

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

Request to Amend Resolution for Sales and Use Tax Exclusion (STE)¹

**Graham Packaging PET Technologies, Inc.
Application No. 19-SM007 (Amended)**

June 18, 2019

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Graham Packaging PET Technologies, Inc.

Location – Modesto, Stanislaus County

Industry – Plastic Bottle Manufacturing

Project – Expansion of Beverage Packaging Facility (Advanced Manufacturing)

Value of Qualified Property – \$10,347,274

Estimated Sales and Use Tax Exclusion Amount² – \$865,032

Application Score –

Fiscal Benefits Points:	4,309
<u>Environmental Benefits Points:</u>	<u>70</u>
Net Benefits Score:	4,379

<u>Additional Benefits Points:</u>	<u>120</u>
Total Score:	4,499

Staff Recommendation – Approval

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

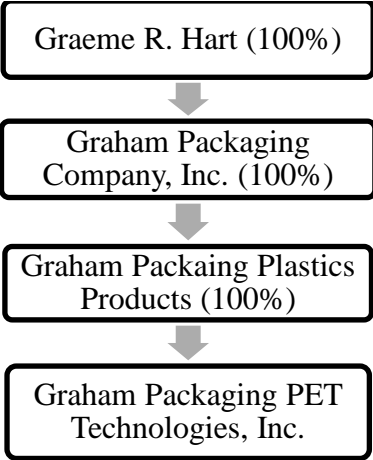
² This amount is calculated based on the average statewide sales tax rate of 8.36%.

THE APPLICANT

Graham Packaging PET Technologies, Inc. (“Graham” or the “Applicant”) is a Delaware Corporation formed in July of 1983 in Modesto. Graham manufactures rigid plastic packaging for the food and beverage industry.

The Applicant was originally approved for a Sales and Use Tax Exclusion for Qualified Property in the amount of \$8,925,143 at the CAEATFA Board meeting on March 19, 2019 (the staff report from March 19, 2019 is included as Attachment A). The Applicant is now requesting to increase its Qualified Property amount to \$10,347,274 to accommodate expenses that were not initially anticipated.

The major shareholders (10.0% or greater) of Graham Packaging PET Technologies, Inc. are:



The corporate officers of Graham Packaging PET Technologies, Inc, are:

- Michael Jack King, CEO
- Kristin Warfel, CFO
- Tracy Reeves, Secretary

THE PROJECT

Graham is requesting a sales and use tax exclusion to expand its beverage packaging facility in Modesto (the “Project”). The Project will produce new 750ml wine bottles using its advanced proprietary polyethylene terephthalate (PET) single component resin formulation. According to the Applicant, the challenge the industry faces when producing wine bottles using traditional mono-layer PET technology is the difficulty in achieving desirable physical characteristics (weight, transparency, and very low oxygen permeation). The downside to traditional production methods is the inability to easily recycle in-process and maintain desirable bottle coloration while keeping expenses low. Graham states that its proprietary resin formulation achieves low oxygen permeation while also maintaining bottle integrity and aesthetics, and operational sustainability. The Applicant also states that its proprietary resin formulation, which can consist of up to 15% recycled materials, allows for all of the waste to be ground onsite and recycled into new pellets.

According to the Applicant, it will install a new blow molding extraction line to produce wine bottles in varying shapes and sizes. Graham states that the blow molding extraction line will increase precision and quality, and reduce scrap that is currently diverted to landfills. For example, the equipment will have sharper edges allowing for much narrower radiuses to be produced, and flattening abilities to increase the “standing ring” area of the bottle base to prevent unwanted rocking or tipping. Additionally, the Applicant states the new equipment will reduce the frequency at which its molds need to be changed, and will enable real-time optical quality scanning to remove defective bottles from production. As such, the Applicant will reduce its overall energy consumption by 20% and waste generation by 60%.

On May 7, 2019, Graham submitted a request for an additional \$1,422,131 in Qualified Property and submitted the necessary fees to make the changes. The amendment will accommodate the need for additional molds and tooling for its Project. Aside from additional equipment needed, the scope of the project remains the same. If approved, the Master Regulatory Agreement will be executed to reflect the increased Qualified Property amount of \$10,347,274.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Rotary Blowmolder(s)	\$4,987,983
Vacuum and Table Top Conveyor(s)	425,000
Medium Speed Palletizer(s) and Conveyor(s)	1,657,500
Pallet Strapper(s)	149,888
High Speed Stretchwrapper	134,255
Electrical Distribution System and Installation	616,275
Switchboard	100,000
High Pressure Air Compressor Redeploy	106,395
IZ High Pressure Management System	100,000
Piping and Installation	533,000
Concrete Pad for Blowmolder	76,327
Mold & Tooling	1,422,131
New Compressor Room	38,520
Total	<u>\$10,347,274</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 Graham, internal approval for expansion took place in March of 2019, and the blow molding extrusion line is expected to be installed and operational by December of 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 4,499 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 70 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (4,309 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 \$3,727,188, resulting in a Fiscal Benefits score of 4,309 points for the Project.
- B. **Environmental Benefits (70 points)**. The Project will result in an Environmental Benefits Score of 70. The Applicant received points in the following categories:
 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that it represents will result in minimizing petroleum-based materials, designing more energy-efficient and greener solutions, develop technologies and products that preserve resources, and devise materials and solutions that enhance its sustainability.
 2. **Energy Consumption (20 of 30 points)**. The Applicant represents that the Project will result in a 20% reduction in energy consumption compared to the industry standard manufacturing process.
 3. **Solid Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 60% reduction in solid waste produced relative to the industry standard 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. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Stanislaus County, which has an average annual unemployment rate of 8%. This is above 110% of the statewide average annual unemployment rate, which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.

2. **Production Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 11 production-related 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 Permanent Jobs Score of 20 points for the Project.
3. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Opportunity Stanislaus and the VOLT Institute for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.
4. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the State as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that it plans to file for a Seismic Permit, Building Permit, and Construction Permit in July 2019, and anticipates them to be granted by Q4 of 2019.

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 \$4,462.57 for their initial application. Since the current application is considered an amendment to the original resolution, the Applicant paid an additional fee of \$2,000.⁴ Additionally, under the terms of the original resolution, the Applicant would have paid CAEATFA an Administrative Fee up to \$35,700.57. With the increased award, the Applicant will pay CAEATFA an Administrative Fee up to \$41,389.10.

³ California Code of Regulations Title 4, Division 13, Section 10036(a)(2)

⁴ California Code of Regulations Title 4, Division 13, Section 10036(c)(2)

RECOMMENDATION

Staff recommends approval of an amendment to Resolution No. 19-SM007, increasing Graham Packaging PET Technologies, Inc.'s purchase of Qualified Property to an amount not to exceed \$10,347,274, anticipated to result in an approximate sales and use tax exclusion value of \$865,032.

**RESOLUTION AMENDING THE ORIGINAL RESOLUTION 19-SM007 APPROVING
AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT
WITH GRAHAM PACKAGING PET TECHNOLOGIES, INC.**

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Graham Packaging PET Technologies, 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 was approved for a Sales and Use Tax Exclusion on March 19, 2019 to acquire Project equipment with an estimated cost not to exceed \$8,925,143 over a period of three years; and

WHEREAS, the Applicant has requested the Authority increase the amount of Qualified Property to an amount not to exceed \$10,347,274 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 March 19, 2019 Graham Packaging PET Technologies, Inc. Resolution Number 19-SM007 is amended to replace the \$8,925,143 in Qualified Property with \$10,347,274.

Section 2. With the exception of the changes described above, all other provisions, terms, obligations, and covenants contained in the Master Agreement shall remain in full force and effect.

Section 3. This Resolution shall take effect immediately upon its approval.

**Attachment A: Graham Packing PET Technologies, Inc.’s Staff Summary at Board
Approval**

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

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

**Graham Packaging PET Technologies, Inc.
Application No. 19-SM007**

March 19, 2019

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – Graham Packaging PET Technologies, Inc.

Location – Modesto, Stanislaus County

Industry – Plastic Bottle Manufacturing

Project – Expansion of Beverage Packaging Facility (Advanced Manufacturing)

Value of Qualified Property – \$8,925,143

Estimated Sales and Use Tax Exclusion Amount⁶ – \$746,142

Application Score –

Fiscal Benefits Points:	4,750
<u>Environmental Benefits Points:</u>	<u>70</u>
Net Benefits Score:	4,820

<u>Additional Benefits Points:</u>	<u>120</u>
Total Score:	4,940

Staff Recommendation – Approval

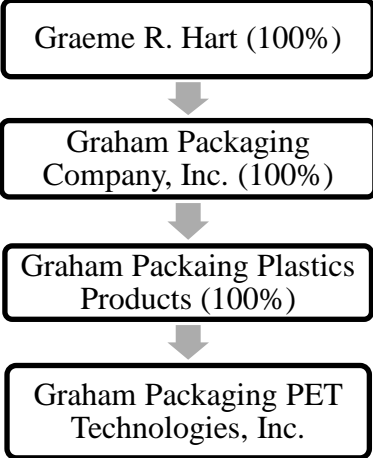
⁵ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁶ This amount is calculated based on the average statewide sales tax rate of 8.36%.

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- Tracy Reeves, Secretary

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produced, and flattening abilities to increase the “standing ring” area of the bottle base to prevent unwanted rocking or tipping. Additionally, the Applicant states the new equipment will reduce the frequency at which its molds need to be changed, and will enable real-time optical quality scanning to remove defective bottles from production. As such, the Applicant will reduce its overall energy consumption by 20% and waste generation by 60%.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

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Piping and Installation	533,000
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New Compressor Room	<u>38,520</u>
Total	<u>\$8,925,143</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 Graham, internal approval for expansion is anticipated in March of 2019, and the blow molding extrusion line is expected to be installed and operational by December of 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 4,940 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 70 points, which exceeds the 20-point threshold.

- D. Fiscal Benefits (4,750 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 \$3,543,976, resulting in a Fiscal Benefits score of 4,750 points for the Project.
- E. Environmental Benefits (70 points).** The Project will result in an Environmental Benefits Score of 70. The Applicant received points in the following categories:
- 4. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that it represents will result in minimizing petroleum-based materials, designing more energy-efficient and greener solutions, develop technologies and products that preserve resources, and devise materials and solutions that enhance its sustainability.
 - 5. Energy Consumption (20 of 30 points).** The Applicant represents that the Project will result in a 20% reduction in energy consumption compared to the industry standard manufacturing process.
 - 6. Solid Waste (30 of 30 points).** The Applicant represents that the Project will result in a 60% reduction in solid waste produced relative to the industry standard manufacturing process.
- F. Additional Benefits (120 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 120 additional points.
- 5. Unemployment (50 of 50 points).** The Applicant’s Project is located in Stanislaus County, which has an average annual unemployment rate of 8%. This is above 110% of the statewide average annual unemployment rate, which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.
 - 6. Production Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 11 production-related 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 Permanent Jobs Score of 20 points for the Project.

7. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Opportunity Stanislaus and the VOLT Institute for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.
8. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the State as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that it plans to file for a Seismic Permit, Building Permit, and Construction Permit in January 2019, and anticipates them to be granted by April of 2019.

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,⁷ the Applicant has paid CAEATFA an Application Fee of \$4,462.57 and will pay CAEATFA an Administrative Fee up to \$35,700.57.

RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM007 for Graham Packaging PET Technologies, Inc.'s purchase of Qualified Property in an amount not to exceed \$8,925,143, anticipated to result in an approximate sales and use tax exclusion value of \$746,142.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH GRAHAM PACKAGING PET
TECHNOLOGIES, INC.**

March 19, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Graham Packaging PET Technologies, 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 \$8,925,143 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.B.1
Resolution No. 19-SM007
Application No. 19-SM007

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.