

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

*Request to Transfer Industrial Development Tax-Exempt Bond (IDB) Allocation*

**Capital Corrugated, Inc.**  
**Application No. 15-0005**

**October 20, 2015**

**SUMMARY**

**Borrower/Project Sponsor and User** – Capital Corrugated, Inc. and/or a related or affiliated entity

**Issuer** – California Infrastructure and Economic Development Bank (IBank)

**Location** – City of Sacramento, Sacramento County

**Requested IDB Allocation** – \$3,810,000

**Public Benefit Points Awarded** – [50] points out of 147 possible

**Staff Recommendation** – Approval

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**THE COMPANY**

Capital Corrugated, Inc. (the Company) was organized in California on March 31, 1995. The Company began as a packaging manufacturer of corrugated boxes and in November of 2008 they began diversifying into the folding carton business as well. Major customers of the Company include Delicato Vineyards, Rogers Family and Jelly Belly.

The Company is owned by:

Dennis Watson	50%
Jackson Angle	<u>50%</u>
<b>Total</b>	<b><u>100.00%</u></b>

**THE PROJECT**

The Company plans to utilize bond proceeds to finance the acquisition and installation of a new 2015 Manroland 900-Series, 40” x 56” capacity, High-Speed Large Format Sheetfed Six-Color Offset Printing Press with Coater and extended delivery to be installed at 8333 24<sup>th</sup> Avenue,

Sacramento, California 95826. The new equipment will offer better technology to meet increased demand, reduce operating costs and raw materials waste.

**Anticipated Project and Issuance Costs**

	<u>To be paid from bond proceeds</u>	<u>To be paid from all other sources</u>
Acquisition of New Equipment	3,810,000	0
Bond Issuance Expenses	<u>0</u>	<u>78,109</u>
<b>Totals</b>	<b><u>\$3,810,000</u></b>	<b><u>\$78,109</u></b>

**Timeline**

The issuance of the IDBs is expected to occur on December 16, 2015.

**Financing Details**

The tax-exempt IDB will be sold on a private placement basis in accordance with CIDFAC’s private placement policy<sup>1</sup> to People’s Capital and Leasing Corp., which is a qualified institutional buyer (QIB) as defined by the U.S. Securities and Exchange Commission (SEC) Rule 144A that will purchase the bond for its own investment portfolio. The bond will be secured by a deed of trust on the project site, a UCC filing on the assets of the Borrower and User, and personal guarantees.

**Financing Team**

- Issuer: IBank
- Private Placement Provider: People’s Capital and Leasing Corp.
- Bond Counsel: Schiff Hardin LLP

**PROJECT EVALUATION**

**PUBLIC BENEFITS:** The Project received [50] points out of a possible 142 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

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<sup>1</sup> 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 security for the private placement debt must be collateral provided by the Borrower.
- The bond will be issued in a minimum denomination of \$250,000.

**A. Community Economic Need ( 10 of 20 points).**

**1. Unemployment Rate of the Project Area (0 of 10 points).** In accordance with CDLAC Regulations, points are awarded in this category if the 2014 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2014 statewide rate. The unemployment rate of this Project area is 102.67 percent of the statewide rate. Therefore, the Project did not receive points in this subcategory.

**2. Poverty Rate of Project Area (5 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2010 (5 year) 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 39 percent, which is 245.28 percent of the Census 2010 statewide rate of 15.9 percent. Therefore, the Project received five points in this subcategory.

**3. Median Family Income (5 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2010, 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 the City of Sacramento census tract 52.05, where the average median family income is \$26,806. The median family income for the State of California is \$69,661. So, the median family income for the Project area is 38.5 percent of the statewide average. Therefore, the Project received five points in this subcategory.

**B. Job Creation (10 of 35 points).** Points are awarded in this category based on the borrower 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 that it currently employs 118 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 15 direct, full-time employees, which equates to a 12.71 percent increase, within two years of completion of the Project. Therefore, the Project received 10 points in this subcategory.

**C. Job Retention (0 of 10 points).** Points are awarded in this category based on the Borrower's or User's representation that it has considered moving operations out of state. There was no such representation in the application materials received, and therefore the Project received no points in this category.

**D. Average Hourly Wage (10 of 10 points).** In accordance with CDLAC Regulations, the most recent data from the Bureau of Labor Statistics, which in this case is May 2014, is used to determine if the Project qualifies for points in this category. 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 company's weighted average hourly wage is \$20.54 while the MSA for Sacramento/Arden Arcade/Roseville area average 2014 manufacturing wage for the occupation of production was \$17.06. Therefore, the company's average hourly wage is 135.45 percent of the average manufacturing wage for the Sacramento/Arden Arcade/Roseville area.

**E. Workforce and Economic Development (0 of 15 points).**

1. **Welfare-to-Work Plan (0 of 5 points).** The Company did not provide any information indicating participation in a welfare-to-work program.
2. **Workforce Training (0 of 5 points).** The Company did not provide information indicating participation in a workforce training program.
3. **Exports Outside California (0 of 5 points).** The Company did not provide information indicating that they export products outside of California.

**F. Health Care Benefits (15 of 15 points).** The Company provided documentation that it contributes to medical insurance for 102 of its 118 employees. This contribution translates into an average of \$524 per month toward the health care benefits for each covered employee. The Company represents that it will offer the same health care benefits to new employees.

**G. Payment of Retirement Benefits (5 of 5 points).** The Company provided information indicating that it contributes to an employee-sponsored defined contribution plan for payment of retirement benefits for its employees.

**H. Environmental Stewardship (0 of 27 points).**

1. **Land Use (0 of 3 points).** This Project does not involve the reuse of vacant or abandoned land or buildings.
  2. **Public Transit Corridor (0 of 4 points).** The Company did not provide verification that the Project site is located 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 did not provide information indicating that the Project produces or will produce environmentally preferable products.
- I. Leveraging (0 of 5 points).** This financing does not involve leveraging of the tax-exempt bond proceeds.

## **RELOCATION OF COMPANY OPERATIONS**

The Company will remain at its current location.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

- The IBank approved the Inducement Resolution in an aggregate amount not to exceed \$3,810,000 in tax-exempt IDBs for the Project on May 12, 2015. The IBank is scheduled to adopt a final resolution for the Project on November 17, 2015.
- The TEFRA notice was published at least 14 days prior to October 19, 2015, specifically on October 5, 2015 in The Daily Recorder, a newspaper of general circulation within Sacramento County. A TEFRA hearing was held by the IBank on October 19, 2015.
- 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**

None.

## **CIDFAC FEES**

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250 <sup>2</sup>.

## **RECOMMENDATION**

Staff recommends approval of Allocation Resolution No. 15-2-005 for \$3,810,000 million in tax-exempt IDB allocation for the IBank for the Capital Corrugated, Inc. Project.

**Staff report by: Andrea Gonzalez**

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<sup>2</sup> California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT  
FINANCING ADVISORY COMMISSION  
RESOLUTION NO. 15-2-005  
RESOLUTION TRANSFERRING A PORTION OF THE 2015 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 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 2015 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 Regulations of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Regulations”)); 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 \$3,810,000 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 or Deputy Executive Director and, if the Executive Director or Deputy 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: 15-2-005  
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: IBank
2. Application No.: 15-0005
3. Borrower, Project Sponsor and User: Capital Corrugated, Inc. and/or a related entity
4. Project Name: Capital Corrugated, Inc.
5. Project Description: Purchase of New Equipment
6. Address: 8333 24<sup>th</sup> Avenue  
Location: Sacramento, CA 95826  
County: Sacramento County
7. Amount of Allocation: \$3,810,000
8. The Borrower has represented that it reasonably expects to use its best efforts to achieve the following within two years of the completion of the Project :
  - Creation of 15 additional direct, full-time positions.