CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
INDUSTRIAL DEVELOPMENT BONDS
Meeting Date: August 26, 2009
Request for Tax-Exempt Bond Allocation Approval

Prepared by: *Deanna Hamelin*

Issuer:	California Pollution Control Financing Authority (CPCFA)	**Amount Requested:**	$3,200,000
Borrower:	Musco Olive Products, Inc. and/or affiliates	**Application No.:**	09-0005
User:	Musco Olive Products, Inc. and/or affiliates	**Allocation Resolution No.:**	09-001-05
Location:	City of Tracy (San Joaquin County)		

Borrower/User/Background: Musco Olive Products, Inc., dba Musco Family Olive Company (the Borrower, Musco, or the Company) was incorporated on August 5, 1959 in California. The Company is owned by Nicholas Musco (67.5%) and Felix Musco (32.5%). Musco Olive Products pits, sorts, cans, sterilizes and packages olives for consumption. Major customers include traditional grocers such as Kroger, Safeway, Roundy's and Ahold; wholesalers such as Topco, SuperValu and C&S; and warehouse clubs including Sam's, Costco and BJs.

Project Information: The Company, which is located in Tracy, California, has engaged Combined Solar Technologies, LLC (CST) to develop a *Renewable Energy and Water System* (RENEWS) that will remove minerals and organic solids from the Musco Family Olive facility wastewater stream. CST has developed several processes for removing minerals and organics from wastewater. These processes also provide renewable energy in the form of electricity and process heat. RENEWS consists of a fluidized-bed biomass burner for converting waste olive pits from the Musco facility to thermal energy. Heat will be provided to RENEWS by the combustion of the olive pits, a waste stream that is currently hauled off-site by trucks. The olive pits are dumped into a feed hopper equipped with a variable auger used to meter the feed rate of the pits into the combustion chamber. A variable speed fan injects air into the base of the burner to hold combustible fuel and ash in suspension. A pyrolysis-type reaction occurs in the lower portion of the combustion chamber which causes the olive pits to release gases which burn in the upper portion of the chamber. Flue gas passing through the primary heat exchanger releases thermal energy to the heat transfer liquid. The heat transfer liquid is pumped into a closed circuit boiler where the thermal energy is used to evaporate waste water. The pressurized steam is then routed from the boilers to a steam separator, then to traditional steam engines. The steam engines power two electrical generators. The generators will provide enough electrical power from the olive pits to meet approximately 75% of the facility's demand.

Bond proceeds will be used for new equipment, including a primary heat exchanger, a set of wastewater boilers, a steam engine/generator system and a condensing unit. In addition, bond proceeds will be used for site preparation and the construction of a new 6,000 square-foot building to house the equipment.

Anticipated Timeline: Construction of the new building began August 1, 2009, and the equipment purchase started in June 2009. The Company expects to complete both the construction and equipment purchase by January 31, 2010.

Prior Actions/Financing: None

Local Government Support: The Company provided a letter from San Joaquin County Supervisor in support of the Project. (See Attachment A.)

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

PUBLIC BENEFITS: Consistent with CDLAC guidelines, the Project was awarded a total of 15 points. While none of the points awarded are based on the creation or retention of jobs, the Company represents that it currently employs 205 direct, full-time employees and will hire an additional 10 employees within two years of Project completion.

RELOCATION OF COMPANY OPERATIONS (No point evaluation required): The project does not involve a relocation of Company operations.

Status Of Permit/Other Required Approvals:

- On April 22, 2009, CPCFA executed an Inducement Resolution in an amount not to exceed $4,000,000 in tax-exempt IDBs for the Project. CPCFA is scheduled to adopt a final resolution for the Project on August 26, 2009.
- CPCFA held a TEFRA hearing on May 21, 2009. CPCFA noticed the issuance of tax-exempt IDBs in an amount not to exceed $4,000,000.
- The Project involves site preparation, construction of a new building and the purchase of equipment. All land use, zoning approvals and permits have been obtained. The Borrower provided confirmation that no additional land use or zoning approvals or permits are required to accommodate the Project.

Financing Details:
The tax-exempt IDBs will be sold in a public offering. The bonds will be variable rate with weekly price resets. The bonds will be secured by an irrevocable, direct-pay Letter of Credit issued by Bank of the West, which currently has a Standard and Poor's rating of AA-/A-1+. Since CPCFA is a State issuer, CIDFAC staff does not review the bond documents.

CIDFAC Fees: In accordance with CIDFAC regulations, the Borrower has paid or will pay CIDFAC an application fee of $1,250. Since CPCFA is a State issuer, the Borrower does not pay issuance fees to CIDFAC.

Financing team:

Issuer:	CPCFA
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriter and Financial Advisor:	W.R. Taylor & Company, LLC
Credit Enhancement Provider:	Bank of the West

Legal Questionnaire: Staff has reviewed the Company's responses to the questions contained in the Legal Status portion of the Application (see Attachment B). Staff recommends approval of the request for tax-exempt IDB Allocation for the Issuer for the Musco Olive Project.

Recommendation: Staff recommends approval of Allocation Resolution No. 09-001-005 for an amount equal to $3,200,000 in tax-exempt IDB allocation for the Issuer on behalf of the Borrower for the Renewable Energy Wastewater and Pollution Control System (RENEWS) Project.

Musco Olive Products, Inc.
Bond Amount: $3,200,000
City of Tracy (San Joaquin County)
Application No. 09-0005
August 26, 2009

STAFF SUMMARY – CIDFAC
Prepared by: *Deanna Hamelin*

ISSUE:
On behalf of Musco Olive Products, Inc. (the Borrower, Musco, or the Company), the California Pollution Control Financing Authority (CPCFA or the Issuer) requests approval of Allocation Resolution No 09-001-05 for an amount equal to $3,200,000 in tax-exempt IDB allocation. Bond proceeds will be used for costs associated with site preparation, construction of a new building and the acquisition and installation of new equipment.

BORROWER/USER: Musco Olive Products, Inc., dba Musco Family Olive Company (the Borrower, the User, or the Company) was incorporated on August 5, 1959 in California. The Company is owned by Nicholas Musco (67.5%) and Felix Musco (32.5%). Musco Olive Products pits, sorts, cans, sterilizes, and packages olives for consumption. Major customers include traditional grocers such as Kroger, Safeway, Roundy's and Ahold; wholesalers such as Topco, SuperValu and C&S; and warehouse clubs including Sam's, Costco and BJs.

Legal Questionnaire. Staff has reviewed the Company's responses to the questions contained in the Legal Status portion of the Application (see Attachment B). Staff recommends approval of the request for tax-exempt IDB Allocation for the Issuer for the Musco Olive Project.

Prior Actions and Financings. None.

Local Government Support: The Company provided a letter from San Joaquin County Supervisor Leroy Ornellas in support of the Project. (See Attachment A.)

PROJECT INFORMATION:
The Company, which is located in Tracy, California, has engaged Combined Solar Technologies, LLC (CST) to develop a *Renewable Energy and Water System* (RENEWS) that will remove minerals and organic solids from the Musco Family Olive facility wastewater stream. CST has developed several processes for removing minerals and organics from wastewater. These processesalso provide renewable energy in the form of electricity and process heat. RENEWS consists of a fluidized-bed biomass burner for converting waste olive pits from the Musco facility to thermal energy. Heat will be provided to RENEWS by the combustion of the olive pits, a waste stream that is currently hauled off-site by trucks. The olive pits are dumped into a feed hopper equipped with a variable auger used to meter the feed rate of the pits into the combustion chamber. A variable speed fan injects air into the base of the burner to hold combustible fuel and ash in suspension. A pyrolysis-type reaction occurs in the lower portion of the combustion chamber which causes the olive pits to release gases which burn in the upper portion of the chamber. Flue gas passing through the primary heat exchanger releases thermal energy to the heat transfer liquid. The heat transfer liquid is pumped into a closed circuit boiler where the thermal energy is used to

evaporate waste water. The pressurized steam is then routed from the boilers to a steam separator, then to traditional steam engines. The steam engines power two electrical generators. The generators will provide enough electrical power from the olive pits to meet approximately 75% of the facility's demand.

Bond proceeds will be used for new equipment, including a primary heat exchanger, a set of wastewater boilers, a steam engine/generator system and a condensing unit. In addition, bond proceeds will be used for site preparation and the construction of a new 6,000 square-foot building to house the equipment.

Anticipated Project and issuance costs are listed below:

	To be paid from bond proceeds	To be paid from all other sources
Site Preparation	$150,000	
Construction of New Building	150,000	
Acquisition and Installation of New Equipment	2,336,000	$784,000
Engineering/Architecture	250,000	
Legal, Permits, Etc.	50,000	
Bond Issuance Expenses	64,000	120,000
Letter of Credit Fee		64,000
Other: System Controls	200,000	
Totals	$3,200,000	$968,000

Anticipated Timeline. Construction of the new building began August 1, 2009, and the equipment purchase started in June 2009. The Company expects to complete both the construction and equipment purchase by January 31, 2010.

Status Of Permit/Other Required Approvals:

- On April 22, 2009, CPCFA executed an Inducement Resolution in an amount not to exceed $4,000,000 in tax-exempt IDBs for the Project. CPCFA is scheduled to adopt a final resolution for the Project on August 26, 2009.
- CPCFA held a TEFRA hearing on May 21, 2009. CPCFA noticed the issuance of tax-exempt IDBs in an amount not to exceed $4,000,000.
- The Project involves site preparation, construction of a new building and the purchase of equipment. All land use, zoning approvals and permits have been obtained. The Borrower provided confirmation that no additional land use or zoning approvals or permits are required to accommodate the Project.

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

1) **PUBLIC BENEFITS:** The staff awarded a total of 15 points to the Project, which are detailed below:

Community Economic Need (5 points):

Unemployment Rate of the Project Area (5 points): In accordance with CDLAC procedures, points are awarded in this category if the 2008 unemployment rate of the county sub-area in which the Project is located is at least 125% of the 2008 statewide rate. In this case, the 2008 unemployment rate of the Project area is 10.4%, which is 144.44% of the statewide rate of 7.2%.

Poverty Rate of Project Area (0 points): No points were awarded for the poverty rate of the Project area. To earn points in this category, the poverty rate in the Project area must be at least 110% the statewide rate. The poverty rate for this Project area is 44.34% of the statewide rate.

Special Designation Area (0 points): The Project is not located in a Special Designation Area.

Median Family Income (0 points): No points were awarded for the median family income of the Project area. To earn points in this category, the median family income in the Project area must be 80% or less of the statewide rate. The median family income for this Project area is 149.7% of the statewide rate.

Employment Benefits (Job Creation/Retention = 0 points): This Project was not awarded points for job creation or job retention. The Company represents that it currently employs 205 direct, full-time workers in California and anticipates hiring an additional 10 direct, full-time workers within two years of completion of the Project.

Welfare-to-Work Plan (0 points): No information was provided indicating the Company's participation in a Welfare-to-Work program.

Health Care Benefits (5 points): The Company provided documentation that it contributes to the medical and dental insurance for 175 of its 205 employees. The contribution translates into an average of $788 per month toward the health care benefits for each employee. The uncovered employees opted out of the plan for personal reasons. The Company represents that it will offer the same health benefits to new employees.

Average Hourly Wage (5 points): In accordance with CDLAC procedures, the most recent data from the Bureau of Labor Statistics, which in this case is May 2008, is used to determine if the Project qualifies for points in this category. The Company's average hourly wage is $22.65, while the Metropolitan Statistical Area (MSA) for the Stockton area had an average 2008 manufacturing wage of $13.43. Therefore, the Company's average hourly wage is 169% of the average manufacturing wage for the Stockton area.

Land Use/Energy Efficiency (0 points):

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

<u>Energy Efficiency (0 points):</u> This Project was not awarded any points for energy efficiency. The Company represents that approximately 75% to 80% of electrical, and 30% to 50% of process heat demands for the entire facility will be met by renewable energy generated by the RENEWS system.

<u>Public Transit Corridor (0 points):</u> The Company did not provide any documentation that the Project site is located in a public transit corridor.

<u>Leveraging (0 points):</u> This Project does not involve the use of leveraging.

2) **RELOCATION OF COMPANY OPERATIONS (No point evaluation required):** The project does not involve a relocation of Company operations.

<u>FINANCING DETAILS</u>:
The tax-exempt IDBs will be sold in a public offering. The bonds will be variable rate with weekly price resets. The bonds will be secured by an irrevocable, direct-pay Letter of Credit issued by Bank of the West, which currently has a Standard and Poor's rating of AA-/A-1+. Since CPCFA is a State issuer, CIDFAC staff does not review the bond documents.

<u>CIDFAC FEES</u>: In accordance with CIDFAC regulations, the Borrower has paid or will pay CIDFAC an application fee of $1,250. Since CPCFA is a State issuer, the Borrower does not pay issuance fees to CIDFAC.

<u>FINANCING TEAM</u>:

Issuer:	CPCFA
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP
Underwriter and Financial Advisor:	W.R. Taylor & Company, LLC
Credit Enhancement Provider:	Bank of the West

<u>RECOMMENDATION</u>: Staff recommends approval of Allocation Resolution No. 09-001-005 for an amount equal to $3,200,000 in tax-exempt IDB allocation for the Issuer on behalf of the Borrower for the Renewable Energy Wastewater and Pollution Control System (RENEWS) Project.

THE CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
RESOLUTION NO. 09-001-005
RESOLUTION TRANSFERRING A PORTION OF THE 2009 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 California Pollution Control Financing Authority ("Applicant") requesting a transfer to the Applicant of a portion of the 2009 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 Commission Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (the "Commission'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 represented in the Application 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. There will be a transfer to the Applicant an amount of the State Ceiling equal to $3,200,000. 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 and, if the 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.

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 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.

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. In consideration of the potential Allocation to be transferred to the Applicant and the Project Sponsor, 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: 09-001-05
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)

1. Applicant: California Pollution Control Financing Authority (CPCFA)

2. Application No.: 09-0005

3. Project Sponsor: Musco Olive Products, Inc. and/or affiliates

4. Project User: Musco Olive Products, Inc. and/or affiliates

5. Project Name: Renewable Energy Wastewater and Pollution Control System (RENEWS)

6. Address: 17950 Via Nicolo
   Location: Tracy, CA 95377
   County: San Joaquin County

7. Amount of Allocation: $3,200,000

8. The Project Sponsor has represented that it will use its best efforts to achieve the creation of 10 additional, direct full-time jobs within two years of the completion of the Project.

Attachment A

Board of Supervisors
222 East Weber Ave
Courthouse, Room 701
Stockton, California 95202

LEROY ORNELLAS
CHAIRMAN
BOARD OF SUPERVISORS
Representing the Fifth District

Telephone: (209) 468-3113
Fax: (209) 468-3694

Scott Tyrrell
Legislative Assistant

June 23, 2009

Mr. Michael Paparian
Executive Director
California Pollution Control Financing Authority
915 Capitol Mall, Room 457
Sacramento, CA 95814

Dear Mr. Paparian,

I am writing to express my full support of the Musco Family Olive Company's application to secure an allocation of tax-exempt bond funds for their RENEWS Project.

RENEWS is designed to use thermal energy from combustion of biomass to concentrate waste water. This technology has been used at Red Rocks Ranch as part of a United States Department of the Interior Bureau of Reclamation's Integrated On-Farm Drainage Management (IFDM) study to treat irrigation drainage water using natural gas for power.

At Musco, this technology will enable them to utilize by-product to create enough electrical power to meet approximately 75% of the facility's demand and help meet California air emission standards.

The Musco Family Olive Company has a long and storied history and since the early 1980's its canning facility and headquarters has sat on a 350-acre site in Tracy, California. This facility is now the most state of the art olive cannery in the world. Over 500 growers, 400 employees, and countless vendors and business partners are part of the Musco family tree.

Musco Olive is a significant agri-business and we are proud and fortunate to have it in San Joaquin County. I ask that CPCFA give their application full consideration.

Sincerely,

Leroy Ornellas

Leroy Ornellas
Supervisor, Fifth District

DTG: 17409/02ST

Attachment B

In the legal questionnaire submitted with its application, the Company responded affirmatively with one civil case brought against the Company by San Joaquin County, which was settled in August 2003, two complaints brought by the Regional Water Quality Control Board, which were settled in 2002 and 2007, and one cease-and-desist order issued by the Regional Water Quality Control Board in October 2007.

According to the Applicant and the Company, the Company and its owners, Nicholas and Felix Musco along with Studley Company (the property-holding Company), and Food Pro International (Project Design Engineering Firm) were named in lawsuit that was brought by San Joaquin County on behalf of the California Department of Fish and Game. Musco Olives had contracted with Food Pro International to design and build a culvert to allow storm water to pass through a drainage swale or dry wash that ran through the property. The lawsuit stated that, while there were no issues with the design of the culvert itself, the necessary and proper approvals were not obtained by the Company prior to building the culvert. Musco Olive Products consented to the entry on August 12, 2003 of a Final Stipulated Judgment in San Joaquin County Case CV 0184063 without trial or adjudication of any facts or law and without the Judgment constituting evidence against or admission by Musco. The Company denied allegations of violations of the Fish and Game Code, Health & Safety Code, and Business & Professions Code. Musco agreed to pay a total of $290,000 over a period of six years to avoid prolonged legal expenses.

According to the Applicant and the Company, the California Regional Water Quality Control Board (the CRWQCB) filed two complaints against Musco Olives for violations of Waste Discharge Requirements. Neither complaint alleged pollution or degradation of waters of the state. The Company settled one complaint in May 2002 by paying a fine of $150,000 and the other complaint in October 2007 by paying a fine of $493,000.

The CRWQCB issued on October 26, 2007 Board Order R5-2007-0139 requiring Musco to cease and desist from discharging contrary to permit requirements. Since then, Musco has complied with this order, which will terminate no later than March 31, 2010. No financial penalties were associated with this Board Order. The Applicant provided information from a Mr. Steve Rosenbaum, Senior Engineering Geologist with the CRWQCB, stating that, although there have been some compliance issues in the past, more recently Musco Olive officers have been acting in good faith in their efforts to comply with their discharge permits and with the CRWQB.