

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

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

**Peninsula Plastics Recycling, Inc.
Application No. 18-SM011**

Tuesday, May 15, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Peninsula Plastics Recycling, Inc.

Location – Turlock, Stanislaus County

Industry – Plastic and Mixed Recycling

Project – Expansion of Existing Plastic and Mixed Recycling Extraction Facility (Recycled Resource Extraction)

Value of Qualified Property – \$3,800,000

Estimated Sales and Use Tax Exclusion Amount² – \$317,680

Estimated Quantifiable Net Benefits – \$1,382,454

Application Score –

Fiscal Benefits Points:	5,328
<u>Environmental Benefits Points:</u>	<u>24</u>
Net Benefits Score:	5,352
<u>Additional Benefits Points:</u>	<u>100</u>
Total Score:	5,452

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 8.36%.

THE APPLICANT

Peninsula Plastics Recycling, Inc. (“PPR” or the “Applicant”), was incorporated in 2009 and is a wholly owned subsidiary of Merlin Plastics USA. PPR is predominantly a plastic recycler with plans to produce FDA approved PET pellets (or resin) and baled products such as paper and metal at its facility in Turlock.

The major shareholders (10.0% or greater) of Merlin Plastics USA are:
 Helena Holdings (62%)
 EPV Holdings (38%)

The corporate officers of Peninsula Plastics Recycling, Inc. are:
 Antoine Moucachen, President, Chief Financial Officer, and Secretary

THE PROJECT

PPR is requesting a sales and use tax exclusion to expand its existing plastic recycling facility in Turlock to increase its capacity, create a new economically viable resin that is FDA approved, as well as extract and compress paper and metal into bales from comingled waste (the “Project”). According to PPR, containers with comingled waste are expensive and difficult to sort and were previously shipped to China for processing by a low wage workforce. Presently China will no longer accept the shipments, which has caused a serious concern for the industry according to the Applicant. In its effort to reduce landfill and ocean dumping, the Applicant represents it will install additional sortation equipment (“Sortation Equipment”) comprised of ballistics and metal separators, eddy current machines, and de-stoning units that are integrated together by conveyors and cables at the front end, and a Solid State Polycondensation (SSP) unit at the back end. These new machineries, along with existing machineries, will enable PPR to create a robust process capable of handling contamination from a mixed and comingled recyclable stream, according to the Applicant. PPR represents that the SSP unit and Sortation Equipment will be able to extract contaminants such as cutlery, tools, batteries, coins, rocks, metal, glass, and other volatile materials to produce high-end FDA approved pellets. The Applicant represents it will be able to produce approximately 15,000 tons of FDA approved PET pellets, 3,750 tons of baled mix paper, and 3,750 tons of baled ferrous metals. Furthermore, PPR will incorporate and use solar panels to operate its facility thereby reducing the carbon footprint per unit of energy by approximately 95%.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Solar Electric System	\$1,700,000
Solid State Polycondensation (SSP) Unit and Installation	1,500,000
Eddy Current Machines, Infrared Sorters, and Installation	<u>600,000</u>
Total	<u>\$3,800,000</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

The Applicant represents that the expansion planning process has begun and expects to put the Qualified Property to use by Q4 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,800,000 and the total quantifiable net benefits are valued at \$1,382,454 for the Project. The Project received a Total Score of 5,452 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 24 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (5,328 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 \$1,692,646 resulting in a Fiscal Benefits score of 5,328 points for the Project.

- B. Environmental Benefits (24 points).** The Project will result in \$7,488 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 24 points for the Project. These benefits derive from the processing of plastic, paper and metal for use in another product, which thereby diverts approximately 22,500 tons from landfills annually, according to the Applicant.

- C. Additional Benefits (100 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 100 additional points.
 - 1. Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 10 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 (20 of 75 points).** The Applicant represents that the Project will support a total of six 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 20 points for the Project.

- 3. Unemployment (50 of 50 points).** The Applicant's Project is located in Stanislaus County which has an average annual unemployment rate of 8%. 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

According to the Applicant, a building permit is needed for the Project and anticipates that the City of Turlock will approve it by Q2 2018 or early Q3 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,³ the Applicant has paid CAEATFA an Application Fee of \$1,900 and will pay CAEATFA an Administrative Fee of up to \$15,200.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM011 for Peninsula Plastics Recycling, Inc.'s purchase of Qualified Property in an amount not to exceed \$3,800,000 anticipated to result in an approximate sales and use tax exclusion value of \$317,680.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH PENINSULA PLASTICS RECYCLING, INC.

May 15, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Peninsula Plastics 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 \$3,800,000 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.3
Resolution No. 18-SM011
Application No. 18-SM011

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.