

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

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

**Blue Line Transfer, Inc.
Application No. 13-SM011**

Tuesday, October 15, 2013

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Blue Line Transfer, Inc.

Location – South San Francisco, San Mateo County

Industry – Biomass processing and fuel production

Project – New biomass processing and fuel production facility

Value of Qualified Property – \$4,976,469

Estimated Sales and Use Tax Exclusion Amount² – \$416,530

Estimated Net Benefits – \$51,291

Application Score³ –

Fiscal Benefits Points:	1,018
<u>Environmental Benefits Points:</u>	<u>106</u>
Net Benefits Score:	1,123
<u>Additional Benefits Points:</u>	<u>10</u>
Total Score:	1,133

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%.

THE APPLICANT

Blue Line Transfer, Inc. is a waste collecting and processing company based in South San Francisco, California. The company was founded on July 16, 1970.

The major shareholders (10.0% or greater) of Blue Line Transfer, Inc., are:

Michael Achiro
Edward Bortoli
Douglas Button
Paul Formosa
Ron Fornesi
Vincent Fornesi
Jerry Nabhan
John Rossi, Jr.

The corporate officers of Blue Line Transfer, Inc., are:

Douglas Button – President
Paul Formosa – Treasurer
Ron Fornesi – Secretary

THE PROJECT

The Applicant is constructing a new facility that will use a batch anaerobic digestion system to produce and capture methane from the controlled composting of organic materials (the “Project”). The methane produced will be converted to compressed natural gas (CNG), and will subsequently be used as fuel for the Applicant’s waste collection fleet. Organic materials for this project will include source separated organics, biosolids, materials recovery facility (MRF) residuals, yard waste, and other waste materials diverted from landfills. The Project will be located next to Blue Line Transfer’s existing MRF in South San Francisco. The facility will be based in South San Francisco, California.

Additionally, the Project has received a \$2,590,929 grant from the California Energy Commission’s Alternative and Renewable Fuel and Vehicle Technology Program.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Subgrade excavation, percolate tanks, and skids	\$ 236,973
SMARTFERM dry anaerobic digesters	2,101,387
Piping and ducts	90,987
Enclosed aeration bay for feedstock storage	122,126
Biogas system	1,881,766
Tail gas heat recovery system	341,000
Apron and weather canopy	107,190
Mechanical and electrical infrastructure	95,040
Total	<u>\$4,976,469</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 anticipates commencing project construction in October 2013 and expects to complete construction by the first quarter of 2014. The Applicant expects facility operations to start immediately thereafter.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$4,976,469 and the total net benefits are valued at \$51,291 for the Project. The Project received a Total Score of 1,133 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 106 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (1,018 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 \$423,841 resulting in a Fiscal Benefits score of 1,018 points for the Project.

- B. **Environmental Benefits (106 points)**. The Project will result in \$43,980 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 106 points for the Project. These benefits derive from the production of biogas in the form of compressed natural gas, which offsets the need for use of fossil fuel derived sources of energy.

- C. **Additional Benefits (10 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 10 additional points.
 - 1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of two 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 (10 of 20 points)**. The Applicant's Project will support a total of 18 construction jobs at its Facility. CAEATFA estimates that approximately three of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 10 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant is awaiting approval of the grading and building permits from the City of South San Francisco. The Applicant is also awaiting the approval of the Authority to Construct Permit from the Bay Area Air Quality Management District. It is anticipated that these permits will be received near the date of Board consideration.

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 \$2,488.23 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM011 for Blue Line Transfer, Inc.'s purchase of Qualified Property in an amount not to exceed \$4,976,469 anticipated to result in an approximate sales and use tax exclusion value of \$416,530.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH BLUE LINE TRANSFER, INC.**

October 15, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Blue Line Transfer, 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 \$4,976,469 over a period of three (3) 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.B.1
Resolution No. 13-SM011
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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.