

CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY

Request to Approve Project for a Sales and Use Tax Exclusion¹

Green Impact Manufacturing, LLC
Application No. 21-SM014

Tuesday, March 16, 2021

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – Green Impact Manufacturing, LLC

Location – Vernon, Los Angeles County

Industry – Plastic Recycling and Thermoform Product Manufacturing

Project – New Plastic Recycling and Thermoform Product Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$16,008,067	\$1,360,686

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$5,246,166	3,856
Estimated Environmental Benefits	N/A	40
Additional Benefits	N/A	133
Total	\$5,246,166	4,029
Estimated Quantifiable Net Benefit	\$3,885,481	

Competitive Criteria Score – 73

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Green Impact Manufacturing, LLC (the “Applicant”), is a California limited liability company that formed in 2019, with its headquarters in Vernon. The Applicant states that its patent-pending process removes impurities and upgrades post-consumer Polyethylene Terephthalate (“PET”) thermoforms into food-grade quality flake. Once converted, the flake can be used in place of virgin PET when creating new containers for the fresh food industry.

The major shareholders (10.0% or greater) of the Applicant are:

- Octavio Victal (50%)
- Juan Pablo Victal (50%)

The company officers of the Applicant are:

- Octavio Victal, Chief Executive Officer

THE PROJECT

Green Impact Manufacturing, LLC, is requesting an STE award to build out a new plastic recycling and thermoform product manufacturing facility in Vernon (the “Project”). The Project will include new Liquid-State Polycondensation (“LSP”) recycling/extrusion systems that purify and extrude PET waste. The Applicant states the Project is the first of its kind in the country, and will allow the Applicant to process several categories of existing plastic, all of which are currently sent to landfills and not adequately recycled. The Applicant explains the Project will produce high quality material that will be manufactured into other recycled PET (“rPET”) products, rPET sheet (which can be thermoformed into rPET containers), rPET strapping, and rPET 3-D filament for 3-D printing.

The Applicant indicates that the state-of-the-art LSP technology is flexible enough to handle several different types of feedstock that are unable to be recycled with current industry technology. During conventional recycling processes, decontamination happens while the material is still in solid form, which is a much longer and less effective process. Through the LSP process, the PET material is melted and then goes through a decontamination process while still in liquid form. One of the benefits to this process is that certain plastics that are typically considered problematic to effectively decontaminate, and therefore are sent to landfills, are easily melted down using the LSP process. The Applicant states that due to this LSP technology, it will be able to process approximately 33,000 tons per year of post-consumer PET thermoform, post-consumer spent PET label liner, post-consumer PET thermoform fines, and PET purge waste, all of which are currently unable to be recycled with existing technologies. The Applicant explains that the purification process also enables the plastic to be upcycled into higher value end-products.

According to the Applicant, the LSP system is also more energy efficient than conventional recycling. The Applicant explains that the LSP process eliminates the need for re-melting between PET preparation and PET processing and is able to change material color more quickly. Additionally, during the LSP process, the plastic is heated to a very specific and controlled temperature making purification possible with lower energy consumption relative to conventional

plastics recycling technologies that heat materials to a less specific temperature over a very long period of time.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Shredder/grinder, extruder, LSP reactor, and repelletization lines	\$10,544,254
Installation equipment	\$778,126
Electrical equipment upgrades	\$759,314
Sheet lines	\$3,146,129
Blender and handling rolls	\$780,244
Total	<u>\$16,008,067</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

The Applicant states it is currently upgrading the facility in order to bring it up to code. The Applicant explains the equipment is scheduled to begin arriving in April 2021, and that construction and installation on the first production line is scheduled to be completed by May 2021, with a one-month ramp-up period. Procurement and construction on the second production line is expected to begin April 2022, and completed by November 2022.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant explains that because the Applicant is using an existing building, the typical permits for industrial wastewater, ground disturbance or utility installation, will not be required. The Applicant states it has applied for an occupancy permit with the City of Vernon, and a walk-through has already been performed, with no major issues identified. Approximately one month prior to initiation of construction, the Applicant will apply for a Building Permit.

COMPETITIVE CRITERIA SCORE

In the event that the Applications received by CAEATFA requesting \$2 million or less in STE by the deadline for a particular Board meeting represent STE in excess of the \$20 million set-aside for that calendar year, the Applications submitted for that particular Board meeting will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The Applicant received 73 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points)**. The Applicant’s Project did not earn any environmental benefits points, as calculated pursuant to the method for calculating points for environmental benefits for Advanced Transportation, Alternative Source, and Recycled Resource Extraction Applications in Section 10033(c)(4). Therefore, no points are awarded.
2. **Unemployment (28 of 50 points)**. The Applicant’s Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.
3. **Job Creation (30 of 75 points)**. The Applicant anticipates the Project will support a total of 28 production-related jobs at its Facility. CAEATFA estimates that approximately 1.99 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 30 points.
4. **California Headquarters (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

⁵ Unemployment rates are based on data available in October 2020.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 4,029 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 40 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (3,856 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales and use taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$5,246,166, resulting in a Fiscal Benefits score of 3,856.

- B. **Environmental Benefits (40 points)**. The Project earned an Environmental Benefits Score of 40. The Applicant received points in the following categories:
 1. **Energy Consumption (10 of 30 points)**. The Applicant anticipates the Project will result in a 10% reduction in energy consumption compared to the industry standard manufacturing process. The Applicant explains that the Project is faster and more efficient at recycling the plastic, reducing energy consumption relative to current recycling processes.

 2. **Solid Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 100% reduction in solid waste produced relative to the industry standard manufacturing process. The Applicant explains that the Project will enable the recycling of plastics that would otherwise be sent to a landfill with current recycling technology.

- C. **Additional Benefits (133 points)**. Applicants may earn additional points for their Total Score. The Applicant received 133 additional points.
 1. **Production Jobs (30 of 75 points)**. The Applicant anticipates the Project will support a total of 28 production-related jobs at its Facility. CAEATFA estimates that approximately 1.99 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 30 points.

 2. **Construction Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of four construction jobs at its Facility. CAEATFA estimates that approximately 0.28 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 (28 of 50 points)**. The Applicant’s Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%. When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.
4. **Workforce Partnerships (25 of 25 points)**. The Applicant has partnerships with East Los Angeles College and Los Angeles Trade Technical College for the purpose of assisting in the training of potential future workers.
5. **Industry Cluster (25 of 25 points)**. The industry associated with this Application has been identified by Los Angeles County as an industry cluster of the region of the Project’s location.
6. **Benefits and Fringe Benefits (25 of 25 Points)**. The Applicant states it provides medical, health, dental, vision, bonuses, retirement contribution, profit sharing, transportation subsidies, and paid leave to its employees, earning the Applicant 25 points.

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 \$8,004.03 and will pay CAEATFA an Administrative Fee of up to \$64,032.27.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM014 for Green Impact Manufacturing, LLC’s purchase of qualifying tangible personal property in an amount not to exceed \$16,008,067, anticipated to result in an approximate STE value of \$1,360,686.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A REGULATORY AGREEMENT WITH GREEN IMPACT MANUFACTURING, LLC

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Green Impact Manufacturing, LLC** (the “Applicant”), for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10030(a), with the Applicant for the Project; and

WHEREAS, the Applicant has estimated the Project has an estimated cost not to exceed \$16,008,067 over a period of three years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

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

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to

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the Project as the Authorized Signatories deem appropriate, provided that the amount of the qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.