

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

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

**South Bayside Waste Management Authority
Application No. 19-SM032**

Tuesday, July 16, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – South Bayside Waste Management Authority (AKA ReThink Waste)

Location – San Carlos, San Mateo County

Industry – Organics and Municipal Solid Waste

Project – New Organics and Municipal Solid Waste Processing Facility (Alternative Source)

Value of Qualified Property – \$11,260,000

Estimated Sales and Use Tax Exclusion Amount² – \$941,336

Estimated Quantifiable Net Benefits – \$1,060,674

Competitive Criteria Score – 6

Application Score –

Fiscal Benefits Points:	2,053
<u>Environmental Benefits Points:</u>	<u>74</u>
Net Benefits Score:	2,127

<u>Additional Benefits Points:</u>	<u>50</u>
Total Score:	2,177

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

South Bayside Waste Management Authority (“SBWMA” or the “Applicant”) is a joint powers authority of twelve public agencies (Atherton, Belmont, Burlingame, East Palo Alto, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, and San Mateo, the County of San Mateo, and the West Bay Sanitary District) in San Mateo County.

SBWMA was established in 1982 and incorporated in its current form in 1999 to provide for the joint ownership, financing, administration, and operation of regional solid waste management facilities, and for the joint planning, adoption, financing, administration, management, review, monitoring, enforcement, and reporting of solid waste, recyclable material, and plant material collection activities. SBWMA owns and manages a 16-acre facility called the Shoreway Environmental Center that receives all of the recyclables, organics, and garbage collected in the area. The Shoreway facility includes a transfer station, materials recovery facility, collection fleet parking and maintenance facility, and administration building.

The Board Members of SBWMA are:

- Bill Widmer, Mayor (Town of Atherton)
- Davina Hurt, Mayor (City of Belmont)
- Michael Brownrigg, Council Member (City of Burlingame)
- Ruben Abrica, Council Member (City of East Palo Alto)
- Herb Perez, Vice Mayor (City of Foster City)
- Jay Benton, Board Chair and Council Member (Town of Hillsborough)
- Catherine Carlton, Council Member (City of Menlo Park)
- Alicia Aguirre, Board Vice Chair and Council Member (City of Redwood City)
- Adam Rak, Council Member (City of San Carlos)
- Rick Bonilla, Council Member (City of San Mateo)
- Carole Groom, President of the Board of Supervisors (County of San Mateo)
- Fran Dehn, President (West Bay Sanitary District)

THE PROJECT

SBWMA is requesting a sales and use tax exclusion to build a new municipal solid waste (MSW) and organics processing facility located in San Carlos (the “Project”). According to the Applicant, the main system components for the Project include a bag opener, an organics extrusion press, organics polishing system, and load out system. The Applicant represents the Project will consist of two phases; a pilot phase and a full-scale phase. In the pilot phase, SBWMA states it will process and convert approximately 50 tons of MSW and 60 tons of commercial food waste per day into 75 tons of clean slurry product. SBMWA represents that at full scale, it will increase the volume of MSW it processes to 700 tons per day to produce approximately 200 tons of clean slurry product. The Applicant states that the clean slurry product will be provided to two local waste-water treatment plants, East Bay Municipal Utility District and Silicon Valley Clean Water, which will create biogas through anaerobic digestion to generate renewable electricity or produce fuel-grade bio CNG for use in the collection vehicles.

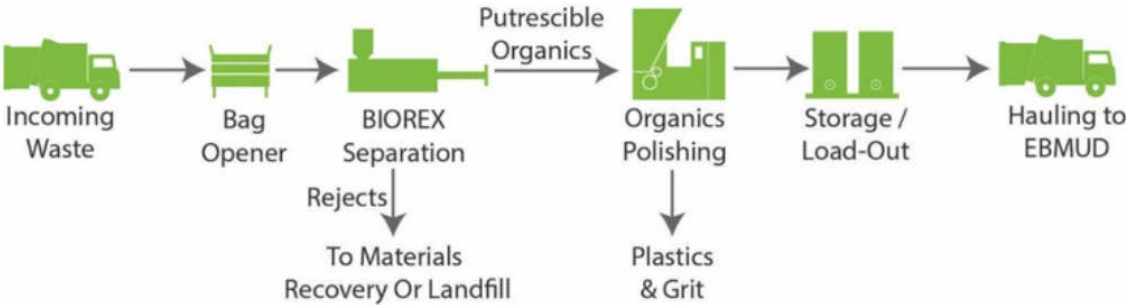


Figure 1: Process Flow Diagram for the Pilot Phase



Figure 2: Input and Products of Organics Polishing System

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Solid Waste Pre-Processing Equipment	\$ 3,900,000
Solid Waste and Organics Extraction Equipment	2,400,000
Solid Waste Polishing Equipment	2,200,000
Solid Waste Post-Processing Equipment	410,000
Steel Package	1,800,000
Control System	550,000
Total	<u>\$11,260,000</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

The Applicant states that it is past the design stages of the pilot phase and is currently working on procurement and obtaining permits. According to SBWMA, equipment installation and commissioning for the pilot phase are expected to occur in Q4 2019. SBWMA states that all tasks related to the full-scale phase will take place in 2020 with the intent of being operational by the beginning of 2021.

COMPETITIVE CRITERIA SCORE

In the event that requested STE of all Applications to be heard in a month exceeds the remaining available STE cap amount, projects will be brought before the Authority based on ranking of competitive criteria. The Applicant received six competitive criteria points. The Applicant received points in the following categories:

1. **Corporate Headquarters (1 point)**. The Applicant has verified that it has a corporate headquarters located in California and that any parent company with an ownership interest larger than 50% also has a corporate headquarters in California.
2. **New Applicant (5 points)**. The Applicant has not previously been approved for an STE award, and no parent company with an ownership interest greater than 50%, or affiliate or subsidiary of a parent company with an ownership interest greater than 50%, has been previously approved for an STE award.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$11,260,000 and the total quantifiable net benefits are valued at \$1,060,674 for the Project. The Project received a Total Score of 2,177 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 74 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,053 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 \$1,932,190, resulting in a Fiscal Benefits score of 2,053 points for the Project.
- B. **Environmental Benefits (74 points)**. The Project will result in \$69,820 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 74 points for the Project. These benefits derive from the production of mixed

organics slurry for use in biogas production, which offsets the need for use of fossil methane, according to the Applicant.

- 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 (20 of 75 points)**. The Applicant represents that the Project will support a total of eight 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.
 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 14 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 30 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it is currently obtaining electrical and structural permits with the City of San Carlos and amending its solid waste permit with Cal-Recycle. A building permit is expected to be obtained by June 2020.

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 \$5,630 and will pay CAEATFA an Administrative Fee up to \$45,040.

RECOMMENDATION

Statute limits CAEATFA to granting up to \$100 million in sales and use tax exclusion each calendar year. Program Regulation Section 10032(a)(7)(A) provides that when the amount

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

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requested in the final Application considered under the competitive criteria process exceeds the STE available in the calendar year, the Authority shall award the remaining STE request using STE from the following calendar year. After the June 2019 Board meeting, CAEATFA has approximately \$5,170,855 in STE (or \$61,852,333.80 in Qualified Property) left to award in 2019, which is sufficient to fully award the top two ranked Applicants, Lakeside Pipeline LLC and Allogene Therapeutics, Inc., from the 2019 allocation. Assuming both Applicants are approved, approximately \$751,806 in STE (or \$8,992,888.80 in Qualified Property) remains in the 2019 calendar year, and South Bayside Waste Management Authority's Project is for \$11,260,000 in Qualified Property for an estimated sale and use tax exclusion value of \$941,336.

Therefore, staff recommends approval of Resolution No. 19-SM032 for South Bayside Waste Management Authority's purchase of Qualified Property in an amount not to exceed \$8,992,888.80 in Qualified Property, effective immediately, anticipated to result in an approximate sales and use tax exclusion value of \$751,806, and effective January 1, 2020, for the purchase of up to \$2,267,111.20 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$189,530.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SOUTH BAYSIDE WASTE MANAGEMENT
AUTHORITY**

June 16, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **South Bayside Waste Management Authority** (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 \$11,260,000 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.

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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 for up to \$8,992,888.80 in Project equipment purchases and effective on January 1, 2020, for up to an additional \$2,267,111.20 in Project equipment purchases, resulting in a total of \$11,260,000 in Project equipment purchases, 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.