

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

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

**Lollicup USA, Inc.
Application No. 17-SM057**

Tuesday, September 19, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – Lollicup USA, Inc.

Location – Chino, San Bernardino County

Industry – Recycled Food Packaging Manufacturing

Project – Upgrade and Expansion of Recycled Food Packaging Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$10,345,200

Estimated Sales and Use Tax Exclusion Amount² – \$871,066

Application Score –

Fiscal Benefits Points:	5,115
<u>Environmental Benefits Points:</u>	<u>90</u>
Net Benefits Score:	5,205
<u>Additional Benefits Points:</u>	<u>121</u>
Total Score:	5,326

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

Lollicup USA, Inc. (“Lollicup” or the “Applicant”), a California corporation, was founded in 2000 when the first Lollicup tea café opened in San Gabriel, California. Lollicup eventually established its Karat brand to produce its own paper and plastic disposable goods and packaging. Karat brand products are now used by thousands of businesses.

The major shareholders (10.0% or greater) of Lollicup USA, Inc. are:
Alan Yu, (50%)
Marvin Cheng, (50%)

The corporate officers of Lollicup USA, Inc. are:
Alan Yu, Chief Executive Officer and President
Marvin Cheng, Chief Financial Officer

THE PROJECT

Lollicup represents that it plans to upgrade and expand its Chino, California manufacturing facility to bring its facility and manufacturing processes beyond current industry standards and to manufacture more products under its eco-friendly Karat Earth brand (the “Project”). The company intends to streamline its process by investing in automated manufacturing equipment and robotics, while at the same time retaining employees by offering new career advancement opportunities. The Applicant represents that automation will improve the efficiency of its production process and allow the company to produce more of the final product in the same amount of time. Lollicup also represents that it intends to purchase a high velocity grinder that will allow for the separation and processing of solid waste generated during the manufacturing process so that this excess can be reused or recycled. This will eliminate the need to send excessive amounts of waste to landfills. Another new piece of equipment called a specialized precision folding wing will allow Lollicup to produce paper cups made of significantly less paper as this machine is capable of churning out cups that are much thinner than standard paper cups.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Paper Cup Dye Cutting Parts	\$ 118,000
Paper Cup Forming Machines Parts	300,000
Paper Cup Inspection Machine Parts	149,000
High Efficiency Paper Printing Machine	2,000,000
Paper Cup Plastic Sleeving Machine	660,000
Paper Cup Plastic Sleeving Machine Parts	17,000
Polypropylene (“PP”) Thermoforming Machine	2,560,000
PP Thermoforming Machine Mold	402,000
PP Thermoforming Machine Extruder	1,415,000
PP Raw Material Lift	136,000
PP High-Velocity Grinder Machine	32,000

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Polyethylene terephthalate (“PET”) High-Velocity Grinder Machine	30,000
PET High-Velocity Grinder Machine Blower & Storage Tank	5,500
PET Plastic Cup Plastic Sleeving Machine	15,700
Automation Robotic Arms	1,540,000
Plastic molds for new plastic products	600,000
Chiller	185,000
Air Compressor	<u>180,000</u>
Total	<u>\$10,345,200</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 first phase of expansion has been ongoing for more than a year. This second phase will begin with the majority of equipment purchased in late 2017 and early 2018. All purchases are projected to be complete within three years.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$10,345,200 and the total net benefits are valued at \$3,584,279 for the Project. The Project received a Total Score of 5,326 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 90 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (5,115 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 \$4,455,345 resulting in a Fiscal Benefits score of 5,115 points for the Project.
- B. Environmental Benefits (90 points).** The Project will result in an Environmental Benefits Score of 90 points. The Applicant received points in the following categories:

1. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 30% reduction in energy consumption relative to the industry standard manufacturing process.
 2. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in an 80% reduction in water use relative to the industry standard manufacturing process.
 3. **Solid Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 90% reduction in solid waste produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (121 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 121 additional points.
1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 394 permanent jobs at its Facility. CAEATFA estimates that approximately nine 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 (0 of 75 points)**. The Applicant represents that the Project will support a total of two 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 (11 of 50 points)**. The Applicant's Project is located in San Bernardino County which has an average annual unemployment rate of 8%. 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 11 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 creation of new products and processes.
 5. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the County of San Bernardino as an industry cluster.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Lollicup represents that they are in the process of securing or have already secured the necessary permits. This includes permitting from Southern California Edison to accommodate the new equipment. No construction or building permits are needed at this time.

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 \$5,172.60 and will pay CAEATFA an Administrative Fee up to \$41,380.80.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM057 for Lollicup USA, Inc's purchase of Qualified Property in an amount not to exceed \$10,345,200 anticipated to result in an approximate Sales and Use Tax Exclusion value of \$871,066.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH LOLLICUP USA, INC.**

September 19, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Lollicup USA, 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 \$10,345,200 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.