

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

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

**Sanitation Districts of Los Angeles County
Application No. 19-SM004**

Tuesday, February 19, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Sanitation Districts of Los Angeles County

Location – Whittier, Los Angeles County

Industry – Mixed Recycling

Project – Upgrade of Existing Materials Recovery Facility (Recycled Resource Extraction)

Value of Qualified Property – \$15,212,303

Estimated Sales and Use Tax Exclusion Amount² – \$1,271,749

Estimated Quantifiable Net Benefits – \$1,151,345

Application Score –

Fiscal Benefits Points:	2,161
<u>Environmental Benefits Points:</u>	<u>31</u>
Net Benefits Score:	2,192

<u>Additional Benefits Points:</u>	<u>35</u>
Total Score:	2,227

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

The Sanitation Districts of Los Angeles County (“LACSD” or the “Applicant”) is a public agency providing wastewater and solid waste management for 5.6 million people in Los Angeles County. LACSD has been providing services in the region since 1923, when the first districts were formed. LACSD is a confederation of 24 independent sanitation districts that work cooperatively under a regional management system. Seventeen of those districts are signatory to a joint agreement under which they jointly own and operate the wastewater conveyance, treatment, and disposal facilities. Under the terms of that agreement, District No. 2 serves as the administrative agent responsible for all matters pertaining to those shared facilities, including this proposed project.

On July 18, 2017, the CAEATFA Board granted LACSD an STE award for the purchase of up to \$11,928,310 in Qualified Property for an estimated STE value of \$1,004,364 to build an integrated food waste pre-processing and anaerobic digestion system that will divert food waste from landfills and convert it to renewable natural gas to be used as transportation fuel. LACSD has reported \$987,524 in Qualified Property purchases (approximately 8% of the total Qualified Property amount approved) through June 30, 2018.

The Board members of District Number 2 of the Sanitation Districts of Los Angeles County are:

Jeffrey K. Maloney (Alhambra)	Jack Hadjinian (Montebello)
Tony Lima (Artesia)	Peter Chan (Monterey Park)
Fidencio Joel Gallardo (Bell)	Jennifer Perez (Norwalk)
Alejandro Cortez (Bell Gardens)	Diane J. Martinez (Paramount)
Sonny R. Santa Ines (Bellflower)	Brent Tercero (Pico Rivera)
Mark Pulido (Cerritos)	John Harrington (San Gabriel)
Hugo Argumedo (Commerce)	Maria Belen Bernal (South Gate)
Aja Brown (Compton)	Yvette Woodruff-Perez (Vernon)
Richard Rodriguez (Downey)	Joe Vinatieri (Whittier)
Robert Garcia (Long Beach)	Janice Hahn (Los Angeles County)
Herb Wesson, Jr. (Los Angeles City)	

THE PROJECT

LACSD is requesting a sales and use tax exclusion to upgrade its existing Puente Hills materials recovery facility located in Whittier that will process Municipal Solid Waste (“MSW”) and mixed recyclables (the “Project”). LACSD states the implementation of a new mixed waste processing system will contribute to recovering old corrugated containers, old newspaper, mixed paper, office pack, polyethylene terephthalate, high-density polyethylene-colored, mixed plastic 3-7, aseptic, tin cans, aluminum, mixed rigid plastic, film, and glass. According to the Applicant, the facility currently receives approximately 3,000 tons of MSW and commingled recyclables per day but is only able to process between 75-100 tons per day (“tpd”). With modern

equipment, the Applicant states it will divert commodities that were not previously recoverable through MSW processing, increasing its capacity to approximately 550 tpd in anticipation to helping jurisdictions in Los Angeles County meet the required 75% diversion rate by 2020.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Balers	\$ 606,220
Chain Belts	855,103
Conveyors	2,659,534
Forklifts	160,000
Gates	212,113
Grapples	1,300,072
Infrastructure	2,284,878
Loaders	1,353,691
Sorting Equipment	3,292,422
Trailers	900,000
Trucks	1,095,000
Walking Floor	492,250
Total	<u>\$15,212,303</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

According to LACSD, it has started construction of the Project as of October 2018 and anticipates operation of the new mixed waste processor by November 2019.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$15,212,303 and the total quantifiable net benefits are valued at \$1,515,345 for the Project. The Project received a Total Score of 2,227 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 (2,161 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 \$2,747,895, resulting in a Fiscal Benefits score of 2,161 points for the Project.
- B. **Environmental Benefits (31 points)**. The Project will result in \$39,199 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 31 points for the Project. These benefits derive from the processing of mixed recyclables for use in another product which thereby diverts approximately 60,000 tons from landfills, according to the Applicant.
- C. **Additional Benefits (35 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 35 additional points.
1. **Production Jobs (35 of 75 points)**. The Applicant represents that the Project will support a total of 60 production-related jobs at its Facility. CAEATFA estimates that approximately four 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 (0 of 75 points)**. The Applicant represents that the Project will support a total of five construction jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all existing permits are sufficient for the Project.

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,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$60,849.21.

RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM004 for Sanitation Districts of Los Angeles County's purchase of Qualified Property in an amount not to exceed \$15,212,303, anticipated to result in an approximate sales and use tax exclusion value of \$1,271,749.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SANITATION DISTRICTS OF LOS ANGELES
COUNTY**

February 19, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Sanitation Districts of Los Angeles County** (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 \$15,212,303 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
Resolution No. 19-SM004
Application No. 19-SM004

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.