

CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY

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

NORTH STAR BIOFUELS LLC
Application No. 12-SM008

Tuesday, June 19, 2012

Prepared By: *Heather Williams*

SUMMARY

Applicant – North Star Biofuels LLC

Location – Watsonville (Santa Cruz County)

Industry – Biodiesel Production

Project – New Facility for the Production of Biodiesel Fuel

Value of Qualified Property – \$4,115,500

Estimated Sales and Use Tax Exclusion Amount² – \$333,767

Estimated Net Benefits - \$2,367,976

Application Score³ -

Fiscal Benefits Points:	7,850
<u>Environmental Benefits Points:</u>	<u>254</u>
Net Benefits Score:	8,103
<u>Additional Benefits Points:</u>	<u>0</u>
Total Score:	8,103

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 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

North Star Biofuels LLC (“North Star” or “Applicant”) was incorporated on February 1, 2012 in Delaware and is headquartered in Emeryville, California. North Star was formed as a 50/50 joint venture between R Power Biofuels LLC (“R Power”) and Agri Beef Company (“Agri Beef”). The founders of R power have background in founding and growing energy and resource companies over the past 25 years. Agri Beef is a private owned beef supplier since its founding 43 years ago. North Star will use R Power’s technology to produce biofuels using feedstock Agri Beef aggregates from its meat processing operations.

The ownership structure of North Star is described in Attachment A.

THE PROJECT

North Star is beginning construction of a production facility that will use R Power’s technology to produce ultra-pure biodiesel from animal tallow, vegetable oils, restaurant grease, and other low-carbon feedstocks. The patent-pending R Power production process uses the traditional raw materials used in the biodiesel industry (methanol and a catalyst) to mix with the feedstock to make fuel. The Applicant represents its unique steps will produce ultra-pure biofuels at high-production rates and competitive prices with exceptional purity, clarity and cold-weather performance characteristics. After four years of privately-funded research and development, R Power developed a continuous flow production technology that significantly reduces production time and increases biodiesel quality and reliability. In addition, the Applicant represents that the high throughput and automation of the system also provide for lower capital and operating costs than traditional systems, adding a degree of financial reliability beyond its competitors.

Production capacity of the plant will be approximately 40,000 gallons per day, which, according to North Star, will almost double the estimated annual biodiesel production output from California in 2011. The plant will generally be operated 24 hours a day, 7 days a week.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Heating and Cooling Systems	\$ 430,000
Main Process Unit	753,000
Glycerin Recovery System	460,000
Distillation System	782,500
Storage Tanks	1,035,000
Automation & Wiring for Plant	300,000
Loading and Unloading Equipment	150,000
Laboratory Counters and Equipment	150,000
Pumps, Pipes, Water Removal and Nitrogen Generator	55,000
Total	<u>\$4,115,500</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

Renovation and construction of the facilities is expected to continue through September 2012. The first fuel from the new plant is anticipated to be made in October 2012 with commercial fuel production coming online in October or November 2012.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$4,115,500 and the total net benefits are valued at an estimated \$2,367,976 for the Project. The Project received a Total Score of 8,103 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 254 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (7,850 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 \$2,616,810 resulting in a Fiscal Benefits Score of 7,850 points for the Project.

- B. **Environmental Benefits (254 points)**. The Project will result in an estimated \$84,522 of total pollution benefits over the lifetime of the Qualified Property resulting in an Environmental Benefits Score of 254 points for the Project. These benefits derive from the manufacturing of biodiesel fuel, which offsets the need for fossil fuel derived sources of energy.

- 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 zero additional points.
 1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of 5 permanent jobs at 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 25 construction jobs at its Facility. CAEATFA estimates that approximately one job 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.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

North Star needs an air permit from the Monterey Bay Unified Air Quality Management District and approval of a Spill Prevention Control and Countermeasure Plan. North Star expects to receive both by end of July, 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 \$2,057.75 and will pay CAEATFA an Administrative Fee up to \$16,462.

RECOMMENDATION

Staff recommends approval of Resolution No. 12-SM008 for North Star Biofuels LLC's purchase of Qualified Property in an amount not to exceed \$4,115,500 anticipated to result in an approximate sales and use tax exclusion value of \$333,767.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH NORTH STAR BIOFUELS LLC.**

June 19, 2012

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **North Star Biofuels 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 \$4,115,500 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.B.1
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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.

ATTACHMENT A

The ownership structure, including major shareholders (10.0% or greater) of North Star Biofuels LLC is as follows:

