

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

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

**WIE-AGRON Bioenergy, LLC
Application No. 18-SM020**

Tuesday, August 21, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – WIE-AGRON Bioenergy, LLC

Location – Watsonville, Santa Cruz County

Industry – Biodiesel Production

Project – Repair, Upgrade, and Expand an Existing Biodiesel Production Facility (Alternative Source)

Value of Qualified Property – \$7,685,000

Estimated Sales and Use Tax Exclusion Amount² – \$642,466

Estimated Quantifiable Net Benefits – \$647,480

Application Score³ –

| | |
|--|---------------|
| Fiscal Benefits Points: | 1,893 |
| <u>Environmental Benefits Points:</u> | <u>114</u> |
| Net Benefits Score: | 2,008 |
| <u>Additional Benefits Points:</u> | <u>89</u> |
| Total Score: | 2,097 |

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 8.36%.

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

THE APPLICANT

WIE-AGRON Bioenergy, LLC (“WIE-AGRON” or the “Applicant”) is an Iowa limited liability company that was organized in October 2017. WIE-AGRON is a wholly owned subsidiary of Western Iowa Energy, LLC (“Western Iowa”), which has been making biodiesel fuel since 2004. The Applicant represents that its biodiesel production process also results in a low-salt glycerin byproduct that can be used in manufacturing health and beauty products and food additives.

The facility that WIE-AGRON currently operates and plans to expand as a part of this Application was initially operated by AGRON Bioenergy, LLC (“AGRON Bioenergy”), which was approved for a sales and use tax award on June 19, 2012 to purchase up to \$4.1 million in Qualified Property to build a new biodiesel production facility. AGRON Bioenergy completed its project in 2013 and continued operations until October 31, 2017, at which time WIE-AGRON was approved a sales and use tax exclusion award for \$3.5 million in Qualified Property to purchase the production equipment and assets to resume producing biodiesel on December 19, 2017.

The corporate officers of WIE-AGRON Bioenergy, LLC are:

Bradley Wilson, President
Mike Altmanshofer, Vice President of Operations
Bill Horan, Board Chairman
Kevin Ross, Secretary
Denny Mauser, Vice Chairman
Brent Halling, Board Member
Grant Kimberly, Board Member
John Geake, Board Member
Warren Bush, Board Member

THE PROJECT

WIE-AGRON is requesting a sales and use tax exclusion to repair, upgrade and expand its existing biodiesel facility located in Watsonville (the “Project”), where it will produce low-carbon biodiesel from choice white grease that has been pre-processed to remove all acids and gums. The Applicant explains that it will utilize a unique low water process combined with the traditional transesterification and distillation methods to produce a low emission biodiesel. According to the Applicant, the Project consists of two phases, in which the first involves making necessary repairs and equipment upgrades to the facility, followed by expanding its storage and loading capacity to increase maximum yield and output by an average of almost 3 million gallons per year. The Applicant plans to supplement certain process components to ensure compliance with new emission standards.

Figure 1: WIE-AGRON Storage Tanks and Transfer System



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|---|---------------------------|
| Heating Equipment and Safety System | \$1,080,000 |
| Storage, Tanks, and Transporting Tools | 2,140,000 |
| Pipes and Pumps | 2,650,000 |
| Software and Automation | 465,000 |
| Engineering Plans and Site Improvements | 1,100,000 |
| Water System | 250,000 |
| Total | <u>\$7,685,000</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

According to the Applicant, testing will be conducted through summer of 2018, and repairs and replacement of equipment will proceed and be completed by fall of 2019. The Applicant represents that it will expand its storage and offloading capacity in 2020 with the expectation of completing such activity by 2021.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,685,000 and the total quantifiable net benefits are valued at \$647,480 for the Project. The Project received a Total Score of 2,037 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 114 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,893 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 \$1,216,403 resulting in a Fiscal Benefits score of 1,893 points for the Project.
- B. Environmental Benefits (114 points).** The Project will result in \$73,544 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 114 points for the Project. These benefits derive from the production of biodiesel, which offsets the need for use of fossil fuel.
- C. Additional Benefits (89 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 29 additional points.

 - 1. Production Jobs (0 of 75 points).** The Applicant represents that the Project will support no production-related jobs at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 - 2. Construction Jobs (60 of 75 points).** The Applicant represents that the Project will support a total of 45 construction jobs at its Facility. CAEATFA estimates that approximately seven jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of zero points for the Project.
 - 3. Unemployment (29 of 50 points).** The Applicant's Project is located in Santa Cruz County which has an average annual unemployment rate of 6.5%. This is above 110% of the statewide average annual unemployment rate which was

5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 29 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, permits to operate and construct were issued by the Monterey Bay Air Resources District (MBARD) and are current. For phase two of the Project, WIE-AGRON represents it will seek to obtain two building permits from the City of Watsonville Community Development Department to install new tank farms and construct a new biodiesel offloading infrastructure by the end of 2020 or first half of 2021. Additionally, a new or amended Spill Prevention Control and Countermeasure Plan (SPCC) will be obtained by the end of 2020 or the first half of 2021, according to the Applicant.

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.

FINDING OF PUBLIC INTEREST

Due to the Applicant's procurement schedule, it is requesting that the requirement for all purchases of Qualified Property be made within three years of approval be waived.⁴ The Applicant represents that they will be making substantial acquisitions of Qualified Property over a period of four years. Based on the information presented, staff believes that waiving the three year purchase requirement of the initial term is in the public interest and advances the purposes of the Program.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁵ the Applicant has paid CAEATFA an Application Fee of \$3,842.50 and will pay CAEATFA an Administrative Fee of up to \$30,740.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM020 for WIE-AGRON Bioenergy, LLC's purchase of Qualified Property in an amount not to exceed \$7,685,000 anticipated to result in an approximate sales and use tax exclusion value of \$642,466.

⁴ California Code of Regulations Title 4, Division 13, Section 10035(b)(1)

⁵ California Code of Regulations Title 4, Division 13, Section 10036

Agenda Item – 4.A.2
Resolution No. 18-SM020
Application No. 18-SM020

Staff also recommends that pursuant section 10035(b)(1)(A) of the California Code of Regulations, the three-year purchase requirement of the initial term be waived to provide WIE-AGRON with a four-year initial term in which it can acquire Qualified Property.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH WIE-AGRON BIOENERGY, LLC**

Tuesday, August 21, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **WIE-AGRON Bioenergy, 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 \$7,685,000 over a period of four years; and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A));

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.

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.