

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

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

**CRM Co., LLC
Application No. 16-SM015**

Tuesday, October 18, 2016

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – CRM Co., LLC

Location – Stockton, San Joaquin County

Industry – Crumb Tire Rubber (Recycled Resource Extraction)

Project – Conversion of Storage Facility into Crumb Rubber Manufacturing Plant

Value of Qualified Property – \$3,400,000

Estimated Sales and Use Tax Exclusion Amount² – \$286,280

Estimated Net Benefits – \$735,133

Application Score –

Fiscal Benefits Points:	3,547
<u>Environmental Benefits Points:</u>	<u>21</u>
Net Benefits Score:	3,568

<u>Additional Benefits Points:</u>	<u>123</u>
Total Score:	3,691

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

CRM Co., LLC (“CRM” or the “Applicant”) is a California limited liability company, incorporated in 1998, that converts scrap tires into crumb rubber used in rubberized asphalt, mulch, and other molded rubber products. CRM currently has a production facility in Los Angeles and a storage facility in Stockton.

The major shareholders (10.0% or greater) of CRM Co., LLC are:

- Hossein B. Takallou (73%)
- Hamid Malakooti (26%)

The corporate officers of CRM Co., LLC are:

- Hossein B. Takallou, President and CEO
- Brian Wong, CFO

THE PROJECT

CRM is seeking an STE award in order to convert its storage and transfer station in Stockton into a crumb rubber manufacturing facility (the “Project”). CRM’s process takes scrap tires from passenger, commercial, and off road vehicles that have been collected by tire retailers. The scrap tires are then fed into various shredders and granulators to reduce the tires to sizes varying from 2” chips to 80 mesh (approximately the consistency of fine sand) crumb rubber. The recycled rubber is then used as mulch, sold to artificial turf manufacturers, added to asphalt, or used in numerous other molded rubber products, such as exercise mats.

CRM purchased its Stockton facility in May 2015 and has been using it as a storage and transfer station. However, due to a projected increase in scrap tires diverted from landfill, the Applicant has decided to upgrade the facility to include crumb rubber manufacturing as well. The Applicant estimates that it will be able to produce 40,000 tons of recycled rubber annually, which it represents is an important step in addressing the 40 million scrap tires generated in California each year.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Primary Shredders	\$ 400,000
Secondary Shredder	350,000
Heavy Granulator	250,000
Fine Granulator	200,000
Crackermills	600,000
Hoppers, Feeders, Silos, Conveyors	200,000
Forklifts, Loaders, Cyclone, Magnets, Bagging Machine	500,000
Infrastructure	900,000
Total	<u>\$3,400,000</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

Construction is anticipated to begin in November 2016 and be complete by April 2017. Equipment will be delivered and installed by June 2017 and placed in service by the end of August 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,400,000 and the total net benefits are valued at \$735,133 for the Project. The Project received a Total Score of 3,691 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 21 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,547 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 \$1,015,541 resulting in a Fiscal Benefits score of 3,547 points for the Project.

- B. Environmental Benefits (21 points).** The Project will result in \$5,872 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 21 points for the Project. These benefits derive from processing scrap tires for use in other products, which thereby diverts 40,000 tons from landfills annually, according to the Applicant.

- C. Additional Benefits (123 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 123 additional points.
 - 1. Permanent Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 20 permanent jobs at its Facility. CAEATFA estimates that 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 (35 of 75 points)**. The Applicant represents that the Project will support a total of 12 construction jobs at its Facility. CAEATFA estimates that 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 35 points for the Project.
3. **Unemployment (48 of 50 points)**. The Applicant's Project is located in San Joaquin County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 48 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

CRM currently has all permits necessary to manufacture and store crumb rubber at the Stockton facility.

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,³ the Applicant has paid CAEATFA an Application Fee of \$1,700 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM015 for CRM Co., LLC's purchase of Qualified Property in an amount not to exceed \$3,400,000 anticipated to result in an approximate sales and use tax exclusion value of \$286,280.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CRM CO., LLC**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CRM Co., LLC** (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 \$3,400,000 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.

Agenda Item – 4.A.6
Resolution No. 16-SM015
Application No. 16-SM015

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.