

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

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

**Zanker Road Resource Management
Application No. 16-SM020**

November 15, 2016

Prepared By: *Ellen Hildebrand*

SUMMARY

Applicant – Zanker Road Resource Management

Location – San Jose, Santa Clara County

Industry – Mixed Recycling (Recycled Resource Extraction)

Project – Purchase of a new shredding system to process and recover recyclables

Value of Qualified Property – \$1,512,796

Estimated Sales and Use Tax Exclusion Amount² – \$127,377

Estimated Net Benefits – \$100,565

Application Score³ –

Fiscal Benefits Points:	1,784
<u>Environmental Benefits Points:</u>	<u>5</u>
Net Benefits Score:	1,790
<u>Additional Benefits Points:</u>	<u>40</u>
Total Score:	1,830

Staff Recommendation – **Denial** of application due to the project not meeting the Program’s minimum points threshold of environmental benefits.

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%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Zanker Road Resource Management Ltd. (“Zanker” or the “Applicant”) is a privately owned solid waste and recycling company operating in the San Jose and Sacramento areas. Zanker began operations in 1985 as a landfill, and has since developed into a full-service resource management company which recovers metals, wood, concrete, sheet rock, brick, tile, brush, trees, rock, asphalt, and soil. Less than 16% of total material processed at all Zanker facilities is sent to landfill, well ahead of the statewide policy goal of 75% landfill diversion by 2020.

The major partners (10.0% or greater) of Zanker Road Resource Management are:

- Zanker Road Resource Recovery (30%)
 - Richard Cristina, General Partner
 - Murray Hall, General Partner
 - Herb Sweatt, General Partner
- HL Sweatt, Inc. (10%)
 - Herb Sweatt, General Partner
 - Nancy Sweatt, General Partner
- Sportsell L.P. #4 (10%)

THE PROJECT

The Applicant is requesting a sales and use tax exclusion to purchase and install a new shredding system at the San Jose Zanker Material Processing Facility (the “Project”). The Project will enable the Applicant to process approximately 120,000 tons per year of waste from Santa Clara, San Mateo, and Alameda counties using a shredder, magnets, sorting conveyor, sizing screen, air separator, and stacking conveyers. The Project will process material that has been processed through the construction and demolition waste sorting line, as well as unprocessed waste delivered to the facility. Construction and demolition waste typically consists of debris resulting from construction, remodeling, repair, and demolition of structures and roads, such as concrete, wood, bricks, asphalt, drywall, or roof coverings.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

SSI Model PR6600 Shredding System	\$1,009,796
Electrical for installation and operation of Shredding System	190,000
Concrete Foundation	63,000
Asphalt Foundation	250,000
Total	<u>\$1,512,796</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 that they started construction in September 2016 and have made many of the Qualified Property purchases already. Equipment installation is currently ongoing, and system operation is scheduled to start in late November or December 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$1,512,796 and the total net benefits are valued at \$100,565 for the Project. The Project received a Total Score of 1,830 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 5 points, which does not meet the 20 point threshold established by Program regulations.⁴

- A. Fiscal Benefits (1,784 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 \$227,254 resulting in a Fiscal Benefits score of 1,784 points for the Project.

- B. Environmental Benefits (5 points).** The Project will result in \$689 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of five points. These benefits derive from the increased recycling of metal, wood, and concrete. The Project does not meet the environmental benefits threshold of 20 points due primarily to the relatively small expected increase in recycling that will result from the Project, and in part due to the fact that a significant portion of the Project’s total costs come from non-capital costs. A more thorough explanation of each of these issues is laid out below.

Discussion of Relatively Low Rate of Recycling

Zanker represents that its Project will process material that has already been processed through the construction and demolition waste sorting line, as well as unprocessed waste delivered to the facility. This type of “hard-to-recover” waste

⁴ California Code of Regulations Title 4, Division 13, Section 10033

stream makes the Project different than many of the other AB 199 eligible Projects previously considered by the CAEATFA Board. Many of the other Projects previously considered were structured to process municipal waste that has not yet been processed, which will by its nature achieve a higher rate of recycling and total amount of recycling. This higher amount of recycling has led to other AB 199 applicants achieving higher scores that exceed the 20 point threshold.

Discussion of Alternative Daily Cover

The project’s relatively small estimate of total annual recycling is in part due to the exclusion of alternative daily cover (“ADC”) from the estimate of total annual recycling. ADC is cover material other than soil placed on the surface of the active face of a municipal solid waste landfill at the end of each operating day to control vectors, fires, odors, blowing litter, and scavenging.⁵ Of the 120,000 tons of waste per year that the Project will process, the system is anticipated to recover approximately 3,600 tons of metals, 8,400 tons of wood and concrete, and 30,000 tons of ADC. Early versions of the Project application included ADC in the Project’s estimate of total annual recycling along with metals, wood, and concrete, totaling 42,000 annual tons of recycling. This allowed the Project to score 19 points, which did not meet the 20 point environmental benefits threshold stipulated by Program regulations.

Upon further research, CAEATFA staff determined that although ADC is considered “diversion,” it should not be included in the Application’s estimate of total annual recycling. CalRecycle currently considers ADC “recycling through diversion” for the purposes of reporting diversion of waste from landfills.⁶ However, STE Program regulations and statute do not direct CAEATFA to measure the benefits of diversion from landfill, but instead require CAEATFA to measure the benefits of greenhouse gas reductions due to increased use of recycled materials.⁷ Increased recycling has numerous greenhouse gas reduction benefits such as reduced greenhouse gas emissions from landfill when organics are diverted and reduced greenhouse gas emissions due to the offset amount of virgin materials that would otherwise need to be acquired, manufactured, and transported. When submitting an application, recycling projects are asked to select the type of recycled material that the Project will produce, which allows the greenhouse gas reduction benefits of the chosen type of material to be estimated. CAEATFA assumes “mixed recycling” applications are submitted for Projects that will recycle a mixture of newsprint, mixed paper, mixed plastics, glass, and mixed metals. This assumption allows CAEATFA to use the U.S. Environmental Protection Agency’s WARM model and California Air Resources

⁵ CalRecycle. Alternative Daily Cover. Last updated April 29, 2015.
<http://www.calrecycle.ca.gov/lgcentral/basics/ADCBasic.htm>

⁶ Though ADC is currently considered diversion, AB 1594 (Williams, Chapter 719, Statutes of 2014) mandated that green material used as ADC will no longer be considered diversion as of January 1, 2020.

⁷ California Code of Regulations Title 4, Division 13, Section 10033 directs CAEATFA to consider increased recycling, and Public Resources Code 26011.8(d)(4) directs CAEATFA to consider greenhouse gas reductions.

Board data to estimate the greenhouse gas benefits of increased recycling of “mixed recyclables”. “Mixed recycling” applications are estimated to reduce greenhouse gas emissions by 2.61 metric tons of CO₂ equivalent per short ton recycled. Zanker’s Project recycles a mixture of materials and was submitted as a mixed recycling Application. Therefore, its benefits are calculated using the mixed recycling estimate. ADC should not be included, because while it is considered “diversion,” it is not mixed recycling, and is unlikely to have the same high greenhouse gas benefits as mixed recycling. This is in part because ADC is placed in a landfill, and therefore the emissions from organics breaking down are not avoided. Additionally, if ADC were not available for use, often soil would be used as daily landfill cover.⁸ While the fact that soil no longer needs to be used likely yields small greenhouse benefits due to the fact that soil (or another material) would otherwise need to be transported from another on or off site location, these benefits will not be nearly as large as, for example, the offset need to harvest and process trees due to the recycling of paper products.

The Applicant requested that information regarding diversion be included in the staff summary, so CAEATFA staff did additional research to determine whether there was a way to quantify the slight greenhouse gas benefits of diverting ADC. Staff found that the research literature regarding the greenhouse gas benefits of diverting ADC is very limited, and that the research that is available shows that the greenhouse gas benefits of diverting ADC are low. One small study by the Los Angeles County Sanitation District concluded that using ADC is estimated to reduce greenhouse gas emissions by 0.165 metric tons of CO₂ equivalent per short ton recycled, a substantially lower benefit than the “mixed recycling” benefit of 2.61 metric tons of CO₂ equivalent per short ton recycled.⁹ CAEATFA chose not to measure the slight benefits of ADC in the Application’s environmental benefits calculation for two reasons: 1) There is very little research into the greenhouse gas benefits of ADC, unlike the other estimates for other types of material used to calculate the environmental benefits score, and 2) Because of the nature of ADC, the greenhouse gas benefits of diverting ADC are likely so low that they would have a negligible impact on an applicant’s environmental benefits score.

In conclusion, the greenhouse gas benefits of diverting ADC are significantly lower than the greenhouse gas benefits of increased recycling of mixed recyclables. Including ADC in the Project’s estimate of total annual recycling would substantially overestimate the environmental benefits of the Project. Without ADC included, the Project receives an environmental benefits score of five points. If the small environmental benefits of ADC could be quantified and included, it would likely only have a slight impact on the environmental benefits score. Even if ADC is erroneously included in the Project’s “mixed recyclables” estimate of total annual recycling, the

⁸ Kong, D., Huitric, R., Iacoboni, M., Chan, G., Los Angeles County Sanitation District.
<http://www.calrecycle.ca.gov/organics/Events/ADCFoodWaste/Comments/LACoGreenhse.pdf>

⁹ Ibid.

Project would receive an environmental benefits score of 19, which does not meet the environmental benefits threshold stipulated by the Program regulations.

Discussion of Non-Capital Costs

Another reason that Zanker's Application is receiving a low environmental benefit score is that a significant portion of the Project's total costs come from non-capital costs, which are not influenced by the STE incentive. The STE application measures the marginal benefit of the sales and use tax exclusion. In other words, the STE award in effect lowers the cost of purchasing capital equipment. CAEATFA assumes that as a result, applicants are incentivized to purchase marginally more capital equipment than they would have without the STE. Because of this, there is a marginal increase in economic activity such as increased purchases of capital equipment, and increased sales and usage of the Applicant's product. In the case of Zanker's application, the value of the STE is \$127,377, which amounts to a 0.26% reduction in total costs due to the STE. This percentage is small because capital costs are only a small portion of total costs over the life of the project. Non-capital costs may be low in this case for a variety of reasons. Zanker's Project will process a hard-to-recover waste from a construction and demolition line, which may by nature require higher non-capital costs (labor, supplies, utilities, etc.) than other AB 199 eligible projects. Additionally, Zanker's Project is structured to pay other entities to receive a portion of the material that is diverted from landfill, which could mean that a portion of the benefits that would otherwise accrue to the Applicant go to the other entities.

- C. **Additional Benefits (40 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 40 additional points.
1. **Permanent Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of six 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 20 points for the Project.
 2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of eight 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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Zanker is a fully permitted landfill and recycling facility and will operate the Shredding System under existing permits.

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,¹⁰ the Applicant has paid CAEATFA an Application Fee of \$756.40 and will pay CAEATFA an Administrative Fee of \$15,000 if approved.

RECOMMENDATION

Staff recommends denial of Resolution No. 16-SM020 for Zanker Road Resource Management's request to purchase of Qualified Property in an amount not to exceed \$1,512,796 anticipated to result in an approximate sales and use tax exclusion value of \$127,377.

Zanker's Project is eligible under the STE Program regulations as expanded under AB 199. However, the Project does not have sufficient environmental benefits to meet the 20 point environmental benefits threshold stipulated by Program regulations.¹¹ This is due to the fact that the Project will process a hard-to-recover waste stream, and because a large portion of the Project's costs come from non-capital items. The Project will recycle 12,000 tons per year of 120,000 total tons of waste. 30,000 tons per year of ADC will also be diverted, but this material cannot be included in the total tons recycled due to the fact that it does not increase recycling and has low environmental benefits. The recycling of 12,000 tons per year does not generate a substantial enough greenhouse gas reduction benefit to meet the environmental benefits threshold required by regulation.

¹⁰ California Code of Regulations Title 4, Division 13, Section 10036

¹¹ California Code of Regulations Title 4, Division 13, Section 10033

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ZANKER ROAD RESOURCE MANAGEMENT,
LTD.**

November 15, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Zanker Road Resource Management, Ltd.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized 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 \$1,512,796 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.1
Resolution No. 16-SM020
Application No. 16-SM020

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.