

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

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

CALAMCO NH3 LLC
Application No. 17-SM020

Tuesday, April 18, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – CALAMCO NH3 LLC

Location – Taft, Kern County

Industry – Advanced Fertilizer Manufacturing

Project – Advanced Ammonia Fertilizer Manufacturing (Advanced Manufacturing)

Value of Qualified Property – \$107,607,827

Estimated Sales and Use Tax Exclusion Amount² – \$9,060,579

Application Score³ –

| | |
|---------------------------------------|--------------|
| Fiscal Benefits Points: | 1,868 |
| <u>Environmental Benefits Points:</u> | <u>70</u> |
| Net Benefits Score: | 1,938 |
| | |
| <u>Additional Benefits Points:</u> | <u>110</u> |
| Total Score: | 2,048 |

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%.
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

CALAMCO NH3 LLC (“CALAMCO NH3” or the “Applicant”) is a Delaware Limited Liability Company formed for the purpose of developing an ammonia fertilizer manufacturing plant in Kern County. CALAMCO NH3 was formed by CALAMCO and Grannus LLC.

Grannus LLC (“Grannus”) was formed in 2012 to develop next generation fertilizer production technologies. These technologies are intended to have minimal environmental impact, lower installed costs per ton than best in class designs in the market, higher operating efficiencies, lower operating costs, and a size appropriate for regional consumption, which mitigates shipping costs. Grannus believes that these advantages will make its proprietary plant design the new standard in the industry in coming decades.

CALAMCO is a California-based cooperative made up of approximately 1,200 California growers, as well as fertilizer dealers and an industry partner, the J. R. Simplot Company. CALAMCO was started in 1957 as the California Ammonia Co. for the purpose of manufacturing and selling anhydrous ammonia to its stockholder-patrons. In the years since, CALAMCO has purchased significant ammonia storage capacity, and now trades over 200,000 tons per year, nearly 100% of the ammonia trade and distribution business in California. CALAMCO currently imports ammonia fertilizer from foreign sources at a high price, and is interested in securing a California based source of ammonia to reduce costs and the carbon footprint of its operations.

The major shareholders (10.0% or greater) of CALAMCO NH3 LLC are:
Grannus LLC (30%)
CALAMCO (70%)

The sole corporate officer of CALAMCO NH3 LLC is:
Matthew Cox, CEO

THE PROJECT

CALAMCO NH3 is seeking an STE award to build a cutting edge ammonia fertilizer manufacturing facility which will fulfill approximately 40% of CALAMCO’s annual ammonia demand (the “Project”). The Project will be the first facility to use next generation Grannus technology, which partially oxidizes natural gas for the manufacture of synthetic gas that is then used to produce ammonia as well as saleable food grade carbon dioxide byproduct. This process uses advanced materials in several ways, including in the refractory of the partial oxidation reactor and in the plasma coatings for high temperature and corrosion protection. The Project also uses integrated computational materials engineering, online computer modeling, and high temperature sensors in the design, operation, and control of the partial oxidation flameless chamber.

The Applicant represents that the use of the Grannus technology will allow the plant to have a near-zero emission profile, a substantial reduction in air emissions compared to the current industry standard. Additionally, the Project will eliminate the transportation-related emissions currently generated by CALAMCO’s imports of ammonia from Canada and Trinidad & Tobago. Another advantage of the facility design is that the cost per ton of ammonia produced by the Project is expected to be 25% less than best-in-class designs currently on the market, giving CALAMCO growers a competitive advantage. Grannus also intends to use the facility to test other new technologies in a parallel process test center.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|---------------------------------|-----------------------------|
| Cogeneration Unit | \$ 12,586,700 |
| Construction and Bulk Materials | 8,939,870 |
| Hydrogen Plant | 19,565,874 |
| Ammonia Plant | 57,865,257 |
| Plant Support equipment | <u>8,650,126</u> |
| Total | <u>\$107,607,827</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 Project will begin construction at the South Kern Industrial Center in 2017, and will be operational in 2019. At time of application, work was ongoing to complete front end engineering, which will allow construction to begin.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$107,607,827 and the total net benefits are valued at \$7,864,721 for the Project. The Project received a Total Score of 2,048 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 70 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,868 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 \$16,925,300 resulting in a Fiscal Benefits score of 1,868 points for the Project.
- B. Environmental Benefits (70 points).** The Project will result in an Environmental Benefits Score of 70 points. The Applicant received points in the following categories:
- 1. Energy Consumption (10 of 30 points).** The Applicant represents that its manufacturing process will result in a ten percent reduction in energy consumption relative to the industry standard manufacturing process.
 - 2. Water Use (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 90 percent reduction in water use relative to the industry standard manufacturing process.
 - 3. Air Pollutants (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 99 percent reduction in air pollutants produced relative to the industry standard manufacturing process.
- 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 (0 of 75 points).** The Applicant represents that the Project will support a total of 24 permanent jobs at its Facility. CAEATFA estimates that approximately three of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 - 2. Construction Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 60 construction jobs at its Facility. CAEATFA estimates that approximately eight 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 20 points for the Project.
 - 3. Unemployment (40 of 50 points).** The Applicant’s Project is located in Kern County which has an average annual unemployment rate of 11%. 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 40 points for this Project.

4. **Research and Development Facilities (25 points)**. The Applicant has verified that the Project facility will perform research and development functions for Grannus technologies.

5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with America’s Job Center for the purpose of screening and training potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

CALAMCO NH3 is currently working within a pre-established Site Specific Plan (the site is in a heavy industrial area specifically permitted for ammonia production) to meet permitting and compliance requirements through land, legal, and environmental work. The Applicant represents that the Project has the support of the Kern County Planning department due to its potential to create substantial value for the California agricultural community. Because of the Project’s unique near-zero emissions, CALAMCO NH3 is not required to apply for an air permit.

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 \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM020 for CALAMCO NH3 LLC’s purchase of Qualified Property in an amount not to exceed \$107,607,827 anticipated to result in an approximate sales and use tax exclusion value of \$9,060,579.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CALAMCO NH3 LLC**

April 18, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CALAMCO NH3 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 \$107,607,827 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.