

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

Request to Approve the Refunding of up to \$1,895,000 Aggregate Principal Amount of the City of Oxnard Industrial Development Authority Tax-Exempt Variable Rate Demand Industrial Development Revenue Bond Series 2004A and Request to Approve Issuance of New Tax-Exempt Bonds and Transfer Industrial Development Tax-Exempt Bond (IDB) Allocation

**J. Harris Industrial Water Treatment, Inc. dba Puretec Industrial Water
Application No. 15-0004**

March 17, 2015

SUMMARY

Borrower/Project Sponsor– KJH Properties, LLC and/or a related or affiliated entity

User – J. Harris Industrial Water Treatment, Inc. dba Puretec Industrial Water

Issuer – California Enterprise Development Authority (CEDA)

Location – San Jose, Santa Clara County

Requested IDB Approval – \$3,435,000 of new allocation
\$1,895,000 refunding of 2004 IDBs

Requested IDB Allocation Approval – \$3,435,000

Public Benefit Points Awarded – 67 points out of 142 possible

Staff Recommendation – Approval

THE COMPANY

KJH Properties, LLC and/or a related or affiliated entity (the Borrower) and J. Harris Industrial Water Treatment, Inc. dba Puretec Industrial Water (Puretec or the Company) were organized in California in March of 2011 and June of 1986, respectively. Puretec is a family-owned and operated business since 1944. The Company is owned by Jim and Patricia Harris (42%), Jeb Harris (38%) and Kendra Harris Ragatz (20%).

The Company designs, manufactures, distributes, installs and services water treatment and purification systems to various industries, including those in the pharmaceutical, aerospace, biotechnology, electronics, food production and medical industries.

Major customers include: Crystal Geysler, 7 UP, Snapple, Amgen, Medtronic, SCE, Calpine Power, NRG Power, Anheuser Busch, Coca Cola, Kaiser Permanente, Procter & Gamble, U.C. Davis, UCLA, UCSD, UCSB, and Technicolor.

THE PROJECT

Bond proceeds will be used to pay for the cost of the acquisition of approximately 58,000 square feet of land in the City of San Jose, and the purchase of an existing, vacant 18,970 square foot building situated on the land. Additionally, bond proceeds will be used to refund the outstanding tax-exempt IDBs issued in 2004 by the City of Oxnard Industrial Development Authority. The 2004 IDBs were used to fund a portion of the costs associated with the development of the Company’s manufacturing facility and headquarters located in Oxnard. The bonds are being refunded to allow the Letter of Credit Bank to utilize the equity in the Oxnard facility to support the expansion of the Company into Northern California.

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	\$855,000	\$0
Acquisition of Existing Building(s)	\$2,510,000	\$60,000
Rehabilitation of Existing Building(s)	\$0	\$325,000
Bond Issuance Expenses	\$70,000	\$80,000
Other – Refunding of 2004 Bonds	<u>\$1,895,000</u>	<u>\$0</u>
Total:	<u>\$5,330,000</u>	<u>\$465,000</u>

*Other sources include the Company’s private funds

Anticipated Timeline

The acquisition of the property located at the project site is expected to close on April 16, 2015. Improvements to the building are expected to occur over a three month period beginning after the acquisition of the property.

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 City National Bank.

Financing Team

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

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 67 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 (0 of 20 points).

1. Unemployment Rate of the Project Area (0 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 81.6 percent of the statewide rate. Therefore, the Project did not receive 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 11.22 percent, which is 70.6 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 San Jose census tract 5043.18, where the average median family income is \$74,583. The median family income for the State of California is \$69,661. So, the median family income for the Project area is 107.1 percent of the statewide average. Therefore, the Project did not receive points in this subcategory.

B. Job Creation (35 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 represents that it currently employs 8 direct, full-time employees at the Project site. The company represents that it anticipates hiring an additional 10 direct, full-time employees, which equates to approximately 125 percent increase, within two years of completion of the Project. Therefore, the Project received 35 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 \$27.73 while the MSA for the San Jose/Sunnyvale/Santa Clara area average 2013 manufacturing wage for the production occupations was \$16.86. Therefore, the company's average hourly wage is 164.5 percent of the average manufacturing wage for the San Jose/Sunnyvale/Santa Clara area. Therefore, the Project received ten points.

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 78 of its 112 employees. The contribution computes to an average of \$345 per month toward the health care benefits for each employee. The remaining employees opted out of the Company's health care benefits program 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. The Santa Clara Valley Transportation Authority bus route 66 and associated 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 (0 of 5 points). This financing does not involve leveraging of the tax-exempt bond proceeds.

RELOCATION OF COMPANY OPERATIONS

This Project does not involve a relocation. The facility in San Jose will be used to support the Company's expansion in Northern California.

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 \$6,500,000 in tax-exempt IDBs for the Project on February 12, 2015. CEDA is scheduled to adopt a final resolution for the Project on April 2, 2015.
- A TEFRA hearing was held by the City Council of the City of San Jose on March 10, 2015. There were no comments in support of or in opposition to the Project.
- The Project involves the acquisition of 58,370 square feet of land with an 18,970 square foot manufacturing facility in an area that is zoned for light 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 FINANCINGS

Description	Date of Bond Issue	Original Amount	Outstanding Amount
Borrower: James and Patricia Harris, Trustees of the Harris 1994 Irrevocable Family Trust u/d/t September 2, 1994 User: J. Harris Industrial Water Treatment, Inc.	December 2004	\$ 2,650,000	\$1,895,000

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250 ¹ and will pay a closing fee of up to \$13,325.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 15-0004 for \$3,435,000 new money and \$1,895,000 in refunding bonds totaling \$5,330,000 in tax-exempt bonds and Allocation Resolution No. 15-2-004 for \$3,435,000 in tax-exempt IDB allocation for CEDA for the J. Harris Industrial Water Treatment, 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.15-0004.

Staff report by: Deanna Hamelin

¹ California Code of Regulations Title 10, Chapter 8, Article 3, §6070

**INITIAL AND FINAL RESOLUTION OF THE
CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING
ADVISORY COMMISSION (CIDFAC)
INDUSTRIAL DEVELOPMENT BONDS
IR/FR #: 15-0004**

WHEREAS, the California Enterprise Development Authority (the “Applicant”) has transmitted the application of KJH Properties, LLC and/or a related or affiliated entity (the “Project Sponsor”) for the issuance of \$3,435,000 in tax-exempt bonds and \$1,895,000 in refunding 2004 tax-exempt bonds totaling \$5,330,000 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 San Jose 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 \$5,330,000 in tax-exempt and refunding bonds; 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. 15-2-004
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 \$3,435,000. 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.C.

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: 15-2-004
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: California Enterprise Development Authority (CEDA)
2. Application No.: 15-0004
3. Borrower, Project Sponsor: KJH Properties, LLC and/or a related or affiliated entity
User: J. Harris Industrial Water Treatment, Inc. dba Puretec Industrial Water
4. Project Name: J. Harris Industrial Water Treatment, Inc. Project
5. Project Description: Acquisition of Land and Existing Buildings
6. Address: 1291 Oakland Road
Location: San Jose, CA 95112
County: Santa Clara County
7. Amount of Allocation: \$3,435,000
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 10 additional direct, full-time positions.