

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**HZI Lancaster, LLC
Application No. 21-SM023**

Tuesday, March 16, 2021

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – HZI Lancaster, LLC

Location – Lancaster, Los Angeles County

Industry – Biogas Capture and Production

Project – New Biogas Capture and Production Facility (Alternative Source)

| Value of Qualified Property | Estimated Sales and Use Tax Exclusion (“STE”) Amount ² |
|-----------------------------|---|
| \$27,231,400 | \$2,314,669 |

| Estimated Net Benefit ³ | Dollar Value | Points Earned |
|---|--------------------|---------------|
| Estimated Fiscal Benefits | \$5,215,414 | 2,253 |
| Estimated Environmental Benefits | \$1,678,109 | 725 |
| Additional Benefits | N/A | 128 |
| Total | \$6,893,523 | 3,106 |
| Estimated Quantifiable Net Benefit | \$4,578,854 | |

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

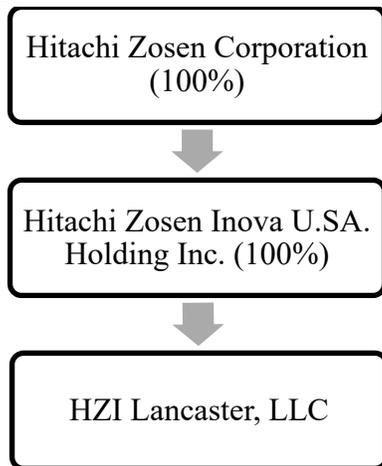
³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

THE APPLICANT

HZI Lancaster, LLC (the “Applicant”), is a California limited liability company that formed in 2020. The Applicant is a wholly owned subsidiary of Hitachi Zosen Inova U.S.A. Holding, Inc. (“HZIU Holding”), which has been the owner and developer of Kompogas anaerobic digestion projects in the United States since 1991.

HZIU Kompogas SLO Inc., a subsidiary of HZIU Holding, received an STE award on February 21, 2017, for the purchase of up to \$7,104,020 in Qualified Property for an estimated STE of \$598,158 to build a new biomass processing and fuel production facility in San Luis Obispo, which is complete and began operations at the end of 2018.

The chain of ownership of the Applicant is as follows:



The company officers of the Applicant are:

Heath Jones, Managing Member
Mike Phillips, CFO & Director
Autumn Huskins, Secretary

THE PROJECT

HZI Lancaster, LLC, is requesting an STE award to build a new biogas capture and production facility located in Lancaster (the “Project”). The Project will be developed in partnership with Waste Management and will be located at Waste Management’s Lancaster Landfill & Recycling Center. The Project will use an anaerobic digester to convert organic waste into biogas, compost, and liquid fertilizer. The Project will then process the biogas through a gas cleanup system to produce Renewable Natural Gas (“RNG”). The Applicant states that the RNG will be injected into the Southern California Gas Company (“SoCalGas”) pipeline to be used as transportation fuel.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|-------------------------|----------------------------|
| Anaerobic Digester | \$13,181,000 |
| Gas Cleanup System | \$11,950,400 |
| Interconnection to Grid | \$2,100,000 |
| Total | <u>\$27,231,400</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, it has completed the design and engineering of the Project and is nearing completion of the permitting process. The Applicant states that the anaerobic digester, the gas cleanup system, and the interconnection to the SoCalGas pipeline are on track to be constructed by the end of 2022 and begin operations by July 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it is in discussion with the South Coast Air Quality Management District (“SCAQMD”) to obtain an Authority to Construct permit and expects to obtain approval by June 2021. The Applicant states it will apply for a Permit to Operate from SCAQMD by November 2022. The Project will also require two separate National Pollutant Discharge Elimination System permits from the Lahontan Regional Water Quality Control Board, including a stormwater pollution prevention plan, for both construction and operations. The Applicant also states that it has acquired a foundation construction permit from the Los Angeles County and will be required to secure permits for building and grading as the Project progresses. The Applicant explains the Project will be built at an existing facility that has a Conditional Use Permit (“CUP”), which has been approved under the California Environmental Quality Act, and the Applicant is planning to file a modification to the CUP with Los Angeles County by the end of March 2021.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 3,106 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 725 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,253 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales and use taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$5,215,414, resulting in a Fiscal Benefits score of 2,253.

- B. **Environmental Benefits (725 points)**. The Project is anticipated to result in \$1,678,109 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 725 points. These benefits derive from the production of biogas, which offsets the need for the use of fossil methane.

- C. **Additional Benefits (128 points)**. Applicants may earn additional points for their Total Score. The Applicant received 128 additional points.
 1. **Production Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 17 production-related jobs at its Facility. CAEATFA estimates that approximately 1.65 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 20 points.

 2. **Construction Jobs (30 of 75 points)**. The Applicant anticipates the Project will support a total of 46 construction jobs at its Facility. CAEATFA estimates that approximately 4.47 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 30 points.

 3. **Unemployment (28 of 50 points)**. The Applicant’s Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.

 4. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to biomass conversion and biogas production.

⁴ Unemployment rates are based on data available in October 2020.

5. **Benefits and Fringe Benefits (25 of 25 Points)**. The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, and paid leave to its employees, earning the Applicant 25 points.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$108,925.60.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM023 for HZI Lancaster, LLC's purchase of qualifying tangible personal property in an amount not to exceed \$27,231,400, anticipated to result in an approximate STE value of \$2,314,669.

⁵ California Code of Regulations Title 4, Division 13, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH HZI LANCASTER, LLC**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **HZI Lancaster, LLC** (the “Applicant”), for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10030(a), with the Applicant for the Project; and

WHEREAS, the Applicant has estimated the Project has an estimated cost not to exceed \$27,231,400 over a period of three years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

Agenda Item – 4.G.23
Resolution No. 21-SM023
Application No. 21-SM023

qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.