

## CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-BANK)

### BOND AMENDMENT STAFF REPORT

**ISSUE:** Applied Aerospace Structures Corp. has requested approval of Resolution 11-05 authorizing the amendment of the Loan Agreement dated December 1, 2007, by and between the I-Bank, the Banc of America Public Capital Corp and Applied Aerospace Structures Corp. (Loan Agreement). The proposed amendments to the Loan Agreement will extend the time for the disbursement of loan proceeds by one year.

**BACKGROUND INFORMATION:** On December 11, 2007, the I-Bank obtained a loan from Banc of America Public Capital Corp (Lender) in the amount of \$6.5 million and, pursuant to the Loan Agreement, loaned the proceeds to Applied Aerospace Structures Corp., an Illinois corporation registered to do business in California (Borrower) to finance a) the design, development, construction and installation of an approximately 30,000 square foot manufacturing facility and related improvements on the real property located at 3437 South Airport Way, Stockton, California, b) the acquisition and installation of manufacturing equipment within the various manufacturing buildings located on the property site, and c) paying certain costs of issuance in connection with the loan. The loan remains outstanding as of February 10, 2011 in the principal amount of \$4,693,941.08 and is secured by a deed of trust on the Borrower's property. The Staff Report dated November 15, 2007, and a copy of Resolution 07-30 are attached for a more complete description of the project and financing structure (see **Attachment A**).

Unrelated to this Loan Agreement amendment request, the Loan Agreement is currently undergoing a routine examination by the Internal Revenue Service (IRS). The IRS periodically conducts examinations of tax-exempt obligations to determine compliance with Federal tax requirements. The I-Bank was notified by the IRS of the examination on January 31, 2011, and subsequently notified the Borrower. The Borrower has been responsive to the I-Bank's counsel during the audit, providing information requested that has in turn been provided to the IRS by the I-Bank. It is unknown when the examination will be completed.

**NEED FOR AMENDMENT:** The requested amendment to the Loan Agreement would extend the period of time for the Borrower's expenditure of loan proceeds. The Loan Agreement provides that loan proceeds that are not disbursed by the Borrower by December 10, 2010, are to be used to prepay the outstanding principal amount of the loan. Currently, approximately \$865,169.88 of unexpended loan proceeds (approximately 13%) remain in the project fund. The Borrower has represented that it has not used all of the proceeds of the loan in part due to the recent economic downturn. As the recession took hold at the end of 2008 and into 2009, some of the Borrower's customers delayed orders and didn't expeditiously approve designs that would have required additional expansion and equipment acquisition that was contemplated for the remaining proceeds. The Borrower's sales during 2008, 2009 and 2010 were relatively flat. For 2011, the Borrower reports that customer orders are increasing and in particular, orders have been received that would require the expected

project facility expansion and equipment acquisition. The Borrower expects to spend the remaining loan proceeds during 2011. The Lender is willing to extend the date of disbursement of loan proceeds and forego prepayment of its loan.

Below is a redline tracking the changes of the amendment requested:

Amendment to Section 1.01 of the Loan Agreement

“*Acquisition Period*” means, with respect to each Advance, that period stated in the related Schedule during which the Advance proceeds attributable to such Schedule may be expended on Equipment Costs. The final Acquisition Period shall terminate not later than ~~December 10, 2010~~ December 31, 2011.

Amendment to Section 2.08 of the Loan Agreement

(e) Any funds remaining in the Project Fund on or after ~~December 10, 2010~~ December 31, 2011 shall be applied by Lender on the next Scheduled Payment Date, to the prepayment of the principal component Scheduled Payments in inverse order of maturity.

**BOARD AUTHORIZATION:** I-Bank Board Resolution 08-35 authorizes the Executive Director to approve and execute certain bond document amendments that can be effectuated without the consent of bondholders. In this particular transaction the lender of the loan proceeds could be construed as the bond holder and according to the Loan Agreement, the Lender must approve any amendments. As a result, this amendment does not fit under the parameters of the delegation to the Executive Director and must be considered by the I-Bank Board.

**RECOMMENDATION:** Staff recommends adoption of Resolution 11-05 approving the First Amendment to the Loan Agreement to permit a one year extension of the period for Borrower’s expenditure of loan proceeds.

**APPENDIX A – NOVEMBER 15, 2007 STAFF REPORT AND RESOLUTION 07-30**

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)  
 INDUSTRIAL DEVELOPMENT REVENUE BOND FINANCING PROGRAM**

**STAFF REPORT**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Applied Aerospace Structures Corporation (AASC or Borrower)	<b>Amount Requested:</b>	Not to exceed \$6,500,000
<b>Applicant Description:</b>	Applied Aerospace Structures Corporation is a full service provider of complex composite and metal bonded structures and assemblies for military and commercial applications, serving fabrication, engineering, testing, and design-to-cost needs.	<b>Date of Board Meeting:</b>	November 20, 2007
		<b>Resolution Number:</b>	07-30
<b>Project Site:</b>	3437 South Airport Way, Stockton, CA 95206	<b>Prepared by:</b> Andrea Kennedy	
<b>Project Description:</b>	The project (Project) involves the construction of an additional 27,000 square foot manufacturing facility on vacant land adjacent to the Borrower's current location and acquisition of related manufacturing equipment.		
<b>Uses of Bond Proceeds:</b>	Bond proceeds (Bonds) will be used to finance the cost of the Project and pay issuance costs.		
<b>Public Benefits:</b>	<ul style="list-style-type: none"> <li>An estimated 112 new positions will be added upon completion of the project, which is expected to occur in January 2008.</li> <li>The project is located in a State Enterprise Zone in the City of Stockton, with an unemployment rate of 186% of the state average, poverty rate of 256% of the state average and median family income of less than 80% of the statewide average.</li> </ul>		
<b>Financing Structure:</b>			
<b>Type of Issue:</b>	Privately-placed loan.		
<b>Rate:</b>	Variable. Index: 65% of LIBOR+ 1.79% per annum; adjusts annually.		
<b>Purchaser :</b>	Banc of America Public Capital Corp, who will sign a Sophisticated Investor Letter.		
<b>Tax Status:</b>	Tax-exempt loan.		
<b>Term:</b>	10 years.		
<b>Security:</b>	The loan will be secured by a junior lien on the real property.		
<b>Credit Rating:</b>	None.		
<b>Est. Sources of Funds:</b>		<b>Est. Uses of Funds:</b>	
Par Amount of the Bonds	\$6,500,000	Project Costs	\$6,370,000
		Costs of Issuance	130,000
<b>TOTAL SOURCES</b>	<b>\$6,500,000</b>	<b>TOTAL USES</b>	<b>\$6,500,000</b>
<b>Financing Team:</b>			
<b>Bond Counsel:</b>	Kutak, Rock LLP		
<b>Financial Advisor:</b>	Growth Capital Associates, Inc.		
<b>Staff Recommendation:</b>			
Staff recommends approval of Resolution 07-30 for an amount not to exceed \$6,500,000 for the Applied Aerospace Structures Corporation.			

## BORROWER BACKGROUND AND HISTORY

Applied Aerospace Structures Corporation (AASC or Borrower) is a full service provider of complex composite and metal bonded structures and assemblies for military and commercial aerospace applications, providing fabrication, engineering, testing, and design-to-cost services. AASC manufactures and distributes specialized aerospace components such as space communications satellites and ground system structures, aircraft flight control surfaces, electronic enclosures and other lightweight composite and metallic structures for space, commercial aircraft and other industries located throughout North America.

Located in Stockton, CA, AASC's facilities occupy 245,000 square feet. These facilities house an extensive range of equipment and machinery that ensures capability to manufacture a diverse range of hardware. AASC has occupied the same site in the Central Valley of Northern California for almost 50 years, at which time the company fabricated helicopter rotor blades. AASC has maintained a focus on lightweight, high-performance engineered structures since that time.

AASC's major customers include: Boeing Commercial Aircraft, Boeing Space Systems, Lockheed Martin, Northrop Grumman, Learjet, NASA Ames, NASA Goddard Space Flight Center, Orbital, L3 Communications and Marshall Aerospace.

To date, AASC has fabricated a multitude of aerospace products, including but not limited to, over 120 satellite structures, 200 antenna reflectors, and 900 spacecraft power structures.

Current AASC leadership:

CORPORATE OFFICERS	
Chairman of the Board	Burton Weil
President	John Rule
Chief Financial Officer	Rhonda Ward
Secretary	Cornelius Tanis

## PROJECT DESCRIPTION

The proposed project (Project) consists of constructing an approximately 30,000 square feet of additional manufacturing space and related improvements on vacant property (Property) at the Borrower's current location and the acquisition and installation of related manufacturing equipment within the various manufacturing buildings located on the Property. The new equipment will include a static test cage (simulates launch of structure loads); routing machines; bridge cranes, freezers, laser projectors (maps out fabrication sequence on tool surfaces); ply cutters; clean and prime upgrades and air conditioning units.

## FINANCING STRUCTURE

Upon approval of a resolution by the I-Bank Board, the I-Bank will obtain a tax-exempt loan in an amount not to exceed \$6,500,000 (Issuer Loan) from Banc of America Public

Capital Corp (Lender) and will loan the proceeds from the Issuer Loan to the Borrower (Borrower Loan). The I-Bank will assign the payments due under the Borrower Loan pursuant to a Loan Agreement to the Lender to satisfy the I-Bank's obligations under the Issuer Loan. Repayment of the Issuer Loan will be made solely from revenues to be received by the Lender (as assignee of the I-Bank) from the Borrower's payments under the Borrower Loan.

The Lender will sign a Sophisticated Investor Letter at closing certifying, among other things, that (i) it is a Qualified Institutional Investor (QIB) as defined in Section 144(A) of the Securities Act of 1933, as amended (Securities Act); (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Borrower Loan and that it is able to bear the economic risks of such investment and (iii) it will prohibit the resale of the Borrower Loan, except to an affiliate of the Lenders or to a QIB or to an Accredited Investor as defined in Rule 501a. under the Securities Act.

In no event shall the Loan constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the Loan. The Loan shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in a Loan Agreement among the Lender, the I-Bank and the Borrower (Loan Agreement).

**CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE SCORING/PUBLIC BENEFITS**

**SCORING**

<b>EVALUATION SCORING</b>		
<b>Point Criteria</b>	<b>Maximum Points Allowed</b>	<b>Points Scored</b>
Community Economic Need:	10	10
1. Unemployment Rate of Project Area		
2. Poverty Rate of Project Area	5	5
3. Special Designation Area	5	5
4. Median Family Income of Project Area	5	5
Job Creation Ratio (1/\$45,775)	25	15
Welfare to Work Program Participation	5	0
Employee Benefits	5	5
Average Hourly Wage	5	5
Land Use	5	5
Transit Corridor	5	5
Energy Efficiency	5	5
Leveraging	5	0
<b>Total Points</b>	<b>85</b>	<b>65</b>

**DESCRIPTION OF PUBLIC BENEFITS**

- **Distressed community location:**  
 The Project is located in a State Enterprise Zone in the City of Stockton, with an unemployment rate of 186% of the state average, poverty rate of 256% of the state average and median family income of less than 80% of the statewide average.
- **Total number of new jobs to be created and jobs to be retained within two years of project completion:**

	Jobs Created	Jobs Retained
Management:	7	2
Skilled:	105	28
Semi-skilled:	0	0
Unskilled:	0	0
TOTAL	112	30

**OTHER PROJECT DATA**

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA:	August 21, 2007
Publications:	The Sacramento Bee The Record
Any Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Legal Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Borrower and Project meet all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> <li>1. Project is in the State of California.</li> <li>2. Borrower is capable of meeting the obligations incurred under relevant agreements.</li> <li>3. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments.</li> <li>4. The proposed financing is appropriate for the Project.</li> </ol>
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES <input type="checkbox"/> N/A Certificate No.: C-07-0002 Date: May 31, 2007

**RECOMMENDATION**

Staff recommends approval of Resolution 07-30, for an amount not to exceed \$6,500,000, for the Applied Aerospace Structures Corporation.

APPENDIX A



**RESOLUTION NO. 07-30**

**RESOLUTION OF THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK AUTHORIZING AND APPROVING A LOAN AGREEMENT PURSUANT TO WHICH THE CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK WILL MAKE A LOAN IN AN AMOUNT NOT TO EXCEED \$6,500,000 FOR THE PURPOSE OF FINANCING AND REFINANCING THE COST OF THE ACQUISITION AND INSTALLATION OF CERTAIN FACILITIES AND EQUIPMENT FOR THE BENEFIT OF APPLIED AEROSPACE STRUCTURES, CORP., PROVIDING THE TERMS AND CONDITIONS FOR SUCH LOAN AND OTHER MATTERS RELATING THERETO AND AUTHORIZING THE EXECUTION OF CERTAIN DOCUMENTS HEREIN SPECIFIED**

WHEREAS, the California Infrastructure and Economic Development Bank (the "Issuer") was established pursuant to the Bergeson-Peace Infrastructure and Economic Development Bank Act (California Government Code Section 63000 et seq.), as now in effect and as it may be amended or supplemented (the "Act"), for the purpose of, among other things, providing financial assistance for the design, construction, financing and development of economic development facilities (as such term is defined in the Act) located in the State of California (the "State");

WHEREAS, Issuer is authorized to issue tax-exempt and taxable revenue bonds to provide financing for economic development facilities pursuant to the Act;

WHEREAS, Applied Aerospace Structures, Corp., an Illinois corporation (the "Borrower") has submitted an application to the Issuer requesting the Issuer to make a loan (the "Borrower Loan") in the aggregate principal amount not to exceed \$6,500,000 to the Borrower for the purpose of (a) financing (i) the design, development, construction and installation of an approximately 30,000 square foot manufacturing facility and related improvements (the "Building") on real property located at 3437 South Airport Way, Stockton, California 95206 (the "Property"), and (2) the acquisition and installation of manufacturing equipment within the various manufacturing buildings located on the Property (the "Equipment" and, together with the Building, the "Facilities") and (b) paying certain costs of issuance in connection with the Borrower Loan and the Issuer Loan (as hereinafter defined) (collectively, the "Project");

WHEREAS, the Executive Director of the Issuer, pursuant to a designation by the Board of Directors of the Issuer, executed Certificate No. C-07-0002 on May 31, 2007, expressing the Issuer's intention to issue industrial development bonds for the benefit of the Borrower for the purpose of financing the Facilities;

WHEREAS, the Issuer intends to use the proceeds of a tax-exempt loan from Banc of America Public Capital Corp (the "Lender") to the Issuer (the "Issuer Loan") to make the Borrower Loan;

WHEREAS, the Issuer may not enter into the Borrower Loan or the Issuer Loan, both as specified in the Loan Agreement (as defined below), until the Board of Directors of the Issuer makes certain determinations relating to the Project as required by the Act; and

WHEREAS, there is now on file with the Secretary of the Issuer a proposed form of the Loan Agreement (the "Loan Agreement"), to be entered into by and among the Lender, the Issuer and the Borrower;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the California Infrastructure and Economic Development Bank, as follows:

**Section 1.** The Issuer hereby approves of the entering into the Issuer Loan on a tax exempt basis and using the proceeds thereof to make the Borrower Loan pursuant to the terms and provisions of the Loan Agreement. The Issuer understands that the payments under the Borrower Loan will be assigned to the Lender to satisfy the Issuer's payments under the Issuer Loan. The payments to be made by the Issuer to the Lender under the Issuer Loan will be satisfied solely from payments made by the Borrower to the Lender (as assignee of Issuer) under the Borrower Loan.

**Section 2.** The form of the Loan Agreement on file with the Secretary is hereby approved and the Chair of the Issuer or the Chair's designee and the Executive Director of the Issuer, and each of them, acting alone, is hereby authorized and empowered to execute by manual or facsimile signature and deliver the Loan Agreement, with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

**Section 3.** The Chair of the Issuer or the Chair's designee and the Executive Director of the Issuer, and each of them, acting alone, is hereby authorized and empowered to execute the assignment to the Borrower note in the form attached to the Loan Agreement (the "Borrower Note") by manual or facsimile signature and deliver the Borrower Note and the assignment to the Lender with such changes and insertions therein as may be necessary to cause the same to carry out the intent of this Resolution and as are approved by counsel to the Issuer, such approval to be conclusively evidenced by the delivery thereof.

**Section 4.** The Issuer approves the Issuer Loan on a tax-exempt basis and the making of the Borrower Loan to the Borrower in an amount not to exceed \$6,500,000 in accordance with the terms of and to be secured by the Loan Agreement. Repayment of the principal of, premium, if any, and the interest on, the Issuer Loan shall be made solely from the revenues to be received by the Issuer from the Borrower Loan pursuant to the Loan Agreement, and the Issuer Loan shall not be deemed to constitute a debt or liability of the State or any political subdivision thereof. The Issuer Loan shall bear interest at the rate or rates set forth in the Loan Agreement.

**Section 5.** Pursuant to Section 63046 of the Act, based upon representations made by the Borrower and, for the purposes of subsection (b), the Lender's willingness to make the Issuer Loan for the purpose of allowing the Issuer to make the Borrower Loan, the Board of Directors of the Issuer hereby finds and determines that:

- (a) the Project is located in the State;
- (b) the Borrower is capable of meeting its obligations with respect to the Borrower Loan to be made to finance the Project;
- (c) the payments to be made by the Borrower under the Loan Agreement to the Issuer are adequate to pay the current expenses of the Issuer in connection with the financing and to make payments on the Borrower Loan;
- (d) the Borrower Loan is an appropriate financing mechanism for the Project;
- (e) the Project is consistent with any existing local or regional comprehensive plans; and
- (f) the project demonstrates clear evidence of a defined public benefit.

**Section 6.** The Chair of the Issuer or the Chair's designee, and the Executive Director of the Issuer, and each of them, acting alone, is hereby authorized to execute all documents, certificates and instruments necessary or appropriate to this transaction and the making of the Borrower Loan. All actions required to be undertaken by the Secretary of the Issuer that are necessary or appropriate to this transaction and the Issuer Loan and the Borrower Loan may be undertaken by the Secretary's designee.

**Section 7.** All actions heretofore taken by the officials and agents of the Issuer with respect to the Issuer Loan borrowing of funds from the Lender and the Borrower Loan to the Borrower are hereby approved, confirmed and ratified, and the officials of the Issuer and their authorized designees are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all certificates and documents including, without limitation, a tax regulatory agreement and no arbitrage certificate, which they or bond counsel may deem necessary or advisable in order to consummate the Borrower Loan and the Issuer Loan and otherwise to effectuate the purposes of this Resolution.

**Section 8.** This Resolution shall take effect from and after its adoption.

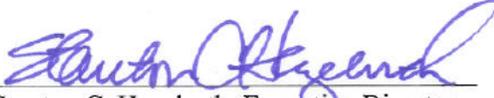
**PASSED, APPROVED, AND ADOPTED** at a meeting of the Board of Directors of the California Infrastructure and Economic Development Bank on November 20, 2007, by the following vote:

AYES: Matteucci, Sheehan, Rosenstiel, Rice, Lopez

NOES: None

ABSENT: None

ABSTAIN: None

By:   
Stanton C. Hazelroth, Executive Director

ATTEST

By:   
Barbara Lewis, Secretary