

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: December 3, 2007
Executive Summary
Request to Convert Bonds from Taxable to Tax-Exempt Status
upon receipt of Volume Cap Allocation

Prepared by: *Michael Smith*

Applicant: Air Products and Chemicals, Inc. and Air Products Manufacturing Corp. (“Air Products”)	Amount Requested: \$47,000,000
Project Martinez (Contra Costa County) and	Application No.: 572
Location: Wilmington (Los Angeles County)	Final Resolution 293
	Nos.: 296

Type of Business: Air Products is a major international supplier of industrial gases and related equipment, intermediate and specialty chemicals and equipment and services. Air Products has positions in markets such as semiconductor materials, refinery hydrogen, home healthcare services, natural gas liquefaction, and advanced coatings and adhesives. The company has annual revenues of \$7.4 billion, and nearly 20,000 employees around the globe. Air Products is a Fortune 500 corporation rated A2/P-1 (Moody's) & A/A-1 (S&P).

Background and Request: CPCFA issued bonds on August 5, 1997 in the amount of \$32 million for the Martinez Facility (the “Martinez Bonds”), and on September 30, 1997 in the amount of \$25 million for the Wilmington Facility (the “Wilmington Bonds”), for a total of \$57 million. Both issues were in a taxable mode and can be converted to a tax-exempt mode upon receipt of volume cap allocation.

The Company contributed a total of \$171,000 to the Authority’s Small Business Assistance Fund (SBAF) for the two original taxable financings.

On March 11, 1998, \$10 million of the Martinez Bonds was converted to tax-exempt status. This conversion generated \$70,000 in additional SBAF. As a prerequisite to the proposed conversion, the borrower must provide notice to the CPCFA and receive California Debt Limit Allocation Committee (CDLAC) volume cap allocation.

Air Products desires to convert the remaining \$22,000,000 of the Martinez Bonds, and \$25,000,000 of the Wilmington bonds to tax-exempt status. Air Products may convert the financing to tax-exempt upon the provision of notice to the CPCFA. The bond documents provide that the conversion is essentially self-executing and that the CPCFA is only involved to the extent required by CDLAC’s procedures. This conversion would generate approximately \$329,000 in SBAF, provided that the Company receives an allocation of Volume Cap in the amount of \$47,000,000 from CDLAC.

CDLAC Application: CDLAC’s procedures require submission of the application from the issuer, in this case, the CPCFA. Furthermore, these procedures require that the application include a resolution approved by the issuer’s governing body approving the application to CDLAC.

Pollution Control and/or Waste Diversion: The Company represents that the Project will generate pollution control benefits as described in the staff summary.

Environmental Benefits: The Company represents that the Project is designed to generate the environmental benefits described in the staff summary.

Permits: All required discretionary permits have been obtained and copies were provided with submission of the CPCFA application.

Financing Details: The Company anticipates converting the existing taxable bonds to a negotiated tax-exempt, weekly reset, variable rate bond issue with a term not to exceed 30 years for the qualifying portion of the project. The Company plans to secure the bonds with the credit of Air Products and Chemicals, Inc. The target date for conversion is January 2008. A commitment letter has been received from Goldman Sachs & Co. and Banc of America Securities LLC to purchase or place, as underwriter or placement agent, the bonds delivered upon conversion of the CPCFA debt to tax-exempt status.

Financing Team:

Underwriter: Banc of America Securities LLC and Goldman Sachs & Co.

Bond Counsel: Law Offices of Leslie M. Lava

Issuer's Counsel Office of the Attorney General

Legal Questionnaire: [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.]

Staff Recommendation: Staff recommends that the Authority approve the resolution authorizing conversion from taxable to tax-exempt bonds upon receipt of volume cap allocation.

AIR PRODUCTS MANUFACTURING CORPORATION and AIR PRODUCTS AND CHEMICALS, INC.

Conversion Amount: \$47,000,000

Martinez (Contra Costa County)

Wilmington (Los Angeles County)

Application No. 572

December 3, 2007

STAFF SUMMARY – CPCFA

Prepared by: *Michael Smith*

ISSUE: Air Products Manufacturing Corporation and Air Products and Chemicals, Inc. (“Air Products”) requests that the Authority approve a Resolution for up to \$47,000,000 to allow conversion of the Bonds (described below) from taxable to tax-exempt status upon receipt of volume cap allocation.

Air products obtained taxable financing in 1997 in the amount of \$57,000,000, and may convert the financing to tax-exempt status upon receipt of volume cap allocation and the provision of notice to CPCFA. The bond documents provide that the conversion is essentially self-executing and CPCFA is only involved to the extent required by CDLAC’s procedures.

CDLAC Allocation. The Company applied for CDLAC allocation and expects to be heard at its December 5, 2007 meeting.

TEFRA. The TEFRA hearing was held on November 2, 2007. There were no comments received in support of or in opposition to this Project.

BORROWER: Air Products, a Delaware corporation formed in 1961 as a successor to a Michigan corporation founded in 1940, is a multinational corporation with operations throughout the United States and in 30 foreign countries. Air Products is a major international supplier of industrial gases and related equipment, intermediate and specialty chemicals and equipment and services. Air Products has positions in markets such as semiconductor materials, refinery hydrogen, home healthcare services, natural gas liquefaction, and advanced coatings and adhesives. The company has annual revenues of \$7.4 billion, and nearly 20,000 employees around the globe. Air Products is a Fortune 500 corporation rated A2/P-1 (Moody’s) & A/A-1 (S&P).

Legal Questionnaire. [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.]

Prior Financings.

- \$22,000,000 Air Products Manufacturing Corporation Project, Taxable Series 1997A¹

¹ Martinez Hydrogen Facility

- \$25,000,000 Air Products and Chemicals, Inc./Wilmington Facility, Taxable Series 1997A²
- \$10,000,000 Air Products Manufacturing Corporation Tax-Exempt Series 1997B

PROJECT INFORMATION: Air Products currently operates four of the six existing Hydrogen Plants in California and produces approximately 80% of all hydrogen produced in the state. The plants use a steam methane reforming process where the natural gas feedstock reacts with a catalyst, usually nickel, in the presence of high-pressure steam to reform and yield a gas mixture containing hydrogen and carbon dioxide. Pure hydrogen is then separated from this gas mixture using a pressure swing absorption process, and the hydrogen is then cleaned before being sent to the adjacent dedicated customer. All of the Air Products hydrogen plants output is sent to adjacent gasoline refineries, which the refiners use to obtain more gasoline from each barrel of oil. By locating hydrogen plants near large, dedicated customers like refineries, Air Products is able to provide higher-purity hydrogen at a lower cost than the refiners could produce on their own. Air products estimates that refiners are able to convert 40% of crude oil to gasoline on average; but when high-purity hydrogen is used, the recoverable share of gasoline rises to between 50% and 55%, significantly increasing the supply of gasoline. Hydrogen also enables gasoline to burn cleaner, thus reducing emissions.³

POLLUTION CONTROL AND/OR WASTE DIVERSION: The Company represents that the Project will generate the following pollution control, ratepayer, and public benefits:

Ratepayer Benefits. The tax-exempt financing reduces the overall cost of financing the hydrogen facility. This enables Air Products to lower the cost of the hydrogen produced at the facility to its customer, and in turn allows the refinery to hold down the cost of reformulated fuels sold to consumers.

Tax Revenues. Air Products represents that it paid in excess of \$6.8 million in sales tax in California on the construction of the facilities, and will pay about \$2 million per year in associated property taxes.

Jobs. Besides the initial construction jobs, maintenance, and administrative support jobs, Air Products represents that the Wilmington and Martinez facilities sustain 31 full time and 19 part time positions.

Small Business Assistance Fund (SBAF). SBAF fees previously paid by Air Products for the Martinez Bonds and Wilmington Bonds are detailed as follows:

Closing Date	Bonds	Taxable Issuance	Conversion Factor	SBAF
08/5/97	Martinez	\$32,000,000	0.003	\$96,000
09/30/97	Wilmington	\$25,000,000	0.003	\$75,000
		TOTAL:		<u>\$171,000</u>

² Wilmington Hydrogen Facility

³ Taken from “California Economic Impact Study on the Effects of the Investment by Air Products and Chemicals, Inc. in its Martinez, Wilmington, and Carson Hydrogen Facilities,” Prepared by Global Insight, 2/17/05.

Conversion Date	Bonds	Conversion to Tax Exempt	Conversion Factor	SBAF
03/17/98	Martinez	\$10,000,000	0.007	\$70,000

The conversion of the remaining taxable bonds to tax-exempt status will result in the collection of additional SBAF fees as follows:

Conversion Date	Bonds	Conversion to Tax Exempt	Conversion Factor	SBAF
January 2008	Martinez	\$22,000,000	0.007	\$154,000
January 2008	Wilmington	\$25,000,000	0.007	\$175,000
TOTAL:				\$329,000

ENVIRONMENTAL BENEFITS:

The Company represents that the Project is designed to generate the environmental benefits described below.

Significant environmental benefits are achieved from the use of hydrogen by refineries to produce cleaner burning fuels. In addition, the portion of these hydrogen facilities that qualify for tax-exempt financing produces hydrogen that is used to process vacuum residual, which is a solid waste by-product of the refinery operations. By recycling this vacuum residual into useable fuels, the refineries avoid the need to dispose of this by-product through other means. The hydrogen plants also use pressure swing absorption technology to recover hydrogen from refinery fuel steam and provide the added benefit of reduced emissions of nitrogen oxides, sulfur oxides, and other particulate matter from the refinery. As mentioned previously, the use of high-purity hydrogen also increases the amount of gasoline refiners can convert from crude oil.

PERMITTING & ENVIRONMENTAL APPROVALS:

All required discretionary permits have been obtained and copies were provided with submission of the CPCFA application.

ANTICIPATED TIMELINE:

The Company anticipates conversion from taxable to tax-exempt bonds in January 2008.

FINANCING DETAILS:

The Company anticipates converting the existing taxable bonds to negotiated tax-exempt, weekly reset, variable rate bond issue with a term not to exceed the original term of 30 years for the qualifying portion of the project. The Company plans to secure the bonds with the credit of Air Products and Chemicals, Inc. which is expected to be at least A- by Standard & Poor's. The target date for conversion is January 2008.

FINANCING TEAM:

- Underwriter:** Banc of America Securities LLC and Goldman Sachs & Co.
- Bond Counsel:** Law Offices of Leslie M. Lava
- Issuer's Counsel:** Office of the Attorney General

RECOMMENDATION:

Staff recommends that the Authority approve the resolution authorizing conversion from taxable to tax-exempt bonds upon receipt of volume cap allocation.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
RELATING TO FINANCING FOR SOLID WASTE DISPOSAL FACILITIES
FOR AIR PRODUCTS AND CHEMICALS, INC.
AND AIR PRODUCTS MANUFACTURING CORPORATION**

December 3, 2007

WHEREAS, the California Pollution Control Financing Authority (the “Authority”) has heretofore approved the application of Air Products and Chemicals, Inc., a Delaware corporation (“APC”), on behalf of itself and Air Products Manufacturing Corporation, its wholly-owned subsidiary and a Delaware corporation (“APMC”), for financial assistance in the acquisition and construction of certain solid waste disposal facilities, including APC’s facilities and equipment located at APC’s Hydrogen Plant located at the Ultramar Refinery and the Texaco Refinery in Wilmington, California (the “Wilmington Project”) and APMC’s facilities and equipment located at APMC’s Hydrogen Plant located at the Shell Martinez Refining Company's Martinez Manufacturing Complex in Contra Costa County, California (the “Martinez Project”), and

WHEREAS, on October 21, 1994, the Authority adopted Initial Resolution No. 94-10, evidencing its intent to issue bonds to finance all costs properly chargeable to the capital account of the Wilmington Project and the Martinez Project (collectively, the “Projects”) in a maximum principal amount aggregating \$100,000,000; and

WHEREAS, on July 23, 1997, the Authority adopted Final Resolution No. 296 approving, among other matters, the issuance by the Authority of its revenue bonds bearing interest at a taxable rate (the “Martinez Bonds”) in an amount not to exceed \$32,000,000 to assist in the financing of the Martinez Project; and

WHEREAS, on August 5, 1997, the Martinez Bonds in an aggregate principal amount equal to \$32,000,000 were issued by the Authority; and

WHEREAS, on August 27, 1997, as amended on September 24, 1997, the Authority adopted Final Resolution No. 293 approving, among other matters, the issuance by the Authority of

its revenue bonds bearing interest at a taxable rate (the “Wilmington Bonds”) in an amount not to exceed \$50,000,000 to assist in the financing of the Wilmington Project; and

WHEREAS, on September 30, 1997, the Wilmington Bonds in an aggregate principal amount equal to \$25,000,000 were issued by the Authority; and

WHEREAS, on January 28, 1998, the Authority adopted its resolution approving, among other matters, the conversion of the Martinez Bonds from a taxable rate to a tax-exempt rate in an aggregate principal amount not to exceed \$32,000,000, and, in accordance therewith, on March 17, 1998, the Authority executed and delivered its Environmental Improvement Revenue Bonds (Air Products Manufacturing Corporation Project) Tax-Exempt Series 1997B in the aggregate principal amount of \$10,000,000; and

WHEREAS, approval of the conversion of the Wilmington Bonds and the remaining Martinez Bonds, at any time or from time to time, from taxable rate to tax-exempt rate bonds is now sought;

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

Section 1. Pursuant to the Indenture of Trust, dated as of September 1, 1997 (the “Wilmington Indenture”), between the Authority and First Union National Bank, as trustee (the “Trustee”), the conversion of any or all of the Wilmington Bonds from a taxable rate to a tax-exempt rate (such converted Wilmington Bonds being referred to herein as the “Tax-Exempt Wilmington Bonds”) is hereby ratified, confirmed and approved, subject to the receipt from the California Debt Limit Allocation Committee (“CDLAC”) of state volume cap in an amount equal to the principal amount of the Tax-Exempt Wilmington Bonds to be converted from time to time, so as to satisfy the requirements of Section 146(e) of the Internal Revenue Code of 1986 (the “Code”) with respect to such Tax-Exempt Wilmington Bonds. Subject to the foregoing, the Wilmington Bonds may be converted at one time, or from time to time, in one or more series separately identified.

Section 2. The Authority hereby dedicates and confirms its allocation to the Tax-Exempt Wilmington Bonds of a portion of its private activity bond limit to the extent received from CDLAC in an amount up to the principal amount of the Tax-Exempt Wilmington Bonds finally converted from time to time.

Section 3. The Chairman (or any of his Deputies) and the Executive Director of the Authority are hereby authorized and directed to execute, by manual or facsimile signature, in the name and on behalf of the Authority and under its seal, the Tax-Exempt Wilmington Bonds, in one or more series, in an aggregate principal amount not to exceed \$25,000,000, in accordance with the Wilmington Indenture and in the form set forth in the Wilmington Indenture.

Section 4. Pursuant to the Indenture of Trust, dated as of August 1, 1997 (the “Martinez Indenture” and, together with the Wilmington Indenture, collectively, the “Indentures” or each, an “Indenture”), between the Authority and the Trustee, the conversion of any or all of the remaining Martinez Bonds from a taxable rate to a tax-exempt rate (such converted Martinez Bonds being referred to herein as the “Tax-Exempt Martinez Bonds” and, together with the Tax-Exempt Wilmington Bonds, collectively, the “Tax-Exempt Bonds”) is hereby ratified, confirmed and approved, subject to the receipt from CDLAC of state volume cap in an amount equal to the principal amount of the Tax-Exempt Martinez Bonds to be converted from time to time, so as to satisfy the requirements of the Code with respect to such Tax-Exempt Martinez Bonds. Subject to the foregoing, the remaining Martinez Bonds may be converted at one time, or from time to time, in one or more series separately identified.

Section 5. The Authority hereby dedicates and confirms its allocation to the Tax-Exempt Martinez Bonds of a portion of its private activity bond limit to the extent received from CDLAC in an amount up to the principal amount of the Tax-Exempt Martinez Bonds finally converted from time to time.

Section 6. The Chairman (or any of his Deputies) and the Executive Director of the Authority are hereby authorized and directed to execute, by manual or facsimile signature, in the

name and on behalf of the Authority and under its seal, the Tax-Exempt Martinez Bonds, in one or more series, in an aggregate principal amount not to exceed \$22,000,000, in accordance with the Martinez Indenture and in the form set forth in the Martinez Indenture.

Section 7. The Tax-Exempt Bonds, when so executed, shall be delivered to the Trustee under the applicable Indenture for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Tax-Exempt Bonds by executing the Trustee's certificate of authentication appearing thereon. The Trustee is hereby requested and directed to deliver the Tax-Exempt Bonds, when duly executed and authenticated, to The Depository Trust Company, New York, New York, on behalf of the initial purchasers in accordance with written instructions executed on behalf of the Authority by the Chairman (or any of his Deputies) or the Executive Director of the Authority, which instructions said officers are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute and to deliver to the Trustee. Such instructions shall provide for the delivery of the Tax-Exempt Bonds to The Depository Trust Company, on behalf of the initial purchasers thereof, upon payment of the purchase price thereof.

Section 8. The officers of the Authority and its authorized deputies are hereby authorized and directed, jointly and severally, to perform any ministerial acts and, with the advise of counsel to the Authority, to execute and deliver any and all documents and certificates, including a tax certificate, which they may deem necessary or advisable in order to effectuate the purpose of this resolution.

Section 9. This resolution shall take effect immediately upon its passage and shall be effective until December 3, 2008. The adoption by the Authority of this resolution for APC and APMC shall not be referred to in any application before any government agency as evidence of the feasibility, practicality or suitability of the Projects or in any application for any required permission or authority to construct or operate the Projects; however, a copy of this resolution shall be included in any application filed with CDLAC.