

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

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

**Hanford Renewable Energy LLC
Application No. 15-SM016**

Tuesday, October 20, 2015

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Hanford Renewable Energy LLC

Location – Hanford, Kings County

Industry – Dairy Biogas

Project – New Biogas Production Facility

Value of Qualified Property – \$3,748,012

Estimated Sales and Use Tax Exclusion Amount² – \$315,583

Estimated Net Benefits – \$1,094,701

Application Score –

Fiscal Benefits Points:	1,381
<u>Environmental Benefits Points:</u>	<u>3,088</u>
Net Benefits Score:	4,469

<u>Additional Benefits Points:</u>	<u>110</u>
Total Score:	4,579

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%.

THE APPLICANT

Hanford Renewable Energy LLC (“Hanford” or “Applicant”) is a California Limited Liability Company formed by Philip Verwey to own and operate a dairy biogas facility at his farm, Philip Verwey Farms #2. While Hanford was founded in May 2015, the host farm has operated at its present location since 2009. The host farm has 10,000 milking cows and 2,000 acres of farmland.

The major shareholders (10.0% or greater) of Hanford Renewable Energy LLC are:

Philip Verwey (100%)

The corporate officers of Hanford Renewable Energy LLC are:

Philip Verwey, CEO

THE PROJECT

The Applicant is seeking a Sales and Use Tax Exclusion to install a covered lagoon digester system to convert dairy manure into biomethane (the “Project”). A covered lagoon is an earthen-walled manure tank covered by a flexible polyethylene tarp. Hanford represents that these systems are the least expensive to install and operate, with the least amount of operator intervention required.

The Hanford Project is ideally suited for a covered lagoon since it already has a very large pond area pre-excavated and has secured the necessary land use and California Environmental Quality Act (CEQA) permits for a digester at that location. This pre-excavated pond will be covered to create the covered lagoon digester.

The digester will produce approximately 1,156,563 therms of renewable biomethane. Two combined heat and power gensets will then convert the biogas into heat and electricity. The heat will be used in the biogas production process. The power generated will be used to offset the host dairy’s power consumption, and excess power will be sold back to Pacific Gas and Electric.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to produce biogas. None of the facility’s power generation equipment is included in this Application as the electricity generated will be used to power the dairy, with the remaining power sold to the grid

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Two Biogas Combustion Engines with Heat Collection (less electrical generation component)	\$1,340,762
Mechanical Building with Foundation	150,000
Digester Liner and Cover	1,932,250
Pumps, blowers, pipe, fittings, meters, sensors and conduits/mechanical	<u>325,000</u>
Total	<u>\$3,748,012</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

Excavation for the Project site is planned to begin November 2015 and foundation work is anticipated to begin January 2016. Equipment installation is projected for March 2016 and production of renewable biomethane in September 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,748,012 and the total net benefits are valued at \$1,094,701 for the Project. The Project received a Total Score of 4,579 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 3,088 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1,381 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 \$435,837 resulting in a Fiscal Benefits score of 1,381 points for the Project.
- B. Environmental Benefits (3,088 points).** The Project will result in \$974,447 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 3,088 points for the Project. These benefits derive from the production of

biogas, which offsets the need for use of fossil fuel and the avoidance of methane emissions that would otherwise be released by the manure.

- C. **Additional Benefits (110 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 110 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 approximately 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 20 points for the Project.
 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 Kings County which has an average annual unemployment rate of 12%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 50 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project requires Authority to Construct, Waste Discharge, and Building permits, along with an updated CEQA Environmental Impact Report. All permits and approvals are underway and are expected by December 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,³ the Applicant has paid CAEATFA an Application Fee of \$1,874.01 and will pay CAEATFA an Administrative Fee of \$15,000.

³ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM016 for Hanford Renewable Energy LLC's purchase of Qualified Property in an amount not to exceed \$3,748,012 anticipated to result in an approximate sales and use tax exclusion value of \$315,583.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH HANFORD RENEWABLE ENERGY LLC**

October 20, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Hanford Renewable Energy 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 \$3,748,012 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.

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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.