

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

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

**CR&R Incorporated
Application No. 17-SM063**

Tuesday, November 14, 2017

Prepared By: *Joel Schwartz, Blue Sky Consulting Group with Ashley Bonnett, Program Manager*

SUMMARY

Applicant – CR&R Incorporated

Location – Stanton, Orange County

Industry – Mixed Organics

Project – Upgrade of Existing Transfer and Materials Recovery Facility (Recycled Resource Extraction)

Value of Qualified Property – \$8,389,685

Estimated Sales and Use Tax Exclusion Amount² – \$706,411

Estimated Net Benefits – \$850,743

Application Score –

Fiscal Benefits Points:	2,143
<u>Environmental Benefits Points:</u>	<u>61</u>
Net Benefits Score:	2,204

<u>Additional Benefits Points:</u>	<u>50</u>
Total Score:	2,254

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

CR&R Incorporated (“CR&R” or the “Applicant”), a California corporation formed in 1969, is an integrated solid waste resource recovery company. Its materials recovery facilities (“MRFs”) are located in Stanton, Lakeview, San Juan Capistrano, and Perris.

On June 20, 2017, the CAEATFA Board granted CR&R an STE award for the purchase of up to \$11,610,900 in Qualified Property for an estimated STE value of \$977,638, to build a new anaerobic digester to produce renewable natural gas to fuel CR&R’s fleet of compressed natural gas vehicles.

The major shareholders (10.0% or greater) of CR&R are:

David M. Ronnenberg as Trustee of the Ronnenberg Family 2012 Trust dated December 28, 2012 (49%)

Clifford R. Ronnenberg as Trustee of the Ronnenberg Family Trust dated June 21, 1978 (49%)

The corporate officers of CR&R are:

Clifford Ronnenberg, Chief Executive Officer
David Ronnenberg, President
Patricia Leyes, Vice President
Joyce Amato, Chief Financial Officer

THE PROJECT

CR&R is applying for a sales and use tax exclusion for the purchase of a combination of recycling equipment that will process multiple types of recycled feedstock (the “Project”). The Project will process green waste, construction and demolition wood, and digestate residuals into soil products. The Project will also process mixed municipal solid waste (“MSW”) to remove traditional recyclables, such as paper, cardboard, metals, plastics, and glass, and process residuals into Engineered MSW to be used in the cement industry. Additionally, the Project will process mixed recyclable loads. The Applicant represents these advanced recycling equipment purchases will allow CR&R to maximally recover recyclables for a variety of end recycling markets, valuable end products (compost, and fertilizer), and for the production of energy.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Engineered Municipal Solid Waste (EMSW) Infrared Reader	\$3,740,000
EMSW Compactors	2,800,000
Horizontal Grinder	800,000
Forklifts	104,685
Wheel Loader	276,000
Trommel Screen	294,000
Deck Screen	375,000
Total	<u>\$8,389,685</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 that the purchased equipment will be put into operation at CR&R's existing, fully permitted operations and that the Qualified Property is a combination of equipment that has already been purchased but is not yet in operation, and equipment that will be in operation within 12 to 18 months.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,389,685 and the total net benefits are valued at \$850,743 for the Project. The Project received a Total Score of 2,254 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 61 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2,143 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 \$1,514,068, resulting in a Fiscal Benefits score of 2,143 points for the Project.

- B. Environmental Benefits (61 points).** The Project will result in \$43,087 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 61 points for the Project. These benefits derive from the processing of green waste and solid waste into soil amendments and recycled products and diversion of waste from landfills.
- C. Additional Benefits (50 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 50 additional points.
- 1. Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 24 permanent jobs at its Facility. CAEATFA estimates that approximately one 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 (20 of 75 points).** The Applicant represents that the Project will support a total of 10 construction jobs at its Facility. CAEATFA estimates that approximately one 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 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that the purchased equipment will be put into operation at CR&R's existing, fully permitted operations.

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 \$4,194.84 and will pay CAEATFA an Administrative Fee of up to \$33,558.74.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM063 for CR&R Incorporated's purchase of Qualified Property in an amount not to exceed \$8,389,685 anticipated to result in an approximate sales and use tax exclusion value of \$706,411.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE CR&R INCORPORATED**

November 14, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CR&R Incorporated** (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 \$8,389,685 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.