

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

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

**CR&R Incorporated
Application No. 17-SM063**

Tuesday, October 20, 2020

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – CR&R Incorporated

Location – Stanton, Orange County

Industry – Mixed Organics

Project – Upgrade of Existing Transfer and Materials Recovery Facility (Recycled Resource Extraction)

Total Amount Qualified Property Approved– \$8,389,685

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$706,411

Amount of Time Requested –

- One year, until November 14, 2021, for the Initial Term of the Master Regulatory Agreement (four years 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 statutes 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 November 14, 2017, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for CR&R Incorporated (“CR&R” or the “Applicant”) for the purchase of up to \$8,389,685 in Qualified Property to purchase a combination of recycling equipment that will process multiple types of recycled feedstock and process mixed municipal solid waste (“MSW”) in Stanton (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 August 2020, CR&R has used the STE to purchase approximately \$6.9 million of Qualified Property (82% of the total Qualified Property approved) and began production in April 2018 upon commencement of engineering its MSW project. The Applicant is requesting to extend the Agreement initial term by one year to accommodate the effects of COVID-19 and delayed Qualified Property purchases due to the late adoption of regulations by the Department of Resources Recycling and Recovery (“CalRecycle”) as part of SB 1383 (Lara, Ch. 395, Statutes of 2016).

According to the Applicant, it has experienced some operational changes with the Project since the pandemic began. To stay in compliance with abrupt COVID-19 related guidance, CR&R had to cease its recycling operations for a number of months and apply social distancing rules at its organic processing facility to continue operations. CR&R shares that it has reopened 50% of its recycling operations at the end of September and plans on reopening the other 50% at the end of November. Despite the delays caused by COVID-19, CR&R states that the scope of the Project remains unaffected.

Moreover, the enactment of Chapter 13.1 (commencing with Section 42652) of the Public Resources Code in SB 1383 requires CalRecycle to adopt regulations to achieve specified targets to reduce the landfill disposal of organics, including a 75% reduction in the level of the statewide disposal of organic waste from the 2014 level by 2025. The Applicant explains that CalRecycle initially had plans to adopt regulations in late 2018 or early 2019 to allow time for organizations to properly plan before effectuating them in 2022. However, CalRecycle is still in the rulemaking process, with the most recent formal comment period having ended May 20, 2020. CR&R represents it will be in a better position to move forward with selecting its forklifts, wheel loader, trammel screen, and decks screen for the Project once the regulation text is released, setting a specific timeline of organic waste reduction goals and tonnages.

THE APPLICANT

CR&R, a California corporation formed in 1969, is an integrated solid waste resource recovery company. Its materials recovery facilities (“MRFs”) are located in Stanton, Lakeview, San Juan Capistrano, and Perris.

CR&R has benefited from three STE awards. CR&R's first award was approved by the CAEATFA Board in June 2017 for the purchase of up to \$11,610,900 in Qualified Property for an estimated STE value of \$977,638 to build a regional anaerobic digester to recycle green waste and food waste at its existing MRF in Perris, and a composting center in Lakeview, which will process the organic residuals from the anaerobic digester.

CR&R's second award is for the Project currently being considered for an initial term extension.

CR&R's third award was approved by the CAEATFA Board in February 2019 for the purchase of up to \$5,130,235 for an estimated STE value of \$428,888 to expand its existing MRF in Perris to process MSW into engineered municipal solid waste ("EMSW") and expand its existing composting facility in Lakeview to process organic residuals into compost.

The major shareholders (10.0% or greater) of CR&R are:

David M. Ronnenberg as Trustee of the Ronnenberg Family 2012 Trust dated December 28, 2012 (49%)

Clifford R. Ronnenberg as Trustee of the Ronnenberg Family Trust dated June 21, 1978 (49%)

The corporate officers of CR&R are:

Clifford Ronnenberg, Chief Executive Officer
David Ronnenberg, President
Joyce Amato, Chief Financial Officer

THE PROJECT

CR&R applied for a sales and use tax exclusion for the purchase of a combination of recycling equipment that will process multiple types of recycled feedstock. The Project will process green waste, construction and demolition wood, and digestate residuals into soil products. The Project will also process mixed municipal solid waste to remove traditional recyclables, such as paper, cardboard, metals, plastics, and glass, and process residuals into ESMW to be used in the cement industry. Additionally, the Project will process mixed recyclable loads. The Applicant represents these advanced recycling equipment purchases will allow CR&R to maximally recover recyclables for a variety of end recycling markets, valuable end products (compost and fertilizer), and for the production of energy.

AGREEMENT INITIAL TERM EXTENSION REQUEST

CR&R has requested that the initial term of the Agreement be extended from November 14, 2020 to November 14, 2021 in order to accommodate the effects of COVID-19 and the delayed adoption of CalRecycle regulations.

Staff Evaluation

Staff reviewed the Applicant's initial term extension request and considered the fact that CR&R has been put in an unpredictable and unique circumstance. Staff understands that CR&R could not have foreseen the occurrence of a global pandemic, and as with many of the Program's Applicants, CR&R's business has been adversely affected due to the State's directive to temporarily cease certain operations. CR&R had to abide by social distancing guidelines that limit its capacity and further delay progression of the Project. Finally, Staff recognizes that CR&R does not have control over the timing of the implementation of CalRecycle's regulations. CR&R has conveyed to Staff that a one-year extension would allow time for it to finalize its equipment needs, execute purchases, and install and utilize the Qualified Property.

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 purposes 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 Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid an additional fee of \$500 because extending the initial term qualifies as a modification to the Applicant's Master Regulatory Agreement.

RECOMMENDATION

Staff recommends that the Board approve CR&R Incorporated's request to extend the initial term of the Agreement by one year to November 14, 2021 as it is in the public interest and advances the purposes of the program.

Attachments

- Attachment A: CR&R's letter requesting waiver (August 20, 2020)
- Attachment B: CR&R'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
CR&R INCORPORATED’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

October 20, 2020

WHEREAS, on November 14, 2017 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 \$8,389,685 of Qualified Property for **CR&R Incorporated** (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)(B)); 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 November 14, 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 Program to extend the initial term of the Agreement to November 14, 2021.

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

Attachment A: CR&R Incorporated's Letter Requesting Waiver (August 20, 2020)



August 20, 2020

CAEATFA
915 Capitol Mall Room 538
Sacramento, CA 95814
Re: Time Extension (17-SM063)

To whom it may concern:

CR&R would like to request a time extension on our previously approved CAEATFA application #17-SM063. To date we have spent \$6,909,373 of our planned purchases which represents 82% of the total Qualified Property (QP) approved for our project by the CAEATFA Board.

With the current Covid pandemic and various solid waste regulations being delayed, we have been unable to execute our final plan. The biggest regulation is SB 1383, which was actually approved several years ago but the final regulations have yet to be published. The final text of this regulation will dictate which pieces of equipment we will ultimately purchase. We are asking for a 12 month extension of time to complete our purchases, as these regulations are expected to be issued by the end of this year. We are also hoping the pandemic or a vaccine will also be available by the end of the year in order to allow us to resume normal operations. As a result of the pandemic, most of our recycling operations were shut down these last few months in order to comply with social distancing.

As of now the scope of our project has not changed. We currently have a balance of \$1,529,000 of unutilized capital expenditures. The remaining listed items in our application that we have yet to purchase are the forklifts, wheel loader, trammel screen, and decks screen. All of these pieces of equipment are utilized in our organics processing facility and are dictated by SB 1383's final goals and tonnages.

Sincerely,

CRR Incorporated

Joyce Amato
Chief Financial Officer

11292 Western Ave.
P. O. Box 125
Stanton, CA 90680

800.826.9677
714.826.9049
714.890.6347

Attachment B: CR&R Incorporated’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

**CR&R Incorporated
Application No. 17-SM063**

Tuesday, November 14, 2017

Prepared By: *Joel Schwartz, Blue Sky Consulting Group with Ashley Bonnett, Program Manager*

SUMMARY

Applicant – CR&R Incorporated

Location – Stanton, Orange County

Industry – Mixed Organics

Project – Upgrade of Existing Transfer and Materials Recovery Facility (Recycled Resource Extraction)

Value of Qualified Property – \$8,389,685

Estimated Sales and Use Tax Exclusion Amount⁵ – \$706,411

Estimated Net Benefits – \$850,743

Application Score –

Fiscal Benefits Points:	2,143
<u>Environmental Benefits Points:</u>	<u>61</u>
Net Benefits Score:	2,204
 <u>Additional Benefits Points:</u>	 <u>50</u>
Total Score:	2,254

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

CR&R Incorporated (“CR&R” or the “Applicant”), a California corporation formed in 1969, is an integrated solid waste resource recovery company. Its materials recovery facilities (“MRFs”) are located in Stanton, Lakeview, San Juan Capistrano, and Perris.

On June 20, 2017, the CAEATFA Board granted CR&R an STE award for the purchase of up to \$11,610,900 in Qualified Property for an estimated STE value of \$977,638, to build a new anaerobic digester to produce renewable natural gas to fuel CR&R’s fleet of compressed natural gas vehicles.

The major shareholders (10.0% or greater) of CR&R are:

David M. Ronnenberg as Trustee of the Ronnenberg Family 2012 Trust dated December 28, 2012 (49%)

Clifford R. Ronnenberg as Trustee of the Ronnenberg Family Trust dated June 21, 1978 (49%)

The corporate officers of CR&R are:

Clifford Ronnenberg, Chief Executive Officer
David Ronnenberg, President
Patricia Leyes, Vice President
Joyce Amato, Chief Financial Officer

THE PROJECT

CR&R is applying for a sales and use tax exclusion for the purchase of a combination of recycling equipment that will process multiple types of recycled feedstock (the “Project”). The Project will process green waste, construction and demolition wood, and digestate residuals into soil products. The Project will also process mixed municipal solid waste (“MSW”) to remove traditional recyclables, such as paper, cardboard, metals, plastics, and glass, and process residuals into Engineered MSW to be used in the cement industry. Additionally, the Project will process mixed recyclable loads. The Applicant represents these advanced recycling equipment purchases will allow CR&R to maximally recover recyclables for a variety of end recycling markets, valuable end products (compost, and fertilizer), and for the production of energy.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Engineered Municipal Solid Waste (EMSW) Infrared Reader	\$3,740,000
EMSW Compactors	2,800,000
Horizontal Grinder	800,000
Forklifts	104,685
Wheel Loader	276,000
Trommel Screen	294,000
Deck Screen	375,000
Total	<u>\$8,389,685</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 represents that the purchased equipment will be put into operation at CR&R's existing, fully permitted operations and that the Qualified Property is a combination of equipment that has already been purchased but is not yet in operation, and equipment that will be in operation within 12 to 18 months.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,389,685 and the total net benefits are valued at \$850,743 for the Project. The Project received a Total Score of 2,254 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 61 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,143 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 \$1,514,068, resulting in a Fiscal Benefits score of 2,143 points for the Project.

- B. Environmental Benefits (61 points).** The Project will result in \$43,087 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 61 points for the Project. These benefits derive from the processing of green waste and solid waste into soil amendments and recycled products and diversion of waste from landfills.
- C. Additional Benefits (50 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 50 additional points.
- 1. Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 24 permanent 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 30 points for the Project.
 - 2. Construction Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 10 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 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that the purchased equipment will be put into operation at CR&R's existing, fully permitted operations.

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 \$4,194.84 and will pay CAEATFA an Administrative Fee of up to \$33,558.74.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM063 for CR&R Incorporated's purchase of Qualified Property in an amount not to exceed \$8,389,685 anticipated to result in an approximate sales and use tax exclusion value of \$706,411.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE CR&R INCORPORATED**

November 14, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CR&R Incorporated** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$8,389,685 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.