

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

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

**Boxer Industries
Application No. 13-SM014**

December 17, 2013

Prepared By: *Noah Proser*

SUMMARY

Applicant – Boxer Industries, Inc.

Location – Redwood City, San Mateo

Industry – Carbon Black Production

Project – Seaport Plant - New carbon black production facility

Value of Qualified Property – \$6,553,000

Estimated Sales and Use Tax Exclusion Amount² – \$548,486

Application Score –

Fiscal Benefits Points:	984
<u>Environmental Benefits Points:</u>	<u>90</u>
Net Benefits Score:	1,074

<u>Additional Benefits Points:</u>	<u>55</u>
Total Score:	1,129

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 8.37%.

THE APPLICANT

Boxer Industries, Inc. (the “Applicant”) is a specialty grade carbon black manufacturer established in 2012 and headquartered in Redwood City, California.

The major shareholders (10.0% or greater) of Boxer Industries are:
Kern Partners
First Green Partners

The corporate officers of Boxer Industries are:
Peter Johnson, President
Robert Hanson, Chief Technology Officer

THE PROJECT

The Applicant is constructing a new facility that will crack natural gas to produce carbon black, a pure carbon nano-material that can be mixed into polymers to create reinforcing, conductive, or absorptive networks (the “Project;” “Seaport Plant”). The Project will use advanced materials in the production process and employ a highly trained workforce to ensure quality production.

Traditional carbon black manufacturing requires the combustion of a heavy oil feedstock, emitting CO₂, CO, NO_x and SO_x. In contrast, the Applicant’s process will crack natural gas in an oxygen-free environment using a high-temperature electric arc, resulting in significant emissions reductions relative to the traditional manufacturing process. According to the Applicant, this technology will result in a 77% reduction in CO₂, a 95% reduction in NO_x, and a 99% reduction in SO_x.

The project will produce 700 tons per year of specialty-grade carbon black that will be sold for use in cables, consumer electronics, and high-grade electrodes in new battery technologies. In the future, the facility may also be used to produce other advanced nano-materials such as fullerenes and nanotubes, although that will not be the initial focus of the Project. The Seaport Plant will be located in Redwood City, California.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Plasma torch	\$82,000
Magnetic coil	\$80,000
Plasma power supply	\$311,000
Reactor graphite lining	\$205,000
Reactor insulation	\$43,000
Feedstock injector units	\$70,000

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Water cooled borescopes	\$15,000
Gas chromatograph	\$89,000
IR analyzer	\$75,000
Pre-built ISBL production plant	\$5,078,000
Flare	\$142,000
Electrical switchgear	\$85,000
Air compressor and dryer	\$20,000
Control room	\$28,000
Lab equipment	\$150,000
Electrical power distribution center	\$80,000
Total	<u>\$6,553,000</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 agreement a finalized project equipment list will be prepared detailing the value of the Project equipment and the estimated tax benefit realized. Variations from the costs shown in the Application and in this report may occur prior to or following the execution of the master agreement due to changes in costs of certain components of the Project from original estimates, 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 anticipates commencing project construction in February 2014 and expects to complete construction by June 2014. The Applicant expects facility operations to begin in July 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,553,000. The Project received a Total Score of 1,144 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 (984 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 \$539,522 resulting in a Fiscal Benefits score of 984 points for the Project.
- B. Environmental Benefits (90 points).** The Project will result in an Environmental Benefits Score of 90. The Applicant received points in the following categories:
 - 1. Environmental Sustainability Plan (0 of 20 points).** The Applicant does not have an Environmental Sustainability Plan.

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2. **Energy Consumption (30 of 30 points)**. The Applicant's manufacturing process will result in an anticipated 42% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (0 of 30 points)**. The Applicant's manufacturing process will result in a 0% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (0 of 30 points)**. The Applicant's manufacturing process will result in a 0% reduction in solid waste produced relative to the industry standard manufacturing process.
 5. **Hazardous Waste (0 of 30 points)**. The Applicant's manufacturing process will result in a 0% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 6. **Air Pollutants (30 of 30 points)**. The Applicant's manufacturing process will result in an anticipated 99% reduction in air pollutants produced relative to the industry standard manufacturing process.
 7. **Other Pollutants (30 of 30 points)**. The Applicant's manufacturing process will result in an anticipated 77% reduction in CO₂ produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (55 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 55 additional points.
1. **Permanent Jobs (30 of 75 points)**. The Applicant's Project will support a total of 10 permanent jobs at its Facility. CAEATFA estimates that approximately 1 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 (0 of 75 points)**. The Applicant's Project will support a total of 2 construction jobs at its Facility. CAEATFA estimates that approximately 0 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. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the engineering design, computational fluid dynamics modeling, kinetics modeling, materials testing, and applications development for carbon black.
 4. **Workforce Partnerships (0 of 25 points)**. The Applicant does not have a workforce partnership with an educational institution.
 5. **Industry Cluster (0 of 40 points)**. The industry associated with this Application has not been identified as an industry cluster.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant received an initial Air Permit from the Bay Area Air Quality Management District (“BAAQMD”) in October 2013. The Applicant received a Use Permit and approval to proceed from the Port of Redwood City (the “Port”) on November 27, 2013 and plans to submit a building permit application to Redwood City in January 2014. As it increases production, the Applicant represents that it will seek additional permits and approvals from the Port and the BAAQMD.

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 \$3,276.50 and will pay CAEATFA an Administrative Fee up to \$26,212.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM014 for Boxer Industries purchase of Qualified Property in an amount not to exceed \$6,553,000 anticipated to result in an approximate sales and use tax exclusion value of \$548,486.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE BOXER INDUSTRIES**

December 17, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Boxer Industries** (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 \$6,553,000 over a period of three (3) 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.