

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

*Request to Approve Issuance of Tax-Exempt Bonds and Transfer Industrial Development Bond
(IDB) Allocation*

**Kingsbury Real Estate Holdings, LLC
Application No. 14-0001**

February 18, 2014

SUMMARY

Borrower/Project Sponsor and User – Kingsbury Real Estate Holdings, LLC
and/or a related entity

Issuer – Association of Bay Area Governments Finance Authority for Nonprofit Corporations

Location – Yuba City, Sutter County

Requested IDB Allocation – \$3,400,000

Public Benefit Points Awarded – 71 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

Kingsbury Real Estate Holdings, LLC (the Company) is a family owned Philadelphia based leader in design and manufacturing of tilt-pad fluid film thrust and journal bearings for all types of rotating machinery with a service center located in Yuba City. The Company opened its Yuba City facility in 2007 to provide 24/7 emergency repair and field service support of all makes of hydrodynamic babbitted thrust, journal and combination bearings. Many of its customers are considered the largest Original Equipment Manufacturers (OEMs) in the power generation, petroleum and defense industries including, but not limited to, General Electric, Siemens, Mitsubishi, Nuovo Pignone, Dresser-Rand, U.S. Navy, U.S. Army Corps of Engineers, and U.S. Bureau of Reclamation.

The principal stockholders of the Company are as follows:

Diana and Matthew Calderon, Co-Trustees of Erskine B. K. Calderon Credit Shelter Trust	6.409%
Diana Calderon, Trustee of Erskine B. K. Calderon	

Marital Trust	4.737%
Palm & Company:	
R. Kingsbury Chase (David)	10.809%
Alison M. Chase	11.498%
Margaretta M. Clulow	
Revocable Trust, Co-	
Trustees, C. Swiggart & E.	
Clulow	17.277%
Geoffrey deMers (Trust)	11.733%
Theodora deMers (Trust)	10.560%
Alison Bishop Jolly	5.133%
Alison Bishop Jolly	
Testamentary Trust Alison	
B. Jolly, Trustee	11.733%
Various (less than 3%)	<u>10.111%</u>
Total:	<u>100%</u>

THE ISSUER

The ABAG Finance Authority is a Joint Powers Agency formed to help eligible nonprofits and other borrowers to gain access to tax-exempt debt financing. ABAG simplifies the debt issuance process for both the borrower and the jurisdiction in which the borrower is located by issuing conduit tax-exempt bonds or certificates of participation to finance projects with demonstrated public benefit. Projects financed by ABAG have involved facility acquisition and rehabilitation, equipment acquisition, and new construction.

THE PROJECT

Bond proceeds will be used to finance and refinance the acquisition and development of a new approximately 33,000 square foot facility to be located in Yuba City. The new facility will be utilized for the design, manufacture and repair of babbited fluid-film thrust and journal bearings associated systems, including fixtures, furniture and equipment. The project is expected to be completed by September 15, 2014.

Anticipated Project and Issuance Costs

	To be paid from <u>bond proceeds</u>	To be paid from <u>all other sources</u>
Acquisition of Land	\$ 0	\$675,000
Site Preparation	724,000	0
Construction of New Building(s)	1,932,000	325,000
Utilities Connection	219,000	0
Acquisition and Installation of Used Equipment	125,000	0
Other	<u>400,000</u>	<u>0</u>
Totals	<u>\$3,400,000</u>	<u>\$1,000,000</u>

Timeline

Construction of the facility began on January 2, 2014 and is expected to be completed by September 15, 2014.

Financing Details

The tax-exempt IDBs will be sold on a private placement basis in accordance with CIDFAC's private placement policy¹ to Brown Brothers Harriman & Co., which is a qualified institutional buyer (QIB) as defined by the U.S. Securities and Exchange Commission (SEC) Rule 144A. Brown Brothers Harriman & Co. will purchase the bonds for its own investment portfolio. The bonds are expected to have a fixed interest rate ranging from 2.5 to 3.5 percent as quoted by Brown Brothers Harriman & Co. and accepted by the Company.

Financing Team

- Issuer: ABAG Finance Authority for Nonprofit Corporations
- Private Placement Provider: Brown Brothers Harriman & Co.
- Bond Counsel: Meyers, Nave, Riback, Silver & Wilson

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 71 points out of a possible 147 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

A. Community Economic Need (13 of 25 points).

1. Unemployment Rate of the Project Area (10 of 10 points). In accordance with CDLAC Regulations, points are awarded in this category if the 2012 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2012 statewide rate. The unemployment rate of this Project area is 185.71 percent of the statewide rate. Therefore, the Project received 10 points in this subcategory.

2. Poverty Rate of Project Area (3 of 5 points). In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this

¹ The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a sophisticated investor as defined under SEC Rule 144A.
- The sophisticated investor must sign a "traveling" sophisticated investor letter, which will outline the requirements and restrictions related to sophisticated investors and will follow the bonds in the event the bonds are re-sold or traded at a later date.
- The security for the private placement debt must be collateral provided by the Borrower.
- The bond will be issued in a minimum denomination of \$250,000.

case is Census 2012 data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate is at least 110 percent or more of the statewide rate. The poverty rate for this Project area is 5.6 percent, which is 36.6 percent of the Census 2012 statewide rate of 15.3 percent. Therefore, the Project received 3 points in this subcategory.

3. Special Designation Area (0 of 5 points). The Project is not located in a special designation area.

4. Median Family Income (0 of 5 points). In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2012, is used to determine if the Project qualifies for points in this category. Points are awarded if the Project is located in an area with a median family income of less than 80 percent of the statewide average. The Project is located in the City of Yuba City where the average median family income is \$80,417. The median family income for the State of California is \$69,883. So, the median family income for the Project area is 115.1 percent of the statewide average. Therefore, the Project received 0 points in this subcategory.

B. Job Creation (20 of 35 points). Points are awarded in this category based on the borrower and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion. The company represents that it currently employs 13 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 3 direct, full-time employees, which equates to a 23.08 percent increase, within two years of completion of the Project. Therefore, the Project received 20 points in this subcategory.

C. Job Retention (0 of 10 points). Points are awarded in this category based on the Borrower's or User's representation that it has considered moving operations out of state. There was no such representation in the application materials received, and therefore the Project received no points in this category.

D. Average Hourly Wage (10 of 10 points). In accordance with CDLAC Regulations, the most recent data from the Bureau of Labor Statistics, which in this case is May 2012, is used to determine if the Project qualifies for points in this category. Points are awarded if the company's average hourly wage is at least 105 percent of the nearest Metropolitan Statistical Area (MSA) average hourly wage. The company's average hourly wage is \$34.49, while the MSA for Yuba City area had an average 2012 manufacturing wage of \$22.24. Therefore, the company's average hourly wage is 155.08 percent of the average manufacturing wage for the Yuba City area. Therefore, the Project received 10 points in this subcategory.

E. Workforce and Economic Development (3 of 15 points).

1. Welfare-to-Work Plan (0 of 5 points). The Company did not provide any information indicating participation in a welfare-to-work program.

2. Workforce Training (0 of 5 points). The Company did not provide information indicating participation in a workforce training program.

3. Exports Outside California (3 of 5 points). The Company provided information indicating that it exports products outside of California.

F. Health Care Benefits (15 of 15 points). The Company provided documentation that it contributes to medical insurance for 13 of its 13 employees. This contribution translates into an average of \$1,022.73 per month toward the health care benefits for each covered employee. The Company represents that it will offer the same health care benefits to new employees.

G. Payment of Retirement Benefits (5 of 5 points). The Company provided information indicating the contribution to payment of retirement benefits for its employees.

H. Environmental Stewardship (0 of 27 points).

1. Land Use (0 of 3 points). This Project does not involve the reuse of vacant or abandoned land or buildings.

2. Public Transit Corridor (0 of 4 points). The Company did not provide verification that the Project site is located within a public transit corridor.

3. Energy Efficiency and Renewable Energy (0 of 15 points). The Company did not provide information regarding the Project's energy efficiency.

4. Manufacturer of Certified Environmentally Preferable Products (0 of 5 points). The Company did not provide information indicating that the Project produces or will produce environmentally preferable products.

I. Leveraging (5 of 5 points). The total Project cost is \$4,400,000. The Company will borrow \$3,400,000 million of the Project costs in the form of tax-exempt IDB financing, which will cover approximately 77.3% of the Project costs. The remaining 22.7% of Project costs will be covered by the Borrower's equity or other funds. In accordance with CDLAC Regulations, points are awarded in this category if the taxable debt of the project is 10% or greater of the bond amount. Therefore, 5 points were awarded in this category.

RELOCATION OF COMPANY OPERATIONS

The Company is relocating to a location on the same block as the existing leased facility. The existing lease has expired and it cannot be renewed on reasonable economic terms. This relocation will improve manufacturing and working conditions such as climate control and is intended to facilitate expansion in the long term.

QUALIFICATION OF BOND ISSUANCE

Based on the proposed financial structure, the application and other materials submitted to CIDFAC for this Project, staff believes the bonds (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Final determination of qualification of the bonds will be subject to staff's review of final bond documents prior to the issuance of the bonds.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

- The ABAG Finance Authority for Nonprofit Corporations approved the Inducement Resolution in an aggregate amount not to exceed \$3,500,000 in tax-exempt IDBs for the Project on January 15, 2014. ABAG Finance Authority for Nonprofit Corporations is scheduled to adopt a final resolution for the Project on March 31, 2014.
- A TEFRA hearing was held by the City Council of the City of Yuba City on January 7, 2014.
- The Project site is zoned M2 by the City of Yuba City. This allows for industrial development of a parcel of at least one acre and has no square feet per acre or floor area ration (FAR) requirements.

LEGAL QUESTIONNAIRE

Staff reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of the company.

PRIOR ACTIONS AND FINANCINGS

None.

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250² and will pay a closing fee of up to \$8,500.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 14-0001 for \$3,400,000 in tax-exempt bonds and Allocation Resolution No. 14-2-001 for \$3,400,000 in tax-exempt IDB allocation for the ABAG Finance Authority for Nonprofit Corporations for the Kingsbury Real Estate Holdings, LLC Project. Staff's recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel's opinion as set forth in Initial and Final Resolution No.14-0001.

Staff report by: Andrea Gonzalez

² California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**INITIAL AND FINAL RESOLUTION OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 14-0001**

WHEREAS, the Association of Bay Area Governments Finance Authority for Nonprofit Corporations (the “Applicant”) has transmitted the application of Kingsbury Real Estate Holdings, LLC (the “Project Sponsor”) for the issuance of \$3,400,000 in tax-exempt bonds under the provisions of the California Industrial Development Financing Act, and has transmitted said application to the California Industrial Development Financing Advisory Commission (the “Commission”) and the information necessary to permit review of said application by the Commission, and has informed the Commission that it has adopted a resolution declaring its intention to issue such bonds and that the City of Yuba City held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Applicant; and

WHEREAS, the Commission has reviewed the application and the materials submitted with the application.

NOW, THEREFORE, the Commission resolves as follows;

Section 1. The Commission, based on its review of the application and the information submitted therewith, does determine that the public benefits described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the total principal amount of \$3,400,000; and

Section 2. The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

Section 3. The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) the Bond Counsel Opinion, when ready for execution, shall be submitted to Commission staff;

(b) the final legal documents, when ready for execution, shall be submitted to Commission staff for its review. Submitted documents shall include:

- (i) Financing Agreement,
- (ii) Tax Certificate and Agreement, and;

(iii) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(c) the Commission staff shall determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which are based the findings under Section 2. above;

(d) the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(e) the Commission shall receive all applicable fees prior to the issuance of the bonds, unless the bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(f) the Project Sponsor agrees to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

Section 4. This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

Section 5. In compliance with the provision of the California Industrial Development Financing Act (Section 91574 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 14-2-001
RESOLUTION TRANSFERRING A PORTION OF THE 2014 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, that the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

WHEREAS, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

WHEREAS, the Commission has received an application (“Application”) from the Association of Bay Area Governments Finance Authority for Nonprofit Corporations (“Applicant”) requesting a transfer to the Applicant of a portion of the 2014 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Procedures of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Procedures”)); and

WHEREAS, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

WHEREAS, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

WHEREAS, it is appropriate for the Commission to make a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

NOW, THEREFORE, the California Industrial Development Financing Advisory Commission resolves as follows:

Section 1. An amount of the State Ceiling equal to \$3,400,000 shall be deemed to be transferred by the Commission to the Applicant. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

Section 2. The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

Section 3. Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director or Deputy Executive Director and, if the Executive Director or Deputy Executive Director determines such modification to be material in

light of the Commission's Procedures, such modification shall require reconsideration by the Commission before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

Section 4. Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director or the Deputy Executive Director.

Section 5. The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

Section 6. The potential Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director or the Deputy Executive Director may extend this date by up to five (5) business days.

Section 7. Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the project or program, the date the Allocation was used, and the amount of the Allocation used.

Section 8. Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC a completed Report of Action Taken. In addition, the Applicant shall provide the Commission with a copy of the final Official Statement, Private Placement Agreement, or other appropriate sale document.

Section 9. Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date, the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

Section 10. The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

Section 11. The Applicant and the Project Sponsor shall comply with all of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided

however, that the Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

Section 12. The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

Section 13. This Resolution shall take effect upon its adoption.

EXHIBIT A

**RESOLUTION NO: 14-2-001
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: ABAG Finance Authority for Nonprofit Corporations
2. Application No.: 14-0001
3. Borrower, Project Sponsor and User: Kingsbury Real Estate Holdings, LLC and/or a related entity
4. Project Name: Kingsbury Real Estate Holdings, LLC Project
5. Project Description: Acquisition and Installation of New Equipment and New Facility.
6. Address: 219 Burns Drive
Location: Yuba City, CA 95991
County: Sutter County
7. Amount of Allocation: \$3,400,000
8. The Borrower has represented that it reasonably expects to use its best efforts to achieve the following within two years of the completion of the Project :
 - Creation of 3 additional direct, full-time positions.