

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**MSBG Partners, LLC
Application No. 21-SM009**

Tuesday, March 16, 2021

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – MSBG Partners, LLC

Location – Goleta, Santa Barbara County

Industry – Landfill Gas to Renewable Natural Gas Production

Project – New Landfill Gas to Renewable Natural Gas Production Facility (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$11,252,500	\$956,463

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$2,189,741	2,289
Estimated Environmental Benefits	\$736,177	770
Additional Benefits	N/A	40
Total	\$2,925,918	3,099
Estimated Quantifiable Net Benefit	\$1,969,455	

Competitive Criteria Score – 115

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

MSBG Partners, LLC (the “Applicant”), is headquartered in Newport Beach and is a California limited liability company formed in 2019 by Mustang Renewable Power Ventures, LLC (“Mustang”). Mustang was founded in 2008 and specializes in developing waste resource recovery projects, oftentimes structured as public-private partnerships. Mustang focuses on processing municipal solid waste that is currently sent to landfills into valuable renewable energy, recyclable commodities, and compost. In 2010, Mustang was selected to be the project developer for the Santa Barbara County Tajiguas Resource Recovery Project, and the Applicant was formed as a special purpose entity to handle the renewable natural gas (“RNG”) portion of that project.

MSB Investors, LLC (“MSB”), an affiliate of Mustang, has received three previous STE awards related to the Santa Barbara County Tajiguas Resource Recovery Project. First, MSB received an STE award for the anaerobic digester portion of the Santa Barbara County Tajiguas Resource Recovery Project on May 20, 2014, for the purchase of up to \$17,696,003 in Qualified Property with an anticipated STE value of \$1,490,003. As of December 31, 2020, MSB has purchased 80% of the total Qualified Property amount approved. Secondly, on October 18, 2016, MSB received an STE award for the purchase of up to \$32,403,272 in Qualified Property for an estimated STE of \$2,728,356 for a materials recovery facility (“MRF”) for the Santa Barbara County Tajiguas Resource Recovery Project. However, due to unexpected zoning and permitting issues, the Applicant was unable to meet the 15% purchase requirement and move forward with that award. Thirdly, MSB applied again for the MRF portion of the Santa Barbara County Tajiguas Resource Recovery Project, and on November 13, 2018, received an STE award for the purchase of up to \$44,661,209 in Qualified Property for an estimated STE of \$3,733,677. As of December 31, 2020, MSB has purchased 36% of the total Qualified Property amount approved.

The major shareholders (10.0% or greater) of the Applicant are:
Mustang Renewable Power Ventures, LLC (40%)
Blue Sand Holdings (12.99%)

The company officers of the Applicant are:
John Dewey, CEO

THE PROJECT

MSBG Partners, LLC, is requesting an STE award to build a new landfill gas (“LFG”) to RNG production facility at the Santa Barbara County Tajiguas Landfill in Goleta (the “Project”). The Applicant explains the Project will capture, clean, and upgrade LFG to RNG, some of which will be compressed and used as fuel for on-site trucks and the remainder of which will be injected into the Southern California Gas Company (“SoCalGas”) pipeline. According to the Applicant, the Project has several key components, including the installation of new natural gas pipelines from the existing SoCalGas pipeline, the upgrade and expansion of existing LFG well fields, a new siloxane removal system, a new RNG upgrade system, and a grid pipeline interconnection and meter set assembly facility that the Applicant explains will meet the sampling and metering

requirements to ensure the RNG injected into the natural gas pipeline meets the required biomethane standards.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Upgrading Plant General Conditions & Site Work Materials	\$500,000
LFG Evaporator & Site Work	\$500,000
LFG/RNG Pipelines	\$1,350,000
LFG Blower and Piping	\$500,000
Grid Gas Monitoring and Meter Station Assembly	\$2,242,500
LFG to RNG Upgrade Equipment	\$6,160,000
Total	<u>\$11,252,500</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, the Project's construction is scheduled to begin in Quarter 1 of 2022, and is anticipated to be completed and fully operational in Quarter 2 of 2022.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states the Project requires a Coastal Development Permit from the Santa Barbara County Department of Planning & Development, which it anticipates will be received by Quarter 4 of 2021. Additionally, the Applicant plans to prepare in Quarter 2 of 2021 an Addendum to the Santa Barbara County Tajiguas Resource Recovery Project Subsequent Environmental Impact Report and Addendum originally certified on November 14, 2017. The Applicant states the Project also will require amendments to the following existing permits, which are expected to be in place by Quarter 4 of 2021:

- Santa Barbara County Air Pollution Control District, Authority to Construct/Permit to Operate,
- Landfill Gas Collection and Treatment System, Conditional Use Permit, and
- Landfill Energy Project, Conditional Use Permit.

COMPETITIVE CRITERIA SCORE

In the event that the Applications received by CAEATFA requesting \$2 million or less in STE by the deadline for a particular Board meeting represent STE in excess of the \$20 million set-aside for that calendar year, the Applications submitted for that particular Board meeting will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The Applicant received 115 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points).** The Applicant's Project earned more than zero environmental benefits points, as calculated pursuant to the method for calculating points for environmental benefits for Advanced Transportation, Alternative Source, and Recycled Resource Extraction Applications in Section 10033(c)(4), and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points).** The Applicant's Project is located in Santa Barbara County, which has an average annual unemployment rate of 7.4%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (0 of 75 points).** The Applicant anticipates the Project will support one production-related job at its Facility. CAEATFA estimates that approximately 0.11 of this job 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 of 15 points).** The Applicant has a California Corporate Headquarters, therefore, 15 points are awarded
5. **Natural Disaster Relief (0 of 50 points).** The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points).** The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

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

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 3,099 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 770 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (2,289 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 \$2,189,741, resulting in a Fiscal Benefits score of 2,289.
- B. Environmental Benefits (770 points).** The Project is anticipated to result in \$736,177 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 770 points. These benefits derive from the capture, cleaning, and redistribution of LFG to RNG and CNG, which eliminates the need for diesel fuel and reduces the need to flare additional gas.
- C. Additional Benefits (40 points).** Applicants may earn additional points for their Total Score. The Applicant received 40 additional points.

 - 1. Production Jobs (0 of 75 points).** The Applicant anticipates the Project will support one production-related job at its Facility. CAEATFA estimates that approximately 0.11 of this job 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 (20 of 75 points).** The Applicant anticipates the Project will support a total of 11 construction jobs at its Facility. CAEATFA estimates that approximately 1.16 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.
 - 3. Unemployment (0 of 50 points).** The Applicant's Project is located in Santa Barbara County, which has an average annual unemployment rate of 7.4%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
 - 4. Benefits and Fringe Benefits (20 of 25 Points).** The Applicant states it provides medical, dental, pension plans, and paid leave to its employees, earning the Applicant 20 points.

⁵ Unemployment rates are based on data available in October 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,⁶ the Applicant has paid CAEATFA an Application Fee of \$6,153.50, and will pay CAEATFA an Administrative Fee of up to \$45,010.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM009 for MSBG Partners, LLC's purchase of qualifying tangible personal property in an amount not to exceed \$11,252,500, anticipated to result in an approximate STE value of \$956,463.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH MSBG PARTNERS, LLC**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **MSBG Partners, 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 \$11,252,500 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

Agenda Item – 4.G.9
Resolution No. 21-SM009
Application No. 21-SM009

the Project as the Authorized Signatories deem appropriate, provided that the amount of the 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.