

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

***Consideration of rPlanet Earth Los Angeles, LLC's Request to Approve a Time Extension for
the Three Year Term of the Master Regulatory Agreement¹***

**rPlanet Earth Los Angeles, LLC
Application No. 16-SM004**

Tuesday, January 15, 2019

Prepared By: *Xee Moua, Analyst*

SUMMARY

Applicant – rPlanet Earth Los Angeles, LLC

Location – Vernon, Los Angeles County

Industry – Plastic Recycling

Project – Construction of a New Plastics Recycling and Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$119,800,000

Estimated Sales and Use Tax Exclusion Amount² – \$10,087,160

Amount of Time Requested –

- Two years and six months, until July 19, 2021, for the Term of the Master Regulatory Agreement (five years and six months from the date of initial CAEATFA Board approval)

REQUEST

In January 2016, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for rPlanet Earth Los Angeles, LLC (“rPE” or the “Applicant”) for the purchase of up to \$119,800,000 in Qualified Property to build a new facility that that uses post-consumer polyethylene terephthalate (“PET”) bales to create a broad array of “bottle grade” recycled PET (“rPET”) products (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE

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 at the time of initial approval, which was 8.42%.

award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purposes of the program.³

As of June 30, 2018, rPE has used the STE to purchase \$53,903,048 of Qualified Property (45% of the total Qualified Property approved) and began production in October 2018. rPE is requesting to extend the Agreement initial term by two years and six months to accommodate multiple unforeseen circumstances that affected its Project timeline and align with investor milestones. Such circumstances include construction delays due to extended site remediation, poor weather conditions, and putting forth additional efforts to acquire qualified subcontractors and personnel.

According to rPE, the previous owner of the Project's site was responsible for environmental remediation at the location, as it was an old Alcoa aluminum smelting plant, but took a significantly longer time to complete than originally promised. Additionally, rPE represents the Project's overall production design (a vertically integrated, closed-loop recycling and manufacturing facility for high recycled content post-consumer PET plastic packaging) is the first of its kind, and finding qualified subcontractors and personnel to perform the work took a significant amount of time. The Applicant states that poor weather and heavy rain during 2017 also caused delays in pouring the facility's foundation and created issues with site access due to flooding.

According to rPE, it plans to install two parallel, completely vertically integrated production lines (from raw materials and baled post-consumer PET plastic to finished packaging products). As of Q4 of 2018, the Applicant had the grand opening of its first line, with commercial production plans to commence in Q1 2019. rPE's investors require its first production line to operate for approximately 1 to 1.75 years before proceeding to fund the second production line, which would potentially extend its Qualified Property purchases and installation out to 2021, falling outside the Agreement's three-year initial term. rPE also notes that since its Project employs a unique business model that consolidates multiple manufacturing processes under one roof, it would likely have long lead times for equipment purchases and installation. rPE states the extension will allow funding to be obtained and time for Qualified Property orders to be placed, received, and installed for its second production line in the first half of 2021.

About the Applicant

rPlanet Earth Los Angeles, LLC, a Delaware Limited Liability Company, is owned by Oaktree Capital and Versorgungswerk der Zahnärztekammer Berlin K.d.o.R. or "VZB". rPE was formed in 2015 with the goal of providing regional and national food and beverage companies with a high quality, reliable, and sustainable supply of recycled polyethylene terephthalate ("PET") to be used in packaging containers.

³ The provision of the regulations allowing CAEATFA to waive the requirement that all purchases of Qualified Property be made within three years of Application approval is in Regulation Section 10035(b)(1)(A).

Project Description

rPE is planning to build a new facility that that uses post-consumer PET bales to create a broad array of “bottle grade” recycled PET (“rPET”) products (the “Project”). The construction will be completed in two phases. Phase I will ramp up the facility to a production capacity of 55 million pounds of bottle grade rPET flake per year. Phase II, scheduled for 2018, will then double capacity, making the facility the largest of its kind in the world, according to the Applicant. Both phases will utilize a vertically integrated model that consolidates multiple manufacturing processes under one roof. According to the Applicant, these manufacturing processes are typically completed at three separate facilities, thus necessitating transport of the unfinished intermediate product between each manufacturing facility. rPE’s business model will eliminate these transportation steps, thereby avoiding costs and greenhouse gas emissions associated with transportation, resulting in a more efficient manufacturing process.

As part of its Project, rPE represents that it will be the first company in the U.S. to install and operate a Krones PET recycling line. The Krones equipment is different from other recycling lines in that it eliminates the "whole bottle wash" stage of decontamination, which would otherwise consume significant amounts of water. rPE estimates a resulting reduction in water use of 33%. By eliminating this stage, the Applicant also claims to avoid the toxic chemicals, dyes, and inks typically released by wet labels during the wash process. These contaminants can become absorbed by the PET, thereby requiring additional processing during a purification stage. In bypassing the bottle wash and purification stages the Krones equipment reduces total decontamination time to one hour, from an industry standard of four to six hours.

rPE notes that one additional benefit of its proposed technology is the ability to work with plastic in flake form throughout the manufacturing process. The Applicant states that other manufacturers of rPET products must use pelletized plastic as feedstock. This requires an additional step wherein plastic flake is melted down and reformed as pellets (about the size of a BB). By working with flake throughout, the energy costs associated with melting and reforming plastic are avoided. The applicant estimates this energy savings at 16%. Of equal importance, because the plastic is not subjected to an additional melting process, the manufacturing process reduces degradation during the lifecycle of the plastic.

In addition to the Krones equipment, the Applicant will be installing other sophisticated equipment, such as injection-molding and extrusion machines. The system will be highly automated, with feedstock blends being determined through the use of integrated computational materials engineering. The Applicant claims that, as a result of all of the aforementioned process improvements, it will create a better quality product that is faster, cheaper, and more efficient to produce on a per unit basis when compared to traditional industry practices.

Agreement Term Extension Request

rPE has requested that the initial term of the Agreement be extended from January 19, 2019 to July 19, 2021 to accommodate Project delays caused by prolonged site remediation, rigorous contracting and construction efforts, and delayed purchasing.

Staff Evaluation

Despite encountering initial construction obstacles, rPE informed Staff that it was able to recover from site damage caused by poor weather, maintain its investors while receiving strong support from a large private equity firm, and assemble a management team to help see the Project move forward. The first phase of the Project is now complete, and rPE believes it has a viable path forward for completing the final phase within the next 2.5 years. The Applicant maintains that estimated production numbers and employment are expected to be achieved, however they will be achieved in accordance with the new time frame. Based on this information, Staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

FEES

In accordance with CAEATFA Regulations,⁴ the Applicant will pay an Additional Administrative Fee of \$500 because extending the initial term requires a modification to the Applicant’s Master Regulatory Agreement.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the extension request. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

RECOMMENDATION

Staff recommends that the Board approve rPlanet Earth Los Angeles, LLC’s request to extend the initial term of the Agreement by two years and six months to July 19, 2021 as it is in the public interest and advances the purpose of the program.

Attachments

- Attachment A: rPlanet Earth Los Angeles, LLC’s letter requesting waiver (November 13, 2018)
- Attachment B: rPlanet Earth Los Angeles, LLC’s staff summary at the time of approval

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

**RESOLUTION APPROVING A TIME EXTENSION FOR
RPLANET EARTH LOS ANGELES, LLC’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

January 15, 2019

WHEREAS, on January 19, 2016 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$119,800,000 of Qualified Property for **rPlanet Earth Los Angeles, LLC** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by two years and six months to July 19, 2021; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to July 19, 2021.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: rPlanet Earth Los Angeles, LLC’s Letter Requesting Waiver (November 13, 2018)

rPlanet Earth Los Angeles, LLC
2361 Rosecrans Avenue, Suite 336
El Segundo, CA 90245



November 13, 2018

CAEATFA
Attn: Xee Moua, Program Analyst
915 Capitol Mall Room 587
Sacramento, CA 95814

RE: CAEATFA STE Master Regulatory Agreement (“MRA”) Extension Request – rPlanet Earth Los Angeles, LLC (16-SM004)

Dear CAEATFA Board Members & Staff,

rPlanet Earth Los Angeles, LLC (“rPlanet Earth”) respectfully requests a 30-month extension on its CAEATFA STE MRA in order to procure its remaining CAEATFA STE qualified property. We recently had our grand opening for our first production line in October of this year. This first line (and therefore the second line) was delayed for the following reasons:

- Our production equipment and overall production line (a vertically integrated, closed-loop recycling/manufacturing facility for high recycled content post-consumer PET plastic packaging) are brand new and the first of its kind anywhere in the world. As such, construction delays were caused due to the additional efforts by our prime contractors to locate qualified subcontractors and the necessary personnel to perform the work.
- Significant delays occurred from poor weather and heavy rains during 2017 causing issues with laying our facility’s foundation and for site access due to flooding. The facility was built from the ground up in Vernon, CA.
- The site had to be environmentally remediated (an old Alcoa aluminum smelting plant was located on the property) by the Seller and their environmental contractor caused significant construction delays due to the extent of the work that was required and the pace of their work – which was out of our control.
- rPlanet Earth’s private equity investors require approximately 1 to 1.75 years of operations related to the first production line before it can move forward on funding the 2nd line which would otherwise fall outside of the original 3-year MRA term.

Management, as well as our investors, are highly motivated to support our one-of-a-kind post-consumer PET plastic recycling and packaging manufacturing facility. We expect to acquire our remaining qualified property for the second production line during the first half of 2021—with such purchases expected to commence in Q3 of 2020.

Please do not hesitate to reach out to us with any questions. Thank you in advance for your time and careful consideration.

rPlanet Earth Los Angeles, LLC
2361 Rosecrans Avenue, Suite 336
El Segundo, CA 90245



Sincerely,

A handwritten signature in blue ink that reads 'Robert Daviduk'.

Robert Daviduk, Co-CEO
rPlanet Earth Los Angeles, LLC

cc: CAEATFA@sto.ca.gov
xee.moua@treasurer.ca.gov
alex.tran@CALincentives.com

Attachment B: rPlanet Earth Los Angeles, LLC’s Staff Summary at the Time of Approval

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁵

**rPlanet Earth Los Angeles, LLC
Application No. 16-SM004**

Tuesday, January 19, 2016

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – rPlanet Earth Los Angeles, LLC

Location – Vernon, Los Angeles County

Industry – Plastic Recycling

Project – Construction of a new plastics recycling and manufacturing facility (Advanced Manufacturing)

Value of Qualified Property – \$119,800,000

Estimated Sales and Use Tax Exclusion Amount⁶ – \$10,087,160

Application Score –

Fiscal Benefits Points:	3,465
<u>Environmental Benefits Points:</u>	<u>66</u>
Net Benefits Score:	3,531
<u>Additional Benefits Points:</u>	<u>79</u>
Total Score:	3,610

Staff Recommendation – Approval

⁵ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

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THE APPLICANT

rPlanet Earth Los Angeles, LLC (“rPE” or the “Applicant”), a Delaware Limited Liability Company, is owned by Oaktree Capital and Versorgungswerk der Zahnärztekammer Berlin K.d.o.R. or "VZB". rPE was formed in 2015 with the goal of providing regional and national food and beverage companies with a high quality, reliable, and sustainable supply of recycled polyethylene terephthalate (“PET”) to be used in packaging containers.

The major shareholders (10.0% or greater) of rPlanet Earth Los Angeles, LLC are:

Versorgungswerk der Zahnärztekammer
Berlin K.d.o.R - 50%
Oaktree Capital - 50%

The corporate officers of rPlanet Earth Los Angeles, LLC are:

Robert Daviduk – Co-CEO
Joseph Ross – Co-CEO

THE PROJECT

rPlanet Earth Los Angeles, LLC is planning to build a new facility that that uses post-consumer PET bales to create a broad array of “bottle grade” recycled PET (“rPET”) products (the “Project”). The construction will be completed in two phases. Phase I will ramp up the facility to a production capacity of 55 million pounds of bottle grade rPET flake per year. Phase II, scheduled for 2018, will then double capacity, making the facility the largest of its kind in the world, according to the Applicant. Both phases will utilize a vertically integrated model that consolidates multiple manufacturing processes under one roof. According to the Applicant, these manufacturing processes are typically completed at three separate facilities, thus necessitating transport of the unfinished intermediate product between each manufacturing facility. rPE’s business model will eliminate these transportation steps, thereby avoiding costs and greenhouse gas emissions associated with transportation, resulting in a more efficient manufacturing process.

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additional step wherein plastic flake is melted down and reformed as pellets (about the size of a BB). By working with flake throughout, the energy costs associated with melting and reforming plastic are avoided. The applicant estimates this energy savings at 16%. Of equal importance, because the plastic is not subjected to an additional melting process, the manufacturing process reduces degradation during the lifecycle of the plastic.

In addition to the Kronos equipment, the Applicant will be installing other sophisticated equipment, such as injection-molding and extrusion machines. The system will be highly automated, with feedstock blends being determined through the use of integrated computational materials engineering. The Applicant claims that, as a result of all of the aforementioned process improvements, it will create a better quality product that is faster, cheaper, and more efficient to produce on a per unit basis when compared to traditional industry practices.

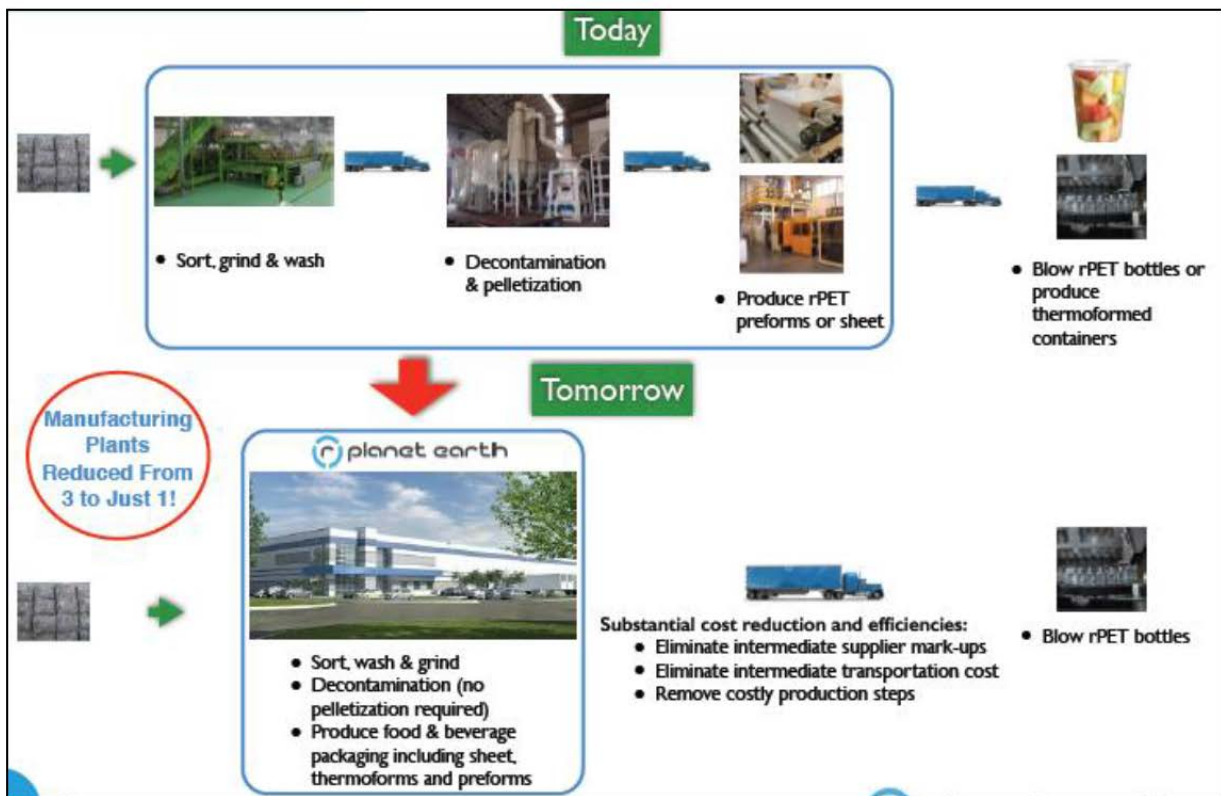


Figure 1: Comparison of rPE's Manufacturing Flow with Industry Standard

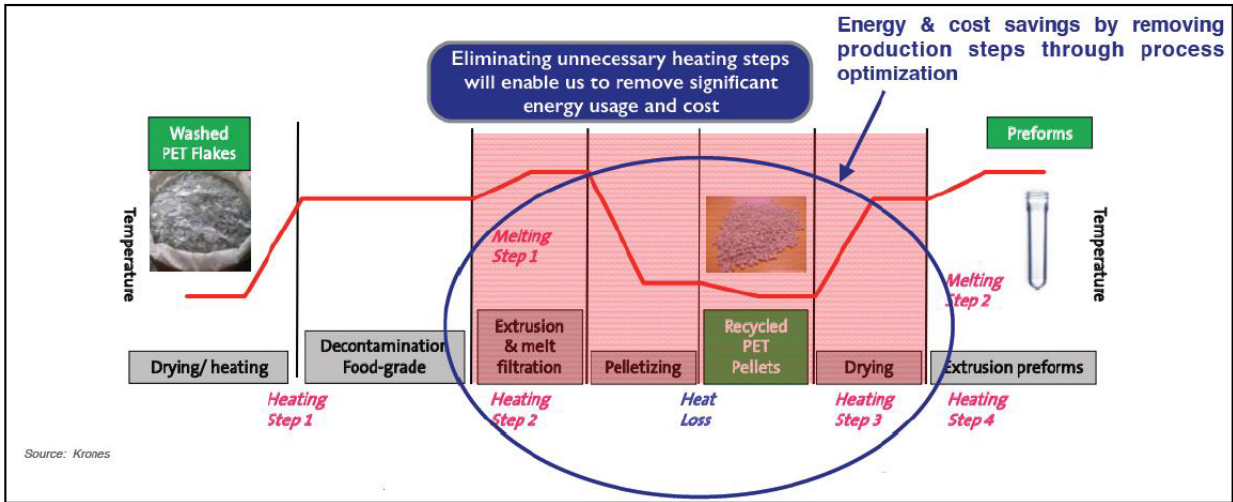


Figure 2: Heating Steps Associated with PET Processing

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Van Dyk/Ti-Tech PET Sortation Line	\$ 14,900,000
Pelletron Material Conveyance and Storage	4,500,000
Krones Equipment	41,000,000
Welex Extruded Sheet Lines	20,400,000
Lyle Thermoforming Equipment	12,200,000
Husky Injection Molding Equipment	<u>26,800,000</u>
Total	<u>\$119,800,000</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

Construction for rPE's first phase will begin in 2016, with recycling and manufacturing processes starting no later than Q4 of 2017. The second phase of construction, which is estimated to double rPE's production capacity, is slated to commence in 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$119,800,000. The Project received a Total Score of 3,610 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 66 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (3,465 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 \$34,955,481 resulting in a Fiscal Benefits score of 3,465 points for the Project.
- B. **Environmental Benefits (66 points)**. The Project will result in an Environmental Benefits Score of 66. 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 result in reductions in energy use and water consumption.
 2. **Energy Consumption (16 of 30 points)**. The Applicant represents that its manufacturing process will result in a 16% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in water use relative to the industry standard manufacturing process.
- C. **Additional Benefits (79 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 79 additional points.
 1. **Permanent Jobs (35 of 75 points)**. The Applicant's Project will support a total of 275 permanent jobs at its Facility. CAEATFA estimates that approximately 26 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 35 points for the Project.

2. **Construction Jobs (35 of 75 points).** The Applicant’s Project will support a total of 350 construction jobs at its Facility. CAEATFA estimates that approximately 33 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 (9 of 50 points).** The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of nine points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

To speed the permitting and construction process, the Applicant and City of Vernon have agreed to a phased permit submission and approval process. The first round of building permits are anticipated to be approved and issued by February 2016.

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,⁷ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM004 for rPlanet Earth Los Angeles, LLC’s purchase of Qualified Property in an amount not to exceed \$119,800,000 anticipated to result in an approximate sales and use tax exclusion value of \$10,087,160.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH RPLANET EARTH LOS ANGELES, LLC

January 19, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **rPlanet Earth Los Angeles, 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 \$119,800,000 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.

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.