

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

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

eco.logic brands inc.
Application No. 17-SM050

Tuesday, June 20, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – eco.logic brands inc.

Location – Manteca, San Joaquin County

Industry – Recycled Materials Manufacturing

Project – Recycled Paper Bottle Manufacturing (Advanced Manufacturing)

Value of Qualified Property – \$6,944,000

Estimated Sales and Use Tax Exclusion Amount² – \$584,685

Application Score –

Fiscal Benefits Points:	1,296
<u>Environmental Benefits Points:</u>	<u>170</u>
Net Benefits Score:	1,466

<u>Additional Benefits Points:</u>	<u>153</u>
Total Score:	1,619

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

Eco.logic brands inc. (“eco.logic” or the “Applicant”) is a California Corporation formed in 2008 for the purpose of giving consumers and brands better packaging choices, and replacing rigid plastic containers with a new type of bottle that uses resources more efficiently.

The major shareholder (10.0% or greater) of eco.logic brands inc. is:
Gregory A. Rodrigues (14.252%)
Julie Corbett (9.0347%)

The corporate officers of eco.logic brands inc. are:
Gregory A. Rodrigues, CEO
Julie Corbett, President & Founder

THE PROJECT

Eco.logic is requesting a sales and use tax exclusion for the purchase of new equipment used in their recycled paper bottle manufacturing process in Manteca (the “Project”). Eco.logic has developed a patented paper eco.bottle that is a better environmental alternative to plastic and glass bottles. The bottle is comprised of two parts. First is a fiber shell made from 70% recycled cardboard and 30% old newspapers. This shell is 100% recyclable or compostable. The second part is a thin plastic liner that uses 70% less plastic than a regular bottle. The Applicant’s proprietary technology allows the eco.bottle to ship and stack in a nestled position, reducing the amount of empty space and air being shipped, which the Applicant represents is three-five times more efficient than shipping rigid blow-molded plastic bottles.

Eco.logic’s products are manufactured in a 60,000 square foot facility in Manteca. The Applicant’s manufacturing process uses advanced materials in its processing of recycled materials that aid water resistance and improve manufacturability. In addition, eco.logic’s process for recycling pulp and paper fully recycles its water using a closed loop system, where the only water loss occurs through evaporation caused by heat in molds. The Applicant represents that this process produces zero wastewater and uses 50% less water than the traditional water-intensive pulp and paper manufacturing process. New blow molding, integration, and die cutting equipment will replace older less efficient and more labor intensive technology. The new blow molding equipment will produce a new blow molded pouch that is part of a new product design and the remaining Qualified Property will expand the facility’s manufacturing capabilities.



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Integration Equipment	\$1,709,000
Pouching Equipment	1,998,000
Thermoforming Equipment	1,541,000
Die Cutting Equipment	320,000
Pulper	702,000
Molds	674,000
Total	<u>\$6,944,000</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

Eco.logic has ordered Qualified Property and expects it to be delivered beginning in June. Testing of the new equipment is scheduled beginning in late June and early July, and the equipment is expected to be placed into services shortly thereafter.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,944,000 and the total net benefits are valued at \$172,972 for the Project. The Project received a Total Score of 1,619 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 170 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,296 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 \$757,657 resulting in a Fiscal Benefits score of 1,296 points for the Project.

- B. Environmental Benefits (170 points).** The Project will result in an Environmental Benefits Score of 170 points. 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 it represents will result in tracking of chemical usage and material waste, both of which are minimal.
 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 48% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 50% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 59% reduction in solid waste produced relative to the industry standard manufacturing process.
 5. **Hazardous Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 42% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 6. **Air Pollutants (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 37% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (153 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 153 additional points.
1. **Permanent Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 66 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 55 points for the Project.
 2. **Unemployment (48 of 50 points)**. The Applicant's Project is located in San Joaquin County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 48 points for this Project.
 3. **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 the recycled paper bottle manufacturing process.

4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with California Polytechnic State University's Packaging and Industrial Engineering Department for the purpose of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they have obtained or applied for the required permits, including San Joaquin Air Pollution Control District Authority to Construct, Notice of Permit Exemption for a Granulator Served by a Cyclone and Filter Project, and Zero Wastewater Discharge Permit.

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 \$3,472 and will pay CAEATFA an Administrative Fee of up to \$27,776

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM050 for eco.logic brands inc.'s purchase of Qualified Property in an amount not to exceed \$6,944,000 anticipated to result in an approximate sales and use tax exclusion value of \$584,685.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ECO.LOGIC BRANDS INC.**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **eco.logic brands inc.** (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 \$6,944,000 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.

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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.