

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
May 28, 2008
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN
EXEMPT FACILITY PROJECT

Prepared by Brady Hill.

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested: \$65,350,000

Project Name: Microgy, Inc.

Project Address, City, County, Zip Code:

Site A. – 12863 West Kamm Avenue, Riverdale, Fresno, 93656
Site B. – 7905 Kansas Avenue, Hanford, Kings, 93230

Project Sponsor Information:

Name: Microgy, Inc.
Address: 120 White Plains Road, 6th Floor
Tarrytown, New York 10591
Principals: Richard E. Kessel, Dennis Haines, Michael E. Thomas, Michael Newman and Michael Hvisdos
Contact: Micky Thomas
Phone: (914) 631-1435

Project User Information:

Name: Same as Project Sponsor
Address: Same as Project Sponsor
Contact: Same as Project Sponsor
Phone: Same as Project Sponsor

Project Financing Information:

Bond Counsel: Orrick, Herrington & Sutcliffe LLP
Underwriter: Ziegler Capital Markets
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: To Be Determined (See Comments on Page 3)
TEFRA Hearing: February 12, 2008 and February 26, 2008

Project Sponsor's principal activity: According to the application, the Project Sponsor's principal activity is the collection, recycling, transportation and disposal of solid waste.

First Tier Business (Yes/No): Yes

Regulatory Mandate (Yes/No): Yes, California Integrated Waste Management Act (AB 32)

Sources of Funds:

Tax-Exempt Bond Proceeds	\$65,350,000
Other Sources	<u>\$13,654,015</u>
Total Sources	\$79,004,015

Uses of Funds:

Site Preparation	\$ 90,000
Construction of New Buildings	\$43,142,785
Utilities Connection	\$ 600,000
Acquisition and Installation of New Equipment	\$13,004,160
Engineering /Architecture	\$ 4,487,128
Legal, Permits, etc.	\$ 305,000
Bond Issuance Expenses (including discount)	\$ 2,656,000
Interest During Construction	\$ 9,140,000
Interest Income During Construction	\$(1,021,058)
Debt Service Reserve	<u>\$ 6,600,000</u>
Total Uses	\$79,004,015

Description of Proposed Project: According to the application, the project will use anaerobic co-digestion. This process utilizes dairy manure solids and other agricultural- and food-based residuals. Specifically, the facilities will utilize a proven above-ground, fully-mixed, thermophilic co-digestion technology to produce renewable natural gas. According to the application, the project will produce approximately 1,353,000 MMBtu/year of renewable natural gas. PG&E will purchase the renewable natural gas under the terms of a 10-year gas purchase agreement with the Project Sponsor so as to produce electricity to help meet California’s renewable portfolio standards. PG&E will distribute the electricity to customers in its service territory. In addition, the Project Sponsor will not acquire land for the project. The facilities will be located directly on the sites of the Project Sponsor’s dairy partners: plots of land owned directly by the Project Sponsor’s dairy partners. The Project Sponsor has entered into a long-term lease agreement with the dairy partners for plots of land adequate to accommodate the construction and operation of the project components. Moreover, approximately 62,500 sq. ft. will be consumed by each footprint of the Renewable Energy Facility sites. Therefore, the total surface area used for this project will be 375,000 sq. ft. Within each layout, the area is dominantly comprised of the following equipment: 5 Anaerobic Digesters, above ground steel, 65’ diameter; 3 Liquid Substrate Tanks, 30’ diameter; 1 Solid Substrate Pit, in-ground concrete, 12,000 gallons; 2 Maintenance Buildings, each with an area of approximately 1,800 square feet; 3 Manure Slurry Vessels, each with a volume of 325,000 gallons; 2 Utility Water Tanks, above ground steel, volume of 145,000 gallons; 1 Gas Treatment and Compression Area located on a 50’ X 50’ concrete pad; 3 Hot Water Boilers; 3 Flares; 3 Honey Vacs to collect manure from the dairy free stalls for transport to the Project Sponsor’s digester facilities. In addition, according to the application, the project will directly or indirectly serve the Hanford area, the Kings County area, the Riverdale area, the Fresno County area and communities served by PG&E gas and/or electric service. Interestingly, the Project Sponsor’s thermophilic, above-ground, fully-mixed co-digestion technology was developed in Europe. According to the application, the Project Sponsor holds the exclusive license to market the technology in North America. Approximately two dozen applications of the technology have been in operation in Europe for approximately 15 years. In addition, the Project Sponsor has been operating three applications of the technology on three Wisconsin dairies for approximately three years. Finally, according to the application, the Project Sponsor has been operating an additional application of its technology in Stephenville, TX for approximately 15 months, and they have three additional projects under construction in Texas. The project included in this application represents the first application of the Project Sponsor’s technology in California.

Environmental impact:

- 1) Air Quality: According to the application, the project will produce air quality benefits by reducing greenhouse and criteria emissions. The installation and operation of the anaerobic digester and the operation of the vacuum trucks used to collect the manure for processing in the digester will reduce greenhouse gas emissions and other criteria emissions.
- 2) Water Quality: According to the application, the specific measures included in the waste discharge requirements issued by the California Regional Water Quality Control Board are designed to mitigate any potential impacts on water quality. Specifically, these measures include 1) the deployment of equipment designed to insure proper management and land application of effluent, and 2) extensive ground water monitoring.
- 3) Energy Efficiency: According to the application, all Microgy, Inc. Renewable Energy Facilities incorporate insulation that offers a minimum of 25 watts per cubic meter in order to reduce the necessary energy consumption associated with heating the anaerobic digesters and consequently producing Renewable Natural Gas.
- 4) Recycling of Commodities: According to the application, the project will recycle agricultural and food-based residuals that in many cases would otherwise be disposed of through land application or at landfill sites.
- 5) Safety and Compliance: According to the application, the Project Sponsor is in compliance with all applicable state and federal environmental regulations regarding solid waste disposal.
- 6) Consumer Costs Savings and Efficiencies: According to the application, the project will produce approximately 1,353,000 MMBtus/Year of renewable natural gas, which is enough natural gas to fuel approximately 28,000 average California residences. The renewable natural gas will be sold to PG&E under a 10-year gas purchase agreement between the Project Sponsor and PG&E. PG&E will use the renewable natural gas to produce renewable electricity to meet the requirements of California's renewable portfolio standard.

Local government support: Letters of support have been received from Phil Larson, Supervisor, of District One of the County of Fresno and George Radanovich, Member of Congress, of the 19th District of the U.S. House of Representatives.

Legal Questionnaire: No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

COMMENTS: Ziegler Capital Markets is the bond underwriter for this proposed Microgy, Inc. tax-exempt bond transaction. To be sure, Ziegler Capital Markets is an acceptable source of financing based on the following "conditional" requirements:

- 1) **90-day issuance expiration date**
- 2) **Prior to the issuance of bonds, the Applicant agrees to notify CDLAC of the identified Accredited Investor as defined by CDLAC Procedures.**
- 3) **A STO Policy Review was conducted by the California Pollution Control Authority (CPCFA) and presented to the CPCFA board on April 23, 2008 in support of the proposed technology. (see attached summary of findings memo)**

Recommendation: Staff recommends that the Committee approve \$65,350,000 in tax-exempt bond allocation.