

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

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

**California Ethanol and Power, Imperial Valley 1, LLC
Application No. 13-SM012**

Tuesday, December 17, 2013

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – California Ethanol and Power, Imperial Valley 1, LLC

Location – Brawley, Imperial County

Industry – Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility

Value of Qualified Property – \$444,811,275

Estimated Sales and Use Tax Exclusion Amount² – \$37,230,704

Application Score³ –

Fiscal Benefits Points:	1,379
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	1,489

<u>Additional Benefits Points:</u>	<u>100</u>
Total Score:	1,589

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

California Ethanol and Power, Imperial Valley 1, LLC (“CE&P” or the “Applicant”) is a wholly owned subsidiary of California Ethanol and Power, LLC, which was incorporated in 2007. CE&P was created as a separate limited liability company to be the borrower and operator for the proposed project.

The major shareholders (10.0% or greater) of California Ethanol and Power, LLC are:

David R. Rubenstein
Jeffrey F. Lee

The corporate officers of California Ethanol and Power, LLC are:

David R. Rubenstein – CEO, President and Co-Founder/Management Committee Member
Ralph Dehrmann, Executive Vice President, Technologies and Operations
Larry A. Gilbert, Executive Vice President, Agricultural Operations
Steven Passantino, Vice President, Finance
Camille E. Soriano, Vice President, Marketing and Public/Investor Relations
Jeffrey F. Lee, Manager, Project Development/General Counsel and Co-Founder/Management Committee Member

THE PROJECT

The Applicant plans to construct a facility that converts sugarcane and sweet sorghum (“feedstock”) into low-carbon, fuel-grade ethanol, bio-methane and electricity (the “Project”). CE&P will pay Imperial Valley farmers a yearly land rent in order to secure a steady supply of feedstock for the Project. The Applicant has executed a long-term contract for the sale of the ethanol, bio-methane and electricity to the Royal Dutch Shell Company. The Project will produce 66 million gallons of ethanol fuel, 930 million cubic feet of bio-methane, and 50 MW of electricity annually. The Project will utilize industrial biotechnology through the yeast-based fermentation of sugarcane juice to form ethanol and carbon dioxide.

The Applicant represents that its Project will be more advanced than other ethanol production facilities due to its efficient use of resources. The Project will utilize the vinasse—the liquid residue left in the distillation of ethanol from sugarcane derivatives—in an advanced anaerobic digester to produce bio-methane gas to be placed in the local pipeline. Vinasse digestion is not a common practice among ethanol producers as it is normally simply used as fertilizer. The Applicant will also use bagasse, the leftover biomass, to generate electricity for the Project, which will result in a more sustainable production process by reducing greenhouse gas emissions

compared to most ethanol facilities around the country that utilize natural gas for power. Also, the Applicant represents that it will utilize computerized modeling of all processes within the plant on a continuous basis to control processes and predict the production outcomes over time, ensuring predictable outcomes in terms of product quantity, quality, and production cost.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Sugarcane reception, preparation and juice extraction	\$59,445,660
Sugarcane juice treatment	565,665
Sugarcane juice evaporation	4,180,795
Discontinuous fermentation	15,900,137
Distillation	25,060,585
Dehydration molecular sieve	19,510,864
Stillage concentration	9,019,341
Steam and power generation	46,121,162
Water and condensate system	14,208,828
Product and by-products storage and loading	10,500,307
Waste water anaerobic treatment	93,716,754
Miscellaneous equipment, components and materials	131,715,698
Auxiliary service	<u>14,865,480</u>
Total	<u>\$ 444,811,275</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. Items are rounded to the nearest dollar, and may not add up to the listed total. At the termination of the master agreement a finalized project equipment list will be prepared detailing the value of the Project equipment and the estimated tax benefit realized. Variations from the costs shown in the Application and in this report may occur prior to or following the execution of the master agreement due to changes in costs of certain components of the Project from original estimates, 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 has secured an option to purchase a parcel of land in the Imperial Valley. Financing is expected to close and provide funding by March 31, 2014. Construction on the Project is expected to begin in the second quarter of 2014 and will proceed over a period of 24 months.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$444,811,275. The Project received a Total Score of 1,589 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 110 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,379 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 \$51,344,220 resulting in a Fiscal Benefits score of 1,379 points for the Project.
- B. Environmental Benefits (110 points).** The Project will result in an Environmental Benefits Score of 110. The Applicant received points in the following categories:
- 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant has an environmental sustainability plan that will track water, energy, solid and hazardous waste generation and air pollution at the facility.
 - 2. Energy Consumption (30 of 30 points).** The Applicant’s manufacturing process will result in at least a 30% reduction in energy consumption relative to the industry standard manufacturing process.
 - 3. Water Use (0 of 30 points).** The Applicant’s manufacturing process will result in a 0% reduction in water use relative to the industry standard manufacturing process.
 - 4. Solid Waste (0 of 30 points).** The Applicant’s manufacturing process will result in a 0% reduction in solid waste produced relative to the industry standard manufacturing process.
 - 5. Hazardous Waste (30 of 30 points).** The Applicant’s manufacturing process will result in a 100% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 - 6. Air Pollutants (30 of 30 points).** The Applicant’s manufacturing process will result in an anticipated 44% reduction in air pollutants produced relative to the industry standard manufacturing process.
 - 7. Other Pollutants (0 of 30 points).** The Applicant’s manufacturing process will result in 0% reduction in other pollutants produced relative to the industry standard manufacturing process.
- C. Additional Benefits (100 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received 100 additional points.
- 1. Unemployment (50 of 50 points).** The Applicant’s Project is located in Imperial County which has an annual average unemployment rate of 29%. This is above

110% of the annual average statewide unemployment rate of 10.6%, resulting in an Unemployment Score of 50 points for this Project.

2. **Permanent Jobs (20 of 75 points)**. The Applicant's Project will support a total of 250 permanent jobs at its Facility. CAEATFA estimates that approximately 32 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 20 points for the Project.
3. **Construction Jobs (30 of 75 points)**. The Applicant's Project will support a total of 400 construction jobs at its Facility. CAEATFA estimates that approximately 52 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 30 points for the Project.
4. **Research and Development Facilities (0 of 25 points)**. The Applicant does not have a research and development facility related to the advanced manufacturing process or product located in California.
5. **Workforce Partnerships (0 of 25 points)**. The Applicant does not have a workforce partnership with an educational institution.
6. **Industry Cluster (0 of 40 points)**. The industry associated with this Application has not been identified as an industry cluster.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has acquired its Conditional Use Permit from Imperial County, as well as its Authority to Construct Permit from the Imperial County Air Pollution Control District. Before the Project can begin operations, the Applicant will be required to submit a National Pollutant Discharge Elimination System application and a Report of Waste Discharge to the Colorado River Basin Regional Water Quality Control Board. The application for these permits will be submitted at the end of 2013 and are expected to be approved by the first part of 2015, several months before commencing operations.

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 \$10,000 and will pay CAEATFA an Administrative Fee of \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 13-SM012 for California Ethanol and Power, Imperial Valley 1, LLC's purchase of Qualified Property in an amount not to exceed \$444,811,275 anticipated to result in an approximate sales and use tax exclusion value of \$37,230,704.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CALIFORNIA ETHANOL AND POWER,
IMPERIAL VALLEY 1, LLC**

December 17, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **California Ethanol and Power, Imperial Valley 1, LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or 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 to acquire Project equipment with an estimated cost not to exceed \$444,811,275 over a period of three (3) years; 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 master regulatory 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).

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.

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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 listed in the semi-annual reports 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.