

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

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

**AltAir Paramount, LLC
Application No. 14-SM010**

Tuesday, August 19, 2014

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – AltAir Paramount, LLC

Location – Paramount, Los Angeles County

Industry – Renewable Diesel Production

Project – Renewable Diesel Retrofit of an existing Fuel Production Facility

Value of Qualified Property – \$16,325,984

Estimated Sales and Use Tax Exclusion Amount² – \$1,374,648

Estimated Net Benefits – \$4,935,750

Application Score –

Fiscal Benefits Points:	4,382
<u>Environmental Benefits Points:</u>	<u>209</u>
Net Benefits Score:	4,591

<u>Additional Benefits Points:</u>	<u>51</u>
Total Score:	4,642

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

AltAir Paramount, LLC (“Alt Air” or the “Applicant”), formed in 2013, is a producer of renewable fuel with a facility located in Paramount. AltAir represents that its executive management team has a combined 75 years of business leadership in biofuels, energy, agri-science, and refinery project management.

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

AltAir Fuels II, LLC (68.43%)
Alon Renewable Fuels, Inc. (31.57%)

The corporate officers of AltAir are:

Bryan Sherbacow, President
Marshall Bell, Vice President of Engineering
Paul Van Schooten, Vice President of Accounting

THE PROJECT

AltAir is using proprietary technology developed by Honeywell-UOP to convert part of Alon’s existing petroleum refinery in Paramount into a renewable diesel refinery. AltAir represents that the refinery will be California’s first ever renewable diesel refinery capable of commercial-scale production. Once complete, AltAir’s refinery will convert animal and plant-based feedstock into 42,000,000 gallons of “renewable” or “second generation” diesel each year (the “Project”). AltAir represents that is has already executed 3-year fuel supply agreements with World Fuel Services and United Airlines.

The Qualified Property in this Application will be used to manufacture renewable diesel. Although renewable diesel is derived from biological sources like first generation biodiesel, renewable diesel is molecularly identical to its petroleum-derived counterpart, whereas first generation biodiesel is not. Because of its identical chemical composition, renewable diesel can be mixed with petro-diesel at any ratio or used alone without the need for changes to existing fuel distribution networks or engines. Not only does renewable diesel displace equal amounts of petro-diesel, but AltAir’s renewable diesel has a carbon intensity value that is over 75% less than petro-diesel according to California’s Low Carbon Fuel Standards.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Compressors	\$ 943,790
Vessels (Drums)	585,965
Vessels (Towers)	719,856
Heaters	120,150
Heat Exchangers	1,159,704
Hydro-Treater	5,618,000
Reactors	1,564,319
Pumps	414,200
Civil Equipment	2,500,000
Instrumentation	1,300,000
Electrical	750,000
Piping	<u>650,000</u>
Total	<u>\$ 16,325,984</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 Project's development and engineering began in May 2013 and construction began a year later in May 2014. The entire retrofit is expected to be complete by the end of 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$16,325,984 and the total net benefits are valued at \$4,935,750 for the Project. The Project received a Total Score of 4,642 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 209 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (4,382 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 \$6,023,164 resulting in a Fiscal Benefits score of 4,382 points for the Project.

- B. **Environmental Benefits (209 points)**. The Project will result in \$287,233 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 209 points for the Project. These benefits derive from the production of renewable diesel, which offsets the need for use of fossil diesel and has a carbon intensity value that is over 75% less than petro-diesel according to California’s Low Carbon Fuel Standards.

- C. **Additional Benefits (51 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 51 additional points.
 - 1. **Permanent Jobs (20 of 75 points)**. The Applicant’s Project will support a total of 61 permanent 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 Permanent Jobs Score of 20 points for the Project.

 - 2. **Construction Jobs (20 of 75 points)**. The Applicant’s Project will support a total of 80 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 20 points for the Project.

 - 3. **Unemployment (11 of 50 points)**. The Applicant’s Project is located in Los Angeles County which has an annual average unemployment rate of 10%. This is above 110% of the annual average statewide unemployment rate of 8.8% resulting in an Unemployment Score of 11 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

All necessary permits for construction and operation are now in place.

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 \$8,163 and will pay CAEATFA an Administrative Fee up to \$65,303.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM010 for AltAir Paramount, LLC's purchase of Qualified Property in an amount not to exceed \$16,325,984 anticipated to result in an approximate sales and use tax exclusion value of \$1,374,648.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ALTAIR PARAMOUNT, LLC**

August 19, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **AltAir Paramount, 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 \$16,325,984 over a period of 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.

Agenda Item – 4.A.2
Resolution No. 14-SM010
Application No. 14-SM010

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.