

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**EJ Harrison and Sons Rentals, Inc.
Application No. 13-SM004**

Tuesday, April 16, 2013

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – EJ Harrison and Sons Rentals, Inc.

Location – Oxnard, Ventura County

Industry – Biogas Capture and Production

Project – New Biogas Capture and Production Facility

Value of Qualified Property – \$1,212,095

Estimated Sales and Use Tax Exclusion Amount² – \$101,452

Estimated Net Benefits – \$26,345

Application Score³ –

Fiscal Benefits Points:	1069
<u>Environmental Benefits Points:</u>	<u>190</u>
Net Benefits Score:	1,260

<u>Additional Benefits Points:</u>	<u>10</u>
Total Score:	1,270

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 8.37%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

EJ Harrison and Sons Rentals, Inc. (the “Applicant” or “EJ Harrison”) was established in 2005 in California, although the roots of the company trace back as far as 1932 when the current owners’ father founded the collection service. EJ Harrison provides waste collection services to over 90,000 residential, commercial and industrial customers in Ventura County and the cities of Thousand Oaks, Camarillo, Ventura, Ojai, Fillmore and Carpinteria.

The Applicant also has a subsidiary company, Agromin, which processes the green waste collected by EJ Harrison. Agromin converts almost 380,000 tons of recycled organic materials into compost, mulch and other soil products annually.

The major shareholders (10.0% or greater) of EJ Harrison are:

- Ralph Harrison (33.33%)
- Myron Harrison (33.33%)
- James Harrison (33.33%)

The corporate officers of EJ Harrison are:

- Ralph Harrison – President
- Myron Harrison – Treasurer
- James Harrison – Secretary

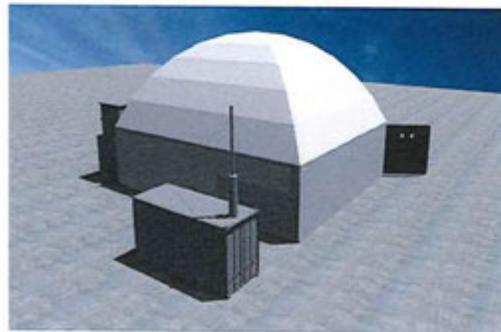
THE PROJECT

The Applicant plans to construct a batch anaerobic digestion system to take organic materials and, using a dry fermentation process, produce and capture methane from the controlled composting and processing of those materials (the “Project”). The methane produced will fuel a generator that will produce electricity. This electricity will be used to power the Project while the excess electricity will be sold to Southern California Edison. The Project will handle approximately 5,000 tons of organic materials per year and will be located at Agromin’s processing facility in Oxnard.

The biogas will be produced by four dry anaerobic digesters. The air from the facility will be processed through an air circulation and control system that effectively contains, circulates and exhausts air as necessary through a specially designed bio-filter to control odors.



PERSPECTIVE VIEW - FRONT



PERSPECTIVE VIEW - BACK

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Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas and it also includes a portion of the power generation equipment used to power the facility. The Project’s equipment will consume ten percent of the total amount of electricity generated, therefore ten percent of the power generation equipment is eligible for a STE under SB 71. However, ninety percent of the power generation equipment is not included in this Application as this represents the proportion of electricity that will be sold to Southern California Edison.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Above Ground Percolate Tank	\$ 197,648
SMARTFERM Plant Fabrication	885,447
Piping and Duct Work	40,000
100 kW Combined Heat and Power System	29,000
Mechanical/Electrical Installation	60,000
Total	<u>\$1,212,095</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 conveyance/reconveyance agreement a finalized project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations 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 from 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 began construction of the facility in March 2013 and anticipates commencing facility operations in April 2013.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$1,212,095 and the total net benefits are valued at \$26,345 for the Project. The Project received a Total Score of 1,270 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 190 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1069 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 \$108,487 resulting in a Fiscal Benefits score of 1069 points for the Project.
- B. Environmental Benefits (190 points).** The Project will result in \$19,311 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 190 points for the Project. These benefits derive from (a) the production of biomass fuel, which offsets the need for fossil fuel derived sources of energy and (b) a reduction of methane emissions from material that would otherwise be sent to a landfill.
- C. Additional Benefits (10 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 10 additional points.
- 1. Permanent Jobs (0 of 40 points).** The Applicant’s Project will support one permanent job at its Facility. This job is not attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 - 2. Construction Jobs (10 of 20 points).** The Applicant’s Project will support a total of five construction jobs at its Facility. CAEATFA estimates that approximately one 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 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project has received the necessary use, air and foundation permits to allow facility construction.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$606.05 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM004 for EJ Harrison and Sons Rentals, Inc.'s purchase of Qualified Property in an amount not to exceed \$1,212,095, anticipated to result in an approximate sales and use tax exclusion value of \$101,452.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH THE EJ HARRISON AND SONS RENTALS,
INC.**

April 16, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **EJ Harrison and Sons Rentals, Inc.** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property 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 transferring title of Project equipment with an estimated cost not to exceed \$1,212,095 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; 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 conveyance 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).

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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.

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 conveyance 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.