

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

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

**North State Rendering Co. Inc.
Application No. 13-SM009**

August 20, 2013

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – North State Rendering Co. Inc.

Location – Oroville, Butte County

Industry – Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility

Value of Qualified Property – \$7,355,324

Estimated Sales and Use Tax Exclusion Amount² – \$615,641

Estimated Net Benefits – \$112,351

Application Score³ –

Fiscal Benefits Points:	687
<u>Environmental Benefits Points:</u>	<u>496</u>
Net Benefits Score:	1,182
<u>Additional Benefits Points:</u>	<u>7</u>
Total Score:	1,190

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 8.37%.

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

THE APPLICANT

North State Rendering Co. Inc., (“North State” or “Applicant”) is a third-generation, family-owned business located in Oroville, California that has been in operation since 1975. North State provides a critical service to Northern California dairies and other livestock facilities by disposing of problematic waste: dead cows from dairies, animal viscera from slaughterhouses, road kill, and horses. The Applicant recycles carcasses into high-protein bone meal, yellow grease, and hides. Bone meal and yellow grease are sold in the commodities markets and hides are sold to leather producers.

The primary owners (10.0% or greater) of North State are:

Chris Ottone (50%)
Pat Ottone (50%)

The corporate officers of North State are:

Chris Ottone – President
Pat Ottone – Vice President

THE PROJECT

North State is constructing an anaerobic digestion facility that processes animal carcasses, grease trap waste, food waste, and other organic wastes into biogas (“Project”). The Project will process approximately 40,000 tons of biomass per year. The biogas will be used to generate heat and electricity, the majority of which will be used onsite for the anaerobic digesters and the existing rendering facility, while the excess electricity will be sold to Pacific Gas and Electric (“PG&E”). The biogas will also be used to produce approximately 100,000 diesel-gallon equivalent units of bio-CNG vehicle fuel per year for the Applicant’s fleet of trucks that collect the waste. Lastly, the biogas will also fuel a boiler to produce heat necessary for the hygienic disposal of digester effluent in a cooker.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas and it also includes a portion of the 710 kW power generation equipment used to power the facility. The Project’s equipment will consume 70 percent of the total amount of energy generated, therefore 70 percent of the power generation equipment is eligible for an STE under SB 71. However, 30 percent of the power generation equipment is not included in this Application as this represents the proportion of electricity that will be sold to PG&E.

The Project will benefit from the California Energy Commission’s Alternative and Renewable Fuel and Vehicle Technology Program, which will provide a grant of \$5,456,150.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Anaerobic Digester Tank	\$1,037,000
Hydrolysis Tanks	872,000
Substrate and Piping	272,000
Ramp, Pits, Hopper, Macerator, and Filter	384,000
Monitoring and Analysis Equipment	719,000
Pumps	266,400
Control Building	42,000
Concrete, Electrical System, and Piping	482,000
Solids Separator	92,000
Tank Roofing System	329,000
Flare	43,000
Combined Heat and Power System	700,000
Biogas Boiler	75,000
CNG Conditioning Equipment	1,042,000
Hydrogen Sulfide Stripping System	200,000
Cooker	799,924
Total	<u>\$7,355,324</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

The Applicant began construction in May 2012 and is expected to complete construction by November 2013. North State represents that the facility is expected to be tested and commissioned from November through December 2013 and placed into service in January 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,355,324 and the total net benefits are valued at \$112,351 for the Project. The Project received a Total Score of 1,190

points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 496 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (687 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 \$422,917 resulting in a Fiscal Benefits score of 687 points for the Project.
- B. Environmental Benefits (496 points).** The Project will result in \$305,075 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 496 points for the Project. These benefits derive from fossil fuel use displaced by the production of biogas and the avoided GHG emissions that would result from the decomposition of the organic materials.
- C. Additional Benefits (7 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received seven additional points.

 - 1. Permanent Jobs (0 of 40 points).** The Applicant’s Project will support a total of six permanent jobs at its Facility. CAEATFA estimates that approximately one 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 six construction jobs at its Facility. CAEATFA estimates that approximately one 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 (7 of 40 points).** The Applicant’s Project is located in Butte County which has an annual average unemployment rate of 12%. This is above 110% of the annual average statewide unemployment rate of 10.6%, resulting in an Unemployment Score of seven points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

North State has secured approval for most permits, but still needs to obtain two permits: (1) a Butte County Building permit for underground gas and electrical piping and conduit, which is expected by August 2013; and (2) approval from the Butte County Air Quality Management District to operate the combined heat and power unit, which is expected to be approved in December 2013.

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 \$3,969 and will pay CAEATFA an Administrative Fee of \$29,421.30.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM009 for North State Rendering Co. Inc.'s purchase of Qualified Property in an amount not to exceed \$7,355,324 anticipated to result in an approximate sales and use tax exclusion value of \$615,641.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH THE NORTH STATE RENDERING CO. INC.**

August 20, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **North State Rendering Co. 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 \$7,355,324 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(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).

Agenda Item – 4.A.1.
Resolution No. 13-SM009
Application No. 13-SM009

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.