

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

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

**Eslinger Biodiesel Inc.
Application No. 16-SM031**

December 13, 2016

Prepared By: *Alejandro Ruiz, Program Manager*

SUMMARY

Applicant – Eslinger Biodiesel Inc.

Location – Fresno, Fresno County

Industry – Biomass Processing and Fuel Production

Project – New biodiesel production facility

Value of Qualified Property – \$8,394,385

Estimated Sales and Use Tax Exclusion Amount² – \$706,807

Estimated Net Benefits – \$2,155,277

Application Score³ –

Fiscal Benefits Points:	3,242
<u>Environmental Benefits Points:</u>	<u>808</u>
Net Benefits Score:	4,049
<u>Additional Benefits Points:</u>	<u>110</u>
Total Score:	4,159

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%.

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

THE APPLICANT

Eslinger Biodiesel Inc (“Eslinger” or the “Applicant”) is a start-up, biodiesel production company incorporated in California in 2008.

The major shareholders (10.0% or greater) of Eslinger Biodiesel Inc. are:
Michael Bessenov
Jeremy Eslinger

The corporate officers of Eslinger Biodiesel Inc. are:
Jeremy Eslinger, President
Michael Bessonov, VP of Operations
Jeff John, CFO
Paul Cramer, VP of Business Development

THE PROJECT

Eslinger plans to construct a biodiesel production facility in Fresno that will convert used cooking oil and other fats, oils and greases into biodiesel and glycerin (the “Project”). The feedstock for the production process will be collected from local food processors and other feedstock collection accounts collected by a Project equity partner. The Applicant states that co-locating the bio-refinery at a feedstock collection facility, and partnering with its owners, guarantees feedstock supply lines. The Project will produce 5 million gallons of B100 biodiesel and 2.5 million gallons of technical grade glycerin per year. This fuel will be supplied to a Kinder Morgan Fuel Distribution Terminal in Fresno County and blended with other diesel fuel to be shipped out to across the state to customers.

The Project is the first of three planned construction and expansion phases at the Project site. The Applicant indicates that they intend to apply to the Program for further funding upon the commencement of additional project phases.

The Project also received \$6,000,000 in grants through the California Energy Commission’s Alternative and Renewable Fuel Vehicle Technology Program on November 28, 2012 – agreement number ARV-12-026.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Transesterification System	845,000
Biodiesel Distillation System	825,000
Glycerin Purification System	625,000
Truck Loading and Unloading Skid	355,000
Utility Equipment	1,080,000
Control System	249,400
Tank Farm Piping	394,600
Utility Piping	426,400

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Skid Pumps	85,100
Tank Farm Pumps, Controls and Valves	105,000
Lab Equipment	220,000
Tank Farm	1,391,585
Lab and Control Room Materials	470,000
Site Preparation Materials	100,000
Truck Weigh Scale	180,000
Feedstock Filtration System	400,000
Esterification System	442,300
Natural Gas, Electric, & Heat Supplies	200,000
Total	<u>\$8,394,385</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 represents that construction and installation of equipment has already begun, with testing and calibration to commence in December 2016. The Project is expected to be commissioned in April 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,394,385 and the total net benefits are valued at \$2,155,277 for the Project. The Project received a Total Score of 4,159 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 808 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,242 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 \$2,291,152 resulting in a Fiscal Benefits score of 3,242 points for the Project.

- B. Environmental Benefits (808 points).** The Project will result in \$570,932 of total pollution benefits over the life of the Project resulting in an Environmental Benefits

Score of 808 points for the Project. These benefits derive from the production of biodiesel, which offsets the need for use of fossil fuel.

- C. **Additional Benefits (110 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 110 additional points.
1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 16 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 30 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 18 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 30 points for the Project.
 3. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Fresno County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has received conditional use and all building permits. The Applicants expects to receive approval of final air and water permits from the San Joaquin Valley Air Pollution District by December 2016.

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 \$4,197 and will pay CAEATFA an Administrative Fee of \$33,578.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM031 for Eslinger Biodiesel Inc.'s purchase of Qualified Property in an amount not to exceed \$8,394,385 anticipated to result in an approximate sales and use tax exclusion value of \$706,807.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ESLINGER BIODIESEL INC.**

December 13, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Eslinger Biodiesel Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 \$8,394,385 over a period of three 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.