

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

Meeting Date: September 23, 2009

Request for Tax-Exempt Bond Allocation Approval

Prepared by: *Deanna Hamelin*

Issuer:	California Infrastructure and Economic Development Bank (I-Bank)	Amount Requested:	\$2,500,000
Borrower:	All Sato Kreis Holding, LLC and/or affiliates	Application No.:	09-0006
User:	Kennfoods USA, LLC dba Latitude 1 and/or affiliates	Allocation Resolution No.:	09-001-006
Location:	City of Stockton (San Joaquin County)		

Borrower/User/Background: All Sato Kreis Holding, LLC and/or affiliates (the Borrower) and Kennfoods USA, LLC dba Latitude 1 and/or affiliates (the User or the Company) were incorporated in California on July 24, 2009 and December 19, 2002, respectively. The Company is owned by Yoshiko Sato (51%), Richard Kreis (35%) and Takeko Sato (14%). The Company processes organic and conventional tree nuts such as cashews, macadamias, almonds, pecans, pistachios and walnuts. Kennfoods USA procures the nuts and other raw ingredients and then cleans, roasts, dices and packages them. The Company’s products are certified organic and Kosher, and therefore are subject to annual third-party inspections. Major customers include bakeries, such as Pepperidge Farms and Nonni’s, and beverage and snack-food manufacturers, such as General Mills, Clif Bar, Dunkin Brands and Coca-Cola.

Project Information: The Company currently leases a 7,600 square-foot building in San Leandro. The Company began operations at this location in 2006, and initially focused on processing imported macadamia and cashew nuts. Soon, however, the Company began processing more domestic and local nuts such as almonds, pecans and walnuts, and outgrew the San facility. The Company was unable to find a suitable facility to house its expanded production in San Leandro, but located a facility in Stockton that not only meets its space needs but also is closer to local nut growers.

Bond proceeds will be used for the purchase and rehabilitation of land and two adjacent buildings, which total approximately 30,000 square feet, and are located in a small business park in the Enterprise Zone of South Stockton. The tenant improvements include construction of a loading dock between the two buildings, addition of new doors and windows, installation of insulation and solar panels on the roofs, build-out of office space, break rooms, a simple laboratory for food testing, and storage and equipment wash-down areas. Bond proceeds also will be used to acquire and install new processing equipment, including a commercial dry roaster, oil roaster, oil conditioner, cooling and seasoning drum, sterilizing equipment, and other supporting pieces such as forklifts, belt conveyors, bucket elevators and packaging machine.

Anticipated Timeline: The purchase of the land and buildings from Airport Gateway Center 1 PG, LLC, Souza Investments, LLC, and Panattoni Development Company is expected to close escrow

on October 15, 2009. Rehabilitation of the buildings and equipment purchases are expected to begin October 2009 and be completed by January 2010.

Prior Actions/Financing: None

Statutory Criteria: 1) Public Benefits, 2) Relocation and 3) Bond Issue Qualification. CIDFAC staff has evaluated the Project consistent with California Debt Limit Allocation Committee (CDLAC) guidelines.

PUBLIC BENEFITS: CIDFAC staff awarded the Project a total of 31 points. While none of the points awarded are based on the creation or retention of jobs, the Company represents that it currently employs eight direct, full-time employees and will hire an additional 21 employees within two years of Project completion.

RELOCATION OF COMPANY OPERATIONS (No point evaluation required): The Company is relocating from the City of San Leandro to the City of Stockton. The Company provided a letter from the City of San Leandro Business Community and Economic Development Agency in which Ms. Cynthia Battenberg, Manager of the City’s Business Development Services, acknowledges that the Company was unable to find a suitable expansion site in San Leandro. Ms. Battenberg states in her letter that the City of San Leandro nonetheless is pleased to see that Kennfoods has selected a site that will provide job retention for most of its current employees and will provide new employment opportunities in Stockton. (See Attachment A.)

In the Issuer’s application, the Company represents that “the Project provides the required space and equipment needed to continue the growth of production and sales by increased production and warehousing capacity, offers increased capabilities and product line, introduces a higher level of food safety assurance to customers and consumers, and creates new business opportunities by improved proximity to nut growers and handlers.”

Status Of Permit/Other Required Approvals:

- On August 19, 2009, the I-Bank executed an Inducement Resolution in an amount not to exceed \$2,500,000 in tax-exempt IDBs for the Project. A second Inducement Resolution was executed on August 26, 2009 to correct the address of the Project site. The I-Bank is scheduled to adopt a final resolution for the Project on September 29, 2009.
- The I-Bank noticed the issuance of tax-exempt IDBs in an amount not to exceed \$2,500,000 and on September 16, 2009 held a public hearing pursuant to the federal Tax Equity and Fiscal Responsibility Act (TEFRA).
- The Project involves the purchase of land and existing buildings, rehabilitation of the existing buildings, 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 interest rate 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 I-Bank is a State issuer, CIDFAC staff does not approve the issuance of the IDBs nor does it review the

bond documents. It only approves the transfer of the State’s Private Activity Bond Allocation to the Project.

CIDFAC Fees: In accordance with CIDFAC regulations, the Borrower has paid or will pay CIDFAC an application fee of \$1,250. Since the I-Bank is a State issuer and CIDFAC is not approving the issuance of the IDBs, the borrower does not pay issuance fees to CIDFAC.

Financing team:

Issuer: I-Bank
Bond Counsel: Lofton & Jennings
Bond Underwriter: Westhoff, Cone & Holmstedt
Financial Advisor: Progressive Capital
Credit Enhancement Provider: Bank of the West

Legal Questionnaire: Staff reviewed the Borrower/User responses to the questions contained in the Legal Status portion of the Application. The application did not disclose any information that raised questions concerning the financial viability or legal integrity of the Borrower/User.

Recommendation: Staff recommends approval of Allocation Resolution No. 09-001-006 for an amount equal to \$2,500,000 in tax-exempt IDB allocation for the Issuer on behalf of the Borrower for the Kennfoods USA, LLC dba Latitude 1 Project.

Kennfoods USA, LLC dba Latitude 1
Bond Amount: \$2,500,000
City of Stockton (San Joaquin County)
Application No. 09-0006
September 23, 2009

STAFF SUMMARY – CIDFAC

Prepared by: *Deanna Hamelin*

ISSUE:

On behalf of All Sato Kreis Holding, LLC (the Borrower) and Kennfoods USA, LLC dba Latitude 1 and/or affiliates (the User), the California Infrastructure and Economic Development Bank (I-Bank or the Issuer) requests approval of Allocation Resolution No 09-001-06 for an amount equal to \$2,500,000 in tax-exempt IDB allocation. Bond proceeds will be used for costs associated with acquisition of land, acquisition and rehabilitation of existing buildings and the acquisition and installation of new equipment.

BORROWER/USER: All Sato Kreis Holding, LLC and/or affiliates (the Borrower) and Kennfoods USA, LLC dba Latitude 1 and/or affiliates (the User or the Company) were incorporated in California on July 24, 2009 and December 19, 2002, respectively. The Company is owned by Yoshiko Sato (51%), Richard Kreis (35%), and Takeko Sato (14%). The Company processes organic and conventional tree nuts such as cashews, macadamias, almonds, pecans, pistachios and walnuts. Kennfoods USA procures the nuts and other raw ingredients and then cleans, roasts, dices and packages them. The Company's products are certified organic and Kosher, and therefore are subject to annual third-party inspections. Major customers include bakeries, such as Pepperidge Farms and Nonni's, and beverage and snack-food manufacturers, such as General Mills, Clif Bar, Dunkin Brands and Coca-Cola.

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

Prior Actions and Financings. None.

PROJECT INFORMATION: The Company currently leases a 7,600 square-foot building in San Leandro. The Company began operations at this location in 2006, and initially focused on processing imported macadamia and cashew nuts. Soon, however, the Company began processing more domestic and local nuts such as almonds, pecans and walnuts, and outgrew the facility. The Company was unable to find a suitable facility to house its expanded production in San Leandro, but located a facility in Stockton that not only meets its space needs but also is closer to local nut growers.

Bond proceeds will be used for the purchase and rehabilitation of land and two adjacent buildings, which total approximately 30,000 square feet, and are located in a small business park in the Enterprise Zone of South Stockton. The tenant improvements include construction of a loading dock between the two buildings, addition of new doors and windows, installation of insulation and solar panels on the roofs, build-out of office space, break rooms, a simple laboratory for food

testing, and storage and equipment wash-down areas. Bond proceeds also will be used to acquire and install new processing equipment, including a commercial dry roaster, oil roaster, oil conditioner, cooling and seasoning drum, sterilizing equipment, and other supporting pieces such as forklifts, belt conveyors, bucket elevators and packaging machine.

Anticipated Project and issuance costs are listed below:

	To be paid from bond proceeds	To be paid from all other sources
Acquisition of Land	\$253,000	
Acquisition of Existing Buildings	1,693,020	
Rehabilitation of Existing Buildings	253,980	\$346,020
Acquisition and Installation of New Equipment	250,000	700,000
Bond Issuance Expenses	50,000	30,000
Letter of Credit Fee		50,000
Totals	\$2,500,000	\$1,126,020

Anticipated Timeline. The purchase of the land and buildings from Airport Gateway Center 1 PG, LLC, Souza Investments, LLC, and Panattoni Development Company is expected to close escrow on October 15, 2009. Rehabilitation of the buildings and equipment purchases are expected to begin October 2009 and be completed by January 2010.

Status Of Permit/Other Required Approvals:

- On August 19, 2009, the I-Bank executed an Inducement Resolution in an amount not to exceed \$2,500,000 in tax-exempt IDBs for the Project. A second Inducement Resolution was executed on August 26, 2009 to correct the address of the Project site. The I-Bank is scheduled to adopt a final resolution for the Project on September 29, 2009.
- The I-Bank noticed the issuance of tax-exempt IDBs in an amount not to exceed \$2,500,000 and on September 16, 2009 held a public hearing pursuant to the federal Tax Equity and Fiscal Responsibility Act (TEFRA).
- The Project involves the purchase of land and existing buildings, rehabilitation of the existing buildings 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. CIDFAC staff has evaluated the Project consistent with California Debt Limit Allocation Committee (CDLAC) guidelines.

- 1) **PUBLIC BENEFITS:** CIDFAC staff awarded a total of 31 points to the Project, which are detailed below:

Community Economic Need (25 points):

Unemployment Rate of the Project Area (10 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 12.7%, which is 176.4% of the statewide rate of 7.2%.

Poverty Rate of Project Area (5 points): In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2000 data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate of the Project area is 110% or more of the statewide rate. The poverty rate for this Project area is 26.28%, which is 248% of the Census 2000 statewide rate of 10.6%

Special Designation Area (5 points): The Project is located in the South Stockton Enterprise Zone.

Median Family Income (5 points): In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2000 data, is used to determine if the Project qualifies for points in this category. To qualify for points in this category, the median family income of the project area must be 80% or less of the statewide rate. The Project is located in the City of Stockton, census tract 28, where the Census 2000 average median family income is \$38,657. Given that the Census 2000 median family income for the State of California is \$53,025, the median family income for the Project area is 72.9% of the statewide average.

Employment Benefits (Job Creation/Retention = 0 points): CIDFAC staff determined that this Project did not qualify for points under CDLAC's job creation or job retention Category. Nevertheless, the Company represents that it currently employs eight direct, full-time workers in California and anticipates hiring an additional 21 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 (0 points): According to the Company, it periodically asks its employees to decide anonymously whether they would prefer a wage raise and bonus or medical insurance benefits. To date, all employees have voted for wage raises and bonuses. The Company represents that it will continue to provide employees the opportunity to choose between the two options until it is financially able to offer both raises and benefits to its employees.

Average Hourly Wage (1 point): 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. To qualify for points in this category the average hourly wage should be 105% or more of the general manufacturing wage of the MSA of the Project area. The Company's average hourly wage is \$14.51, 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 108% of the average manufacturing wage for the Stockton area.

Land Use/Energy Efficiency (5 points):

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

Energy Efficiency (0 points): The Borrower/User did not provide information regarding the Project’s energy efficiency.

Public Transit Corridor (5 points): The Company provided verification that the Project site is located in a public transit corridor. A San Joaquin RT bus stop and bus route is within ½ mile of the Project site.

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

RELOCATION OF COMPANY OPERATIONS (No point evaluation required): Company is relocating from the City of San Leandro to the City of Stockton. The Company provided a letter from the City of San Leandro Business Community and Economic Development Agency in which Ms. Cynthia Battenberg, Manager of the City’s Business Development Services, acknowledges that the Company was unable to find a suitable expansion site in San Leandro. Ms. Battenberg states in her letter that the City of San Leandro nonetheless is pleased to see that Kennfoods has selected a site that will provide job retention for most of its current employees and new employment opportunities in Stockton. (See Attachment A.)

In the Issuer’s application, the Company represents that “the Project provides the required space and equipment needed to continue the growth of production and sales by increased production and warehousing capacity, offers increased capabilities and product line, introduces a higher level of food safety assurance to customers and consumers, and creates new business opportunities by improved proximity to nut growers and handlers.”

FINANCING DETAILS:

The tax-exempt IDBs will be sold in a public offering. The bonds will be variable rate with weekly interest rate 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 I-Bank is a State issuer, CIDFAC staff does not approve the issuance of the IDBs nor does it review the bond documents. It only approves the transfer of the State’s Private Activity Bond Allocation to the Project.

CIDFAC FEES: In accordance with CIDFAC regulations, the Borrower has paid or will pay CIDFAC an application fee of \$1,250. Since the I-Bank is a State issuer and CIDFAC is not approving the issuance of the IDBs, the borrower does not pay issuance fees to CIDFAC.

FINANCING TEAM:

Issuer: I-Bank
Bond Counsel: Lofton & Jennings
Bond Underwriter: Westhoff, Cone & Holmstedt
Financial Advisor: Progressive Capital
Credit Enhancement Provider: Bank of the West

RECOMMENDATION: Staff recommends approval of Allocation Resolution No. 09-001-006 for an amount equal to \$2,500,000 in tax-exempt IDB allocation for the Issuer on behalf of the Borrower for the Kennfoods USA, LLC dba Latitude 1 Project.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 09-001-006
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 Infrastructure and Economic Development Bank (“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 \$2,500,000. 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: 09-001-006
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: California Infrastructure and Economic Development Bank
(I-Bank)
2. Application No.: 09-0006
3. Project Sponsor: All Sato Kreis Holding, LLC and/or
affiliates
4. Project User: Kennfoods USA, LLC dba Latitude 1 and/or
affiliates
5. Project Name: Kennfoods USA, LLC dba Latitude 1
6. Address: 825 Performance Drive, Buildings 2 & 3
Location: Stockton, CA 95206
County: San Joaquin County
7. Amount of Allocation: \$2,500,000
8. The Project Sponsor has represented that it will use its best efforts to achieve the creation of 21 additional, direct full-time jobs within two years of the completion of the Project.

Attachment A

AUG 13 '09 PM 2:47

City of San Leandro
Civic Center, 835 E. 14th Street
San Leandro, California 94577



August 11, 2009

Ms. Eileen Marxen
Deputy Executive Director
California Industrial Development
Financing Advisory Commission
915 Capitol Mall, Room 457
Sacramento, CA 95814

Dear Ms. Marxen:

This is to inform you that the City of San Leandro is aware that Kennfoods USA (dba Latitude 1), which currently occupies a 7,600 square foot leased facility located at 2447 Verna Court in San Leandro, has found a building in the City of Stockton where it will have 30,000 square feet of manufacturing space suitable for its nut processing business and will allow it to expand into a new, modern, efficient facility that will accommodate the future growth of the company.

The City of San Leandro regrets that the company was unable to find a suitable and affordable expansion site in San Leandro that met its requirements, but is pleased that they have selected an expansion site that will provide job retention for the majority of its current employees and new employment opportunities for the residents of Stockton.

The City of San Leandro is also pleased that Kennfoods will be able to utilize the State's Industrial Development Bond program – which is critical to helping manufacturers remain and to be competitive in California.

Sincerely,

Cynthia Battenberg
Business Development Manager

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Tony Santos, Mayor

City Council: Surlene G. Grant; Michael J. Gregory; Jim Prola;
Diana M. Souza; Joyce R. Starosciak; Bill Stephens