

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION  
INDUSTRIAL DEVELOPMENT BONDS**

**Meeting Date: March 20, 2007**

***Request for Initial Resolution and Final Resolution and Tax-Exempt Bond Allocation Approval***

Prepared by: *Patricia Tanous*

<b>Issuer:</b> California Statewide Community Development Authority	<b>Amount Requested:</b> \$10,000,000 (TE)
<b>Borrower:</b> Western Milling, LLC and/or its affiliates	<b>Application No.:</b> 07-0005
<b>User:</b> Western Milling, LLC and/or its affiliates	<b>IR &amp; FR No.:</b> 07-0005
<b>Location:</b> City of Famoso, Kern County	

**Borrower/User:** Western Milling, LLC (“the Company” or “Western Milling”) incorporated in November 2000 in California. Shareholders are Kruse Investment Company (66.2%). The remaining 33.8% is held by Kruse family members and other investors, each of whom hold no more than a 7% interest. Western Milling, LLC and/or its affiliates will be the Borrower of the bond proceeds and the User of the facility.

The Company headquarters is in Goshen, California. The Company manufactures feed and grain for the dairy industry and for animal sack feed for independent animal feed stores, zoos and thoroughbred horse racing operations. The Company’s Goshen facility is one of the largest single grain milling operations in the country.

**Background:** In December 2003, the Company purchased approximately seven acres in Famoso, California. At that time, the goal was to expand the grain receiving and milling operations in Kern County to provide better product and delivery services to the large number of existing and newly-constructed dairies in the southern part of the San Joaquin Valley. The construction of the facility began in May 2006 and was completed in January 2007. The benefits of purchasing the Famoso location included shortened delivery routes. The main function of the Famoso facility is to receive commodities shipments of corn and dried distillers grain (a by product from the production of ethanol in the mid-West), process it into feed, and deliver it to the dairies generally within a 90 mile radius. The new facility also will enable the Company to store, process and deliver other commodities such as canola, cotton seed and corn gluten for use in animal feed.

**Project Information:** Bond proceeds will be used to reimburse the Company’s cost to construct state-of-the-art grain rolling facility, commodity barn, and a rail spur, which allows the Company to bring 100 car unit trains from the Union Pacific main line.

**Anticipated Timeline:** Construction began in May 2006 and was completed in January 2007.

**Prior Actions/Financing:** None.

**Local Government Support:** Assembly member Nicole M. Parra (representing the 30<sup>th</sup> Assembly District) submitted a letter expressing her support for the Project (Attachment A). The

letter states that the Company has made substantial economic contributions to the area in recent years.

**Statutory Criteria:** 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

- 1) **PUBLIC BENEFITS:** The staff assigned a total of 35 verifiable points to the Project, which are detailed below:

**Community Economic Need (15 points):**

**Unemployment Rate of Project Area (5 points):** The unemployment rate for the Project area is 7.6%, while the statewide average unemployment rate in California is 4.8%. Therefore, the unemployment rate for the Project area is 158% of the statewide rate.

**Poverty Rate of Project Area (5 points):** The poverty rate for the Project area is 21.2%, which is 159.39% of the statewide average of 13.3%.

**Median Family Income (5 points):** The Project is located in Kern County, where the median family income is \$24,190 (information gathered from the City of McFarland, which is the closest city to Famoso that collects income information). Given that the median family income for the State of California is \$61,476, the median family income for the Project area is 39.35% of the statewide average.

**Employment Benefits (Job Creation/Retention = 0 points):** Although the Company did not meet the minimum point threshold for job creation, the Company represents it currently employs 25 employees to support the activities at the Famoso facility and anticipates hiring an additional six employees to support the Famoso facility within two years of Project completion.

**Health Care Benefits (5 points):** The Company provided documentation of its contribution to the medical and dental insurance for its 17 of its 25 employees and their families. The contribution translates into an average of \$672.82 per month toward the health care benefits per employee. The remaining eight employees have declined the Company's medical and dental benefits.

**Average Hourly Wage (5 points):** The Company's average hourly wage is \$22.74, while the Metropolitan Statistical Area (MSA) for Bakersfield has an average manufacturing hourly wage of \$15.92. Therefore, the Company's average hourly wage is 143% of the MSA wage for Bakersfield.

**Land Use/Energy Efficiency (5 points):** The Company provided letters from Effective Air Systems Corp. and Cunningham & Associates that verify that all equipment provided

for the Project was supplied with energy efficient motors. Furthermore, the Company provided a letter from Blair Electric stating that all lighting fixtures and motors installed by Blair Electric in Western Milling’s Famoso facility are California Title 24 Energy Compliant (see Attachments B, C, & D).

**Leveraging (5 points):** The total cost for this Project is \$16,796,159. The Company plans to finance the Project with \$10,000,000, or 60% of the cost, in tax-exempt bonds and with \$6,796,159, or 40%, in a conventional loan.

- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will remain at its current location.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just, and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

**Status of Permit/Other Required Approvals:** California Statewide Community Development Authority (CSCDA) adopted a resolution approving the financing of the Project on July 20, 2006.

A TEFRA Hearing was held on December 12, 2006, by the Board of Supervisors of Kern County approving the issuance of revenue bonds by the California Statewide Communities Development Authority (CSCDA). No comments were received in support of or in opposition to the Project.

The Company received Authority to Construct permits from the San Joaquin Valley Air Pollution Control District in May 2006. Construction was completed in January 2007. The San Joaquin Valley Air Pollution Control District requires that the facility operates for at least 60 days prior to inspection for its Permit to Operate. This inspection is expected to occur in March 2007.

**Financing Details:**

**Type of Offering:** Public Offering  
**Fixed/Variable:** Variable Rate  
**Loan Term:** 25 years  
**Credit Enhancement:** Direct-Pay Letter of Credit from Bank of the West  
**Bond Rating:** At least “A+/A-1” Standard & Poors or another nationally recognized rating agency.

**Financing Team:**

**Issuer:** CSCDA  
**Bond Counsel:** Gilmore and Bell, P.C.  
**Underwriter:** W.R. Taylor & Company, LLC

**Legal Questionnaire:** The Staff has reviewed the Borrower's/User's responses to the questions contained in the Legal Status portion of the Application. There was no information disclosed that raises questions concerning the financial viability or legal integrity of the applicants.

**Recommendation:** Staff recommends approval of Initial and Final Resolution Nos. 07-0005 in an amount not to exceed \$10,000,000 of tax-exempt bonds for Western Milling, LLC and/or its affiliates, which is subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinions and CDLAC allocation approval as set forth in the Initial and Final Resolution No. 07-0005.

**Borrower/User: WESTERN MILLING,  
LLC AND/OR ITS AFFILIATES**

**Total Bond Amount: \$10,000,000 (TE)**

California Statewide Community  
Development Authority (CSCDA)

City of Famoso, Kern County

Application No. 07-0005

March 20, 2007

**STAFF SUMMARY – CIDFAC**

**Prepared by:** *Patricia Tanous*

**ISSUE:**

On behalf of Western Milling, LLC and/or affiliates (the “Borrower”), the CSCDA (the “Issuer”) requests approval of the Initial and Final Resolution No. 07-0005 for an amount up to \$10,000,000 in tax-exempt bonds. The bonds will be used to finance the construction of a new building and the purchase of equipment.

**CSCDA.** The Company received approval for financing on July 20, 2006.

**CDLAC.** The Company anticipates applying for CDLAC allocation in April 2007.

**TEFRA.** A TEFRA hearing was held by of Supervisors of Kern County on December 12, 2006, and no comments were received in support or in opposition to the Project.

**BORROWER/USER:**

Western Milling, LLC (“the Company” or “Western Milling”) incorporated in November 2000 in California.

The principal stockholders of the Company are as follows:

Kruse Investment Co.....	66.2%
Tony F. Correia.....	7.08%
Secap, a Partnership.....	4.50%
Ejnar Knudsen.....	4.07%
Doug Kruse .....	3.33%
Other investors with less than a 3% interest.....	14.82%
<b>Total: .....</b>	<b>100%</b>

The Company headquarters is in Goshen, California. The Company manufactures feed and grain for the dairy industry and for animal sack feed for independent animal feed stores, zoos and thoroughbred horse racing operations. The Company’s Goshen facility is one of the largest single grain milling operations in the country.

In December 2003, the Company purchased approximately seven acres in Famoso, California. At that time, the goal was to expand the grain receiving and milling operations in Kern County to

provide better product and delivery services to the large number of existing and newly-constructed dairies in the southern part of the San Joaquin Valley. The construction of the facility began in May 2006 and was completed in January 2007. The benefits of purchasing the Famoso location included shortened delivery routes. The main function of the Famoso facility is to receive commodities shipments of corn and dried distillers grain (a by product from the production of ethanol in the mid-West), process it into feed, and deliver it to the dairies generally within a 90 mile radius. The new facility also will enable the Company to store, process and deliver other commodities such as canola, cotton seed and corn gluten for use in animal feed.

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**Prior Actions and Financings.** None.

**LOCAL GOVERNMENT SUPPORT:**

Assembly member Nicole M. Parra (representing the 30<sup>th</sup> Assembly District) submitted a letter expressing her support for the Project (Attachment A). The letter states that the Company has made substantial economic contributions to the area in recent years.

**PROJECT INFORMATION:**

Bond proceeds will be used to reimburse the Company's cost to construct state-of-the-art grain rolling facility, commodity barn, and a rail spur, which allows the Company to bring 100 car unit trains from the Union Pacific main line.

**Anticipated Timeline.** Construction began in May 2006 and was completed in January 2007.

**Permitting and Environmental Approvals.** The Company received Authority to Construct permits from the San Joaquin Valley Air Pollution Control District in May 2006. Construction was completed in January 2007. The San Joaquin Valley Air Pollution Control District requires that the facility operates for at least 60 days prior to inspection for its Permit to Operate. This inspection is expected to occur in March 2007.

**STATUTORY CRITERIA:** 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. The points noted below have been awarded based on evaluation consistent with CDLAC guidelines. However, CDLAC does not require the evaluation of points for all statutory criteria.

- 1) **PUBLIC BENEFITS:** The staff assigned a total of 35 verifiable points to the Project, which are detailed below:

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- 2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The Company will remain at its current location.
- 3) **QUALIFICATION OF BOND ISSUANCE (No point evaluation required):** Based upon the proposed financial structure and based upon the application and other materials submitted to CIDFAC for the proposed Project, staff believes the bonds that will be issued in connection with the Project: (a) will be adequately secured; (b) will be fair, just,

and equitable to a purchaser of the bonds; and (c) will not work a fraud upon the bond purchaser. Final determination of qualification of the bonds will be subject to review of final bond documents prior to the issuance of bonds.

**FINANCING DETAILS:**

**Type of Offering:** Public Offering  
**Fixed/Variable:** Variable Rate  
**Loan Term:** 25 years  
**Credit Enhancement:** Direct-Pay Letter of Credit from Bank of the West  
**Bond Rating:** At least “A+/A-1” Standard & Poors or another nationally recognized rating agency.

**FINANCING TEAM:**

**Issuer:** CSCDA  
**Bond Counsel:** Gilmore and Bell, P.C.  
**Underwriter:** W.R. Taylor & Company, LLC

**RECOMMENDATION:**

Staff recommends approval of Initial and Final Resolution Nos. 07-0005 in an amount not to exceed \$10,000,000 of tax-exempt bonds for Western Milling, LLC and/or its affiliates, which is subject to staff analysis and approval of final bond documents, including receipt of bond counsel opinions and CDLAC allocation approval as set forth in the Initial and Final Resolution No. 07-0005.

INITIAL AND FINAL RESOLUTION  
OF THE  
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING  
ADVISORY COMMISSION (CIDFAC)  
INDUSTRIAL DEVELOPMENT BONDS  
IR/FR #: 07-0005

WHEREAS, the California Statewide Communities Development Authority (CSCDA) (Authority) has transmitted the application of Western Milling, LLC and/or its affiliates, (Applicant) for the issuance of \$10,000,000 of tax exempt bonds under the provisions of the California Industrial Development Financing Act, and has informed the California Industrial Development Financing Advisory Commission (the Commission) that it has adopted a resolution declaring its intention to issue such bonds and that the County of Kern has held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Authority; 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:

(a) the public benefits from the acquisition of the facility described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the estimated principal amount of \$10,000,000; and

(b) use of the Project described in the application and the operation of the facility described in the application is reasonably necessary to prevent the relocation of

substantial operations of the Applicant from an area within the State of California to an area outside of the State of California.

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 apparently 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) that the final legal documents, when ready for execution, be submitted for review by Commission staff. Submitted documents shall include:

- (i) Loan Agreement,
- (ii) Indenture of Trust,
- (iii) Opinion of Bond Counsel
- (iv) Bond Resolution,
- (v) Letter of Credit, and

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

(b) that the Commission staff 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 the findings under Section 2. above are based;

(c) that 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);

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

(e) that the Applicant has agreed 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 91754 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.