

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

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

**SANCO Services, L.P.
Application No. 19-SM012**

May 21, 2019

Prepared By: *Matthew Parsons, Program Analyst*

SUMMARY

Applicant – SANCO Services, L.P.

Location – Escondido, San Diego County

Industry – Biogas Capture and Production

Project – Expansion of Existing Resource Recovery Facility (Alternative Source)

Value of Qualified Property – \$15,216,783

Estimated Sales and Use Tax Exclusion Amount² – \$1,272,123

Estimated Quantifiable Net Benefits – \$1,670,707

Application Score³ –

Fiscal Benefits Points:	2,162
<u>Environmental Benefits Points:</u>	<u>152</u>
Net Benefits Score:	2,313
<u>Additional Benefits Points:</u>	<u>55</u>
Total Score:	2,368

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

SANCO Services, L.P. (“SANCO” or the “Applicant”), a California limited partnership formed in 2002, is a processor of residential and commercial single stream recycled feedstock collected from customers throughout San Diego and Riverside counties.

On October 18, 2016, the CAEATFA Board granted SANCO an STE award for the purchase of up to \$24,190,000 in Qualified Property for an estimated STE value of \$2,036,798 to add new single stream mixed solid waste processing lines. As of December 31, 2018, SANCO has purchased \$17,116,898.19 of the approved amount.

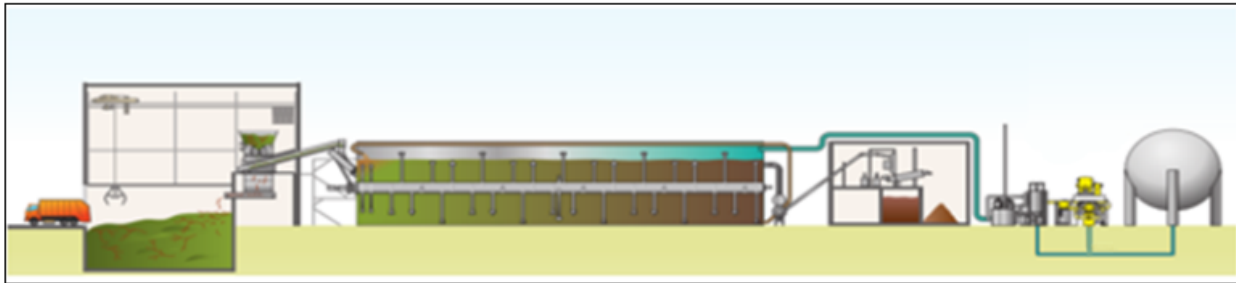
The major shareholders (10.0% or greater) of SANCO Services, L.P. are:
Sandra L. Burr (2006 Grantor Exempt Trust fbo John Snyder) (49.5%)
Edward Burr (2006 Legacy Exempt Trust fbo Cole Burr) (49.5%)
SANCO Services, LLC (1%)

The corporate officers of SANCO Services, L.P. are:
Edward G. Burr, Co-Chairman
Sandra L. Burr, Co-Chairperson and Secretary
Steve South, CEO
Alan Walsh, CFO
John Snyder, CAO

THE PROJECT

SANCO is requesting a sales and use tax exclusion to install a new anaerobic digester system at its existing Resource Recovery Facility located in Escondido (the “Project”). According to the Applicant, it is entering the fourth phase of its Escondido Master Facility Development Plan with the installation of the anaerobic digester system, which will be the first operational anaerobic digestion facility in San Diego County.

SANCO states the digesters will convert 93,000 tons per year of food and organic waste, collected from its sister company EDCO’s network of waste collection facilities into 128,400,000 standard cubic feet per year of carbon-negative renewable natural gas (RNG). According to SANCO, it will inject the RNG into the San Diego Gas & Electric natural gas grid, from which it will be consumed by EDCO’s fleet of 245 natural-gas-powered waste collection trucks. SANCO suggests the proposed Project will increase the volume of low-carbon biomethane available for blending with transportation fuel, increase the availability of renewable compost and fertilizer to local farmers, reduce dependence on fossil fuels, and divert food and green waste from landfills.



Waste Receiving & Storage	Anaerobic Digestion	Digestate Discharge & Treatment	Biogas Upgrading, SoCalGas Injection, and Truck Fueling
Tipping Floor Bucket Loader/Waste Crane Shredder, Magnet, Screen Tipping Hall Ventilation	Plug-flow Digester Agitator Inoculation Pipe	Discharge Pumps Dewatering Press Compost Treatment Liquid Digestate Treatment	Biogas Upgrading SoCalGas Injection (Gray) City Gas Grid (Yellow) Truck Fueling Stations (Circle)

Figure 1: SANCO's Operational Anaerobic Digestion Facility

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Belt Conveyors	\$ 309,520
Biofilter Supplies & Equipment	113,420
Biogas Analyzer & Processing Equipment	3,142,900
Compressed Air Distribution	10,600
Control Systems	296,800
Core Module	5,194,000
Digester Materials	773,800
Electrical	667,800
Emergency Flare	339,200
General Piping & Pumps	440,960
Instrumentation	157,940
Liquid Digestate Agitator & Decanter	385,840
Magnetic Belt Separator	24,380
Organic Waste Tank & Crane	745,180
Paint Digester	20,776
Shredder	402,270
Star Screen	430,000
Steel Structure	369,940
Ventilation Air Ducts	361,457
Booster Compressor	424,000
Boiler	106,000
Loaders	500,000
Total	<u>\$15,216,783</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

SANCO states that design and preconstruction activities of the Project are expected to be completed by September of 2019. According to the Applicant, the anaerobic digester plant is expected to be fully commissioned and operational by December 2020.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$15,216,783 and the total quantifiable net benefits are valued at \$1,670,707 for the Project. The Project received a Total Score of 2,368 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 152 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,162 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 \$2,749,888, resulting in a Fiscal Benefits score of 2,162 points for the Project.
- B. **Environmental Benefits (152 points)**. The Project will result in \$192,942 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 152 points for the Project. These benefits derive from the production of biogas, which offsets the need for use of fossil methane.
- C. **Additional Benefits (55 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 55 additional points.
 1. **Construction Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 120 construction jobs at its Facility. CAEATFA estimates that approximately 11 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 55 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has already obtained a solid waste facility permit, a conditional use permit, and a storm water plan that was approved. For the construction phase of the Project, the Applicant is expecting to be approved for a flare permit, building permit, and fire permit by September 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,⁴ the Applicant has paid CAEATFA an Application Fee of \$7,608.39 and will pay CAEATFA an Administrative Fee up to \$60,867.13.

RECOMMENDATION

Staff recommends approval of Resolution No. 19-SM012 for SANCO Services, L.P.'s purchase of Qualified Property in an amount not to exceed \$15,216,783, anticipated to result in an approximate sales and use tax exclusion value of \$1,272,123.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SANCO SERVICES, L.P.**

May 21, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **SANCO Services, L.P.** (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 \$15,216,783 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.2
Resolution No. 19-SM012
Application No. 19-SM012

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.