

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Mid Valley Disposal  
Application No. 16-SM018**

**Tuesday, October 18, 2016**

Prepared By: *James Shimp, Analyst*

**SUMMARY**

**Applicant** – Mid-Valley Disposal

**Location** – Kerman, Fresno County

**Industry** – Mixed Organics (Recycled Resource Extraction)

**Project** – Construction of a New Organics Composting Facility

**Value of Qualified Property** – \$3,739,543

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$314,870

**Estimated Net Benefits** – (\$26,094)

**Application Score** –

|                                       |            |
|---------------------------------------|------------|
| Fiscal Benefits Points:               | 876        |
| <u>Environmental Benefits Points:</u> | <u>41</u>  |
| <b>Net Benefits Score:</b>            | <b>917</b> |

|                                    |              |
|------------------------------------|--------------|
| <u>Additional Benefits Points:</u> | <u>130</u>   |
| <b>Total Score:</b>                | <b>1,047</b> |

**Staff Recommendation** – Approval

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

<sup>2</sup> 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 and process in excess of 80,000 tons of mixed recyclables annually. Recycled materials currently include fibers, plastics, glass, and metal containers.

Mid-Valley Disposal has an additional application being considered at the October 18, 2016 Board meeting for \$6,821,909 in qualified property, anticipated to result in an estimated STE of \$574,405, to replace a mixed recyclables line at its Fresno facility.

The major shareholders (10.0% or greater) of Mid-Valley Disposal are:  
John Kalpakoff (51%)  
Joseph Kalpakoff (25%)  
Jonathan Kalpakoff (20%)

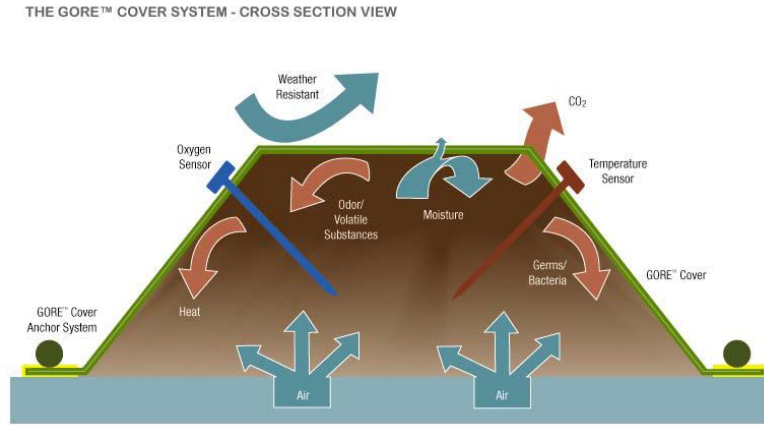
The corporate officers of Mid-Valley Disposal are:  
Jay Kalpakoff, President  
Joseph Kalpakoff, CEO  
Joe Heisdorf, CFO  
Jonathan Kalpakoff, Vice President  
Roy Mendrin, Vice President

**THE PROJECT**

Mid-Valley Disposal is seeking an STE award in order to build a new 60,000 ton organic materials composting facility (the “Project”). The facility will utilize concrete bunkers with built in aeration systems that are covered by large GORE-TEX tarps. The Applicant represents that this system creates a pressurized controlled environment that reduces up to 95% of greenhouse gas emissions when compared to traditional open row composting.

The covered composting system is designed to accept post-consumer food waste that can be blended with other organic material that would otherwise be disposed of in landfills. In addition to landfill diversion, the process will create a variety of finished grades of compost which will largely be marketed to the local agricultural community.

*Figure 1. Cross-sectional View of the Covered Composting System*



**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

|   |                           |
|---|---------------------------|
| Sustainable Generation System w/GORE-TEX Covers | \$1,890,000               |
| Grinder   | 792,000                   |
| Trommel Screen                                  | 490,952                   |
| Loader  | 496,976                   |
| Mobile Tarp Winder                              | 69,615                    |
| <b>Total</b>                                    | <b><u>\$3,739,543</u></b> |

*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 of the composting facility began in February 2016 and is expected to be completed in November 2016. All equipment is anticipated to be placed in service in December 2016.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$3,739,543 and the total net benefits are valued at **-\$26,094** for the Project. Although the cumulative fiscal and environmental benefits fall short of the estimated Sales and Use Tax Exclusion amount, resulting in a negative net benefit, the Project has additional employment related benefits that are not quantifiable in fiscal terms and which increase the Total Score above the qualifying threshold.<sup>3</sup> The Project received a Total Score of 1,047 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 41 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (876 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 \$275,785 resulting in a Fiscal Benefits score of 876 points for the Project.
- B. Environmental Benefits (41 points).** The Project will result in \$12,990 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 41 points for the Project. These benefits derive from processing organic waste for the manufacture of compost, which thereby diverts 60,000 tons from landfills annually, according to the Applicant.
- C. Additional Benefits (130 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 130 additional points.
  - 1. Permanent Jobs (35 of 75 points).** The Applicant represents that the Project will support a total of seven 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 35 points for the Project.
  - 2. Construction Jobs (45 of 75 points).** The Applicant represents that the Project will support a total of 17 construction jobs at its Facility. CAEATFA estimates that approximately two 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 45 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%. This is above 110% of the statewide average annual unemployment rate which is

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

currently 7.5% resulting in an Unemployment Score of 50 points for this Project.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

MVD 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,<sup>4</sup> the Applicant has paid CAEATFA an Application Fee of \$1,869.77 and will pay CAEATFA an Administrative Fee of \$15,000.

## **RECOMMENDATION**

The cumulative fiscal and environmental benefits of the Applicant's proposed Project fall short of the estimated Sales and Use Tax Exclusion amount, resulting in a net benefit of -\$26,094. However, the Project has additional employment related benefits that are not quantifiable in fiscal terms and which increase the Total Score above the qualifying threshold.<sup>5</sup> Accordingly, staff recommends approval of Resolution No. 16-SM018 for Mid-Valley Disposal's purchase of Qualified Property in an amount not to exceed \$3,739,543 anticipated to result in an approximate sales and use tax exclusion value of \$314,870.

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<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10036

<sup>5</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

**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 \$3,739,543 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.8**  
**Resolution No. 16-SM018**  
**Application No. 16-SM018**

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.