

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

***Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>***

**Vivotein, LLC  
Application No. 18-SM032**

**Tuesday, November 13, 2018**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Vivotein, LLC

**Location** – Ontario, San Bernardino County; Los Angeles, Los Angeles County

**Industry** – Animal Feed and Organic Fertilizer

**Project** – New Animal Protein Feed, Organic Fertilizer and Reptile Food Manufacturing Facility  
(Advanced Manufacturing)

**Value of Qualified Property** – \$7,895,770

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$660,086

**Application Score** –

Fiscal Benefits Points:	856
<u>Environmental Benefits Points:</u>	<u>50</u>
<b>Net Benefits Score:</b>	<b>906</b>
 <u>Additional Benefits Points:</u>	 <u>105</u>
<b>Total Score:</b>	<b>1,011</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program's statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

## **THE APPLICANT**

Vivotein, LLC (“Vivotein” or the “Applicant”), a California limited liability company, was formed in 2016 to manufacture animal protein feed (primarily for farm-raised salmon and trout) and organic fertilizer using an innovative industrial biotechnology approach. With the progression of its industry, Vivotein anticipates it will be able to produce animal protein feed for poultry and pigs by 2020—when it is anticipated the U.S. Food and Drug Administration will approve such protein feed for these livestock.

According to Vivotein, it has applied for the California Competes Tax Credit Program, and anticipates being considered for a \$1,000,000 tax credit at the California Competes committee meeting held on November 5, 2018.

The major shareholders (10.0% or greater) of Vivotein are:  
Harout Ajaryan (100%)

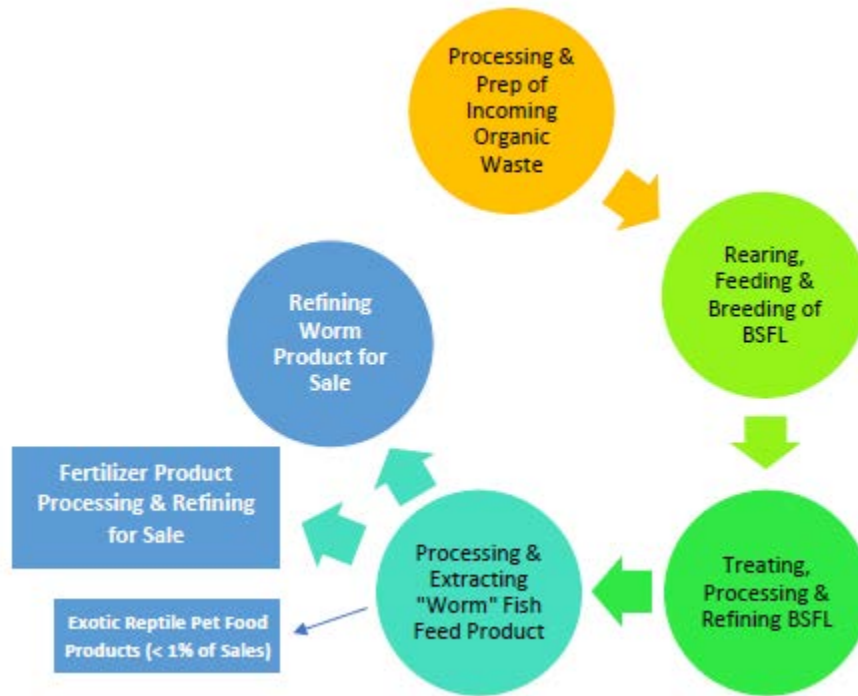
The corporate officers of Vivotein are:  
Harout Ajaryan, President

## **THE PROJECT**

Vivotein is requesting a sales and use tax exclusion to build a new animal protein feed, organic plant fertilizer, and reptile food manufacturing facility located in Ontario, and upgrade its R&D and quality control facility in Los Angeles (the “Project”). According to Vivotein, it will use a sustainable industrial biotechnology method of processing Black Soldier Fly Larvae (“BSFL” or “worms”) into protein feed for farm-raised salmon and trout (“fishmeal”) and exotic reptilian pets, as well as formulating an organic fertilizer from the BSFL’s excreta or “frass”. The Applicant represents it will use a sustainable dietary approach of feeding the BSFL organic waste. Vivotein explains that these worms can eat twice their body weight, and at full capacity the facility will intake approximately 200 tons of organic waste per day. To prevent producing larvae with lower than desired body weight, Vivotein represents it will use highly precise shredders to shred waste into 1 to 2 cm particles, and precise methods to remove hazardous substances from organic waste for BSFL consumption. In addition, Vivotein states that traditional fishmeal is made with soy and fish, which are becoming unreliable due to climate changes and concerns regarding the sustainability of row-crop farms and commercial fishing. The Applicant represents that the production of soy and fish based feed uses hazardous materials, such as hexane and ethoxyquin, while Vivotein’s process does not. Finally, the Applicant states it will not only use advanced technology to track volume, quality, and consistency of its products, but to also learn more about the biological aspect of the BSFL.

According to Vivotein, phase one of the Project will consist of retrofitting its manufacturing facility and installing an organic waste processor; a rearing and breeding system; a treating, processing, and refining system; and a fertilizer residue processing station to produce over

20,000 lbs. of product per day. The second phase of the Project will expand on phase one to bring the facility to full capacity of producing more than 75,000 lbs. of product per day.



*Figure 1: Vivotein's Industrial Biotech Manufacturing Process*

## ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Raw Waste Burners, Boilers and Grinding Equipment	\$3,750,000
Logistics Equipment	1,875,000
Storage and Sanitation Equipment Systems	1,355,000
Tenant Improvements	675,000
Processing Tools and Repair & Spare Parts	95,770
Research & Development Property	145,000
<b>Total</b>	<b><u>\$7,895,770</u></b>

*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 Vivotein, it anticipates purchasing one-third of its Qualified Property and starting operations by Q2 2019. Vivotein anticipates the remaining Qualified Property will be purchased and installed by 2020 or Q1 2021, which will bring its Project to maximum capacity.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The Project received a Total Score of 1,011 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (856 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 \$564,872 resulting in a Fiscal Benefits score of 856 points for the Project.
- B. Environmental Benefits (50 points).** The Project will result in an Environmental Benefits Score of 50. The Applicant received points in the following categories:
  - 1. Energy Consumption (10 of 30 points).** The Applicant represents that the Project will result in a 10 percent reduction in energy consumption compared to the industry standard manufacturing process.
  - 2. Hazardous Waste (30 of 30 points).** The Applicant represents that the Project will result in a 95 percent reduction in hazardous waste produced relative to the industry standard manufacturing process.
  - 3. Air Pollutants (10 of 30 points).** The Applicant represents that the Project will result in a 10 percent reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. Additional Benefits (105 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 105 additional points.
  - 1. Production Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 21 production-related jobs at its Facility. CAEATFA

estimates that approximately three 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 (35 of 75 points).** The Applicant represents that the Project will support a total of 15 construction jobs at its Facility. CAEATFA estimates that approximately two 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 35 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 five 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 producing animal feed and organic fertilizer that is the subject of this Application.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

The Applicant represents that all necessary building, installation, and operational permits have been obtained and are in good standing with the cities of Ontario, Los Angeles, and related counties.

## **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$3,947.89 and will pay CAEATFA an Administrative Fee of up to \$31,583.08.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RECOMMENDATION**

Staff recommends approval of Resolution No. 18-SM032 for Vivotein, LLC's purchase of Qualified Property in an amount not to exceed \$7,895,770 anticipated to result in an approximate sales and use tax exclusion value of \$660,086.

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

November 13, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Vivotein, 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 \$7,895,770 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.4**  
**Resolution No. 18-SM032**  
**Application No. 18-SM032**

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.