

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

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

**Niagara Bottling, LLC
Application No. 18-SM031**

Tuesday, November 13, 2018

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Niagara Bottling, LLC

Location – Rialto, San Bernardino County

Industry – Water Bottling

Project – Expansion of Existing Water Bottling Facility (Advanced Manufacturing)

Value of Qualified Property – \$70,220,748

Estimated Sales and Use Tax Exclusion Amount² – \$5,870,455

Application Score³ –

Fiscal Benefits Points:	1,123
<u>Environmental Benefits Points:</u>	<u>68</u>
Net Benefits Score:	1,091

<u>Additional Benefits Points:</u>	<u>130</u>
Total Score:	1,321

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

Niagara Bottling, LLC (“Niagara” or the “Applicant”) was incorporated in 2012 in the state of Delaware as a limited liability company. The roots of the company trace back to 1963 when the founder, Andrew Peykoff Sr., began bottling water in five-gallon glass containers for home and office delivery. Niagara is a family owned and operated business. The Applicant is a vertically integrated water bottling company pursuing innovations in its manufacturing and packaging capabilities. The Applicant represents that it is the industry-leading private label bottled water supplier in the Western United States. Niagara has a number of facilities across the United States.

On June 17, 2014, Niagara received an STE award for the purchase of up to \$30 million in Qualified Property for an estimated STE value of \$2,526,000 to build a new water bottling facility in Rialto. Niagara completed this project in 2016, and is now seeking an STE to expand the facility.

Niagara also received a tax credit under the California Competes Tax Credit Program for \$2,700,000 on January 15, 2015.

The major shareholders (10% or greater) of Niagara Bottling are:

Niagara Drinking Waters, Inc.
Peykoff Legacy Trust
Daniel Peykoff Family Trust

The corporate officers of Niagara are:

Andrew Peykoff Sr., Founder and Chairman
Andrew Peykoff II, President and CEO
David Erling, Facilities Compliance Manager

THE PROJECT

Niagara is requesting a sales and use tax exclusion to expand its existing water bottling facility located in Rialto (the “Project”). The Project will add three production lines that include one carbonated soft drink, one hot fill, and one high pH water line. Each line will have different bottling capacities of 70,000, 55,200, and 30,000 bottles per hour respectively.

Niagara’s research and development team will utilize integrated computational materials engineering to continually optimize its product by reducing the amount of raw materials used in the manufacturing process. Niagara has stated that this will result in a finished package that is approximately 15% lighter than the current industry baseline, using less plastic per bottle. Niagara represents its bottles will be made with both virgin and recycled food-grade PET.

Niagara also plans to use the latest state of the art equipment that will result in efficient resource use throughout the manufacturing process. The Applicant anticipates this will lead to reductions in energy and water use. For example, Niagara uses a reverse osmosis process to purify water, which creates a byproduct concentrate that is normally sent straight to a drain in a traditional purification process, but Niagara explains the Project will utilize a Vibratory Shear Enhanced Process system to treat the byproduct, which will recover approximately 13% more water during

the purification process compared to the traditional purification process. Additionally, the Project will utilize high performance machinery, such as a preform injection molder and cap injection molder, that allow for faster cycle times at lower energy costs compared to traditional machinery.

Niagara also represents that it will be employing an innovative business model by vertically integrating all aspects of the manufacturing process shown in *Figure A*. The Applicant has stated that the manufacturing process illustrated in *Figure A* can be completed by three different manufacturers, with transportation in between each phase. The Applicant claims that combining all of the processes will result in a more efficient manufacturing process.

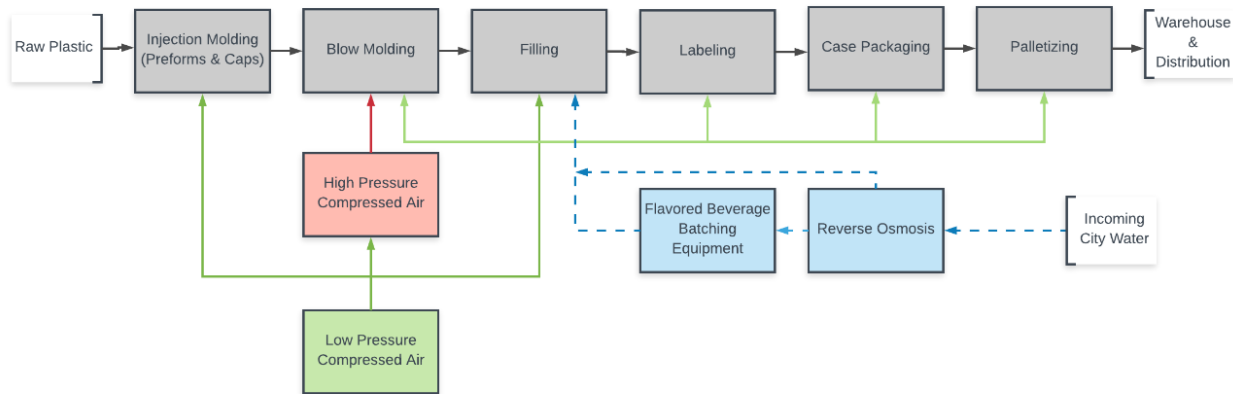


Figure A: Material and Process Flow

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Filling and Packing Lines	\$36,950,748
Filling and Packing Batch Equipment	4,900,000
Smart Controls Systems (Manufacturing Execution Systems, Ignition)	1,905,000
Preform Injection Molders	6,690,000
Preform Injection Mold and Cap Injection Mold	1,390,000
Cap Inspection System and Injection Molders	1,656,000
Plastic Resin Drying System	1,250,000
Injection Bridle Loop Pumps	9,000
Blow Molder Bridle Loop Pumps	10,000
Process Chiller	600,000
High Pressure Compressor System	400,000
Cooling Tower and Cooling Water Pumps	225,000
Boilers	535,000
Reverse Osmosis Equipment	2,000,000

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Waste Water Discharge Equipment	8,000,000
Laser Guided Electric Forklifts	<u>3,700,000</u>
Total	<u>\$70,220,748</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 anticipates beginning equipment installation in Q4 2018 and commencing production in March 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,321 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 68 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,123 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 \$6,595,424 resulting in a Fiscal Benefits score of 1,123 points for the Project.

- B. **Environmental Benefits (68 points)**. The Project will result in an Environmental Benefits Score of 68 points for the Project. The Applicant received points in the following categories:
 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability for its Project that it represents will reduce their overall carbon footprint through packaging and plant automation; a continued commitment to efficient water usage and water conservation, logistics improvements, and overall energy efficiency at the manufacturing facility.

2. **Energy Consumption (25 of 30 points)**. The Applicant represents that the Project will result in a 25% reduction in energy consumption compared to the industry standard manufacturing process.
 3. **Water Use (14 of 30 points)**. The Applicant represents that the Project will result in a 14% reduction in water use relative to the industry standard manufacturing process.
 4. **Air Pollutants (9 of 30 points)**. The Applicant represents that the Project will result in a 9% reduction in air pollutants produced relative to the standard manufacturing process.
- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 130 additional points.
1. **Production Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 82 production-related jobs at its Facility. CAEATFA estimates that approximately six 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 20 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 107 construction jobs at its Facility. CAEATFA estimates that approximately eight 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 30 points for the Project.
 3. **Unemployment (5 of 50 points)**. The Applicant's Project is located in San Bernardino County which has an average annual unemployment rate of 5.3%. 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 5 points for this Project.
 4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the water bottling manufacturing process.
 5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with San Bernardino City College for the purpose of training the workers at the Facility.
 6. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the City of Rialto as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to Niagara, the Applicant has recently obtained building permits for the first phase of the Project and anticipates obtaining a final building permit by July 2019. The Project will also require operating permits that the Applicant anticipates closing around the same time as the building permits.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$280,882.99.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM031 for Niagara's purchase of Qualified Property in an amount not to exceed \$70,220,748 anticipated to result in an approximate sales and use tax exclusion value of \$5,870,455.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH NIAGARA BOTTLING, LLC**

November 13, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Niagara Bottling, 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 \$70,220,748 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.