

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

*Request to Approve Project for a Sales and Use Tax Exclusion<sup>1</sup>*

**Circulus Holdings, PBLLC  
Application No. 21-SM017**

**Tuesday, March 16, 2021**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Circulus Holdings, PBLLC

**Location** – Modesto, Stanislaus County

**Industry** – Plastics Recycling

**Project** – New Plastics Recycling Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount <sup>2</sup>
\$17,747,169	\$1,508,509

Estimated Net Benefit <sup>3</sup>	Dollar Value	Points Earned <sup>4</sup>
Estimated Fiscal Benefits	\$3,522,497	2,335
Estimated Environmental Benefits	N/A	80
Additional Benefits	N/A	115
<b>Total</b>	<b>\$3,522,497</b>	<b>2,531</b>
<b>Estimated Quantifiable Net Benefit</b>	<b>\$2,013,988</b>	

**Competitive Criteria Score** – 45

**Staff Recommendation** – Approval

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

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

<sup>3</sup> 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).)

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

**THE APPLICANT**

Circulus Holdings, PBLLC (the “Applicant”), is a Delaware limited liability company that formed in 2019. The Applicant is a recycling facility wholly-owned by Ara-DHI Management Holdings, LLC, and headquartered in Houston, Texas.

The major shareholders (10.0% or greater) of Ara-DHI Management Holdings, LLC, are:  
Ara DHI Holdings, LLC (90%)  
David Hudson (10%)

The company officers of the Applicant are:  
David Hudson, Chief Executive Officer  
Paul Garris, Chief Financial Officer

**THE PROJECT**

Circulus Holdings, PBLLC, is requesting an STE award to build a new plastics recycling facility in Modesto (the “Project”). The Applicant represents it will manufacture low-density polyethylene (“LDPE”) plastic into post-consumer LDPE resins to be used in blown film, injection molding, and cast applications. According to the Applicant, its containers and packaging are mostly comprised of post-consumer LDPE and linear LDPE, which otherwise is often a single use product that is difficult to recycle and contributes to an increased volume of landfill waste.

The Applicant explains its overall goal is to target lower-grade LDPE bales, such as post-consumer film packaging, to create quality products at a lower cost. The Applicant states that the integration of advanced optical sorters, hot washing, extruding, and devolatilization equipment results in achieving a high-color purity and decreased contamination rate, creating recycled LDPE that can be used for FDA-approved food grade packaging, which is the first of its kind in the industry.

The Applicant also anticipates the new equipment and its manufacturing process will result in 86% less energy and 94% less water being utilized when compared to the production of virgin resins. The Applicant explains the Facility will require less energy per ton to produce an equivalent material from hydrocarbons. Additionally, the Applicant states it will reuse as much water as possible through its industrial biological treatment system and reverse osmosis unit to reduce water consumption.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Air Compressors	\$130,937
Wash Line	\$7,568,566
Shredding Machine	\$388,582
Optical Sorters	\$769,064

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Trommel	\$158,389
Pelletizing and Extrusion Machinery	\$3,236,244
Anti-Odor Technology	\$1,784,844
Silos	\$875,206
Chiller	\$152,974
Water Treatment Machinery	\$1,737,300
Lab Equipment	\$100,000
Boiler/Heat Exchange	\$320,461
Loading Docks	\$71,600
Tilt Hoppers	\$25,000
Building Improvements	\$150,000
IT Equipment and Furnishings	\$10,000
Wire Chipper	\$15,000
Baler	\$75,886
Forklifts	\$177,116
<b>Total</b>	<b>\$17,747,169</b>

*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 has been purchasing equipment over the last year, and that construction is currently in motion and set to be completed early 2021. The Applicant anticipates the Project facility will be fully operational for commercial scale by mid-April 2021 following a 30-day ramp-up period.

**STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

The Applicant states all permits, such as baseplate foundation, excavation, occupancy, and exterior electrical upgrade will be obtained in 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 45 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 (10 of 50 points)**. The Applicant’s Project is located in Stanislaus County, which has an average annual unemployment rate of 10.0%.<sup>5</sup> When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 10 points.
3. **Job Creation (35 of 75 points)**. The Applicant anticipates the Project will support a total of 40 production-related jobs at its Facility. CAEATFA estimates that approximately 3.81 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 (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 2,531 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 80 points, which exceeds the 20-point threshold.

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<sup>5</sup> Unemployment rates are based on data available in October 2020.

- A. **Fiscal Benefits (2,335 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 \$3,522,497, resulting in a Fiscal Benefits score of 2,335.
- B. **Environmental Benefits (80 points)**. The Project earned an Environmental Benefits Score of 80. 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 it states will reduce energy and water consumption.
  2. **Energy Consumption (30 of 30 points)**. The Applicant anticipates the Project will result in an 86% reduction in energy consumption compared to the industry standard manufacturing process by utilizing a more energy efficient process and equipment.
  3. **Water Use (30 of 30 points)**. The Applicant anticipates the Project will result in a 94% reduction in water use relative to the industry standard manufacturing process by reusing water through the Applicant’s industrial biological treatment system and reverse osmosis unit.
- C. **Additional Benefits (115 points)**. Applicants may earn additional points for their Total Score. The Applicant received 90 additional points.
1. **Production Jobs (35 of 75 points)**. The Applicant anticipates the Project will support a total of 40 production-related jobs at its Facility. CAEATFA estimates that approximately 3.81 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 (20 of 75 points)**. The Applicant anticipates the Project will support a total of 13 construction jobs at its Facility. CAEATFA estimates that approximately 1.24 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 20 points.
  3. **Unemployment (10 of 50 points)**. The Applicant’s Project is located in Stanislaus County, which has an average annual unemployment rate of 10.0%.<sup>6</sup> When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 10 points.

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<sup>6</sup> Unemployment rates are based on data available in October 2020.

4. **Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by the Stanislaus County Comprehensive Economic Development Strategy as an industry cluster of the region of the Project's location.
  
5. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, education reimbursement, employee discounts, 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.

### **CAEATFA FEES**

In accordance with CAEATFA Regulations,<sup>7</sup> the Applicant has paid CAEATFA an Application Fee of \$8,873.58, and will pay CAEATFA an Administrative Fee of up to \$70,988.68.

### **RECOMMENDATION**

Staff recommends the approval of Resolution No. 21-SM017 for Circulus Holdings, PBLLC's purchase of qualifying tangible personal property in an amount not to exceed \$17,747,169, anticipated to result in an approximate STE value of \$1,508,509.

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<sup>7</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A  
REGULATORY AGREEMENT WITH CIRCULUS HOLDINGS, PBLLC**

**March 16, 2021**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Circulus Holdings, PBLLC** (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 \$17,747,169 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 the Project as the Authorized Signatories deem appropriate, provided that the amount of the

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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.