

**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. 17-SM045**

Tuesday, June 20, 2017

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

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

Location – Cerritos, Los Angeles County

Industry – Corrugated Packaging Manufacturing

Project – New Corrugated Packaging Sheet Manufacturing Plant (Advanced Manufacturing)

Value of Qualified Property – \$5,834,792

Estimated Sales and Use Tax Exclusion Amount² – \$491,289

Application Score³ –

Fiscal Benefits Points:	4,733
<u>Environmental Benefits Points:</u>	<u>100</u>
Net Benefits Score:	4,833
<u>Additional Benefits Points:</u>	<u>134</u>
Total Score:	4,968

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.

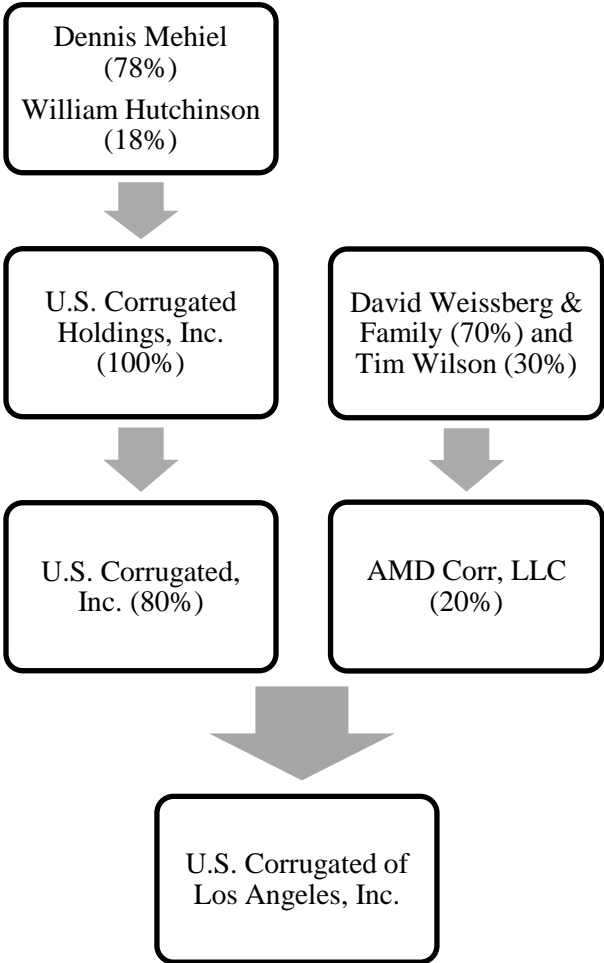
THE APPLICANT

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.

On June 16, 2015, the CAEATFA Board granted USCLA an STE award for the purchase of up to \$23,969,087 in Qualified Property for an estimated STE value of \$2,018,197, to build a new corrugated packaging manufacturing facility located in Santa Fe Springs.

In April 2015, USCLA received an income tax credit for \$500,000 through the California Competes Tax Credit Program offered under the Governor’s Office of Business and Economic Development. USCLA was also approved for a \$2,000,000 Recycling Market Development Zone loan from CalRecycle in August 2015.

The ownership structure of U.S. Corrugated of Los Angeles, Inc. is as follows:



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

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

THE PROJECT

USCLA plans to build a new auxiliary sheet plant at a 167,500 square foot facility in Cerritos (the “Project”). According to the Applicant, the Project will serve as a complement to USCLA’s corrugated manufacturing facility in Santa Fe Springs, which produces high volumes of cardboard sheets and high volume production orders. The Santa Fe Springs facility was also approved for an STE award by the Board in June 2015. The Project proposed today will, on the other hand, produce lower volume, but higher margin, custom box production runs.

The Applicant represents the Project will rely on automation, engineering processes, and information technologies to reduce costs, increase productivity, and limit the Project’s environmental impact compared to current industry standards. For example, the Project will include a software system that allows the facility to use lightweight materials, reducing packaging content by up to 20%, and software to calculate the most spatially efficient way to load a truck for deliveries, reducing delivery costs and truck carbon emissions. Additionally, the Applicant represents the Project employs other sustainable approaches, such as skylights throughout the facility to reduce the need for artificial light, an automated production transfer system to eliminate the need for forklifts, a fully enclosed scrap collection system to negate the need for a rooftop cyclone thus eliminating atmospheric emissions, and water is used in a fully controlled and enclosed environment where a ring-wood separates water from solids so that the same water is used in a continuous recycle loop.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Mini 2c flexo	\$ 515,867
Mid 3c flexo w/ Rotary Die Cutter (“RDC”)	608,702
Labeler	300,000
Specialty gluer	325,000
RDC Pizza	385,000
Flat bed Die Cutter	120,000
Shedder	86,900
Scrap system	682,023
Baler	113,300
Mainline Strapper	186,000
Miramatsu Cutter	15,000
Inventory Racks	120,000
Conveyor	900,000
Computer System	650,000
Pizza Heat Shrink Wrap Machine	100,000
Water Treatment & Piping	190,000
Air Compressor / Dryer & Piping	150,000
Electrical Switch Gear	387,000
Total	<u>\$5,834,792</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 represents equipment installation began on May 31, 2017 and is anticipated to be complete by August 30, 2017. Training and testing is anticipated through October 30, 2017, after which production may begin in November 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$5,834,792 and the total net benefits are valued at \$1,834,222 for the Project. The Project received a Total Score of 4,968 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 100 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (4,733 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 \$2,325,511 resulting in a Fiscal Benefits score of 4,733 points for the Project.

- B. Environmental Benefits (100 points).** The Project will result in an Environmental Benefits Score of 100. 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 includes use of light weight material, recycled material, freight reductions, and Lean Manufacturing labor hour reductions to all positively impact the environment.
 - 2. Energy Consumption (20 of 30 points).** The Applicant represents that its manufacturing process will result in a 20% 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 97% reduction in water use relative to the industry standard manufacturing process.
4. **Air Pollutants (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 100% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. **Additional Benefits (134 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 134 additional points.

1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 75 permanent jobs at its Facility. CAEATFA estimates that approximately seven 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 60 points for the Project.
2. **Construction Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately two 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 40 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 was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 9 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 the development of corrugated packaging.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents air quality and construction and electrical permits are currently in progress and are all anticipated by July 31, 2017. Additional permits, including sanitation, occupancy, manufacturing, SARA Tier 2 Certification, Storm water pollution control plan, and U.L. certification are anticipated by August 30, 2017.

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 \$2,917.40 and will pay CAEATFA an Administrative Fee of up to \$23,339.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM045 for U.S. Corrugated of Los Angeles, Inc.'s purchase of Qualified Property in an amount not to exceed \$5,834,792 anticipated to result in an approximate sales and use tax exclusion value of \$491,289.

⁴ 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, INC.

June 20, 2017

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, 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 \$5,834,792 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.