MINUTES
California Pollution Control Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
August 21, 2012

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Pollution Control Financing Authority (CPCFA or Authority) meeting to order at 10:41 a.m.

Members Present:  Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Pedro Reyes for Ana J. Matosantos, Director of Finance

Staff Present:  Michael Paparian, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum:  The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the July 17, 2012, meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR’S REPORT

Mr. Paparian introduced the newest CPCFA staff member, Ethan Wieser. Mr. Wieser will be working with the California Capital Access Program (CalCAP). Ethan has a varied background, including a degree in geography, working for an educational institution and service to our country in the Marine Corps.

Staff recently heard from U.S. Treasury regarding the request to launch the Collateral Support Program (CSP) and the Loan Participation Program (LPP). The Treasury has made it through another part of its review process and staff expects a response to be forthcoming. Mr. Paparian is optimistic about Treasury’s response; however, he will not make specific predictions about the timing.
Mr. Paparian stated that he would like to update the Board on some aspects of the CSP. At the May 15, 2012, board meeting, Emily Jarrett presented a staff report regarding the State Small Business Credit Initiative (SSBCI) Collateral Support Program.

Staff’s descriptions in the report prepared at that time could now use some elaboration and update. Since May, CalCAP has engaged its stakeholders in order to obtain feedback on the details of the program. CalCAP staff has also been in discussions with Treasury as it evaluates the content of the request.

As previously reported, the SSBCI Program was designed to allow term loans and lines of credit up to seven years. Mr. Paparian clarified that the collateral support can be up to seven years, but the term of the loan can be longer. He continued to report that, initially, loans more than 48 months old would be subject to an annual reduction in the support amount. In order to ensure the State meets the SSBCI cumulative leverage ratio requirement of 10:1 for all of its Federally funded Programs beginning with the first year, CalCAP will have an annual recapture on a portion of the contribution for all loans enrolled in the Program regardless of term of the loan. For this same reason, staff has decided not to allow the renewal of an enrolled loan as previously intended.

In the Bond Program, Mr. Paparian reported that the San Diego County Water Authority (SDCWA) has released details of its Water Purchase Agreement with Poseidon for the Carlsbad Desalination Facility. The current schedule anticipates selling bonds in the fall. Staff currently expects the request to come to CPCFA for approval of both the SDCWA and Poseidon portions of the bonds in October or November of this year.

Mr. Gordon asked if that report includes a price per acre foot on the water that it is selling or is that not part of the financial analysis?

Mr. Paparian said the SDCWA did; however, he could not give an exact quote but believes it was in the range of $2,000/acre foot.

Mr. Gordon thanked him for his answer.

Mr. Paparian continued that he is required to report about contracts he signs under his delegated authority. As Eileen Marxen reported in her California Industrial Development Financing Advisory Commission (CIDFAC) Executive Director report, CPCFA has a contract with CIDFAC for up to $75,000 to assist with a variety of small business related issues. He also signed a contract with Forest Economic Advisors (FEA) for up to $40,000 to assist with verification of information related to the CalAg proposal. CalAg proposed to move forward with a project to convert rice straw to a fiberboard material. Because of some unique aspects of this proposal, FEA is independently reviewing consultant reports prepared on behalf of the applicant. It did much of this under a prior contract and will update its findings as needed.
4. BUSINESS ITEMS

A. REQUEST TO APPROVE INITIAL RESOLUTION REFLECTING OFFICIAL INTENT TO ISSUE REVENUE BONDS

1) Alameda County Industries, LLC
   Presented by: Mario Wong, Analyst

   Staff introduced Tony Cone of Westhoff, Cone and Holmstedt

   Staff requested approval of an Initial Resolution for an amount not to exceed $10,275,000 to finance the acquisition of new CNG fueled trucks, containers and site improvements to the company’s existing Materials Recovery Facility (MRF) in San Leandro.

   Ms. Redway asked if there were any comments from the Board, or the public. There were none.

   Ms. Redway asked if there was a motion.

   Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

B. REQUEST TO APPROVE FINAL RESOLUTIONS AUTHORIZING THE ISSUANCE OF REVENUE BONDS, SMALL BUSINESS ASSISTANCE FUND (SBAF) COSTS OF ISSUANCE ASSISTANCE AND TAX-EXEMPT VOLUME CAP ALLOCATION

1) California Waste Recovery Systems, LLC
   Presented by: Deanna Hamelin, Analyst

   Staff introduced Tony Cone of Westhoff, Cone and Holmstedt

   Staff requested approval of a Final Resolution and Volume Cap Resolution for an amount not to exceed $7,610,000 to finance improvements and renovations to an existing building, and for the purchase of equipment including waste collection vehicles and containers for use throughout the service area. The Board approved an Initial Resolution in the amount of $5,000,000 on April 17, 2012. Due to increased project costs, the company requested an increase in the bond amount via the Final Resolution to $7,610,000. The company also requested assistance from the Small Business Assistance Fund (SBAF) in the amount of $147,360.

   Ms. Redway asked if there were any questions or comments from the Board or public.

   Mr. Reyes pointed out that the $7,610,000 reflects a 50% increase of the original Initial Resolution of $5,000,000. It is his understanding that since the Initial
Agenda Item 2.

Resolution, the project has expanded in terms of the acquisition of items. Mr. Reyes asked if this was correct.

Mr. Cone responded yes, that is correct.

Mr. Reyes said he wanted to make sure everyone understood why it has gone from $5,000,000 to $7,610,000.

Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

Ms. Redway asked if there was a motion.

Mr. Gordon moved approval of the item; upon a second, the item was unanimously approved.

2) eCullet LLC

Presented by: Deanna Hamelin, Analyst

Staff introduced Tony Cone of Westhoff, Cone and Holmstedt, John Wang of Orrick Herrington and Sutcliffe and Craig London of eCullet, Inc.

Staff announced that since the project has gotten closer to closing, the transaction has been downsized due to removing the funding of a reserve account that will not be required by the bond purchaser. The lower par amount also affects the SBAF request, which is now a bit more generous due to how the formula works for determining cost of issuance assistance.

This transaction is a little different from most CPCFA small business deals. It is a private placement with Spring Mountain Capital LP, a Qualified Institutional Buyer. The bond will initially be issued for a three year term on a non-rated basis with a 12% coupon and will be purchased at a discount to yield 15%. This is higher than CPCFA is used to with a letter of credit backed variable rate demand deal. The bonds will have a 10-year maturity. Representatives of the placement agent and the company can provide more detail on the reasons they are satisfied with the rate.

The TEFRA hearing was held on August 16, 2012; no verbal comments were presented at the hearing. However, staff received written comments from David T. Hudson with Strategic Materials, Inc. The written comments were provided to the Board Members and will be made a part of the Tax Equity and Fiscal Responsibility Act (TEFRA) Hearing record for the bonds.

Staff requested approval of a Final Resolution and Volume Cap Allocation for an amount not to exceed $5,485,000 to finance the acquisition and installation of processing equipment for the recycling of glass and related solid waste at two facilities in leased spaces located in San Leandro and Los Angeles. The company
Agenda Item 2.

also requests assistance from the SBAF in the amount of $198,360.

Ms. Redway asked if there were any questions or comments from the Board or public.

Mr. Reyes stated he did receive the written response to the Public Records Act (PRA) and asked if there was anyone present who wished to speak in opposition of the item.

Ms. Redway stated that she wanted to talk about how the deal is a little different; it has an extraordinarily high interest rate for the current market environment. The buyer of the bonds is different from what is typically seen at CPCFA. It does meet all of the policy requirements that CPCFA and the California Debt Limit Allocation Committee (CDLAC) currently have in place for issuing and allocating volume cap.

Mr. Gordon asked what the reasoning behind the high interest rate was.

Mr. Cone answered that this could best be equated with mezzanine lending which is typically in that interest rate range or above. This is a company that is on the verge of being bankable. Commercial banks are going to be very eager to lend it money, but it is not there yet. The CEO, Craig London, can testify to the financing struggle. The company has been expanding at a rapid rate which requires not only overhead corporately; but, of course, the financing of new facilities and new markets. It has very little debt. This is an attempt to gain an additional small amount of debt relative to the size of the company. There is a very limited market for this type of bond as witnessed by the fact that the Board is rarely presented with anything like this. In fact, Westhoff, Cone and Holmstedt meet and work with, and try to nurture relationships with, a lot of up and coming and new companies. Most do not show as well as eCullet and could not attract any institutional interest. Mr. Cone thinks the institutional market universally has little knowledge of the waste industry and frankly does not want to be bothered by it.

Mr. Gordon stated that looking at the record of this transaction the company has a history in several other jurisdictions including Washington and Minneapolis. Did staff do any research to what the company’s reputation is in those communities?

Ms. Wahl responded that she called both Washington and Minnesota, but only got a call back from Minnesota. The company has a facility there that received financing from the port authority about two years ago. She spoke to the staff person at the port authority who said that another glass recycler had come in about the same time as the company, so the prices were a little higher than expected but the company was making its payments on time. Since the bond issuance, there has not been any negative communication about the company at all.

Mr. Gordon asked if anything is known about the market for glass recycling in the East Bay. Is there one primary player, or are there numerous? What does the market
Mr. Paparian stated that he contacted the Recycling Market Development Zone Administrator in Oakland and the California Department of Resources Recycling and Recovery (CalRecycle), and although he cannot speak to precise market share, there has been a dominant player in California and in the Bay Area. eCullet is coming in as a new player in that market place. The dominant player is Strategic Materials Incorporated (SMI). Both the Oakland and CalRecycle representatives indicated they welcome the technology eCullet is using especially because it is not only taking glass that has traditionally been recycled, it is also taking material that has been extremely difficult to recycle. He and Ms. Wahl visited the site recently. The incoming material is nasty looking stuff; the company is able to take material that has come from MRF’s that is mixed with metals and other garbage, separate out the glass, and come out with a clean glass product. The folks at CalRecycle are especially pleased with the contributions this will help make towards the State’s goals for increasing recycling up to 75%. It was indicated that eCullet has had loans and grants previously from CalRecycle. It has an outstanding loan that was made in 2006 for $850,000. All payments have been made as agreed and the current balance is $160,000.

Ms. Redway asked if there was anyone present from CalRecycle.

Mr. Viswanathan of CalRecycle stated it made the first loan as a state agency to eCullet, and it was much smaller than the one being presented today. eCullet’s history has been very satisfactory and he is aware the company received grants from the Department of Conservation as well.

Ms. Redway applauded the company and stated she was pleased with what it is doing from what she has read and the pictures she saw from the tour that Mr. Paparian and Ms. Wahl took. She clarified that her comments are strictly in regards to the financing structure and in no way relate to the company.

She continued that, as a policy, this is a slightly different type of deal that does meet the current policy guidelines and she is prepared to support it. However, she asked the Board to consider asking CPCFA and CDLAC staff to develop a policy that might look at the criteria for evaluating this type of deal and whether there should be slightly stronger protections for bond holders in the event that the bonds are resold. The Board discussion today should send a signal that if more deals like this come in, there has been some analysis and discussion by staff about reporting to the Board and whether there should be slightly different policies in place for this type of bond use as opposed to others.

Mr. Reyes said he echoes her concerns and looks forward to seeing how CPCFA moves forward with this. He thanked staff for following up with the comments made by the other entity, SMI, and clearly by visiting the facility. Staff addressed the concerns that were raised prior to the meeting and addressed them to ensure that
Agenda Item 2.

everything was copasetic.

Ms. Redway asked staff if they had enough direction.

Mr. Paparian responded yes, he understands that staff should review the policy, especially related to unrated deals and mezzanine, to determine how far CPCFA wants to go in assisting companies as they are developing and expanding. Staff will work with CDLAC and the financial advisor to assist in the evaluation of the policies.

Ms. Redway stated that she would be reluctant to approve additional deals coming in like this until there is a policy analysis.

Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

C. REQUEST TO AMEND INFILL GRANT DOCUMENTS UNDER THE CALIFORNIA RECYCLE UNDERUTILIZED SITES (CALREUSE) REMEDIATION PROGRAM (PROP 1C)

1) Pacific West Communities, Inc.
Presented by: Diana Michaelson, Analyst

Staff requested approval to replace Global Premier Development, Inc. with Pacific West Communities, Inc. as co-Grantee for the 3rd Street Residential Development project.

Ms. Redway asked if there were any questions or comments from the Board or public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

5. PUBLIC COMMENT
   Ms. Redway asked if there were any comments from the public. There were none.
6. **ADJOURNMENT**
   
   There being no further business, public comments, or concerns, the meeting adjourned at 11:03 a.m.

   Respectfully submitted,

   Sherri Kay Wahl
   Deputy Executive Director