

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

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

**BTL Machine, Inc.
Application No. 10-008**

August 25, 2010

SUMMARY

Borrower and User – BTL Machine, Inc. and/or a related entity

Issuer – California Municipal Finance Authority (CMFA)

Location – City of Corona, Riverside County

Requested Bond Issuance – \$5.2 million tax-exempt IDBs

Requested IDB Allocation – \$5.2 million

Public Benefit Points Awarded – 75 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

BTL Machine, Inc. (the borrower, the user and the company) was incorporated in Newport Beach, California in 1998. The company is owned by Buu Van Vo and Tu Van Vo. The company manufactures machined parts and complex assemblies, including acceleration indicators and other system components of search and navigation equipment, primarily for the aerospace and defense industries. Its major customers include Boeing, Bell Helicopters, Lockheed and Spirit Aerosystems.

THE PROJECT

Bond proceeds will be used to finance the purchase of new manufacturing equipment, including new axis machine tools and a new 3-ton Girder Crane, to support new aerospace contracts and increased volume from existing customers.

Anticipated Project and Issuance Costs

Acquisition and Installation of New Equipment	\$ 5.1 million
Bond Issuance Expenses	100,000
Total:	\$ 5.2 million

Timeline

The acquisition and installation of the equipment began in May 2010 and should be completed by December 2010.

Financing Details

CMFA will issue tax-exempt bonds on a private placement basis. GE Government Finance, Inc. (GEGF), which is a qualified institutional buyer (QIB) as defined by U.S. Securities and Exchange Commission (SEC) Rule 144A, will purchase the bonds. The bonds will be issued within 90 days of the Commission’s approval and will:

- Be secured by new equipment.
- Have a fixed interest rate at the time of closing based and an 84-month maturity.

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 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 bonds will be issued in minimum denominations of \$250,000.

Financing Team

- Issuer: CMFA
- Trustee: Marshall & Ilsley Trust Company
- Private Placement Purchaser: GE Government Finance
- Bond Counsel: Jones Hall, a Professional Law Corporation

PROJECT EVALUATION

PUBLIC BENEFITS: The project received 75 points out of a possible 147, pursuant to the scoring system approved by the California Debt Limit Allocation Committee (CDLAC) for evaluating IDB projects. The evaluation is detailed below:

A. Community Economic Need (10 of 25 points).

1. Unemployment Rate of the Project Area (0 of 10 points). In accordance with CDLAC procedures, points are awarded in this category if the 2009 unemployment rate of the county sub-area in which the project is located is at least 125 percent of the 2009 statewide rate. The unemployment rate for this project area is 87.72 percent of the statewide rate. Therefore, the project received no points.

2. Poverty Rate of Project Area (5 of 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 is at least 110 percent or more of the statewide rate. The poverty rate for this project area is 17.98 percent, which is 169.58 percent of the Census 2000 statewide rate of 10.6 percent.

3. Special Designation Area (5 of 5 points). The project is located in the City of Corona Redevelopment Area.

4. Median Family Income (0 of 5 points). In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2000, 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 Riverside County, census tract 414.09, where the average median family income is \$85,336. The median family income for the State of California is \$53,025. So, the median family income for the project area is 161 percent of the statewide average. Therefore, the project received no points.

B. Job Creation (35 of 35 points). Points are awarded in this category based on the borrower's and/or user's representations with respect to using its best efforts to increase the number of direct, full-time employees within two years of project completion. The company represents that it currently employs 90 direct, full-time employees. The company represents that it anticipates hiring an additional 40 direct, full-time employees within two years of the project's completion. That equals a 44 percent increase in the workforce, which qualifies the project for the full 35 points in this category.

C. Job Retention (0 of 10 points). The company did not provide written documentation regarding moving its operations to another state or closing its operations, absent the IDB financing. Therefore, the project received no points.

D. Average Hourly Wage (10 of 10 points). In accordance with CDLAC procedures, the most recent data from the U.S. Bureau of Labor Statistics, which in this case is May 2009, is used to determine if the project qualifies for points in this category. The company's average hourly wage is \$21.71. 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 MSA for the Riverside-San Bernardino-Ontario area had an average manufacturing wage of \$14.95 in 2009. Therefore, the company's average hourly wage is 145.2 percent of the average manufacturing wage for the Riverside-San Bernardino-Ontario area, which qualifies the project for the full 10 points in this category.

E. Workforce and Economic Development (5 of 15 points).

1. Welfare-to-Work Plan (0 of 5 points). The company provided no information indicating the company's participation in a Welfare-to-Work program.

2. Workforce Training (0 of 5 points). The company provided no information was indicating the company's participation in a workforce training program.

3. Exports Outside California (5 of 5 points). The company provided a letter indicating that 80 percent of its revenue comes from exporting its product outside California. (See Attachment A)

F. Health Care Benefits (15 of 15 points). The company provided documentation that it contributes to the medical and dental insurance for 77 of its 90 employees. The contribution translates into an average of \$477 per month toward the health care benefits for each covered 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.

G. Payment of Retirement Benefits (0 of 5 points). The company provided no information indicating that the company contributes to employee retirement benefits.

H. Environmental Stewardship (0 of 27 points).

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

2. Public Transit Corridor (0 of 4 points). The company did not provide information regarding the project site being 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 provided no information indicating the project produces or will produce environmentally preferable products.

I. Leveraging (0 of 5 points). This project does not involve the use of leveraging.

RELOCATION OF COMPANY OPERATIONS

The company will remain at its current location in the City of Corona in Riverside County.

QUALIFICATION OF BOND ISSUANCE

Based on the proposed financial structure, and the application and other materials submitted to CIDFAC for the 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 review of final bond documents prior to the issuance of the bonds.

STATUS OF PERMIT/OTHER REQUIRED APPROVALS

- On May 21, 2010, CMFA adopted an Inducement Resolution in an amount not to exceed \$4 million of tax-exempt IDBs for the project. Subsequently, the company requested an increase in the size of the issue, so CMFA adopted a second Inducement Resolution on July 16, 2010. CMFA is scheduled to adopt a final resolution for the project on August 20, 2010.
- The City of Corona held a TEFRA hearing on June 16, 2010. The company then requested an increase in the size of the borrowing above the amount initially approved, so the City of Corona held a second TEFRA hearing on July 21, 2010.
- The project is an equipment-only purchase, and therefore does not require additional, discretionary permits.

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 regulations¹, the borrower has paid or will pay CIDFAC an application fee of \$1,250 and a closing fee of up to \$13,000.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 10-008 for \$5.2 million of tax-exempt bonds and Allocation Resolution No. 10-02-008 for \$5.2 million of tax-exempt IDB allocation for the issuer for the BTL Machine, Inc. project. Staff’s recommendation is subject to staff analysis, approval of final bond documents and receipt of bond counsel’s opinion as set forth in Initial and Final Resolution No.10-008.

Staff report by: Deanna Hamelin

¹ 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 #: 10-008

WHEREAS, the California Municipal Finance Authority (the “Applicant”) has transmitted the application of BTL Machine, Inc. (the “Project Sponsor”) for the issuance of \$5,200,000 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 Corona has held two public hearings 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:

(a) 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 \$5,200,000; 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) Escrow Agreement

(ii) Loan Agreement,

(iv) Tax Certificate and Agreement, and;

(v) 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 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.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 10-02-008
RESOLUTION TRANSFERRING A PORTION OF THE 2010 STATE CEILING
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

WHEREAS, the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development 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 Municipal Finance Authority (“Applicant”) requesting a transfer to the Applicant of a portion of the 2010 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 approve 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 \$5,200,000 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 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 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. 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: 10-02-008
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: CMFA
2. Application No.: 10-008
3. Project Sponsor: BTL Machine, Inc. and/or a related entity
4. Project User: BTL Machine, Inc. and/or a related entity
5. Project Name: BTL Machine, Inc. Project
6. Project Description: Purchase of New Equipment
7. Address: 1168 Sherborn Street
Location: Corona, CA 92879
County: Riverside County
8. Amount of Allocation: \$5,200,000
9. The Project Sponsor has represented that it reasonably expects the Borrower/User will use its best efforts to create 40 additional, direct full-time positions within two years of the completion of the Project.

ATTACHMENT A

BTL Machine

PRECISION MACHINING * QUALITY CNC * PRODUCTION * ENGINEERING * TOOLING *

July 19, 2010

California Debt Limit Allocation Committee
915 Capitol Mall, Room, 311
Sacramento, CA 95814



To Whom It May Concern:

Please accept this letter as part of the BTL Machine project application for the award of allocation of the state ceiling on qualified private activity bonds for a Small-Issue Industrial Development Bond Project.

This letter is to certify that over 80% of BTL Machine's revenues are a result of exporting our products out of the state of California.

Regards,

Michael Carter
General Manager
BTL Machine, Inc.

Regards,

Michael C
General M
BTL Mach

1168 Sherborn St., Corona, Ca 92879 * Tel 951-808-9929 * Fax 951-808-9969