

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**JOHN GALT BIOGAS INC.
Application No. 12-SM006**

Tuesday, May 15, 2012

Prepared By: *Cheryl Ide*

SUMMARY

Applicant –John Galt Biogas Inc.

Location – Galt (Sacramento County)

Industry – Dairy

Project – New Biogas Production Facility for an Existing Dairy

Value of Qualified Property – \$1,025,769

Estimated Sales and Use Tax Exclusion Amount² – \$83,087

Estimated Net Benefits - \$158,777

Application Score³ -

Fiscal Benefits Points:	1,552
<u>Environmental Benefits Points:</u>	<u>1,359</u>
Net Benefits Score:	2,911

Additional Benefits Points:

Total Score: ~~2,931~~²⁰¹⁰2,921

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 upon the average statewide sales and use tax rate of 8.1%.

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

THE APPLICANT

John Galt Biogas Inc. (“JGB” or “Applicant”) was incorporated in 2010 in Washington and is headquartered in Redding, California. JGB’s Galt Facility will capture and produce methane rich biogas that will be converted into renewable electricity and sold to the grid.

JGB is 100% owned by Maas Energy Works Inc. (“Parent Company”)

The major shareholders (10.0% or greater) of the Parent Company are:

Maas Energy Works Inc.
Michael Reed

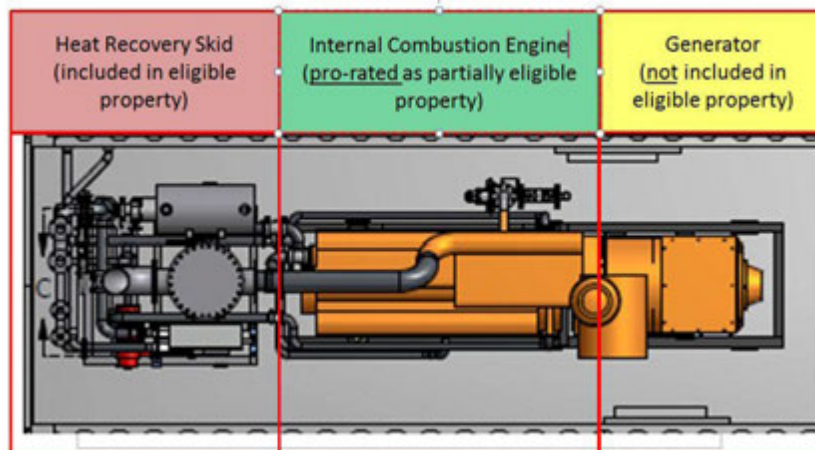
The corporate officers of the Parent Company are:

Daryl Maas, Chief Executive Officer and President

THE PROJECT

JGB’s Project will use an anaerobic manure digester combined with heat and power Genset Engine that is paired with an electrical generator to produce biogas fuel. The digester is a covered lagoon design which is an air-tight cover over an existing manure pond at an existing 1,200 cow dairy located in Galt, California.

The raw manure from the dairy will go into the new covered lagoon, where it will break down and produces biogas. All of the biogas that is produced in the digester will be routed to an equipment container on the project site. There, the biogas will be burned in an internal combustion engine that will produce two outputs. The mechanical energy output from the engine is delivered to a generator where it is converted into electricity for sale to the grid. The thermal energy output from the engine is delivered to the heat recovery skid, where it is converted into hot water for use in heating the covered lagoon digester. The Applicant represents that heating the digester is essential to biogas production since the anaerobic bacteria in the covered lagoon produce greater volumes of biogas when they operate at higher temperatures, thus making the whole process more efficient and self-sustaining.



Combined Heat and Power Equipment

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

10 Horsepower Slurry Pump	\$10,000
4 Horsepower Slurry Pump	5,000
15 Horsepower Transfer Pump	12,000
Internal Combustion Engine And Supporting System *	251,177
Iron Sponge*	38,478
Selective Catalytic Reduction System*	53,348
Slurry Heater	20,000
Digester Package	493,675
Heat Recovery System	81,723
6" PVC Ball Valve	800
Bracings	150
6" PVC Pipe	2,888
6" PVC 45 Angle	450
Concrete	5,440
Pipe And Fittings	300
Pump Tie Bollards	4,000
6" Flex Hose	1,600
Sensor Probe	250
Crushed Rock Base	800
Computer	1,500
Pipe Boots	1,000
Urea Tank	3,000
Coolant*	1,600
Oil*	5,120
Electrical Work	31,470
	<u>\$1,025,769</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.

*The following line items have been prorated by 64% of their total cost due to a portion of their function being eligible Qualified Property under the Program, and the remaining 36% is used to generate electricity is ineligible under the Program.

TIMELINE

| **JCB-JGB** has submitted applications for all permits with construction scheduled to begin in June 2012. The Applicant anticipates that the Qualified Property will be placed in service by October 2012.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$1,025,769 and the total net benefits are valued at an estimated \$158,777 for the Project. The Project received a Total Score of 2,~~931~~921 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 1,359 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (1,552 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 an estimated \$128,931 resulting in a Fiscal Benefits Score of 1,552 points for the Project.

- B. **Environmental Benefits (1,359 points)**. The Project will result in an estimated \$112,933 of total pollution benefits over the lifetime of the Qualified Property resulting in an Environmental Benefits Score of 1,359 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil fuels and reduces the amount of methane released in the atmosphere.

- C. **Additional Benefits (~~20-10~~ of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received zero additional points.
 - 1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of one permanent job at its Facility. CAEATFA estimates that this job is not 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 (~~20-10~~ of 20 points)**. The Applicant's Project will support a total of ~~18-5~~ construction jobs at its Facility. CAEATFA estimates that approximately ~~two~~one job will be attributable to a marginal increase in jobs created due to the approved STE.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The JGB Galt Facility applied for an Authority to Construct permit from the Sacramento Air Quality Management District and a Building Permit from Sacramento County. To sell power to the grid, JGB has submitted applications to Sacramento Municipal Utility District for the Interconnection Agreement and the Power Purchase Agreement. JGB anticipates having all permits and agreements by the second quarter of 2012 with equipment placed in service by October 2012.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$554 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 12-SM006 for John Galt Biogas Inc.'s purchase of Qualified Property in an amount not to exceed \$1,025,769 anticipated to result in an approximate sales and use tax exclusion value of \$83,087.

⁴ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH JOHN GALT BIOGAS INC.**

May 15, 2012

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **John Galt Biogas Inc.** (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 \$1,025,769 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).

Agenda Item 4.A.1
Resolution No. 12-SM006
Application No. 12-SM006

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.