

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

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

**Taft Ammonia Company, LLC  
Application No. 19-SM026**

**Tuesday, May 21, 2019**

Prepared By: *Matthew Parsons, Program Analyst*

**SUMMARY**

**Applicant** – Taft Ammonia Company, LLC

**Location** – Taft, Kern County

**Industry** – Ammonia Fertilizer Manufacturing

**Project** – New Ammonia Fertilizer Manufacturing Plant (Advanced Manufacturing)

**Value of Qualified Property** – \$239,234,449

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$20,000,000

**Application Score** –

Fiscal Benefits Points:	2,084
<u>Environmental Benefits Points:</u>	<u>70</u>
<b>Net Benefits Score:</b>	<b>2,154</b>

<u>Additional Benefits Points:</u>	<u>120</u>
<b>Total Score:</b>	<b>2,274</b>

**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**

Taft Ammonia Company, LLC (“Taft” or the “Applicant”), a Delaware limited liability company formed in November of 2015, is the legal entity of an ammonia fertilizer manufacturing plant in Kern County. The plant is operated in partnership by Grannus LLC, CALAMCO, and the project’s investors.

Grannus LLC (“Grannus”) was formed in 2012 to develop next generation fertilizer production technologies. These technologies are intended to have minimal environmental impact, lower installed costs per ton than best in class designs in the market, higher operating efficiencies, lower operating costs, and a size appropriate for regional consumption, which mitigates shipping costs.

CALAMCO is a California-based cooperative made up of approximately 1,100 California growers, as well as fertilizer dealers and an industry partner, the J. R. Simplot Company. CALAMCO was started in 1957 as the California Ammonia Co. for the purpose of manufacturing and selling anhydrous ammonia to its stockholder-patrons. CALAMCO currently imports ammonia fertilizer from foreign sources at a high price, and is interested in securing a California based source of ammonia to reduce costs and the carbon footprint of its operations.

The major shareholders (10.0% or greater) of Taft Ammonia Company, LLC are:  
Grannus LLC (30%)  
CALAMCO (70%)

The corporate officers of Taft Ammonia Company, LLC are:  
Matthew Cox, CEO

**THE PROJECT**

The Project was originally granted an STE award on April 18, 2017 for the purchase of up to \$107,607,827 in Qualified Property for an estimated STE value of \$9,060,579 to build an ammonia fertilizer manufacturing facility; however, due to delays in financing and the inability to meet the regulatory minimum 15% purchase requirement, the Master Agreement was terminated. According to the Applicant, financing for the project has now been secured and the project is being expanded to increase capacity.

Taft is requesting a sales and use tax exclusion to construct its ammonia fertilizer manufacturing plant located in Taft (the “Project”). CALAMCO, the largest agricultural cooperative and ammonia distributor in the state, has been importing nitrogen fertilizer from foreign sources at a high relative price, due to the substantial transportation costs involved in getting the product to the California market. CALAMCO has been trying to secure a California-based source of ammonia to reduce costs, to secure a production pricing advantage, and to reduce the carbon footprint of its operations. According to the Applicant, the Project will be the first facility to use next generation Grannus Process™ technology, which partially oxidizes natural gas for the manufacture of synthetic gas that is then used to produce ammonia as well as saleable food grade carbon dioxide byproduct. This process uses advanced materials in several ways, including in the refractory of the partial oxidation reactor and in the plasma coatings for high temperature and

corrosion protection.

The Applicant represents that the use of the Grannus technology will allow the plant to have a near-zero emission profile, a substantial reduction in air emissions compared to previous practices. Additionally, the Project will eliminate the transportation-related emissions currently generated by CALAMCO's imports of ammonia from Canada and Trinidad & Tobago. According to Taft, another advantage of the facility design is that the cost per ton of ammonia produced by the Project is expected to be 25% less than best-in-class designs currently on the market, giving CALAMCO growers a competitive advantage. Grannus also intends to use the facility to test other new technologies in a parallel process test center.

### **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Ammonia Plant Equipment for Production & Storage	\$ 155,715,274
Air Separation Unit(s)	22,354,484
Ammonia Compressor(s)	2,511,328
Ammonia Converter(s)	6,574,746
Cogeneration Unit(s)	27,256,004
Heat Recovery Steam Generator(s) & Combined Cycle Gas Turbine(s)	<u>24,822,613</u>
<b>Total</b>	<b><u>\$239,234,449</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**

According to the Applicant, the Project is currently on schedule for construction in 2019, and is expected to be fully operational by 2022.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The Project received a Total Score of 2,274 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 70 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,084 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 \$41,686,059, resulting in a Fiscal Benefits score of 2,084 points for the Project.
- B. **Environmental Benefits (70 points)**. The Project will result in an Environmental Benefits Score of 70. The Applicant received points in the following categories:
  1. **Energy Consumption (10 of 30 points)**. The Applicant represents that the Project will result in a 10% reduction in energy consumption compared to the industry standard manufacturing process.
  2. **Water Use (30 of 30 points)**. The Applicant represents that the Project will result in a 90% reduction in water use relative to the industry standard manufacturing process.
  3. **Air Pollutants (30 of 30 points)**. The Applicant represents that the Project will result in a 99% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (120 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 120 additional points.
  1. **Production Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 20 production-related jobs at its Facility. CAEATFA estimates that approximately 3 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.
  2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 100 construction jobs at its Facility. CAEATFA estimates that approximately 14 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. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Kern County which has an average annual unemployment rate of 9.8%. 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 50 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 ammonia fertilizer manufacturing.
5. **Workforce Partnerships (25 points)**. The Applicant will partner with America’s Job Center for the purpose of training the workers at the Facility.

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

According to the Applicant, the site for the Project will be the SKI Center, which was developed under a California Site Specific Plan as a heavy industrial zoned complex specifically permitted for ammonia production. Additionally, the Applicant states that because the plant has a near-zero emissions profile, no Air Permit is required.

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

### **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM026 for Taft Ammonia Company, LLC’s purchase of Qualified Property in an amount not to exceed \$239,234,449, anticipated to result in an approximate sales and use tax exclusion value of \$20,000,000.

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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 TAFT AMMONIA COMPANY, LLC**

May 21, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Taft Ammonia Company, 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 \$239,234,449 over a period of four 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.4**  
**Resolution No. 19-SM026**  
**Application No. 19-SM026**

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.