

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Request to Approve Issuance of Tax-Exempt Bond Allocation

**Hydro Systems, Inc.
Application No. 10-010**

August 25, 2010

SUMMARY

Borrower– KAKS PROPERTIES, LLC and/or a related entity

User – Hydro Systems, Inc. and/or a related entity

Issuer – California Infrastructure and Economic Development Bank (I-Bank)

Location – City of Valencia, Los Angeles County

Requested IDB Allocation – \$1.54 million

Refunding Amount - \$960,000 (I-Bank originally issued June 2003)

Public Benefit Points Awarded – 25 points out of 147 possible

Staff Recommendation – Approval

THE COMPANY

KAKS PROPERTIES, LLC (the borrower) and Hydro Systems, Inc. and/or a related entity (the user, or the company) are manufacturers of acrylic and gel-coat whirlpool bathtubs, soaker bathtubs, freestanding bathtubs, bathtub skirts, laundry sinks, shower pans, institutional showers and parts. The borrower and user were formed and/or incorporated in California on January 31, 2003 and March 21, 1983, respectively. Major customers of the company include Ferguson Enterprises, The Plumbers Warehouse, Pacific Sales, and HD Supply.

THE PROJECT

Bond proceeds will be used to finance the purchase and installation of photovoltaic solar panel modules, which will be mounted to the roof of the existing facility. The modules contain no moving parts and are fixed to the building with a mounted structure that tilts the panels about 5 degrees. The system is a net-metered, grid-connected system and is set to produce roughly 635,000 KWh annually. The system is designed to offset approximately 70 percent of the historic annual electricity usage at the company's facility.

Anticipated Project and Issuance Costs

Acquisition and Installation of New Equipment	\$1.49 million
Bond Issuance Expenses	50,000
Refund Existing Bond	960,000
Total:	\$ 2.5 million

Timeline

The physical construction of the solar project will last approximately 12-16 weeks. The project is expected to begin in September 2010 and will be completed in December 2010.

Financing Details

The tax-exempt IDBs will be sold in a public offering. The bonds will be variable rate with a weekly reset repayable over a 25-year period and will be secured by an irrevocable Letter of Credit issued by Comerica Bank, which at closing will have a Fitch rating of at least A/F-1.

Financing Team

- Issuer: I-Bank
- Credit Enhancement Provider: Comerica Bank
- Bond Counsel: Kutak Rock, LLC
- Financial Advisor: Access to Capital, LLC
- Trustee: Wells Fargo Bank

PROJECT EVALUATION

PUBLIC BENEFITS: The project received 25 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 (0 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 101.75 percent of the statewide rate. Therefore, the project received no points.

2. Poverty Rate of Project Area (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 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 5.35 percent, which is 50.47 percent of the Census 2000 statewide rate of 10.6 percent. Therefore, the project received no points.

3. Special Designation Area (0 of 5 points). The project is not located in a Special Designation Area.

4. Median Family Income (0 of 5 points). In accordance with CDLAC 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 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 Los Angeles County, census tract 9201.06, where the average median family income is \$51,083. Given that the median family income for the State of California is \$53,025, the median family income for the project area is 96.3 percent of the statewide average. Therefore, the project received no points.

B. Job Creation (10 of 35 points). Points are awarded in this category based on the borrower's and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the project site within two years of project completion. The company represents it currently employs 95 direct, full-time employees. The company represents it anticipates hiring an additional 10 direct, full-time employees within two years of completion of the Project. Based on this representation, the project results in a 10.5 percent increase in employees.

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 (0 of 10 points). No documentation was provided regarding the average hourly wage of the company.

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

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

2. Workforce Training (0 of 5 points). The company provided no information 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 more than 30 percent of its product is exported outside California.

F. Health Care Benefits (0 of 15 points). The company represents it does pay a portion of its employee benefits, and the amount per employee is approximately \$100. However, the application did not include any specific information regarding medical benefits. Therefore, the project received no points.

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

H. Environmental Stewardship (10 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 (10 of 15 points). The company provided a letter from the Luke Soule, Director of Engineering for Solar Monkey which indicates the project will provide a 70 percent reduction in the company's electricity consumption. (See Attachment A)

The company provided a letter from Southern California Edison Power Company which specifies the planned installation of the renewable energy equipment. (See Attachment B)

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). The total project cost is \$3.081 million. The company will borrow \$2.5 million of the project costs in the form of tax-exempt IDB financing. The remainder of project costs will be covered by a U.S. Government Energy Credit and by \$56,675 of the company's private funds. To qualify for points in this category, the taxable debt must be greater than 10 percent of the total project cost. The company's taxable portion is 2.2 percent of the total project cost. Therefore, the project received no points.

RELOCATION OF COMPANY OPERATIONS

The company will remain at its current location in the City of Valencia in Los Angeles County.

STATUS OF PERMIT/OTHER REQUIRED APPROVALS

- On July 23 2010, the I-Bank executed an Inducement Resolution in an amount not to exceed \$2.5 million of tax-exempt IDBs for the Project. The I-Bank is scheduled to adopt a final resolution for the Project on September 28, 2010.
- The I-Bank held a TEFRA hearing on August 17, 2010.
- The project is an equipment-only purchase, and therefore it 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

Description	Date of Bond Issue	Original Amount	Outstanding Amount
KAKS PROPERTIES, LLC/Hydro Systems, Inc.	June 13, 2003	\$4.96 million	\$960,000

CIDFAC FEES

In accordance with CIDFAC regulations¹, the borrower has paid CIDFAC an application fee of \$1,250.

RECOMMENDATION

Staff recommends approval of Allocation Resolution No. 10-02-010 for \$1.54 million in tax-exempt IDB allocation for the issuer for the Hydro Systems, Inc. Project.

Staff report by: Deanna Hamelin

¹ California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT
FINANCING ADVISORY COMMISSION
RESOLUTION NO. 10-02-010
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 Infrastructure and Economic Development Bank (“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 \$1,540,000 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.

Agenda Item – 4.B.1.

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: 10-02-010
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: I-Bank
2. Application No.: 10-010
3. Project Sponsor: KAKS PROPERTIES, LLC and/or a related entity
4. Project User: Hydro Systems, Inc. and/or a related entity
5. Project Name: Hydro Systems, Inc. Project
6. Project Description: Purchase of New Equipment
7. Address: 29132 Ave. Paine
Valencia, CA 91355
County: Los Angeles County
8. Amount of Allocation: \$1.54 million
9. The Project Sponsor has represented that it reasonably expects the Borrower/User will use its best efforts to create 10 additional, direct full-time positions within two years of the completion of the Project.

ATTACHMENT A



Solar Monkey™

Business Confidential

Luke Soule
Solar Monkey
8915 Research Drive, Suite 100
Irvine, CA 92618

7/26/2010

Tara M. Dunn
California Infrastructure and Economic Development Bank
980 9th Street, 9th Floor
Sacramento, CA 95814
Tel: 916.322.2571
Fax: 916.322.6314

Dear Ms. Dunn:

Based on historic energy usage and our system production estimates, the proposed solar system at Hydro Systems Inc. facility on 29132 Avenue Paine, Valencia, California will reduce their electricity consumption from the grid by approximately 70%.

The total electricity usage was based on historical Southern California Edison usage from April 2009 to March 2010. The solar production is calculated through National Renewable Energy Laboratory (NREL) PVWatts V2 program.

System Summary:

- Designed solar system size: 450kW
- Estimated first year solar production: 636,620kWh*
- 1 Year electricity usage (April 2009 - March 2010) from SCE: 909,447kWh
- Estimated System Offset: 70%*

Sincerely,

Luke Soule
Director of Engineering

* Strictly an estimate; subject to assumptions.

SolarMonkey.Net ■ 8915 Research Drive, Suite 100, Irvine, CA 92618 ■ Tel: 949.748.5996



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* Strictly an estimate; subject to assumptions.

ATTACHMENT B

Attachment O

Evidence of Energy Efficiency

From: PowerClerk Notifications [mailto:donotreply@powerclerk.com] On Behalf Of barbara.eaomani@sce.com
Sent: Tuesday, July 20, 2010 3:15 PM
To: Scott G. Steinhardt
Cc: luke@monkeyis.com; Brett Burningham; josh@monkeyis.com
Subject: Reservation Reserved Notice, Application SCE-CSI-11890, Hydro Systems Inc

07/20/10

To: Luke Soule
Solar Monkey
8915 Research Dr., Ste 100
Irvine, CA 92618

From: Pc
barbara.e
Sent: Tu
To: Scott
Cc: luke@
Subject:

Re: California Solar Initiative, Confirmed Reservation Notice, SCE-CSI-11890, Hydro Systems Inc
Dear Luke Soule:

07/20/10

This letter replaces the confirmation letter sent to you on July 15, 2010 and correctly identifies the Step level at which your application for a CSI incentive has been confirmed. The Trigger Tracker for SCE's service territory crossed into Step 6 on April 13, 2010. Your application was received on May 19, after the Step 5 level incentive was depleted.

To: Luke
Solar
8915
Irvine

Your project is reserved at Step 6; the correct incentive rate and amount are \$0.15/kWh and \$524,025.00, respectively.

Romberto Felix notified Joshua McNeely at Solar Monkey and Brett Burningham at Hydro Systems, Inc. on July 19 to inform them of the correction.

Re: Califo
Dear Luke

The reserved incentive amount is determined by the proposed system listed in the Reservation Request documentation. Please note that the actual incentive payment may differ from the amount stated in this letter if the installed system changes.

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Congratulations! This letter confirms that a conditional reservation has been issued for your proposed Photovoltaic (PV) project under the California Solar Initiative Program. Details regarding your reservation are listed below:

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Congratulations! This letter confirms that a conditional reservation has been issued for your proposed Photovoltaic (PV) project under the California Solar Initiative Program. Details regarding your reservation are listed below:

ATTACHMENT B

Application Number	SCE-CSI-11890
Application Type	Commercial 3 Step
Host Customer	Hydro Systems Inc
Installation Address	29132 Avenue Paine Valencia, CA 91355
CEC – AC Rating	396.388 kW
Design Factor	100.610%
CSI System Size	396.806 kW
EPBB/PBI Incentive Rate	PBI @ \$0.15 per kWh
Reserved Incentive Amount	\$524,025
Proof of Project Milestone Due Date	09/18/2010
Reservation Expiration Date	01/19/2012

Payments will be made on a monthly basis over a 5-year period following system installation, submission, and approval of incentive claim materials. These payments will be based on the per-kWh incentive rate and the actual energy (kWh) produced in that time period. The incentive rate will remain fixed during the 5-year payment period.

Please complete the installation and submit the Incentive Claim package by 01/19/2012. Any claims submitted after this due date may be cancelled.

Any documentation submitted after the above due dates may result in cancellation of the reservation. Extensions may be available depending on cause of delay at Southern California Edison's discretion. Please refer to the current California Solar Initiative Handbook for specific requirements and exemptions.

The Proof of Project Milestone checklist can now be completed online at: <https://sce.powerclerk.com/>.

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If your Applicant chooses not to complete the Proof of Project Milestone checklist online, please visit <https://sce.powerclerk.com/> to download the applicable forms.

Please
submit

The CPUC requires all customers to pay for 5 years of data communication and Performance Monitoring and Reporting Services (PMRS), unless exemption criteria are met. Please refer to the current California Solar Initiative Handbook for specific requirements and exemptions.

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PBI projects have specific metering and data transmission requirements that must be met for incentive approval. Please review the specific requirements for the project installation at:

<http://www.sce.com/csi>

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PBI projects have specific metering and data transmission requirements that must be met for incentive approval. Please review the specific requirements for the project installation at:

<http://www.sce.com/csi>

ATTACHMENT B

If you have any questions, please call our support line at (866) 584-7436 or send an email to CSIGroup@sce.com.

Sincerely,

Romerto Felix
Program Manager
Southern California Edison
California Solar Initiative

CC: Hydro Systems Inc
29132 Avenue Paine
Valencia, CA 91355

If you have any questions, please call our support line at (866) 584-7436 or send an email to CSIGroup@sce.com.

Sincerely,

Romerto Felix
Program Manager
Southern California Edison
California Solar Initiative

CC: Hydro Systems Inc
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Valencia, CA 91355