

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Niagara Bottling, LLC
Application No. 14-SM008**

Tuesday, June 17, 2014

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Niagara Bottling, LLC

Location – Riverside, Riverside County, or San Bernardino, San Bernardino County

Industry – Water Bottling

Project – New Water Bottling Facility (Advanced Manufacturing)

Value of Qualified Property – \$30,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$2,526,000

Application Score³ –

| | |
|---------------------------------------|--------------|
| Fiscal Benefits Points: | 3,162 |
| <u>Environmental Benefits Points:</u> | <u>76</u> |
| Net Benefits Score: | 3,238 |

| | |
|------------------------------------|--------------|
| <u>Additional Benefits Points:</u> | <u>96</u> |
| Total Score: | 3,335 |

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Niagara Bottling, LLC (“Niagara” or the “Applicant”) was incorporated in 2012 in the state of Delaware as a limited liability company. The roots of the company trace back to 1963 when the founder, Andrew Peykoff Sr., began bottling water in five-gallon glass containers for home and office delivery. Niagara is a family owned and operated business. The Applicant is a vertically integrated water bottling company pursuing innovations in its manufacturing and packaging capabilities. The Applicant represents that it is the industry-leading private label bottled water supplier in the Western United States. Niagara has a number of facilities across the United States.

The major shareholders (10.0% or greater) of Niagara Bottling are:

Daniel A. Peykoff Family Trust
Peykoff Legacy Trust
Niagara Drinking Waters, Inc.

The corporate officers of Niagara Bottling are:

Andrew Peykoff Sr. – Founder and Chairman
Andrew Peykoff II – President & CEO

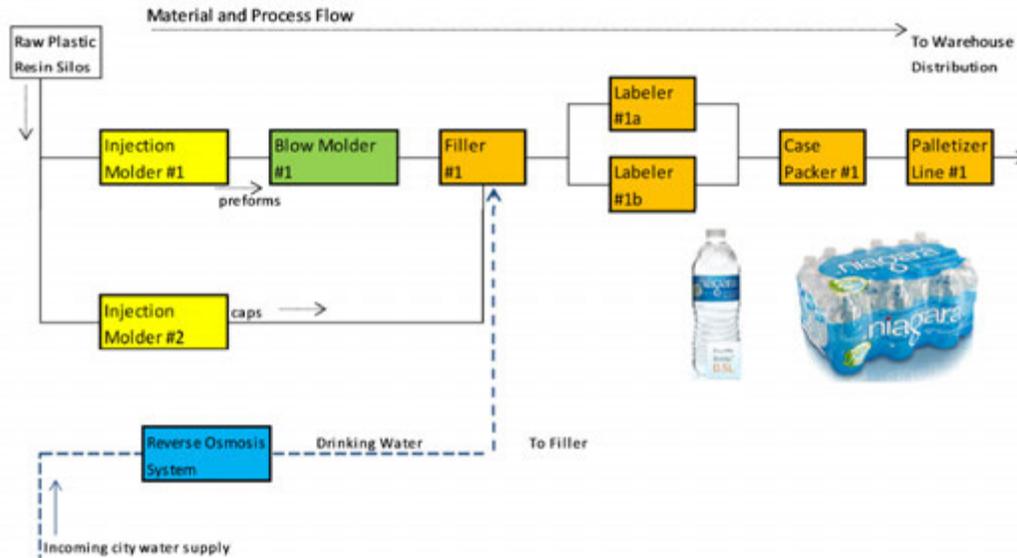
THE PROJECT

Niagara is planning to construct a new bottling plant that is composed of two production lines (the “Project”). The Project will produce packaged cases of 500 mL water filled plastic bottles at a rate of 144,000 bottles per hour.

Niagara’s research and development team will utilize integrated computational materials engineering to continually optimize its product by reducing the amount of raw materials used in the manufacturing process. Niagara has stated that this will result in a finished package that is substantially lighter than the current industry baseline. Niagara also plans to use the latest state of the art equipment that will result in efficient resource use throughout the manufacturing process. The Applicant anticipates this will lead to reductions in energy and water use.

Niagara represents that it will be employing an innovative business model by vertically integrating all aspects of the manufacturing process shown in *Figure A*. The Applicant has stated that the manufacturing process illustrated in *Figure A* can be completed by three different manufacturers, with transportation in between each phase. The Applicant claims that combining all of the processes will result in a more efficient manufacturing process.

Figure A



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|--|----------------------------|
| Preform Injection Molder | \$5,388,960 |
| Cap Injection Molder | 1,244,134 |
| Polyethylene Terephthalate Blow Molder | 11,755,706 |
| Filling & Packaging Line | 4,106,194 |
| Reverse Osmosis Unit | 1,365,440 |
| High Pressure Air Compressor | 847,666 |
| Low Pressure Air Compressor | 587,468 |
| Process Chiller | 630,396 |
| Chilled Water Pumps | 90,274 |
| Process Cooling Tower | 218,476 |
| Tower Water Pumps | 101,520 |
| Laser Guided Electric Forklifts | 2,142,000 |
| Plastic Resin Drying System | 1,521,766 |
| Total | <u>\$30,000,000</u> |

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Niagara is in the process of selecting its final project site. The Applicant will choose between the cities of Riverside and San Bernardino, or the state of Nevada.

In addition to CAEATFA's Sales and Use Tax Exclusion, Niagara has also applied for tax credits through California Competes, a program run by the Governor's Office of Business and Economic Development. Niagara anticipates that it will find out the results of the California Competes application by June 30, 2014. Niagara has stated that the outcomes of the CAEATFA and California Competes applications will weigh into whether the Project is located in California or Nevada.

If Niagara chooses to locate the Project in California, the Applicant anticipates moving quickly. Niagara will begin purchasing Qualified Property in July 2014 and aims to produce its first salable bottle by January 2015.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$30,000,000 and the total net benefits are valued at \$5,462,338 for the Project. The Project received a Total Score of 3,335 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 76 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (3,162 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$7,988,338 resulting in a Fiscal Benefits score of 3,162 points for the Project.
- B. **Environmental Benefits (76 points)**. The Project earned an Environmental Benefits Score of 76. The Applicant received points in the following categories:
 - 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability for its Project that will track the impact of purchasing decisions, energy use, water use, waste generation and travel activities. After the first year of tracking the parameters associated with each activity, Niagara will assign annual reduction goals for each category based on the production intensity metric (impact per unit produced).
 - 2. **Energy Consumption (16 of 30 points)**. The Applicant's manufacturing process will result in a 16 percent reduction in energy consumption relative to the represented industry standard manufacturing process.

3. **Water Use (10 of 30 points)**. The Applicant’s manufacturing process will result in a ten percent reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (30 of 30 points)**. The Applicant’s manufacturing process will result in a 38 percent reduction in solid waste produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (96 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 96 additional points.
1. **Permanent Jobs (30 of 75 points)**. The Applicant’s Project will support a total of 70 permanent jobs at its Facility. CAEATFA estimates that approximately five of these jobs will be attributable to a marginal increase in jobs created due to the approved STE, resulting in a Permanent Jobs Score of 30 points for the Project.
 2. **Construction Jobs (0 of 75 points)**. The Applicant’s Project will support a total of 16 construction jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 3. **Unemployment (16 of 50 points)**. The Applicant’s Project may be located in Riverside County which has an unemployment rate of 10.2%. This is above 110% of the statewide unemployment average which is currently 8.8% resulting in an Unemployment Score of 16 points for this Project.
 4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to production of water bottles.
 5. **Workforce Partnerships (25 points)**. The Applicant is a member of the Manufacturers’ Council of the Inland empire, of which Chaffey College (“Chaffey”) is a partner. Since 2008, Niagara, has received both direct and multi-employer training via Chaffey in topics from Excel to Six Sigma.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Niagara anticipates that it will be able to acquire all required permits in order to have the facility up and operational by the first quarter of 2015.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant'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 this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$120,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM008 for Niagara Bottling's purchase of Qualified Property in an amount not to exceed \$30,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$2,526,000.

⁴ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE NIAGARA BOTTLING, LLC**

June 17, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Niagara Bottling, LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$30,000,000 over a period of three years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Agenda Item – 4.B.1
Resolution No. 14-SM008
Application No. 14-SM008

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.