

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Recology Sonoma Marin
Application No. 21-SM003**

Tuesday, March 16, 2021

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – Recology Sonoma Marin

Location – Santa Rosa, Sonoma County

Industry – Mixed Recycling

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

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$15,266,032	\$1,297,613

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$1,514,673	1,167
Estimated Environmental Benefits	\$140,202	108
Additional Benefits	N/A	115
Total	\$1,654,875	1,390
Estimated Quantifiable Net Benefit	\$357,263	

Competitive Criteria Score – 210

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

Recology Sonoma Marin (the “Applicant”) is a California corporation that formed in 2017. The Applicant operates a materials recovery facility (“MRF”) in Santa Rosa.

The Applicant is a wholly owned subsidiary of Recology, Inc., which is owned by an Employee Stock Ownership Plan. Recology, Inc., has two subsidiaries that previously received CAEATFA STE awards for anaerobic digester projects: Recology East Bay, which received an award on June 28, 2011, for approximately \$336,981 in STE, and Recology Bioenergy, which received an award on May 20, 2014, for approximately \$2,186,424 in STE. Both of those projects did not move forward.

Recology, Inc., has another subsidiary, Recology San Francisco, that has previously received two STE awards to upgrade its existing MRF: the first on October, 18, 2016, for approximately \$666,626 in STE, and the second on July 18, 2017, for approximately \$305,911 in STE. Both of those Recology San Francisco projects are now complete.

The corporate officers of the Applicant are:

Salvatore Coniglio, Executive Vice President & Chief Executive Officer

Cathy Langridge, Senior Vice President & Chief Financial Officer

Julie Bertani-Kiser, Senior Vice President & Chief Human Resources Officer

Cary Chen, Senior Vice President & Chief Legal Officer

THE PROJECT

Recology Sonoma Marin is requesting an STE award to upgrade its existing MRF in Santa Rosa to increase the diversion of materials currently accepted at the MRF and expand the recovery of recyclables, such as glass beverage containers, aseptic containers, and metal (the “Project”).

According to the Applicant, the MRF’s inbound volume of recyclables has surpassed the current system’s capacity. The Applicant states the Project will integrate advanced sorting technologies to increase the capacity and improve the efficiency and accuracy of materials separation. For example, the Project will add an extended presort conveyor that will increase the number of sorting stations from 12 to 16 and add six additional optical sorters to maximize the recovery of recyclable materials.

As well as increasing the system-wide sorting capabilities, the Applicant states the Project will improve the recovery of specific recyclables. The Applicant explains that currently the Facility manually sorts old corrugated cardboard (“OCC”), but the Project will add an OCC screen to separate large cardboard, which will free manual sorters to focus on other materials, such as expanded metal recovery. Additionally, the Applicant states the Facility’s existing fiber screens are too short and narrow and not easily adjustable, and, therefore, the Project will incorporate a new wider and longer fiber screen system to ensure a more efficient and accurate separation of mixed paper. According to the Applicant, these upgrades and improvements will allow it to

accommodate a greater volume of feedstock and be more compatible with the diverse packaging designs of today.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Baler	\$380,000
Compactor	\$1,419,424
Front End and Pre-Sort System	\$1,512,167
Old Corrugated Cardboard (OCC) Screen System	\$983,281
Glass Cleaning System	\$816,264
Optical Sort System	\$6,774,992
Back End System	\$1,308,919
Support Systems	\$894,985
Efficiency Upgrades	\$1,176,000
Total	<u>\$15,266,032</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 the construction of the new sorting system is expected to begin in October 2021, with the Qualified Property expected to be placed in service in January 2022.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, the construction of the new sorting system will require a demolition permit and a building permit from the Sonoma County Permit & Resource Management Department. The Applicant states it will apply for all construction permits in 2021, and anticipates those permits will be issued in advance of construction activities. The Applicant also states the operation of the new processing equipment will likely require a Report of Facility Amendment through the Sonoma County local enforcement agency and a revision to the facility's air permit through the Bay Area Air Quality Management District. The Applicant explains these operational permits typically take between three and six months, and will be issued in advance of the Qualified Property being put to use.

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 210 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points).** The Applicant's Project earned more than zero 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), and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points).** The Applicant's Project is located in Sonoma County, which has an average annual unemployment rate of 6.7%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (45 of 75 points).** The Applicant anticipates the Project will support a total of 63 production-related jobs at its Facility. CAEATFA estimates that approximately 7.59 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 45 points.
4. **California Headquarters (15 of 15 points).** The Applicant has a California Corporate Headquarters, 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 (50 of 50 points).** The Applicant is not eligible to use any of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, therefore, 50 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 1,390 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 108 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,167 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 \$1,514,673, resulting in a Fiscal Benefits score of 1,167.
- B. **Environmental Benefits (108 points).** The Project is anticipated to result in \$140,202 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 108 points. These benefits derive from the processing of mixed recyclables, which diverts waste from landfills.
- C. **Additional Benefits (115 points).** Applicants may earn additional points for their Total Score. The Applicant received 115 additional points.
 - 1. **Production Jobs (45 of 75 points).** The Applicant anticipates the Project will support a total of 63 production-related jobs at its Facility. CAEATFA estimates that approximately 7.59 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 45 points.
 - 2. **Construction Jobs (20 of 75 points).** The Applicant anticipates the Project will support a total of 14 construction jobs at its Facility. CAEATFA estimates that approximately 1.69 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 (0 of 50 points).** The Applicant's Project is located in Sonoma County, which has an average annual unemployment rate of 6.7%.⁶ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
 - 4. **Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with Overton Safety Training for the purpose of training the workers at the Facility.

⁶ Unemployment rates are based on data available in October 2020.

5. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, pension plans, profit sharing, dependent care and assistance reimbursement, transportation subsidies, education reimbursement, employee discounts, 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,⁷ the Applicant has paid CAEATFA an Application Fee of \$7,633.02, and will pay CAEATFA an Administrative Fee of up to \$61,064.13.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM003 for Recology Sonoma Marin's purchase of qualifying tangible personal property in an amount not to exceed \$15,266,032, anticipated to result in an approximate STE value of \$1,297,613.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH RECOLOGY SONOMA MARIN**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Recology Sonoma Marin** (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 \$15,266,032 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 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.