

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

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

**CR&R Incorporated
Application No. 17-SM006**

Tuesday, June 20, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – CR&R Incorporated

Location – Perris, Riverside County and Lakeview, Riverside County

Industry – Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility (Alternative Source)

Value of Qualified Property – \$11,610,900

Estimated Sales and Use Tax Exclusion Amount² – \$977,638

Estimated Net Benefits – \$98,731

Application Score –

Fiscal Benefits Points:	909
<u>Environmental Benefits Points:</u>	<u>192</u>
Net Benefits Score:	1,101
<u>Additional Benefits Points:</u>	<u>86</u>
Total Score:	1,187

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

CR&R Incorporated (“CR&R” or the “Applicant”), a California corporation formed in 1969, is an integrated solid waste resource recovery company. Its Materials Recovery Facilities (MRFs) are located in Stanton, Lakeview, San Juan Capistrano, and Perris.

The major shareholders (10.0% or greater) of CR&R Incorporated are:

David M. Ronnenberg as Trustee of the Ronnenberg Family 2012 Trust dated 12/28/12 (49%)

Clifford R. Ronnenberg as Trustee of the Ronnenberg Family Trust dated June 21, 1978 (49%)

The corporate officers of CR&R Incorporated are:

Clifford Ronnenberg – Chief Executive Officer
 David Ronnenberg – Division President
 Patricia Leyes – Vice President
 Joyce Amato – Chief Financial Officer

THE PROJECT

CR&R is requesting a sales and use tax exclusion to build a regional anaerobic digester to recycle green waste and food waste at its existing materials recovery facility in Perris, and a composting center in Lakeview which will process the organic residuals from the anaerobic digester (the “Project”). The equipment purchased will also augment the feedstock receiving area that will process the recycled feedstock. CR&R represents that the anaerobic digester will produce approximately 1 million diesel gallon equivalents of renewable natural gas to fuel CR&R’s fleet of compressed natural gas vehicles.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Anaerobic Digester System	\$ 7,475,000
Conveyors, Grinders, and Trommel	2,767,900
ANGI Compressors	545,700
Excavator	125,000
Compost Turner	253,300
Wheel Loader	444,000
Total	<u>\$11,610,900</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

CR&R has already made a portion of the Qualified Property purchases, but has not yet put the equipment into operation. The Applicant represents that they expect to make the remaining purchases and put the equipment into operation within the next 12-24 months.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$11,610,900 and the total net benefits are valued at \$98,731 for the Project. The Project received a Total Score of 1,187 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 192 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (909 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 \$888,838 resulting in a Fiscal Benefits score of 909 points for the Project.
- B. Environmental Benefits (192 points).** The Project will result in \$187,531 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 192 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil fuel for Applicant's fleet.
- C. Additional Benefits (86 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 86 additional points.

 - 1. Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 17 permanent 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 Permanent Jobs Score of 30 points for the Project.
 - 2. Construction Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 30 construction 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 Construction Jobs Score of 40 points for the Project.

3. **Unemployment (16 of 50 points)**. The Applicant's Project is located in Riverside County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 16 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Qualified Property will be put into operation at CR&R's existing, fully permitted operation. CR&R represents that they are expanding their compost facility permit at the Lakeview Composting Facility, which is expected to be completed by the end of 2017.

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 \$5,805 and will pay CAEATFA an Administrative Fee of \$46,444.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE CR&R INCORPORATED**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CR&R Incorporated** (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 \$11,610,900 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.