

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

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

EDCO Disposal Corporation
Application No. 18-SM025

Tuesday, October 16, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – EDCO Disposal Corporation

Location – Lemon Grove, San Diego County

Industry – Mixed Recycling

Project – Expansion of an Existing Materials Recovery Facility (Recycled Resource Extraction)

Value of Qualified Property – \$3,750,505

Estimated Sales and Use Tax Exclusion Amount² – \$313,542

Estimated Quantifiable Net Benefits – \$405,343

Application Score –

Fiscal Benefits Points:	2,233
<u>Environmental Benefits Points:</u>	<u>60</u>
Net Benefits Score:	2,293
<u>Additional Benefits Points:</u>	<u>60</u>
Total Score:	2,353

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

EDCO Disposal Corporation (“EDCO” or the “Applicant”), a California corporation, is a processor of residential and commercial mixed waste.

EDCO was previously approved for an STE award on October 18, 2016, for the purchase of up to \$10 million in Qualified Property for an estimated STE value of \$842,000 to expand its materials recovery facility in the city of San Diego. Additionally, on the same day, its sister company, EDCO Transportation Services, LLC, was approved for an STE for the purchase of up to \$10.5 million in Qualified Property for an estimated STE value of \$884,100 to expand its materials recovery facility in Signal Hill.

The major shareholders (10.0% or greater) of EDCO are:

Edward G. Burr and Sandra L. Burr,
Trustees of the Burr 2001 Community
Trust, dated April 2, 2001 (100%)

The corporate officers of EDCO are:

Steve South, Chief Executive Officer
Alan Walsh, Chief Financial Officer
John Snyder, Chief Administrative Officer
Efrain Ramirez, Senior Vice President

THE PROJECT

Figure 1: EDCO’s Materials Recovery Facility



EDCO is requesting a sales and use tax exclusion to re-tool and expand its construction and demolition (“C&D”) materials recovery facility in Lemon Grove by installing a new processing plant (the “Project”). The Applicant represents the new machinery will utilize high-speed sorting optics and robotics to process over 150,000 tons of wood, metal, concrete, asphalt, and gypsum. According to EDCO, it will incorporate a size reducer to maximize recovery, an optic sorter to recover small pieces of wood, and two wall air sorting units to increase separating capabilities of inerts. Overall, the Applicants explains that it will be able to simplify sorting and recover materials at a higher rate, while creating a safer environment for sorters.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Size Reducer and Conveyors	\$1,664,857
Air, Magnetic and Optical Separators	1,124,164
Platforms and Walls	295,687
Electronic Controls	560,797
Cranes	105,000
Total	<u>\$3,750,505</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

According to the Applicant, its initial purchase will take place in Q3 2018, and delivery and installation is anticipated to start in Q4 2019. The plant will begin operations in Q2 2020.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,750,505 and the total quantifiable net benefits are valued at \$405,343 for the Project. The Project received a Total Score of 2,353 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 60 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2,233 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 \$700,109 resulting in a Fiscal Benefits score of 2,233 points for the Project.
- B. Environmental Benefits (60 points).** The Project will result in \$118,776 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 60 points for the Project. These benefits derive from the processing of wood, metal, concrete, asphalt, and gypsum for use in another product, which thereby

diverts approximately 117,000 tons from landfills annually, according to the Applicant.

C. **Additional Benefits (60 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 60 additional points.

1. **Production Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 19 production-related 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 40 points for the Project.
2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of five construction jobs at its Facility. CAEATFA estimates that one-third of 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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has obtained all entitlements and Solid Waste Facility Permit amendments, and is in the process of securing building permits for the installation of the Qualified Property.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$1,924.64 and will pay CAEATFA an Administrative Fee of up to \$15,022.02.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM025 for EDCO Disposal Corporation's purchase of Qualified Property in an amount not to exceed \$3,750,505 anticipated to result in an approximate sales and use tax exclusion value of \$313,542.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH EDCO DISPOSAL CORPORATION**

October 16, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **EDCO Disposal Corporation** (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 \$3,750,505 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.