

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

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

**Waste Management of Alameda County, Inc.
Application No. 16-SM008**

October 18, 2016

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Waste Management of Alameda County, Inc.

Location – San Leandro, Alameda County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Construction of a New Organics Material Recovery Facility and Organics Material Composting Facility

Value of Qualified Property – \$77,272,550

Estimated Sales and Use Tax Exclusion Amount² – \$6,506,349

Estimated Net Benefits – \$2,017,327

Application Score –

Fiscal Benefits Points:	1,288
<u>Environmental Benefits Points:</u>	<u>22</u>
Net Benefits Score:	1,310
<u>Additional Benefits Points:</u>	<u>60</u>
Total Score:	1,370

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

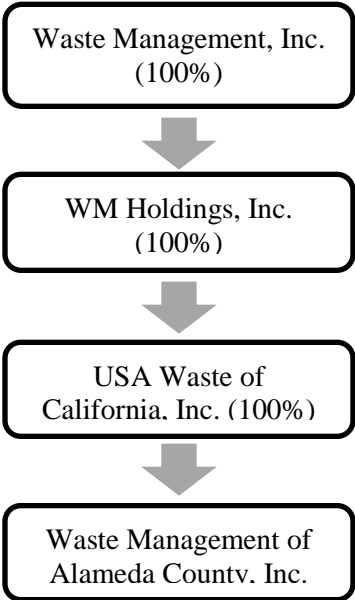
² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Waste Management is a comprehensive waste management and environmental services provider that operates transfer stations, recycling facilities, and single stream facilities across North America. Waste Management of Alameda County serves as the franchised waste hauler for the City of Oakland and surrounding communities.

The parent company, Waste Management, Inc. has one other subsidiary through other holding companies that has received a CAEATFA STE award for a biogas alternative source project: WM Renewable Energy, L.L.C., which received an award on January 20, 2015 for approximately \$2 million in Qualified Property for an estimated sales and use tax exclusion of \$168,767. Another Waste Management subsidiary, Waste Management Recycling and Disposal Services of California, has a pending recycled feedstock application slated to go before the CAEATFA Board on October 18, 2016. The application is for approximately \$3.5 million in Qualified Property for an estimated sales and use tax exclusion of \$294,700.

The chain of ownership for Waste Management of Alameda County is as follows:



The corporate officers of Waste Management of Alameda County are:

- Barry Skolnick, President
- Don Carpenter, Vice President and CFO
- Courtney Tippey, Vice President and Secretary
- Dave Stratton, Vice President and Assistance Secretary

THE PROJECT

The applicant is requesting a sales and use tax exclusion to build a new state of the art Organics Material Recovery Facility and Organics Material Composting Facility (the “Project”) at the Davis Street Transfer Station in Alameda County.

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The Project will increase diversion of glass, paper, metals, wood, and plastic, and allow recovery of organic materials for the first time. The organics material recovery facility incorporates a four track parallel processing system, shredders, and screening systems. Screening systems filter the waste by size into one of four tracks. Each track includes magnetic screening to sort metals, density separation to sort paper, plastic, and other high density materials, and optical separation to remove paper, glass, plastic, and wood. Organic material will be composted in the adjoining organics material composting facility. The organics material composting facility will pre-treat and process organic materials in an eight lane processing system. The material will be actively composted for a 21-day retention time, and then blended with other compost products and materials by a third party compost facility operator.

The Applicant represents that the Project will process an additional 312,000 tons of waste per year that is currently being sent directly to the landfill. Of these 312,000 tons per year, 195,000 tons per year will be recycled, a diversion rate of 65%. The Project is Phase One and Two of a multiphase plan designed to increase recycling at the site. Phase Three, which is not included in the application, is expected to add additional processing equipment and an anaerobic digester facility.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Bulk Handling Equipment (Organics Separation)	\$27,221,250
Bulk Handling Equipment (Conveyance and Recyclable Sorting)	770,000
Size Reducers & Shredders	83,600
Rolling Stock	1,860,600
Organics Material Composting Facility Anaergia Building	2,625,000
Organics Material Composting Facility Anaergia Equipment	11,947,100
Organics Material Recycling Facility Building	16,775,000
Organics Material Recycling Facility Facility Infrastructure	990,000
Organics Material Composting Facility Building	<u>15,000,000</u>
Total	<u>\$77,272,550</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 has already broken ground on the building's foundation. The material and equipment is anticipated to be purchased in 2016 and 2017 and go on-line in 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$77,272,550 and the total net benefits are valued at \$2,017,327 for the Project. The Project received a Total Score of 1,370 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 22 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,288 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 \$8,381,777 resulting in a Fiscal Benefits score of 1,288 points for the Project.

- B. Environmental Benefits (22 points).** The Project will result in \$141,898 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 22 points for the Project. These benefits derive from the processing of mixed recyclables and organic material, which will divert approximately 195,000 tons of waste per year from the landfill.

- C. Additional Benefits (60 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 60 additional points.
 - 1. Permanent Jobs (30 of 75 points).** The Applicant’s Project will support a total of 74 permanent jobs at its Facility. CAEATFA estimates that approximately 10 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 (30 of 75 points).** The Applicant’s Project will support a total of 70 construction jobs at its Facility. CAEATFA estimates that approximately 10 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

The Applicant has applied for and received all permits allowing construction to commence. All requirements for permits issued by Alameda County, Cal Recycle, the City of San Leandro, and the Bay Area Air Quality Management District have been completed, and the applicant is awaiting review and issuance. The final building permits will be issued once the City inspects the completed construction.

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 \$309,090.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM0008 for Waste Management of Alameda County's purchase of Qualified Property in an amount not to exceed \$77,272,550 anticipated to result in an approximate sales and use tax exclusion value of \$6,506,349.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH
WASTE MANAGEMENT OF ALAMEDA COUNTY, INC.**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Waste Management of Alameda County, Inc.** (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 \$77,272,550 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

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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 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.