

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Heraeus Precious Metals North America LLC
Application No. 22-SM026**

Tuesday, June 21, 2022

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Heraeus Precious Metals North America LLC

Location – Santa Fe Springs, Los Angeles County

Industry – Precious Metals Recycling

Project – Upgrade and Expansion of Existing Precious Metals Recycling Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$15,900,000	\$1,351,500

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$2,363,186	1,749
Estimated Environmental Benefits	N/A	25
Additional Benefits	N/A	148
Total	\$2,363,186	1,922
Estimated Quantifiable Net Benefit	\$1,011,686	

Competitive Criteria Score – 188

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

Heraeus Precious Metals North America LLC (the “Applicant”), is a Delaware limited liability company that formed in 2000 headquartered in Santa Fe Springs. The Applicant is a recycler and manufacturer of precious metal products. The Applicant’s products are used in a wide variety of industries, including chemical, pharmaceuticals, glass, electronics, and automotive. The Applicant is solely owned by Heraeus Incorporated, which is solely owned by Heraeus Holding GmbH, a family owned portfolio company based in Hanau, Germany.

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

Heraeus Incorporated (100%)

The major shareholders (10.0% or greater) of Heraeus Incorporated are:

Heraeus Holding GmbH

The company officers of the Applicant are:

Uve Kupka, President

Hans Deutsch, Head of Finance – HPM Americas

Artin Janian, Vice President

Norbert Ritschel, Vice President and Site Manager – East Coast

Margie Martinez, HR Manager and Site Manager – Santa Fe Springs

Ashok Patel, Treasurer

Yuri Rozenfeld, Vice President and Secretary

THE PROJECT

Heraeus Precious Metals North America LLC is requesting an STE award to upgrade and expand its existing precious metal recycling facility located in Santa Fe Springs (the “Project”). The Applicant plans to increase recycling of platinum and palladium and to add a new process for the recycling and purification of rhodium. The Applicant states that the recycling processes will utilize high-tech, high precision sensors, instrumentation, controls, and automation, while relying on a skilled engineering and research and development staff to improve those systems. The Applicant will use semiconductors in the control units and refining equipment, as well as nanotechnology used in controls, instrumentation, and human interfaces with the recycling process. According to the Applicant, the Project will increase energy and chemical efficiency and improve the quality and purity of recycled platinum, palladium, and rhodium. The Applicant expects the new processes to create more visible data to be leveraged in further improvements to make the recycling process more efficient and precise.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Rhodium Refining Equipment	\$7,595,000
Rhodium Processing Equipment	\$2,015,000
Scrubber System	\$1,232,000
Platinum and Palladium Refining Equipment	\$5,058,000
Total	<u>\$15,900,000</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, construction and installation of new equipment is planned to begin in August 2022. The Applicant estimates that the Project will be placed in service date by March 31, 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, the Project requires a building permit from Santa Fe Springs and permits from South Coast Air Quality Management District, Department of Toxic Substances Control, and Los Angeles County. The Applicant has submitted all permit applications and expects all permits to be approved in the second half of 2022.

COMPETITIVE CRITERIA SCORE

The Applicant received 188 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Recycled Resource Extraction Project, and, therefore, 100 points are awarded.
2. **Unemployment (33 of 50 points)**. The Applicant's Project Facility is located in Los Angeles County, which has an average annual unemployment rate of 10.5%.⁴ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 33 points.
3. **Job Creation (40 of 75 points)**. The Applicant anticipates the Project will support a total of 194 production-related jobs at its Facility. CAEATFA estimates that approximately 6.63 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

⁴ Unemployment rates are based on data available in December 2021.

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 any of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project's industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,922 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 (1,749 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 \$2,363,186, resulting in a Fiscal Benefits score of 1,749.
- 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 (5 of 5 points)**. The Applicant has an environmental sustainability plan that aims to improve energy efficiency, purchase green energy or produce energy on site, shift away from fossil fuel burning technology starting in 2022, and invest in carbon offsets.
 2. **Energy Consumption (10 of 30 points)**. The Applicant anticipates the Project will result in a 10% reduction in energy consumption compared to the Applicant's previous manufacturing process. The Applicant states that energy improvements will be due to investments in new technologies, including a reduction in the use of natural gas.
 3. **Water Use (10 of 30 points)**. The Applicant anticipates the Project will result in a 10% reduction in water use relative to the Applicant's previous manufacturing process. The Applicant states that improvement is due to investments in new technologies and the improvement of the recycling process.

C. **Additional Benefits (148 points)**. Applicants may earn additional points for their Total Score. The Applicant received 148 additional points.

1. **Production Jobs (40 of 75 points)**. The Applicant anticipates the Project will support a total of 194 production-related jobs at its Facility. CAEATFA estimates that approximately 6.63 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 (0 of 75 points)**. The Applicant anticipates the Project will support a total of zero construction jobs at its Facility. Therefore, the Applicant earned zero points.
3. **Unemployment (33 of 50 points)**. The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 10.5%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 33 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 the development of chemical processes in the recycling of precious metal products.
5. **Industry Cluster (25 of 25 points)**. The industry associated with this Application has been identified by Los Angeles County Economic Development Corporation as an industry cluster of the region of the Project's location.
6. **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 benefits 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,⁵ the Applicant has paid CAEATFA an Application Fee of \$7,950 and will pay CAEATFA an Administrative Fee of up to \$63,600.

RECOMMENDATION

Staff recommends the approval of Resolution No. 22-SM026-01 for Heraeus Precious Metals North America LLC's purchase of qualifying tangible personal property in an amount not to exceed \$15,900,000 to result in an approximate STE value of \$1,351,500.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH HERAEUS PRECIOUS METALS NORTH
AMERICA LLC**

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Heraeus Precious Metals North America 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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$15,900,000 over a period of three (3) 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.