

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

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

**Escondido Bioenergy Facility, LLC  
Application No. 16-SM005**

**Tuesday, January 19, 2016**

Prepared By: *Nina Kapoor, Analyst*

**SUMMARY**

**Applicant** – Escondido Bioenergy Facility, LLC

**Location** – Escondido, San Diego County

**Industry** – Biogas

**Project** – New Biogas Utilization System

**Value of Qualified Property** – \$1,900,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$159,980

**Estimated Net Benefits** - \$212,635

**Application Score** –

Fiscal Benefits Points:	2,152
<u>Environmental Benefits Points:</u>	<u>177</u>
<b>Net Benefits Score:</b>	<b>2,329</b>
<u>Additional Benefits Points:</u>	<u>55</u>
<b>Total Score:</b>	<b>2,384</b>

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**THE APPLICANT**

<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%.

Escondido Bioenergy Facility, LLC (“Escondido” or the “Applicant”), a Delaware limited liability corporation formed in 2013, is a wholly-owned subsidiary of Anaergia Services, LLC (“Anaergia”).

The major shareholder (10.0% or greater) of Anaergia is:

UTS Bioenergy Holdings, LLC

The corporate officer of Anaergia is:

Arun Sharma, President

**THE PROJECT**

The Applicant, in partnership with the City of Escondido (the “City”), will install the equipment required to transform waste biogas derived from an existing anaerobic digestion process at the City’s wastewater treatment plant into renewable fuel (the “Project”).

The water treatment operation at the plant involves the removal of solids from the municipal wastewater stream in primary and secondary treatments and then processing them in sludge digesters, which generates large quantities of biogas. Currently, all of the gas is disposed of with no beneficial use through flaring. The Applicant plans to install a gas blower that will provide initial gas compression to ensure that there is enough pressure at the engines. The pressurized gas is then passed through a chiller, causing the moisture to condense. The condensed moisture is then removed using a coalescing filter and the biogas is warmed. Finally, the gas is filtered for contaminants including siloxanes, hydrogen sulfide and volatile organic compounds. A portion of the electricity generated will be used to power the facility and what remains will be purchased through power purchase agreement with the City. The heat generated will be captured and will enable the Applicant to rely less on the local utility for natural gas.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Biogas De-sulfurization and De-humidification system	\$1,000,000
Mechanical Pipelines, Flanges, and Valves	300,000
Electrical Wiring and Power Distribution Components	200,000
Control Systems for Overall Site and Project	300,000
Instrumentation	<u>100,000</u>
<b>Total</b>	<b><u>\$1,900,000</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**

The planned date of operation for the facility is slated for March 2017. The Applicant anticipates ordering equipment between June and December 2016 and undertaking site design and construction activities between September 2016 and February 2017.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$1,900,000 and the total net benefits are valued at \$212,635. The Project received a Total Score of 2,384 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 177 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (2,152 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 \$344,260 resulting in a Fiscal Benefits score of 2,152 points for the Project.
- B. **Environmental Benefits (177 points)**. The Project will result in \$28,355 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 177. These benefits derive from displacing the use of fossil fuels through the conversion of biogas into fuel and avoidance of emissions that would otherwise be produced if the biogas was still being flared.
- C. **Additional Benefits (55 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 55 additional points.
  1. **Permanent Jobs (0 of 75 points)**. The Applicant's Project will support a total of one permanent job at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
  2. **Construction Jobs (55 of 75 points)**. The Applicant's Project will support a total of 10 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 55 points for the Project.

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

The process of securing site permits began in November 2015 and will continue through October 2016. During this period, the Applicant will secure electrical generation, air quality, California Environmental Quality Act and local conditional use and building permits.

## **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 \$950 and will pay CAEATFA an Administrative Fee of \$15,000.

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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 ESCONDIDO BIOENERGY FACILITY,  
LLC**

January 19, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Escondido Bioenergy Facility, 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 \$1,900,000 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.4**  
**Resolution No. 16-SM005**  
**Application No. 16-SM005**

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.