

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

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

**Recology San Francisco
Application No. 16-SM013**

Tuesday, October 18, 2016

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Recology San Francisco

Location – San Francisco, San Francisco County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Upgrade and Expansion of Existing Materials Recovery Facility

Value of Qualified Property – \$7,917,170

Estimated Sales and Use Tax Exclusion Amount² – \$666,626

Estimated Net Benefits – \$52,065

Application Score³ –

Fiscal Benefits Points:	1,053
<u>Environmental Benefits Points:</u>	<u>25</u>
Net Benefits Score:	1,078
<u>Additional Benefits Points:</u>	<u>90</u>
Total Score:	1,168

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 San Francisco (“Recology SF” or the “Applicant”) is a California corporation that organized in 1935, when it was originally called Sanitary Fill Company. Recology SF operates a materials recovery facility (“MRF”) at Pier 96 in San Francisco.

Recology SF is a wholly owned subsidiary of Recology, Inc., which is owned by an Employee Stock Ownership Plan. Recology, Inc. has two other subsidiaries that have received CAEATFA STE awards for anaerobic digester projects: Recology East Bay, which received an award on June 28, 2011 for approximately \$336,981 in STE, and Recology Leasing, which received an award on May 20, 2014 for approximately \$2,186,424 in STE.

The corporate officers of Recology SF are:

- Michael J. Sangiacomo, President and CEO
- George P. McGrath, Executive Vice President and COO
- Mark R. Lomele, Executive Vice President and CFO

THE PROJECT

The Applicant plans to upgrade equipment to increase diversion of materials currently accepted at the MRF and expand recovery of recyclables such as textiles, film plastics, wood, and metal (the “Project”).

According to the Applicant, the MRF’s inbound volume of recyclables has surpassed the current system’s capacity. The Applicant estimates approximately 100 tons of residual material per week has recyclable materials that are not processed because of the system’s limited capabilities. The Applicant represents the Project will integrate advanced sorting technologies to increase capacity and improve efficiency and accuracy of materials separation. For example, the Project will switch from a manual loading system to a drum feeder, which will provide a more consistent metered flow. The Project also adds an extended presort conveyor that will increase the number of sorting stations from four to fourteen and adds two additional optical sorters to maximize recovery of recyclable materials.

As well as increasing system-wide sorting capabilities, the Project will improve recovery of specific recyclables. Currently the facility manually sorts old corrugated cardboard (“OCC”), but the Project will add an OCC screen to separate large cardboard, which will free manual sorters to focus on expanded metal recovery rather than OCC recovery. Additionally, the facility’s existing fiber screens are too short and narrow and not easily adjustable, therefore, the Project will incorporate a new wider and longer fiber screen system to ensure a more efficient and accurate separation of mixed paper. The Project also includes a new film vacuum system to collect and transfer manually sorted film plastic, and glass cleaning system to accommodate a greater volume and be more compatible with the diverse packaging designs of today.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Presort System	\$1,358,290
Mechanical Sorting Equipment	2,434,797
Transfer Conveyors and Connecting Conveyors	1,629,878
Optical Sorting Equipment	997,805
Supporting Equipment	<u>1,496,400</u>
Total	<u>\$7,917,170</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 represents construction commenced in February 2016 and equipment installation is currently in progress. The Applicant anticipates the Project will be operational by the end of October 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,917,170 and the total net benefits are valued at \$52,065 for the Project. The Project received a Total Score of 1,168 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 25 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,053 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 \$701,902 resulting in a Fiscal Benefits score of 1,053 points for the Project.

B. Environmental Benefits (25 points). The Project will result in \$16,789 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 25 points for the Project. These benefits derive from the processing of mixed recyclables, such as cardboard, paper, PET, HDPE, plastics, aluminum, tin, mixed metals, glass, textiles, and film plastics for use in another product, which thereby diverts approximately 120,213 tons from landfills annually, according to the Applicant.

C. Additional Benefits (90 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 90 additional points.

1. Permanent Jobs (60 of 75 points). The Applicant represents that the Project will support a total of 111 permanent jobs at its Facility. CAEATFA estimates that approximately seven 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 60 points for the Project.

2. Construction Jobs (30 of 75 points). The Applicant represents that the Project will support a total of 16 construction 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 Construction Jobs Score of 30 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project requires a building permit, electrical permit, and fire sprinkler permit, all of which the Applicant represents have already been obtained from the Port of San Francisco.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$3,958.59 and will pay CAEATFA an Administrative Fee of up to \$31,668.68.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM013 for Recology San Francisco's purchase of Qualified Property in an amount not to exceed \$7,917,170 anticipated to result in an approximate sales and use tax exclusion value of \$666,626.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH RECOLOGY SAN FRANCISCO**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Recology San Francisco** (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 \$7,917,170 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.