

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

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

**Pacific Ethanol Madera, LLC
Application No. 14-SM021**

Tuesday, January 20, 2015

Prepared By: *James Shimp*

SUMMARY

Applicant – Pacific Ethanol Madera, LLC

Location – Madera, Madera County

Industry – Ethanol production

Project – Improved process efficiency through the installation of a corn oil extraction system (Advanced Manufacturing)

Value of Qualified Property – \$4,763,500

Estimated Sales and Use Tax Exclusion Amount² – \$401,087

Application Score³ –

Fiscal Benefits Points:	2,465
<u>Environmental Benefits Points:</u>	<u>38</u>
Net Benefits Score:	2,503
<u>Additional Benefits Points:</u>	<u>29</u>
Total Score:	2,533

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

Pacific Ethanol Madera, LLC (“Pacific Ethanol” or the “Applicant”) is a Delaware limited liability company that organized in June of 2003 for the purpose of operating an ethanol production facility in Madera.

The Applicant is a wholly owned subsidiary of Pacific Ethanol Holding Co., LLC, which is a wholly owned subsidiary of PE Op. Co., 96% of which is owned by Pacific Ethanol, Inc.

The major shareholders (10.0% or greater) of Pacific Ethanol Madera, LLC are:

Pacific Ethanol Holding Co., LLC

The corporate officers of Pacific Ethanol Madera, LLC are:

Neil M. Koehler, President
Bryon T. McGregor, CFO
Michael D. Kandris, COO
Christopher W. Wright, VP, Gen'l Counsel & Secretary

THE PROJECT

The Applicant plans to install a corn oil extraction system (the “Project”) to their current Madera ethanol production operations. The system, patented under the trademark VFRAC, will extract corn oil from wet distiller’s grain (WDG), which is a byproduct of the Applicant’s current ethanol production. Additionally, the process will produce concentrated protein meal, a higher value product than WDG.

VFRAC is a high-precision hydrothermal fractionation system that uses pressure and temperature to cause a physicochemical change to protein and oil compounds, thus facilitating separation and quiescent decantation of corn oil. The Applicant represents that the proposed system is a biotechnological advance over current efficiency standards in the ethanol production industry, and therefore qualifies as advanced manufacturing. Out of over 200 other ethanol production facilities nationwide, only two are currently equipped to separate corn oil and high protein meal. By bringing corn oil production in house, costs and emissions associated with the transport and sale of WDG offsite are eliminated.

In light of the ability to produce two new products, installation of the VFRAC system will increase overall efficiency. The Applicant represents that the system is designed to recapture and use heat created during the separation process for use elsewhere in the plant. Additionally, the Applicant anticipates decreases in per-unit consumption of electricity and water by approximately 10%.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

VFRAC Corn Oil System	\$4,300,000
Flash Tank	450,000
Camera System	30,000
Evaporation Feed Tank	260,000
Evaporation Feed Tank Pump	20,000
Agitator	45,000
Storage	175,000
Vent Collection	135,000
Electrical	150,000
Mechanical in Main Process	119,000
Mechanical in Reactor Area	129,500
Total	<u>\$4,763,500</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

Pacific Ethanol represents that the construction of foundations and infrastructure for the new machinery, along with installation of the machinery itself, should be completed by late March of 2015. After completion there will be a two week test phase before full production begins.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$4,763,500 and the total net benefits are valued at \$587,707 for the Project. The Project received a Total Score of 2,533

points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 38 points, which exceeds the 20 point threshold.

A. Fiscal Benefits (2,465 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 \$988,793 resulting in a Fiscal Benefits score of 2,465 points for the Project.

B. Environmental Benefits (38 points). The Project will result in an Environmental Benefits Score of 38. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability for its Project that will result in a reduction of water and power consumption at the facility.
2. **Energy Consumption (9 of 30 points)**. The Applicant’s manufacturing process is anticipated to result in a 9% reduction in energy consumption relative to the industry standard manufacturing process.
3. **Water Use (9 of 30 points)**. The Applicant’s manufacturing process is anticipated to result in a 9% reduction in water use relative to the industry standard manufacturing process.

C. Additional Benefits (29 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 29 additional points.

1. **Permanent Jobs (0 of 75 points)**. The Applicant’s Project will support a total of one permanent job at its Facility. CAEATFA estimates that a portion of this job 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 75 points)**. The Applicant’s Project will support a total of two construction jobs at its Facility. CAEATFA estimates that a portion 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 (29 of 50 points)**. The Applicant’s Project is located in Madera County which has an average annual unemployment rate of 11%. This is above 110% of the statewide average annual unemployment rate which is currently 8.8% resulting in an Unemployment Score of 29 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that construction permits from the San Joaquin Valley Air District and building permits from Madera County are expected by the end of January 2015.

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 \$2,381.75 and will pay CAEATFA an Administrative Fee up to \$19,054.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM021 for Pacific Ethanol Madera, LLC’s purchase of Qualified Property in an amount not to exceed \$4,763,500 anticipated to result in an approximate sales and use tax exclusion value of \$401,087.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH PACIFIC ETHANOL MADERA, LLC.**

January 20, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of Pacific Ethanol Madera, 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 \$4,763,500 over a period of three 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.A.1
Resolution No. 14-SM021
Application No. 14-SM021

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.