

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Paradigm Packaging West, LLC
Application No. 21-SM016**

Tuesday, March 16, 2021

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – Paradigm Packaging West, LLC

Location – Rancho Cucamonga, San Bernardino County

Industry – Medical Device and Component Manufacturing

Project – New Medical Device and Component Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$23,528,330	\$1,999,908

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$2,623,298	1,312
Estimated Environmental Benefits	N/A	25
Additional Benefits	N/A	165
Total	\$2,623,298	1,502
Estimated Quantifiable Net Benefit	\$623,690	

Competitive Criteria Score – 55

Staff Recommendation – Approval

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

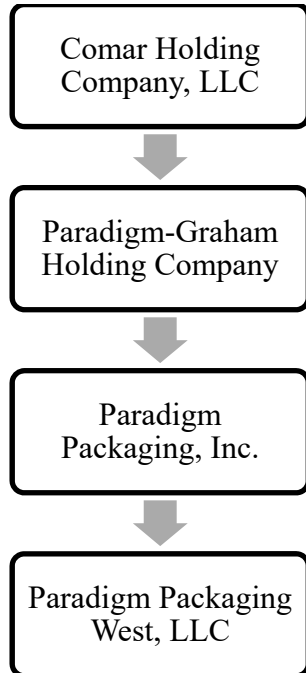
² This amount is calculated based on the average statewide sales tax rate of 8.5%.

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).)

THE APPLICANT

Paradigm Packaging West, LLC (the “Applicant”), is a California limited liability company formed in 2001 with headquarters in New Jersey and facilities throughout the United States. The Applicant is a specialty plastic packaging, dispensing, and medical device service provider for the medical, pharmaceutical, and consumer healthcare markets. Some of the products produced include medicine bottles, oral medicine dispensers, a variety of bottles, canisters, and other assemblies and adapters. The Applicant states that it is an essential supplier of several items, including COVID-19 testing kits, dosing and dispensing devices as well as bottles and closures for medication, canisters for disinfecting wipes, and components used in ventilators.

The ownership structure of the Applicant is as follows:



The corporate officers of the Applicant are:

Mark Bye, Director
Eric Kanter, Director
Mike Ruggieri, Director
Max Waterous, Director

THE PROJECT

Paradigm Packaging West, LLC, is requesting an STE award to build a new medical device and product manufacturing facility located in Rancho Cucamonga (the “Project”). The Applicant currently has two California facilities, which the Applicant explains require upgrades and will not provide sufficient space for anticipated future growth. The Applicant states the Project will combine the facilities into one large 230,000 square-foot building to include all research, design, engineering, prototyping lab space, manufacturing, and production under one roof. With the increase in square footage, the Applicant plans to increase the number of injection molding machines, as well as injection blow molding and injection stretch blow molding machines.

The Applicant states the Project will utilize advanced engineering and information technologies to more efficiently produce its products. The Applicant explains Integrated Computation Materials Engineering is a critical component of the Applicant's injection molding process, consisting of the creation of molds constructed from steel, aluminum, brass, or other materials, which is then injected with molten plastic then cooled to a solid. Through this process, the Applicant states it is able to engineer, design, and produce numerous medical and pharmaceutical containers and components using less plastic and energy, while also reducing waste by allowing the engineers to detect any problems prior to completing the process.

The Applicant also states that few other manufacturing facilities have the ability to utilize certain plastic resins, which are typically difficult to process, and turn them into custom products using the injection molding process the Applicant utilizes. The Applicant states competitors' business models typically consist of a single type of technology, or process, whereas the Applicant is able to utilize several different technologies and processes, which allow for more efficiency in production. The Applicant states it is currently working on the use of a specialty resin that could be used as an alternative to some glass applications, such as COVID-19 vaccine vials

The Applicant states it also reduces the amount of scrap plastic that goes into landfills by reusing much of the scraps its products create, and by using several million pounds of recycled plastics each year that could otherwise not be reused. The Applicant states that of the over 44 million pounds of resin produced in 2019, 13.5%, or 6 million pounds, of the material used was recycled or reused.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Clean room	\$2,500,000
Cranes	\$574,959
General construction material	\$820,048
Furniture, IT equipment, warehouse racking	\$391,411
Lighting	\$1,445,161
Metals and structural steel construction material	\$689,814
Molding machines	\$6,024,400
Molding, assembly, packaging, quality equipment	\$6,019,357
Plumbing, HVAC, process piping, and cooling equipment	\$3,042,436
Resin handling equipment	\$2,020,744
Total	<u>23,528,330</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 has leased and taken possession of the new Facility. The Applicant states construction began in October 2020, and that a portion of the Facility will be placed in service by May 2021. All other construction is estimated to be completed by September 2021, with Qualified Property purchased and put to use also by September 2021.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states all permits, including building and industrial waste, have been secured, and the only outstanding permit, the air permit from the South Coast Air Quality Management District, is scheduled to be secured by March 2021.

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 55 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 (0 of 50 points).** The Applicant's Project is located in San Bernardino County, which has an average annual unemployment rate of 8.2%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (55 of 75 points).** The Applicant anticipates the Project will support a total of 257 production-related jobs at its Facility. CAEATFA estimates that approximately 15.07 of these jobs will be attributable to a marginal increase in jobs

⁴ Unemployment rates are based on data available in October 2020.

created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 55 points.

4. **California Headquarters (0 of 15 points)**. The Applicant does not have a California Corporate Headquarters, and, therefore, zero 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.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,502 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 25 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,312 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 \$2,623,298, resulting in a Fiscal Benefits score of 1,312.
- B. **Environmental Benefits (25 points)**. The Project earned an Environmental Benefits Score of 25. The Applicant received points in the following categories:
 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that the Applicant states has developed baseline energy usage and waste production, and goals and initiatives to reduce energy consumption and waste.
 2. **Solid Waste (5 of 30 points)**. The Applicant anticipates the Project will result in a 5% reduction in the solid waste produced relative to the Applicant's previous manufacturing process. The Applicant states it recycles or reuses all scrap resin and reduces solid waste through its injection processes.

C. Additional Benefits (165 points). Applicants may earn additional points for their Total Score. The Applicant received 165 additional points.

- 1. Production Jobs (55 of 75 points).** The Applicant anticipates the Project will support a total of 257 production-related jobs at its Facility. CAEATFA estimates that approximately 15.07 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 55 points.
- 2. Construction Jobs (35 of 75 points).** The Applicant anticipates the Project will support a total of 100 construction jobs at its Facility. CAEATFA estimates that approximately 5.86 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.
- 3. Unemployment (0 of 50 points).** The Applicant's Project is located in San Bernardino County, which has an average annual unemployment rate of 8.2%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
- 4. Research and Development Facilities (25 of 25 points).** The Applicant has verified that it has a facility located in California that performs research and development functions related to designing medical components, developing manufacturing processes, and building prototypes and ramp up volumes.
- 5. Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with Chaffey College for both leadership and technical training for employees, as well as internships for potential future workers.
- 6. Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, dental, health, vision, bonuses, retirement contributions, dependent care & assistance reimbursement, transportation subsidies, education reimbursement, and paid leave to its employees, earning the Applicant 25 points.

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.

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

CAEATFA FEES

In accordance with CAEATFA Regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$94,114.32.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM016 for Paradigm Packaging West, LLC's purchase of qualifying tangible personal property in an amount not to exceed \$23,528,330, anticipated to result in an approximate STE value of \$1,999,908.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH PARADIGM PACKAGING WEST, LLC**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Paradigm Packaging West, 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 \$23,528,330 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.