

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

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

**Zanker Road Resource Management, Ltd.
Application No. 20-SM013**

Tuesday, March 17, 2020

Prepared By: *Matthew Newman, Blue Sky Consulting Group, on Behalf of CAEATFA, with
Ashley Emery, Program Manager*

SUMMARY

Applicant – Zanker Road Resource Management, Ltd.

Location – Gilroy, Santa Clara County

Industry – Mixed Organics

Project – Upgrade of Existing Compost Production Facility (Recycled Resource Extraction)

Value of Qualified Property – \$24,395,182

Estimated Sales and Use Tax Exclusion Amount² – \$2,039,437

Estimated Quantifiable Net Benefits – \$5,158,468

Competitive Criteria Score – 150

Application Score³ –

Fiscal Benefits Points:	3,498
<u>Environmental Benefits Points:</u>	<u>32</u>
Net Benefits Score:	3,529

<u>Additional Benefits Points:</u>	<u>35</u>
Total Score:	3,564

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%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Zanker Road Resource Management, Ltd. (“Zanker” or the “Applicant”) is a privately owned solid waste and recycling company operating in the San Jose and Sacramento areas. Zanker began operations in 1985 as a landfill, and has since developed into a full-service resource management company. Zanker’s Z-Best composting facility (the subject of the current Application) processes mixed solid waste to produce compost.

On June 19, 2018, the CAEATFA Board granted Zanker an STE award for the purchase of up to \$11,132,857 in Qualified Property for an estimated STE value of \$930,707 to build a new mixed recycling facility located in San Jose known as the Advanced C&D Processing System. Zanker completed the project in 2019.

Zanker intends to apply for bonds issued by the California Pollution Control Financing Authority (CPCFA) for the future capital costs associated with the Project.

The major partners (10.0% or greater) of Zanker Road Resource Management, Ltd. are:

Zanker Road Resource Recovery, Inc. (30%)

Richard Cristina

Murray Hall

Herb Sweatt

HL Sweatt, Inc. (10%)

Herb Sweatt

Nancy Sweatt

THE PROJECT

Zanker is requesting a sales and use tax exclusion to upgrade its existing composting facility, Z-Best, located in Gilroy (the “Project”). According to Zanker, it’s Z-Best “Modernization Project” started the permitting process in 2015 to increase the facility capacity up to 2,750 tons per day of compostables and update the existing composting method to reduce the time required to complete the compost production process while utilizing the same facility footprint. The Project will result in the processing of a larger volume of more diversified solid waste inputs at the facility, which will increase the diversion rates for its local jurisdictions. Zanker states it is accepting around 205,000 tons per year of mixed solid waste compostables; when the Project is completed, Zanker will be able to accept over 311,000 tons per year.

According to the Applicant, the Facility’s new composting technique uses two composting methods, each using a different aerated technology. In the first step, primary composting, the technology selection optimizes odor and VOC control, while also providing pathogen reduction, drying, and significant bio-stabilization in 20 days. In the second step, the technology selection optimizes uniform bio-stabilization in 24 days. All emissions are processed through a biofilter to

remove VOC's and air contaminants. After the secondary composting stage, the materials will be removed from the composting bunker and placed into a stockpile where it will cure. The cured compost will undergo finished product screening to remove non-organics.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Construction and Infrastructure Materials	\$14,429,714
Covered Aerated Static Pile Equipment	8,573,000
Vermeer 01830 MGL Screen	381,435
John Deere 644K Loader	307,189
Caterpillar 2019 Articulated Truck DCA6	<u>703,844</u>
Total	<u>\$24,395,182</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 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 expects an EIR to be certified and approved by October 2020, with the permits and construction taking six months following EIR approval. Phase 1 construction is expected to start in October 2020, with the first loads of new organic materials accepted in March 2021. Zanker estimates full operation of the facility by June 2021.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 150 Competitive Criteria points as follows:

- 1. Environmental Benefits (100 points).** The Applicant's Project earned more than zero Total Pollution Benefits points (i.e. had environmental benefits that could be monetized and scored pursuant to the Program's regulations⁴), therefore 100 points are awarded.

⁴ California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

2. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Santa Clara County, which has an average annual unemployment rate of 2.5%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.
3. **Job Creation (35 of 75 points)**. The Applicant represents that the Project will support a total of 63 production-related 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 35 points.
4. **California Headquarters (15 points)**. The Applicant has a California Headquarters, therefore 15 points are awarded.
5. **Natural Disaster Relief (0 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in the state of emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$24,395,182 and the total quantifiable net benefits are valued at \$5,158,468 for the Project. The Project received a Total Score of 3,564 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 32 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (3,498 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 \$7,133,532, resulting in a Fiscal Benefits score of 3,498 points for the Project.
- B. **Environmental Benefits (32 points)**. The Project will result in \$64,373 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 32 points for the Project. These benefits derive from the processing of mixed solid waste into compost, thereby diverting more than 100,000 tons of waste from landfills annually, according to the Applicant.
- C. **Additional Benefits (35 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 35 additional points.

1. **Production Jobs (35 of 75 points)**. The Applicant represents that the Project will support a total of 63 production-related 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 35 points.
2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of seven 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
3. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Santa Clara County, which has an average annual unemployment rate of 2.5%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states that it expects the EIR to be certified by October 2020. The Applicant expects to apply for a permit from the air district in October 2020. The Applicant further expects the issuance of a Solid Waste Facility Permit in March 2021.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$97,580.73.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM013 for Zanker Road Resource Management, Ltd.'s purchase of Qualified Property in an amount not to exceed \$24,395,182, anticipated to result in an approximate sales and use tax exclusion value of \$2,039,437.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH
ZANKER ROAD RESOURCE MANAGEMENT, LTD.**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Zanker Road Resource Management, Ltd.** (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 \$24,395,182 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 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.