

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**National Carbon Technologies California, LLC
Application No. 22-SM030**

Tuesday, June 21, 2022

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – National Carbon Technologies California, LLC

Location – Williams, Colusa County

Industry – Biocarbon Pellets Production

Project – New Biocarbon Pellets Production Facility (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$123,720,000	\$10,516,200

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$8,953,287	851
Estimated Environmental Benefits	\$16,365,146	1,556
Additional Benefits	N/A	220
Total	\$25,318,434	2,628
Estimated Quantifiable Net Benefit	\$14,802,234	

Competitive Criteria Score – 170

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).)

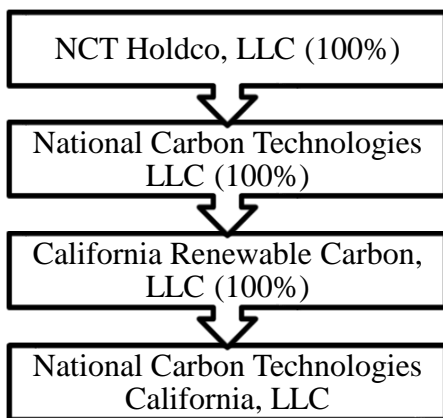
⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

National Carbon Technologies California, LLC (the “Applicant”) is a Delaware limited liability company that formed in 2020. The Applicant’s parent company is National Technologies, LLC (“NTC”) whose headquarters is located in Oakdale, MN. NTC’s primary production facility is located in Gwinn, MI with operations that began in 2012. According to the Applicant, the Gwinn facility is the largest producer of advanced carbon production in North America, yielding over 300,000 tons sustainable biomass per year. NTC also has over 185 existing and pending patents related to biomass processes and products.

The Applicant has applied for an income tax credit under the California Competes Tax Credit Program⁵ administered by the Governor’s Office of Business and Economic Development and is scheduled to be considered in June 2022.

The ownership structure of the Applicant is as follows:



The company officers of the Applicant are:

James Mennell, CEO
Dough Rohall, CFO

THE PROJECT

National Carbon Technologies California, LLC, is requesting an STE award to build a new carbon pellets production facility located in Williams (the “Project”). The Applicant states that its biomass feedstock consists of orchard trimmings that would otherwise naturally decompose at landfills or be open burned (a common practice in this agricultural region), and other feedstock that is sourced from forest fire regions in close proximity to the plant. According to the Applicant, the orchard waste is converted into a biocarbon in the form of pellets, which is a replacement for coal in power plants. The Applicant’s product is comparable to coal in that it has an equivalent or higher energy value and similar properties, and as such, can be used in most coal burning facilities. Through the use of the carbon pellets, there will be a reduction in CO₂, SO₂, NO_x, mercury, and other emissions in the environment.

⁵ California Code of Regulations, Title 10, Chapter 13, Article 1 (commencing with Section 8000).

The product is produced from a high-temperature pyrolysis process, which results in a biogas byproduct that is combusted using a 26 MW electrical generator. The biogas is used in three different applications: 1) recycled in the production process to fuel the Applicant's operations; 2) provided to PG&E via the electricity grid to power over 11,000 households; and 3) used to produce renewable hydrogen through an electrolysis process to fuel vehicles.

Consistent with CAEATFA policy, the Qualified Property in this Application will be used to manufacture biocarbon pellets; the Qualified Property also includes a portion of the power generation equipment used to power the facility. The Project's equipment will consume approximately 32 percent of the total amount of available energy generated from biogas combustion; therefore, 32 percent of the power generation equipment is eligible for a sales and use tax exclusion. However, 68 percent of the power generation equipment is not included in this Application, as it represents the proportion of available energy in the form of electricity that will be sold to PG&E or used for other purposes.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Receiving Equipment	\$5,400,000
Biomass Drying Equipment	\$8,700,000
Pyrolysis and Carbon Recovery Equipment	\$32,420,000
Carbon Processing Equipment	\$5,000,000
Densification Equipment	\$7,600,000
Product Storage and Load Equipment	\$5,00,000
Biogas Treatment and Co-Generation Equipment	\$9,600,000
Hydrogen Production Equipment	\$10,000,000
Utilities Equipment	\$2,000,000
Building Improvements	\$38,000,000
Total	<u>\$123,720,000</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

The Applicant states it has acquired the land necessary for the Project and worked through the engineering phase. The Applicant will procure the major equipment through Q3 of 2022. The Applicant anticipates that majority of construction materials will be purchased in 2022, with the remaining being purchased in the first half of 2023. The Project is expected to be completed by Q3 of 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it has filed or will file for the necessary permits and approvals needed to complete the Project. This includes CEQA approval, a conditional use permit and site plan review, a permit to operate, and construction related permits such as air quality, water system, grading, building, and storm water permits.

COMPETITIVE CRITERIA SCORE

The Applicant received 170 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Project that produces an Alternative Source product, component, or system, and, therefore, 100 points are awarded.
2. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Colusa County, which has an average annual unemployment rate of 12%.⁶ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 50 points.
3. **Job Creation (20 of 75 points)**. The Applicant anticipates the Project will support a total of 63 production-related jobs at its Facility. CAEATFA estimates that approximately 7.56 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.
4. **California Headquarters (0 of 15 points)**. The Applicant does not have a California Corporate Headquarters, and, therefore, zero 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.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project's industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

⁶ Unemployment rates are based on data available in December 2021.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 2,628 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 1,556 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (851 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 \$8,953,287, resulting in a Fiscal Benefits score of 851.
- B. Environmental Benefits (1,556 points).** The Project is anticipated to result in \$16,365,146 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 1,556 points. These benefits derive from the production of biocarbon pellets, which offsets the need for the use of coal.
- C. Additional Benefits (220 points).** Applicants may earn additional points for their Total Score. The Applicant received 220 additional points.
 - 1. Production Jobs (20 of 75 points).** The Applicant anticipates the Project will support a total of 63 production-related jobs at its Facility. CAEATFA estimates that approximately 7.56 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 (35 of 75 points).** The Applicant anticipates the Project will support a total of 244 construction jobs at its Facility. CAEATFA estimates that approximately 29.27 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 35 points.
 - 3. Unemployment (50 of 50 points).** The Applicant's Project is located in Colusa County, which has an average annual unemployment rate of 12%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 50 points.
 - 4. Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with Butte Community College for the purpose of assisting in the training of potential future workers.
 - 5. Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by California Department of Forestry and Fire Protection, Department of Resources Recycling and Recovery, California Air

Resources Board, Resource Conservation Districts and California Governor's Office and Business and Economic Development as an industry cluster of the region of the Project's location.

6. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, retirement contributions, and paid leave benefits 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,⁷ 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 the approval of Resolution No. 22-SM030-01 for National Carbon Technologies California, LLC's purchase of qualifying tangible personal property in an amount not to exceed \$123,720,000 anticipated to result in an approximate STE value of \$10,516,200.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH NATIONAL CARBON TECHNOLOGIES
CALIFORNIA, LLC**

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **National Carbon Technologies California, 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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$123,720,000 over a period of three (3) 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 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.