

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

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

**SANCO Services, LP
Application No. 16-SM011**

Tuesday, October 18, 2016

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – SANCO Services, LP

Location – Escondido, San Diego County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Addition of New Single Stream and Mixed Solid Waste Recovery Lines

Value of Qualified Property – \$24,190,000

Estimated Sales and Use Tax Exclusion Amount² – \$2,036,798

Estimated Net Benefits – \$1,360,881

Application Score –

Fiscal Benefits Points:	1,623
<u>Environmental Benefits Points:</u>	<u>45</u>
Net Benefits Score:	1,668

<u>Additional Benefits Points:</u>	<u>70</u>
Total Score:	1,738

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

SANCO Services, LP (“SANCO” or “Applicant”), a California limited partnership formed in 2002, is a processor of residential and commercial single stream recycled feedstock. Its materials recovery facility (MRF) is located in Escondido and sources 100% of its recycled feedstock from customers throughout San Diego and Riverside counties.

The major shareholders (10.0% or greater) of SANCO Services, LP are:

- SB EDCO Trust (50%)
- EB EDCO Trust (50%)

The corporate officers of SANCO Services, LP are:

- Edward G. Burr, Co-Chairman
- Sandra L. Burr, Co-Chairperson and Secretary
- Cole Burr, Vice Chairman
- Steve South, President and CEO
- Alan D. Walsh, Vice President and CFO
- Jeff Ritchie, Vice President
- John Snyder, Vice President

THE PROJECT

SANCO is seeking an STE award in order to expand its Escondido MRF to include new single stream mixed solid waste processing lines (the “Project”). The facility currently processes a mixture of recycled feedstocks, including mixed and corrugated fibers, plastic, metals, and glass containers. According to the Applicant, the proposed expansion will more than double current production capacity, broaden the range of accepted waste input, and increase diversion rates and quality of recycled output.

The Applicant represents that its new single stream processing line will utilize advanced high speed sorting optics and robotics to process over 100,000 tons of recycled feedstock each year. The Applicant also represents that improvements in efficiency and separation technologies will pull more recyclables from the waste stream, thus diverting more from landfills.

SANCO represents that the new mixed solid waste recycling line will use the same advanced technologies to divert over 93,000 tons of recyclable materials from landfills each year. In addition to mixed and corrugated fibers and various plastic, metals, and glass containers, the mixed solid waste line will allow for input of construction and demolition materials, and green waste feedstock.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Screens	\$ 4,459,000
Optics	3,625,000

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Platforms	1,711,000
Bunkers	2,558,000
Controls	2,032,000
Balers and Infeed	2,129,000
Conveyors	5,561,000
Loading Equipment	<u>2,115,000</u>
Total	<u>\$24,190,000</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

The single stream recycling equipment is slated for delivery and installation in January 2017 and the line will be operational by July 2017.

The mixed solid waste recycling equipment is slated for delivery and installation in August 2017 and the line will be operational by December 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$24,190,000 and the total net benefits are valued at \$1,360,881 for the Project. The Project received a Total Score of 1,738 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 45 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,623 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 \$3,306,064 resulting in a Fiscal Benefits score of 1,623 points for the Project.

- B. Environmental Benefits (45 points).** The Project will result in \$91,615 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 45 points for the Project. These benefits derive from processing mixed recyclables for use in other products, which thereby diverts 182,918 tons from landfills annually, according to the Applicant.

C. **Additional Benefits (70 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 70 additional points.

1. **Permanent Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 72 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 represents that the Project will support a total of 40 construction jobs at its Facility. CAEATFA estimates that approximately four 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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

All construction and operating permits for this project are already in place.

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 up to \$96,760.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM011 for SANCO Services, LP's purchase of Qualified Property in an amount not to exceed \$24,190,000 anticipated to result in an approximate sales and use tax exclusion value of \$2,036,798.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SANCO SERVICES, LP**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **SANCO Services, LP** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 \$24,190,000 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.