

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

*Consideration of Crimson Renewable Energy, LP's Request to Approve a Time Extension for
the Three Year Initial Term of the Title Conveyance Agreement¹*

**Crimson Renewable Energy, LP
Application No. 13-SM013**

Tuesday, November 15, 2016

Prepared By: *Ellen Hildebrand, 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

Value of Qualified Property – \$14,065,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,177,241

Amount of Time Requested:

- Two years and six weeks, until December 31, 2018, for the Term of the Title Conveyance Agreement (five years and six weeks from the date of initial CAEATFA Board approval)

SUMMARY

In November 2013, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Crimson Renewable Energy, LP (“Crimson” or the “Applicant”) for the purchase of \$14,065,000 of Qualified Property for the expansion of an existing biomass and fuel production facility that produces biodiesel (the “Project”). The Master Regulatory and Title Conveyance Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the

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 8.37%.

Board upon a finding that an extension is in the public interest and advances the purposes of the program.³

As of November 1, 2016, Crimson has conveyed \$6,884,725.06 of Qualified Property, and has purchased another \$1,230,000 of Qualified Property that has yet to be conveyed for a total of \$8,114,725 of Qualified Property (58% of the total Qualified Property approved). Crimson requested an extension of the Agreement initial term by two years and six weeks (until December 31, 2018) to accommodate unanticipated delivery and construction delays in the Project timeline, and delays in acquiring all necessary permits. The Applicant states that the project is being undertaken in a phased approach. Phase one will increase biodiesel production capacity and phase two will allow Crimson to process new types of feedstocks, further expanding the amount of biodiesel produced. Phase one and the first portion of phase two have been completed, and the Applicant is currently beginning the remainder of phase two. The Applicant anticipates utilizing the remaining Qualified Property allotted as they make payments on phase one equipment that has not yet been invoiced and as they remit payment for phase two equipment through December 2018.

Crimson is in the engineering portion of phase two, which entails the installation of a biodiesel distillation system and associated utilities at the facility. Distillation will allow Crimson to broaden the range of feedstocks it can use for biodiesel production, further reduce water use, further increase production, and increase the ability to meet evolving fuel quality standards. The Applicant represents that their expectation is to complete preliminary engineering in January 2017, which will provide data needed to prepare applications for San Joaquin Valley Air Pollution Control District permits and Kern County Department of Planning permits. They expect such permitting to take up to 7 months, with targeted completion in September 2017. Upon completion, Crimson will begin equipment procurement for long lead time items and prepare Kern County building permit applications, with completion of phase two in December 2018.

About the Applicant

Crimson Renewable Energy, LP is a limited partnership formed in 2006. Crimson is a renewable fuels producer focusing on the production of biodiesel and glycerin.

Project Description

Crimson has been in the process of expanding its existing biodiesel and glycerin production facility located in Bakersfield, California. The existing facility currently utilizes feedstock, such as cooking oil, animal fats, and waste corn oils from an ethanol production process, to produce 10 million-gallons per-year (“MGPY”) of biodiesel. The proposed Project will expand the total facility production from 10 MGPY to 22 MGPY. In phase one, the improvements increased the overall output of the existing facility to 18 MGPY, exceeding its initial goal of 17 MGPY. Phase

³ The provision of the regulations allowing CAEATFA to waive the requirement that all purchases of Qualified Property be made within three years of Application approval is in Regulation Section 10035(b)(1)(A).

two will upgrade existing facility equipment which will allow Crimson to utilize additional types of feedstock, including brown grease, algal oil, and sorghum oil from ethanol plants, to produce biodiesel and reduce the amount of water consumed in the production process. This last phase will bring the total facility production to 22 MGPY.

Agreement Term Extension Request

Crimson has requested that the initial term of the Agreement be extended from November 19, 2016 to December 31, 2018 to accommodate unanticipated delivery, permitting, and construction delays in the Project timeline in the Project timeline. This will allow the applicant to complete phase two of the Project.

Staff Evaluation

Crimson has indicated that their Project is progressing, and that the phase one production goals are projected to be exceeded. The Applicant represents that the Project scope will be completed as outlined in the original application. Delays to the purchasing timeline reflect both unanticipated delays common to large projects and the Applicant's commitment to securing all necessary permits. Based on this information, staff believes that extending the term of the Agreement will allow for continued success, and is therefore in the public interest and advances the purpose of the program.

Staff Recommendation

Staff recommends that the Board approve Crimson's request to extend the initial term of the Agreement by two years and six weeks to December 31, 2018 as it is in the public interest and advances to purpose of the program.

Attachments

Attachment A: Crimson Renewable Energy, LP's Letter Requesting Waiver (October 27, 2016)
Attachment B: Crimson Renewable Energy LP's Staff Summary at Time of Approval.

**A RESOLUTION OF THE
CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY APPROVING A TIME EXTENSION FOR
CRIMSON RENEWABLE ENERGY, LP'S INITIAL TERM FOR THE MASTER
REGULATORY AND TITLE CONVEYANCE AGREEMENT**

November 15, 2016

WHEREAS, on November 19, 2013 the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority"), a public instrumentality of the State of California, approved a Sales Tax Exclusion ("STE") in the amount of \$14,065,000 of Qualified Property for **Crimson Renewable Energy, LP** (the "Applicant"); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1));

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A));

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by two years and six weeks from November 19, 2016 to December 31, 2018;

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to December 31, 2018.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Crimson Renewable LP's Letter Requesting Waiver (October 27, 2016)



17731 Millux Road
Bakersfield, CA 93311
Tel: (661) 617-8620
Fax: (661) 617-8615

October 27, 2016

California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)
915 Capitol Mall, Room 457
Sacramento, CA 95814

RE: Extension of Purchase Requirement

Members of the CAEATFA Board,

Crimson Renewable Energy is formally requesting a time extension for the Sales and Use Tax Exclusion Program through December 31, 2018, which will give us sufficient time to complete phase 2 and conveyance of the remainder of the Qualified Property. Due to our current expiration date of November 19, 2016 we request this issue be addressed at the November 15, 2016 Board Meeting.

The extension is necessary due to delays totaling nearly a year resulting from delayed delivery from equipment suppliers, delays in air district permitting, and unanticipated construction delays. Crimson Renewable Energy has completed phase one of the project as well the new reactor portion of phase two; we are now beginning the remainder of phase two.

Through June 2016 we have conveyed \$6,884,725 in Qualified Property, and from June to the present we have another approximately \$1.230 million in Qualified Property for a total of approximately \$8.114 million \$8,113,866. This leaves a remainder of approximately \$5.951 million of the total \$14,065,000 in the original Master Regulatory Agreement. Please see Appendix-A below.

We anticipate utilizing the remaining \$5.951 million in Qualified Property allotted as we make payments on phase one equipment that have not yet been invoiced and as we remit payment for phase two equipment through December 2018. Crimson Renewable Energy is in the engineering portion of the remainder of phase two, which entails the installation of a biodiesel distillation system and associated utilities at the facility. Distillation will allow Crimson to broaden the range of feedstocks it can use for biodiesel production, further reduce water use, further increase production, and increase the ability to meet evolving fuel quality standards. Our expectation at this time is to complete preliminary engineering in January 2017, which will then give us sufficient data to begin the process of preparing applications for certain San Joaquin Valley Air Pollution Control District permits and for Kern County Department of Planning for parcel boundary adjustments. We expect such permitting to take up to 7 months. During this period, we expect to begin detailed engineering and are targeting completion of this part of the project in September 2017. Upon completion of detailed engineering, we will begin equipment procurement for long lead time items and prepare Kern County building permit applications. We are targeting completion of phase two in December 2018.

We have already exceeded the production goals for phase one. We originally committed to the California Energy Commission an annual output of 17 million gallons upon completion of phase one. We now project 18 million gallons in total production for 2016, and are confident based on the plant as it

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currently is post-phase one that we can achieve 22 million gallons annually in 2017 and beyond. That represents a nearly 30% increase in production capacity achieved versus projected.

Thank you in advance for your consideration of our extension request. Please contact me with any questions or additional needs.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Harry Simpson", is written over a faint, light blue horizontal line.

Harry Simpson
President
Office: (720) 475-5409

Attachment B: Crimson Renewable Energy, LP's Staff Summary at Time of Approval

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁴

**Crimson Renewable Energy, LP
Application No. 13-SM013**

Tuesday, November 19, 2013

Prepared By: *Alejandro Ruiz and Noah Proser*

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

Value of Qualified Property – \$14,065,000

Estimated Sales and Use Tax Exclusion Amount⁵ – \$1,177,241

Estimated Net Benefits – \$1,696,964

Application Score⁶ –

Fiscal Benefits Points:	2,326
<u>Environmental Benefits Points:</u>	<u>116</u>
Net Benefits Score:	2,441

<u>Additional Benefits Points:</u>	<u>20</u>
Total Score:	2,462

Staff Recommendation – Approval

⁴ All capitalized terms not defined in this document are defined in the Program's statute and regulations.

⁵ This amount is calculated based on the average statewide sales tax rate of 8.37%.

⁶ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Crimson Renewable Energy, LP (“Crimson” or the “Applicant”) is a limited partnership formed in 2006. Crimson focuses on the production of biodiesel and glycerin.

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

John Grier

The corporate officers of Crimson Renewable Energy, LP are:

Harry Simpson – President
Mona Walker – Controller

THE PROJECT

Crimson will expand its existing biodiesel and glycerin production facility located in Bakersfield, California (the “Project”). The existing facility currently utilizes feedstock, such as cooking oil, animal fats, and waste corn oils from an ethanol production process, to produce 10 million-gallons per-year (“MGPY”) of biodiesel. The proposed Project will expand the total facility production from 10 MGPY to 22 MGPY. The Project can be divided into two phases. In phase one, the improvements will increase the overall output of the existing facility to 17 MGPY. Phase two will upgrade existing facility equipment which will allow Crimson to utilize additional types of feedstock, including brown grease, algal oil, and sorghum oil from ethanol plants, to produce biodiesel and reduce the amount of water consumed in the production process. This last phase will bring the total facility production to 22 MGPY.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Automation Systems	150,000
Vacuum System	150,000
Distillation System	3,500,000
Storage Tanks	700,000
Transesterification Reactor Vessel	125,000
Combined Heat and Steam System	965,000
Feedstock Pre-Treatment System	950,000
Biodiesel Wash System	750,000
Crude Glycerin Neutralization System	2,800,000
New Boiler, Shop and Storage Building	200,000
Cooling Tower System	100,000

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Electrical Infrastructure, Components and Parts	1,200,000
Foundations and Structural supports	1,000,000
Pumps and related parts	300,000
Heat Exchangers	125,000
Piping, Fittings, and Valves	500,000
Instrumentation and Controls	75,000
Filter Press system	75,000
Centrifuge Parts and Components	100,000
Existing Boiler System Parts and Components	50,000
Plant Air and Chilling Systems	85,000
Methanol Recovery System	65,000
Water Treatment System	<u>100,000</u>
Total	<u>\$14,065,000</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 conveyance/reconveyance agreement a finalized project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations 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 from 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

Crimson will begin phase one of its Project in November 2013 and expects to begin phase one operations by November 2014. Phase two of the Project will commence in the fourth quarter of 2014, with construction scheduled to be completed in late 2015.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$14,065,000 and the total net benefits are valued at \$1,696,964 for the Project. The Project received a Total Score of 2,462 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 116 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (2,326 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 \$2,737,899 resulting in a Fiscal Benefits score of 2,326 points for the Project.

- B. Environmental Benefits (116 points).** The Project will result in \$136,306 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 116 points for the Project. These benefits derive from the production of biodiesel, which offsets the use of traditional fossil fuels.
- C. Additional Benefits (20 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 20 additional points.
- 1. Permanent Jobs (0 of 40 points).** The Applicant's Project will support a total of 8 permanent jobs for the expansion of its Facility. CAEATFA estimates that none 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 (0 of 20 points).** The Applicant's Project will support a total of 30 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. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 - 3. Unemployment (20 of 40 points).** The Applicant's Project is located in Kern County which has an annual average unemployment rate of 14%. This is above 110% of the annual average statewide unemployment rate of 10.6%, resulting in an Unemployment Score of 20 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Crimson will acquire an authority to construct permit and a modification to its permit to operate from the San Joaquin Air Pollution Control District in late 2013 through the fourth quarter of 2014. The Applicant anticipates receiving its building permit from Kern County in the fourth quarter of 2014.

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,⁷ the Applicant has paid CAEATFA an Application Fee of \$7,032.50 and will pay CAEATFA an Administrative Fee of \$56,260.00.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM013 for Crimson Renewable Energy LP's purchase of Qualified Property in an amount not to exceed \$14,065,000 anticipated to result in an approximate sales and use tax exclusion value of \$1,177,241.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH CRIMSON RENEWABLE ENERGY, LP**

November 19, 2013

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 conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property 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 transferring title of Project equipment with an estimated cost not to exceed \$14,065,000 over a period of 3 years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; 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 conveyance 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).

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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.

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 conveyance 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.

