

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

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

Aemerge RedPak Services Southern California, LLC
Application No. 17-SM008

Tuesday, September 19, 2017

Prepared By: *Joel Schwartz, Blue Sky Consulting Group with Melanie Holman, Analyst*

SUMMARY

Applicant – Aemerge RedPak Services Southern California, LLC

Location – Hesperia, San Bernardino County

Industry – Medical Waste Recycling

Project – New Medical Waste Recycling Facility (Advanced Manufacturing)

Value of Qualified Property – \$37,000,676

Estimated Sales and Use Tax Exclusion Amount² – \$3,115,457

Application Score –

Fiscal Benefits Points:	1,091
<u>Environmental Benefits Points:</u>	<u>200</u>
Net Benefits Score:	1,291

<u>Additional Benefits Points:</u>	<u>86</u>
Total Score:	1,378

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

Aemerge RedPak Services Southern California, LLC (“Aemerge” or the “Applicant”), an Indiana limited liability company formed in 2015, is a wholly owned subsidiary of Aemerge, LLC. The Applicant converts all forms of medical waste in a two-step, high heat, non-incineration process while destroying all infectious matter.

The major shareholders (10.0% or greater) of Aemerge, LLC are:

- Randy Seger (37.34%)
- Charlie Mong (22.89%)
- Bindley/Moore (22.82%)

The corporate officers of Aemerge RedPak Services Southern California, LLC are:

- Landon C. G. Miller, Chief Operating Officer
- Adam C. Seger, President

THE PROJECT

Aemerge is requesting a sales and use tax exclusion to construct and operate a medical waste recycling facility located in Hesperia (the “Project”). According to the Applicant, the Project will convert medical waste into three types of products: (1) recycled metals and glass recovered from the waste; (2) carbon products (colorants, activated carbon, carbon for battery components) generated from the waste as a result of the waste conversion process; and (3) electricity generated from organic materials (paper, wood, plastics, pharmaceuticals, and human and animal tissues) found in medical waste.

The Applicant represents the Project will use a non-combustion heating process (a carbonizer and thermal oxidizer system) that vaporizes the organic component of the medical waste, converting it to organic gases that are burned to produce electricity, plus residual carbon that is converted to activated carbon, carbon colorants, battery components and other carbon products. Metals and glass will be recovered for sale as recycled materials.

According to the Applicant, the Project will result in several environmental benefits. For example, the Applicant represents that the Project’s use of a carbonizer for treating medical waste uses less energy compared to the current industry standard of using an autoclave and requires no water use, unlike an autoclave. Additionally, the Project’s waste processing will be powered by electricity generated from the organic waste materials, displacing fossil-fuel based electricity.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Building Upgrades	\$ 874,797
Site Improvements	7,587,335
Existing Carbonizers	1,056,888
Med Waste Shred-Feed	2,750,436
New Carbonizer	6,970,677
Economizer - Fin Cooler - Heat Reduction	1,563,118
Therm Ox/Heat Exchanger/Boiler	2,259,097
Air Quality Control	3,251,230
Char Handling	630,416
Production Controls	2,344,711
Emergency Gas Dump	592,541
Equipment Installation	1,342,865
System Engineering	3,722,039
Product Tracking and Reporting Equipment	104,528
Maintenance and Replacement Parts	1,200,000
Office equipment (dollies, lifts, barcode scanners, computers)	750,000
Total	<u>\$37,000,676</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

Aemerge represents the facility upgrades have already commenced, and the Applicant expects to begin operations in late October 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$37,000,676 and the total net benefits are valued at \$283,990 for the Project. The Project received a Total Score of 1,378 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 200 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,091 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 \$3,399,447 resulting in a Fiscal Benefits score of 1,091 points for the Project.
- B. Environmental Benefits (200 points).** The Project will result in an Environmental Benefits Score of 200. The Applicant received points in the following categories:
- 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that it represents will result in reduced waste transportation, reduced water usage for waste treatment, and reduced landfilling by complying with ISO 14001 international standards for environmental excellence.
 - 2. Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 40% reduction in energy consumption relative to the industry standard manufacturing process.
 - 3. Water Use (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 100% reduction in water use relative to the industry standard manufacturing process.
 - 4. Solid Waste (30 of 30 points).** The Applicant represents that its manufacturing process will result in an 85% reduction in solid waste produced relative to the industry standard manufacturing process.
 - 5. Hazardous Waste (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 100% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 - 6. Air Pollutants (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 100% reduction in air pollutants produced relative to the industry standard manufacturing process.
 - 7. Other Pollutants (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 90% reduction in other pollutants produced relative to the industry standard manufacturing process.
- 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 (20 of 75 points).** The Applicant represents that the Project will support a total of 19 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 20 points for the Project.

2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 36 construction jobs at its Facility. CAEATFA estimates that approximately five 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 30 points for the Project.
3. **Unemployment (11 of 50 points)**. The Applicant's Project is located in San Bernardino County, which has an average annual unemployment rate of 8.4%. 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 11 points for this Project.
4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Victor Valley Community College for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that all required permits and approvals have been obtained.

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 \$10,000 and will pay CAEATFA an Administrative Fee \$148,002.70.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM008 for Aemerge RedPak Services Southern California, LLC's purchase of Qualified Property in an amount not to exceed \$37,000,676 anticipated to result in an approximate sales and use tax exclusion value of \$3,115,457.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH AEMERGE REDPAK SERVICES SOUTHERN
CALIFORNIA, LLC**

September 19, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Aemerge RedPak Services Southern California, LLC** (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 \$37,000,676 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. 17-SM008
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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.