

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion¹(STE)

**BIOFUELS POINT LOMA, LLC
Application No. 10-SM026**

Wednesday, December 15, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – BioFuels Point Loma, LLC

Location – San Diego, San Diego County

Industry – Biogas

Project – Capture and clean biomethane gas from an existing wastewater treatment digester gas collection system

Value of Qualified Property – \$6,236,024

Estimated Sales and Use Tax Exclusion Amount² – \$567,478

Estimated Net Benefits – \$61,939

Application Score –

Fiscal Benefits Points:	897
<u>Environmental Benefits Points:</u>	<u>212</u>
Net Benefits Score:	1,109

<u>Additional Benefits Points:</u>	<u>0</u>
Total Score:	1, 109

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

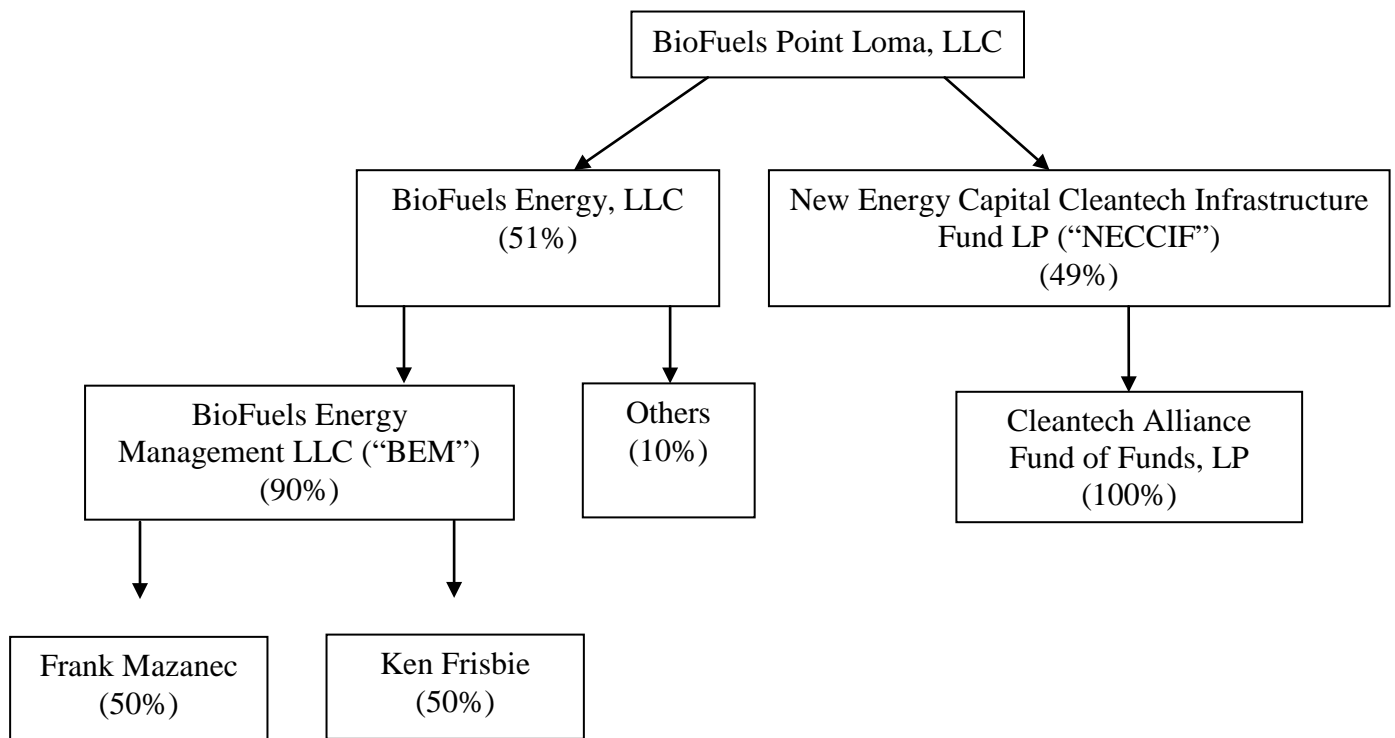
² This amount is calculated based on the average statewide sales tax rate of 9.1%.

THE APPLICANT

BioFuels Point Loma, LLC (“BioFuels” or “Applicant”), based in Encinitas, California, is a privately owned limited liability company focused on renewable energy. BioFuels will design and assemble skid mounted purification technology to capture and clean the wastewater treatment digester gas (biomethane) within the property boundary of the City of San Diego’s Point Loma Wastewater Treatment Plant (“PLWTP”).

BioFuels will be capturing and producing renewable biogas at the PLWTP.

The ownership of BioFuels Point Loma, LLC is as follows:



THE PROJECT

The land is leased from the City of San Diego Metropolitan Wastewater Department (“MWW”). According to the Applicant, the Facility capacity will be 1.6 million standard cubic feet of biogas per day and will utilize fuel cell technology to generate clean electrical energy from the flared gas to meet the parasitic energy requirements of the processing equipment. The end product will be approximately 288,000 mmBtu per year of biogas.

The Qualified Property will be used to capture and clean biomethane gas that is currently being flared. The biomethane gas feed will come from PLWTP’s existing digester gas collection system. A BioFuels blower system will take gas from the collection system and feed an initial

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filter bed designed to remove sulfur. The gas will then pass to a two-stage compressor, which in turn will feed a series of integrated refrigeration, drying and filter beds designed to remove the non-methane organic compounds and other impurities from the biomethane gas. The gas will then be heated and passed through a series of membrane systems for bulk CO2 removal.

BioFuels will transform the resulting gas into a biogas product that can be injected into the San Diego Gas & Electric natural gas distribution pipeline system.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Biogas Membrane System	\$1,150,000
Discharge Air Cooler & Moisture Separation	446,000
Compression Sound Enclosure	121,800
Hydrogen Sulfide Removal	189,800
Mobile Office Trailer	25,000
Pad Mounted Transformer	30,000
MCC	150,000
Switchgear	75,000
Batteries and Charger Interties	10,000
Lube Oil Storage	10,000
Oil Water Separator	15,000
Valves and Fittings	75,000
Instrumentation	47,500
Inlet Sump	10,000
Water Pretreatment	75,000
Gas Infrared Spectrophotometer	30,000
Compressed Air Equipment	11,000
Power and Control Room	145,000
Condensate Pump	15,000
Electrical Supplies	422,500
Flare	135,000
Piping (Biogas, product, off-gas, water, sewer, flare pilot, condensate)	345,179
Below Grade Piping Upgrade	38,312
MSA Equipment	711,985
Control Hardware/Upgrade	149,600
Concrete, Rebar, Formwork	280,824
Fuel Cell for Gas Conditioning Parasitic Load	<u>1,521,524</u>
Total	<u>\$6,236,024</u>

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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

BioFuels is currently undergoing a design review of the Project and expects to have the review completed in December 2010. Site preparation work and rough grading will begin in December 2010 and be completed by April 2011. Some foundation work will also begin in December 2010 with anticipated completion in June 2011. The Applicant anticipates that major mechanical and electrical equipment will be installed by September 2011, with the start-up and preliminary testing completed by early October 2011. The first biogas is expected to be produced in Fall 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$6,236,024 and the total net benefits are valued at \$61,939 for the Project. The Project received a Total Score of 1,109, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 212, which exceeds the 100 point threshold.

- A. Fiscal Benefits (897 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 \$509,292 resulting in a Fiscal Benefits score of 897 points for the Project.

- B. Environmental Benefits (212 points).** The Project results in \$120,126 total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 212 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane. BioFuels provided additional documentation in which it asserts the Project will result in additional environmental benefits due to avoided pollutants since the methane will not be flared. However, CAEATFA staff has not evaluated this documentation further, as the Applicant has already obtained the minimum point threshold necessary to qualify.

C. **Additional Benefits (0 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 0 additional points.

1. **Permanent Jobs (0 of 40 points)**. The Applicant’s Project will support a total of 5 jobs at its Facility. CAEATFA estimates that approximately 1 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. However, because the marginal increase is not significant, the Applicant received 0 points for this category.

2. **Construction Jobs (0 of 20 points)**. The Applicant’s Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately 2 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. However, because the marginal increase is not significant, the Applicant received 0 points for this category.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

BioFuels has obtained its air permit from the San Diego Air Pollution Control District, including the authority to construct and certificates of exemption from the CEQA requirements. The Applicant also received approval from the California Coastal Commission to proceed with the gas processing Facility.

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 \$3,118 and will pay CAEATFA an Administrative Fee of up to \$24,944.10.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM026 for BioFuels Point Loma, LLC’s purchase of Qualified Property in an amount not to exceed \$6,236,024 anticipated to result in an approximate sales and use tax exclusion value of \$567,478.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH BIOFUELS POINT LOMA, LLC**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **BioFuels Point Loma, LLC** (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 \$6,236,024 over a period of three 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(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

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

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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.