

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

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

**Crimson Renewable Energy, LP
Application No. 13-SM013**

Tuesday, November 19, 2013

Prepared By: *Alejandro Ruiz and Noah Proser*

SUMMARY

Applicant – Crimson Renewable Energy, LP

Location – Bakersfield, Kern County

Industry – Biomass Processing and Fuel Production

Project – Expansion of an Existing Biomass and Fuel Production Facility

Value of Qualified Property – \$14,065,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,177,241

Estimated Net Benefits – \$1,696,964

Application Score³ –

Fiscal Benefits Points:	2,326
<u>Environmental Benefits Points:</u>	<u>116</u>
Net Benefits Score:	2,441
<u>Additional Benefits Points:</u>	<u>20</u>
Total Score:	2,462

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

Crimson Renewable Energy, LP (“Crimson” or the “Applicant”) is a limited partnership formed in 2006. Crimson focuses on the production of biodiesel and glycerin.

The major owners (10.0% or greater) of Crimson Renewable Energy, LP are:

John Grier

The corporate officers of Crimson Renewable Energy, LP are:

Harry Simpson – President
Mona Walker – Controller

THE PROJECT

Crimson will expand its existing biodiesel and glycerin production facility located in Bakersfield, California (the “Project”). The existing facility currently utilizes feedstock, such as cooking oil, animal fats, and waste corn oils from an ethanol production process, to produce 10 million-gallons per-year (“MGPY”) of biodiesel. The proposed Project will expand the total facility production from 10 MGPY to 22 MGPY. The Project can be divided into two phases. In phase one, the improvements will increase the overall output of the existing facility to 17 MGPY. Phase two will upgrade existing facility equipment which will allow Crimson to utilize additional types of feedstock, including brown grease, algal oil, and sorghum oil from ethanol plants, to produce biodiesel and reduce the amount of water consumed in the production process. This last phase will bring the total facility production to 22 MGPY.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Automation Systems	150,000
Vacuum System	150,000
Distillation System	3,500,000
Storage Tanks	700,000
Transesterification Reactor Vessel	125,000
Combined Heat and Steam System	965,000
Feedstock Pre-Treatment System	950,000
Biodiesel Wash System	750,000
Crude Glycerin Neutralization System	2,800,000
New Boiler, Shop and Storage Building	200,000
Cooling Tower System	100,000
Electrical Infrastructure, Components and Parts	1,200,000
Foundations and Structural supports	1,000,000
Pumps and related parts	300,000

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Heat Exchangers	125,000
Piping, Fittings, and Valves	500,000
Instrumentation and Controls	75,000
Filter Press system	75,000
Centrifuge Parts and Components	100,000
Existing Boiler System Parts and Components	50,000
Plant Air and Chilling Systems	85,000
Methanol Recovery System	65,000
Water Treatment System	100,000
Total	<u>\$14,065,000</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

Crimson will begin phase one of its Project in November 2013 and expects to begin phase one operations by November 2014. Phase two of the Project will commence in the fourth quarter of 2014, with construction scheduled to be completed in late 2015.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$14,065,000 and the total net benefits are valued at \$1,696,964 for the Project. The Project received a Total Score of 2,462 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 116 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (2,326 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 \$2,737,899 resulting in a Fiscal Benefits score of 2,326 points for the Project.
- B. Environmental Benefits (116 points).** The Project will result in \$136,306 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits

Score of 116 points for the Project. These benefits derive from the production of biodiesel, which offsets the use of traditional fossil fuels.

- C. **Additional Benefits (20 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 20 additional points.
1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of 8 permanent jobs for the expansion of 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 30 construction jobs at its Facility. CAEATFA estimates that approximately two 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 (20 of 40 points)**. The Applicant's Project is located in Kern County which has an annual average unemployment rate of 14%. This is above 110% of the annual average statewide unemployment rate of 10.6%, resulting in an Unemployment Score of 20 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Crimson will acquire an authority to construct permit and a modification to its permit to operate from the San Joaquin Air Pollution Control District in late 2013 through the fourth quarter of 2014. The Applicant anticipates receiving its building permit from Kern County in the fourth quarter of 2014.

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 \$7,032.50 and will pay CAEATFA an Administrative Fee of \$56,260.00.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM013 for Crimson Renewable Energy LP's purchase of Qualified Property in an amount not to exceed \$14,065,000 anticipated to result in an approximate sales and use tax exclusion value of \$1,177,241.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH CRIMSON RENEWABLE ENERGY, LP**

November 19, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Crimson Renewable Energy, LP** (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 \$14,065,000 over a period of 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).

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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.