

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

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Bay Photo, Inc. (Bay Photo) and Sammie Rae Abitbol, LLC (collectively, the Borrowers)	Amount Requested:	\$8,775,000
Applicant Description:	Bay Photo, Inc. is a professional quality photographic printing and finishing laboratory, primarily serving professional photographers that specialize in wedding, portrait, sport, school, and landscape photography. Sammie Rae Abitbol, LLC, is a California limited liability company.	Date of Board Meeting:	July 26, 2011
		Resolution Number:	11-15
		Type of Bonds:	New Issue
Project Site:	900, 915 and 920 Disc Drive, Scotts Valley, California 95066 in the County of Santa Cruz.	Prepared by: Tara Dunn and Elizabeth Hess	
Project Description:	The project (Project) involves financing the acquisition and development of three parcels of property commonly known as 900, 915, and 920 Disc Drive, Scotts Valley, CA. The three parcels total approximately 17 acres with three vacant buildings and related improvements totaling approximately 140,000 square feet situated thereon.		
Uses of Bond Proceeds:	Bond proceeds will be used in part to purchase the land, buildings, and equipment, and to finance renovations and costs of issuance of the bonds.		
Public Benefits:	An estimated 78 full time jobs are expected to be created at the project site within two years of Project completion.		
Financing Structure:			
Type of Issue:	Limited-offering of variable rate securities with a weekly reset in denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.		
Tax Status:	Tax-exempt Industrial Development Revenue Bonds.		
Term:	25 years.		
Security:	Direct-Pay Letter of Credit issued by Comerica Bank.		
Credit Rating:	Expected to be rated "A" by Fitch Ratings based upon the rating of Comerica Bank.		
Est. Sources of Funds:		Est. Uses of Funds:	
Par Amount of Bonds	\$8,775,000	Acquisition of Land and Buildings	\$8,425,000
Equity Contribution	2,125,000	Rehabilitation of Buildings	1,360,000
		Acquisition of Equipment	750,000
		Costs of Issuance	365,000
TOTAL SOURCES	\$10,900,000	TOTAL USES	\$10,900,000
Financing Team:			
Bond Counsel:	Kutak Rock LLP		
Underwriter:	Gates Capital Corporation		
Trustee:	Wells Fargo Bank, NA		
Financial Advisor:	Growth Capital Associates, Inc.		
Staff Recommendation:			
Staff recommends approval of Resolution 11-15 for an amount not to exceed \$8,775,000 for Bay Photo, Inc. and Sammie Rae Abitbol, LLC.			

APPLICANT BACKGROUND AND HISTORY

Established in 1981, Bay Photo is a professional high quality photographic printing and finishing laboratory, primarily serving professional photographers and sophisticated amateur photographers that specialize in wedding, portrait, sport, school, and landscape photography. The company provides a variety of products to the photographic community, including digital prints and proofs, large format prints, mounting and framing, canvas prints, ThinWrap prints, MetalPrints, albums (design and binding), boxes and cases, watercolor giclées, cards and holiday products. The company also manufactures the various products into which the photographs are integrated. Bay Photo's administrative, sales and production operations are currently located in two locations in Santa Cruz.

Bay Photo has experienced significant sales growth in recent years. For the four calendar years from 2007 through 2010 average annual sales growth exceeded 20%. As a result, the company's current facilities totaling 33,000 square feet are inadequate to accommodate any future growth and the addition of new product offerings. The project will allow Bay Photo to consolidate its operations into a single, larger campus-type facility that should support growth and an increased workforce for the foreseeable future.

Sammie Rae Abitbol, LLC was formed in July 2011 for the sole purpose of holding title to the project site and leasing the site to Bay Photo. Sammie Rae Abitbol operates as a real property holding company and will lease the real property to Bay Photo.

PROJECT DESCRIPTION

The proceeds from the bonds will be used to: acquire three parcels of property commonly known as 900, 915 and 920 Disc Drive, Scotts Valley, California; renovate three vacant buildings and related improvements totaling approximately 140,000 square feet situated on the property; purchase equipment; and, pay for costs of issuance of the bonds (Project). The Project property is currently in escrow with a closing expected by September 1, 2011. Renovation is expected to begin in October 2011 and be complete by March 2012.

Bay Photo will be relocating from the City of Santa Cruz to the City of Scotts Valley in Santa Cruz County. The City of Santa Cruz is aware of the necessity of Bay Photo's relocating and has no objection to the issuance of the Bonds.

Photographs of the Project site can be found in Attachment A.

FINANCING STRUCTURE

The Borrower is requesting the issuance of the California Infrastructure and Economic Development Bank Variable Rate Demand Industrial Development Revenue Bonds (Bay Photo, Inc. Project), Series 2011 as variable rate tax-exempt bonds in an aggregate amount not to exceed \$8,775,000 (Bonds). Payment of principal and interest

on the Bonds will be enhanced by a letter of credit from Comerica Bank to be executed simultaneously with the issuance of the Bonds. The Bonds are expected to be rated A/F1 by Fitch Ratings based upon the letter of credit provider's credit rating.

In no event shall the Bonds 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 Bonds. The Bonds shall constitute a special obligation of the I-Bank, payable solely from revenues or other sources provided for in the loan agreement between the I-Bank and the Borrower.

**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) scoring 73 points based on the evaluation criteria of CIDFAC, summarized below:

EVALUATION SCORING		
Point Criteria	Maximum Points Allowed	Points Scored
Community Economic Need		
1. Unemployment Rate of Project Area	10	0
2. Poverty Rate of Project Area	5	0
3. Special Designation Area	5	5
4. Median Family Income of Project Area	5	0
Job Creation Ratio	35	35
Job Retention	10	0
Average Hourly Wage	10	3
Workforce and Economic Development		
1. Welfare to Work Plan	5	0
2. Workforce Training	5	0
3. Exports Outside California	5	5
Health Care Benefits	15	15
Payment of Retirement Benefits	5	0
Environmental Stewardship		
1. Land Use	3	3
2. Public Transit Corridor	4	4
3. Energy Efficiency and Renewable Energy	15	0
4. Manufacturer of Certified Environmentally Preferable Products	5	0
Leveraging	5	3
Total Points	147	73

DESCRIPTION OF PUBLIC BENEFITS

- **Special Designation Area:**
The project site is located in a Redevelopment Project Area that was established to alleviate blight in the local community.
- **Total number of new jobs to be created and jobs to be retained within two years of project completion:**
The Company anticipates hiring 78 new full time employees (a 44% increase) within two years of Project completion.
- **Weighted Average Hourly Rate:**
The Borrower's wages are 126% of the median hourly wage rate for Santa Cruz-Watsonville Metropolitan Statistical Area for May 2010 (\$17.32/\$13.77).
- **Exports Outside California:**
The Borrower exports more than 50% of the products manufactured at the facility outside of California.
- **Health Care Benefits:**
The Borrower contributes an average of \$383 per month per employee towards health care benefits.
- **Environmental Stewardship:**
The Project involves the reuse of a vacant building.
- **Public Transit Corridor/Transportation System Management Plan:**
The Project site is located within ¼ mile of regular route stops for both bus routes 30 and 35A operated by the Santa Cruz Metropolitan Transit District.
- **Leveraging:**
The Company will borrow \$8.775 million of the Project costs in the form of tax-exempt IDB financing, which will cover approximately 80.5% of the Project costs. The remaining 19.5% of Project costs will be covered by the Company's private funds and/or equity.

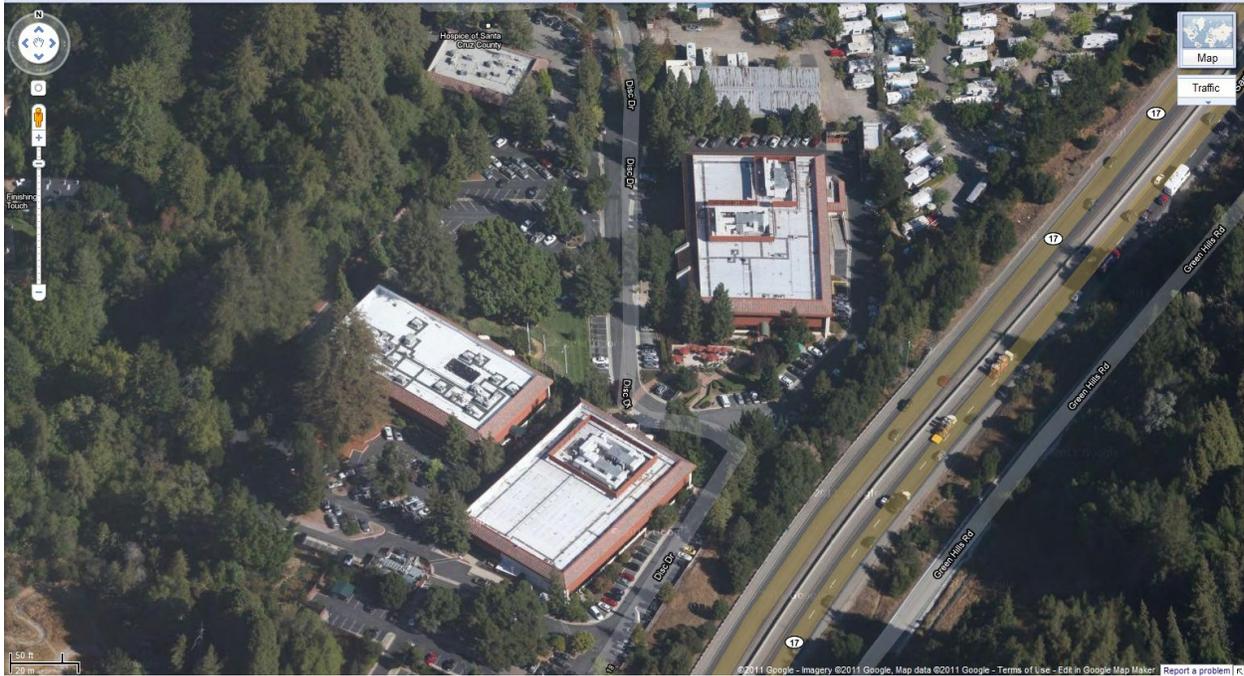
OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA:	07/14/2011
Publications:	<i>Santa Cruz Sentinel</i> <i>The Sacramento Bee</i>
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	
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 which secure the Bonds, based upon the direct-pay letter of credit from Comerica Bank with a rating sufficient to obtain the anticipated rating on the Bonds. 3. Payments to be made by Borrower to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the Bonds. 4. The proposed financing is appropriate for the Project. 5. The Borrower has represented that the Project is consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank 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-11-0003 <input type="checkbox"/> N/A Date: June 22, 2011

RECOMMENDATION

Staff recommends approval of Resolution 11-15 for an amount not to exceed \$8,775,000 for Bay Photo, Inc. and Sammie Rae Abitbol, LLC.

APPENDIX A – PROJECT PHOTOGRAPHS



900 Disc Drive, 915 Disc Drive and 920 Disc Drive, Scotts Valley, CA



Front of 915 Disc Drive, Scotts Valley, CA