

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

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

**Sanitation Districts of Los Angeles County  
Application No. 17-SM052**

**Tuesday, July 18, 2017**

Prepared By: *Melanie Holman, Analyst*

**SUMMARY**

**Applicant** – Sanitation Districts of Los Angeles County

**Location** – Whittier and Carson, Los Angeles County

**Industry** – Biomass Processing and Fuel Production

**Project** – Expansion of an Existing Food Waste System to Include Integrated Pre-Processing of Organic Waste and Anaerobic Digestion (Alternative Source)

**Value of Qualified Property** – \$11,928,310

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$1,004,364

**Estimated Net Benefits** – \$1,190,772

**Application Score** –

Fiscal Benefits Points:	2,091
<u>Environmental Benefits Points:</u>	<u>95</u>
<b>Net Benefits Score:</b>	<b>2,186</b>

<u>Additional Benefits Points:</u>	<u>69</u>
<b>Total Score:</b>	<b>2,255</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%.

**THE APPLICANT**

The Sanitation Districts of Los Angeles County (“LACSD” or the “Applicant”) is a public agency providing wastewater and solid waste management for 5.6 million people in Los Angeles County. LACSD has been providing services in the region since 1923, when the first districts were formed. LACSD is a confederation of 24 independent sanitation districts that work cooperatively under a regional management system. Seventeen of those districts are signatory to a joint agreement under which they jointly own and operate the wastewater conveyance, treatment, and disposal facilities. Under the terms of that agreement, District No. 2 serves as the administrative agent responsible for all matters pertaining to those shared facilities, including this proposed project.

The Board members of District Number 2 of the Sanitation Districts of Los Angeles County are:

- |                                     |   |
|-------------------------------------|---|
| David Mejia (Alhambra)              | Vivian Romero (Montebello)              |
| Ali Sajjad Taj (Artesia)            | Teresa Real Sebastian (Monterey Park)   |
| Fidencio Joel Gallardo (Bell)       | Luigi Vernola (Norwalk)                 |
| Jose J Mendoza (Bell Gardens)       | Peggy Lemons (Paramount)                |
| Ron Schnablegger (Bellflower)       | Bob Archuleta (Pico Rivera)             |
| Grace Hu (Cerritos)                 | Juli Costanzo(San Gabriel)              |
| Ivan Altamirano (Commerce)          | Maria Davila (South Gate)               |
| Aja Brown (Compton)                 | Melissa Ybarra (Vernon)                 |
| Fernando Vasquez (Downey)           | Joe Vinatieri (Whittier)                |
| Robert Garcia (Long Beach)          | Mark Ridley-Thomas (Los Angeles County) |
| Herb Wesson, Jr. (Los Angeles City) |   |

**THE PROJECT**

The Applicant seeks to build an integrated food waste pre-processing and anaerobic digestion system that will divert food waste from landfills and convert it to renewable natural gas (RNG) to be used as transportation fuel (the “Project”). Pre-processing activities will take place at the Applicant’s Puente Hills Materials Recovery Facility (MRF) located in Whittier, California. Utilizing DODA bio-separators, the Applicant intends to produce liquid slurry at the Puente Hills MRF which will be transported to LACSD’s Joint Water Pollution Control Plant (JWPCP) in Carson, California. LACSD represents that they have five existing anaerobic digesters with excess capacity located at the JWPCP that will be utilized to produce biomethane which will be upgraded to an estimated 2,085 diesel gallon equivalents (DGE) of RNG daily. This RNG is expected to be distributed at an existing LACSD fueling station. The Applicant predicts that the Project will offset 38,367 metric tons of carbon dioxide equivalent emissions per year.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Food Waste Processing Station	\$ 1,051,810
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**Agenda Item – 4.A.2**  
**Resolution No. 17-SM052**  
**Application No. 17-SM052**

Food Waste Receiving and Co-Digestion Station	2,443,500
Biogas Upgrading to Renewable Natural Gas	3,250,000
Upgrade and Expansion of Fueling Stations	1,600,000
Trucks and Tractors for Facility Operations	<u>3,583,000</u>
<b>Total</b>	<b><u>\$11,928,310</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**

The Applicant represents that startup activities at their Puente Hills MRF will begin in mid-2018. Upgrades and expansion are slated to continue throughout 2018 and 2019 with full capacity operation at the JWPCP facility predicted to begin in January 2020.

**PROJECT EVALUATION**

**NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$11,928,310 and the total net benefits are valued at \$1,190,772 for the Project. The Project received a Total Score of 2,255 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 95 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2091 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 \$2,099,961 resulting in a Fiscal Benefits score of 2,091 points for the Project.
  
- B. Environmental Benefits (95 points).** The Project will result in \$95,175 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 95 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane.
  
- C. Additional Benefits (69 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 69 additional points.

1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 22 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 represents that the Project will support a total of 19 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.
3. **Unemployment (9 of 50 points)**. The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8%. 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 9 points for this Project.

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

LACSD has completed a CEQA exemption for the Puente Hills MRF in support of the Project as no environmental impacts at this site are anticipated. CEQA compliance is in progress for the JWPCP facility, though the Applicant represents that any environmental impacts at this site are expected to be mitigatable. The Applicant does not anticipate the need for Authority to Construct or permit to operate permits, but they have indicated that they are prepared to acquire these permits if required by the South Coast Air Quality Management District. As the Project does not alter wastewater discharge volumes, the Applicant does not anticipate the need for an updated National Pollutant Discharge Elimination System (NPDES) permit. LACSD also represents that, as a public agency, they are exempt from building permits.

#### **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>3</sup> the Applicant has paid CAEATFA an Application Fee of \$5,964 and will pay CAEATFA an Administrative Fee up to \$47,713.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RECOMMENDATION**

Staff recommends approval of Resolution No. 17-SM052 for the Sanitation Districts of Los Angeles County's purchase of Qualified Property in an amount not to exceed \$11,928,310 anticipated to result in an approximate sales and use tax exclusion value of \$1,004,364.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH THE SANITATION DISTRICTS OF  
LOS ANGELES COUNTY**

July 18, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of the **Sanitation Districts of Los Angeles County** (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 \$11,928,310 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.