

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

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

**Crimson Renewable Energy LP
Application No. 17-SM047**

Tuesday, June 20, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – Crimson Renewable Energy LP

Location – Bakersfield, Kern County

Industry – Biomass Processing and Fuel Production

Project –Expansion of an Existing Biomass and Fuel Production Facility (Alternative Source)

Value of Qualified Property – \$21,833,100

Estimated Sales and Use Tax Exclusion Amount² – \$1,838,347

Estimated Net Benefits – \$6,056,996

Application Score –

Fiscal Benefits Points:	3,946
<u>Environmental Benefits Points:</u>	<u>349</u>
Net Benefits Score:	4,295

<u>Additional Benefits Points:</u>	<u>90</u>
Total Score:	4,385

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

Crimson Renewable Energy LP (“Crimson” or “the Applicant”) was established in 2006 and produces biodiesel for the wholesale biodiesel market in the Western United States. They have also been marketing biodiesel to active California petroleum refiners, major fuel wholesalers, and truck stop operators for over eight years.

On November 19, 2013, the CAEATFA Board granted Crimson an STE award for the purchase of up to \$14,065,000 in Qualified Property for an estimated STE value of \$1,177,241, to expand their existing biodiesel and glycerin production facility in Bakersfield, California. Crimson requested a time extension for their STE award at the November 15, 2016 CAEATFA Board meeting due to unanticipated delays in their project timeline. This request was approved by the Board with an extension until December 31, 2018. Crimson has purchased approximately 55% of the approved STE amount. The project currently under consideration is on the same site as the 2013 project.

The major shareholders (10.0% or greater) of Crimson Renewable Energy LP are:

John Grier Revocable Trust 98.75%

The corporate officers of Crimson Renewable Energy LP are:

Harry Simpson, President
James Cowan, Controller
John Grier, Chairman

THE PROJECT

Crimson seeks to develop a third generation biodiesel production system on the same site as their existing second generation production system, which received an STE from CAEATFA in 2013, in Bakersfield, California (the “Project”). Crimson produces their biodiesel using low-value feedstocks such as trap grease and very low quality animal fats. Their system produces fuels that the Applicant represents will be well below the California Air Resources Board’s Low Carbon Fuel Standard. The Applicant predicts that by 2019 this new plant will be capable of producing one million gallons per month of low-carbon biodiesel, allowing them to avoid importing biodiesel from other states in order to satisfy demand. The Applicant represents that this new facility will be California’s first third generation commercial-scale biodiesel refinery.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Piping and Tanks	\$ 2,404,000
Process Equipment and Utilities Equipment	14,410,400
Buildings, Structures, Truck Bays	1,967,500
Electrical, lighting, fire suppression	2,858,000
Gas Line	40,000
Lab and other portable equipment (including rolling stock)	153,200
Total	<u>\$ 21,833,100</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

Construction is expected to begin in December 2017 and continue until late 2018. The applicant anticipates the new plant will commence production in March 2019 and be functioning at full capacity by August 2019.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$21,833,100 and the total net benefits are valued at \$6,056,996 for the Project. The Project received a Total Score of 4,385 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 349 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,946 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 \$7,253,563 resulting in a Fiscal Benefits score of 3,946 points for the Project.
- B. Environmental Benefits (349 points).** The Project will result in \$641,781 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 349 points for the Project. These benefits derive from the production of biodiesel, which offsets the need for use of fossil fuels.
- C. Additional Benefits (90 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 90 additional points.
 - 1. Permanent Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 22 permanent 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 Permanent Jobs Score of 20 points for the Project.
 - 2. Construction Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 40 construction jobs at its Facility. CAEATFA estimates that approximately four 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 (40 of 50 points).** The Applicant's Project is located in Kern 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 40 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Several permits will need to be secured in order to move forward with this expansion. Crimson Renewable Energy LP anticipates applying for the first of these, the Authority to Construct, in September 2017. Other necessary permits will be the Permit to Operate, grading permits, and Building Permits, the last of which is expected to be received in early 2018.

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 \$10,000 and will pay CAEATFA an Administrative Fee up to \$87,332.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM047 Number for Crimson Renewable Energy LP's purchase of Qualified Property in an amount not to exceed \$21,833,100 anticipated to result in an approximate sales and use tax exclusion value of \$1,838,347.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CRIMSON RENEWABLE ENERGY LP**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Crimson Renewable Energy LP** (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 \$21,833,100 over a period of three (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.

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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.