

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

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

**Fortis Solutions Group West, LLC  
Application No. 19-SM025**

**May 21, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Fortis Solutions Group West, LLC

**Location** – Napa, Napa County

**Industry** – Advanced Packaging Label Production

**Project** – New Advanced Label Production Facility (Advanced Manufacturing)

**Value of Qualified Property** – \$7,045,460

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$589,000

**Application Score** –

Fiscal Benefits Points:	1,819
<u>Environmental Benefits Points:</u>	<u>105</u>
<b>Net Benefits Score:</b>	<b>1,924</b>
<u>Additional Benefits Points:</u>	<u>80</u>
<b>Total Score:</b>	<b>2,004</b>

**Staff Recommendation** – Approval

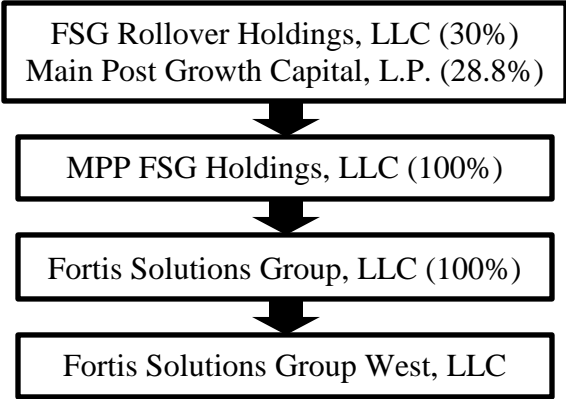
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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.  
<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

**THE APPLICANT**

Fortis Solutions Group West, LLC (“Fortis” or the “Applicant”), a Virginia limited liability company formed in March of 2019, produces wine labels for the North American wine industry.

The major shareholders (10.0% or greater) of Fortis Solutions Group West, LLC are:



The corporate officers of Fortis Solutions Group West, LLC are:

- John O. Wynne, Jr., CEO
- Kenneth Pizzucco, COO
- Randall G. Stickley, CFO
- William Smith, CSMO

**THE PROJECT**

Fortis is requesting a sales and use tax exclusion to build a new wine label production facility located in Napa utilizing advanced Hewlett-Packard 6900 and Nilpeter printers (the “Project”). According to Fortis, the printers use advanced semiconductor technology which requires a highly-trained and skilled workforce to understand the machine interfaces, control the high-precision tools and dies, and maintain extremely tight tolerances, whereas the current packaging manufacturing processes used in the market utilize manual equipment and systems with limited technology.

According to the Applicant, the Project will be utilizing printmaking technology designed to be more energy efficient, produce significantly less raw material, reduce post-consumer waste sent to landfills, lower overall production costs, and improve air quality by eliminating volatile organic compound (VOC) emissions. For example, Fortis will be partnering with raw material suppliers to use 50% uncoated premium stocks crafted from 100% post-consumer waste inputs, and recycle its waste back into the supply chain. The Project will also minimize environmental impacts by using label inks and coatings that require less water and are UV-based to create higher quality labels, compared to current VOC solvent ink alternatives that produce toxic emissions. The Applicant states that compared to the industry standard, the Project will reduce overall energy consumption by 10%, solid waste by 15%, air pollutants by 90%, and hazardous waste by 100%.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

HP 6900 Presses	\$1,620,000
AGB Digital Finisher	1,000,000
Air Compressor and Dryer	40,000
Rewinders (Digital & Flexo)	260,000
Forklift	18,000
Esko Software & Epson Proofing	25,000
Stretch Wrapper w/Integrated Scale	6,000
Flatbed Screen Making Equipment	4,750
Gallus RCS or Nilpeter Combo Press	4,046,710
Ultrasonic Anilox Cleaner	25,000
<b>Total</b>	<b><u>\$7,045,460</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 the Applicant, the facility lease date will begin on June 1, 2019, and the purchasing of Qualified Property began in April of 2019 and will continue over the next few years.

**PROJECT EVALUATION**

**NET BENEFITS**

The Project received a Total Score of 2,004 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 105 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (1,819 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 \$1,071,413, resulting in a Fiscal Benefits score of 1,819 points for the Project.
- B. Environmental Benefits (105 points).** The Project will result in an Environmental Benefits Score of 105. 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 reducing utility usage, water usage, and internal waste and recycling across all production lines.
  2. **Energy Consumption (10 of 30 points)**. The Applicant represents that the Project will result in a 10% reduction in energy consumption compared to the industry standard manufacturing process.
  3. **Solid Waste (15 of 30 points)**. The Applicant represents that the Project will result in a 15% reduction in solid waste produced relative to the industry standard manufacturing process.
  4. **Hazardous Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 100% reduction in hazardous waste produced relative to the industry standard manufacturing process.
  5. **Air Pollutants (30 of 30 points)**. The Applicant represents that the Project will result in a 90% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (80 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 80 additional points.
1. **Production Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 55 production-related jobs at its Facility. CAEATFA estimates that approximately 4 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. **Workforce Partnerships (25 points)**. The Applicant is developing a partnership with Cal State Fullerton for the purpose of training the workers at the Facility.

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

According to the Applicant, it is in the process of obtaining a Bay Area Air District Permit and expects it to be granted by July 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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$3,522.73 and will pay CAEATFA an Administrative Fee of up to \$28,181.84.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM025 for Fortis Solutions Group West, LLC's purchase of Qualified Property in an amount not to exceed \$7,045,460, anticipated to result in an approximate sales and use tax exclusion value of \$589,000.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH FORTIS SOLUTIONS GROUP WEST, LLC**

May 21, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Fortis Solutions Group West, 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 \$7,045,460 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-SM025**  
**Application No. 19-SM025**

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.