

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

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

**Biogas Energy Inc.  
Application No. 19-SM001**

**February 19, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Biogas Energy Inc.

**Location** – Roseville, Placer County

**Industry** – Biomass Processing and Fuel Production

**Project** – New Bio-Oil Production Facility (Alternative Source)

**Value of Qualified Property** – \$3,867,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$323,281

**Estimated Quantifiable Net Benefits** – \$111,392

**Application Score** –

Fiscal Benefits Points:	1,111
<u>Environmental Benefits Points:</u>	<u>234</u>
<b>Net Benefits Score:</b>	1,345
<u>Additional Benefits Points:</u>	<u>30</u>
<b>Total Score:</b>	1,375

**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 8.36%.

**THE APPLICANT**

Biogas Energy Inc. (“Biogas Energy” or the “Applicant”) was incorporated in 2010 in the State of California. Biogas Energy focuses on bringing to the market technologies that convert waste into renewable energy, including two existing anaerobic digestion facilities in Modesto and Chico.

The major shareholders (10.0% or greater) of Biogas Energy, Inc. are:

Brian Gannon, 100%

The corporate officers of Biogas Energy, Inc. are:

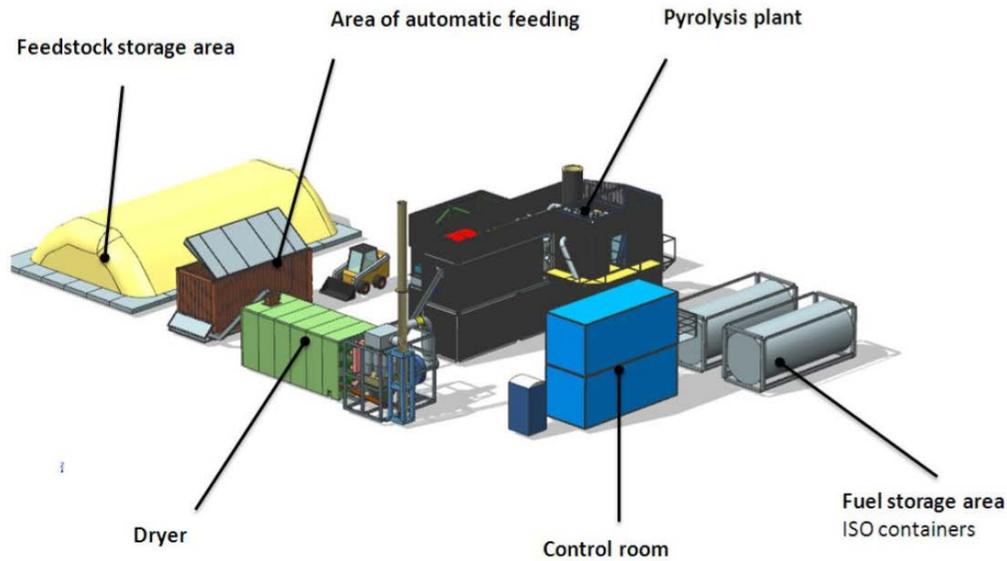
Brian Gannon, CEO, CFO, Secretary

**THE PROJECT**

Biogas Energy is requesting a sales and use tax exclusion to build a new bio-oil production facility located in Roseville (the “Project”). Biogas Energy will convert wood waste into bio-oil, an intermediate fuel that is either refined into diesel or made into renewable natural gas (“RNG”). Biogas Energy represents it uses ablative fast pyrolysis (“AFP”) technology to produce the bio-oil. According to the Applicant, AFP combines friction and high temperatures to “melt” wood into solids and gaseous fractions. The solids fraction, known as biochar, is a carbon material that is mixed with compost to make soil amendment. The gaseous fraction is fed to a filter system which essentially precipitates out the bio-oil. The remaining gas is then routed to a burner which generates the heat required for the process itself. The Applicant states that all of the heat energy needed for the Project is self-generated, including heat used to dry the wood chips to meet feedstock specification.

According to the Applicant, the feedstock for the Project will come from a waste management facility that processes over 80 tons per day of various wood waste materials. The Applicant represents that the Project will be fed 10 tons per day of multiple types of feedstock including construction and demolition wood waste, forestry wood waste, agricultural wood waste, and wastewater treatment plant bio-solids. Biogas Energy states that it will test the multiple feedstock types to determine which will maximize its potential revenue streams.

Biogas also received a grant for \$5,700,000 from the California Energy Commission on September 17, 2018 for the Project.



*Figure A: Production Processing Plant*

According to the Applicant, the AFP technology has been tested in Germany, but the Project will be the first to demonstrate the technology in the United States. The Applicant represents that the bio-oil produced by the process will be sold to California oil refineries to be processed with conventional crude oil to make diesel, and will also be fed to anaerobic digesters to make RNG for vehicle fuel at a digester site owned by North State Rendering in Oroville, CA.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Biomass Equipment	\$ 710,000
Biochar reception	38,000
Mobile Office	35,000
Laboratory Equipment	160,000
Front Loader	42,000
Dual Fuel Burners	80,000
Bio-oil Reception System	12,000
Tanker Truck	60,000
Pyrolysis System	2,220,000
Rebar and Concrete	20,000
Carbon Filtration and Gas Pumps	200,000
H25 Scrubbing System	250,000
Bio-oil Feedstock Reception	40,000
<b>Total</b>	<b><u>\$3,867,000</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**

Biogas Energy secured a grant from the California Energy Commission in 2018 and has started the Project. Construction for a slab to support the equipment is slated for October 2019. The Applicant states it has signed an equipment supply agreement and paid a down payment for the pyrolysis equipment, which will be delivered in April of 2020. The Applicant anticipates operation will begin by June 2020.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$3,867,000 and the total quantifiable net benefits are valued at \$111,392 for the Project. The Project received a Total Score of 1,375 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 234 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,111 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 \$359,170, resulting in a Fiscal Benefits score of 1,111 points for the Project.
- B. **Environmental Benefits (234 points)**. The Project will result in \$75,504 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 234 points for the Project. These benefits derive from the production of bio-oil, which offsets the need for use of fossil fuels.
- C. **Additional Benefits (30 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 30 additional points.
  1. **Production Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of six production-related 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 30 points for the Project.

2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 2 construction jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

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

Biogas Energy was granted a California Environment Quality Act exemption in January of 2018, as well as a conditional use permit by Placer County. The Applicant plans to submit an application for an Authority to Construct permit from the Placer County Air Board in Q1 2019, and anticipates the process will take about four weeks once filed. The Applicant also plans to file for a building permit in February 2019 for construction of the support slab, with an estimated approval date in May 2019.

## **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 \$1,933.50 and will pay CAEATFA an Administrative Fee of up to \$15,468.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM001 for Biogas Energy Inc.'s purchase of Qualified Property in an amount not to exceed \$3,867,000, anticipated to result in an approximate sales and use tax exclusion value of \$323,281.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH BIOGAS ENERGY INC.**

February 19, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Biogas Energy Inc.** (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 \$3,867,000 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.

**Agenda Item – 4.A.1**  
**Resolution No. 19-SM001**  
**Application No. 19-SM001**

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.