

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

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

**Star Manu LLC
Application No. 18-SM034**

Tuesday, November 13, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Star Manu LLC

Location – Ontario, San Bernardino County; San Diego, San Diego County

Industry – Health and Beauty Products

Project – New Health and Beauty Product Manufacturing Facility and Upgrade and Expansion of Existing Facility (Advanced Manufacturing)

Value of Qualified Property – \$2,821,986

Estimated Sales and Use Tax Exclusion Amount² – \$235,918

Application Score –

Fiscal Benefits Points:	2,267
<u>Environmental Benefits Points:</u>	<u>31</u>
Net Benefits Score:	2,298

<u>Additional Benefits Points:</u>	<u>120</u>
Total Score:	2,418

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

Star Manu LLC (“Star” or the “Applicant”), a Wyoming limited liability company, was founded in March of 2018 and is currently located in San Diego. Star focuses on developing and manufacturing over 100 different specialty products for the health and beauty, cosmetic, and nutraceutical (i.e. dietary supplements) industries. Such products include face scrubs, face masks, anti-wrinkle creams, vitamins and hydrating skin serums. The Applicant is a vertically integrated business that offers a full range of services including in-house order fulfillment, shipping, warehousing, order tracking, and returns to its customers. Star’s market primarily consist of e-commerce clients and healthcare professions.

The major shareholders (10.0% or greater) of Star are:
Ryan Furcini (100%)

The corporate officers of Star are:
Ryan Furcini, Founder and Manager

THE PROJECT

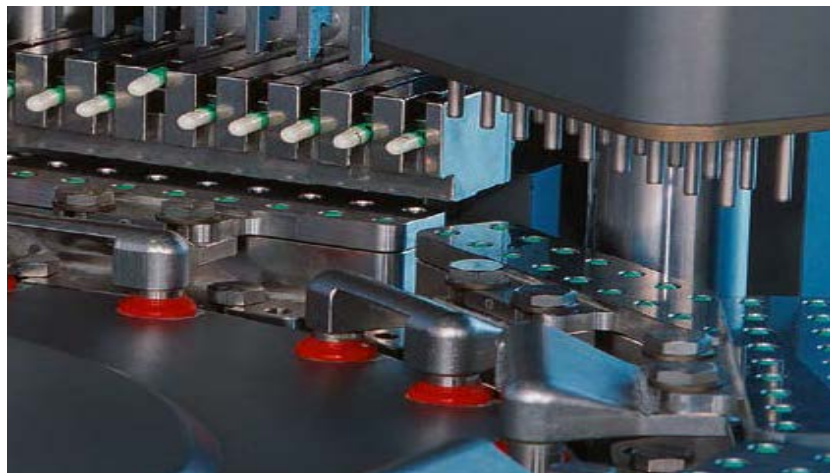


Figure 1: Capsule Filling Machinery

Star is requesting a sales and use tax exclusion to expand its existing cosmetic, nutraceutical, and health and beauty product manufacturing facility located in San Diego and developing a new facility in Ontario (the “Project”). The Applicant states the Project will incorporate new capsule filling and direct bottle labeling equipment that will concurrently increase the capacity and efficiency of its manufacturing process and create higher quality products. According to Star, the capsule filling machinery will increase output to approximately 200,000 capsules per hour compared to many of its competitors at approximately 90,000 capsules. Such equipment will also consume 26% less energy than the old equipment. Additionally, the Applicant states that this

equipment has built-in sensors that will identify and automatically troubleshoot blockages. For example, imperfect capsules cause production slowdowns, spillage, and disproportionate pill weight; however, the new equipment is built to allow only properly sized capsules to mobilize in the production process, and will disperse a strong burst of air from a compression line to eject any imperfect capsules from the transporting bore upon recognition. Lastly, Star represents that it will install direct bottle labeling equipment with high resolution printing capabilities. This will eliminate the need for paper labels on its products and decrease the generation of solid waste by 5% compared to the industry standard.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Automated Capsule Filling/Sealing Equipment	\$ 690,450
Automated Liquid Bottle Filling/Sealing Equipment	664,386
On-Bottle Label Printer	750,150
Repair/Spare Parts and Tools	55,000
Tenant Improvements	490,000
Logistics Equipment	90,000
R&D Equipment and Instruments	<u>82,000</u>
Total	<u>\$2,821,986</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 purchasing and installing Qualified Property at the end of November 2018 with Project operations expected to expand into Ontario by summer 2019. According to the Applicant, the bulk of the Qualified Property purchases associated with this Project are expected to be made within 12 months of Project approval.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 2,418 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 31 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,267 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 \$534,834 resulting in a Fiscal Benefits score of 2,267 points for the Project.

- B. **Environmental Benefits (31 points)**. The Project will result in an Environmental Benefits Score of 31. The Applicant received points in the following categories:
 1. **Energy Consumption (26 of 30 points)**. The Applicant represents that the Project will result in a 26 percent reduction in energy consumption compared to the Applicant’s previous manufacturing process.

 2. **Solid Waste (5 of 30 points)**. The Applicant represents that the Project will result in a five percent reduction in solid waste produced relative to the Applicant’s previous manufacturing process.

- C. **Additional Benefits (120 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 120 additional points.
 1. **Production Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 57 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 60 points for the Project.

 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of eight construction jobs at its Facility. CAEATFA estimates that approximately .39 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 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 the production process of cosmetics, nutraceuticals, and health and beauty products that is the subject of this Application.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that it has secured all necessary building, installation, and operating permits with the cities of San Diego, Ontario, and relevant 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,³ the Applicant has paid CAEATFA an Application Fee of \$1,410.99 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM034 for Star Manu LLC's purchase of Qualified Property in an amount not to exceed \$2,821,986 anticipated to result in an approximate sales and use tax exclusion value of \$235,918.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH STAR MANU LLC**

November 13, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Star Manu 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 \$2,821,986 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.6
Resolution No. 18-SM034
Application No. 18-SM034

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.