

CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: September 22, 2010
Request for Reinstatement and Amendment to Initial Resolution

Prepared by: *Doreen Smith*

Applicant:	CalAg, LLC, CalPlant I, LLC and/or its Affiliates	Amount Requested:	\$175,300,000
Project		Application No.:	664 (SB)
Location:	Willows (Glenn County)	Initial Resolution No.:	00-06
		Prior Actions:	IR approved 4/26/00 Reinstated & extended 5/01/01 Extended 05/30/02 Extended 5/25/04 Amended & Extended 10/24/06 FR Approved 3/20/07; Amended & Restated FR Approved 7/24/07

Summary. CalAg, LLC and/or its Affiliates, including CalPlant I, LLC (the “Company”) requests approval of a reinstatement and amendment to Initial Resolution number 00-06 for an amount not to exceed \$175,300,000 to finance a facility to utilize waste rice straw to manufacture medium density fiberboard (MDF).

Borrower. CalAg, LLC organized on January 16, 1997 and will produce rice straw-based MDF in Glenn County once construction is completed.

The principal stockholders of the Company are as follows:

Michael D. McGowan	27.7%
Gerald R. Uhland	10.7%
Eleemosynary Limited Partnership	9.7%
Susan Boyd	8.8%
Victor M. Gallo	6.5%
Jupiter Partners	6.4%
Haas & Najarian LLP	4.4%
Felix Hernandez	2.7%
Milan Sekulic	1.5%
M.D. McGowan SEMPPP	1.5%
The Motley/Baltz Family Limited Partnership	1.4%
John Lee Hoerner	1.3%
Michael W. & Donna M. Engmann	1.2%
Kendu Partners Co. – Natasha Yakoffski	1.0%
MDNH Partners, LP	1.0%
Various (less than 1% each)	<u>14.2%</u>
Total:	<u>100.0%</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 Financings. None.

Agenda Item 4.B.1.

Prior Actions. The Initial Resolution was approved on April 26, 2000 for an amount not to exceed \$89,160,000. The Initial Resolution was reinstated and extended on May 1, 2001; extended May 30, 2002 and May 25, 2004; amended and extended on October 24, 2006 for an amount not to exceed \$175,300,000. A Final Resolution was approved on March 20, 2007, and an Amended and Restated Final Resolution was approved on July 24, 2007, each in an amount not to exceed \$175,000,000; however bonds were not issued. At this time, the Company requests to reinstate and amend the Initial Resolution for an amount not to exceed \$175,300,000.

Project Description. CalAg is a small business which proposes to use its patented method (U.S. Patent 6,596,209) to manufacture medium density fiberboard (MDF) from rice straw—a waste product from the farming and harvesting of rice. According to the Company, its patented method of producing rice straw-based MDF results in an engineered composite panel which meets or exceeds all American National Standards Institute (ANSI) standards for wood-based MDF.

The proposed Project to be located on 273 acres outside the town of Willows in Glenn County will recycle approximately 210,000 tons of rice straw annually into MDF. The site will accommodate the storage of approximately 325,000 large rice straw bales (in sizes 3'x4'x8' and/or 4'x4'x8') at any one time. The location is within the Sacramento Valley region where the overwhelming majority of rice is grown in California (approximately 550,000 acres each year). The Company purchased the plant site in April 2008.

CalAg represents that the plant will be contractually guaranteed to produce approximately 100 million square feet (MMsf) ¾" basis of MDF per year; it has been designed to be capable of producing 125 MMsf ¾" once in full operation. In addition to rice straw, which CalAg will obtain from Sacramento Valley rice producers, a formaldehyde free polymeric Methylene Diphenyl Diisocyanate (pMDI) resin binder will be used to manufacture the MDF.

Some of the anticipated Project and issuance costs are listed below:

Equipment and Rolling Stock	\$79,679,430
Land and Buildings	51,216,732
Engineering, Legal and Permits	5,000,000
Site Preparation and Improvements	13,898,816
Other Capitalized Construction Costs	2,394,257
Capitalized Interest	13,110,765
Costs of Issuance	3,506,000
Closing Costs & Contingency	<u>6,494,000</u>
Total:	<u>\$175,300,000</u>

Anticipated Timeline. The Company anticipates commencing construction in January 2011 with a completion date of July 2012. Equipment purchases will begin in February 2011 with a scheduled completion of May 2012.

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

Waste Diversion. The objectives of the plant are to recycle rice straw—an annually renewable agriwaste.

Air Quality. The Project will improve air quality by reducing the need to and amount of open air burning of rice fields. By reducing the amount of straw that is left in the fields to decompose after each year's harvest, a significant amount of free airborne methane gas will be eliminated thus also improving air quality.

Water Quality. The project will reduce the waste of water currently being diverted from area rivers for the practice of straw decomposition as an alternate disposal system to burning the rice fields.

Energy Efficiency. The Company estimates that CalPlant I will require approximately 15% less energy than a like sized wood-based MDF plant.

Recycling of Commodities. CalPlant I will recycle 210,000 tons of California grown rice straw annually. Of that collected material, approximately 99% of the straw will be utilized in the manufacture of MDF.

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

Volume Cap Allocation. The Company anticipates applying to the Authority for volume cap allocation in November or December 2010.

Financing Details. The Company anticipates issuance of negotiated fixed rate tax-exempt bonds with a term not to exceed 22 years for the qualifying portion of the Project. The Company plans to engage Stone & Youngberg, LLC as underwriter or placement agent for these fixed rate bonds. The target funding date is December 2010 or first quarter 2011.

Financing Team.

Underwriter/Placement Agent: Stone & Youngberg, LLC
Bond Counsel: Orrick, Herrington & Sutcliffe, LLC
Financial Advisor: Capital Strategies, LLC
Issuer's Counsel: Office of the Attorney General

Staff Recommendation. Staff recommends approval of amended and reinstated Initial Resolution No. 00-06 for CalAg, LLC and/or its Affiliates for an amount not to exceed \$175,300,000.

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

**AMENDMENT AND REINSTATEMENT OF
RESOLUTION OF OFFICIAL INTENT TO ISSUE BONDS TO
FINANCE SOLID WASTE DISPOSAL FACILITIES FOR
CAL AG, LLC AND/OR ITS AFFILIATES**

September 22, 2010

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, Cal Ag, LLC, a California limited liability company, (together with its affiliates, including Cal Plant 1, LLC, known collectively as the "Company") has submitted an application (the "Application") requesting that the Authority assist in financing the acquisition and construction of facilities for treatment and disposal of solid waste consisting of a plant for the recycling of waste rice straw, as more fully described in the Company's Amended Application (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 00-06 on April 26, 2000, which was amended and extended several times, the most recent being on October 24, 2006, at which time the Authority expressed its intent to issue up to \$175,300,000 of bonds for the Company (the "Original Resolution"); and

WHEREAS, the Original Resolution expired by its terms on October 24, 2009; and

WHEREAS, the Company has submitted an amended application to the Authority, requesting that the Original Resolution and the Project be reinstated, and requesting that the dollar amount of the Original Resolution be increased to reflect changes in costs; and

WHEREAS, the Authority desires to encourage the Company to provide solid waste disposal 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 \$175,300,000 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 \$175,300,000 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 September 22, 2013 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 relate back to April 26, 2000 and shall replace the Original Resolution.

EXHIBIT A

NUMBER: 00-06

LOCATION: 6101 State Highway 162, Willows, CA (Glenn County)

TYPE: Solid Waste Disposal/Resource Recovery

AMOUNT: Up to \$175,300,000