

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

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

**CalPlant I, LLC
Application No. 17-SM059**

Tuesday, October 17, 2017

Prepared By: *Katrina Connolly, Blue Sky Consulting Group with Melanie Holman, Analyst*

SUMMARY

Applicant – CalPlant I, LLC

Location – Willows, Glenn County

Industry – Medium Density Fiberboard Production

Project – New Medium Density Fiberboard Production Facility (Advanced Manufacturing)

Value of Qualified Property – \$92,278,983

Estimated Sales and Use Tax Exclusion Amount² – \$7,769,890

Application Score –

Fiscal Benefits Points:	2,020
<u>Environmental Benefits Points:</u>	<u>99</u>
Net Benefits Score:	2,119

<u>Additional Benefits Points:</u>	<u>170</u>
Total Score:	2,289

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

CalPlant I, LLC, (“CalPlant” or the “Applicant”), a wholly owned subsidiary of CalPlant I Holdco, LLC, is a California limited liability company that formed in 2008, and for the past nine years has been conducting research, development and testing to establish a new patented process to manufacture medium density fiberboard (“MDF”) from rice straw, which was heretofore a waste product. The California Pollution Control Financing Authority approved CalPlant for a final resolution authorizing the issuance of revenue bonds and tax-exempt volume cap allocation in an amount not to exceed \$235,000,000 in May 2017.

The major shareholders (10.0% or greater) of CalPlant I Holdco, LLC are:

- Occator Agricultural Properties, LLC (33%)
- CalAg, LLC (28%)
- Columbia Forest Products, Inc (18.5%)
- ZC CalAg, LLC (16.5%)

The corporate officers of CalPlant I, LLC are:

- Gerald R. Uhland, President
- Christopher P. Motley, CFO
- Leslie L. Younie, Jr., VP of Manufacturing
- Francis Eck, VP of Operations
- Elizabeth Whalen, VP of Marketing & Sales

THE PROJECT

CalPlant is requesting a sales and use tax exclusion to build a new manufacturing facility in Willows, California that employs a patented process to produce MDF from rice straw (the “Project”). Historically, MDF has been made from wood or wood byproducts such as sawdust, but the Project will use rice straw from rice fields in the Sacramento Valley, making it the first rice straw-based MDF plant in the world, according to the Applicant. The Applicant represents the Project will use cutting-edge technology to chop and clean rice straw from rice fields in the Sacramento Valley into fiber via a high-pressure refiner, and adding resin with high-precision technology. After drying, the resonated fiber can be pressed into MDF using what the Applicant describes as the most state-of-the-art press in the world. The Applicant represents the Project improves operational efficiency compared to the industry standard by using information technology to allow the equipment manufacturer, Siempelkamp, to monitor and adjust the plant’s performance in real time from its headquarters in Krefeld, Germany. The real-time adjustments will minimize energy and resin costs, and tailor board qualities to the specifications of the customer order. The Applicant also represents the production process shortens refining time by a factor of 7 and lowers the steam pressure by a factor of 2.5 compared to the production of wood-fiber MDF.

Additionally, the Applicant represents that the rice straw-based MDF meets or exceeds the American National Standards Institute standards for wood-based MDF and will compete directly with wood-based MDF produced in other states. According to the Applicant, rice straw-based MDF has superior moisture resistance, internal bond strength, screw-holding capacity, and product consistency compared to wood-based MDF. Further, the Applicant represents rice straw-based MDF is free of formaldehyde, unlike most wood-based MDF.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Processing Equipment	\$80,869,046
Concrete foundations	\$2,000,000
Piping	\$1,491,049
Fire Protection	\$1,142,678
Steel Structures	\$5,886,210
Supplies for Manufacturing Operations	\$230,000
Lab Equipment	\$160,000
Equipment for straw handling	\$400,000
Rolling Stock	\$100,000
Total	<u>\$92,278,983</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 the facility will be constructed from September 2017 to October 2019, after which commercial operation is anticipated to begin.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$92,278,983 and the total net benefits are valued at \$7,927,204 for the Project. The Project received a Total Score of 2,289 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 99 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2,020 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 \$15,697,094 resulting in a Fiscal Benefits score of 2,020 points for the Project.

B. Environmental Benefits (99 points). The Project will result in an Environmental Benefits Score of 99 points. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that tracks energy, water, waste, GHG transportation and calculates, energy compliance reporting and carbon footprint and will be monitored in real time to continually adjust practices for sustainability.
2. **Energy Consumption (21 of 30 points).** The Applicant represents that its manufacturing process will result in a 21 percent reduction in energy consumption relative to the industry standard manufacturing process.
3. **Water Use (19 of 30 points).** The Applicant represents that its manufacturing process will result in a 19 percent reduction in water use relative to the industry standard manufacturing process.
4. **Solid Waste (19 of 30 points).** The Applicant represents that its manufacturing process will result in a 19 percent reduction in solid waste produced relative to the industry standard manufacturing process.
5. **Air Pollutants (19 of 30 points).** The Applicant represents that its manufacturing process will result in a 19 percent reduction in air pollutants produced relative to the industry standard manufacturing process.

C. Additional Benefits (170 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 170 additional points.

1. **Permanent Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 87 permanent jobs at its Facility. CAEATFA estimates that approximately seven 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 325 construction jobs at its Facility. CAEATFA estimates that approximately 24 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 (40 of 50 points).** The Applicant's Project is located in Glenn County which has an average annual unemployment rate of 10.6% percent. This is above 110 percent 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 16 points for this Project.

4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the production of MDF from recycled rice straw.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Butte-Glenn Community College and Glenn County Department of Health and Human Services for the purpose of training the workers at the Facility.
6. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by County of Glenn, Community Development Department and Health & Human Services, as an industry cluster (Green Building Materials) of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has obtained or is in the process of obtaining 13 permits for the project. The Applicant has kept current its land use and air quality permits. For the 11 temporary permits required during construction (e.g. building construction, site work & UG utilities), Glenn County has dedicated a permit staff member to coordinate and expedite the permits. The Applicant anticipates receiving all required permits by July 2018.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM059 for CalPlant I, LLC's purchase of Qualified Property in an amount not to exceed \$92,278,983 anticipated to result in an approximate sales and use tax exclusion value of \$7,769,890.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE CALPLANT I, LLC**

October 17, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **CalPlant I, 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 \$92,278,983 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.