

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

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

**CleanWorld
Application No. 14-SM002**

March 18, 2014

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – CleanWorld

Location – San Bernardino, San Bernardino

Industry – Biomass Processing and Fuel Production

Project – New Biomass and Fuel Production

Value of Qualified Property – \$6,698,715

Estimated Sales and Use Tax Exclusion Amount² – \$564,032

Estimated Net Benefits – \$457,665

Application Score³ –

Fiscal Benefits Points:	1,522
<u>Environmental Benefits Points:</u>	<u>290</u>
Net Benefits Score:	1,811

<u>Additional Benefits Points:</u>	<u>83</u>
Total Score:	1,895

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 8.42%.

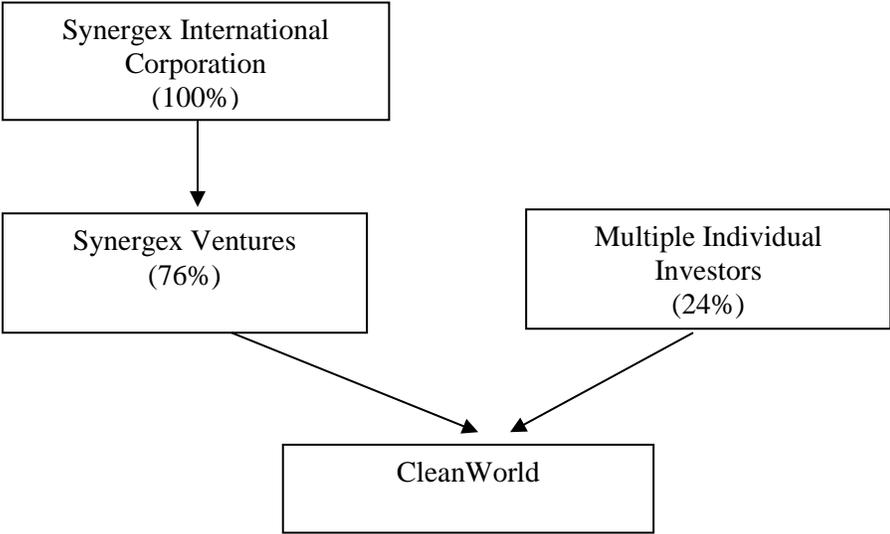
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

CleanWorld (“CleanWorld” or the “Applicant”) is a subsidiary of Synergex International Corporation. CleanWorld offers a range of technologies and services designed to assist with managing the complexities associated with the disposal of organic wastes. The Applicant partners with businesses and communities to convert organic waste to renewable energy, soil enhancement products, and other valuable bio-based products using proprietary technologies.

In addition to the current project under consideration, the Applicant has two other projects that were approved by the CAEATFA Board. The first project, approved in October 2012, is an anaerobic digester that converts food waste into biogas at Atlas Disposal’s Sacramento South Area Transfer Station. The second project, approved in January 2013, is an anaerobic digester that converts organic waste into biogas, and is located at the University of California, Davis.

Chain of ownership of CleanWorld is as follows:



CleanWorld is 76% owned by Synergex International Corporation and the remaining 24% of the company is owned by multiple individual investors.

The major shareholders (10.0% or greater) of the Synergex Ventures are:

- Michele Wong
- Bill Mooney
- Ken Lidster

The corporate officers of Synergex International Corporation are:

- Michele Wong, Chief Executive Officer
- Bill Mooney, Executive Vice President
- Ken Crittendon, Chief Financial Officer
- Terry Carlone, Chief Administrative Officer

THE PROJECT

The Applicant – in partnership with Co-West Commodities, GESS Environmental, and Otto Construction – will construct an anaerobic digester that will convert waste products from the food processing and food services industry into biogas that will be used to generate process heat and electricity using a one MW turbine (the “Project”).

The Project will be constructed for Co-West Commodities (Co-West) and GESS Environmental (GESS), which are in the materials recycling and waste disposal industry, and will provide the Project’s feedstock. Co-West takes food processing waste, grease trap waste and other organic waste streams from their sources and concentrates it into almost 100 tons per day of concentrated food slurry. GESS currently manages food waste diversion for a large chain of supermarkets that generate approximately six tons of food waste per day.

The slurry and food waste will be the primary feedstock for the CleanWorld anaerobic digester that is designed to handle up to 100 tons of organic waste per day. While a portion of the energy produced will be consumed by the anaerobic digestion process, the remaining energy will be consumed by the operations of Co-West and GESS.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas and it also includes a portion of the 1 MW power generation equipment used to power the facility. The Project’s equipment will consume 50 percent of the total amount of energy generated, therefore 50 percent of the power generation equipment is eligible for an STE under the Program. However, the remaining 50 percent of the power generation equipment is not included in this Application as this represents the proportion of electricity that will be used by Co-West and GESS.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Pre-Processing and Material Input Modules	\$452,769
Anaerobic Digester Tanks	1,750,000
Anaerobic Digester Tank Supporting Equipment	776,014
Mechanical Skids	704,295
Site Mechanical Components	819,889
Control System	399,984
Flare	300,448
Turbines ⁴	847,791
Gas Processing Skid	545,000
Backend Effluent Management Skid	102,525
Total	<u>\$6,698,715</u>

⁴ Only the portion of the turbine cost associated with the Project’s energy consumption is included in the application.

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance 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) over 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 beginning construction by the fall of 2014 and completing construction by June 2015, with operations beginning shortly thereafter.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,698,715 and the total net benefits are valued at \$457,665 for the Project. The Project received a Total Score of 1,895 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 290 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1,522 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's anticipated 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 \$858,211 resulting in a Fiscal Benefits score of 1,522 points for the Project.
- B. Environmental Benefits (290 points).** The Project will result in \$163,485 of total anticipated pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 290 points for the Project. These benefits derive from (a) the production of biomass fuel, which offsets the need for fossil fuel derived sources of energy and (b) a reduction of methane emissions from material that would otherwise be sent to a landfill.
- C. Additional Benefits (83 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 83 additional points.
 - 1. Permanent Jobs (30 of 75 points).** The Applicant's Project will support a total of ten permanent jobs at its Facility. CAEATFA estimates that one 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 30 points for the Project.

2. **Construction Jobs (40 of 75 points)**. The Applicant's Project will support a total of 16 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 resulting in a Construction Jobs Score of 40 points for the Project.
3. **Unemployment (13 of 50 points)**. The Applicant's Project is located in San Bernardino County which has an annual average unemployment rate of 10%. This is above 110% of the statewide unemployment rate of 8.82%, resulting in an Unemployment Score of 13 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project will require a Conditional Use Permit from the City of San Bernardino, an Authority to Construct Permit from the South Coast Air Quality District, and a Solid Waste Facility Permit from the local enforcement agency and CalRecycle. The Applicant anticipates receiving all required permits by October 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,⁵ the Applicant has paid CAEATFA an Application Fee of \$3,773.25 and will pay CAEATFA an Administrative Fee of up to \$26,794.86.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM002 for CleanWorld's purchase of Qualified Property in an amount not to exceed \$6,698,715 anticipated to result in an approximate sales and use tax exclusion value of \$564,032.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE CLEANWORLD**

March 18, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CleanWorld** (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 \$6,698,715 over a period of 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.

Agenda Item – 4.B.1
Resolution No. 14-SM002
Application No. 14-SM002

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.