

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

***Request to Approve a Time Extension for the
Initial Term of the Master Regulatory Agreement¹***

**XT Green, Inc.
Application No. 16-SM026**

November 19, 2019

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – XT Green, Inc.

Location – Rancho Cucamonga, San Bernardino County

Industry – Advanced Carpet Recycling

Project – New Advanced Carpet Recycling and Manufacturing Facility (Advanced Manufacturing)

Total Amount Qualified Property Approved– \$8,970,500

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$755,316

Amount of Time Requested –

- Two years and eighteen days, until December 31, 2021, for the Initial Term of the Master Regulatory Agreement (Five years and eighteen days from the date of initial CAEATFA Board approval)

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

REQUEST

On December 13, 2016, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for XT Green, Inc. (“XT Green” or the “Applicant”) for the purchase of up to \$8,970,500 in Qualified Property to build a new advanced carpet recycling 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 purposes of the program.

As of October 31, 2019, XT Green has used the STE to purchase \$2,142,575 of Qualified Property (24% of the total Qualified Property approved) and anticipates production to begin in April 2020. The Applicant is requesting to extend the Agreement initial term by two years and eighteen days to accommodate unexpected delays due to securing a facility, establishing an alternative electric power source, concerns over the uncertainty of the trade war with China, delivery and installation of equipment, and the long lead time to manufacture the pelletizers.

XT Green states that when it originally applied for an STE award, the Applicant believed it would lease a building it had identified in Riverside County, but it did not anticipate the significant competition for large buildings in the area. According to XT Green, as a result, it took six months of intensive searching to secure its location in Rancho Cucamonga.

Additionally, XT Green explains the Facility requires an amount of energy rarely available in California buildings, so an expansion of power was part of the construction plan, and it had been in talks with Southern California Edison (“SCE”) regarding its power needs when it leased the building. However, according to XT Green, when construction began, SCE indicated it could not provide adequate power without XT Green incurring \$1 million in additional costs because the power would need to come from half a mile away over the busiest street in town. XT Green states it was able to work with the Rancho Cucamonga Municipal Utility to receive sufficient energy at a lower cost, but the process took an additional 15 months. According to XT Green, on-site power infrastructure at the facility has begun and is expected to be completed by December 2019.

Because XT Green is self-funded by Chinese high-wealth entrepreneurial environmentalists, the trade war with China caused complications as a result of the uncertainty due to changing policies, restrictions placed by the Chinese government on foreign investments, and possible tariff changes on custom XT Green equipment being manufactured in China. XT Green explains its investors decided to first focus on the completion of a large sustainable chemical plant in China, which has been completed. XT Green states it has solidified the commitment from its investors to move forward on the Project, despite the continuation of the trade war with China.

According to XT Green, the manufacture of its custom equipment from China has been reinitiated, with an anticipated ship date of Q1 2020, and the drying equipment from Italy is expected to arrive in April 2020 so that the Facility can be operational by Q2 of 2020. The Applicant states facility construction and build-out will continue through 2020, and once sufficient capital is earned later in 2020, the Pelletizers (which heats, compresses and extrudes

nylon and polypropylene fibers and converts them into pellets) will be purchased, with a one-year lead time until delivery.

THE APPLICANT

XT Green was founded in 2013 for the purpose of developing an alternative carpet recycling system to manufacture byproducts such as nylon and polypropylene. Carpet recycling has historically had limited success in the United States due to current technologies that produce poor quality recycled material, low yields, large amounts of waste, and air-pollution-related employee health problems. XT Green developed a new advanced manufacturing processing system that resolves these issues. The innovative technology was demonstrated through pilot testing in 2015, and XT Green is currently planning to bring the new system to scale in its first carpet recycling facility.

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

Hui Yang (50%)

Tian Chongyu (50%)

The corporate officers of XT Green are:

Frank Lu, CEO

Hui Yang, President

Patrick Lee, CFO & Treasurer

THE PROJECT

XT Green's new advanced carpet recycling facility, EarthCare Carpet Recycling, will be located in a new 125,000 square foot building in San Bernardino County. Opening was initially planned for March 2017. The Applicant represents that the facility will process approximately 4 million pounds of post-consumer carpet per month and produce recycled raw materials, and is anticipated to begin in Q3 of 2020 (see Figure 1).

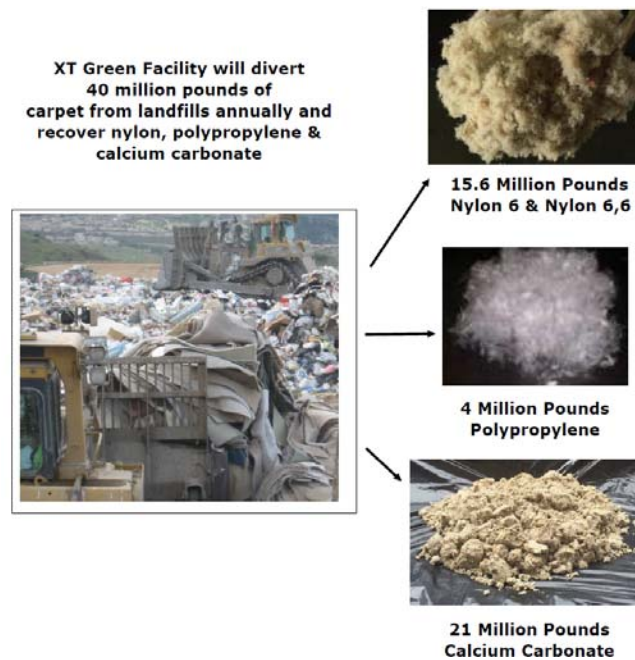


Figure 1: XT Green Carpet Recycling Output

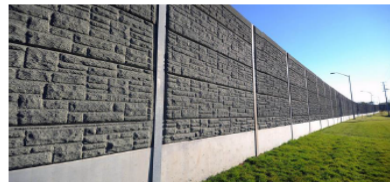
Figure 2: Example Products Made From Recycled Raw Materials



Polypropylene



Calcium Carbonate



Currently, only 18% of the post-consumer carpet that is discarded in California is being recycled due to economic and technological limitations. XT Green overcomes these limitations through its new advanced carpet recycling technology. The new technology used by the Project will protect the health of its employees by eliminating the respirable particulate problem common to conventional carpet recycling facilities. This is achieved through a new process which size reduces rather than shreds the carpet and processes it in a wet pulper. The wet processing technology used will also allow ash to be more easily removed. Because of these advancements, the recycled material output will be a higher quality recycled material than the current

industry standard. XT Green's advanced manufacturing process also achieves higher yields than the industry standard, allowing more recycled raw materials to be manufactured. Conventional carpet recycling technologies achieve a 40% yield, generating 60% production waste that must be sent to landfill. XT Green's advanced manufacturing process will achieve a 90% yield, generating only 10% production waste. The Applicant represents that this is a record high yield which allows for a higher recycled raw material yield. The recycled raw materials generated by XT Green are manufactured into pellets, which can then be used by other California manufacturers to create products (See Figure 2).

AGREEMENT INITIAL TERM EXTENSION REQUEST

XT Green has requested that the initial term of the Agreement be extended from December 13, 2016 to December 31, 2021 in order to accommodate unexpected delays due to finding a facility, securing an alternative electric power source, concerns over the uncertainty of the trade war with China, delivery and installation of equipment, and the long lead time to manufacture the pelletizers.

Staff Evaluation

With the support of the City of Rancho Cucamonga, XT Green has now secured a facility for production and an alternative electric power source for operation. XT Green has also solidified the commitment from its investors to move forward on the Project despite the uncertainty of the current trade war with China. Additionally, XT Green states it has resumed purchasing equipment and now has a timeline for moving forward. Based on this information, Staff believes 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 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 an additional fee of \$500 because extending the initial term requires a modification to the Applicant's Master Regulatory Agreement.

RECOMMENDATION

Staff recommends that the Board approve XT Green, Inc.'s request to extend the initial term of the Agreement by two years and eighteen days to December 31, 2021 as it is in the public interest and advances the purpose of the program.

Attachments

Attachment A: XT Green, Inc.'s letter requesting waiver (September 20, 2019)

Attachment B: XT Green, Inc.'s staff summary at the time of approval

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

**RESOLUTION APPROVING A TIME EXTENSION FOR
XT GREEN, INC.’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

November 19, 2019

WHEREAS, on December 13, 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 \$8,970,500 of Qualified Property for **XT Green, Inc.’s** (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 two years and eighteen days to December 31, 2021; 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 December 31, 2021.

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

Attachment A: XT Green, Inc.'s Letter Requesting Waiver (September 20, 2019)



September 20, 2019

To: California Alternative Energy and Advanced Transportation Financing Authority
(CAEATFA)

From: Gail Brice, Sr. Vice President, XT Green, Inc.

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) Board approved the XT Green, Inc project on December 13, 2016, under the Sales and Use Tax Exclusion Program. To date XT Green, Inc. has made purchases of \$2,142,575, which calculates to 24% of the total Qualified Property (QP) approved for the XT Green, Inc by the CAEATFA Board. XT Green, Inc understands that under the current agreement it has three years to purchase Qualified Property before the initial term of the agreement expires per Section 5.A of the Master Regulatory Agreement and the Program regulations ("Purchase Requirement").

Due to circumstance out of the control of XT Green, Inc that are described in Attachment 1, XT Green, Inc will not be able to meet the Purchase Requirement, therefore we are requesting a waiver for a time extension per the Program's regulations. To support this request for a waiver the following is provided on the attached:

- An updated Legal Status Questionnaire and Company ownership information;
- A request for a time extension, including the specific amount of time requested, an anticipated schedule for purchasing the remainder of the Qualified Property, and rationale for why this specific amount of time is needed;
- An explanation of why the extension is necessary (i.e. why the initial term deadline will not be met);
- An explanation of what assurances there are that the new timeline will be met;
- Amount of Qualified Property purchased to date;
- Information on whether the scope of the project has changed; and
- Additional information to support Board approval of a waiver of the Purchase Requirement.

The original of this document will be sent for arrival at CAEATFA within the five-business day requirement along with a \$500 fee check. Please contact me at gail.brice@xt-green.com or 562-592-5989 (direct) or 562-448-4254 (mobile) if you have any questions regarding this extension request. Thank you for your consideration.

Sincerely,

Gail Brice (see original for wet signature)

Gail Brice, Sr. Vice President XT Green, Inc.

Reclaiming Resources for a Greener Planet
XT Green, Inc. 11600 Millennium Court Rancho Cucamonga CA 91730



Attachment 1

Background Information Request for Extension of the CAEATFA Purchase Requirements

Per the cover letter provided, XT Green, Inc is requesting a time extension of the CAEATFA purchase requirements for its advanced manufacturing facility to recycle carpet project. The following provides background information regarding this request.

1. Request for a time extension, including specific amount of time requested

XT Green is requesting a Qualified Property purchase time extension through to the end of 2020, with the exception that the time extension for the purchase of the Pelletizers (Qualified Property #88 and #89) and the carpet batching system (Qualified Property #13) be extended through the end of 2021. Due to the cost of the Pelletizers (\$1.5 million) we are planning to initially sell the recovered product from the facility as fiber and then purchase the pelletizers later in 2020 to increase the value of the recovered product. Due to the long lead time to manufacture the pelletizers, it's anticipated the final payments will be made in 2020. We are also planning to do the carpet batching manually during the start-up of the project.

2. Anticipated schedule for purchasing the remainder of the Qualified Property, rationale for why this specific amount of time is needed.

Per the explanation below, circumstances beyond the control of XT Green extended the length of the project by 18 months. Before the project was delayed, production on some of the Qualified Property (QP) was started with down payments and progress payments. The contract to complete the manufacture of this custom XT Green equipment will be reinitiated in China during the week of September 23 with an anticipated ship date of Q1 2020. The RF driers QP (manufactured in Italy) have a projected delivery date of April 2020. This schedule will be adequate to get the facility operational by Q2 of 2020. There will be additional QP ordered and installed after to startup to optimize production. It's anticipated that this will occur throughout 2020. As noted above, the purchase of the Pelletizers would not be complete until 2021 due to the long lead time of over a year for the QP.

3. Explanation of why the extension is necessary (i.e. why the initial term deadline will not be met)

The XT Green advanced manufacturing facility to recover resources from post-consumer carpet (PCC) is a first-of-its kind facility that processes the PCC underwater in order to: (1) increase recycling rates and the value of the recovered product; (2) protect employee health and environmental impacts by eliminating airborne particulates; (3) increase the facility GHG reduction benefit, and (4) create quality advanced manufacturing green jobs. A copy of the XT Green patent awarded in June of 2018 is attached. The company is being self-funded by high-wealth entrepreneur environmentalists who live in China. With this, there has been unique challenges to completing the XT Green facility in Southern California. They include:

a) Problems finding a building to lease

When XT Green applied for this program, it was anticipated that it would lease a building it had identified in Riverside County. At that time, we did not anticipate the major competition for large buildings in Southern California, especially the Inland Empire which is the nation-wide hub for the booming E-Commerce industry. With this we quickly discovered that the vacancy rate for buildings greater than 80,000 square feet was < 2% and those that were available preferred to lease to Fortune 100 companies. It took XT Green six months of intensive searching (and a million-dollar security deposit) to secure our location at 11600 Millennium Court in Rancho Cucamonga, CA. We also needed the support of Go Biz who contacted city governments asking for help. The City of Rancho Cucamonga was instrumental in helping us secure our building. (A copy of their letter of support is attached.)

b) Need to find an alternative electric power utility

The XT Green facility will have a greenhouse gas (GHG) emission reduction benefit equivalent to the carbon sequestered for 10 years by planting 2 million trees as the recovered product will replace virgin petroleum-based material. This benefit includes factoring in the large amount of energy required to deconstruct carpet in an aqueous environment. For the XT Green Facility this will require 8000 amps. As this amount of energy is rarely available in California buildings, XT Green knew that we'd need to expand the power as part of the construction of our facility. With this, XT Green was in communication with SCE regarding its power needs from May 2017 when we leased our building. However, when we were ready to begin construction in May of 2018, we were told by SCE that they couldn't provide adequate power to the building without incurring + \$1 million in added costs to XT Green because the power now needed to come from a half mile away over the busiest street in town.

Fortunately, the City of Rancho Cucamonga operates Rancho Cucamonga Municipal Utility (RCMU). The City again stepped up to help XT Green switch from SCE to having RCMU be the electric utility serving the building. The installation cost to XT Green lowered from the SCE +\$1 million to the RCMU \$40,000 but this required 15 months and the following --

- 1) XT Green secured approval from property owner of 11600 Millennium Court, Rancho Cucamonga CA to switch electric power providers.
- 2) XT Green negotiated departure from SCE
- 3) RCMU secured support of the City of Rancho Cucamonga to provide funding to bring in power (and a 1 gigabyte fiber optic line) from 650 feet, down a private road to XT Green.
- 4) RCMU secured easements from multiple property owners down private road to building
- 5) RCMU contracted for electrical engineering drawings for power connection construction
- 6) XT Green contracted for electrical engineering drawings for on-site construction required for power expansion, including a pad for three new transformers
- 7) XT Green secured RCMU approval for on-site electrical engineering design and construction
- 8) RCMU and XT Green chose contractors for power expansion construction
- 9) XT Green prepared building permit applications and submitted them to the City of Rancho Cucamonga. And just went everything seemed to be in place –
- 10) The XT Green building was sold to new owners so additional approvals had to be secured to switch over to RCMU and implement power expansion.
- 11) XT Green secured building permits from the City of Rancho Cucamonga
- 12) Multiple agreements were finalized between XT Green, property owner and RCMU.
- 13) The RCMU Power expansion construction starts on Monday September 23 and should be completed in October with the XT Green on-site infrastructure but ...
- 14) XT Green facility installation planning continues now.

c) Trade War with China

As noted above, XT Green is being self-funded by high-wealth entrepreneur environmentalists who live in China. Due to this, besides the power expansion challenge noted above, there have been other complications caused by Trump's trade war. These issues include: (1) Concerns about overall uncertainties due to changing policies; (2) restrictions on foreign investments by the Chinese government; and (3) possible tariff charges on custom XT Green equipment being manufactured in China.

With this, our investor decided to focus on the completion of a large sustainable chemical plant in China. This facility has now been completed. Even though the trade war continues, with the resolution of the power issue, the XT Green investors have committed to the completion of the XT Green facility in Rancho Cucamonga.

4. Assurances that the new timeline will be met

Nothing can be assured during uncertain times, but the best assurances should be:

- XT Green has been pushing forward on this project since March of 2013 starting with an idea, that turned into a patented technology, that overcame major hurdles to get us to the point that we're finally ready to move forward.
- We have invested over \$10 million including purchase of \$2+ million in QP.

- Due to the highest quality of the recovered material to be produced by the XT Green facility and the ready eco-markets, the facility will be highly profitable.
- Additional facilities are planned throughout the U.S.
- Regarding the Rancho Cucamonga facility:
 - \$1.2 million in QP has been delivered (which took a year to build)
 - Construction on the power expansion begins next week
 - Facility engineering has been completed.
 - Contracts for additional engineering being issued this week to:
Plump Engineering: Structural/seismic; Design West: Electrical;
Ship and Shore: Product Recovery
 - All QP suppliers have been identified, proposals in place, issuance of purchase orders will be completed by October 15, 2019.
 - Facility construction schedule to begin January 1, 2020

5. Amount of Qualified Property purchased to date

\$2,142,575

6. Information on whether the scope of the project has changed

The scope of the project as described in the original application has not been changed with the exception that (as discussed in #2 above) the pelletizers and the carpet batching system will be ordered in the second phase

7. Any additional information to support Board approval of a waiver of the Purchase Requirement.

The XT Green advanced manufacturing facility to recover resources from post-consumer carpet in Rancho Cucamonga will be an integral factor in the success of the California Carpet Stewardship Program. The XT Green facility is needed because:

- At the end of Q2 2019, the program had a recycling rate of 18%. The program is required to be at a 24% recycling rate by January 1, 2020 and 26% by 2022.
- When at full production, the XT Green facility will have the capacity to recycle 40 million pounds of post-consumer carpet annually. Besides significantly contributing to the need for additional processing capacity –
- The XT Green facility will help expand the California carpet recycling infrastructure and create California advanced manufacturing green jobs while minimizing the processing done on the east coast.
- XT Green facility will demonstrate that carpet recycling can be conducted while protecting employee health & eliminating environmental issues by using an aqueous-based advanced manufacturing carpet recycling system.

Although the original California carpet recycling legislation passed in 2010, no other carpet stewardship programs exist in the U.S. The success of the California program will help support the passage of numerous states considering programs.



Mayor L. Dennis Michael | Mayor Pro Tem Lynne B. Kennedy
Council Members William J. Alexander, Sam Spagnolo, Diane Williams
City Manager John R. Gillison

CITY OF RANCHO CUCAMONGA

10500 Civic Center Drive | P.O. Box 807 | Rancho Cucamonga, CA 91729-0807 | 909.477.2700 | www.CityofRC.us

February 14, 2017

To whom it may concern:

This letter is provided to show the enthusiastic support by the City of Rancho Cucamonga for the possible addition of XT Green to the City's business community. The City's Economic Development Strategic Plan identifies five target industries based on the City's competitive strengths, manufacturing being one. Rancho Cucamonga is a highly competitive location for manufacturing because it offers access to a highly-skilled workforce, a great location, and its inventory of mid-size buildings.

XT Green is a great example of the type of manufacturing business the City is interested in attracting to the community. XT Green has demonstrated that they meet our vision of an "innovative, green technology" business by their recent approval as an "Advanced Manufacturer" by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). XT Green is also in-line with the City's efforts to become a more sustainable community and its commitment to attracting new, innovative, particularly "green" technology employers to Rancho Cucamonga. It is estimated that XT Green will create over 100 new green skilled jobs in and around our community. The environment will also benefit from XT Green's diversion of millions of pounds of material from landfills and the reduction of greenhouse gas.

We are extremely excited to be working with XT Green, and we are ready and willing to assist with their location to Rancho Cucamonga. If you have any questions concerning this letter or would like to speak with me directly, please feel free to contact me at (909) 477-2700 ext. 4313.

Sincerely,

Flavio Nuñez
Management Analyst II

Attachment B: XT Green, Inc.’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)⁴

**XT Green, Inc.
Application No. 16-SM026**

December 13, 2016

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – XT Green, Inc.

Location – Corona, Riverside County

Industry – Advanced Carpet Recycling

Project – Construction of an advanced carpet recycling and manufacturing facility (Advanced Manufacturing)

Value of Qualified Property – \$8,970,500

Estimated Sales and Use Tax Exclusion Amount⁵ – \$755,316

Application Score –

Fiscal Benefits Points:	2,993
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	3,103
 <u>Additional Benefits Points:</u>	 <u>91</u>
Total Score:	3,194

Staff Recommendation – Approval

⁴ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁵ This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

XT Green was founded in 2013 for the purpose of developing an alternative carpet recycling system to manufacture byproducts such as nylon and polypropylene. Carpet recycling has historically had limited success in the United States due to current technologies that produce poor quality recycled material, low yields, large amounts of waste, and air-pollution-related employee health problems. XT Green has developed a new patent-pending advanced manufacturing processing system that resolves these issues. The innovative technology was demonstrated through pilot testing in 2015, and XT Green is currently planning to bring the new system to scale in its first carpet recycling facility.

The major shareholders (10.0% or greater) of XT Green are:
Hui Yang, 50%
Chongyu Tian, 50%

The corporate officers of XT Green are:
Frank Lu, Chief Executive Officer
Gail Brice, Vice President
Chongyu Tian, Chief Financial Officer
Hui Yang, Secretary

THE PROJECT

XT Green’s new advanced carpet recycling facility, EarthCare Carpet Recycling (the “Project”), will be located in a new 81,000 square foot building in Riverside County. Opening is planned for March 2017. The Applicant represents that the facility will process approximately 4 million pounds of post-consumer carpet per month and produce recycled raw materials (see Figure 1).

Currently, only 10% of the post-consumer carpet that is discarded in California is being recycled due to economic and technological limitations. XT Green overcomes these limitations through its new advanced carpet recycling technology. The new technology used by the Project will protect the health of its employees by eliminating the respirable particulate problem common to conventional carpet recycling facilities. This is achieved through a new process which size reduces rather than shreds the carpet and processes it in a wet pulper. The wet processing technology used will also allow ash to be more easily removed. Because of these advancements, the recycled material output will be a higher quality recycled material than the current industry standard.

Figure 1: XT Green Carpet Recycling Output

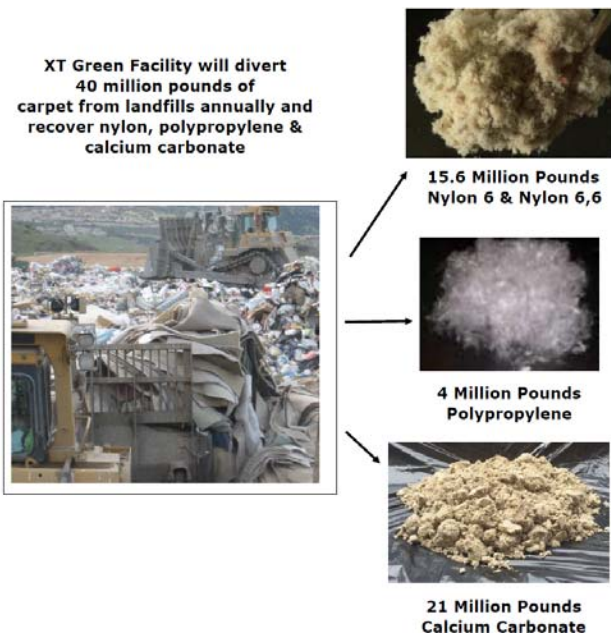


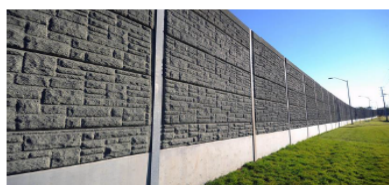
Figure 2: Example Products Made From Recycled Raw Materials



Polypropylene



Calcium Carbonate



XT Green's advanced manufacturing process also achieves higher yields than the industry standard, allowing more recycled raw materials to be manufactured. Conventional carpet recycling technologies achieve a 40% yield, generating 60% production waste that must be sent to landfill. XT Green's advanced manufacturing process will achieve a 90% yield, generating only 10% production waste. The Applicant represents that this is a record high yield which allows for a higher recycled raw material yield. The recycled raw materials generated by XT Green are manufactured into pellets, which can then be used by other California manufacturers to create products (See Figure 2).

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Recycled Feedstock In-Feed Section Equipment	\$ 55,000
Gross Size Reduction Equipment	590,000
Metering and Weighing Equipment	235,000
Pulping Operation Equipment	1,357,500
Pulping Wash & Dewater Equipment	210,000
Fiber Cutting Equipment	555,500
Cut Fiber Wash & Dewater Equipment	220,000
Fiber Separation Equipment	1,305,000
Polypropylene Dewater, Drying, Baler & Packaging Equipment	625,500
Nylon Drying, Baler & Packaging Equipment	452,000
Pelletizers	1,500,000
Water Treatment & Recycling Equipment	790,000
Auxiliary & Support Equipment	495,000
Installation Supplies	425,000
Total	<u>\$8,970,500</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 new XT Green carpet recycling facility in Corona is planned to open in March 2017. Procurement of long-lead-time equipment is underway. This equipment is expected to arrive in January 2017, with equipment testing expected to occur in February 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,970,500. The Project received a Total Score of 3,194 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 110 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,993 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 \$2,260,835 resulting in a Fiscal Benefits score of 2,993 points for the Project.
- B. **Environmental Benefits (110 points).** The Project will result in an Environmental Benefits Score of 110 points. 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 significantly reduced air pollution, protected employee health, minimized waste generation, and reduced energy requirements.
 - 2. **Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 65% reduction in energy consumption relative to the industry standard manufacturing process.
 - 3. **Solid Waste (30 of 30 points).** The Applicant represents that its manufacturing process will result in an 83% reduction in solid waste produced relative to the industry standard manufacturing process.
 - 4. **Air Pollutants (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 100% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (91 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 91 additional points.

1. **Permanent Jobs (45 of 75 points).** The Applicant represents that the Project will support a total of 60 permanent jobs at its Facility. CAEATFA estimates that approximately five 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 45 points for the Project.
2. **Construction Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 24 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 30 points for the Project.
3. **Unemployment (16 of 50 points).** The Applicant's Project is located in Riverside County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 16 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they have submitted or plan to submit South Coast Air Quality Management District, CalRecycle Solid Waste Management, and Sewer Discharge permit applications. XT Green represents that their staff are experienced in securing necessary permits and approvals and do not anticipate any issues.

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,⁶ the Applicant has paid CAEATFA an Application Fee of \$4,485 and will pay CAEATFA an Administrative Fee of up to \$35,882.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM026 for XT Green's purchase of Qualified Property in an amount not to exceed \$8,970,500 anticipated to result in an approximate sales and use tax exclusion value of \$755,316.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH XT GREEN, INC.**

December 13, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **XT Green, Inc.** (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 \$8,970,500 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.