

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

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

**Organic Energy Solutions
Application No. 17-SM023**

Tuesday, June 20, 2017

Prepared By: *Joel Schwartz, Blue Sky Consulting with Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Organic Energy Solutions

Location – San Bernardino, San Bernardino County

Industry – Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility (Alternative Source)

Value of Qualified Property – \$24,440,000

Estimated Sales and Use Tax Exclusion Amount² – \$2,057,848

Estimated Net Benefits – \$97,085

Application Score³ –

| | |
|---------------------------------------|--------------|
| Fiscal Benefits Points: | 754 |
| <u>Environmental Benefits Points:</u> | <u>293</u> |
| Net Benefits Score: | 1,047 |
| | |
| <u>Additional Benefits Points:</u> | <u>66</u> |
| Total Score: | 1,114 |

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 equal the total score due to rounding in the Application worksheet.

THE APPLICANT

Organic Energy Solutions (“OES” or the “Applicant”) is a special purpose California Corporation established to develop the San Bernardino BioDigester.

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|--|---|
| The major shareholders (10.0% or greater) of Organic Energy Solutions are: | The corporate officers of Organic Energy Solutions are: |
| Sergio Perez 80% | Sergio Perez |
| Michael Brown 20% | Michael Brown |

THE PROJECT

OES, in partnership with CleanWorld and Anaergia (providers of anaerobic digestion technology), will fabricate, construct, and install a renewable energy anaerobic digester in San Bernardino, California (the “Project”). The Project will combine the Anaerobic Digester provided by CleanWorld with Anaergia’s proprietary food waste processing and anaerobic digestion technology. The facility will accept waste products from the food processing and food services industry, process the waste in an anaerobic digester system, and use the resulting biogas to generate useful process heat, renewable electricity, and possibly transportation fuel. The Applicant projects that the facility will handle up to 300 tons per day of organic waste composed of food industry waste slurries from a pre-existing on-site food waste treatment facility and pre-consumer food wastes, primarily from large grocery and restaurant chains, including Walgreens and the Cheesecake Factory.

OES has received a \$5,000,000 grant from the California Energy Commission, and plans to utilize tax exempt private activity bonds from the California Pollution Control Financing Authority. Additionally, OES recently applied for a CalRecycle grant, and plans to apply for a low interest Greenhouse Gas Loan from CalRecycle.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture syngas; the Qualified Property also includes a portion of the power generation equipment used to power the facility. The Project’s equipment will consume approximately 59 percent of the total amount of available energy generated from syngas combustion; therefore 59 percent of the power generation equipment is eligible for a sales and use tax exclusion under SB 71. However, 41 percent of the power generation equipment is not included in this Application, as it represents the proportion of available energy in the form of electricity that will be sold to PG&E.

A similar project on the same site was approved by the CAEATFA Board on March 18, 2014 for CleanWorld. CleanWorld did not execute a Master Regulatory Agreement or move forward with the Project due to permitting concerns. OES represents that the permitting issues that stalled the former Project have been resolved and the new Project is on track.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below.

| | |
|--|----------------------------|
| Pre-Processing and Material Input Modules | \$ 4,200,000 |
| Anaerobic Digester Tanks | 4,500,000 |
| Anaerobic Digester Tank Supporting Equipment | 2,600,000 |
| Processing Skids and Equipment | 800,000 |
| Site Mechanical and Electrical Components and Controls | 4,000,000 |
| Heating Systems | 800,000 |
| Combined Heat and Power Engines | 3,540,000 |
| Gas Processing Skids | 1,500,000 |
| Backend Effluent Management Skid | <u>1,500,000</u> |
| Total | <u>\$24,440,000</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 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 plants to begin site-work and construction in August 2017. In October 2017, delivery of equipment and components will begin, with start-up and commercial operation planned for March 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$24,440,000 and the total net benefits are valued at \$97,085 for the Project. The Project received a Total Score of 1,114 points, which exceeds the required 1,000-point threshold and a total Environmental Benefits Score of 293 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (754 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 \$1,552,332 resulting in a Fiscal Benefits score of 754 points for the Project.

- B. Environmental Benefits (293 points).** The Project will result in \$602,601 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 293 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil fuel methane.
- C. Additional Benefits (66 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 66 additional points.
- 1. Permanent Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of six 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. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 - 2. Construction Jobs (55 of 75 points).** The Applicant represents that the Project will support a total of 100 construction jobs at its Facility. CAEATFA estimates that approximately 16 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 55 points for the Project.
 - 3. Unemployment (11 of 50 points).** The Applicant’s Project is located in San Bernardino County, which has an average annual unemployment rate of 8.4%. 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 11 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has obtained a City of San Bernardino Conditional Use Permit, and has received a negative declaration under the California Environmental Quality Act. OES has submitted a South Coast Air Quality Management District (SCAQMD) authority to construct permit application, and is currently addressing SCAQMD’s review comments.

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 \$10,000 and will pay CAEATFA an Administrative Fee of up to \$97,760.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM023 for Organic Energy Solutions purchase of Qualified Property in an amount not to exceed \$24,440,000 anticipated to result in an approximate sales and use tax exclusion value of \$2,057,848.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH THE ORGANIC ENERGY SOLUTIONS, INC.

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Organic Energy Solution, Inc.** (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 \$24,440,000 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.

Agenda Item – 4.A.3
Resolution No. 17-SM023
Application No. 17-SM023

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.