

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

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

**Verdeco Recycling, Inc.
Application No. 17-SM010**

Tuesday, August 15, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – Verdeco Recycling, Inc.

Location – South Gate, Los Angeles County

Industry – Recycled Food Packaging Manufacturing

Project – Expansion of Recycled Food Packaging Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$4,940,350

Estimated Sales and Use Tax Exclusion Amount² – \$415,977

Application Score³ –

Fiscal Benefits Points:	4,086
<u>Environmental Benefits Points:</u>	<u>25</u>
Net Benefits Score:	4,111
<u>Additional Benefits Points:</u>	<u>39</u>
Total Score:	4,151

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%.

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

THE APPLICANT

Verdeco Recycling, Inc. (“Verdeco” or the “Applicant”) is a California corporation committed to producing high quality recycled Polyethylene Terephthalate (“PET”) for use in food packaging and other applications.

The major shareholders (10.0% or greater) of Verdeco Recycling, Inc. are:
Lumiere Holdings B.V. (95%)
Alexander Delnik (5%)

The corporate officers of Verdeco Recycling, Inc. are:
Alexander Delnik, CEO
Carmen Chivu, CFO

THE PROJECT

Verdeco is requesting a sales and use tax exclusion for the purchase of a third recycled PET resin production line in South Gate, California (the “Project”). The equipment purchased will process post-consumer PET into high quality, food-grade recycled resin utilizing advanced PET-M™ recycling technology which was developed by PTP Group Ltd in Europe. Rather than employing the use of high pressure and vacuums for extended periods of time (which is typically used by PET recycling processes), the PET-M™ process uses a silicone-based modifying agent to restore physical and mechanical properties of post-consumer PET. The Applicant represents that the PET-M™ technology minimizes energy consumption and waste resulting in the smallest carbon footprint among known PET recycling technologies. According to the Applicant, recycled PET resulting from this process can be used in any application where virgin PET is currently utilized.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Nordson BKG Pelletizing System	\$ 810,126
MAS Twin Screw Extruder	967,188
York Air Cooled Chiller	121,862
Edwards Vacuum Pump with Scrubber	189,124
Pelletron	190,000
Unadyn Material Handling Equipment	2,100,000
Computrac Linearized Vapor Moisture Analyzer	17,538
Ro-Tap 1725rpm Sieve Shaker	4,313
Metal Separation System	190,000
Chiller Tank and Pump System	220,000
Atlas CopCo Compressor	48,000
Air Pressure Tank System	8,200
Compressed Air Dryer	12,000
Dynisco Melt Flow Indexer	15,000

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Lab Oven	5,000
Lab Vacuum Oven	10,000
Hunter Lab Color Testers	25,000
Analytical Scale	7,000
Total	<u>\$4,940,350</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

Verdeco represents that they will be ready to begin necessary facility upgrades beginning in the third quarter of 2017. The Qualified Property is expected to be put to use by late January 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$4,940,350 and the total net benefits are valued at \$1,283,856 for the Project. The Project received a Total Score of 4,151 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 25 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (4,086 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 \$1,666,857 resulting in a Fiscal Benefits score of 4,086 points for the Project.

- B. Environmental Benefits (25 points).** The Project will result in an Environmental Benefits Score of 25 points. The Applicant received points in the following categories:
 - 1. Energy Consumption (20 of 30 points).** The Applicant represents that its manufacturing process will result in a 20% reduction in energy consumption relative to the industry standard manufacturing process.

2. **Water Use (5 of 30 points).** The Applicant represents that its manufacturing process will result in a 5% reduction in water use relative to the industry standard manufacturing process.

C. **Additional Benefits (39 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 39 additional points.

1. **Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of seven 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 30 points for the Project.
2. **Construction Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of one construction job 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.
3. **Unemployment (9 of 50 points).** The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8%. 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 nine points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that any permitting needs will only require a 30 day lead time for approval and will be acquired as needed. Necessary permits would be for foundation, mechanical, electrical, and plumbing.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$2,470.18 and will pay CAEATFA an Administrative Fee of up to \$19,761.40.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM010 for Verdeco Recycling Inc.'s purchase of Qualified Property in an amount not to exceed \$4,940,350 anticipated to result in an approximate sales and use tax exclusion value of \$415,977.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH VERDECO RECYCLING, INC.**

August 15, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Verdeco Recycling, Inc.** (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 \$4,940,350 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.