

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Las Gallinas Valley Sanitary District  
Application No. 15-SM009**

**Tuesday, July 21, 2015**

Prepared By: *James Shimp*

**SUMMARY**

**Applicant** – Las Gallinas Valley Sanitary District

**Location** – San Rafael, Marin County

**Industry** – Biogas Capture and Production

**Project** – Installation of A New Biogas Conditioning System

**Value of Qualified Property** – \$788,757

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$66,413

**Estimated Net Benefits** – (\$10,941)

**Application Score** –

Fiscal Benefits Points:	674
<u>Environmental Benefits Points:</u>	<u>161</u>
<b>Net Benefits Score:</b>	<b>835</b>
<u>Additional Benefits Points:</u>	<u>45</u>
<b>Total Score:</b>	<b>880</b>

**Staff Recommendation** – Approval upon a finding that the Project is in the public interest and advances the purpose of the Program pursuant to California Code of Regulations Section 10033(c)(6).

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

**THE APPLICANT**

Las Gallinas Valley Sanitary District (“LGVSD” or the “Applicant”) is a California Public Agency with wastewater treatment and recycling facilities located on over 400 acres on San Pablo Bay. LGVSD’s first wastewater treatment plant was constructed in 1955 to address health problems from failing septic tanks in Santa Venetia. Today, the Applicant serves over 30,000 people in communities north of central San Rafael.

The board members of Las Gallinas Valley Sanitary District are:

- Rabi Elias, President
- Judy Schriebman, Vice President
- Megan Clark, Board Member
- Russ Greenfield, Board Member
- Craig K. Murray, Board Member

**THE PROJECT**

The Applicant is installing a closed-loop biogas energy recovery system at their wastewater treatment plant in San Rafael, California (the “Project”). When fully operational, the system will recover methane produced from the mesophilic anaerobic digestion of wastewater sludge, which is brought in from approximately 105 miles of collection lines serving the community. The resulting biogas will be conditioned for on-site combined heat and power (CHP) generation, with excess gas being converted to renewable compressed natural gas (RCNG) for use in LGVSD vehicles. The Applicant represents that the project will demonstrate how wastewater treatment plants throughout California can reduce capital and operating costs by maximizing the use of bioenergy resources that are currently being underutilized. The Project is also an effort to help meet the requirements of SB605 (Short-Lived Climate Pollutants) and AB32 (Global Warming Solutions Act), as well as California’s renewable energy requirements.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Pre-Fabricated Complete Biogas Production Skid	\$563,322
Two Microturbines	177,393
Hydronic Boiler	18,042
Heat Exchanger	<u>30,000</u>
<b>Total</b>	<b><u>\$788,757</u></b>

*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**

Contracts, project design, and equipment orders will be completed in July and August of 2015. Delivery is expected in October and construction will commence in November 2015. The Project is anticipated to start-up and be in production by January 2016.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$788,757 and the total net benefits are valued at **-\$10,941** for the Project. **The Project received a Total Score of 880 points, which does not exceed the required 1,000 point threshold** and a total Environmental Benefits Score of 161 points, which exceeds the 100 point threshold. The Applicant's relatively low fiscal score reflects the fact that, as a government entity, the Applicant does not pay income taxes, which are a source of the program's fiscal benefit calculation for private sector projects.

- A. Fiscal Benefits (674 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 \$44,765 resulting in a Fiscal Benefits score of 674 points for the Project.
- B. Environmental Benefits (161 points).** The Project will result in \$10,707 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 161 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil fuels.
- C. Additional Benefits (45 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 45 additional points.
  - 1. Permanent Jobs (0 of 75 points).** The Applicant's Project will support one permanent job at its Facility. CAEATFA estimates that no 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 (45 of 75 points)**. The Applicant’s Project will support a total of six 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 45 points for the Project.

## **FINDING OF PUBLIC INTEREST**

Upon completion of the Net Benefits Test, the Project received a Total Score of 880 points, which does not exceed the 1,000 point threshold required by regulations section 10033(c)(6). The Total Score is composed of three separate scores; Fiscal Benefits, Environmental Benefits, and Additional Benefits Points. The Project received a total Environmental Benefits Score of 161 points, which exceeds the required 100 point threshold. Based on the number of jobs created by the Project, 45 Additional Benefits Points were also awarded. The deficit in points comes from the Fiscal Benefits Score, which is 674. The Applicant’s relatively low score reflects the fact that, as a California Public Agency, the Applicant does not pay income taxes, which are a source of the program’s fiscal benefit calculation for private sector projects. If the Applicant were taxed at a rate commensurate with other private entities, its Fiscal Benefits Score would be raised enough to exceed the required Total Score threshold.

In addition to establishing a minimum Total Score threshold, regulations section 10033(c)(6) allows for a waiver of this requirement under certain circumstances. The regulations read that “where a project receives a score less than these thresholds, the Executive Director may recommend it to the board for approval upon a statement articulating specific reasons why the approval is in the public interest and advances the purposes of the Program.”

The LGVSD application represents a public Project, with the primary purpose being to serve public interests. The Project is intended to demonstrate the ability of biogas energy recovery systems at wastewater treatment facilities to help meet the requirements of SB 605, AB32, and California’s climate and renewable energy goals. On a broader scale, the Project will also show the viability of biogas as an alternative source of energy. In accomplishing these objectives, the Project will provide long-term benefits to the State of California, beyond those immediately measurable in the Net Benefits Test, and therefore further the fundamental purposes of the program.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

An application to the Bay Area Air Quality Management District has been made for Authority to Construct (ATC) and a Permit to Operate (PTO). The Applicant represents that the permit review and approval timeline is typically three to four months, with the final permit anticipated by October 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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$394.38 and will pay CAEATFA an Administrative Fee of \$15,000.

**RECOMMENDATION**

Pursuant to program regulations section 10033(c)(6), in finding that the Project is in the public interest and advances the purposes of the Program, the Executive Director recommends that the Board waive the Fiscal Benefits threshold values and approve Resolution No. 15-SM009 for Las Gallinas Valley Sanitary District’s purchase of Qualified Property in an amount not to exceed \$788,757 anticipated to result in an approximate sales and use tax exclusion value of \$66,413.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH THE LAS GALLINAS VALLEY SANITARY  
DISTRICT**

July 21, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Las Gallinas Valley Sanitary District** (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 \$788,757 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.2**  
**Resolution No. 15-SM009**  
**Application No. 15-SM009**

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.