

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

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

**Mid-Valley Disposal
Application No. 16-SM017**

Tuesday, October 18, 2016

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – Mid-Valley Disposal

Location – Fresno, Fresno County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Replacing Mixed Recyclables Processing Line

Value of Qualified Property – \$6,821,909

Estimated Sales and Use Tax Exclusion Amount² – \$574,405

Estimated Net Benefits – \$47,811

Application Score –

Fiscal Benefits Points:	1,031
<u>Environmental Benefits Points:</u>	<u>52</u>
Net Benefits Score:	1,083

<u>Additional Benefits Points:</u>	<u>115</u>
Total Score:	1,198

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

Mid-Valley Disposal (“MVD” or the “Applicant”) is a California corporation specializing in solid waste and recycling services in the Central Valley. The Applicant operates three material recovery facilities (MRFs) that serve over 28 municipalities. Recycled materials include fibers, plastics, glass, and metal containers.

Mid-Valley Disposal has an additional application being considered at the October 18, 2016 Board meeting for \$3,739,543 in qualified property, anticipated to result in an estimated STE of \$314,870, to construct a new organics composting facility at its Kerman facility.

The major shareholders (10.0% or greater) of Mid-Valley Disposal are:

- John Kalpakoff (51%)
- Joseph Kalpakoff (25%)
- Jonathan Kalpakoff (20%)

The corporate officers of Mid-Valley Disposal are:

- Jay Kalpakoff, President
- Joseph Kalpakoff, CEO
- Joe Heisdorf, CFO
- Jonathan Kalpakoff, Vice President
- Roy Mendrin, Vice President

THE PROJECT

Mid-Valley Disposal is seeking an STE award in order to replace the equipment on its existing mixed recycling line in Fresno, which will process over 65,000 tons of mixed recyclables annually (the “Project”). The facility was originally built in 2001 by Sunset Waste Paper primarily to separate newsprint, mixed paper, and cardboard from a waste stream generated by the city of Fresno. MVD acquired the facility in 2014 and began using the existing equipment to process mixed recycling from over 20 different cities, including both residential and commercial sources.

The Applicant represents that the equipment now needs to be replaced, in part because the equipment is beyond its useful lifespan, and also because the existing equipment was designed for a waste stream composition that has changed over time. By replacing the current equipment with more updated technology, MVD believes it can achieve greater landfill diversion and improve processing efficiency by consolidating operations from multiple sites, increasing overall capacity, and improving the recovery rate of recyclables within the waste stream.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Steel Package for Line Retrofit	\$ 1,200,000
Conveyors	1,400,000
Drum Feeder	95,000
Cardboard Screen	190,000

Agenda Item – 4.A.7
Resolution No. 16-SM017
Application No. 16-SM017

Paper Screens	497,000
Scalper Screen	185,000
Glass Breaker	220,000
Fibermax Optical Sorter	395,000
Cirrus Optical Sorters	755,000
Drum Magnet	87,000
Eddy Current	82,000
Control Systems	336,000
Westeria Vacuum Hood System	387,000
Includes Air Compressor, Lighting, Spare Parts	495,933
Loader	496,976
Total	<u>\$6,821,909</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 anticipates that the design and engineering phase of the Project should be complete in January 2017, with installation to begin in February 2017 and the new line placed in service in June 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,821,909 and the total net benefits are valued at \$47,811 for the Project. The Project received a Total Score of 1,198 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 52 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,031 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 \$592,293 resulting in a Fiscal Benefits score of 1,031 points for the Project.
- B. Environmental Benefits (52 points).** The Project will result in \$29,922 of total pollution benefits over the life of the Project resulting in an Environmental Benefits

Score of 52 points for the Project. These benefits derive from processing of mixed recyclables for use in other products, which thereby diverts 65,280 tons from landfills annually, according to the Applicant.

C. Additional Benefits (115 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 115 additional points.

- 1. Permanent Jobs (45 of 75 points).** The Applicant represents that the Project will support a total of 45 permanent jobs at its Facility. CAEATFA estimates that approximately four 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 45 points for the Project.
- 2. Construction Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of nine 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 20 points for the Project.
- 3. Unemployment (50 of 50 points).** The Applicant's Project is located in Fresno County which has an average annual unemployment rate of 11.4%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 50 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant currently has all required permits and licenses necessary to complete the project.

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 \$3,410.95 and will pay CAEATFA an Administrative Fee up to \$27,287.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM017 for Mid-Valley Disposal's purchase of Qualified Property in an amount not to exceed \$6,821,909 anticipated to result in an approximate sales and use tax exclusion value of \$574,405.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH MID-VALLEY DISPOSAL**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Mid-Valley Disposal** (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 \$6,821,909 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.7
Resolution No. 16-SM017
Application No. 16-SM017

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.