

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

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

**Waste Management Recycling and Disposal Services of California Inc.
Application No. 16-SM009**

October 18, 2016

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Waste Management Recycling and Disposal Services of California, Inc.

Location – Sun Valley, Los Angeles County

Industry – Mixed Organics (Recycled Resource Extraction)

Project – Construction of a New Organic Waste Material Recovery Facility

Value of Qualified Property – \$3,500,000

Estimated Sales and Use Tax Exclusion Amount² – \$294,700

Estimated Net Benefits – \$281,694

Application Score –

Fiscal Benefits Points:	1,929
<u>Environmental Benefits Points:</u>	<u>27</u>
Net Benefits Score:	1,956

<u>Additional Benefits Points:</u>	<u>49</u>
Total Score:	2,005

Staff Recommendation – Approval

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

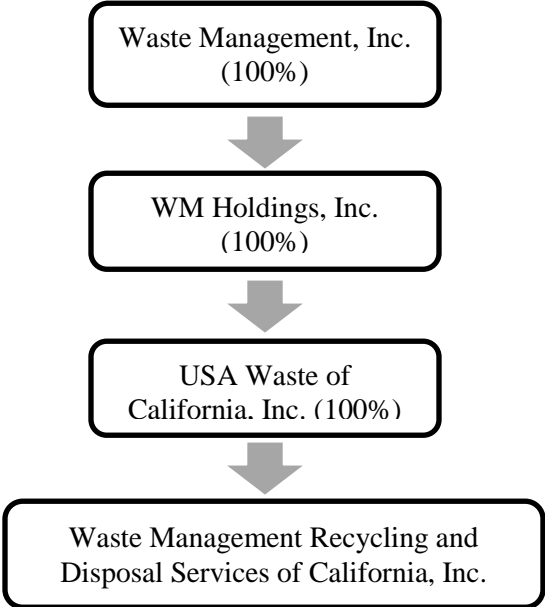
² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Waste Management, Inc. is a comprehensive waste management and environmental services provider that operates transfer stations, recycling facilities, and single stream facilities across North America. Waste Management Recycling and Disposal Services of California, Inc. (“Waste Management” or the “Applicant”) provides waste disposal and recycling services in the Los Angeles area.

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 of Alameda County, has a pending recycled feedstock application slated to go before the CAEATFA Board on October 18, 2016. The application is for approximately \$77 million in Qualified Property for an estimated sales and use tax exclusion of \$6.5 million.

The chain of ownership for Waste Management Recycling and Disposal Services of California, Inc. is as follows:



The corporate officers of Waste Management Recycling and Disposal Services of California, Inc. are:

- Larry Metter, Director and President
- Courtney Tippy, Director
- Joseph Cassin, Vice President
- Douglas Corcoran, Vice President
- Mark Lockett, Vice President
- Devina Rankin, Vice President
- Darren Shade, Vice President
- John Tsai, Vice President and Asst. General
- James Wilson, Vice President
- Catherine Finley, Assistant Secretary

THE PROJECT

The Applicant is purchasing a new material recovery facility (“MRF”) which will process residential curbside green material into soil amendment at the Sun Valley Recycling Park. The new MRF will be fully electric and the Applicant represents that it is capable of processing 2,000 tons per day (730,000 tons per year). It is also capable of processing highly contaminated loads that are currently sent to the landfill. Because the previous facility was not capable of processing these contaminated loads, the new facility will increase recycling rates. After removing contamination, the MRF will grind the material into the preferred particle size. The output can be used as soil amendment for use in the agricultural industry, feedstock for energy projects, nursery projects, and erosion and dust control.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Green Waste Processing System	\$2,250,000
Electric Grinders - Rotochopper	1,200,000
Electrical Equipment	<u>50,000</u>
Total	<u>\$3,500,000</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 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

Waste Management plans to bring additional power to the site and construct the new MRF in late 2016 and early 2017. A contract for the MRF equipment has already been signed and the facility is expected to go on-line in 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,500,000 and the total net benefits are valued at \$281,694 for the Project. The Project received a Total Score of 2,005 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 27 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,929 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. This amounts to \$568,386, resulting in a Fiscal Benefits score of 1,929 points for the Project.
- B. Environmental Benefits (27 points).** The Project will result in \$8,008 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 27 points for the Project. These benefits derive from the processing of mixed recyclables, which the applicant states will divert approximately 250,000 tons per year from landfills.
- C. Additional Benefits (49 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 49 additional points.
- 1. Permanent Jobs (40 of 75 points).** The Applicant’s Project will support a total of 34 permanent jobs at its Facility. CAEATFA estimates that approximately one 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 40 points for the Project.
 - 2. Construction Jobs (0 of 75 points).** The Applicant’s Project will support a total of three construction jobs at its Facility. CAEATFA estimates that none 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. 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 was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of nine points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The site has an existing solid waste facility permit for its current operations. Waste Management will update the permit to reflect the new equipment once it is installed, which is administrative in nature and will not require additional California Environmental Quality Act review. City of Los Angeles structural permits related to the additional electrical power and new equipment are expected in early 2017 once the new equipment is installed.

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 \$1,750 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-009 for Waste Management Recycling and Disposal Services of California's purchase of Qualified Property in an amount not to exceed \$3,500,000 anticipated to result in an approximate sales and use tax exclusion value of \$294,700.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH WASTE MANAGEMENT RECYCLING AND
DISPOSAL SERVICES OF CALIFORNIA, 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 Recycling and Disposal Services of California, 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 \$3,500,000 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

Agenda Item – 4.A.2
Resolution No. 16-SM009
Application No. 16-SM009

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.