

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

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

**Pixley Biogas, LLC
Application No. 14-SM004**

May 20, 2014

Prepared By: *Noah Proser*

SUMMARY

Applicant – Pixley Biogas, LLC

Location – Pixley, Tulare County

Industry – Dairy Biogas

Project – New biogas production facility

Value of Qualified Property – \$3,363,238

Estimated Sales and Use Tax Exclusion Amount² – \$283,185

Estimated Net Benefits – \$325,130

Application Score³ –

Fiscal Benefits Points:	1,134
<u>Environmental Benefits Points:</u>	<u>1,015</u>
Net Benefits Score:	2,148
<u>Additional Benefits Points:</u>	<u>150</u>
Total Score:	2,298

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

Pixley Biogas, LLC (the “Applicant” or “Pixley”) is a subsidiary of Pixley Cogen Partners, LLC (“Pixley Cogen”), and an affiliate of GFP Ethanol, LLC (“GFP”). Using manure from Four J Farms in Pixley, California, Pixley will produce dairy biogas to offset pipeline natural gas for GFP’s ethanol production. GFP uses an on-site cogeneration, natural gas turbine to provide the electricity and process steam needed to produce corn and sorghum-based E100 ethanol for sale into the vehicle fuel market.

The principal owner of Pixley Biogas LLC is: The major shareholders (10% or greater) of Pixley Cogen Partners, LLC are:

Pixley Cogen Partners, LLC

Flyers Energy, Owner
(33.8%)

USA Renewables, LLC, Owner
(33.2%)

BoMo, LLC, Owner
(33.0%)

THE PROJECT

Pixley’s biogas production facility will be located with GFP and Pixley Cogen near Four J Farms in Pixley, California. The Project includes three major components: a mixed plug-flow anaerobic digester system (“AD”) adjacent to GFP’s facility, a transfer and storage system for influent and effluent adjacent to Four J Farms, and a pipeline between the two sites. Manure and food waste will be collected from Four J Farms and transferred via pipeline to the AD. Biogas produced from the AD will be combusted in Pixley Cogen’s cogeneration turbine, supplementing the pipeline natural gas currently used by the turbine, to produce process steam needed for ethanol production. Effluent from the AD will then be transferred via the pipeline to the storage site at Four J Farms.

The Applicant has indicated that the Project will produce 599,010 therms of biogas annually, offsetting 21.1% of GFP’s pipeline natural gas use with renewable biogas. GFP will use the process steam produced by combusting Pixley’s biogas and pipeline natural gas to produce 55 million gallons of corn and sorghum-based E100 ethanol per year for sale in the vehicle fuel market.

The Project also received a \$4,672,798 grant from the California Energy Commission under Notice of Proposed Award PON-09-003 on January 28, 2011.

ANTICIPATED COSTS OF QUALIFIED PROPERTY⁴

The anticipated Qualified Property purchases are listed below:

Concrete vessel, building materials and steel	\$ 1,332,079
Transfer pumps, heat exchangers, electrical equipment and controls	\$ 842,970
Manure pipeline equipment	\$ 209,985
Gas/hot water transfer equipment	\$ 218,704
Pond liner, pumps, concrete, manure separators and electrical equipment	\$ 416,000
Road materials, piping and electrical supply equipment	\$ 343,500
Total	<u>\$3,363,238</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 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

Project construction began in March 2014 and is expected to be completed by August 2014. Pixley anticipates that the Project will be online by September 15, 2014.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,363,238 and the total net benefits are valued at \$325,130 for the Project. The Project received a Total Score of 2,298 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 1,015 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (1,134 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 \$321,007 resulting in a Fiscal Benefits score of 1,134 points for the Project.

⁴ Anticipated costs of Qualified Property may not add up correctly due to rounding in the Application worksheet.

- B. Environmental Benefits (1,015 points).** The Project will result in \$287,308 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 1,015 points for the Project. These benefits derive from (a) the production of dairy biogas, which offsets the need for use of pipeline natural gas, and (b) a reduction of methane emissions from material that would otherwise be sent to a free-venting open air storage lagoon.
- C. Additional Benefits (150 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 150 additional points.
- 1. Permanent Jobs (20 of 75 points).** The Applicant’s Project will support a total of two permanent jobs at its Facility. CAEATFA estimates that a portion of one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. 20 points were awarded for this marginal increase in work hours.
 - 2. Construction Jobs (40 of 75 points).** The Applicant’s Project will support a total of seven 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 resulting in a Construction Jobs Score of 40 points for the Project.
 - 3. Unemployment (50 of 50 points):** The Applicant’s Project is located in Tulare County which has an unemployment rate of 14%. This is above 110% of the statewide unemployment average, which is currently 9%, resulting in an Unemployment Score of 50 points for this Project.
 - 4. Industry Cluster (40 of 40 points):** The Applicant’s Project is located in the San Joaquin Valley, which has identified alternative energy generation and distribution as an industry cluster.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Pixley is in the process of securing permits from the San Joaquin Valley Air Pollution Control District, the Regional Water Board, and Tulare County. The Applicant anticipates receiving all remaining, required permits by August 15, 2014. The Applicant has already completed an Environmental Impact Report, and received conditional use and building permits from Tulare County.

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 \$1,681.62 and will pay CAEATFA an Administrative Fee of up to \$15,000.00.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM004 for Pixley Biogas LLC’s purchase of Qualified Property in an amount not to exceed \$3,363,238 anticipated to result in an approximate sales and use tax exclusion value of \$283,185.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE PIXLEY BIOGAS, LLC**

May 20, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of Pixley Biogas, 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 \$3,363,238 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.C.1
Resolution No. 14-SM004
Application No. 14-SM004

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.