

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: April 22, 2009
Request for Initial Resolution

Prepared by: *Doreen Smith*

Applicant: Musco Olive Products, Inc. and/or its Affiliates	Amount Requested: \$4,000,000
Project	Application No.: 00820(SB)
Location: Tracy (San Joaquin County)	Initial Resolution No.: 09-04

Summary. Musco Olive Products, Inc. and/or its Affiliates (“Musco” or “Company”) requests approval of an Initial Resolution for an amount not to exceed \$4,000,000 to finance a renewable energy wastewater and pollution control system. The Company anticipates that the project will provide pollution control and environmental benefits.

Borrower. The Company incorporated in California on August 5, 1959. The Company provides olive processing and canning services in San Joaquin County.

The principal stockholders of the Company are as follows:

Nicholas Musco67.5%
Felix Musco	<u>32.5%</u>
Total:	100%

Legal Questionnaire. The Staff has reviewed the Company’s responses to the questions contained in the Legal Status portion of the Application. No information was disclosed that raises questions concerning the financial viability or legal integrity of this applicant. On October 26, 2007, the California Regional Water Quality Control Board (CRWQCB) issued an Administrative Civil Liability Complaint to the Company for violations of waste discharge requirements. Components of the project will enable the Company to comply with the settlement agreement which will terminate no later than March 31, 2010.

Prior Actions and Financings. None.

Project Description. The Company plans to implement a Renewable Energy Wastewater and Pollution Control System (RENEWS) that is designed to reduce water and air pollution, reduce salt load discharged in waste water, and replace electrical and thermal energy from fossil fuels with renewable sources.

RENEWS is designed to use thermal energy from combustion of biomass to concentrate waste water. The heat will be provided to RENEWS by the combustion of olive pits, a waste stream currently hauled off-site by truck. Steam from the distillation process is used to power traditional steam engines, which in turn drives two electrical generators. The generators will provide electrical power sufficient to meet approximately 75% of the facility’s requirements. The steam is then condensed to create a stream of low Total Dissolved Solids (TDS) water and the heat released by the steam is captured to provide process heat.

RENEWS will generate two output steams. The first will be the steam from the steam engine which will be routed through a heat exchanger to condense the steam back to water which will then be discharged to the reservoir. The second output steam will be boiler blow-down. The blow-down will be routed to a precipitation vessel to capture additional heat and precipitate out mineral waste. The crystalline material is expected to be removed by truck to an appropriate landfill site.

The Project will demonstrate a proprietary technology to use renewable biomass to purify process waste water used in a food processing facility.

The Project will require the construction of a 5,000 square foot pre-engineered metal building immediately adjacent to the existing wastewater treatment equipment. Additionally, a concrete slab and metal building will be added to the existing food processing facility. New equipment includes fluidized bed biomass-fueled burner, boilers, condensing system, steam engine, electrical generators and associated support equipment.

The anticipated Project and issuance costs to be financed with bond proceeds are listed below:

Site Preparation and Building Construction	\$300,000
Equipment	3,120,000
Permits and Development Fees	300,000
System Controls	200,000
Bond Issuance Expenses	<u>80,000</u>
Total:	<u>\$4,000,000</u>

Technology. The California Pollution Control Financing Authority has previously approved projects utilizing technologies that are similar to the one proposed by the Company.

Anticipated Timeline. The Company completed construction of a 1/6 scale pilot unit during 2008 and anticipates construction and equipment purchases for the full scale facility will commence in the second quarter of 2009 with completion expected to occur in the fourth quarter of 2009.

Pollution Control and/or Environmental Benefits. The Company represents the Project will generate the pollution control and environmental benefits described below.

Waste Diversion. The need for wastewater disposal is significantly reduced by using green waste to create steam which turns the turbines and produces electricity.

Air Quality. The conversion of waste biomass on-site will eliminate 120 to 300 diesel truck-miles per day.

Water Quality. The salinity of land-applied wastewater will be reduced by 30%; water reuse will be maximized within the existing food processing plant.

Energy Efficiency. Approximately 75 to 80% of electrical and 30 to 50% of process heat demands for the entire facility will be met by renewable energy (biomass).

Recycling of Commodities. Green waste will be used for the energy supply for the project.

Climate Change. The Company is not yet a member of the California Climate Registry. Carbon credits will be generated from this project primarily through reduction in greenhouse gas emissions from the semi-trucks and elimination of present biomass disposal methods.

Permits. The Company will provide the Authority with copies of all required discretionary permits prior to requesting approval for Final Resolution.

Volume Cap Allocation. The Company anticipates applying to the Authority for volume cap allocation in June 2009.

Financing Details. The Company anticipates issuance of negotiated tax-exempt, weekly reset, variable rate bonds with a term not to exceed 20 years for the qualifying portion of the project. The Company plans to secure the bonds with an irrevocable, direct pay Letter of Credit that is rated at least “A-” by Standard & Poors Rating Agency or equivalent. The target date for financing is July 2009.

Financing Team.

Underwriter: W.R. Taylor & Company, LLC
Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Issuer’s Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of Initial Resolution No. 09-04 for Musco Olive Products, Inc. and/or its Affiliates for an amount not to exceed \$4,000,000.

Note: An Initial Resolution approval is not a commitment that the Board will approve a Final Resolution and bond financing of the proposed Project.

Initial Resolution No. 09-04
Application No. 00820(SB)

**RESOLUTION OF OFFICIAL INTENT TO ISSUE BONDS TO
FINANCE SOLID WASTE DISPOSAL FACILITIES FOR
MUSCO OLIVE PRODUCTS, INC. AND/OR ITS AFFILIATES**

April 22, 2009

WHEREAS, the California Pollution Control Financing Authority (“Authority”), a public instrumentality, is authorized and empowered by the provisions of the California Pollution Control Financing Authority Act (“Act”) to issue bonds for the purpose of defraying the cost of facilities for the disposal of solid and liquid waste products, including resource recovery and energy conversion facilities; and

WHEREAS, Musco Olive Products, Inc., a California corporation (the “Applicant”), and/or its affiliates (collectively, the “Company”) has submitted an application (the “Application”) requesting that the Authority assist in financing the acquisition, construction and equipping of a renewable energy wastewater and pollution control system as more fully described in the Application (collectively, the “Project”) to be owned and operated by the Company, and have presented an estimate of the maximum cost of such Project as shown in Exhibit “A” attached hereto; and

WHEREAS, the Authority desires to encourage the Company to provide solid waste disposal and resource recovery facilities and equipment which will serve the public of the State; and

WHEREAS, the Authority deems it necessary and advisable to further the purposes of the Act that the Project be acquired at the earliest practicable date, but the Company requires satisfactory assurances from the Authority that the proceeds of the sale of bonds of the Authority will be made available to finance such Project; and

WHEREAS, the Company expects to incur or pay from its own funds certain expenditures in connection with the Project prior to the issuance of indebtedness for the purpose of financing costs associated with the Project on a long-term basis; and

WHEREAS, subject to meeting all the conditions set forth in this resolution the Authority reasonably expects that debt obligations in an amount not expected to exceed \$4,000,000 will be issued and that certain of the proceeds of such debt obligations will be used to reimburse the Company for its prior expenditures for the Project; and

WHEREAS, Section 1.103-8(a)(5) and Section 1.150-2 of the Treasury Regulations require the Authority to declare its reasonable official intent to reimburse prior expenditures for the Project with proceeds of a subsequent borrowing;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority as follows:

Section 1. The Authority finds and determines that the foregoing recitals are true and correct. For purposes of this Resolution, an “Affiliate” of the Applicant means any person or entity which controls, is controlled by, or is under common control with, the Applicant, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise. An Affiliate shall also be a “participating party” as defined in the Act.

Section 2. The Authority declares its official intent to issue, at one time or from time to time, an aggregate of up to \$4,000,000 principal amount of bonds of the Authority for the Project; including for the purpose of reimbursing to the Company costs incurred for the Project prior to the issuance of the bonds.

Section 3. The bonds will be payable solely from the revenues to be received by the Authority pursuant to a loan agreement or other agreements to be entered into between the Authority and the Company in connection with the Project. Each bond shall contain a statement to the following effect:

“Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof or local agency is pledged to the payment of the principal of, premium, if any, or any interest on this bond.”

Section 4. The bonds shall be issued subject to the conditions that (i) the Authority and the Company shall have first agreed to mutually acceptable terms for the bonds and of the sale and delivery thereof, and mutually acceptable terms and conditions of the loan of the bond proceeds to finance the Project; (ii) all requisite governmental approvals shall have first been obtained; (iii) a Final Resolution shall have been received from the Authority; and (iv) an allocation shall have been received from the California Debt Limit Allocation Committee for any portion of the bonds which are to be sold as exempt from federal income tax.

Section 5. The Executive Director of the Authority is hereby authorized to indicate the willingness of the Authority to proceed with and effect such financing in order to assist the Company by defraying the cost of the Project, subject to due compliance with all requirements of the law and the obtaining of all necessary consents and approvals and to meeting all other requirements of the Authority.

Section 6. It is intended that this Resolution shall constitute “some other similar official action” towards the issuance of bonds within the meaning of Section 1.103-8(a)(5) of the Treasury Regulations and “official intent” within the meaning of Section 1.150-2 of the Treasury Regulations, each as applicable under Section 103 of the Internal Revenue Code of 1986, as amended. It is also intended that this statement of “official action” or “official intent” by the Authority shall continue in full force and effect even if this Resolution ceases to be effective for other purposes.

Agenda Item – 4.A.1.

Section 7. This Resolution shall take effect immediately upon its passage and remain in full force and effect thereafter; provided that, subject to Section 6 above, this Resolution shall cease to be effective on April 22, 2012 unless the Authority specifically adopts a further resolution extending the effective date of this Initial Resolution. The Authority will consider such extension upon receiving a specific request for such action from the Company, accompanied by any additional information requested by the Authority to supplement the Company's application, and an explanation of the status of the Project.

EXHIBIT A

NUMBER: 00820 (SB)
LOCATION: 17950 Via Nicolo, Tracy, CA 95377
TYPE: Solid Waste Disposal
AMOUNT: Up to \$4,000,000