

CALIFORNIA INDUSTRIAL DEVELOPMENT FINANCING ADVISORY COMMISSION

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

Cardenas Three, LLC
Application No. 15-0006

December 15, 2015

SUMMARY

Borrower/Project Sponsor and User – Cardenas Three, LLC and/or a related entity

Issuer – California Municipal Finance Authority (CMFA)

Location – City of Jurupa Valley, Riverside County

Requested IDB Allocation – \$4,000,000

Public Benefit Points Awarded – 65 points out of 142 possible

Staff Recommendation – Approval

THE COMPANY

Cardenas Three, LLC (the “Company”) was incorporated on November 4, 2008. The Company produces prepared Mexican processed meats, Mexican side dishes and soups, fresh premium salsa and fresh meat which includes specialty slicing and dicing. Its major customers include restaurants and grocery store chains such as Costco, Cardenas Markets, H.E. Butt Grocery Company, Sysco and Del Taco.

The principal stockholders of the Company are as follows:

Guadalupe Cardenas	33.33%
Jesus Cardenas Jr.	33.33%
Jose Cardenas	<u>33.33%</u>
Total:	<u>100.00%</u>

THE PROJECT

The Company plans to utilize bond proceeds to finance the acquisition of new equipment for two new production lines at its facility located in the City of Jurupa Valley. The project includes the purchase of a compressor, water boiler, vacuum lifter, floor drains, hand wash stations and other related equipment.

Anticipated Project and Issuance Costs

	<u>To be paid from bond proceeds</u>
Acquisition and Installation of New Equipment	\$3,920,000
Bond Issuance Expenses	<u>80,000</u>
Totals	<u>\$4,000,000</u>

Project Timeline

The Company has purchased all of the equipment as of September of this year. The issuance of the IDBs is expected to occur on or before December 30, 2015.

Financing Details

The tax-exempt IDB will be sold on a private placement basis in accordance with CIDFAC's private placement policy¹ to GE Government Finance. GE Government Finance, which is a qualified institutional buyer (QIB) as defined by the U.S. Securities and Exchange Commission (SEC) Rule 144A, will purchase the bond for its own investment portfolio. The bonds will be secured by the equipment as well as the existing real estate.

Financing Team

- Issuer: CMFA
- Private Placement Provider: GE Government Finance
- Bond Counsel: Jones Hall, a Professional Law Corporation

PROJECT EVALUATION

PUBLIC BENEFITS: The Project received 65 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:

¹ The bonds will be issued in accordance with CIDFAC's private placement policy, which has the following requirements:

- The bond purchaser must be a sophisticated investor as defined under SEC Rule 144A.
- The sophisticated investor must sign a sophisticated investor letter, which will outline the requirements and restrictions related to sophisticated investors.
- The security for the private placement debt must be collateral provided by the Borrower.
- The bond will be issued in a minimum denomination of \$250,000.

A. Community Economic Need (5 of 20 points).

1. Unemployment Rate of the Project Area (5 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 142.67 percent of the statewide rate. Therefore, the Project received 5 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 6.6 percent, which is 41.51 percent of the Census 2010 statewide rate of 15.9 percent. Therefore, the Project did not receive 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 Jurupa Valley census tract 406.07, where the average median family income is \$88,054. The median family income for the State of California is \$69,661. So, the median family income for the Project area is 126.4 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. The Company represents that it currently employs 41 direct, full-time employees at the Project site. The Company represents that it anticipates hiring an additional 107 direct, full-time employees, which equates to a 260.98 percent increase, within two years of completion of the Project. Therefore, the Project received 35 points in this subcategory.

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 2014, 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 \$20.05 while the MSA for Riverside/San Bernardino/Ontario area average 2014 manufacturing wage for the occupation of production was \$10.26. The company's average hourly wage is 141.44 percent of the average manufacturing wage for the Riverside/San Bernardino/Ontario area. Therefore, the Project received 10 points in this subcategory.

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 information indicating that they export products outside of California.

F. Health Care Benefits (15 of 15 points). The Company provided documentation that it contributes to medical insurance for 30 of its 41 employees. This contribution translates into an average of \$432.58 per month toward the health care benefits for each covered employee. 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 (0 of 27 points).

- 1. Land Use (0 of 3 points).** This Project does not involve the reuse of vacant or abandoned land or buildings.
- 2. Public Transit Corridor (0 of 4 points).** The Company did not provide verification that the Project site is located within a public transit corridor.
- 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 transaction does not involve a relocation. The Company will remain at its current location in the City of Jurupa Valley.

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

- CMFA approved the Inducement Resolution in an aggregate amount not to exceed \$5,000,000 in tax-exempt IDBs for the Project on January 16, 2015. CMFA is scheduled to adopt a final resolution for the Project on December 11, 2015.
- The TEFRA notice was published at least 14 days prior to April 2, 2015, specifically on March 12, 2015, in the The Riverside County News Recorder, a newspaper of general circulation within the City of Jurupa Valley. A TEFRA hearing was held by the City Council of the City of Jurupa Valley on April 2, 2015.
- The project is an equipment-only purchase, and therefore it does not require additional, discretionary 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 ACTIONS AND FINANCINGS

Description	Date of Bond Issue	Original Amount	Outstanding Amount
Borrower: Cardenas Three, LLC and/or related entity User: Del Real, LLC or related entity	December 28, 2010	\$ 3,000,000	\$2,430,000

CIDFAC FEES

In accordance with CIDFAC regulations, the Company has paid CIDFAC an application fee of \$1,250² and will pay a closing fee of up to \$10,000.

RECOMMENDATION

Staff recommends approval of Initial and Final Resolution No. 15-0006 for \$4,000,000 in tax-exempt bonds and Allocation Resolution No. 15-02-006 for \$4,000,000 in tax-exempt IDB allocation for CMFA for the Cardenas Three, LLC 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.15-0006.

Staff report by: Andrea Gonzalez

² 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 #: 15-0006**

WHEREAS, the California Municipal Finance Authority (the “Applicant”) has transmitted the application of Cardenas Three, LLC and/or a related entity (the “Project Sponsor”) for the issuance of \$4,000,000 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 Jurupa Valley 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 \$4,000,000; 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,

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- (ii) Tax Regulatory Agreement, and;
- (iii) 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. 15-2-006
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 Municipal Finance 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 \$4,000,000. 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

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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: 15-2-006
(A SMALL-ISSUE INDUSTRIAL DEVELOPMENT PROJECT)**

1. Applicant: California Municipal Finance Authority
2. Application No.: 15-0006
3. Borrower, Project Sponsor: Cardenas Three, LLC and/or a related entity
4. Project Name: Cardenas Three, LLC
Project Description: Purchase of New Equipment
6. Address: 11058 Philadelphia Avenue
Jurupa Valley, CA 91752
County: Riverside County
7. Amount of Allocation: \$4,000,000
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 107 additional direct, full-time positions.