

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

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

**Mid-Valley Recycling, LLC  
Application No. 18-SM001**

**Tuesday, January 16, 2018**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Mid-Valley Recycling, LLC

**Location** – Kerman, Fresno County

**Industry** – Mixed Organics

**Project** – Expansion of an Existing Organics Composting Facility (Recycled Resource Extraction)

**Value of Qualified Property** – \$1,970,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$164,692

**Estimated Net Benefits** – (\$3,374)

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	879
<u>Environmental Benefits Points:</u>	<u>100</u>
<b>Net Benefits Score:</b>	<b>980</b>
 <u>Additional Benefits Points:</u>	 <u>140</u>
<b>Total Score:</b>	<b>1,120</b>

**Staff Recommendation** – Approval

---

---

<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 8.36%.

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

## **THE APPLICANT**

Mid-Valley Recycling, LLC (“MVR” or the “Applicant”) is a California limited liability company that was formed in 2014 for the purpose of acquiring and operating the recycling and organics processing facilities owned by Mid-Valley Disposal (“MVD”), which shares the same owners as MVR.

On October 18, 2016, the CAEATFA Board approved MVD for two STE awards. One award was for the purchase of up to \$6,821,909 in Qualified Property for an estimated STE value of \$574,405 to replace a mixed recyclables processing line in Fresno, and the other award was for the purchase of up to \$3,739,543 in Qualified Property for an estimated STE value of \$314,870 to construct a new self-contained organics composting facility in Kerman that is controlled by MVR. To meet the growing demands of the Kerman facility, MVR is now seeking an STE award to expand its organic composting operation.

The major shareholders (10.0% or greater) of Mid-Valley Recycling, LLC are:

Joseph Kalpakoff (51%)  
Jonathan Kalpakoff (35%)  
John Kalpakoff (10%)

The corporate officers of Mid-Valley Recycling, LLC are:

Joseph Kalpakoff, Chief Executive Officer  
John Kalpakoff, President  
Jonathan Kalpakoff, Vice President  
Natalie Kalpakoff, Secretary  
Joseph Heisdorf- Chief Financial Officer

## **THE PROJECT**

MVR plans to expand its existing organic materials composting facility in Kerman that uses a Sustainable Generation Mega™ system (the “Project”). The system consists of concrete bunkers with built in aerations covered by large GORETEX tarps. The Applicant represents that the Project creates a pressurized controlled environment that reduces up to 95% of greenhouse gas emissions when compared to traditional open row composting. The Project will combine post-consumer food wastes with other organic materials that were destined for landfills to produce a variety of premium compost products targeted towards retailers and the agricultural community. According to MVR, the installation of additional bunkers and covers will increase capacity by 50%, enabling the facility to produce an additional 30,000 tons of compost each year.

## **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Sustainable Generation Mega™ System w/ GORE-Tex Covers	\$1,200,000
Loaders	700,000
Mobile Tarp Winder	70,000
<b>Total</b>	<b><u>\$1,970,000</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**

MVR expects construction to begin April 2018 and end in September 2018. The Applicant represents the Qualified Property will be purchased and placed in service before December 31, 2018.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$1,970,000 and the total net benefits are valued at **-\$3,374** for the Project. Although the cumulative fiscal and environmental benefits fall short of the estimated STE amount, resulting in a negative net benefit, the Project received additional employment related benefits that are not quantifiable in fiscal terms, and which increase the Total Score above the qualifying threshold.<sup>4</sup> The Project received a Total Score of 1,120 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 100 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (879 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 \$144,811 resulting in a Fiscal Benefits score of 879 points for the Project.
- B. Environmental Benefits (100 points).** The Project will result in \$16,507 of total pollution benefits over the life of the Project resulting in an Environmental Benefits

---

<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

Score of 100 points for the Project. These benefits derive from the processing of organic waste to manufacture compost, which thereby diverts 30,000 tons per year from landfills, according to the Applicant.

**C. Additional Benefits (140 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 140 additional points.

- 1. Permanent Jobs (35 of 75 points).** The Applicant represents that the Project will support a total of three 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 35 points for the Project.
- 2. Construction Jobs (55 of 75 points).** The Applicant represents that the Project will support a total of nine 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 55 points for the Project.
- 3. Unemployment (50 of 50 points).** The Applicant's Project is located in Fresno County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.

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

The Applicant represents that a Solid Waste Facilities Permit has been obtained from the County of Fresno. The Applicant expects approval of an amended Conditional Use Permit with revisions to the site plan from the City of Kerman by January 2018; approval of an amended Transfer Processing Report with revisions to the site plan from the County of Fresno by February 2018; and authorization to construct from San Joaquin Valley Air Pollution Control District (SJCAPCD) by March 2018.

#### **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,<sup>5</sup> the Applicant has paid CAEATFA an Application Fee of \$985 and will pay CAEATFA an Administrative Fee of \$15,000.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 18-SM001 for Mid-Valley Recycling, LLC's purchase of Qualified Property in an amount not to exceed \$1,970,000 anticipated to result in an approximate sales and use tax exclusion value of \$164,692.

---

<sup>5</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH MID-VALLEY RECYCLING, LLC**

January 16, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Mid-Valley Recycling, 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 \$1,970,000 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.2**  
**Resolution No. 18-SM001**  
**Application No. 18-SM001**

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.