

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

*Consideration of California Safe Soil, LLC's Request to Approve a Time Extension for the
Three Year Term of the Master Regulatory Agreement¹*

**California Safe Soil, LLC
Application No. 16-SM006**

Tuesday, December 18, 2018

Prepared By: *Matthew Parsons, Analyst*

SUMMARY

Applicant – California Safe Soil, LLC

Location – McClellan, Sacramento County

Industry – Soil Amendment Manufacturing

Project – Construction of a New Organics Recycling and Soil Amendment Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$3,750,000

Estimated Sales and Use Tax Exclusion Amount² – \$315,750

Amount of Time Requested –

- Three years, until January 19, 2022, for the Term of the Master Regulatory Agreement (six years from the date of the initial CAEATFA Board approval)

REQUEST

In January 2016, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for California Safe Soil, LLC (“CSS” or the “Applicant”) for the purchase of \$3,750,000 of Qualified Property to build a commercial scale organics recycling and soil amendment manufacturing facility in an 80,000 square foot warehouse (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be

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 at the time of initial approval, which was 8.42%.

extended by the Board upon a finding that an extension is in the public interest and advances the purpose of the program.³

Through June 30, 2018, CSS has reported \$1,771,733 in Qualified Property purchases and the Applicant estimates it has purchased approximately \$153,000 more in Qualified Property through November 2018 (49% of the total Qualified Property amount approved). CSS is requesting to extend the Agreement initial term by three years to accommodate project timeline delays, as a result of slow market uptake.

According to CSS, it has completed initial construction and began production on July 1, 2017, but is not yet at full capacity. CSS represents that this is due, in part, to the time required to gain market acceptance of its product. However, CSS notes it is currently converting 5,000 tons of food waste per year into its Harvest to Harvest fertilizer that is sold to conventional and organic growers in California, and plans to sell its animal feed to accelerate sales growth. CSS also represents that improved technology and efficiency has resulted in a reprioritization of the equipment that was envisioned when it first entered into the Agreement. As a result, the Applicant indicates that fewer production lines will be needed to achieve its design capacity. While these modifications may alter the equipment needs from what was listed in the Agreement, the total equipment costs are expected to remain the same. The Applicant anticipates that, based on its historical rate of growth, a three-year extension will be adequate time to complete the Project.

About the Applicant

California Safe Soil, LLC is a Delaware Limited Liability Company established for the purpose of converting unsold organics from supermarkets into soil amendment. The Applicant has operated a pilot plant in West Sacramento from 2013 to 2015, serving local grocery chains such as Safeway, Nugget, Whole Foods, Save Mart, and Grocery Outlet. CSS has since added Sacramento's Golden1 Center as a recycling customer. CSS has also partnered with scientists at UC Davis to study the efficacy and environmental benefits of their process and product.

Project Description

California Safe Soil, LLC has built a commercial scale organics recycling and soil amendment manufacturing facility in an 80,000 square foot warehouse in McClellan, California (the "Project"). Construction at the facility will be completed in two phases, with Phase I currently in service and II beginning next year, ramping production capacity to 3.2 million gallons of soil amendment per year.

The Applicant's business model involves collecting unsold food from participating grocery chains before it starts to rot or ferment. CSS represents that this is different from all other methods of food waste recycling, where food is allowed to become putrescent in the process. By using special insulated totes and buggies to keep food waste fresh, CSS facilities can be permitted in urban areas, closer to the waste sources. This advantage eliminates the need for long

³ The provision of the regulations allowing CAEATFA to waive the requirement that all purchases of Qualified Property be made within three years of the Application approval is in Regulation Section 10035(b)(1)(A).

distance hauling to a landfill or composting site, which in turn saves money and reduces GHG emissions. Additionally, the Applicant states that its system generates no emissions, effluents, solid waste, or noxious odors, and that it improves store hygiene, compared with keeping unsold organics in compactors or dumpsters.

Once at the CSS facility, food waste is put through a proprietary system that uses heat, mechanical action, and enzymes to convert food into a liquid soil amendment with a small particle size (approximately 26 microns) in only three hours. CSS maintains that this new technology saves time and energy relative to composting food waste. The Applicant also notes that, because food waste is fresh, the resulting fertilizer, called Harvest to Harvest (“H2H”), is of a higher quality than industry standard. CSS has been working with scientists at UC Davis and the UC Coop Extension offices to demonstrate that H2H can increase crop yields, cut the use of nitrate fertilizer, and increase water efficiency. Additionally, because of the manufacturing process, the Applicant represents that the end product is pathogen free, which is not the case for composted soil amendments.

The Applicant currently has an agreement with the Save Mart chain of grocery stores, which will recycle food waste from 100 markets serviced by its Roseville distribution center at the CSS facility in McClellan. Currently, Save Mart ships organics to a composter, often hundreds of miles away.

Agreement Term Extension Request

CSS has requested that the initial term of the Agreement be extended from January 19, 2016 to January 19, 2021 in order to accommodate Project delays and redesign.

Staff Evaluation

CSS has purchased approximately 49% of the total \$3,750,000 in Qualified Property amount approved to date and has completed initial construction of the Project, which was placed in service on July 1, 2016. According to CSS, an extension will allow for it to install additional production capacity to be able to process the originally planned capacity of 32,000 tons/year within the next three years. Despite the timeline delays, CSS is confident an additional three years will be sufficient time to complete the total Project, given its historical rate of growth and updated Project timeline. Based on this information, staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

Fees

In accordance with CAEATFA Regulations,⁴ the Applicant will pay an Additional Administrative Fee of \$500 because extending the initial term requires a modification to the Applicant’s Master Regulatory Agreement.

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

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

RECOMMENDATION

Staff recommends that the Board approve California Safe Soil, LLC’s request to extend the initial term of the Agreement by three years to January 19, 2022 as it is in the public interest and advances the purpose of the Program.

Attachments

- Attachment A: CSS’s letter requesting waiver (November 13, 2018)
- Attachment B: CSS’s staff summary at the time of approval

**RESOLUTION APPROVING A TIME EXTENSION FOR
CALIFORNIA SAFE SOIL, LLC’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

December 18, 2018

WHEREAS, on January 19, 2016 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$3,750,000 of Qualified Property for **California Safe Soil, LLC** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); 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)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by three years to January 19, 2022; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to January 19, 2022.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: California Safe Soil’s Letter Requesting Waiver (November 13, 2018)



California Safe Soil, LLC
4700 Lang Avenue, Bay C
McClellan, CA 95652
(916) 539 - 5458

Tuesday, November 13, 2018

Matthew F. Parsons
CA Alternative Energy & Advanced
Transportation Financing Authority
915 Capitol Mall
Sacramento, CA 95814

Re.: Extension of Master Regulatory Agreement dated February 5, 2016

Dear Matt,

The purpose of this letter is to request a three (3) year extension of the Master Regulatory Agreement dated February 5, 2016 (“Agreement”) whereby California Safe Soil, LLC (“CSS”) was granted an exclusion from sales and use tax for certain equipment, valued at \$3,750,000 to be installed at our Project in McClellan, CA.

As of our last report on June 30, 2018, CSS has utilized \$1,816,054 of the total equipment value, leaving \$1,933,496 unutilized as of that date. We successfully constructed the Project and placed it in service July 1, 2016. We have since installed additional equipment constituting various upgrades and improvements to the Project, but we have not yet installed all the equipment necessary to expand the Project to its full capacity. In part, this is due to the time required to gain market acceptance of our Harvest to Harvest (“H2H”) fertilizer product by California farmers. We are now converting 5,000 tons/year of food waste into over 1 million gallons of H2H which we are selling to a wide variety of conventional and organic growers in California.

At our current rate of growth, we plan to install additional production capacity to be able to process the originally planned capacity of 32,000 tons/year within the next three years. Our technology is proprietary. We have made significant improvements in our technology, reflected in our three existing patents and several subsequent patents pending. We have improved our wastewater and exhaust controls through investment in additional technology and equipment. We have developed the technology to dry H2H and make animal feed. Opening up the animal feed market will accelerate our sales growth, and the need to install the equipment which will utilize the balance of the QP.

Not all of this equipment was envisioned when we first entered into the Agreement. The types of equipment needed have expanded as we have improved the technology, and the efficiency of our process has improved, so that fewer production lines will be needed to achieve our design capacity. While these changes will change the equipment categories from what is set out in the Agreement, the total equipment cost is still comparable.

For these reasons, we are requesting approval of a three (3) year extension in the Agreement.

Sincerely,

Daniel Morash
Managing Member

Attachment B: Millennium Space System’s Staff Summary at the Time of Approval

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

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

California Safe Soil, LLC
Application No. 16-SM006

Tuesday, January 19, 2016

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant– California Safe Soil, LLC

Location– McClellan, Sacramento County

Industry – Soil Amendment Manufacturing

Project– Construction of a New Organics Recycling and Soil Amendment Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$3,750,000

Estimated Sales and Use Tax Exclusion Amount² – \$315,750

Application Score –

Fiscal Benefits Points:	5,143
<u>Environmental Benefits Points:</u>	<u>120</u>
Net Benefits Score:	5,263

<u>Additional Benefits Points:</u>	<u>150</u>
Total Score:	5,413

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

California Safe Soil, LLC (“CSS” or the “Applicant”) is a Delaware Limited Liability Company established for the purpose of converting unsold organics from supermarkets into soil amendment. The Applicant has operated a pilot plant in West Sacramento for the past three years, serving local grocery chains such as Safeway, Nugget, Whole Foods, Save Mart, and Grocery Outlet. CSS has also partnered with scientists at UC Davis to study the efficacy and environmental benefits of their process and product.

The major shareholders (10.0% or greater) of California Safe Soil, LLC are:

Dan Morash
Mikael Salovaara
REDF-OR, Inc.

The corporate officers of California Safe Soil, LLC are:

Dan Morash, Managing Member
Emily McNamara, Marketing Associate
John Erke, Director, Supermarkets
George Eowan, Director, Regulatory Relations
Dr. Miguel Duarte, Chief Agronomist
David Yurosek, Farm Salesperson
Troy Miller, Farm Salesperson
Miriam Robles, Office Manager
Mark Bauer, Director of Business Development
Mark LeJeune, Chief Operating Officer

THE PROJECT

California Safe Soil, LLC is planning to build a commercial scale organics recycling and soil amendment manufacturing facility in an 80,000 square foot warehouse in McClellan, California (the “Project”). Construction at the facility will be completed in three phases, with Phases I and II beginning immediately and ramping production capacity to 3.2 million gallons of soil amendment per year. Phase III will expand capacity at the facility to meet industry demand. The Applicant believes that Phase III will break ground within three years. However, due to its reliance on market factors, Phase III equipment will be the subject of a separate application.

The Applicant’s business model involves collecting unsold food from participating grocery chains before it starts to rot or ferment. CSS represents that this is different from all other methods of food waste recycling, where food is allowed to become putrescent in the process. By using special insulated totes and buggies to keep food waste fresh, CSS facilities can be permitted in urban areas, closer to the waste sources. This advantage eliminates the need for long distance hauling to a landfill or composting site, which in turn saves money and reduces GHG

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emissions. Additionally, the Applicant states that its system generates no emissions, effluents, solid waste, or noxious odors, and that it improves store hygiene, compared with keeping unsold organics in compactors or dumpsters.

Once at the CSS facility, food waste is put through a proprietary system that uses heat, mechanical action, and enzymes to convert food into a liquid soil amendment with a small particle size (approximately 26 microns) in only three hours. CSS maintains that this new technology saves time and energy relative to composting food waste. The Applicant also states that, because food waste is fresh, the resulting fertilizer, called Harvest to Harvest (“H2H”), is of a higher quality than industry standard. CSS states that it has been working with leading scientists at UC Davis and the UC Coop Extension offices to demonstrate that H2H can increase crop yields, cut the use of nitrate fertilizer, and increase water efficiency. Additionally, because of the manufacturing process, the Applicant represents that the end product is pathogen free, which is not the case for composted soil amendments.

The Applicant currently has an agreement with the Save Mart chain of grocery stores, which will recycle food waste from 120 markets serviced by its Roseville distribution center at the CSS facility in McClellan. Currently, Save Mart ships organics to a composter, often hundreds of miles away. The Applicant represents that only a fraction of this food waste can be accommodated at the compost facility, because food waste must be kept in proportion to green waste in order to create a quality soil amendment. Therefore, some of the food waste shipped to composters may be ending up in landfills instead. CSS, on the other hand, will use 100% of the food waste it collects, reducing the amount of solid waste and GHG emissions.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Grinder	\$ 100,000
Boilers	200,000
Wash-down Stations	24,000
385 cubic foot Ribbon Blenders	929,000
Emulsifier	20,000
In-line High Shear Mixer	100,000
In-line Grinder	34,000
60" SWECO screens	100,000
Plant Transfer and Circulation Pumps	80,000
5,000 Gallon Stabilization Tank w/ prop mixer	52,000
5,000 Gallon Mix Tank w/ prop mixer	52,000
6,000 Gallon Load out Tank	30,000
Chemical Tanks	35,600
Product Storage Tanks	340,000
Product Storage Tank Agitators	112,000
Controls Equipment (Load cells, hardware, LAB EQ, & Indicators)	110,000
Air Compressor	60,000

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Totes	308,000
Buggies	152,000
Delivery containers	12,600
Trailers	72,000
Scales	3,000
Pallet Jacks	3,000
Rolling Ladders	2,800
Plant Office Equipment	10,000
Wash Line	178,000
Refrigeration equipment	380,000
Sort Lines	<u>250,000</u>
Total	<u>\$3,750,000</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

The Project will consist of two phases. Phase I equipment will be installed and placed in service by the end of Q1 2016. Phase II will begin after Phase I is complete and will be completed within three years. A third phase is also expected as a separate application within three years.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,750,000. The Project received a Total Score of 5,413 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 120 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (5,143 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 \$1,623,748 resulting in a Fiscal Benefits score of 5,143 points for the Project.
- B. **Environmental Benefits (120 points)**. The Project will result in an Environmental Benefits Score of 120. The Applicant received points in the following categories:

1. **Energy Consumption (30 of 30 points)**. The Applicant represents its manufacturing process will result in a 50% reduction in energy consumption relative to the industry standard manufacturing process.
 2. **Solid Waste (30 of 30 points)**. The Applicant's manufacturing process will result in a 50% reduction in solid waste produced relative to the industry standard manufacturing process.
 3. **Hazardous Waste (30 of 30 points)**. The Applicant's manufacturing process will result in a 50% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 4. **Air Pollutants (30 of 30 points)**. The Applicant's manufacturing process will result in a 50% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (150 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 150 additional points.
1. **Permanent Jobs (40 of 75 points)**. The Applicant's Project will support a total of 18 permanent jobs at its Facility. CAEATFA estimates that approximately one 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 40 points for the Project.
 2. **Construction Jobs (20 of 75 points)**. The Applicant's Project will support a total of four construction jobs at its Facility. CAEATFA estimates that approximately one 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. **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 agricultural soil amendments.
 4. **Workforce Partnerships (25 points)**. The Applicant has partnerships with University of California, Davis and the Center for Land Based Learning for the purposes of assisting in the training of potential future workers.
 5. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by Sacramento Regional Technology Alliance as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant has received all necessary permits for the Project.

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 \$1,875 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM006 for California Safe Soil, LLC's purchase of Qualified Property in an amount not to exceed \$3,750,000 anticipated to result in an approximate sales and use tax exclusion value of \$315,750.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CALIFORNIA SAFE SOIL, LLC**

January 19, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **California Safe Soil, 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 \$3,750,000 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.