

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

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

**Zanker Road Resource Management, Ltd.
Application No. 18-SM016**

Tuesday, June 19, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – Zanker Road Resource Management, Ltd.

Location – San Jose, Santa Clara County

Industry – Mixed Recycling

Project – New Mixed Recycling Facility (Recycled Resource Extraction)

Value of Qualified Property – \$11,132,857

Estimated Sales and Use Tax Exclusion Amount² – \$930,707

Estimated Quantifiable Net Benefits – \$662,398

Application Score –

Fiscal Benefits Points:	1,546
<u>Environmental Benefits Points:</u>	<u>166</u>
Net Benefits Score:	1,712

<u>Additional Benefits Points:</u>	<u>40</u>
Total Score:	1,752

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

Zanker Road Resource Management, Ltd. (“Zanker” or the “Applicant”) is a privately owned solid waste and recycling company operating in the San Jose and Sacramento areas. Zanker began operations in 1985 as a landfill, and has since developed into a full-service resource management company which recovers metals, wood, concrete, sheet rock, brick, tile, brush, trees, rock, asphalt, and soil. Less than 16% of the total material processed at all Zanker facilities is landfilled, well ahead of the statewide policy goal of 75% landfill diversion by 2020.

The major partners (10.0% or greater) of Zanker Road Resource Management, Ltd. are:

Zanker Road Resource Recovery, Inc. (30%)

Richard Cristina

Murray Hall

Herb Sweatt

HL Sweatt, Inc. (10%)

Herb Sweatt

Nancy Sweatt

THE PROJECT

Zanker is requesting a sales and use tax exclusion to build a new mixed recycling facility located in San Jose known as the Advanced C&D Processing System (the “Project”). Zanker represents that it will be installing a ZenRobotics automated sorting system to process and sort incoming material at this facility. According to the Applicant, optimal throughputs of recycled materials are achieved when storage bunkers are used with the new system and will allow it to divert more material from landfills at a rate of 155,000 tons per year, an increase of 20%. The system will service the San Francisco, San Mateo, Berkeley, and Monterey regions.

Figure 1: ZenRobotics automated sorting system



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Advanced C&D Processing System	\$ 9,225,000
Asphalt Tipping Pad and Roads	529,420
Concrete and Installation	60,900
Subbase	4,500
Equipment Rental	5,000
Equipment Operating Costs	5,600
PG&E Costs (Upgrades)	25,000
AC Units	25,000
Electrical Switch Gear	200,000
Metal Roofing and Sides	150,000
Other Utilities, Water, and Internet	305,000
Cat 320E Excavator	214,899
Cat 950 Loader	328,212
Recycling Containers	10,000
Rebar	15,570
Base Rock and Installation	28,756
Total	<u>\$11,132,857</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

Construction on the facility began in March 2018 with equipment due to be installed at the end of July 2018. The Applicant represents that operations will begin in November 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$11,132,857 and the total quantifiable net benefits are valued at \$662,398 for the Project. The Project received a Total Score of 1,752 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 166 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,546 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 \$1,438,809 resulting in a Fiscal Benefits score of 1,546 points for the Project.
- B. Environmental Benefits (166 points).** The Project will result in \$154,295 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 166 points for the Project. These benefits derive from the processing of mixed recyclables for use in another product, which thereby diverts 155,000 tons of material from landfills annually.
- C. Additional Benefits (40 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 40 additional points.
- 1. Permanent Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of six permanent jobs at its Facility. CAEATFA estimates that zero 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.
 - 2. Construction Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 51 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 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The new facility will operate under existing permits.

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 \$5,566.43 and will pay CAEATFA an Administrative Fee of up to \$44,531.43.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM016 for Zanker Road Resource Management, Ltd.'s purchase of Qualified Property in an amount not to exceed \$11,132,857 anticipated to result in an approximate sales and use tax exclusion value of \$930,707.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ZANKER ROAD RESOURCE MANAGEMENT,
LTD.**

June 19, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Zanker Road Resource Management, Ltd.** (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 \$11,132,857 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.