

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

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

**Recology San Francisco  
Application No. 17-SM053**

**Tuesday, July 18, 2017**

Prepared By: *Melanie Holman, Analyst*

**SUMMARY**

**Applicant** – Recology San Francisco

**Location** – San Francisco, San Francisco County

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

**Project** – Upgrade and Expansion of Existing Materials Recovery Facility

**Value of Qualified Property** – \$3,633,145

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$305,911

**Estimated Net Benefits** – \$60,177

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	1,176
<u>Environmental Benefits Points:</u>	<u>20</u>
<b>Net Benefits Score:</b>	<b>1,197</b>
<u>Additional Benefits Points:</u>	<u>55</u>
<b>Total Score:</b>	<b>1,252</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%.

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

**THE APPLICANT**

Recology San Francisco (“Recology SF” or the “Applicant”) is a California corporation that organized in 1935, when it was originally called Sanitary Fill Company. Recology SF operates a materials recovery facility (“MRF”) at Pier 96 in San Francisco.

Recology SF is a wholly owned subsidiary of Recology, Inc., which is owned by an Employee Stock Ownership Plan. Recology, Inc. has two other subsidiaries that have received CAEATFA STE awards for anaerobic digester projects: Recology East Bay, which received an award on June 28, 2011 for approximately \$336,981 in STE, and Recology Leasing, which received an award on May 20, 2014 for approximately \$2,186,424 in STE.

Recology SF previously received an award on October 18, 2016 for approximately \$666,626 in STE. The Applicant has exhausted the entirety of their award.

The corporate officers of Recology SF are:

- Michael J. Sangiacomo, President & CEO
- George P. McGrath, Executive Vice President & COO
- Mark R. Lomele, Executive Vice President & CFO

**THE PROJECT**

Recology SF represents that they plan to install and implement new technology at their San Francisco, California facility in order to increase efficiency. This project will be known as the Waste Diversion Upgrade and is intended to divert additional waste from landfills. Utilizing an OREX press, a specialized piece of machinery that separates organic matter from other material through compression, the Applicant intends to extract organic waste in the form of paste and transport it to the East Bay Municipal Utility District to be converted into energy through anaerobic digestion. Remaining material unsuitable for compression and extraction in the OREX press will be sent to Recology SF’s Recycle Central location where the Applicant has stated new equipment will be needed in order to complete the Waste Diversion Upgrade. The Applicant represents that these upgrades will result in an additional 7,000 tons of waste diverted from landfills annually.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Sorting Equipment	\$ 1,494,115
Transfer Conveyors and Connecting Conveyors	265,345
Master Control System	1,104,010
Supporting Equipment	769,675
<b>Total</b>	<b><u>\$ 3,633,145</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**

The Applicant represents that the design of the Project began in June 2017 and all components of the upgrade will be complete by early 2018. Recology SF predicts that all Qualified Property will be purchased within 12 months of award.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$3,633,145 and the total net benefits are valued at \$60,177 for the Project. The Project received a Total Score of 1,252 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 20 points, which meets the 20 point threshold.

- A. Fiscal Benefits (1,176 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 \$359,894 resulting in a Fiscal Benefits score of 1,176 points for the Project.
- B. Environmental Benefits (20 points).** The Project will result in \$6,194 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 20 points for the Project. These benefits derive from the processing of waste for use in another product, which thereby diverts 7,000 tons from landfills annually, according to the Applicant.
- C. Additional Benefits (55 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 55 additional points.
  - 1. Permanent Jobs (55 of 75 points).** The Applicant represents that the Project will support a total of 117 permanent jobs at its Facility. CAEATFA estimates that approximately three 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 55 points for the Project.

2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of two construction jobs at its Facility. CAEATFA estimates that approximately zero of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

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

The Applicant represents that three permits will be required from the Port of San Francisco: a building permit, an electrical permit, and a fire permit. Receipt of these permits is anticipated prior to the end of calendar year 2017.

## **LEGAL QUESTIONNAIRE**

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

## **CAEATFA FEES**

In accordance with CAEATFA Regulations,<sup>4</sup> the Applicant has paid CAEATFA an Application Fee of \$1,816.57 and will pay CAEATFA an Administrative Fee of \$15,000.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 17-SM053 for Recology San Francisco's purchase of Qualified Property in an amount not to exceed \$3,633,145 anticipated to result in an approximate sales and use tax exclusion value of \$305,911.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH RECOLOGY SAN FRANCISCO**

July 18, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Recology San Francisco** (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 \$3,633,145 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.3**  
**Resolution No. 17-SM053**  
**Application No. 17-SM053**

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.