

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Blue Line Transfer, Inc.
 Application No. 21-SM004**

Tuesday, March 16, 2021

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Blue Line Transfer, Inc.

Location – South San Francisco, San Mateo County

Industry – Mixed Recycling

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

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$5,500,000	\$467,500

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$1,894,035	4,051
Estimated Environmental Benefits	\$61,252	131
Additional Benefits	N/A	105
Total	\$1,955,287	4,287
Estimated Quantifiable Net Benefit	\$1,487,787	

Competitive Criteria Score – 205

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

Blue Line Transfer, Inc. (the “Applicant”), is a California corporation that formed in 1970. The Applicant is a waste collecting and processing company that has operated in South San Francisco since its formation.

On October 15, 2013, the CAEATFA Board granted the Applicant a sales and use tax exclusion award for the purchase of up to \$4,976,469 in Qualified Property for an estimated sales and use tax exclusion value of \$416,530 to construct a new facility to produce and capture methane from organic waste using a batch anaerobic digestion system. The Applicant completed the project at the end of 2015 and began operations in 2016.

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

- Ed Bortoli
- Doug Button
- Paul Formosa
- Ron Fornesi
- Vince Fornesi, Jr.
- Jeff Nabhan
- John Rossi

The corporate officers of the Applicant are:

- Douglas Button, CEO
- Paul Formosa, Treasurer
- Ronald Fornesi, Corporate Secretary

THE PROJECT

Blue Line Transfer, Inc., is requesting an STE award to upgrade its existing materials recovery facility located in South San Francisco (the “Project”). The Applicant anticipates the Project to result in enhanced recovery of recyclables and mixed solid waste and diversion from disposal in a landfill. The Applicant explains the Project will upgrade the current facility by replacing two separate sorting lines with a more efficient and technologically advanced loop design to increase the rate of recovery for recyclable materials. The upgrade will not alter the existing footprint of the facility. The Project will include improved infeed systems to better meter the feedstock, a large-capacity polishing screen to separate fiber and film from containers, optical sorting machines to remove contamination (film and fiber) from containers, robotic equipment to increase recovery of recyclable materials, and a loop design to feed materials through the system multiple times for better chance of recovery. The Applicant explains the Project will produce baled commodities, including cardboard, mixed paper, aluminum, steel, and multiple grades of plastic.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Base Processing Equipment Package (Screens, Optical Sorters, Capacity Bin, Platform, Controls)	\$2,895,000
Add-on Processing Equipment (Metering Bins, Magnets, Optical Sorters, Eddy Current, Robotics, Conveyer Belt, Glass Cleaner, Platforms)	\$2,605,000
Total	<u>\$5,500,000</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

According to the Applicant, teardown of the old equipment began in September 2020 and installation of new equipment began late last year. The Applicant expects to have the upgraded equipment operational in March 2021.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, no permits are required for the Project as there are no modifications being made to the building, only replacement of existing machinery.

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 205 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 San Mateo County, which has an average annual unemployment rate of 5.8%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (40 of 75 points)**. The Applicant anticipates the Project will support a total of 17 production-related jobs at its Facility. CAEATFA estimates that approximately 1.78 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 40 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 made 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, and, therefore, 50 points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 4,287 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 131 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (4,051 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 \$1,894,035, resulting in a Fiscal Benefits score of 4,051.

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

- B. Environmental Benefits (131 points).** The Project is anticipated to result in \$61,252 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 131 points. These benefits derive from the processing of mixed recyclables, which diverts waste from landfills.
- C. Additional Benefits (105 points).** Applicants may earn additional points for their Total Score. The Applicant received 105 additional points.
- 1. Production Jobs (40 of 75 points).** The Applicant anticipates the Project will support a total of 17 production-related jobs at its Facility. CAEATFA estimates that approximately 1.78 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 40 points.
 - 2. Construction Jobs (40 of 75 points).** The Applicant anticipates the Project will support a total of 19 construction 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 40 points.
 - 3. Unemployment (0 of 50 points).** The Applicant’s Project is located in San Mateo County, which has an average annual unemployment rate of 5.8%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
 - 4. Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, pension plans, retirement contributions, profit sharing, dependent care and assistance reimbursement, transportation subsidies, education reimbursement, 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.

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 \$2,750, and will pay CAEATFA an Administrative Fee of up to \$22,000.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM004 for Blue Line Transfer, Inc.'s purchase of qualifying tangible personal property in an amount not to exceed \$5,500,000, anticipated to result in an approximate STE value of \$467,500.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH BLUE LINE TRANSFER, INC.**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Blue Line Transfer, Inc.** (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 \$5,500,000 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

Agenda Item – 4.G.4
Resolution No. 21-SM004
Application No. 21-SM004

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.