

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

***Request to Approve a Time Extension for the  
Initial Term of the Master Regulatory Agreement<sup>1</sup>***

**Mid Valley Disposal  
Application No. 16-SM018**

**Tuesday, October 15, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Mid Valley Disposal

**Location** – Kerman, Fresno County

**Industry** – Mixed Organics (Recycled Resource Extraction)

**Project** – Construction of a New Organics Composting Facility

**Total Amount of Qualified Property Approved** – \$3,739,543

**Estimated Sales and Use Tax Exclusion Amount at Approval<sup>2</sup>** – \$314,870

**Amount of Time Requested** –

- One year, until October 18, 2020, for the Initial Term of the Master Regulatory Agreement (four years from the date of the initial CAEATFA Board approval)

**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 at the time of initial approval, which was 8.42%.

**REQUEST**

In October 2016, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Mid Valley Disposal (“MVD” or the “Applicant”) for the purchase of \$3,739,543 of Qualified Property to build a new 60,000-ton organic materials composting facility (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purpose of the program.<sup>3</sup>

Through August 31, 2019, MVD has reported \$2,701,648.25 in Qualified Property purchases (72% of the total Qualified Property amount approved). MVD is requesting to extend the Agreement initial term by one year to accommodate project timeline delays as a result of decelerated organic waste diversion program implementation.

According to MVD, construction of the bunkers and site improvements were completed in April of 2017, and operations began shortly thereafter. To date, the system has processed over 80,000 tons of organic waste, while achieving 95.2% reduction in VOC emissions. According to the Applicant, the Project was expected to reach full capacity by Q2 of 2019, however growth has slowed due to delays in AB 1826 implementation, which requires local businesses that generate a specific amount of organic waste to arrange for recycling services according to a tiered implementation schedule. The remaining \$1,037,895 will be used to purchase a new grinder. Once the system reaches capacity, MVD intends to purchase the new grinder, which will be necessary to achieve the required throughput for the system. With continued implementation of AB 1826, the Applicant anticipates increased volumes in the near future.

**THE APPLICANT**

Mid Valley Disposal is a California corporation specializing in solid waste and recycling services in the Central Valley. The Applicant operates three material recovery facilities (MRFs) that serve over 28 municipalities and process in excess of 80,000 tons of mixed recyclables annually. Recycled materials currently include fibers, plastics, glass, and metal containers.

The major shareholders (10.0% or greater) of Mid Valley Disposal are:

- John Kalpakoff (51%)
- Joseph Kalpakoff (25%)
- Jonathan Kalpakoff (20%)

The corporate officers of Mid Valley Disposal are:

- Jay Kalpakoff, President
- Joseph Kalpakoff, CEO
- Joe Heisdorf, CFO
- Jonathan Kalpakoff, Vice President
- Roy Mendrin, Vice President

<sup>3</sup> The provision of the regulations allowing CAEATFA to waive the requirement that all purchases of Qualified Property be made within three years of the Application approval is in Regulation Section 10035(b)(1)(A).

**THE PROJECT**

Mid Valley Disposal has built a new 60,000-ton organic materials composting facility. The facility utilizes concrete bunkers with built in aeration systems that are covered by large GORE-TEX tarps. The Applicant represents that this system creates a pressurized controlled environment that reduces up to 95% of greenhouse gas emissions when compared to traditional open row composting.

The covered composting system is designed to accept post-consumer food waste that can be blended with other organic material that would otherwise be disposed of in landfills. In addition to landfill diversion, the process will create a variety of finished grades of compost which will largely be marketed to the local agricultural community.

**INITIAL TERM EXTENSION REQUEST**

MVD has requested that the initial term of the Agreement be extended from October 18, 2019 to October 18, 2020 in order to accommodate Project delays as a result of organic feedstock availability being less than expected. AB 1826 requires businesses and local jurisdictions to recycle organic waste, but implementation was slower than anticipated.

**Staff Evaluation**

MVD has purchased approximately 72% of the total \$3,739,543 in Qualified Property amount approved to date and has completed initial construction of the Project, which was placed in service on April 2017. According to MVD, an extension will allow for it to increase overall capacity with the purchase of a new grinder. Despite the timeline delays, MVD is confident an additional year will be sufficient time to complete the total Project, given its historical rate of growth and updated Project timeline. Based on this information, Staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

**LEGAL QUESTIONNAIRE**

Staff has 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>4</sup> the Applicant has paid an Additional Administrative Fee of \$500 because extending the initial term requires a modification to the Applicant’s Master Regulatory Agreement.

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

**RECOMMENDATION**

Staff recommends that the Board approve Mid Valley Disposal's request to extend the initial term of the Agreement by one year to October 18, 2020 as it is in the public interest and advances the purpose of the Program.

**Attachments**

Attachment A: MVD's letter requesting waiver (August 16, 2019)

Attachment B: MVD's staff summary at the time of approval

**RESOLUTION APPROVING A TIME EXTENSION FOR  
MID VALLEY DISPOSAL’S INITIAL TERM FOR  
THE MASTER REGULATORY AGREEMENT**

**October 15, 2019**

WHEREAS, on October 18, 2016 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$3,739,543 of Qualified Property for **Mid Valley Disposal** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by one year to October 18, 2020; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to October 18, 2020.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Mid Valley Disposal's Letter Requesting Waiver (August 16, 2019)



August 16, 2019

CAEATFA  
Attn: Xee Moua  
915 Capitol Mall, Room 538  
Sacramento, CA 95814

***RE: Letter Request for Extension of Term, Kerman Composting Project***

This letter is to formally request the extension of the term for acquiring Qualified Property under the Master Agreement (the "Agreement") dated November 14, 2016 between Mid-Valley Disposal ("MVD") and the California Alternative Energy and Advanced Transportation Financing Authority ("CAETFA"). The initial term of the Agreement expires October 18, 2019, three years from the date of board approval of the application.

*Project Update*

The project is the construction and operation of a 16 bunker organic waste composting facility in Kerman California. The system is designed to process 60,000 tons per year of mixed organic waste, including food waste. The STE application included the acquisition of GORE-Tex® bunker tarps designed to cover the compost during active phases, and additional equipment including loaders, a trommel screen, and a grinder.

Construction of the bunkers and site improvements was completed in April 2017. MVD acquired a loader and trommel screen and operations began shortly thereafter. To date, the system has processed over 80,000 tons of organic waste, while achieving a 95.2% reduction in VOC emissions.

The project was expected to reach capacity by Q2, 2019. However, participation in food waste diversion programs has been slow to implement. These challenges have been documented by Calrecycle in their most recent annual report (see: State of Disposal and Recycling in California for Calendar Year 2017, <https://www2.calrecycle.ca.gov/Publications/Download/1399>). The result is that the total throughput for the system has not reached its full capacity.

*Property Acquired*

The Agreement allows for a total of \$3,739,543 qualified property to be purchased. To date, \$2,701,648 has been acquired, which includes the compost covers, a loader, and a trommel screen. The remaining \$1,037,895 is intended to be applied to the purchase of a new grinder.

Currently, MVD operates a 2007 model year Vermeer belt feed grinder with a tier 1 diesel engine acquired before the project began. This current grinder operates at approximately 60% utilization. Once the system reaches capacity, MVD intends to purchase a new grinder with increased throughput and lower emissions. The new grinder will be necessary to achieve the required throughput for the system.



Because the project has not reached capacity, it has not been economically beneficial to replace the current grinder. However, with continued implementation of AB 1826, we anticipate increased volumes in the near future, which would necessitate the purchase of a new grinder to meet throughput demands.

*Facility Expansion*

MVD also applied for and was awarded an STE for the expansion of the current facility. The expansion will further increase capacity to a total of 90,000 tons per year. The STE award includes the acquisition of additional GORE-Tex® covers and a loader. This expansion will take advantage of existing infrastructure and equipment acquired through the first STE award, including the new grinder not yet purchased.

*Extension Request*

MVD is requesting a 1 year extension of the term so that it may acquire a new grinder for the project. We have conducted 2 on-site demonstrations of new grinders in order to evaluate efficiency and operational feasibility. The cost of a new grinder is not expected to exceed the remaining STE amount for this project. Once the Grinder is acquired, we anticipate no further acquisitions for this project.

We are requesting an additional year to allow for time to coordinate with other stakeholders, including the San Joaquin Valley Air Pollution Control District (SJVAPCD) on new technologies and incentive programs related to alternative fuel equipment or possibly retiring diesel powered equipment. The expansion of the Facility will also likely trigger additional federal EPA requirements that can impact heavy equipment permitting for the project. While we are diligently working with the air board, engineering consultants, and manufacturers, we expect this process to take some time.

We greatly appreciate the help of Staff and the Board's consideration of this request. We have attached an updated Legal Status Questionnaire to this letter. If there are any additional questions regarding this project, please feel free to contact me directly.

A handwritten signature in black ink, appearing to read "J. Heisdorf", is written over a faint dotted line.

Joseph D. Heisdorf  
Chief Financial Officer  
Mid Valley Disposal

**Attachment B: Mid Valley Disposal’s Staff Summary at the Time of Approval**

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>5</sup>*

**Mid Valley Disposal  
Application No. 16-SM018**

**Tuesday, October 18, 2016**

Prepared By: *James Shimp, Analyst*

**SUMMARY**

**Applicant** – Mid Valley Disposal

**Location** – Kerman, Fresno County

**Industry** – Mixed Organics (Recycled Resource Extraction)

**Project** – Construction of a New Organics Composting Facility

**Value of Qualified Property** – \$3,739,543

**Estimated Sales and Use Tax Exclusion Amount<sup>6</sup>** – \$314,870

**Estimated Net Benefits** – (\$26,094)

**Application Score** –

Fiscal Benefits Points:	876
<u>Environmental Benefits Points:</u>	<u>41</u>
<b>Net Benefits Score:</b>	<b>917</b>
<u>Additional Benefits Points:</u>	<u>130</u>
<b>Total Score:</b>	<b>1,047</b>

**Staff Recommendation** – Approval

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

<sup>6</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.



**THE APPLICANT**

Mid-Valley Disposal (“MVD” or the “Applicant”) is a California corporation specializing in solid waste and recycling services in the Central Valley. The Applicant operates three material recovery facilities (MRFs) that serve over 28 municipalities and process in excess of 80,000 tons of mixed recyclables annually. Recycled materials currently include fibers, plastics, glass, and metal containers.

Mid-Valley Disposal has an additional application being considered at the October 18, 2016 Board meeting for \$6,821,909 in qualified property, anticipated to result in an estimated STE of \$574,405, to replace a mixed recyclables line at its Fresno facility.

The major shareholders (10.0% or greater) of Mid-Valley Disposal are:

- John Kalpakoff (51%)
- Joseph Kalpakoff (25%)
- Jonathan Kalpakoff (20%)

The corporate officers of Mid-Valley Disposal are:

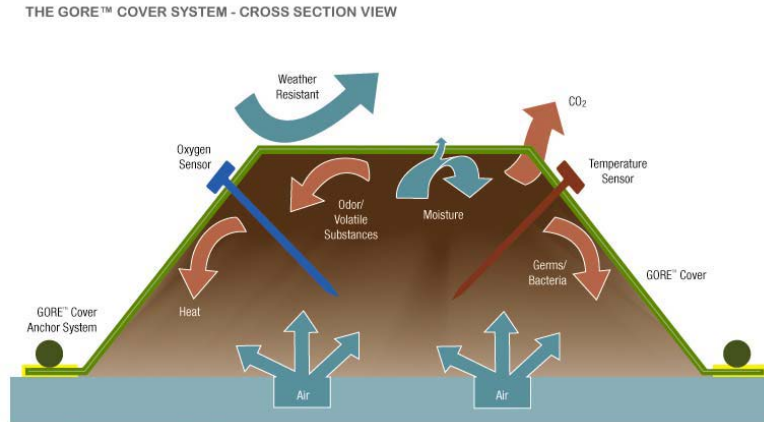
- Jay Kalpakoff, President
- Joseph Kalpakoff, CEO
- Joe Heisdorf, CFO
- Jonathan Kalpakoff, Vice President
- Roy Mendrin, Vice President

**THE PROJECT**

Mid-Valley Disposal is seeking an STE award in order to build a new 60,000 ton organic materials composting facility (the “Project”). The facility will utilize concrete bunkers with built in aeration systems that are covered by large GORE-TEX tarps. The Applicant represents that this system creates a pressurized controlled environment that reduces up to 95% of greenhouse gas emissions when compared to traditional open row composting.

The covered composting system is designed to accept post-consumer food waste that can be blended with other organic material that would otherwise be disposed of in landfills. In addition to landfill diversion, the process will create a variety of finished grades of compost which will largely be marketed to the local agricultural community.

Figure 1. Cross-sectional View of the Covered Composting System



**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Sustainable Generation System w/GORE-TEX Covers	\$1,890,000
Grinder	792,000
Trommel Screen	490,952
Loader	496,976
Mobile Tarp Winder	69,615
<b>Total</b>	<b><u>\$3,739,543</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**

Construction of the composting facility began in February 2016 and is expected to be completed in November 2016. All equipment is anticipated to be placed in service in December 2016.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$3,739,543 and the total net benefits are valued at **-\$26,094** for the Project. Although the cumulative fiscal and environmental benefits fall short of the estimated Sales and Use Tax Exclusion amount, resulting

in a negative net benefit, the Project has additional employment related benefits that are not quantifiable in fiscal terms and which increase the Total Score above the qualifying threshold.<sup>7</sup> The Project received a Total Score of 1,047 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 41 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (876 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 \$275,785 resulting in a Fiscal Benefits score of 876 points for the Project.
  
- B. **Environmental Benefits (41 points)**. The Project will result in \$12,990 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 41 points for the Project. These benefits derive from processing organic waste for the manufacture of compost, which thereby diverts 60,000 tons from landfills annually, according to the Applicant.
  
- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 130 additional points.
  - 1. **Permanent Jobs (35 of 75 points)**. The Applicant represents that the Project will support a total of seven permanent jobs at its Facility. CAEATFA estimates that 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 35 points for the Project.
  
  - 2. **Construction Jobs (45 of 75 points)**. The Applicant represents that the Project will support a total of 17 construction 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 Construction Jobs Score of 45 points for the Project.
  
  - 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Fresno County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 50 points for this Project.

## STATUS OF PERMITS/OTHER REQUIRED APPROVALS

MVD currently has all required permits and licenses necessary to complete the project.

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<sup>7</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

**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>8</sup> the Applicant has paid CAEATFA an Application Fee of \$1,869.77 and will pay CAEATFA an Administrative Fee of \$15,000.

**RECOMMENDATION**

The cumulative fiscal and environmental benefits of the Applicant’s proposed Project fall short of the estimated Sales and Use Tax Exclusion amount, resulting in a net benefit of -\$26,094. However, the Project has additional employment related benefits that are not quantifiable in fiscal terms and which increase the Total Score above the qualifying threshold.<sup>9</sup> Accordingly, staff recommends approval of Resolution No. 16-SM018 for Mid-Valley Disposal’s purchase of Qualified Property in an amount not to exceed \$3,739,543 anticipated to result in an approximate sales and use tax exclusion value of \$314,870.

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<sup>8</sup> California Code of Regulations Title 4, Division 13, Section 10036

<sup>9</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH MID-VALLEY DISPOSAL**

October 18, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Mid-Valley Disposal** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 \$3,739,543 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.

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.