

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: November 18, 2009
Request for Amendment and Restatement of Initial Resolution

Prepared by: *Doreen Smith*

Applicant: Recycling Industries, Inc. and/or its Affiliates	Amount Requested: \$5,780,000
Project	Application No.: 00759 (SB)
Location: Sacramento County	Initial Resolution No.: 04-17
	Prior Action: IR 04-17 approved 12/14/2004

Summary. Recycling Industries, Inc. and/or its Affiliates (the “Company”) requests approval of a restatement and amendment to Initial Resolution Number 04-17 for an amount not to exceed \$5,780,000 to finance land and building acquisition, building rehabilitation and equipment purchases. The Company provides material collection and processing services and anticipates that the project will provide waste diversion, air quality, water quality and recycling benefits.

The Initial Resolution was approved on December 14, 2004 for a similar project at a different location and for an amount not to exceed \$4,525,000. That resolution expired on December 14, 2007. The Company is requesting an amendment to and restatement of the Initial Resolution for a new project location, and to increase the amount of the Initial Resolution. To the extent consistent with federal tax law, this Amended and Restated Resolution will relate back to December 14, 2004 and will replace the Initial Resolution.

Borrower. Recycling Industries, Inc. incorporated in California in August 1981. The Company offers material collection and processing services. Current operations include, but are not limited to, sorting and processing recyclable paper, cardboard, aluminum cans, glass bottles, plastic bottles and commingled recycle streams from municipal curbside recycle programs. The communities serviced include Sacramento County as well as San Joaquin, Sutter, Yuba, El Dorado, Placer, Yolo and Nevada Counties.

Square One Records, Inc. is an affiliate of Recycling Industries, Inc. The principal stockholders of the Company are as follows:

Recycling Industries, Inc.

W. Scott Kuhnen	50%
Michael Macardican	<u>50%</u>
Total:	<u>100%</u>

Square One Records, Inc.

W. Scott Kuhnen	50%
Michael Macardican	<u>50%</u>
Total:	<u>100%</u>

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.

Prior Actions and Financings. None.

Project Description. The Company plans to move part of its operations and expand their capacity at a new site. The Company anticipates purchasing 6.75 acres of land, including an existing building. The project includes renovating the building, installing processing equipment for recyclables, including a scale, baler and related equipment. Operations at the current location are conducted entirely indoors. As a result, waste paper and debris is subjected to the elements, which causes the material to get wet, scatter and become litter in the nearby community. The new facility will be completely enclosed, which will eliminate this problem.

The anticipated Project and issuance costs are listed below:

Acquisition of Site	\$4,400,000
Building Rehabilitation	650,000
New Equipment	425,000
Bond Issuance Expense	115,600
Credit Enhancement/Contingency	<u>189,400</u>
Total:	<u>\$5,780,000</u>

Anticipated Timeline. The Company anticipates purchasing the site in February 2010 and beginning building renovations the following month. Equipment purchases will also commence in March 2010. The Project is expected to be completed by August 2010.

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

Waste Diversion. The Project will allow the Company to divert approximately 20,000 additional tons of material from landfills annually. Additional diverted tons will come from the reduced waste generated by operating in a covered environment as opposed to the Company’s current method of processing material outside.

Air Quality. The company will be able to process all of its material inside an enclosed area free from the weather. Currently, the recyclable paper is blowing all over the Company’s existing plant.

Water Quality. On rainy days, paper becomes so wet that it turns to a dirty pulp. By working inside of a building, dirty pulp will no longer be a water management concern.

Energy Efficiency. The building will be retrofitted with energy efficient lighting.

Recycling of Commodities. The Company will recycle all solid waste delivered to the plant including, but not limited to, paper, cardboard, recyclable waste, glass, aluminum, plastic and other marketable materials.

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 during the first quarter of 2010.

Financing Details. The Company anticipates issuance of negotiated tax-exempt, weekly reset, variable rate bonds with a term not to exceed 30 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 Fitch Rating Agency or equivalent. The target date for financing is first quarter 2010.

Financing Team.

Underwriter: Westhoff, Cone & Holmstedt
Bond Counsel: Orrick, Herrington & Sutcliffe
Financial Advisor: Andrew S. Rose
Issuer’s Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of a restatement and amendment to Initial Resolution No. 04-17 for Recycling Industries and/or its Affiliates for an amount not to exceed \$5,780,000.

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. 04-17
Application No. 759(SB)

AMENDED AND RESTATED
RESOLUTION OF OFFICIAL INTENT TO ISSUE BONDS TO
FINANCE SOLID WASTE DISPOSAL FACILITIES FOR
RECYCLING INDUSTRIES, INC. AND/OR ITS AFFILIATES

November 18, 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, Recycling Industries, 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 rehabilitation of solid waste disposal facilities and equipment 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 adopted its initial resolution 04-17 on December 14, 2004, expressing its intent to issue up to \$4,525,000 of bonds for the Company (the “Original Resolution”); and

WHEREAS, the Original Resolution expired by its terms on December 14, 2007; and

WHEREAS, the Company has submitted a new application to the Authority, requesting that the Original Resolution be amended and restated for a new Project at a different location, and requesting that the dollar amount of the Original Resolution be increased to reflect the costs of the new Project; 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 \$5,780,000 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 meets the definition of “participating party” in the Act and 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.

Section 2. The Authority declares its official intent to issue, at one time or from time to time, an aggregate of up to \$5,780,000 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.

Section 7. This Resolution shall take effect immediately upon its passage and remain in full force and effect thereafter; provided that, this Resolution shall cease to be effective on November 18, 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. To the extent consistent with federal tax law, this Resolution shall (except for the location on Exhibit A) relate back to December 14, 2004 and shall replace the Original Resolution.

EXHIBIT A

NUMBER: 04-17

LOCATION: 1835 Diesel Drive
Sacramento, CA 95838

TYPE: Solid Waste Disposal Facilities

AMOUNT: Up to \$5,780,000