

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

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

**Clerprem USA Corp.
Application No. 18-SM030**

Tuesday, November 13, 2018

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Clerprem USA Corp.

Location – Sacramento, Sacramento County

Industry – Passenger Seating System Manufacturing

Project – New Passenger Seating System Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$876,493

Estimated Sales and Use Tax Exclusion Amount² – \$73,275

Application Score –

Fiscal Benefits Points:	3,154
<u>Environmental Benefits Points:</u>	<u>138</u>
Net Benefits Score:	3,292
<u>Additional Benefits Points:</u>	<u>55</u>
Total Score:	3,347

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

Clerprem USA Corp. (“Clerprem” or the “Applicant”), is a California corporation that formed in March 2018. Clerprem is a part of the Clerprem Group, a family owned corporation headquartered in Italy with plants in Italy, Germany, Tunisia, and Mexico. Clerprem manufactures passenger seating systems for trains and seating components, such as armrests, foam cushions, and headrests, for the automotive industry.

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

- Gian Roberto Marchesi (60%)
- Giulio Marchesi (20%)
- Elena Marchesi (20%)

The corporate officers of Clerprem are:

- Gian Roberto Marchesi, President
- Antonio Valla, Secretary
- Davide Baratti, Chief Financial Officer

THE PROJECT

Clerprem is requesting a sales and use tax exclusion to develop a new passenger seating system manufacturing facility in Sacramento (the “Project”). The Project will produce fully equipped business and economy passenger seats under a contract with Siemens Mobility, also located in Sacramento, for a railway project that will deliver the seats to the California Department of Transportation and the Illinois Department of Transportation. The Project will represent Clerprem Group’s first manufacturing facility in the United States.

Clerprem states the seats will be equipped with a full range of accessories such as tray tables, magazine holders, brushed stainless steel coat hooks, foldable armrests and flexible PUR-cushions, which the Applicant represents provide advanced comfort to passengers by means of an ergonomic tested geometry and combining both primary and integrated suspension systems. According to the Applicant, the seats are extremely light, yet robust. Clerprem states that during the design and engineering phase, weight monitoring is a high priority because reduced weight ultimately has a positive impact on the power consumption of the whole train.

According to the Applicant, all foaming equipment utilized by the Project will have a mechanically self-cleaning, high-pressure mixing head, which purges the interior of the flow tubes after each single injection, eliminating the need to use Methylene Chloride or any other solvent to clean and remove from the mixing heads any polyurethane residual, thus reducing hazardous waste. Additionally, Clerprem represents the United States industry standard for the production of polyurethane foam cushions is to use Toluene Diisocyanate (TDI) chemicals, which have a significant impact in terms of pollutants and air emissions. Clerprem states the Project will use water-based Methylene Diphenyl Isocyanate chemical components, instead of TDI based chemicals, in order to limit air pollution emissions. Clerprem also represents the Project will utilize more efficient equipment that reduces the number of foaming lines and associated machinery, thereby reducing energy consumption compared to its previous manufacturing processes.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Equipment for maintenance and quality	\$ 61,022
Foaming equipment	340,477
Sewing and cutting machines	135,337
IT and computer equipment	35,023
Warehouse racks and seat trolleys	34,228
Electrical and Pneumatic Equipment and Partition Walls	138,706
Seat assembly lines	51,600
Leasehold improvements	<u>80,101</u>
Total	<u>\$876,493</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 it is currently in the process of purchasing and installing equipment, and production is set to begin in March of 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 3,347 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 138 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,154 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 \$231,095 resulting in a Fiscal Benefits score of 3,154 points for the Project.

B. Environmental Benefits (138 points). The Project will result in an Environmental Benefits Score of 138. 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 pollution reduction through continuous measuring, evaluating, developing, and improving of their manufacturing processes and procedures.
2. **Energy Consumption (30 of 30 points)**. The Applicant represents that the Project will result in a 60% reduction in energy consumption compared to the applicant's previous manufacturing process.
3. **Solid Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 78% reduction in solid waste produced relative to the industry standard manufacturing process.
4. **Hazardous Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 97% reduction in hazardous waste produced relative to the industry standard manufacturing process.
5. **Air Pollutants (28 of 30 points)**. The Applicant represents that the Project will result in a 28% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. Additional Benefits (55 points). Applicants may earn additional points for their Total Score. The Applicant submitted information and received 55 additional points.

1. **Production Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 10 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 55 points for the Project.
2. **Construction Jobs (0 of 75 points)**
The Applicant represents that the project will support no construction jobs at its facility. Zero points were awarded because the marginal increase does not meet the required threshold.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Clerprem represents it has already received an Authority to Construct Permit and Commercial Building Permit and anticipates receiving all other necessary permits, such as fire and life safety operating permits, by the end of May 2019.

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 \$500.12 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM030 for Clerprem USA Corp.'s purchase of Qualified Property in an amount not to exceed \$876,493 anticipated to result in an approximate sales and use tax exclusion value of \$73,275.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CLERPTEM USA CORP.**

November 13, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Clerprem USA Corp.** (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 \$876,493 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.C.2
Resolution No. 18-SM030
Application No. 18-SM030

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.