

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

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

**Colony Energy Partners-Tulare, LLC  
Application No. 17-SM016**

**Tuesday, March 21, 2017**

Prepared By: *Ellen Hildebrand, Analyst*

**SUMMARY**

**Applicant** – Colony Energy Partners-Tulare, LLC

**Location** – Tulare County

**Industry** – New Biomass Processing and Fuel Production

**Project** – New Biomass Processing and Fuel Production Facility

**Value of Qualified Property** – \$20,800,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$1,751,360

**Estimated Net Benefits** – \$1,506,126

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	1,528
<u>Environmental Benefits Points:</u>	<u>332</u>
<b>Net Benefits Score:</b>	<b>1,860</b>
<u>Additional Benefits Points:</u>	<u>105</u>
<b>Total Score:</b>	<b>1,965</b>

**Staff Recommendation** – Approval

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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%.

<sup>3</sup> Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

**THE APPLICANT**

Colony Energy Partners-Tulare (“Colony” or the “Applicant”) is a California Limited Liability Corporation formed to develop a centralized food and agricultural waste anaerobic digestion facility in Tulare, California. The Applicant is owned in part by Colony Energy Partners, a five year old company which develops liquefied natural gas and biogas production facilities.

The major shareholders (10.0% or greater) of Colony Energy Partners-Tulare LLC are:

- Colony Energy Partners (49.5%)
- McNeil Capital (15.67%)
- Opal Partners (15.67%)
- HJT Partners (19.16%)

Colony Energy Partners is owned by:

- Kent Hawkins (50%)
- Dirk Ivory (50%)

McNeil Capital is owned by:

- Carole McNeil

Opal Partners is owned by:

- Dirk & Diners Ivory

HJT Partners is owned by:

- Jake Terada

The officers of Colony Energy Partners are:

- Kent Hawkins, Managing Director
- Dirk Ivory, President
- Matt Schmitt, Vice President of Project Development
- Jake Terada, Chief Financial Officer
- Gordon, Eng, Vick President of Operations

**THE PROJECT**

Colony is seeking an STE award to build an anaerobic digestion facility that will convert organic waste into biomethane in Tulare, California (the “Project”). The digester will be capable of accepting the following types of waste:

- Dairy manure
- Food and agricultural processing residuals
- Expired, damaged, and off-specification packaged and canned food products
- Restaurant and Cafeteria food scraps
- Restaurant grease trap waste

The facility will include facilities for reception of 200 to 300 tons per day of organic material, which can produce up to 400,000 cubic feet of pipeline-grade biomethane per day. Separate reception facilities are provided for the manure and non-manure substrates. The biogas produced from the digester will be comingled with Tulare Wastewater Treatment Plant biogas and directed to the pressure-swing-adsorption upgrading plant that purifies the gas to meet Southern

California Gas Company (“SoCal Gas”) standards. Then, the gas will be compressed and injected into the local SoCal Gas pipeline.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Scotts Separator Equipment	\$ 500,000
Grease Decanting Equipment	1,300,000
Co-Generator	3,000,000
Digester and Processing Equipment	11,100,000
Gas Cleaning System	4,000,000
Site Costs for Processing Equipment	<u>900,000</u>
<b>Total</b>	<b><u>\$20,800,000</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**

Colony plans to begin making purchases in 2017, with planning being done during summer 2017 and construction occurring in Q2 and Q3 2018. The Project is expected to come online in late 2018 or early 2019.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$20,800,000 and the total net benefits are valued at \$1,506,126 for the Project. The Project received a Total Score of 1,965 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 332 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,528 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 \$2,675,765 resulting in a Fiscal Benefits score of 1,528 points for the Project.

- B. Environmental Benefits (332 points).** The Project will result in \$581,721 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 332 points for the Project. These benefits derive from the production of renewable biogas, which offsets the need for use of fossil methane.
- C. Additional Benefits (105 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 105 additional points.
- 1. Permanent Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 16 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 20 points for the Project.
  - 2. Construction Jobs (35 of 75 points).** The Applicant represents that the Project will support a total of 33 construction jobs at its Facility. CAEATFA estimates that approximately five 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 35 points for the Project.
  - 3. Unemployment (50 of 50 points).** The Applicant's Project is located in Tulare County which has an average annual unemployment rate of 13%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in Unemployment Score of 50 points for this Project.

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

Colony Energy has obtained nearly all of the permits required to construct the Project, including an air permit, City of Tulare conditional use permit, and solid waste permit, and is California Environmental Quality Act compliant. The Applicant plans to submit final site drawings to the City and obtain final permits in late spring.

## **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>4</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$83,200.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH COLONY ENERGY PARTNERS-TULARE, LLC**

March 21, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Colony Energy Partners-Tulare, 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 \$20,800,000 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.1**  
**Resolution No. 17-SM016**  
**Application No. 17-SM016**

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.