CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

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

Alt-Air Paramount, LLC
Application No. 20-SM004

Tuesday, January 21, 2020

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – AltAir Paramount, LLC

Location – Paramount, Los Angeles County

Industry – Renewable Diesel Production

Project – Expansion of Existing Renewable Diesel Fuel Production Facility (Advanced Manufacturing)

Currently Recommended for Approval	Total Project
Value of Qualified Property – $119,617,224	**Value of Qualified Property** – $131,637,554
Estimated STE Amount[2] **–** $10,000,000	**Estimated STE Amount –** $11,004,900
Estimated Quantifiable Net Benefits – $65,389,582	**Estimated Quantifiable Net Benefits** – $71,960,578

Application Score Based on Total Project –

Fiscal Benefits Points:	6,975
Environmental Benefits Points:	564
Net Benefits Score:	**7,539**
Additional Benefits Points:	30
Total Score:	**7,569**

[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 current average statewide sales tax rate of 8.36%.

In late 2015, the STE Program was oversubscribed for the first time. Subsequently, Staff worked to modify regulations, which became effective in 2016. The changes included adding Competitive Criteria that would apply when the Program was oversubscribed and placing a per-Applicant cap of $20 million in STE per year while allowing large projects to be eligible for any STE remaining at the end of the calendar year.

AltAir Paramount, LLC ("AltAir" or the "Applicant") submitted its Application in May 2019 requesting $1.2 million in Qualified Property for an estimated STE value of $100,320, with the intention of being considered at the July 2019 Board meeting, however CAETFA became oversubscribed that month. As such, Staff applied the Competitive Criteria to all Applications submitted for consideration in July 2019, and awarded Applicants with the greatest point scores. Unawarded Applicants, including AltAir, were placed on a wait list for the 2020 STE allocation, pursuant to the Program regulations.

At that time, CAEATFA stopped accepting Applications and Staff worked to make additional regulatory modifications that would help address the early oversubscription and assist with a broader distribution of STE awards. One of those changes include a reduced cap of $10 million in STE per Applicant per calendar year based on the average statewide sales tax rate at time of application, with the ability to receive additional financial assistance if there were any remaining STE at the end of the calendar year. The proposed regulations were approved by the CAEATFA Board on November 19, 2019 and became effective on December 16, 2019, at which time CAEATFA began accepting Applications for consideration at the February 2020 Board meeting. By the December 20, 2019 Application deadline, the Program became oversubscribed for the 2020 calendar year by over $18 million in STE.

In the meantime, Staff requested that Applicants placed on the waitlist for the 2020 calendar year update their Applications, as needed, given the six-month time gap since initial Application submission, for consideration in January 2020. AltAir submitted a revised Application on November 21, 2019, increasing the requested STE amount from $100,320 to $11,004,900. The Application was submitted prior to the December 16, 2019 effective date of the revised Program regulations; therefore, this Application is subject to the prior regulations in effect at that time.

However, to better effectuate the purpose of the Program and the public interest, and in light of the recent regulation changes and competitive nature of the Program, Staff recommends approving the Applicant for an award not to exceed the current $10 million in STE cap, with leave to submit an Application for the remaining $1,004,900 in STE for consideration in 2021.

Staff Recommendation – Approval of an award up to the new regulatory cap of $10 million of STE per Applicant, based on the average statewide sales tax rate at the time of Application, which equals up to $119,617,224 in Qualified Property purchases.

THE APPLICANT

AltAir Paramount, LLC, a Delaware limited liability company formed in 2013, is a wholly owned subsidiary of World Energy LLC ("World Energy") as of March 2018. World Energy is headquartered in Boston, MA and has eight sites spanning across the United States, and in Canada. AltAir's customers include the Department of Defense, United Airlines, Boeing, UPS, KLM Airlines, and more, while specifically supporting programs such as the Navy's Great Green Fleet.

On August 19, 2014, the CAEATFA Board granted AltAir, which was under different ownership at the time, an STE award for the purchase of up to $16,325,984 in Qualified Property for an estimated STE value of $1,374,648 to convert animal and plant-based feedstock into renewable diesel. The Applicant completed the project in January 2016.

The major shareholders (10.0% or greater) of World Energy are:	The corporate officers of AltAir are:
WMG Holdings, LLC (50%)	Gene Gebolys, President & CEO
BIOX USA Limited (26.1%)	John Zieder, COO
BIOX Holdings, LLC (21.5%)	

THE PROJECT

AltAir is requesting a sales and use tax exclusion to expand its existing renewable diesel refinery located in Paramount (the "Project"). According to AltAir, it will utilize non-food grade vegetable oils and animal tallow (beef fat) to create renewable diesel, jet fuel, and byproducts such as renewable gasoline ("naphtha") and propane. AltAir states its fuels are eligible for the Federal Renewable Standard ("RFS") and California's Low Carbon Fuel Standard credits. Under the RFS, its renewable jet fuel and diesel will produce D4 credits, and naphtha and renewable propane will produce D5 credits. The Applicant states the facility will produce renewable fuels using 50-60% refurbished equipment from pre-existing petroleum production. The Applicant states it is currently able to produce 35 million gallons of renewable fuel per year, however, once at full capacity will be able to produce an average of 275 million gallons of renewable fuel per year over the lifetime of the installed equipment.

Under the previous owners, the original project received a grant for $5 million under the Alternative and Renewable Fuel and Vehicle Technology Program ("ARFVTP") administered by the California Energy Commission in 2015.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases for the total Project are listed below:

Renewable Fuels Unit A	$ 7,291,402
Renewable Fuels Unit B	20,770,000
Propane Recovery Equipment	2,855,000
H2S Recovery Equipment	2,295,000
Amine and Amine Regeneration Equipment	2,435,000
Hydrogen Plant	36,470,000
Pretreat Unit	24,915,000
Pretreat Waste Water Aerobics Reactors	6,200,000
Tank Farm and Feedstock/ Product Movement (TF&FPM)	6,270,000
Renewable Diesel Isomerization Catalyst for Unit A and Unit B	10,058,600
Deoxygenation Catalyst for Unit A and Unit B	3,057,552
SWS Sour Water Stripper	1,550,000
Flare and Utilities	7,470,000
Total	**$131,637,554**

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 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 Applicant states it has selected an engineering contractor as of February 2019. AltAir has begun designing its new processing unit as of February 2019 and pretreat units as of October 2018. Other activities such as logistics upgrade, tankage cleaning and repair, pressure upgrade of an existing unit are in process. According to AltAir, production is expected to begin early 2022.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases for the total Project is anticipated to be $131,637,554 and the total quantifiable net benefits are valued at $71,960,578. The Project received a Total Score of 7,569 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 564 points, which exceeds the 20-point threshold.

A. <u>Fiscal Benefits (6,975 points)</u>. 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 $76,753,678, resulting in a Fiscal Benefits score of 6,975 points for the Project.

B. <u>Environmental Benefits (564 points)</u>. The Project will result in $6,211,799 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 564 points for the Project. These benefits derive from the production of renewable diesel, which offsets the need for use of fossil diesel.

C. <u>Additional Benefits (30 points)</u>. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 30 additional points.

1. **<u>Production Jobs (0 of 75 points)</u>.** The Applicant represents that the Project will support a total of 136 production-related jobs at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

2. **<u>Construction Jobs (30 of 75 points)</u>.** The Applicant represents that the Project will support a total of 450 construction jobs at its Facility. CAEATFA estimates that approximately 23 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 30 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states that it is currently preparing the necessary California Environmental Quality Act documents to secure an air quality permit and a city construction permit. AltAir expects such permits to be secured by March 2020, enabling construction activities to begin approximately September 2020.

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 $10,000 and will pay CAEATFA an Administrative Fee of up to $350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM004 for AltAir's purchase of Qualified Property in an amount not to exceed $119,617,224, anticipated to result in an approximate sales and use tax exclusion value of $10,000,000.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH ALTAIR PARAMOUNT, LLC

January 21, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority" or "CAEATFA") has received the Application of **AltAir Paramount, 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 $119,617,224 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.

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.