

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Circular Polymers LLC
Application No. 17-SM049**

Tuesday, June 20, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – Circular Polymers LLC

Location – Lincoln, Placer County

Industry – Advanced Carpet Recycling

Project – Expansion of an Advanced Carpet Recycling and Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$7,548,500

Estimated Sales and Use Tax Exclusion Amount² – \$635,584

Application Score –

Fiscal Benefits Points:	1,853
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	1,963

<u>Additional Benefits Points:</u>	<u>140</u>
Total Score:	2,103

Staff Recommendation – Approval

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

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Founded in 2017, Circular Polymers LLC (“Circular” or “the Applicant”) seeks to make use of technological advancements in the field of carpet recycling.

Circular intends to apply for a California Competes tax credit as well as the Employment Training Panel.

The major shareholders (10.0% or greater) of Circular Polymers LLC are:

- Circular Investments LLC 100%
- David Bender 47%
- Jeffrey Kupets 28.67%
- JCWK Family Trust 14.33%
- Mark Babich 10%

The corporate officers of Circular Polymers LLC are:

- David Bender, Chief Executive Office
- Jeff Kupets, Chief Financial Officer

THE PROJECT

Circular proposes to add additional recycling units to a pre-existing carpet recycling operation in Lincoln, California (the “Project”). The Applicant has partnered with California Landfill Elimination and Recycling (CLEAR) at their Lincoln facility where they have been processing 2,000 pounds-per-hour of carpet. By entering into a joint-venture with CLEAR, Circular expects to reach an 8,000 pound-per-hour capacity by the time their proposed expansion is complete. All equipment purchased for the Project will be owned and operated by the Applicant.

The Rotary Impact Separator (RIS) units utilized in Circular’s carpet recycling process are a proprietary patent-pending model designed by the Broadview Group International. Circular represents that these units make use of nearly all components of the recycled carpet while using less power than other units on the market today. An RIS unit uses roughly half as much horsepower as comparable units, according to Circular’s research.

The Applicant represents that they use a dry process of carpet recycling, eliminating the need for excessive water use. Furthermore, no chemicals are emitted during the process. The products of this method include nylon, PET, polypropylene, and calcium carbonate in the form of reusable fibers and pellets that can be reused in other processes of manufacturing.



Figure 1: Rotary Impact Separator

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Proprietary RIS Units	\$2,062,500
Carpet Sizing Equipment	655,570
Conveyance Equipment	1,093,736
Collection Equipment	432,139
Baling Equipment	418,315
Quality Control Equipment	536,240
Pelletizing Equipment	1,300,000
Fiber Opener	<u>1,050,000</u>
Total	<u>\$7,548,500</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual 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, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

The Applicant has stated that initial purchases associated with the expansion are projected to be complete by the end of 2017. Final purchases are projected to be complete by the end of 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,548,500 and the total net benefits are valued at \$541,886 for the Project. The Project received a Total Score of 2,103 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 110 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,853 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$1,177,470 resulting in a Fiscal Benefits score of 1,853 points for the Project.
- B. **Environmental Benefits (110 points)**. The Project will result in an Environmental Benefits Score of 110. 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 represents will result in decreased energy use over time through tracking and updating methods.
 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 51% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 95% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in an 83% reduction in solid waste produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (140 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 140 additional points.
1. **Permanent Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 55 permanent jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 55 points for the Project.
 2. **Construction Jobs (35 of 75 points)**. The Applicant represents that the Project will support a total of 23 construction jobs at its Facility. CAEATFA estimates that approximately two of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 35 points for the Project.
 3. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the Rotary Impact Separator technology.

4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Golden Sierra Job Training Agency for the purpose of training the workers at their facility and for the purposes of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Circular represents that they currently possess all necessary permits to operate the Project. The expansion discussed herein will only require additional permits for the installation of new equipment as well as approval from the local fire department, can be procured with a two-week notice.

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,³ the Applicant has paid CAEATFA an Application Fee of \$3,774 and will pay CAEATFA an Administrative Fee up to \$30,194.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM049 for Circular Polymers LLC's purchase of Qualified Property in an amount not to exceed \$7,548,500 anticipated to result in an approximate sales and use tax exclusion value of \$635,584.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CIRCULAR POLYMERS LLC**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Circular Polymers LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$7,548,500 over a period of three (3) years; and

WHEREAS, the Applicant believes 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 Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

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

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

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master 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, Deputy 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 Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

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Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, 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 in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or 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, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.