the Gallo Center for the Arts.

“The Gallo Center will be a vibrant community asset that puts Stanislaus County and Modesto on the map,” says Fred Silva, Chairman of the CVCA Board. “It will be the only facility of its kind in the Central Valley.”

In return for its investment of the land and approximately half of the construction costs, Stanislaus County will be the sole owner of the Gallo Center. The CVCA will pay the County \$1 annually for the right to operate the facility.

Setting the Stage for Success

To ensure the Gallo Center’s success, Stanislaus County oversaw the critical aspect of financing for the project. The County is recognized for its prudent fiscal management, always setting our debt capacity in the context of the County budget. Stanislaus County utilizes a Debt Advisory Committee, which is a broad group of county employees who represent a diverse range of departments, from public works to the county treasurer. Through this open public process, we identify debt opportunities and limitations in relation to the County’s short and long-term budget models.

When CVAC came to the County with a pledge commitment for its half of the construction budget, the County’s Debt Advisory Committee went to work. Stanislaus County identified a need to finance not only the construction of Gallo Center, but also the construction of a new parking garage and office building in downtown Modesto. The office building will house County employees and the parking garage will be used by those employees during the day and by the Gallo Center for events at night. Also, Stanislaus County sought funding to reimburse the County for the acquisition and renovation costs associated with the Salida Regional Library and Community Center. In all, Stanislaus County identified a need to finance nearly \$42.8 million in bonds for construction, retirement of former debt and interest payments.

Choosing the Conductor

Stanislaus County has a long-term relationship with David Leifer, a KNN vice president who assists public agencies and non-profit organizations in structuring and selling debt obligations for capital projects and provides financial consulting. Leifer worked with Stanislaus County and CVCA for over two and a half years, serving as the “conductor” of a financing plan as complex as Beethoven’s Fifth Symphony.

While Stanislaus County waited for the CVCA to solidify its funding for construction, we asked Leifer to investigate several financing options for the County’s Certificate of Participation (COPs) bonds. At an early stage of the financing, we sought to issue the COPs in a variable rate mode to balance the County’s overall debt portfolio, which is currently composed of fixed rate COPs only.

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However, in the Fall of 2003, the County Administrative Office and the Debt Advisory Committee reconsidered the variable rate approach because of historic low fixed rates and financial uncertainty resulting from the State budget crisis. Therefore, the County determined that it would be more prudent to proceed with fixed rate COPs and KNN responded.

The overall financing plan for the Gallo Center relied on an approximately \$19.7 million contribution from CVCA towards construction. Since most of the CVCA's Capital Campaign pledges were to be received over many years, Stanislaus County was concerned about the non-profit's ability to raise its share of the construction cost in time for the award of a construction contract. At the County's urging, CVCA retained KNN to issue Conduit Revenue Bonds, secured by the organization's Capital Campaign pledges, operating revenues and endowment fund. Leifer recommended that the bonds be issued in floating rate mode to allow CVCA to pay them off as pledges were received.

The difficulty in obtaining this first stage of funding for the non-profit was three-fold. First, the CVCA was a new organization with no operating history. Second, the CVCA had no real property interest in the Gallo Center itself. Finally, the CVCA was reluctant to use its endowment fund as collateral, but eventually relented. Bank of America provided the non-profit with a letter of credit and the financing proceeded in March 2004. We supported CVCA again by allowing Stanislaus County's financing authority to serve as the conduit issue of the bonds, thus saving the CVCA \$25,000-\$50,000 in costs that would have been paid to an alternative conduit issuer.

"David Leifer was very professional and took the time to explain financing details to our Board," said Silva. "Overall, the bond financing was a good process for CVCA."

Now that the non-profit's financing was in hand, Stanislaus County was ready to finance its portion of the arrangement. Based on the County's operating agreement with CVCA, the COPs issued for the Gallo Center were treated as 501 (c) (3) financing with greater tax restrictions. This non-profit designation required the Board of Supervisors to conduct a TEFRA hearing prior to issuance. Thus, the bonds were broken into two series: \$15,340,000 Series A Certificates of Participation (COPs) for Gallo Center and \$27,455,000 Series B COPs for the parking garage/office building construction project and Salida Library reimbursement funds. The Series A COPs were secured solely by a pledge of the Gallo Center for the Arts. Unencumbered by the 501(c) (3) restrictions, the Series B COPs were secured by a pledge of several County assets.

While the Stanislaus County Administrative team had met with Moody's Investor's Service to provide them with an update on our finances prior to issuing the COPs, the County elected to sell the

COPs with no underlying ratings for fear that the Series A COPs would obtain a lower rating based on its collateral. As a final preparatory step to issuing the COPs, KNN obtained a bond insurance commitment for the COPs on the County's behalf. The bond insurance provided the COPs with a rating of 'AAA' from Moody's and saved the County approximately \$667,000 of debt service cost as compared to uninsured COPs rated 'A3.'

"KNN and David Leifer provided a tremendous bridge between the non-profit and government entities involved in this financing," said Monica Nino-Reid, Stanislaus County's Deputy Executive Officer. "They were always providing constructive feedback and making a real team effort to educate our staff and Board regarding the intricacies of public finance."

"Despite an extremely difficult market for California bonds, Stanislaus County achieved a very favorable result," said Leifer. "The long wait to finalize the financing plan between the non-profit and the County paid off with low interest rates for the COPs and great savings over the life of the bonds."

Economic Impact Provides a Dramatic Finale

When it opens in the fall of 2007, the Gallo Center will have a \$4.8 million annual budget and will generate approximately \$15 million in business each year. Additionally, Stanislaus County anticipates the Gallo Center will assist in recruiting new business and industry to the county; will be a catalyst for increasing local hotel, restaurant, recreational and retail profits; will increase tax revenue; and will promote the development of downtown Modesto.

"The one unwavering factor in the Gallo Center's success has been the financial and moral support of the County of Stanislaus," said Silva. "We believe that our relationship exemplifies how government and the private sector can work together for the good of the community. This has been a win-win for everyone."

To witness a world-class arts center rising from the construction site in downtown Modesto after all these years is truly phenomenal. Our citizens, the CVCA, our bond advisors and counsel, the Board of Supervisors and our untiring staff made an incredible project team from start to finish. Despite the complex private and public finance efforts required to get us to this point, I am proud to say that helping make the Gallo Center a reality is the highlight of my career in public service.

Patty Hill-Thomas is Assistant Executive Officer for Stanislaus County. A life-long resident of Modesto, she looks forward to attending her first concert at the Gallo Center for the Arts.