

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
CONDUIT INDUSTRIAL DEVELOPMENT BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Capital Corrugated, Inc. (Borrower)	Amount Requested:	Not to exceed \$3,810,000
Applicant Description:	Capital Corrugated, Inc. is an S-Corporation formed on March 31, 1995, in Sacramento, CA, as a packaging manufacturer of corrugated boxes and folding cartons.		
Project Site:	8333 24 th Avenue, Sacramento, CA 95826 (Sacramento County)	Type of Bonds:	New Issue
Project Description:	The Capital Corrugated, Inc. Project (Project) consists of the acquisition of a 2015 Manroland 900-Series, 40" x 56" capacity, Hi-Speed Large Format Sheetfed Six-Color Offset Printing Press with Coater and Extended Delivery (the "Equipment").		
Use of Bond Proceeds:	Bond proceeds will be used to (1) 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 (the "Equipment") to be installed at the Borrower's facility located at 8333 24th Avenue, Sacramento, CA, and (2) pay certain costs of the Project including costs of issuance.		
Public Benefits:	Through the Project, the Borrower will acquire improved technology, allowing the Borrower to meet increased demand and reduce operating costs and raw material waste. The Borrower expects to hire 15 additional full time employees within two years of Project completion.		
Financing Structure:	IBank will issue up to \$3,810,000 in Conduit Fixed Rate Industrial Development Bonds (Obligations)		
Type of Issue:	Private Placement		
Tax Status:	Tax-Exempt		
Term:	7 Years		
Security:	Equipment		
Credit Rating:	Unrated		
Est. Sources of Funds:		Est. Uses of Funds:	
Tax-Exempt Obligations Par Amount	\$3,810,000	Equipment Cost	\$3,810,000
Borrower's Contribution	78,109	Bond Issuance Expenses	78,109
TOTAL SOURCES	\$3,888,109	TOTAL USES	\$3,888,109
Financing Team:			
Bond Counsel:	Schiff Hardin LLP		
Private Placement Purchaser:	People's Capital and Leasing Corporation		
Financial Advisor:	Progressive Capital		
Borrower Counsel:	Raymond A. Policar, Esq.		
Bank Counsel:	Shipman & Goodwin LLP		
Date of Board Meeting:	Resolution Number:	Prepared by:	
November 17, 2015	15-17	John Belmont on November 5, 2015	
Staff Recommendation:			
Staff recommends approval of Resolution No.15-17 authorizing the issuance of conduit Tax-Exempt Fixed Rate Industrial Development Bonds in an aggregate amount not to exceed \$3,810,000 for the benefit of Capital Corrugated, Inc.			

APPLICANT BACKGROUND AND HISTORY

Capital Corrugated, Inc. (Borrower) is an S-Corporation formed on March 31, 1995, in Sacramento, CA, as a packaging manufacturer of corrugated boxes by Dennis Watson and Jackson Angle. In 1999, the Borrower moved from a 43,000 square foot facility to its current 120,000 square foot facility located at 8333 24th Avenue, Sacramento, CA. In 2010, the Borrower rented a storage building, and moved to a larger (57,000 square foot) storage facility located at 8110 Power Ridge Road, Sacramento, CA last year.

In 2008, the Borrower purchased the client list and various assets, and hired expert personnel, from Kramer Carton Company (a 67 year old family-owned folding carton business that was shutting down). This allowed the Borrower to diversify into the folding carton business. The Borrower currently serves the Northern California and Western Nevada packaging markets.

The Borrower holds the following certifications:

- Certified G7 Printer
- ISO 9001 / 14001 Certified Systems
- COC Certified Supplier

An organization receives the ISO 9001 certification after implementing quality management systems for areas of the business such as facilities, people, training, equipment, services. The ISO 14001 certification recognizes that the certificate holder is working to control its impact on the environment and documents their commitment to continual improvement. COC certification is mandatory for customs clearance when exporting goods to many countries.

The Borrower has taken the following measures to minimize its impact on the environment:

- Uses energy efficient machines and motors
- Has motion control lighting
- Has a “cool roof” on the building
- Prints using soy based inks
- Has partnered with the Sacramento Municipal Utility District’s (SMUD’s) “Greenergy” Program
- Is a member in the “Sustainable Packaging Coalition”
- Is ISO 14001 certified
- QMI SAI GLOBAL Certified FSC COC System
- QMI SAI GLOBAL Certified SFI COC System
- Used 100% renewable energy

Dennis Watson, President, and Jackson Angle, Secretary, have equal ownership interests of 50% each in the Borrower. The Borrower’s major customers are: Delicato Family Vineyards (a California winemaking and grape growing company in Manteca), Rogers Family Company (a coffee roasting company), and Jelly Belly (a candy company).

Mr. Watson and Mr. Angle also share 50/50 ownership interest in Sierra Sheets LLC (Sierra Sheets), a small business services company started in 2010, located in Penryn, CA. Sierra Sheets in turn owns a 6% interest in CalSheets (Cal Sheets), a paper products manufacturer established in 1998, located in Stockton, CA (together, “Affiliates”).

The California Secretary of State reports active status for the Borrower and the Affiliates.

PROJECT DESCRIPTION

The Project consists of acquiring and installing a 2015 Manroland 900-Series, 40" x 56" capacity, High-Speed Large Format Sheetfed Six-Color Offset Printing Press with Coater and Extended Delivery. The equipment will be installed at the Project Site. (Project Photos are included as Appendix A.)

FINANCING STRUCTURE

IBank Term Sheet

Capital Corrugated, Incorporated

Date:	November 17, 2015
Par Amount:	Not-to-exceed \$3,810,000, Tax-Exempt
Type of Offering:	Private Placement
Lender:	People's Capital and Leasing Corp.
Credit Enhancement and Expected Credit Rating:	None
Interest*:	Not to exceed Lender's seven-year cost of capital + 1.15% (provided that the Transaction Documents may provide for default rates, adjustments, and other contingent increases in interest rates)
Maturity:	December 15, 2022
Collateral:	Borrower's personal property pursuant to Security Agreement and UCC-1 Financing Statement
Closing Date*:	December 16, 2015
Conduit Transaction:	The Obligations are special, limited obligations payable solely from payments made by the Borrower under the Transaction Documents, and IBank and the State shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank or the State for any portion of the payments to be made pursuant to the Obligations.

*Please note that Interest Rate and Closing Date are subject to change.

Financing Structure

The Borrower requests the issuance of conduit Tax-Exempt Fixed Rate Obligations in the approximate amount of \$3,810,000, to be sold as a private placement in accordance with CIDFAC's private placement policy to People's Capital and Leasing Corp., which is a qualified institutional buyer (QIB), and will purchase the Obligations for its own investment portfolio. Borrower's Financial Statements for fiscal years 2012 - 2014 are provided in Appendix B. The Obligations will be secured by the Equipment.

The proceeds of the Obligations loaned to the Borrower under the terms of a loan agreement by and between IBank and the Borrower (the "Loan Agreement") will be used

to (1) 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 (the “Equipment”) to be installed at the Borrower’s facility located at 8333 24th Avenue, Sacramento, California, and (2) pay certain costs of issuance in connection with the issuance of the Obligations. The Equipment will be owned and operated by the Borrower and will be used in its manufacture of corrugated medium used as containers, trays, and retail displays.

Borrower may prepay the Obligations balance calculated on a simple interest basis plus a prepayment premium as stated below:

<u>Year</u>	<u>Premium</u>
1 – 2	4.00%
3 – 4	3.00%
5	1.25%
6 – 7	0.00%

Limited Obligation

The Obligations are payable solely from and secured solely by the pledge of the Borrower’s payments under the transaction documents. Neither IBank; nor any of the members of its Board of Directors; nor any of its officers or employees; nor any person executing the transaction documents on behalf of IBank shall be personally liable for the Obligations or subject to any personal liability or accountability by reason of the execution thereof. The Obligations are limited obligations of IBank and are not a pledge of the faith and credit of IBank or the State of California or any of its political subdivisions.

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION
SCORING/PUBLIC BENEFITS**

The Project received private activity bond allocation from the California Industrial Development Financing Advisory Commission (CIDFAC) for the purposes of federal tax

law. The Project scored 50 points out of 147 based on CIDFAC’s evaluation criteria. There is no minimum score required. The point criteria are summarized below:

EVALUATION SCORING		
Point Criteria	Maximum Points Allowed	Points Scored
Community Economic Need		
1. Unemployment Rate of Project Area	10	
2. Poverty Rate of Project Area	5	5
3. Special Designation Area	5	
4. Median Family Income of Project Area	5	5
Job Creation Ratio	35	10
Job Retention	10	
Average Hourly Wage	10	10
Workforce and Economic Development	5	
1. Welfare to Work Plan		
2. Workforce Training	5	
3. Exports Outside California	5	
Health Care Benefits	15	15
Payment of Retirement Benefits	5	5
Environmental Stewardship		
1. Land Use	3	
2. Public Transit Corridor	4	
3. Energy Efficiency and Renewable Energy	15	
4. Manufacturer of Certified Environmentally Preferable Products	5	
Leveraging	5	
Total Points	147	50

DESCRIPTION OF PUBLIC BENEFITS

- **Poverty:** Poverty is 39%, which is 245.28% of the Census 2010 statewide rate of 15.9%.
- **Medium Family Income:** The average median family income in the City of Sacramento census tract 52.05 is \$26,806. This represents 38.5% of the statewide average of \$69,661, using Census 2010 data.
- **Job Creation:** Based on Borrowers best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion, the Borrower anticipates adding 15 direct, full-time employees, which equates to a 12.71% increase.
- **Average Hourly Wage:** Borrower’s weighted average hourly wage is \$20.54, while the Metropolitan Statistical Area (MSA) for Sacramento/Arden Arcade/Roseville area average 2014 manufacturing wage for the occupation of production was \$17.06. This represents 1.20% of the MSA.

- **Health Care Benefits:** The Borrower contributes to medical insurance for 102 of its 118 employees. The contribution translates to an average of \$524 per month for each employee covered.
- **Retirement Benefits:** The Borrower contributes to an employee-sponsored defined contribution plan for payment of retirement benefits for its employees.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA:	10/19/2015
Publications:	<i>The Daily Recorder</i>
Any Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The Project is in the State of California. 2. Borrower is capable of meeting its obligation incurred under the proposed loan agreement, and, in particular as to the repayment obligations. 3. Payments to be made by Borrower to the IBank under the proposed loan agreement are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project.
The Project meets the Policies and Procedures for conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for IBank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES Certificate No.: C-15-0001 <input type="checkbox"/> N/A Date: 5/12/2015

RECOMMENDATION

Staff recommends approval of Resolution No. 15-17 authorizing the issuance of conduit Tax-Exempt Fixed Rate Industrial Development Bonds in an aggregate amount not to exceed \$3,810,000 for the benefit of Capital Corrugated, Inc.

APPENDIX A PROJECT PHOTOGRAPHS

The Equipment



Borrower's Production Samples



APPENDIX B
BORROWER'S FINANCIAL STATEMENTS 2012 – 2014