

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

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

**HZIU Kompogas SLO Inc.
Application No. 17-SM011**

February 21, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – HZIU Kompogas SLO Inc.

Location – San Luis Obispo, San Luis Obispo County

Industry – New Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility

Value of Qualified Property – \$7,104,020

Estimated Sales and Use Tax Exclusion Amount² – \$598,158

Estimated Net Benefits – (\$30,037)

Application Score –

Fiscal Benefits Points:	885
<u>Environmental Benefits Points:</u>	<u>65</u>
Net Benefits Score:	950
<u>Additional Benefits Points:</u>	<u>75</u>
Total Score:	1,025

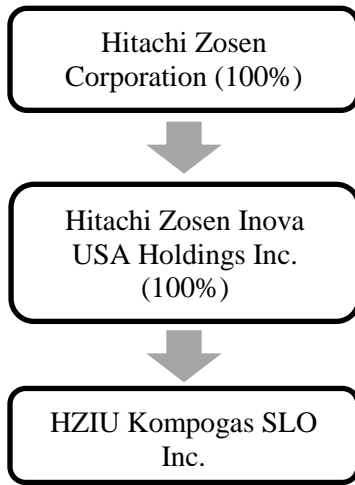
Staff Recommendation – Approval

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

HZIU Kompogas SLO Inc. (“HZIU” or the “Applicant”) is a California Corporation founded in June 2016 as a special purpose entity to own and operate the Kompogas-SLO facility. HZIU is owned by Hitachi Zosen Inova USA Holding, Inc., the owner and developer of Kompogas projects in the United States.

The chain of ownership for HZIU is as follows:



The corporate officers of HZIU are:

Markus Stangl, President and CEO
Michael Canova, Secretary and Treasurer

THE PROJECT

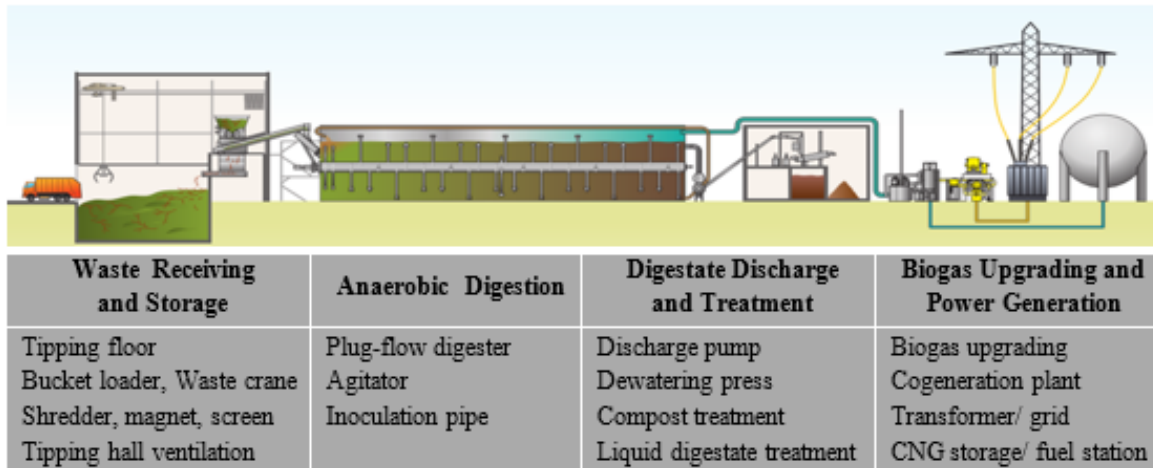
HZIU is seeking an STE award to build a new Kompogas SLO anaerobic digestion facility in San Luis Obispo (the “Project”). Kompogas is a dry anaerobic digestion technology that occurs in an oxygen free environment. The proposed facility will use a continuously fed, horizontal plug-flow digester, which will produce three byproducts: biogas, solid digestate, and liquid digestate.

The Project was specifically designed to meet the organics diversion goals of San Luis Obispo County. When complete, the project will convert up to 36,500 tons per year of food waste (70%) and urban green waste (30%) collected from nearby communities into 6,800,000 kilowatt hours (kWh) per year of renewable electricity, 13,000 tons per year of compost, and 1.6 million gallons per year of liquid fertilizer.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas; the Qualified Property also includes a portion of the electrical generation equipment used to power the facility. The Project’s equipment will consume 22 percent of the electricity generated from biogas combustion; therefore 22 percent of the power generation equipment is eligible for a sales and use tax exclusion under the STE Program. However, 78

percent of the power generation equipment is not included in this Application, as it represents the proportion of available energy in the form of electricity that will be sold to PG&E.

Figure 1: Equipment used in an Anaerobic Digestion Process



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Pretreatment System	\$775,920
Waste Crane	225,000
Liquid digestate storage tank	165,013
Jib Crane	15,000
Exhaust Air System	475,000
Scrubber	75,000
Biofilter	129,600
Screw Press	187,200
Combined Heat and Power System	232,487
Oxidation catalyst	250,000
Digester	2,600,000
Vehicles	340,000
Spare parts	215,000
Weigh bridge	70,000
Process water supply (pumps, pipe, tank)	46,000
Compressed air generator	17,800
Electrical House	600,000
Controls	75,000
Security Systems and additional miscellaneous facility equipment	60,000
Wheel loader	300,000
Decanter	250,000
Total	<u>\$7,104,020</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

HZIU has completed the design and engineering phase of facility development and initiated the early stages of construction. The Applicant plans to ramp up to full-scale construction in Q4, 2017, with commercial operation scheduled for Q3 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,104,020 and the total net benefits are valued at **-\$30,037** for the Project. Although the cumulative fiscal and environmental benefits fall short of the estimated Sales and Use Tax Exclusion amount, resulting in a negative net benefit, the Project has additional employment related benefits that are not quantifiable in fiscal terms. These additional benefits increase the Total Score above the qualifying threshold.³ The Project received a Total Score of 1,025 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 65 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (885 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 \$529,337 resulting in a Fiscal Benefits score of 885 points for the Project.
- B. Environmental Benefits (65 points).** The Project will result in \$38,784 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 65 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane.
- C. Additional Benefits (75 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 75 additional points.

³ California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

1. **Permanent Jobs (20 of 75 points)**. The Applicant’s Project will support a total of three 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 (55 of 75 points)**. The Applicant’s Project will support a total of 30 construction jobs at its Facility. CAEATFA estimates that approximately four 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

HZIU has secured a conditional use permit, CEQA approval, and a foundation construction permit. Additionally, the Applicant represents that they are in the process of obtaining Construction General and Industrial General National Pollutant Discharge Elimination System permits, and approvals required by the San Luis Obispo Air Pollution Control District.

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 \$3,552 and will pay CAEATFA an Administrative Fee of up to \$28,416.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM011 for HZIU Kompogas SLO Inc.’s purchase of Qualified Property in an amount not to exceed \$7,104,020 anticipated to result in an approximate sales and use tax exclusion value of \$598,158.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH HZIU KOMPOGAS SLO INC.**

February 21, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **HZIU Kompogas SLO Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 \$7,104,020 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. 17-SM011
Application No. 17-SM011

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.