

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**rPlanet Earth Los Angeles, LLC  
Application No. 16-SM004**

**Tuesday, January 19, 2016**

Prepared By: *James Shimp, Analyst*

**SUMMARY**

**Applicant** – rPlanet Earth Los Angeles, LLC

**Location** – Vernon, Los Angeles County

**Industry** – Plastic Recycling

**Project** – Construction of a new plastics recycling and manufacturing facility (Advanced Manufacturing)

**Value of Qualified Property** – \$119,800,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$10,087,160

**Application Score** –

Fiscal Benefits Points:	3,465
<u>Environmental Benefits Points:</u>	<u>66</u>
<b>Net Benefits Score:</b>	<b>3,531</b>
<u>Additional Benefits Points:</u>	<u>79</u>
<b>Total Score:</b>	<b>3,610</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.  
<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

**THE APPLICANT**

rPlanet Earth Los Angeles, LLC (“rPE” or the “Applicant”), a Delaware Limited Liability Company, is owned by Oaktree Capital and Versorgungswerk der Zahnärztekammer Berlin K.d.o.R. or "VZB". rPE was formed in 2015 with the goal of providing regional and national food and beverage companies with a high quality, reliable, and sustainable supply of recycled polyethylene terephthalate (“PET”) to be used in packaging containers.

The major shareholders (10.0% or greater) of rPlanet Earth Los Angeles, LLC are:

Versorgungswerk der Zahnärztekammer  
Berlin K.d.o.R - 50%  
Oaktree Capital - 50%

The corporate officers of rPlanet Earth Los Angeles, LLC are:

Robert Daviduk – Co-CEO  
Joseph Ross – Co-CEO

**THE PROJECT**

rPlanet Earth Los Angeles, LLC is planning to build a new facility that that uses post-consumer PET bales to create a broad array of “bottle grade” recycled PET (“rPET”) products (the “Project”). The construction will be completed in two phases. Phase I will ramp up the facility to a production capacity of 55 million pounds of bottle grade rPET flake per year. Phase II, scheduled for 2018, will then double capacity, making the facility the largest of its kind in the world, according to the Applicant. Both phases will utilize a vertically integrated model that consolidates multiple manufacturing processes under one roof. According to the Applicant, these manufacturing processes are typically completed at three separate facilities, thus necessitating transport of the unfinished intermediate product between each manufacturing facility. rPE’s business model will eliminate these transportation steps, thereby avoiding costs and greenhouse gas emissions associated with transportation, resulting in a more efficient manufacturing process.

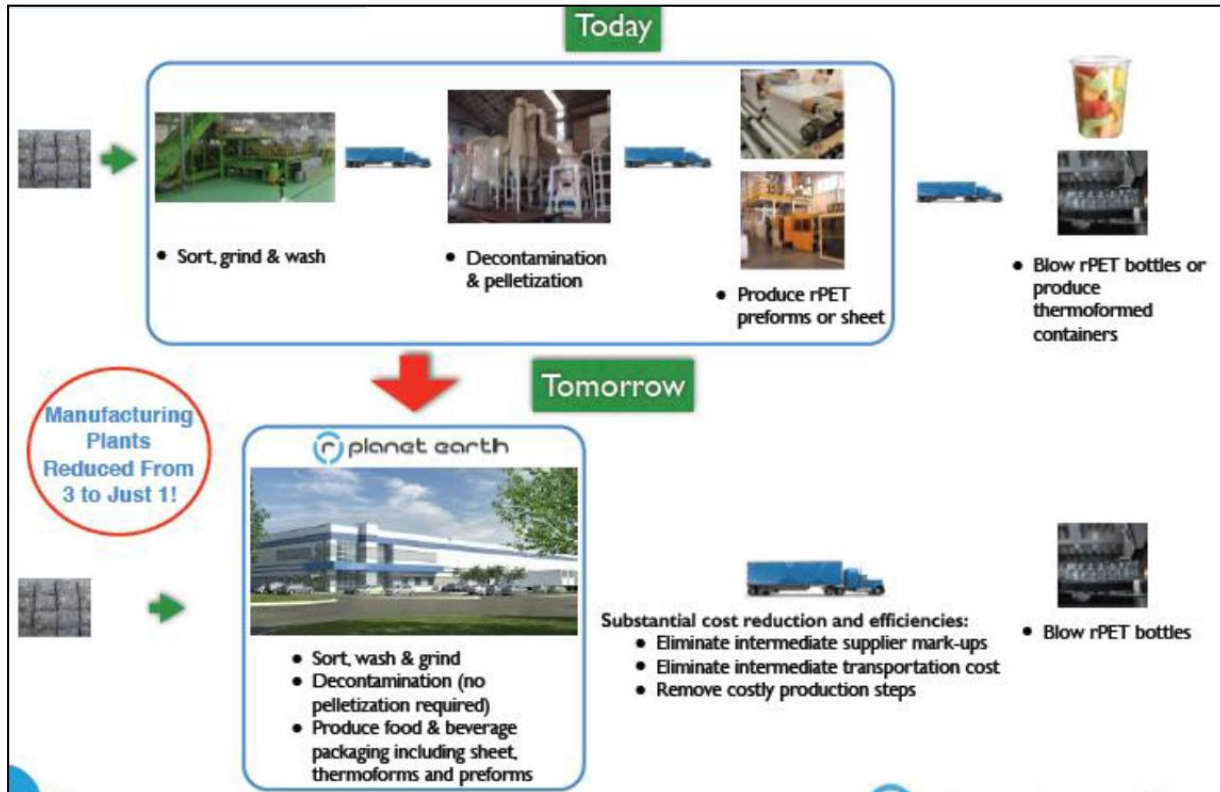
As part of its Project, rPE represents that it will be the first company in the U.S. to install and operate a Krones PET recycling line. The Krones equipment is different from other recycling lines in that it eliminates the "whole bottle wash" stage of decontamination, which would otherwise consume significant amounts of water. rPE estimates a resulting reduction in water use of 33%. By eliminating this stage, the Applicant also claims to avoid the toxic chemicals, dyes, and inks typically released by wet labels during the wash process. These contaminants can become absorbed by the PET, thereby requiring additional processing during a purification stage. In bypassing the bottle wash and purification stages the Krones equipment reduces total decontamination time to one hour, from an industry standard of four to six hours.

rPE notes that one additional benefit of its proposed technology is the ability to work with plastic in flake form throughout the manufacturing process. The Applicant states that other manufacturers of rPET products must use pelletized plastic as feedstock. This requires an

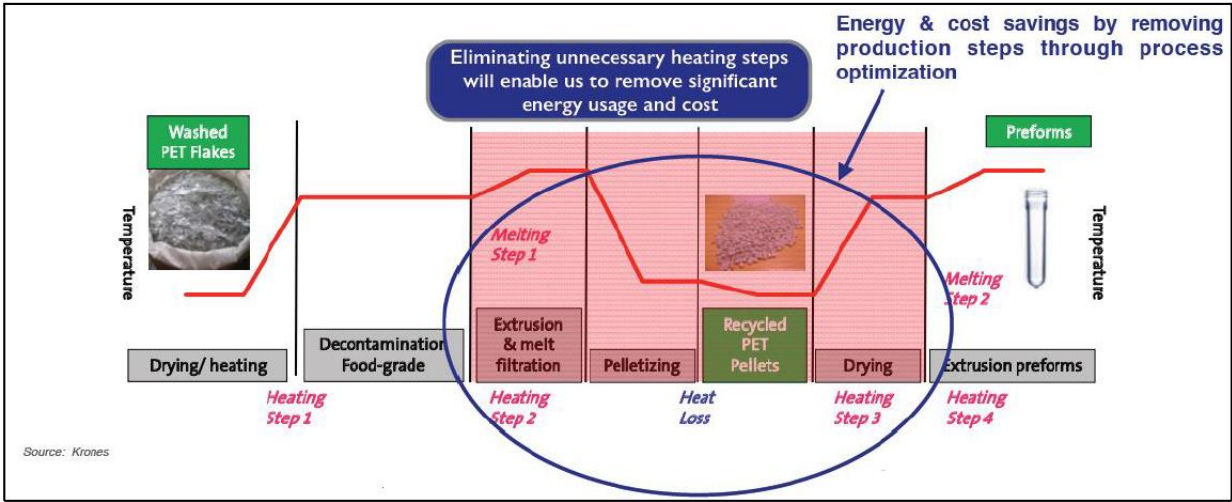
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additional step wherein plastic flake is melted down and reformed as pellets (about the size of a BB). By working with flake throughout, the energy costs associated with melting and reforming plastic are avoided. The applicant estimates this energy savings at 16%. Of equal importance, because the plastic is not subjected to an additional melting process, the manufacturing process reduces degradation during the lifecycle of the plastic.

In addition to the Krones equipment, the Applicant will be installing other sophisticated equipment, such as injection-molding and extrusion machines. The system will be highly automated, with feedstock blends being determined through the use of integrated computational materials engineering. The Applicant claims that, as a result of all of the aforementioned process improvements, it will create a better quality product that is faster, cheaper, and more efficient to produce on a per unit basis when compared to traditional industry practices.



*Figure 1: Comparison of rPE's Manufacturing Flow with Industry Standard*



*Figure 2: Heating Steps Associated with PET Processing*

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Van Dyk/Ti-Tech PET Sortation Line	\$ 14,900,000
Pelletron Material Conveyance and Storage	4,500,000
Krones Equipment	41,000,000
Welex Extruded Sheet Lines	20,400,000
Lyle Thermoforming Equipment	12,200,000
Husky Injection Molding Equipment	26,800,000
<b>Total</b>	<b><u>\$119,800,000</u></b>

*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**

Construction for rPE's first phase will begin in 2016, with recycling and manufacturing processes starting no later than Q4 of 2017. The second phase of construction, which is estimated to double rPE's production capacity, is slated to commence in 2018.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$119,800,000. The Project received a Total Score of 3,610 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 66 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (3,465 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 \$34,955,481 resulting in a Fiscal Benefits score of 3,465 points for the Project.
- B. **Environmental Benefits (66 points)**. The Project will result in an Environmental Benefits Score of 66. The Applicant received points in the following categories:
  1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability for its Project that it represents will result in reductions in energy use and water consumption.
  2. **Energy Consumption (16 of 30 points)**. The Applicant represents that its manufacturing process will result in a 16% reduction in energy consumption relative to the industry standard manufacturing process.
  3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in water use relative to the industry standard manufacturing process.
- C. **Additional Benefits (79 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 79 additional points.
  1. **Permanent Jobs (35 of 75 points)**. The Applicant's Project will support a total of 275 permanent jobs at its Facility. CAEATFA estimates that approximately 26 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 35 points for the Project.

2. **Construction Jobs (35 of 75 points).** The Applicant’s Project will support a total of 350 construction jobs at its Facility. CAEATFA estimates that approximately 33 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.
  
3. **Unemployment (9 of 50 points).** The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of nine points for this Project.

### **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

To speed the permitting and construction process, the Applicant and City of Vernon have agreed to a phased permit submission and approval process. The first round of building permits are anticipated to be approved and issued by February 2016.

### **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$350,000.

### **RECOMMENDATION**

Staff recommends approval of Resolution No. 16-SM004 for rPlanet Earth Los Angeles, LLC’s purchase of Qualified Property in an amount not to exceed \$119,800,000 anticipated to result in an approximate sales and use tax exclusion value of \$10,087,160.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH RPLANET EARTH LOS ANGELES, LLC**

January 19, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **rPlanet Earth Los Angeles, LLC** (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 \$119,800,000 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.