

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

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

**TAP Power LLC
Application No. 17-SM012**

February 21, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – TAP Power LLC

Location – Arcata, Humboldt County

Industry – New Biomass Processing and Fuel Production

Project – New Biomass Processing and Fuel Production Facility

Value of Qualified Property – \$9,213,514

Estimated Sales and Use Tax Exclusion Amount² – \$775,778

Estimated Net Benefits – \$685,251

Application Score –

Fiscal Benefits Points:	1,444
<u>Environmental Benefits Points:</u>	<u>439</u>
Net Benefits Score:	1,883

<u>Additional Benefits Points:</u>	<u>60</u>
Total Score:	1,943

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

TAP Power LLC (“TAP Power” or the “Applicant”) is a California limited liability corporation formed in 2016 by Mad River Lumber and Phoenix Biomass Energy, Inc. to develop a biomass processing facility in Arcata, California. Mad River Lumber is a sawmill company that produces redwood fencing from sustainably-sourced small diameter logs. Phoenix Biomass Energy, Inc. is a private power company that builds, owns, and operates biomass gasification plants in partnership with businesses in the agricultural, waste, and forestry industries.

The major shareholders (10.0% or greater) of TAP Power LLC are:

Travis Campbell (50%)

Patti Campbell (50%)

THE PROJECT

TAP Power is developing a small-scale bioenergy facility in Arcata, California that will convert sawmill waste product into syngas and biochar using a gasification process (the “Project”). The Applicant represents that Mad River Lumber produces 67.5 tons of waste product per day. The decline of the timber industry in Humboldt County has led to the loss of other facilities such as pulp mills and other independent power plants that previously would have processed the waste product. In the absence of a facility to take waste, Mad River Lumber would have to transport the waste product long distances. The Project provides a long term solution to this problem, while also producing a local source of biofuel.

The Project will produce syngas, which will power gas engines and generate 3 megawatts of renewable electricity to sell back to the grid to Pacific Gas and Electric under the BioMAT tariff established by SB 1122 (Rubio, 2012). As a byproduct of the gasification process, the Project will produce biochar: the solid carbon remains of the woody feedstock after the syngas is produced. Biochar has many applications and is commonly used as a soil amendment. According to the applicant, when biochar is used in this manner, it sequesters carbon and mitigates greenhouse gas emissions.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture syngas; the Qualified Property also includes a portion of the power generation equipment used to power the facility. The Project’s equipment will consume approximately 14.7 percent of the total amount of available energy generated from syngas combustion; therefore 14.7 percent of the power generation equipment is eligible for a sales and use tax exclusion under the STE Program. However, 85.3 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.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Gasification Equipment	\$5,445,980
Water Treatment Equipment	359,629
Fuel Handling System	818,675
Power Generation Equipment	804,617
Controls and Electrical Equipment	1,130,113
Leasehold Improvements	<u>654,500</u>
Total	<u>\$9,213,514</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

The Applicant represents that construction is scheduled to begin in May 2017. Commissioning is scheduled to begin in December 2017, and the facility is anticipated to be placed in service in March 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$9,213,514 and the total net benefits are valued at \$685,251 for the Project. The Project received a Total Score of 1,943 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 439 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,444 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 \$1,120,388 resulting in a Fiscal Benefits score of 1,444 points for the Project.

- B. Environmental Benefits (439 points).** The Project will result in \$340,641 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits

Score of 439 points. These benefits derive from the production of syngas, which offsets the need to use fossil fuel.

- C. **Additional Benefits (60 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 60 additional points.
1. **Permanent Jobs (30 of 75 points)**. The Applicant’s Project will support a total of 17 permanent jobs at its Facility. CAEATFA estimates that approximately two 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 30 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant’s Project will support a total of 16 construction jobs at its Facility. CAEATFA estimates that approximately two 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 30 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

TAP Power has submitted Use Permit, Renewable Portfolio Standard Certification, California Environmental Quality Act and Health Risk Assessment applications. Applications for North Coast Air Quality Management District approval, a grading permit, and a construction permit are in progress. The Applicant does not anticipate that the permitting process will impact their timeline.

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 \$4,607 and will pay CAEATFA an Administrative Fee of up to \$36,854.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM012 for TAP Power LLC's purchase of Qualified Property in an amount not to exceed \$9,213,514 anticipated to result in an approximate sales and use tax exclusion value of \$775,778.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH TAP POWER LLC**

February 21, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **TAP Power LLC** (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 \$9,213,514 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.