

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

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

**Recology, Inc.
Application No. 14-SM006**

Tuesday, May 20, 2014

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Recology, Inc.

Location – Vacaville, Solano County

Industry – Biogas Capture and Production

Project – New Biogas Capture and Production Facility

Value of Qualified Property – \$25,967,035

Estimated Sales and Use Tax Exclusion Amount² – \$2,186,424

Estimated Net Benefits – \$832,247

Application Score –

Fiscal Benefits Points:	1,257
Environmental Benefits Points:	124
Net Benefits Score:	1,381
Additional Benefits Points:	55
Total Score:	1,436

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

Recology, Inc. (“Recology” or the “Applicant”) was incorporated in 1998 and is a vertically integrated resource recovery company.

Recology is owned by an Employee Stock Ownership Plan.

The corporate officers of Recology are:

Michael Sangiacomo, Chief Executive Officer
George McGrath, Chief Operating Officer
Mark Lomele, Chief Financial Officer

The Applicant received a sales and use tax exclusion as Recology East Bay for an anaerobic digester project based in Oakland, California on June 28, 2011. This project has received two time extension waivers for the 25% purchase requirement as well as an extension for the three year initial term of the master regulatory and title conveyance agreement (“Initial Term”). Currently, the project has purchased \$739,798 out of \$3,703,090 worth of Qualified Property. The Recology East Bay project will be considered by the CAEATFA Board for a third time extension waiver for the 25% purchase requirement and a second extension of Initial Term on May 20, 2014, agenda item 4.B.

THE PROJECT

Recology will oversee the development of an anaerobic digester at its Hay Road facility in Vacaville, California (the “Project”). The anaerobic digester will convert approximately 53,000 tons per year of municipal and commercial food waste into about 1.1 million diesel gallon equivalents of renewable natural gas (“RNG”). The feedstock for the Project will come from San Francisco and other municipal solid waste generators. Recology will use the RNG produced by the Project to power 80 of its waste hauling vehicles that the company currently runs on fossil fuels. The Applicant anticipates that by 2018, it will purchase an additional 74 RNG-fueled trucks. Its fleet would then consume the annual production of RNG from the Project. Prior to 2018, Recology will sell the balance of the RNG it produces to other regional users. Additionally, the Project will also produce 40,000 tons per year of liquid and solid organic material that will be sent to the on-site Recology subsidiary compost production facility that will make soil amendments with the Project’s byproduct.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Pretreatment Unit	\$ 5,855,318
Digestion Unit	10,220,700
Air Treatment Unit	314,345
Gas Treatment Unit	1,045,672
Gas Upgrading Unit	6,281,000
Fuel Storage	<u>2,250,000</u>
Total	<u>\$25,967,035</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 anticipates beginning procurement in June 2014 with fabrication and on-site construction to subsequently follow. The anticipated completion date for the entire project is April 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$25,967,035 and the total net benefits are valued at \$832,247 for the Project. The Project received a Total Score of 1,436 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 124 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1,257 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 \$2,747,503 resulting in a Fiscal Benefits score of 1,257 points for the Project.
- B. Environmental Benefits (124 points).** The Project will result in \$271,168 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits

Agenda Item – 4.C.3
Resolution No. 14-SM006
Application No. 14-SM006

Score of 124 points for the Project. These benefits derive from displacing the use of fossil fuel through the production of renewable natural gas and the avoidance of emissions that would otherwise be produced if the municipal solid waste was sent to a landfill to decompose.

C. Additional Benefits (55 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 55 additional points.

- 1. Permanent Jobs (20 of 75 points).** The Applicant's Project will support a total of 12 permanent jobs at its Facility. CAEATFA estimates that approximately two 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 20 points for the Project.
- 2. Construction Jobs (35 of 75 points).** The Applicant's Project will support a total of 45 construction jobs at its Facility. CAEATFA estimates that approximately six 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 35 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has submitted its Conditional Use Permit and expects to have it approved by August 2014. In the third quarter of 2014, the Applicant will be submitting its Solid Waste Facility Permit, Yolo-Solano Air Quality Management District Permit, Solano County Building Permit, and Stormwater Pollution Prevention Plan. Recology expects to receive these permits by 2015.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the 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 of up to \$103,868.

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

**Agenda Item – 4.C.3
Resolution No. 14-SM006
Application No. 14-SM006**

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM006 for Recology Inc.'s purchase of Qualified Property in an amount not to exceed \$25,967,035 anticipated to result in an approximate sales and use tax exclusion value of \$2,168,424.

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

May 20, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Reology, 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 \$25,967,035 over a period of 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.

Agenda Item – 4.C.3
Resolution No. 14-SM006
Application No. 14-SM006

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.