

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

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

**Verdeco Recycling, Inc.
Application No. 19-SM002**

June 18, 2019

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Verdeco Recycling, Inc.

Location – South Gate, Los Angeles County

Industry – Recycled Food Packaging Manufacturing

Project – Expansion of Recycled Food Packaging Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$13,118,950

Estimated Sales and Use Tax Exclusion Amount² – \$1,096,744

Application Score –

Fiscal Benefits Points:	4,474
<u>Environmental Benefits Points:</u>	<u>51</u>
Net Benefits Score:	4,525

<u>Additional Benefits Points:</u>	<u>50</u>
Total Score:	4,575

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

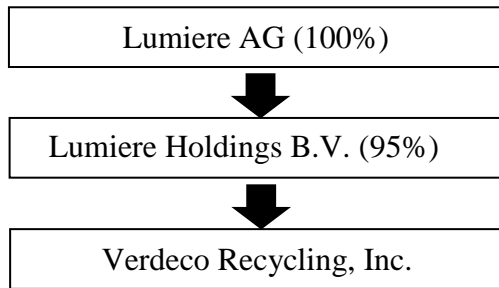
² This amount is calculated based on the average statewide sales tax rate of 8.36%.

THE APPLICANT

Verdeco Recycling, Inc. (“Verdeco” or the “Applicant”) is a California corporation established in September of 2011. Verdeco is committed to producing high quality recycled polyethylene terephthalate (“PET”) for use in food packaging and other applications.

Verdeco was approved for a STE on August 15, 2017, but was unable to meet the 15% statutory purchase requirement of Qualified Property within one year of Board approval. The Applicant did not make any purchases under this award. According to the Applicant, the research and development of its new technology took longer than expected.

The major shareholders (10.0% or greater) of Verdeco are:



The corporate officers of Verdeco are:

Alexander Delnik, Chief Executive Officer,
Secretary
Carmen Chivu, Chief Financial Officer

THE PROJECT

Verdeco is requesting a sales and use tax exclusion for the purchase of a third recycled PET resin production line in South Gate, California (the “Project”). The equipment purchased will process 100% post-consumer PET into Food and Drug Administration (FDA) food-grade recycled resin for food packaging utilizing its ‘state of the art’ recycling technology. Verdeco claims that its post-consumer PET is yielded from two material management sectors; the recycling approach, which acquires and reuses post-consumer PET which otherwise would be waste disposed of in a landfill; and the source reduction approach, which uses recycled PET as opposed to creating new PET. Verdeco represents that it currently has the capacity to produce up to 50 million pounds of the FDA food-grade recycled PET annually.

Additionally, the Applicant claims that its manufacturing process reduces its overall carbon footprint by minimizing energy consumption by 35%, water usage by 5%, solid waste by 3%, and hazardous waste by 16% when compared to other PET recycling technologies.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

PET Processing Equipment	\$ 2,490,150
Unadyn Material Handling Equipment	2,550,000
Chiller Tank and Air Tank Systems	228,200
Compressors	60,000
Quality Control and Testing Equipment	5,179,400
Pellet Transfer Equipment	199,000
Air Flow Equipment	112,200
Material Dryer	2,100,000
Spare Parts	200,000
Total	<u>\$13,118,950</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 the Applicant, the upgrades will require two phases: Phase I consisted of installing the decontamination equipment which began in April of 2019; Phase II will consist of expanding the plant's production capacity, and is expected to begin in July of 2020.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 4,474 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 51 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (4,474 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 \$4,906,568, resulting in a Fiscal Benefits score of 4,474 points for the Project.

- B. Environmental Benefits (51 points).** The Project will result in an Environmental Benefits Score of 51. 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 35% reduction in energy consumption compared to the Applicant's previous manufacturing process.
 2. **Water Use (5 of 30 points)**. The Applicant represents that the Project will result in a 5% reduction in water use compared to the Applicant's previous manufacturing process.
 3. **Hazardous Waste (16 of 30 points)**. The Applicant represents that the Project will result in a 16% reduction in air pollutants produced compared to the Applicant's previous manufacturing process.
- C. **Additional Benefits (50 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 50 additional points.
1. **Production Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 16 production-related jobs at its Facility. CAEATFA estimates that approximately two 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 30 points for the Project.
 2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of six 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 20 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it obtained the Entitlements from the City of South Gate in June of 2019, and anticipates obtaining a building permit, public works permit, and fire permit in August of 2019. The Applicant also represents that any additional permitting needs will only require seven business days for approval and will be acquired as needed.

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 \$6,559.48 and will pay CAEATFA an Administrative Fee up to \$52,475.80.

RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM002 for Verdeco Recycling, Inc.'s purchase of Qualified Property in an amount not to exceed \$13,118,950, anticipated to result in an approximate sales and use tax exclusion value of \$1,096,744.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH VERDECO RECYCLING, INC.**

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Verdeco Recycling, 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 \$13,118,950 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.

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Resolution No. 19-SM002
Application No. 19-SM002

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.