

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (IBank)
CONDUIT 501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Goodwill Industries of Sacramento Valley & Northern Nevada, Inc. (Borrower or Goodwill)	Amount Requested:	Not to exceed \$15,000,000
Applicant Description:	The Borrower is a California nonprofit public benefit corporation that provides employment and rehabilitation services for the disabled, disadvantaged, and disenfranchised in the Sacramento Valley and Northern Nevada.		
Type of Financing:	The Borrower requests issuance of up to \$15,000,000 in conduit Tax-exempt and Taxable Fixed Rate Bonds (Bonds).		
Project Description:	The Goodwill conduit tax-exempt and taxable fixed rate bonds will be used to: (1) finance and refinance the acquisition, construction, improvement, renovation, furnishing and equipping of the Borrower's facilities; (2) pay capitalized interest on the Bonds; (3) fund a debt reserve fund, and; (4) pay the cost of issuance in connection with the Bonds (Project).		
Project Site:	8001 Folsom Boulevard, Sacramento, California 95826; 2040 Alta Arden Expressway, Sacramento, California 95825 (both in Sacramento County); and 1069 Emerald Bay Road, South Lake Tahoe, California 96150 (El Dorado County).		
Plan of Finance:	<p>IBank will issue up to \$15,000,000 in tax-exempt and taxable Bonds to: (1) finance and refinance the acquisition, construction, improvement, renovation, furnishing and equipping of (a) the Borrower's headquarters, the address of which is 8001 Folsom Boulevard, Sacramento, California 95826; and (b) certain retail and/or donation facilities located at (i) 2040 Alta Arden Expressway, Sacramento, California, and (ii) 1069 Emerald Bay Road, South Lake Tahoe, California, (2) fund a debt reserve fund; (3) pay capitalized interest and swap termination fees on the Bonds; and (4) pay the cost of issuance in connection with the Bonds. Item 1(a) will be taxable debt and items 1(b)(i) and (ii) will be tax-exempt.</p> <p>Type of Issue: Limited Public Offering Tax Status: Tax-exempt and Taxable Term: Up to 30 years Credit Enhancement: None Credit Rating: Unrated Fees: Application Fee \$1,500; Issuance Fee \$25,000 (Including STO's Fee of \$6,000); Annual Fee \$500 per year</p>		
Estimated Sources of Funds:		Estimated Uses of Funds:	
Bond Proceeds	\$15,000,000	Store Acquisitions	\$9,000,000
		Renovation/Improvements	\$1,300,000
		Swap Termination Cost	\$400,000
		Fixtures/Equipment/Signage	\$300,000
		Debt Service Reserve Fund	\$1,000,000
		Refinance of Commercial Loan	\$2,500,000
		Costs of Issuance	\$500,000
TOTAL SOURCES	\$15,000,000	TOTAL USES	\$15,000,000
Financing Team:	<p>Bond Counsel: Squire Patton Boggs Underwriter: D.A. Davidson & Co. Financial Advisor: N/A Trustee: U.S. Bank, N.A.</p>		

Public Benefits:	The Project will allow Goodwill to expand its operations and further increase the Borrower's resources to help disadvantaged people achieve self-sufficiency in the communities in which they are located. Goodwill has created a total of 100 jobs at the South Lake Tahoe and Alta Arden retail locations. The Borrower is pursuing refunding to secure a long-term financing over the life of the financed asset. Financial savings was not the primary goal. The refunding will not produce present value savings for the Borrower, although the refunding debt service shows present value savings between 2017 through 2023.	
Date of Board Meeting: October 25, 2016	Resolution Number: 16-26	Prepared by: John Weir on 10/07/2016
Staff Recommendation: Staff recommends approval of Resolution No. 16-26 authorizing the issuance of Conduit, Tax-exempt and Taxable Fixed Rate Bonds, not to exceed \$15,000,000, for the benefit of Goodwill Industries of Sacramento Valley & Northern Nevada, Inc.		

BACKGROUND AND HISTORY

Goodwill Industries of Sacramento Valley & Northern Nevada, Inc., (Goodwill) is a community-based nonprofit organization founded in 1933 that provides jobs for the disabled, disadvantaged and disenfranchised in the Sacramento Valley and Northern Nevada. Over the years, Goodwill grew from an organization that originally housed itself in a church, an abandoned firehouse, a stately home, and finally in 1965, in its own building. The current corporate headquarters has been their home since 2013. The Borrower is affiliated with and pays dues to Goodwill Industries International, Inc., but is organized and operates as an independent nonprofit public benefit corporation.

Headquartered in Sacramento, California, Goodwill employs and places people to work in their own communities, helping to build self-sufficiency and human dignity. Goodwill provides rehabilitation services, training and employment to disabled and disadvantaged people. There are 164 Goodwill organizations in North America, of which 158 are located in the United States. Goodwill is permitted to use the "Goodwill" name and logo as a result of its membership in Goodwill International. Each local Goodwill organization must be accredited, apply for membership and meet certain criteria established by Goodwill Industries International. Goodwill Industries International is not obligated to repay the principal or interest on the Bonds.

Goodwill's main source of funding activity is the collection of donated goods which are in turn, sold in their 28 stores in the Sacramento Valley and in Northern Nevada. Goods are collected at the stores and at 106 collection centers throughout such regions. Typical donations received include housewares, furniture, appliances, toys, clothing and linens, glassware, books, shoes and electronic recyclables. As of the beginning of 2016, Goodwill had revenues exceeding \$67 million.

Governing and Management

The governance and management of Goodwill is comprised of 13 Board of Directors (Board) who are elected for staggered three year terms. The Board meets at least six times a year as required and between regular meetings to handle such matters as may be necessary for proper functioning. The Board includes six standing committees: Executive, Audit, Finance, Executive Compensation, Nominating, and Strategic Planning.

Current leadership is listed in **Appendix A**.

Outstanding Tax-Exempt Debts

The Borrower has previously used tax-exempt financing to acquire new retail facilities. In 2012 and 2014, the California Municipal Finance Authority (CMFA) issued bonds on behalf of the Borrower, the proceeds of which were loaned to the Borrower pursuant to the pertinent loan agreements. The Bonds being contemplated by IBank will be secured equally and ratably with the obligations Borrower previously incurred under the CMFA Series 2012 and 2014 loan agreements.

CMFA Bond Issues

Outstanding Debt	Debt Type	Issue Date	Par Amount	Outstanding	Trustee
CMFA Series 2012A	Tax-exempt	5/14/2012	\$21,910,000	\$21,835,000	U.S. Bank
CMFA Series 2012B	Taxable	5/14/2012	\$1,140,000	Paid in full	U.S. Bank
CMFA Series 2014A	Tax-exempt	5/14/2014	\$17,165,000	\$17,165,000	U.S. Bank
CMFA Series 2014B	Taxable	5/14/2014	\$1,190,000	\$915,000	U.S. Bank

Continuing Disclosure Compliance

The Preliminary Limited Offering Memorandum (PLOM) states that Goodwill entered into a continuing disclosure undertaking in connection with the bonds issued by CMFA in 2012 and 2014 (Prior Undertakings). Goodwill reports that it failed to comply with certain provisions in the 2012 bonds by not filing certain reports in a timely manner during the past 5 years and failed to report the outstanding debt service and the total debt outstanding in either the 2014 or 2015 Annual Report as required. The late filings were a result of the dissemination agent (US Bank) filing reports for the Series 2012A, but not the Series 2012B. Per the PLOM, the Series 2012B Annual Report due on April 2013 was posted to EMMA on October 2014. Since March 2014, there were no delayed postings of Annual Reports.

The Borrower has established procedures to ensure the accuracy and completeness of the reporting required under the Prior Undertakings and has followed the new procedures since their inception. The procedures include the compilation of a complete list of reports required, with due dates. All reports will be prepared and reviewed by two senior members of the Borrower's finance team.

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

PROJECT DESCRIPTION

The Borrower is requesting the issuance of conduit tax-exempt and taxable Bonds not to exceed \$15,000,000 to: (1) finance and refinance the acquisition, construction, improvement, renovation, furnishing and equipping of: (i) the Borrower's headquarters, the address of which is 8001 Folsom Boulevard, Sacramento, California (a taxable debt); and (ii) certain retail and/or donation facilities located at (a) 2040 Alta Arden Expressway, in the County of Sacramento, California (Alta Arden Project) and (b) 1069 Emerald Bay Road, South Lake Tahoe, California (South Lake Tahoe Project); (2) fund a debt service reserve fund for the Bonds; (3) pay capitalized interest and swap termination fees on the Bonds; and (4) pay certain expenses

incurred in connection with the issuance of the Bonds. Item 1(a) will taxable debt and items 1(b)(i) and (ii) will be tax-exempt.

The Borrower will use a portion of the proceeds of the Bonds to reimburse itself for the January 6, 2016 acquisition and renovation of the Alta Arden Project in the amount of approximately \$1.3 million. The Alta Arden Project, which opened on September 21 of this year, consists of a 22,974 square foot building on 2.08 acres of land. The Alta Arden Project is used as a retail store, donation collection, and job training center, and consolidates merchandise and operations from its recently closed stores on Fulton Avenue and Arden Way.

The Borrower will also use a portion of the proceeds to reimburse itself for the acquisition of the South Lake Tahoe Project, which was purchased on July 1, 2016. The South Lake Tahoe Project, which opened for business on July 21, 2016, consists of a 10,973 square foot building on 1.14 acres of land. The South Lake Tahoe Project is used for a retail store, donation collection and job training center.

In addition to reimbursing the Borrower for the acquisition and renovation of the Alta Arden and South Lake Tahoe retail establishments, a portion of the proceeds will be used to refinance the Borrower's administrative headquarters in Sacramento, California. The property was purchased in 2013 in part with the proceeds of a \$2,310,320 Bank of America (BofA) commercial loan of which \$2,100,260 is outstanding. The payoff of the BofA loan will eliminate the renewal risk and interest exposure posed by the balloon payment due on the loan in September of 2023 and restructure the debt term to match the long term life of assets. The BofA loan will require additional funds to necessitate the termination of an interest rate swap agreement that was entered into in connection with the loan.

Project Summary

Project	Project Address	Use of Funds	Amount	Property Type
Alta Arden Project	2040 Alta Arden Expressway, Sacramento, CA	Reimburse Cost of Acquisition	\$4,000,000	22,974 sf Retail Store
Alta Arden Improvements	-	Reimburse Cost of Renovations	\$1,300,000	-
South Lake Tahoe Project	1069 Emerald Bay Road, South Lake Tahoe, CA	Reimburse Cost of Acquisition and	\$5,000,000	10,973 sf Retail Store
South Lake Tahoe Improvements	-	Reimburse Cost of Renovations	\$300,000	-
Administrative Headquarters	8001 Folsom Boulevard Sacramento, CA	Refinance Commercial Loan	\$2,500,000	28,879 sf Office

(see Appendix B--Project Photos).

FINANCING STRUCTURE

IBank Term Sheet **Goodwill Industries of Sacramento Valley & Northern Nevada, Inc.** **Date: October 25, 2016**

Par Amount:	Not to exceed \$15,000,000; in a tax-exempt series and a taxable series.
Type of Offering:	Limited Public Offering to Qualified Institutional Buyers
Lender/Underwriter:	D.A. Davidson & Co.
Expected Credit Rating:	None; Not Rated
Interest*:	Tax-exempt True Interest Cost (TIC) not to exceed 6%; taxable TIC not to exceed 8%
Maturity:	January 1, 2047
Collateral:	Gross Revenues, Deed of Trust on Borrower real property.
Closing Date*:	November 30, 2016
Conduit Transaction:	The Bonds are special, limited obligations payable solely from payments made by the Borrower under the transaction documents and IBank shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of IBank for all or any portion of payment to be made pursuant to the Bonds.

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

Financing Structure

The Bonds will be secured by an Indenture and sold through a limited public offering. The Bonds will be issued in minimum denominations of \$100,000 and any integral multiple of \$5,000 thereof. The Bonds will be marketed to Qualified Institutional Buyers, which will be required to execute an Investor Letter certifying the purchaser is a "Qualified Institutional Buyer". The Bonds will be issued as Parity Debt and will be secured equally and ratably with the obligations of the Borrower incurred under certain loan agreements dated May 1, 2012 (Series 2012 Loan Agreement) and a loan agreement dated December 1, 2014 (Series 2014 Loan Agreement). Both Series 2012 and Series 2014 Loan Agreements were between the CMFA and the Borrower.

Also, the investor will be a qualified institutional buyer within the meaning of S.E.C. Rule 144A, or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the Infrastructure Bank.

Limited Obligations of IBank

The Bonds 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 Bonds or subject to any personal liability or accountability by reason of the execution thereof. The Bonds 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.

PUBLIC BENEFITS

From its initial goal of serving people with disabilities, Goodwill has evolved to its present day mission of providing employment opportunities to people with disabilities or other barriers to employment. Throughout the Sacramento Valley and Northern Nevada, Goodwill's retail and outlet stores function as community-training centers that employ the disadvantaged, and provide training in retail merchandising and production, while helping people build self-sufficiency and human dignity. In 2015, Goodwill employed over 2,900 people, and 90 percent of its total revenues are dedicated to job training, mission-related activities, and mission-related payroll.

Goodwill defines itself by the following statements:

- *Mission.* To utilize Goodwill resources to help people with disadvantages achieve self-sufficiency.
- *Vision.* To maximize the services provided in the communities that it serves. Goodwill services are united by a vocational emphasis-characterized by relevance, excellence and cost effectiveness.
- *Values.* The most valuable asset is the people who it serves and employs. Goodwill commits to consistently hire the best employees within its resources, and to train and challenge them to achieve their fullest potential. All of Goodwill's activities are characterized by fairness, integrity, and sound business practices.

In 2015, Goodwill provided services to 44,138 individuals including participation in the following activities:

- *Employment Preparation.* Individuals with disabilities and other disadvantages are referred to the Goodwill primarily from the Department of Rehabilitation, Far Northern Regional Center and the Sacramento Employment Training Agency. Individuals may take part in one of the three programs employment preparation courses: The Work Activity Program, the Custodial Training Course, or Job Readiness Training Program.
- *Community Service.* Individuals with court-mandated alternative sentencing are referred to Goodwill through a court or probation department.
- *Work Experience Opportunities.* Individuals participate in non-paid work experience programs through the Goodwill partnerships with AARP, Welfare to Work, various school districts and other community agencies.
- *Employment Placement Services.* Assistance is provided to individuals seeking employment, which includes help with job searches, resume development, and interview preparation.
- *Financial Capability Services.* Financial capability services are designed to assist participants in developing long-term financial plans through financial education and financial coaching in the areas of workforce development, financial capability, work/family supports and health and wellness.

A part of Goodwill's practice is to maintain and preserve well-established partnerships with other non-profit organizations in the community. In recent years, Goodwill formed legally

structured alliances with several non-profit public benefit corporations located throughout the area.

- *Sacramento Area Emergency Housing Shelter dba Next Move* whose mission is in providing temporary shelter, food, and transportation to families and women in emergency situations in Sacramento County.
- *People of Progress* whose purpose is to strengthen individuals, families, and the community with particular emphasis on issues affecting low income persons.
- *Community Link Capital Region* whose mission is to provide planning and coordination in health, welfare, recreation, education, and social services with the aim of identifying, solving, and preventing community problems.
- *Francis House Center* whose mission is to provide services to homeless and impoverished families and individuals operating in the Sacramento Region.
- *Wind Youth Services* whose mission is to provide supportive services to homeless and at-risk youth between the ages of 12 and 24, including basic safety net and survival services and a safe place to stay.

As a result of continued unemployment rates ranging from 5.4% to 8.0% in the counties in which the Goodwill is active, Goodwill believes that there is a greater need for its services.

Goodwill does not expect to achieve present value savings with this Project and financial savings have not been the goal of this refunding. The Borrower will use a portion of the 2016 Bonds proceeds to refinance its administrative headquarters in Sacramento, California. The Borrower purchased the property in 2013 with the proceeds of a \$2,310,320 Bank of America commercial loan of which \$2,100,260 is outstanding. The payoff of the Bank of America (BofA) loan will eliminate the renewal risk and interest exposure posed by the balloon payment due on the loan in September of 2023 and restructure the debt term to match the long term life of assets. If continued, the BofA loan will require additional funds to necessitate the termination of an interest rate swap agreement that was entered into in connection with the loan.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Describe: All approvals have been obtained.
TEFRA COMPLIANCE	
Date of TEFRA Publication:	October 3, 2016
Publications:	<i>Tahoe Daily Tribune and The Sacramento Bee</i>
Date of TEFRA Hearing:	October 17, 2016
Oral/Written Comments:	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Applicant meets all of the I-Bank eligibility criteria? <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. The Borrower is capable of meeting the obligations incurred under relevant agreements. 3. Payments to be made by the Borrower to IBank under the proposed financing agreements are adequate to pay the current expenses of the IBank in connection with the financing and to make all the scheduled payments. See Appendix C for Financial Statements. 4. The proposed financing is appropriate for the Borrower.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution No. 16-26 authorizing the issuance of Conduit Tax-exempt and Taxable Fixed Rate Bonds in an aggregate amount not to exceed \$15,000,000, for the benefit of Goodwill Industries of Sacramento Valley & Northern Nevada, Inc.

APPENDIX A: GOVERNANCE AND MANAGEMENT

EXECUTIVE MANAGEMENT

Joseph Mendez	President and Chief Executive Officer
Connie Schultz	Chief Financial Officer
Karen McClafin	Chief Development Officer
Mark Klinger	Vice President of Retail Operations

OFFICERS

Alison Buhler	Director Bank of Sacramento Sacramento, CA
Julius Cherry, Director	Attorney at Law Cherry Bankruptcy Sacramento, CA
Nathan Cox, First Vice Chair	Senior Vice-President U.S. Bank N.A. Sacramento, CA
Norm Fadness, Director	Retired Elk Grove, CA
Sue Hussey, Director	Deputy Sector Navigator of Health Occupation Prep. & Education Center Sacramento City College Sacramento, CA
Brett Huston, Treasurer	Tax Managing Director KPMG Sacramento, CA
Kipp Johnson, Secretary	COO Lumen Light + Living Sacramento, CA
Tim Kassis, Second Vice Chair	Senior Vice-President & Marketing Mngr. U.S. Bank N.A. Sacramento, CA
Stephen P. Saxton, Director	Attorney/Partner Downey Brand, LLP Sacramento, CA
John A. Wickland III, Chairman	Wickland Corporation Sacramento, CA
Mary DeSouza, Non-voting member	Next Move Board Chair, and Office of Child Abuse Prevention Sacramento, CA
Holly Bloesser, Non-voting member	Next Move Board Vice Chair and Turning Point Community Programs Sacramento, CA

Potential Board Member Conflict of Interest

Two sitting Goodwill board members are senior staff with U.S. Bank N.A. which has been selected as Trustee for the Bonds:

Mr. Nathan Cox, Senior Vice President; and
Mr. Tim Kassis, Senior Vice President.

Bond Counsel confirmed with Goodwill that both individuals were not employed with US Bank during the Goodwill's 2012 and 2014 Bonds sale. Alexandra Iseman from D.A. Davidson & Co. and Bond Counsel confirmed with Goodwill that both individuals will recuse themselves from voting to approve Goodwill's 2016 Bonds.

US Bank was selected as Trustee during the Series 2012 Bonds sale and is Trustee for the Series 2014 Bonds as well. US Bank will be Trustee for the Series 2016 Bonds.

APPENDIX B: PROJECT PHOTOS

New Alta Arden Location



Alta Arden Grand Opening



Alta Arden Grand Opening

New South Lake Tahoe Location



Goodwill Board Member South Lake Tahoe ribbon cutting.

Goodwill Training Programs



Career Development Achievement Awards



Graduation Ceremony from Job Training Program



Youth Job Training

APPENDIX C: FINANCIAL STATEMENTS 2013 – 2015

The Financial Statements will be emailed to the IBank Board of Directors.