

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

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

**U.S. Corrugated of Los Angeles, Inc.
Application No. 15-SM005**

Tuesday, June 16, 2015

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – U.S. Corrugated of Los Angeles, Inc.

Location – Santa Fe Springs, Los Angeles County

Industry – Corrugated Packaging Manufacturing

Project – New Corrugated Packaging Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$23,969,087

Estimated Sales and Use Tax Exclusion Amount² – \$2,018,197

Application Score –

| | |
|---------------------------------------|--------------|
| Fiscal Benefits Points: | 3,878 |
| <u>Environmental Benefits Points:</u> | <u>95</u> |
| Net Benefits Score: | 3,973 |
| | |
| <u>Additional Benefits Points:</u> | <u>79</u> |
| Total Score: | 4,052 |

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%.

THE APPLICANT

U.S. Corrugated of Los Angeles, Inc. (“USCLA” or the “Applicant”), a Delaware corporation, is a majority-owned subsidiary of U.S. Corrugated, Inc. (“USC”), a corrugated packaging material manufacturer with facilities throughout the United States. USCLA was formed in 2014 to expand USC’s operations to the state of California.

In April 2015, USCLA received an income tax credit through the California Competes Tax Credit Program offered under the Governor’s Office of Business and Economic Development. USCLA has also applied for a Recycling Market Development Zone loan and Greenhouse Gas Reduction loan with CalRecycle, and anticipate decisions in June 2015. USCLA represents it will also apply for CalRecycle’s Greenhouse Gas Reduction grant.

The major shareholders (10.0% or greater) of U.S. Corrugated of Los Angeles, Inc. are:

- U.S. Corrugated, Inc. (80%)
- AMD Corr, LLC (20%)

The corporate officers of U.S. Corrugated of Los Angeles, Inc. are:

- Dennis Mehiel, Chairman, President & CEO
- Anna Marie Cotter, Secretary
- David Doherty, CFO & Treasurer

THE PROJECT

The Applicant plans to develop a new corrugated packaging material manufacturing facility that will utilize advanced engineering and information technologies to more efficiently produce higher-quality materials at a lower cost (the “Project”). The Applicant represents the Project will employ integrated computational materials engineering to manage all aspects of the manufacturing process, including scheduling, product design and production tailored to each customer’s order, invoicing, and inventory control. Predictive software will control the entire production process and will be able to automatically adjust and respond to variables, such as machine breakdowns, tooling issues, incomplete order and specification information, and credit limit issues.

The Project will also utilize new manufacturing equipment including second generation robotic arms that can sense the location and optimal placement of bundles while machines are operating at high speeds. The Applicant believes that the Project will be one of two corrugated manufacturing facilities to use second generation robotic arms, and represents that the robotic system’s manufacturer wanted the Project to serve as a showcase of this technology.

The Project is anticipated to result in a sustainable manufacturing system that reduces energy consumption, water use, solid waste, and air pollution. For example, the Project’s use of predictive software, automation, and energy efficient equipment, as well as the fact that it will be housed in a Silver LEED certified building, is anticipated to reduce energy consumption by 15%. The Project’s equipment will also capture more water vapor and dust compared to industry standard equipment, resulting in an estimated 15% reduction in water use and 10% reduction in

air pollution. Additionally, the Applicant represents that its feedstock is made out of 85% recycled post-consumer waste.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|---|-----------------------------|
| Corrugator | \$ 7,006,053 |
| 38" Falcon | 2,593,000 |
| 50" IBIS | 2,594,000 |
| 66" Apstar RDC | 1,112,500 |
| Bundlers | 152,912 |
| Unitizers | 420,968 |
| Stackers | 413,189 |
| Prefeeders, Load formers, bundle breakers | 1,670,769 |
| Scrap system & Baler | 705,380 |
| Boiler | 1,017,831 |
| Starch & waste water | 570,353 |
| Shredder | 83,545 |
| Conveyer | 4,524,096 |
| Air compressors with dryer | 132,668 |
| Dock levelers | 57,724 |
| Robotic Arms | 394,100 |
| T Flute rolls | 250,000 |
| CAD table | 150,000 |
| Automatic parts storage system | 120,000 |
| Total | <u>\$ 23,969,087</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

The Applicant has leased a building and began facility enhancements at the end of April 2015. Equipment installation began in May 2015, and the Applicant anticipates beginning manufacturing operations by the end of Q3 2015.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$23,969,087. The Project received a Total Score of 4,052 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 95 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,878 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 \$7,825,890 resulting in a Fiscal Benefits score of 3,878 points for the Project.
- B. Environmental Benefits (95 points).** The Project will result in an Environmental Benefits Score of 95. The Applicant received points in the following categories:
- 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that will track and reduce paper waste, steam, dust, and energy use.
 - 2. Energy Consumption (15 of 30 points).** The Applicant’s manufacturing process will result in a 15% reduction in energy consumption relative to the industry standard manufacturing process.
 - 3. Water Use (15 of 30 points).** The Applicant’s manufacturing process will result in a 15% reduction in water use relative to the industry standard manufacturing process.
 - 4. Solid Waste (5 of 30 points).** The Applicant’s manufacturing process will result in a 5% reduction in solid waste produced relative to the industry standard manufacturing process.
 - 5. Air Pollutants (10 of 30 points).** The Applicant’s manufacturing process will result in a 10% reduction in air pollutants produced relative to the industry standard manufacturing process.
 - 6. Other Pollutants (30 of 30 points).** The Applicant’s manufacturing process will result in a 100% reduction in other pollutants, namely oil-based lubricants, produced relative to the industry standard manufacturing process.
- C. Additional Benefits (79 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 79 additional points.

1. **Permanent Jobs (40 of 75 points)**. The Applicant’s Project will support a total of 100 permanent jobs at its Facility. CAEATFA estimates that approximately eight 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 40 points for the Project.
2. **Construction Jobs (30 of 75 points)**. The Applicant’s Project will support a total of 60 construction 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 Construction Jobs Score of 30 points for the Project.
3. **Unemployment (9 of 50 points)**. The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 9 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that all necessary permitting, including Air Quality Management District and EPA approval; waste water, storm water, solid waste permitting; and concrete and electrical permitting are expected by the beginning of June.

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,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$95,876.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM005 for U.S. Corrugated of Los Angeles, Inc.’s purchase of Qualified Property in an amount not to exceed \$23,969,087 anticipated to result in an approximate sales and use tax exclusion value of \$2,018,197.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH U.S. CORRUGATED OF LOS ANGELES**

June 16, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **U.S. Corrugated of Los Angeles** (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 \$23,969,087 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.A.2
Resolution No. 15-SM005
Application No. 15-SM005

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.