

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

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

**Drink, Inc.
Application No. 18-SM038**

Tuesday, December 18, 2018

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Drink, Inc.

Location – Richmond, Contra Costa County

Industry – Water Bottling

Project – New Water Bottling Facility (Advanced Manufacturing)

Value of Qualified Property – \$3,636,029

Estimated Sales and Use Tax Exclusion Amount² – \$303,972

Application Score³ –

Fiscal Benefits Points:	6,242
<u>Environmental Benefits Points:</u>	<u>140</u>
Net Benefits Score:	6,382

<u>Additional Benefits Points:</u>	<u>120</u>
Total Score:	6,502

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

Drink, Inc. (“Drink” or the “Applicant”) was incorporated in 2015 in the state of Delaware. Drink uses a zero-waste system of returnable glass bottled water that serves as a direct replacement to single-use plastic bottles of water.

Drink also received a tax credit under the California Competes Tax Credit Program for \$700,000 on June 4, 2018.

The major shareholders (10% or greater) of Drink, Inc. are:

- Aaron Gravelle (45%)
- Alexandra Benet (45%)
- Options for Employees (10%)

The corporate officers of Drink, Inc. are:

- Aaron Gravelle, Chief Executive Officer
- Alexandra Benet, Co-Founder, Chief Development Officer, Secretary

THE PROJECT

Drink is requesting a sales and use tax exclusion to build a new water bottling facility located in Richmond (the “Project”). Drink will manufacture glass bottles that will be filled with water and sold to business customers that will then return the bottles for washing and refilling at Drink’s facility. Each bottle will have a unique 2D code embedded in the glass to enable the tracking of each bottle throughout its lifecycle, including the number of times the bottle has been used and returned. The Applicant represents it will utilize each bottle at least 50 times, and packaging bins at least 100 times, thereby reducing the total number of bottles needed by 95% to fulfill the same amount of product consumption when compared to single-use plastic bottles. According to the Applicant, all of the corresponding costs and resources otherwise needed in the production and recycling of plastic bottles are avoided, including energy, water, and pollution emissions.

Drink represents the Project will utilize advanced manufacturing equipment sourced from around the world, including energy efficient boilers from Japan, water efficient purification equipment with a proprietary design to clean water to the highest level possible while eliminating waste water, and precise computer-controlled bottling and washing equipment that minimize glass bottle wear to extend each bottle’s life and reduce the number of bottles required. Additionally, the Project will incorporate a 360° camera system that monitors each bottle throughout the manufacturing process. Drink states it has also designed its facility so that only a small amount of clean waste water leaves the facility.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Packaging and Production Line	\$1,635,000
Packaging and Washing Equipment	748,450
Purification Equipment	973,264
Compressor	18,000
Boiler	105,710
Camera System for 2D Bottle Codes	<u>155,605</u>
Total	<u>\$3,636,029</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 secured the facility in November 2018, will begin equipment installation in January 2018, and commence production in March 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 6,502 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 140 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (6,242 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 \$1,897,358, resulting in a Fiscal Benefits score of 6,242 points for the Project.

- B. Environmental Benefits (140 points).** The Project will result in an Environmental Benefits Score of 140 points for the Project. The Applicant received points in the following categories:

1. **Energy Consumption (30 of 30 points)**. The Applicant represents that the Project will result in a 94% reduction in energy consumption compared to the industry standard (plastic water bottle) manufacturing process.
 2. **Water Use (30 of 30 points)**. The Applicant represents that the Project will result in a 92% reduction in water use relative to the industry standard (plastic water bottle) manufacturing process.
 3. **Solid Waste (20 of 30 points)**. The Applicant represents that the Project will result in a 20% reduction in solid waste relative to the industry standard (plastic water bottle) manufacturing process.
 4. **Hazardous Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 96% reduction in hazardous waste relative to the industry standard (plastic water bottle) manufacturing process.
 5. **Air Pollutants (30 of 30 points)**. The Applicant represents that the Project will result in a 98% reduction in air pollutants produced relative to the industry standard (plastic water bottle) 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 (55 of 75 points)**. The Applicant represents that the Project will support a total of 42 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 55 points for the Project.
 2. **Construction Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 20 construction 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 Construction Jobs Score of 40 points for the Project.
 3. **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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to Drink, the Applicant is currently in the process of obtaining a Business Permit, which it anticipates will be secured by January 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,⁴ the Applicant has paid CAEATFA an Application Fee of \$1,818.01 and will pay CAEATFA an Administrative Fee up to \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM038 for Drink's purchase of Qualified Property in an amount not to exceed \$3,636,029, anticipated to result in an approximate sales and use tax exclusion value of \$303,972.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH DRINK, INC.

December 18, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Drink, Inc.** (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 \$3,636,029 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.A.3
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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.