

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

***Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>***

**Pacific Ethanol Stockton, LLC**  
**Application No. 17-SM046**

**Tuesday, July 18, 2017**

Prepared By: *Katrina Connolly, Blue Sky Consulting Group with Ashley Bonnett, Manager*

**SUMMARY**

**Applicant** – Pacific Ethanol Stockton, LLC

**Location** – Stockton, San Joaquin County

**Industry** – Ethanol Production

**Project** – New Biogas Capture and Production Facility

**Value of Qualified Property** – \$5,932,500

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$499,517

**Estimated Net Benefits** – \$467,378

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	1,388
<u>Environmental Benefits Points:</u>	<u>547</u>
<b>Net Benefits Score:</b>	<b>1,936</b>
<u>Additional Benefits Points:</u>	<u>103</u>
<b>Total Score:</b>	<b>2,039</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program's statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

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

## **THE APPLICANT**

Pacific Ethanol Stockton, LLC (“Pacific Ethanol Stockton” or the “Applicant”) is a wholly owned subsidiary of Pacific Ethanol, Inc., which produces and markets low-carbon renewable fuels in the United States. Pacific Ethanol Stockton is an ethanol production facility that produces 60 million gallons of ethanol per year.

Pacific Ethanol Madera, LLC, a subsidiary of Pacific Ethanol Stockton’s parent company, Pacific Ethanol, Inc., received an award on January 20, 2015, for approximately \$401,087 in STE to install a corn extraction system at their Madera ethanol production facility.

The major shareholders (10.0% or greater) of Pacific Ethanol Stockton, LLC are:

Pacific Ethanol, Inc. (100%)

Pacific Ethanol, Inc. is publicly traded under the symbol PEIX

The corporate officers of Pacific Ethanol Stockton, LLC are:

Neil M. Koehler - Chief Executive Officer and President  
Byron T. McGregor - Chief Financial Officer, Vice President and Assistant Secretary  
Michael D. Kandris - Chief Operating Officer  
Christopher W. Wright - General Counsel, Vice President and Secretary  
James Sneed - Vice President  
Paul P. Koehler - Vice President  
Robert Olander - Vice President  
Michael Kramer - Vice President  
Ed Baker - Vice President  
Ken Wilson - Vice President

## **THE PROJECT**

Pacific Ethanol Stockton is constructing an anaerobic digestion system to produce biogas for use at the Stockton Combined Heat and Power (“CHP”) facility in Stockton, California (the “Project”). The Applicant represents the Project will produce biogas to replace 40 million btu per hour of natural gas currently used by the Stockton CHP facility, which powers the ethanol production process at the Pacific Ethanol Stockton facility. The Applicant estimates that the Project will reduce the carbon intensity score of the ethanol production process from 69.48 CO<sub>2</sub>(e)/MJ to 67.82 CO<sub>2</sub>(e)/MJ.

The Project will convert the organic matter of the Pacific Ethanol Stockton facility’s waste stream to biogas for use in producing steam and electricity for the CHP facility’s process energy needs. To accomplish this conversion, the Project will install an digester system comprised of a high rate Expanded Granular Sludge Bed (“EGSB”) reactor treating process condensate combined with a low rate Continuous Stirred Tank Reactor (“CSTR”) at the Pacific Ethanol Stockton facility. The Applicant expects the anaerobic digestion system to generate sufficient biogas to fully meet the gas demand currently required at the facility to produce ethanol.

## **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Subsurface Columns for Foundation Support	\$ 400,000
Power Systems for AD	375,000
Communication and Automation Instrumentation	628,376
Concrete and Steel for Structures	725,000
Piping and Equipment for AD System Connections	750,000
Equipment for AD System	2,112,050
Equipment for Biogas Handling	942,074
<b>Total</b>	<b><u>\$5,932,500</u></b>

*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 expects construction of the facility for the Project to begin in Q4 of 2017 and continue until 2019. Testing and start-up at the new facility will begin on December 1, 2018 and operation is expected to begin January 1, 2019. Production will begin at 50 percent in the first quarter of 2019 and ramp up to 75 percent in the second quarter of 2019. Thereafter, the Project is expected to operate at or near 100 percent of production.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$5,932,500 and the total net benefits are valued at \$467,378 for the Project. The Project received a Total Score of 2,039 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 547 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,388 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

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taxes and other indirect fiscal benefits of the Applicant which amounts to \$693,533 resulting in a Fiscal Benefits score of 1,388 points for the Project.

- B. **Environmental Benefits (547 points)**. The Project will result in \$273,362 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 547 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane.
- C. **Additional Benefits (103 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 103 additional points.
1. **Permanent Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of one permanent jobs at its Facility. CAEATFA estimates that zero 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 30 construction jobs at its Facility. CAEATFA estimates that approximately five 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 (48 of 50 points)**. The Applicant's Project is located in San Joaquin 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 48 points for this Project.

#### **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

The Project site is located in an area zoned for heavy industry. The anaerobic digester (AD) requires a permit for construction from the Planning and Engineering Department of the City of Stockton. The AD also requires an Authority to Construct permit from the local Air District, San Joaquin Valley Air Pollution Control District. Both permits may require a modification to the Pacific Ethanol Stockton existing CEQA (California Environmental Quality Act) permission. Tanks may need to be permitted if they are vaulted in ground or the tank is pressurized. The Applicant anticipates obtaining all required permits by the end of 2017.

#### **LEGAL QUESTIONNAIRE**

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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,<sup>4</sup> the Applicant has paid CAEATFA an Application Fee of \$2,966.25 and will pay CAEATFA an Administrative Fee of up to \$23,730.

**RECOMMENDATION**

Staff recommends approval of Resolution No. 17-SM046 for Pacific Ethanol Stockton, LLC purchase of Qualified Property in an amount not to exceed \$5,932,500 anticipated to result in an approximate sales and use tax exclusion value of \$499,517.

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<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH PACIFIC ETHANOL STOCKTON, LLC**

July 18, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Pacific Ethanol Stockton, 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 \$5,932,500 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.