

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

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

**Tracy Renewable Energy LLC
Application No. 17-SM048**

Tuesday, June 20, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – Tracy Renewable Energy LLC

Location – Tracy, San Joaquin County

Industry – Biomass Processing and Ethanol Production

Project – New Ethanol Production Facility (Alternative Source)

Value of Qualified Property – \$52,246,456

Estimated Sales and Use Tax Exclusion Amount² – \$4,399,152

Estimated Net Benefits – \$13,135,585

Application Score³ –

Fiscal Benefits Points:	3,617
<u>Environmental Benefits Points:</u>	<u>368</u>
Net Benefits Score:	3,986

<u>Additional Benefits Points:</u>	<u>98</u>
Total Score:	4,084

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

Tracy Renewable Energy LLC (“TRE” or “the Applicant”) was established in 2011. TRE is a special purpose entity and has developed the Tracy Integrated Campus over the last five years.

The major shareholders (10.0% or greater) of Tracy Renewable Energy LLC are:

Frank Schubert (100%)

The sole corporate officer of Tracy Renewable Energy LLC is:

Frank Schubert

THE PROJECT

TRE is planning to construct a renewable ethanol production plant at the Tracy Integrated Campus in Tracy, California. The Tracy Integrated Campus serves as a renewable energy and water management facility for the greater Tracy area. TRE represents that the new facility will eventually produce 30 million gallons per year of renewable ethanol. Utilizing locally-grown sugar beets, the plant will use a process of liquefaction, fermentation, and distillation to produce renewable ethanol.

The Applicant represents that byproducts of this process include 400,000 gallons per day of water released from the beets that will ultimately be distilled and returned to the City of Tracy. Another byproduct is animal feed derived from the beet pulp.

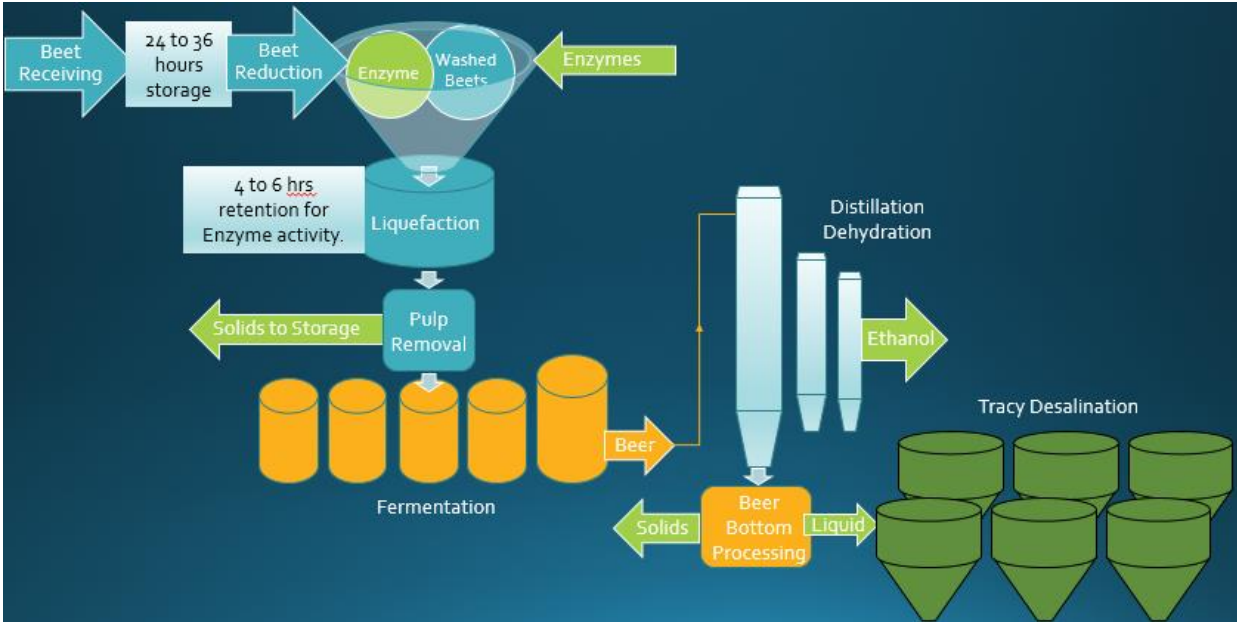


Figure 1: Tracy Renewable Energy Ethanol Process

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Processing Equipment	\$38,396,456
Electrical Contractor Supplied Equipment and Materials	2,475,000
Mechanical Piping Systems Materials	5,843,000
Utility Piping Systems Materials	367,000
Structural Steel Pipe Racks Materials	1,907,500
Buildings Materials	315,500
Concrete Structures and Roads Materials	<u>2,942,000</u>
Total	<u>\$52,246,456</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

Administration of the project, as well as procurement, installation, and integration began in early 2017. Commissioning and startup operations of the new facility are expected to begin in the second quarter of 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$52,246,456 and the total net benefits are valued at \$13,135,585 for the Project. The Project received a Total Score of 4,084 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 368 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,617 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 \$15,913,811 resulting in a Fiscal Benefits score of 3,617 points for the Project.

- B. Environmental Benefits (368 points).** The Project will result in \$1,620,925 of total pollution benefits over the life of the Project resulting in an Environmental Benefits

Score of 368 points for the Project. These benefits derive from the production of renewable ethanol, which offsets the need for use of fossil fuel.

- C. **Additional Benefits (98 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 98 additional points.
1. **Permanent Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 37 permanent 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 Permanent Jobs Score of 20 points for the Project.
 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 60 construction jobs at its Facility. CAEATFA estimates that approximately six 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.
 3. **Unemployment (48 of 50 points)**. The Applicant's Project is located in San Joaquin 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 an Unemployment Score of 48 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has completed CEQA documentation as well as an Authority to Construct. The Permit to Operate, documentation specific to a facility generating a regulated emissions source, will be procured in the second quarter of 2018 as part of the commissioning process. A National Pollution Discharge Elimination System General Permit for Storm Water Discharge will be acquired prior to construction. Lastly, fire safety approval will be coordinated with the San Joaquin County Fire Marshall during both construction and operation.

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 up to \$208,985.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM048 for Tracy Renewable Energy LLC's purchase of Qualified Property in an amount not to exceed \$52,246,456 anticipated to result in an approximate sales and use tax exclusion value of \$4,399,152.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE TRACY RENEWABLE ENERGY LLC**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Tracy Renewable Energy 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 \$52,246,456 over a period of three (3) 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.8
Resolution No. 17-SM048
Application No. 17-SM048

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.