

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**VITRIFLEX, INC.
Application No. 13-SM005**

Tuesday, April 16, 2013

Prepared By: *Cheryl Ide*

SUMMARY

Applicant – Vitriflex, Inc.

Location – Milpitas and San Jose (Santa Clara County)

Industry – Thin Film Barrier Component for Solar Modules

Project – New Manufacturing Facility

Value of Qualified Property – \$16,330,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,366,821

Estimated Net Benefits - \$775,642

Application Score -

Fiscal Benefits Points:	648
<u>Environmental Benefits Points:</u>	<u>919</u>
Net Benefits Score:	1,567
<u>Additional Benefits Points:</u>	<u>0</u>
Total Score:	1,567

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 upon the average statewide sales and use tax rate of 8.37%.

THE APPLICANT

Vitriflex, Inc. (“Vitriflex” or “Applicant”) was established in 2010 as a Delaware corporation and is currently headquartered in Milpitas, California. The Applicant manufactures, via a roll-to-roll process, moisture and oxygen barrier encapsulation film (“flexible ultra-barriers”) that is used as a glass replacement for thin film solar modules.

The major shareholders (10.0% or greater) of the Corporation are:

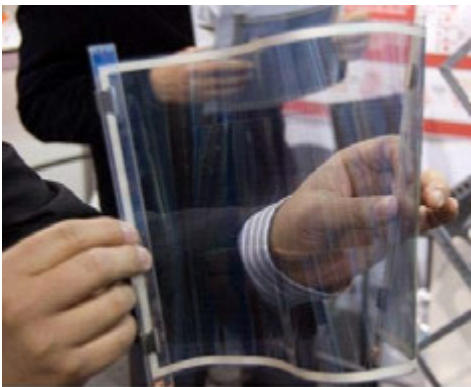
DFJ-JAIC
SABIC Ventures, B.V.
David B. Pearce
David R. Parker

The corporate officers of the Corporation are:

David R. Parker, President and Chief Executive Officer
David B. Pearce, Chief Financial Officer and Secretary
David A. Preische, Vice President
Ravi Prasad, Chief Technology Officer

THE PROJECT

Vitriflex manufactures and sells flexible ultra-barriers which are essential in preserving the life of flexible photovoltaic modules. The technology creates a thin film barrier that protects solar modules from weathering elements such as moisture and oxygen. Vitriflex is in the final stages of selecting a 24,000 square foot manufacturing facility in San Jose, California that will have the potential annual output of 2.1 million square meters of flexible ultra-barriers.



**Flexible Transparent
Ultra-Barriers**



**Ideal Applications
for Flexible Ultra-Barriers**



Vitriflex’s technology uses a production process and material set for making flexible ultra-barriers that includes sputtering onto a polymer substrate (plastic) with a high speed roll-to-roll

production tool. The roll of polymer substrate material is transported through a tool by a series of rollers into a vacuum chamber where the film is deposited. Once coated, the substrate is wound onto a take-up roll. The Applicant represents that one vacuum system line can produce approximately 700,000 square meters annually of flexible ultra-barriers. Vitriflex plans to purchase three vacuum systems over the course of three years for a potential output of 2.1 million square meters of flexible ultra-barriers, which represents approximately 300 Megawatts of solar modules.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Vacuum Systems (3)	\$10,600,000
Analytical Test, Measurement & Inspection Tools	1,745,000
Environmental Test Chambers	120,000
Facility Infrastructure	465,000
Lamination System	500,000
Slitting/Rewinding System	250,000
Tooling & Fixturing	150,000
Solution Coating System	<u>2,500,000</u>
Total	<u>\$16,330,000</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 conveyance/reconveyance agreement a finalized Project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations 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 from 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

Vitriflex is finalizing a facility lease in San Jose, California with an anticipated occupancy date of June 2013. Upon finalization of its permanent site, the Applicant represents it will begin tenant improvements, upgrades, reinforced production area flooring, and equipment installation in the second or third quarter of 2013. Vitriflex plans to begin production in the first quarter of 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$16,330,000 and the total net benefits are valued at an estimated \$775,642 for the Project. The Project received a Total Score of 1,567 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 919 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (648 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 an estimated \$886,066 resulting in a Fiscal Benefits Score of 648 points for the Project.

- B. **Environmental Benefits (919 points)**. The Project will result in an estimated \$1,256,397 of total pollution benefits over the lifetime of the Qualified Property resulting in an Environmental Benefits Score of 919 points for the Project. These benefits derive from the capacity of solar photovoltaic modules to generate electricity from alternative sources, thereby reducing the need for traditionally generated electricity. As an integral component of photovoltaic modules, the Applicant’s product helps to produce the environmental benefits that these modules produce.

- C. **Additional Benefits (0 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received zero additional points.
 - 1. **Permanent Jobs (0 of 40 points)**. The Applicant’s Project will support a total of 39 permanent jobs at its Facility. CAEATFA estimates that three 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.

 - 2. **Construction Jobs (0 of 20 points)**. The Applicant’s Project will support a total of eight construction jobs at its Facility. CAEATFA estimates that approximately one job 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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Upon finalization of its permanent site in June 2013, Vitriplex represents it will secure all necessary permits for the Project.

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 \$8,815 and will pay CAEATFA an Administrative Fee up to \$65,320.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM005 for Vitriflex, Inc.’s purchase of Qualified Property in an amount not to exceed \$16,330,000, which is anticipated to result in an approximate sales and use tax exclusion value of \$1,366,821.

³ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH VITRIFLEX, INC.**

April 16, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Vitriflex, Inc.** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property 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 transferring title of Project equipment with an estimated cost not to exceed \$16,330,000 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; 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 conveyance 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).

Agenda Item – 4.B.2
Resolution No. 13-SM005
Application No. 13-SM005

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.

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 conveyance 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.