

**CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
BOND FINANCING PROGRAM
Meeting Date: June 20, 2017**

*Request to Approve Final Resolution Authorizing the Issuance
of Revenue Refunding Notes*

Prepared by: *Kris Luoma*

Applicant:	Zerep Management Corporation	Amount Requested:	\$32,925,000
Project		Application No.:	847(SB) & 872(SB)
Location:	City of Industry and Pomona (Los Angeles County)	Final Resolution No.:	567
		Prior Actions:	IR 11-04 Approved 2/22/11 FR 520 Approved 9/27/11 IR 13-08 Approved 9/17/13 FR 533 Approved 3/18/14

Summary. Zerep Management Corporation and/or its Affiliates (the “Company” or “Zerep”) requests approval of a Final Resolution to issue revenue refunding notes in an amount not to exceed \$32,925,000 to refund the previously issued Series 2011A Bonds (Zerep Management Corporation Project) in an amount not to exceed \$11,230,000 and the Series 2014 Bonds (Zerep Management Corporation Project) in an amount not to exceed \$21,695,000.

Borrower. The Company is based in Southern California and was organized in 1970 for the collection and transferring of solid waste. Zerep’s affiliate companies are Valley Vista Services, Inc., Vincent General Services and Grand Central Recycling and Transfer Station, Inc.. The Company is a small business that, combined with its Affiliates, has approximately 321 employees.

The principal stockholders of the Company are as follows:

Judith K. Perez	50%
David Perez	<u>50%</u>
Total:	<u>100%</u>

Legal Questionnaire. The Company responded negatively to the legal status questionnaire. Since the Authority approved the new money request in 2014, the City of Industry audited the city finances and discovered that the city had paid over \$326 million to companies owned by former Mayor David Perez. In 2015, the City of Industry wanted to examine possible payments received by former Mayor Perez from Zerep, so an independent audit company, KPMG, was hired to do an audit focusing on the Zerep invoices from the last decade. The results of that audit, completed April 6, 2015, claimed that Zerep had been over charging on its invoices for services provided. A lawsuit was filed by the City of Industry against Zerep in June of 2015. The City of Industry agreed to a mediated settlement with Zerep on April 17, 2017.

On May 7, 2015 the California State Controller Office (SCO) announced that it would be conducting an investigation into the discrepancies in financial reporting and an analysis of administrative and internal accounting controls of The City of Industry. The SCO also examined allegations of wrong doing by city officials. Additionally, the investigation looked for any

Agenda Item 4.B.

irregularities in local, state and federal programs administered by the City of Industry. On January 28, 2016 the SCO completed its Review Report (Administrative and Internal Accounting Controls for The City of Industry) finding: weaknesses with the City's accounting and administrative controls; insufficient oversight of the City's operations and financial activities by the City Council; and inadequate internal controls. In late June of 2015, the City hired a new City Manager and created a Director of Administrative Services position. This position was created to oversee and evaluate City processes. As a result of this organizational change, the City reviewed all of its contracts with outside vendors to determine if the contracts will comply with best practices or contain deficiencies that require amendments, and/or should be competitively bid. Further, the City implemented additional review procedures when paying invoices for services provided to the City by a third party vendor. Using the new review process and Section 3.04.055 of the City Municipal Code, which does not require the contract to be competitively bid, the City of Industry renewed its contract with Zerep on April 9, 2015.

On May 31, 2016, an SCO press release applauded the efforts of the City of Industry for taking seriously the pervasive accounting shortcomings that were found during the SCO's review. Under the new City Manager, The City of Industry started to overhaul its procedures regarding contracts, invoices and credit cards. The City Council, for the City of Industry, approved a consulting agreement with the former State Treasurer, Bill Lockyer, to serve as an Independent Reform Advisor. The SCO felt that this was a step in the right direction for the City of Industry.

Given all of the above, the improvements made in the City's accounting and internal controls will serve to ensure the soundness of the billing and payment procedures with all of the City's vendors including the Company.

Prior Actions and Financings. Prior actions and financings are listed below.

Description	Date of Bond Issue	Original Amount	Amount Outstanding as of 6/1/2017
(Zerep Management Corporation Project) Series 2011A	10/19/2011	\$11,230,000	\$11,230,000
(Zerep Management Corporation Project) Series 2014	5/15/2014	\$21,695,000	\$21,695,000
TOTAL:		<u>\$32,925,000</u>	<u>\$32,925,000</u>

Background. On October 19, 2011, CPCFA issued Variable Rate Demand Solid Waste Disposal Revenue Bonds (Zerep Management Corporation Project) Series 2011A in the amount of \$11,230,000. The Series 2011A Bonds financed the purchase of solid waste and recycling collection vehicles, rolling stock and other equipment for the collection of solid waste in certain cities and in the incorporated and unincorporated areas of Los Angeles County. The bonds also financed the purchase of drop boxes, bins and containers to be located with its customers and the acquisition of material handling and processing equipment that was installed at the Company's Grand Central Material Recovery Facility (MRF).

On May 15, 2014, CPCFA issued Variable Rate Demand Solid Waste Disposal Revenue Bonds (Zerep Management Corporation Project) Series 2014 in the amount of \$21,695,000. The bonds

Agenda Item 4.B.

financed the construction of a transfer station in Pomona. The bonds also financed the acquisition of Compressed Natural Gas (CNG) collection vehicles, containers and other equipment related to the collection and transfer of solid waste.

Current Request. The Company is requesting the approval to refund the Zerep Management Corporation 2011A and 2014 Variable Rate Demand Solid Waste Disposal Revenue Bonds totaling \$32,925,000. The bonds will be converted from a variable rate demand bond with a letter of credit to a direct bank note purchase which will provide lower overall costs for the Company. The costs of issuance will be paid by the Company.

TEFRA. A TEFRA hearing is not required under Section 147(f)(2)(A) of the Internal Revenue Code of 1986.

Fees. The Company has paid an application fee of \$5,000 and will pay an administrative fee of \$60,850 at closing.

Financing Details. The Company anticipates a direct bank purchase of negotiated tax-exempt notes with Comerica Bank, which is a Qualified Institutional Buyer (QIB) as defined in SEC Rule 144 under the Securities Act of 1933, in minimum denominations of \$250,000 or any integral multiple of \$5,000 in excess thereof. Additionally, the notes will have a restriction on transfer to QIBs and require an investor letter. The target date for financing is July 5, 2017.

Financing Team.

Municipal Advisor to Westhoff, Cone & Holmstedt
Borrower: Comerica Bank
Note Purchaser: The Bank of New York Mellon Trust Company, N.A.
Trustee:
Note Counsel: Law Offices of Leslie M. Lava

Staff Recommendation. Staff recommends approval of Final Resolution No. 567 for Zerep Management Corporation, and/or its Affiliates for an amount not to exceed \$32,925,000.

**RESOLUTION OF THE
CALIFORNIA POLLUTION CONTROL FINANCING AUTHORITY
RELATING TO REFINANCING OF
SOLID WASTE DISPOSAL/RECYCLING FACILITIES AND EQUIPMENT
FOR ZEREP MANAGEMENT CORPORATION AND/OR ITS AFFILIATES**

June 20, 2017

WHEREAS, the California Pollution Control Financing Authority (the “Authority”) has previously issued its California Pollution Control Financing Authority Variable Rate Demand Solid Waste Disposal Revenue Bonds (Zerep Management Corporation Project) Series 2011A (the “2011 Bonds”), and its California Pollution Control Financing Authority Variable Rate Demand Solid Waste Disposal Revenue Bonds (Zerep Management Corporation Project) Series 2014 (the “2014 Bonds” and, together with the 2011 Bonds, the “Prior Bonds”); and

WHEREAS, the Borrower now wishes to refund the Prior Bonds, which financed or refinanced the acquisition, construction, installation and equipping of certain solid waste facilities located in incorporated and unincorporated areas of Los Angeles County, California in 2011 (the “2011 Project”) and in 2014 (the “2014 Project”), all as more particularly described in the Term Sheet attached hereto as Exhibit A and incorporated herein (the “Term Sheet”) (together, the “Project”); and

WHEREAS, the Borrower has requested the Authority to issue its revenue notes in an amount not to exceed \$32,925,000 to assist in the refunding of the Prior Bonds; and

WHEREAS, the proceeds of such revenue notes will be loaned to the Borrower under the hereinafter referred loan agreement with the Authority; and

WHEREAS, final approval of the terms of such revenue notes and certain documents relating to such revenue notes is now sought; and

WHEREAS, the Borrower has provided documentation to the Authority demonstrating that the Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code, or is not a project under that division;

NOW, THEREFORE, BE IT RESOLVED by the California Pollution Control Financing Authority, as follows:

Section 1. The Project constitutes a “project” and the Borrower is a “participating party” within the meaning of the California Pollution Control Financing Authority Act (the “Act”).

Agenda Item 4.B.

Section 2. Pursuant to the Act, revenue obligations of the Authority, designated as the “California Pollution Control Financing Authority Variable Rate Demand Solid Waste Disposal Revenue Refunding Notes (Zerep Management Corporation) Series 2017” (the “Notes”), or such alternate designation as may be approved by the Executive Director of the Authority, in an aggregate principal amount not to exceed \$32,925,000, are hereby authorized to be issued. The Notes may be issued at one time, or from time to time, in one or more series or sub-series separately or differently identified, and may be issued in a tax-exempt mode, all in accordance with the Indenture (as hereinafter defined) as finally executed. The proceeds of the Notes shall be used to make a loan to the Borrower to refund the Prior Bonds.

Section 3. The Treasurer of the State of California (the “Treasurer”) is hereby authorized to sell the Notes on or before December 31, 2017, by negotiated sale, at such price and at such interest rate or rates as he may determine, such determination to be as set forth in the hereinafter referred to Purchase Contract. Delivery of the Notes at such times to be determined by the Authority pursuant to documents approved in Section 4 hereof, is hereby approved.

Section 4. The following documents:

(i) a loan agreement relating to the Notes (the “Loan Agreement”) between the Authority and the Borrower;

(ii) an indenture relating to the Notes (the “Indenture”) between the Authority and the trustee named in the Term Sheet (the “Trustee”); and

(iii) a note purchase contract relating to the Notes (the “Purchase Contract”) among the Authority, the Treasurer of the State of California, as agent for sale, and the bank named in the Term Sheet, as purchaser (the “Purchasers”), and as approved by the Borrower;

are hereby approved in substantially the forms on file with the Authority prior to this meeting, with such insertions, deletions or changes therein in substantial conformance with the Term Sheet as the officer(s) executing and/or delivering the same may require or approve, such approval to be conclusively evidenced by execution and delivery thereof.

Section 5. The Authority understands and agrees that pursuant to the terms of the Loan Agreement, the obligations of the Borrower may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an Affiliate of the Borrower. For purposes of this Resolution, an “Affiliate” of the Borrower means any person or entity which meets the definition of “Participating Party” in the Act and controls, is controlled by, or is under common control with, the Borrower, as shown by the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through majority equity ownership, contract or otherwise.

Section 6. The dates, maturity dates, interest rate or rates, interest payment dates, denominations, forms, registration privileges, place or places of payment, terms of redemption and other terms of the Notes shall be as provided in the Indenture, as finally executed.

Agenda Item 4.B.

Section 7. The Notes shall be executed by the manual or facsimile signature of the Chairman or any Deputy to the Chairman and the seal of the Authority shall be affixed thereon (or a facsimile reproduced thereon) in the form set forth in and otherwise in accordance with the Indenture. The Notes, when executed, shall be delivered to the Trustee under the Indenture for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Notes by executing the Trustee's certificate of authentication appearing thereon. The Trustee is hereby requested and directed to deliver the Notes, when duly executed and authenticated, to the Purchasers in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Such instructions shall provide for the delivery of the Notes to the Purchasers upon payment of the purchase price thereof.

Section 8. Each officer of the Authority, acting alone, is hereby authorized and directed, to do any and all ministerial acts that the officer may deem necessary or advisable in order to consummate the issuance, sale or delivery of the Notes, and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement and the Purchase Contract. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation, any certifications, including, a tax certificate.

Section 9. The provisions of the resolution of the Authority entitled "Resolution of the California Pollution Control Financing Authority Delegating Certain Powers and Authorizing Certain Actions Related to Bond Financings" adopted by the Authority on January 19, 2016, apply to the documents and actions approved in this Resolution, and the provisions of such resolution are incorporated herein by reference.

Section 10. The Authority hereby approves and ratifies each and every action taken by its officers, agents, members and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 11. This Resolution shall take effect immediately upon its passage. The adoption by the Authority of this final resolution for the Borrower shall not be referred to in any application before any government agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to construct or operate the Project.

EXHIBIT A

TERM SHEET

Name of Issue: California Pollution Control Financing Authority Variable Rate Demand Solid Waste Disposal Revenue Refunding Notes (Zerep Management Corporation) Series 2017 (the “Notes”)

Maximum Amount of Issue: \$32,925,000 (tax-exempt)

Issuer: California Pollution Control Financing Authority (the “Authority”) Sacramento, CA

Borrower: Zerep Management Corporation

Purchaser: Comerica Bank San Jose, California

Note Counsel: Leslie M. Lava, Esq. Tiburon, CA

Trustee: The Bank of New York Mellon Trust Company, N.A. Los Angeles, California

Underwriter: Not applicable

Remarketing Agent: Not applicable

Project: 2011 Project:
Finance or refinance the acquisition and installation, if any, of equipment, rolling stock and vehicles for the collection, processing and transfer of solid waste and other equipment functionally related thereto located at any or all of the following addresses: 17445 Railroad Street, 999 and/or 1037 South Hatcher Avenue, City of Industry, California 91748 and the acquisition of drop boxes, bins, carts and containers located with customers in incorporated and unincorporated areas of

Agenda Item 4.B.

Los Angeles County, California.

2014 Project:

Finance or refinance (i) the construction of a transfer station and a compressed natural gas (CNG) fueling station located at 1371 E. Ninth Street, Pomona, California 91766 (the "Site"), (ii) the acquisition and installation, if any, of equipment for the collection, processing and transfer of solid waste, including conveyors, sorters, CNG waste collection vehicles, rolling stock and other equipment functionally related thereto, located at any or all of the following addresses: the Site, 17445 Railroad Street, City of Industry, California 91748 and/or 999 and/or 1037 South Hatcher Avenue, City of Industry, California 91748, and (iii) the acquisition of drop boxes, bins, carts and/or containers located at any of the foregoing addresses and/or with customers in incorporated and unincorporated areas of Los Angeles County, California.

Maximum Note Term:	Not to exceed 28 years
Type of Sale:	Negotiated sale; direct purchase by Purchaser
Description of Minimum Denominations:	\$250,000 or any integral multiple of \$5,000 in excess thereof during index interest rate period (initial period)
Financing Structure:	Index interest rate notes, convertible to term interest rate or weekly variable rate with tender option pursuant to the Indenture; transferrable by Purchaser to either an affiliate of the Purchaser or, upon delivery of a letter of representation, a "Qualified Institutional Buyer", as defined in Rule 144A of the Securities Act of 1933, as amended
Maximum Interest Rate:	Lesser of 12% or the maximum rate

Agenda Item 4.B.

	permitted by law
Letter of Credit:	Not applicable
Other Credit Enhancement:	Not applicable
Anticipated Note Rating:	Unrated
Type of Financing:	Solid waste disposal revenue refunding notes
Prepared by:	Leslie M. Lava, Esq. Law Offices of Leslie M. Lava (415) 331-6464