

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

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

**Southpoint Biogas LLC
Application No. 20-SM021**

Tuesday, March 17, 2020

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Southpoint Biogas LLC

Location – Madera, Madera County

Industry – Dairy Biogas Production

Project – New Dairy Biogas Production Facility (Alternative Source)

Value of Qualified Property – \$8,432,257

Estimated Sales and Use Tax Exclusion Amount² – \$704,937

Estimated Quantifiable Net Benefits – \$578,830

Competitive Criteria Score – 165

Application Score –

Fiscal Benefits Points:	1,697
<u>Environmental Benefits Points:</u>	<u>124</u>
Net Benefits Score:	1,821

<u>Additional Benefits Points:</u>	<u>130</u>
Total Score:	1,951

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%.

THE APPLICANT

Southpoint Biogas LLC (“Southpoint” or the “Applicant”) is a California limited liability company formed in 2018. The Applicant is wholly owned and managed by California Bioenergy LLC (“CalBio”). CalBio currently has five operating dairy projects and over 30 in development. The products Southpoint produces create environmental credits such as Renewable Energy Credits (“RECs”) that are sold to parties such as BMW, Tesla, ChargePoint or EV-GO. The Applicant has negotiated with biogas entities to exclusively sell its product in California.

The major shareholders (10.0% or greater) of CalBio are: John Bidart (33%) Unigy Holdings, LLC (32%) Go Ventures Inc. (26%)	The corporate officers of Southpoint are: N. Ross Buckenham, CEO Neil Black, President
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THE PROJECT

Southpoint is requesting a sales and use tax exclusion to build a lagoon digester that will produce dairy biogas in Madera (the “Project”). The Applicant states it will also install a fuel cell electrical generator and biogas processing equipment as part of the Project. According to Southpoint, it receives RECs when using the biogas onsite to power the plant. The RECs are then sold to electric vehicle operators, which generates Low Carbon Fuel Standard credits.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biogas and also includes a portion of a 2 MW fuel server used to power the digester and dairy operations related to the production of dairy biogas. The Project’s equipment will consume 50 percent of the total amount of energy generated, therefore 50 percent of the power generation equipment is eligible for an STE under the Program. However, the remaining 50 percent of the power generation equipment was not included in the Application as this represents the proportion of electricity that will be sold to the grid, the dairy for milk production, or a neighboring operation.

The Project has received grants for digester-related expenses from the California Department of Food and Agriculture in the amount of up to \$3 million under the Dairy Digester Research and Development grant program.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Digester	\$2,042,257
H2S Treatment Plant	640,000
Fuel Server	<u>5,750,000</u>
Total	<u>\$8,432,257</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 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

Southpoint represents that construction of the Project will take place through Q1 2021 and production will begin in Q2 2021.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 165 Competitive Criteria points as follows:

1. **Environmental Benefits (100points)**. The Applicant's Project earned more than zero Total Pollution Benefits points (i.e. had environmental benefits that could be monetized and scored pursuant to the Program's regulations³), therefore 100 points are awarded.
2. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Madera County, which has an average annual unemployment rate of 7.0 %. When compared to the statewide average annual unemployment rate, 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 50 points.
3. **Job Creation (0 of 75 points)**. The Applicant represents that the Project will support a total of three production-related jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
4. **California Headquarters (15 points)**. The Applicant has a California Corporate Headquarters, therefore 15 points are awarded.
5. **Natural Disaster Relief (0 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in the state of

³ California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,432,257 and the total quantifiable net benefits are valued at \$578,830 for the Project. The Project received a Total Score of 1,951 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 124 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,697 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 \$1,196,391, resulting in a Fiscal Benefits score of 1,697 points for the Project.
- B. **Environmental Benefits (124 points)**. The Project will result in \$87,376 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 124 points for the Project. These benefits derive from the production of dairy biogas, which offsets the need for use of fossil methane and the avoidance of methane emissions that would otherwise be released by the manure.
- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 130 additional points.
 1. **Production Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of three production-related jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
 2. **Construction Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 67 construction jobs at its Facility. CAEATFA estimates that approximately seven of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 55 points.
 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Madera County, which has an average annual unemployment rate of 7.0%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 50 points.

4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with College of the Sequoias and Fresno State University for the purpose of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has sought and received a California Environmental Quality Act permit needed for the dairy. The Applicant represents that all air, water, and building permits are in process and will be secured throughout 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,⁴ the Applicant has paid CAEATFA an Application Fee of \$5,498 and will pay CAEATFA an Administrative Fee of up to \$33,729.03.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM021 for Southpoint Biogas LLC's purchase of Qualified Property in an amount not to exceed \$8,432,257, anticipated to result in an approximate sales and use tax exclusion value of \$704,937.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SOUTHPOINT BIOGAS LLC**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Southpoint Biogas 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 \$8,432,257 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.F.5
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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.