

**CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION**

*Request to Approve Issuance of Tax-Exempt (TE) Bonds and Transfer Industrial  
Development Tax-Exempt Bond (IDB) Allocation*

**Gordon Brush Mfg. Co., Inc.**  
**Application No. 15-0002**

**March 17, 2015**

**SUMMARY**

**Borrower/Project Sponsor**– KLR Group, LLC, and/or a related or affiliated entity

**User** - Gordon Brush Mfg. Co., Inc.

**Issuer** – California Enterprise Development Authority (CEDA)

**Location** – City of Industry, Los Angeles County

**Requested IDB Approval** – \$10,000,000

**Requested IDB Allocation Approval** – \$10,000,000

**Public Benefit Points Awarded** – 47 points out of 142 possible

**Staff Recommendation** – Approval

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**THE COMPANY**

KLR Group, LLC (the Borrower) and Gordon Brush Mfg. Co., Inc. (the User or the Company) were organized in California in July of 2011 and June of 1973, respectively. The Company is 100% owned by Kenneth L. Rakusin.

The Company designs, engineers, manufactures and distributes high quality brushes and abrasive products for a wide variety of industries.

The Company produces over 15,000 types of brushes for a variety of industries including those in aerospace, food production, medical and healthcare, forensic investigation, janitorial, and printed circuit board production. These brushes are used for a wide range of purposes, from application of paints and specialty coatings, to removal of dirt residues and particles of dust. Additionally, the Company is able to engineer and manufacture new and customized brush designs and adds approximately 15 to 20 new designs a week to serve its customers.

## Agenda Item 4.A.

The Company has a large customer base throughout the United States and world-wide. Major customers include: McMaster-Carr, Grainger, Boeing, the U.S. military and General Services Administration.

### **THE PROJECT**

Gordon Brush Mfg. Co., Inc. currently operates from two locations, a 51,000 square foot facility located in the City of Commerce and a 22,000 square foot facility located in Delavan, Wisconsin. Both locations carry out the manufacturing and distribution activities for the Company. Additionally, the City of Commerce site serves as the administration headquarters for the Company. These separate facilities are currently operating at capacity and are not adequate to accommodate the Company's current product demands as well as expected future growth. The Company will consolidate the Commerce and Wisconsin facility operations into a single, larger approximately 182,000 square foot facility situated on 8.41 acres of land located in the City of Industry. The Wisconsin and Commerce facilities will close and relocate to the City of Industry. The consolidation will support the Company's future growth and increased workforce as well as increase efficiency.

The Company will use bond proceeds for the acquisition, renovation, rehabilitation and equipping of an existing, vacant 182,000 square foot building located in the City of Industry. The building will be renovated to meet the needs of the Company which includes the construction of offices, restrooms, break-room, and electrical and ventilation system upgrades.

### **Anticipated Project and Issuance Costs**

	<u>To be paid from TE bond proceeds</u>	<u>To be paid from all other sources*</u>
Acquisition of Land	\$2,150,000	\$930,000
Acquisition of Existing Building(s)	\$6,530,000	\$2,790,000
Rehabilitation of Existing Building(s)	\$1,000,000	\$0
Acquisition of New Equipment		
(a) Invoice	\$120,000	\$180,000
Bond Issuance Expenses	<u>\$200,000</u>	<u>\$50,000</u>
Total:	<u>\$10,000,000</u>	<u>\$3,950,000</u>

\*Other sources include the Company's private funds

### **Anticipated Timeline**

The Borrower expects to complete the purchase of the building on April 2, 2015. The Company expects to commence the building renovations as soon as possible following its acquisition of the properties and it is anticipated to take about four months to complete. The equipment purchases are expected to take place over a 12-month period after the building is acquired.

## **Financing Details**

The tax-exempt IDBs will be sold in a limited public offering. The bonds will be variable rate, and will be secured by an irrevocable Letter of Credit issued by California United Bank with a confirming letter of credit provided by Wells Fargo Bank.

## **Financing Team**

- Issuer: California Enterprise Development Authority
- Credit Enhancement Provider: California United Bank
- Bond Counsel: Kutak Rock LLP
- Trustee: U.S. Bank N.A.

## **PROJECT EVALUATION**

**PUBLIC BENEFITS:** The Project received 47 points out of a possible 142 pursuant to the California Debt Limit Allocation Committee (CDLAC) scoring system for IDB Projects. The award of points is detailed below:

### **A. Community Economic Need (10 of 20 points).**

**1. Unemployment Rate of the Project Area (10 of 10 points).** In accordance with CDLAC Regulations, points are awarded in this category if the 2014 unemployment rate of the county sub-area in which the Project is located is at least 125 percent of the 2014 statewide rate. The unemployment rate of this Project area is 200 percent of the statewide rate. Therefore, the Project received 10 points in this subcategory.

**2. Poverty Rate of Project Area (0 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is Census 2010 (5 year) data, is used to determine if the Project qualifies for points in this category. Points are awarded in this category if the poverty rate is at least 110 percent or more of the statewide rate. The poverty rate for this Project area is 8.5 percent, which is 53.5 percent of the Census 2010 statewide rate of 15.9 percent. Therefore, the Project received no points in this subcategory.

**3. Median Family Income (0 of 5 points).** In accordance with CDLAC Regulations, the most recent data from the U.S. Bureau of the Census, which in this case is from Census 2010, is used to determine if the Project qualifies for points in this category. Points are awarded if the Project is located in an area with a median family income of less than 80 percent of the statewide average. The Project is located in the City of Industry census tract 5003, where the average median family income is \$116,607. The median family income for the State of California is \$69,661. So, the median family income for the Project area is 167 percent of the statewide average. Therefore, the Project did not receive points in this subcategory.

**B. Job Creation (0 of 35 points).** Points are awarded in this category based on the borrower and/or user's representation that it will use its best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion by at least 10 percent. The Company utilizes a Professional Employer Organization (PEO) called the Employer Advantage which manages the Company's human resources and benefits administration needs. The Company represents that it currently employs 71 leased or contracted employees at the Project site. The Company anticipates hiring an additional 46 contracted employees within two years of Project completion. According to CDLAC Regulations, points are only awarded for the creation of direct, full-time jobs. Therefore, the Project did not receive points in this category.

**C. Job Retention (0 of 10 points).** Points are awarded in this category based on the Borrower's or User's representation that it has considered moving operations out of state. There was no such representation in the application materials received, and therefore the Project received no points in this category.

**D. Average Hourly Wage (10 of 10 points).** In accordance with CDLAC Regulations, the most recent data from the Bureau of Labor Statistics, which in this case is May 2013, is used to determine if the Project qualifies for points in this category. Points are awarded if the company's average hourly wage is at least 105 percent of the nearest Metropolitan Statistical Area (MSA) average hourly wage. The company's weighted average hourly wage is \$19.72 while the MSA for Los Angeles/Long Beach/Santa Ana area average 2013 manufacturing wage for the occupation of production was \$13.07. Therefore, the company's average hourly wage is 150.9 percent of the average manufacturing wage for the Los Angeles/Long Beach/Santa Ana area.

**E. Workforce and Economic Development (0 of 15 points).**

**1. Welfare-to-Work Plan (0 of 5 points).** The Company did not provide any information indicating participation in a welfare-to-work program.

**2. Workforce Training (0 of 5 points).** The Company did not provide information indicating participation in a workforce training program.

**3. Exports Outside California (0 of 5 points).** The Company did not provide written certification that it exports its products outside of California.

**F. Health Care Benefits (15 of 15 points).** The Company provided documentation that it contributes to the medical insurance for 53 of its 71 employees. The contribution translates into an average of \$422 per month toward the health care benefits for each employee. The remaining 18 employees have opted out of health coverage for personal reasons. The Company represents that it will offer the same health care benefits to new employees.

**G. Payment of Retirement Benefits (0 of 5 points).** The Company did not provide information indicating that it contributes to an employee-sponsored defined contribution plan for payment of retirement benefits for its employees.

**H. Environmental Stewardship (7 of 27 points).**

**1. Land Use (3 of 3 points).** This Project involves the reuse of vacant land and/or buildings.

**2. Public Transit Corridor (4 of 4 points).** The Company provided verification that the Project site is located within a public transit corridor. Foothill Transit bus route 274 and bus stops are located within ¼ mile of the Project site.

**3. Energy Efficiency and Renewable Energy (0 of 15 points).** The Company did not provide information regarding the Project's energy efficiency.

**4. Manufacturer of Certified Environmentally Preferable Products (0 of 5 points).** The Company did not provide information indicating that the Project produces or will produce environmentally preferable products.

**I. Leveraging (5 of 5 points).** The total Project cost is approximately \$13.95 million. The Company will borrow \$10 million of the Project costs in the form of tax-exempt IDBs, which will cover approximately 72% of the Project costs. The remaining 28% of Project costs will be covered by the Company's private funds. In accordance with CDLAC Regulations, points are awarded in this category if the taxable debt of the project is 10% or greater of the bond amount. Therefore, five points were awarded in this category.

**RELOCATION OF COMPANY OPERATIONS**

The Company currently operates from two sites, one in the City of Commerce, California and the other in Delavan, Wisconsin. The Company is relocating its operations to a single, larger facility located in the City of Industry. The Company provided a letter from Jorge J. Rifa, City Administrator from the City of Commerce, in which he acknowledges the Company's relocation and states that the City of Commerce does not object to the issuance of bonds for this Project. (Please see Attachment A.)

**QUALIFICATION OF BOND ISSUANCE**

Based on the proposed financial structure, and the application and other materials submitted to CIDFAC for this Project, staff believes the bonds (a) will be adequately secured; (b) will be fair, just and equitable to a purchaser of the bonds; and (c) will not defraud the bond purchaser. Final determination of qualification of the bonds will be subject to staff's review of final bond documents prior to the issuance of the bonds.

**STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

- CEDA approved the Inducement Resolution in an aggregate amount not to exceed \$10,000,000 in tax-exempt IDBs for the Project on February 12, 2015. CEDA is scheduled to adopt a final resolution for the Project on March 19, 2015.
- A TEFRA hearing was held by the City Council of the City of Industry on February 26, 2015. There were no comments in support of or in opposition to the Project.
- The Project involves the acquisition of an 8.4 acre parcel of land and approximately 182,000 square foot manufacturing facility that is zoned for industrial uses. The Company’s operations do not require additional land use or zoning approvals or permits.

**LEGAL QUESTIONNAIRE**

Staff reviewed the Borrower’s/User’s responses to the questions contained in the Legal Status portion of the application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of the company.

**PRIOR FINANCING**

Description	Issuer	Date of Bond Issue	Original Amount	Outstanding Amount
<b>Borrower:</b> RL Group, LLC <b>User:</b> Gordon Brush Mfg. Co., Inc.	California Statewide Communities Development Authority (CSCDA)	March 1998	\$2,250,000	\$1,260,000

**CIDFAC FEES**

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250<sup>1</sup> and will pay a closing fee of up to \$25,000.

**RECOMMENDATION**

Staff recommends approval of Initial and Final Resolution No. 15-0002 for \$10,000,000 in tax-exempt bonds and Allocation Resolution No. 15-2-002 for \$10,000,000 in tax-exempt IDB allocation for CEDA for the Gordon Brush Mfg. Co., Inc. Project. Staff’s recommendation is subject to staff analysis and approval of final bond documents and receipt of bond counsel’s opinion as set forth in Initial and Final Resolution No.15-0002.

**Staff report by: Deanna Hamelin**

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<sup>1</sup> California Code of Regulations Title 10, Chapter 8, Article 3, §6070



# City of Commerce

Office of the  
City Administrator

February 20, 2015

Ms. Michelle Stephens  
California Enterprise Development Authority  
550 Bercut Drive, Suite G  
Sacramento, CA 95814  
Phone: (916) 448-8252 //Fax: (916) 448-3811

## Re: Gordon Brush Mfg. Co., Inc. Project

Dear Ms. Stephens:

The City of Commerce ("City") has been made aware that Gordon Brush Mfg. Co., Inc. ("Company"), with operations currently located at 6247 Randolph Street in the City of Commerce, is in the process of acquiring a facility in the City Industry and will eventually relocate its' operations to this site. Further, it is our understanding that the Company is seeking to utilize tax-exempt industrial development bonds ("Bonds") to finance a portion of the costs associated acquiring and equipping this facility in the City of Industry.

This letter is to verify that the City of Commerce does not object to the issuance of the Bonds to finance the acquisition and equipping of the Company's facility in the City of Industry.

Please do not hesitate to call if you have any questions regarding this correspondence.

Very truly yours,

  
Jorge J. Rifa  
City Administrator

**INITIAL AND FINAL RESOLUTION OF THE  
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING  
ADVISORY COMMISSION (CIDFAC)  
INDUSTRIAL DEVELOPMENT BONDS  
IR/FR #: 15-0002**

**WHEREAS**, the California Enterprise Development Authority (the “Applicant”) has transmitted the application of Gordon Brush Mfg. Co., Inc. (the “Project Sponsor”) for the issuance of \$10,000,000 in tax-exempt bonds under the provisions of the California Industrial Development Financing Act, and has transmitted said application to the California Industrial Development Financing Advisory Commission (the “Commission”) and the information necessary to permit review of said application by the Commission, and has informed the Commission that it has adopted a resolution declaring its intention to issue such bonds and that the City of Industry held a public hearing regarding the issuance of the bonds and has approved the issuance of the bonds by the Applicant; and

**WHEREAS**, the Commission has reviewed the application and the materials submitted with the application.

**NOW, THEREFORE**, the Commission resolves as follows;

**Section 1.** The Commission, based on its review of the application and the information submitted therewith, does determine that the public benefits described in the application likely will substantially exceed any public detriment from the issuance of the bonds in the total principal amount of \$10,000,000 tax-exempt; and

**Section 2.** The Commission conditionally finds that the proposed issuance of the bonds qualifies under the provisions of Article 5 of Title 10 of the Government Code, and further finds that:

(a) the bonds will be adequately secured and the funds available to the Applicant will be sufficient to pay the principal of and interest on the bonds to be issued; and

(b) based on its review of the preliminary material submitted to it and as provided for under Government Code Section 91571, the proposed issuance will be fair, just and equitable to a purchaser of the bonds, and that the bonds proposed to be issued and the methods to be used by the Authority in issuing them will not be such as will work a fraud upon the purchaser thereof.

**Section 3.** The Commission determines that it is appropriate to the proposed transaction that the qualification of the proposed issuance be subject to the following conditions:

(a) the Bond Counsel Opinion, when ready for execution, shall be submitted to Commission staff;

(b) the final legal documents, when ready for execution, shall be submitted to Commission staff for its review. Submitted documents shall include:

(i) Loan Agreement,

- (ii) Tax Regulatory Agreement,
- (iii) Indenture
- (iv) Escrow Agreement, and;
- (v) Other documents which, in the opinion of Commission staff, are necessary to the review of the transaction;

(c) the Commission staff shall determine that the final documents associated with the transaction have been developed in form and content substantially similar to the representations in the application on which are based the findings under Section 2. above;

(d) the bonds, when issued, are within the maximum limitation of bonds authorized in the California Industrial Development Financing Act (Section 91573(a) of California Government Code);

(e) the Commission shall receive all applicable fees prior to the issuance of the bonds, unless the bond documents indicate that such fees are to be paid from the proceeds of the bonds; and

(f) the Project Sponsor agrees to comply with Section 91533(l) of the Government Code relating to the payment of prevailing wages.

**Section 4.** This Resolution shall cease to be effective if the above-described bonds have not been issued within six months after the date of adoption of this Resolution.

**Section 5.** In compliance with the provision of the California Industrial Development Financing Act (Section 91754 California Government Code), the qualification of the proposed bond issue by this resolution is permissive only, and does not constitute a recommendation or endorsement of the bonds so qualified by the Commission.

**THE CALIFORNIA INDUSTRIAL DEVELOPMENT  
FINANCING ADVISORY COMMISSION  
RESOLUTION NO. 15-2-002  
RESOLUTION TRANSFERRING A PORTION OF THE 2015 STATE CEILING  
FOR QUALIFIED PRIVATE ACTIVITY BONDS FOR A  
SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT**

**WHEREAS**, that the California Debt Limit Allocation Committee (“CDLAC”) awarded allocation to the California Industrial Development Financing Advisory Commission (the “Commission”) for the purpose of awarding a portion of the allocation to local and State issuers; and

**WHEREAS**, the Commission has the authority to transfer a portion of its allocation to local and State issuers; and

**WHEREAS**, the Commission has received an application (“Application”) from the California Enterprise Development Authority (“Applicant”) requesting a transfer to the Applicant of a portion of the 2015 State Ceiling on Qualified Private Activity Bonds (the “State Ceiling”) under Section 146 of the Internal Revenue Code of 1986, as amended, for use by the Applicant to issue bonds or other obligations (“Bonds”) for a project as specifically described in Exhibit A (“Project”) (capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Regulations of the CDLAC Implementing the Allocation of the State Ceiling on Qualified Private Activity Bonds (“CDLAC’s Regulations”)); and

**WHEREAS**, the Project Sponsor (as defined in Exhibit A) has represented certain facts and information concerning the Project in the Application, which the Applicant has confirmed; and

**WHEREAS**, in evaluating the Project and potential allocation of a portion of the State Ceiling to the Applicant for the benefit of the Project, the Commission has relied upon the written facts and information provided in the Application and otherwise by the Project Sponsor and the Applicant; and

**WHEREAS**, it is appropriate for the Commission to make a transfer of a portion of the State Ceiling (“Allocation”) in order to benefit the Project described in the Application.

**NOW, THEREFORE**, the California Industrial Development Financing Advisory Commission resolves as follows:

**Section 1.** There will be a transfer to the Applicant an amount of the State Ceiling equal to \$10,000,000. Such Allocation may be used only by the Applicant and only for the issuance of Bonds for the Project, as specifically described in Exhibit A. All of the terms and conditions of Exhibit A are incorporated as though fully set forth herein (this resolution, together with Exhibit A, hereinafter referred to as the “Resolution”).

**Section 2.** The terms and conditions of this Resolution shall be incorporated in appropriate documents relating to the Bonds, and the Project Sponsor, the Applicant and their respective successors and assigns will be bound by such terms and conditions.

**Section 3.** Any modification to the Project made prior to the issuance of the Bonds must be reported to the Executive Director or Deputy Executive Director or Commission Chair

and, if the Executive Director or Deputy Executive Director or Commission Chair determines such modification to be material in light of the Commission's Procedures, such modification shall require reconsideration by the Commission before the Allocation may be used for the Project. Once the Bonds are issued, the terms and conditions set forth in this Resolution shall be enforceable by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. The Commission may, as circumstances warrant, consent to changes in the terms and conditions set forth in this Resolution in the event the Commission is advised of changes in the Project.

**Section 4.** Prior to the issuance of the Bonds, any material changes in the structure of the credit enhancement and not previously approved by the Commission shall require approval of the Commission Chair or the Executive Director or the Deputy Executive Director.

**Section 5.** The Applicant is not authorized to use the Allocation transferred hereby to make a carryforward election with respect to the Project. The Applicant is not authorized to transfer the Allocation to any governmental unit in the State other than this Commission.

**Section 6.** The potential Allocation transferred herein shall automatically revert to this Commission unless the Applicant has issued Bonds for the Project by the close of business within 90 days of the award of Allocation. In the case of extreme hardship, the Executive Director or the Deputy Executive Director or the Commission Chair may extend this date by up to five (5) business days.

**Section 7.** Within twenty-four (24) hours of using the Allocation to issue the Bonds, the Applicant shall notify the Commission's staff and CDLAC's staff in writing (which may be by electronic or facsimile communication) that the Allocation has been used. Each notification to the Commission and to CDLAC shall identify the Applicant, the project or program, the date the Allocation was used, and the amount of the Allocation used.

**Section 8.** Within fifteen (15) calendar days of the issuance of the Bonds, the Applicant or its counsel shall formally transmit to CDLAC information regarding the issuance of the Bonds by submitting, in a form prescribed by and made available by CDLAC a completed Report of Action Taken. In addition, the Applicant shall provide the Commission with a copy of the final Official Statement, Private Placement Agreement, or other appropriate sale document.

**Section 9.** Any differences between the amount of Bonds issued and the amount of the Allocation granted in Section 1 of this Resolution shall automatically revert to the Commission. If at any time prior to the expiration date set forth in Section 6 of this Resolution the Applicant determines that part or all of the Allocation will not be used to issue Bonds by that date, the Applicant shall take prompt action by resolution of its governing board or by action of its authorized officer to return such unused Allocation to the Commission.

**Section 10.** The staff of the Commission is authorized and directed to transmit a copy of this Resolution to the Applicant together with a request that the Applicant retain, for the term of the Bonds, a copy of this Resolution in the Applicant's official records. The Commission staff is further directed to retain a copy of this Resolution in the files of the Commission (or any successor thereto) for the same period of time.

**Section 11.** In consideration of the potential Allocation to be transferred to the Applicant and the Project Sponsor, the Applicant and the Project Sponsor shall comply with all

#### **Agenda Item 4.A.**

of the terms and conditions contained in this Resolution and ensure that these terms and conditions are included in the documents related to the Bonds. Further, the Applicant and the Project Sponsor expressly agree that the terms and conditions of this Resolution may be enforced by the Commission through an action for specific performance or any other available remedy, provided however, that the Commission expressly agrees not to take such action or enforce any such remedy that would be materially adverse to the interests of the Bondholders. In addition, the Applicant and the Project Sponsor shall ensure that the Bond documents, as appropriate, expressly provide that the Commission is a third party beneficiary of the terms and conditions set forth in this Resolution.

**Section 12.** The Project Sponsor or its successor-in-interest shall provide certifications of compliance with the terms and conditions set forth in this Resolution when reasonably requested by the Commission.

**Section 13.** This Resolution shall take effect upon its adoption.

**EXHIBIT A**

**RESOLUTION NO: 15-2-002  
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: California Enterprise Development Authority (CEDA)
2. Application No.: 15-0002
3. Borrower, Project Sponsor: KLR Group, LLC and/or a related or affiliated entity  
User: Gordon Brush Mfg. Co., Inc.
4. Project Name: Gordon Brush Mfg. Co., Inc. Project
5. Project Description: Acquisition of Land and Existing Buildings, Rehabilitation of Existing Buildings and Acquisition and Installation of New Equipment
6. Address: 3737 Capitol Avenue  
Location: City of Industry, CA 90601  
County: Los Angeles County
7. Amount of Allocation: \$10,000,000
8. The Borrower has represented that it reasonably expects to use its best efforts to achieve the following within two years of the completion of the Project:
  - Creation of 46 additional full-time positions.