

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**CalBioGas Hilmar LLC
Application No. 23-SM003**

Tuesday, July 18, 2023

Prepared By: *Jeannie Yu, Program Analyst*

SUMMARY

Applicant – CalBioGas Hilmar LLC

Location – Hilmar, Merced County

Industry – Dairy Biogas Production

Project – New Cluster of Dairy Biogas Production Facilities (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$26,373,228	\$2,204,802

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$4,677,066	2,121
Estimated Environmental Benefits	\$1,299,562	589
Additional Benefits	N/A	175
Total	\$5,976,628	2,886
Estimated Quantifiable Net Benefit	\$3,771,826	

Competitive Criteria Score – 185

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 8.36%.

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

CalBioGas Hilmar LLC (the “Applicant”) is a California limited liability company that formed in 2022. The Applicant is a new dairy biogas facility headquartered in Visalia that will process biogas into biomethane to sell to distributors as renewable vehicle fuel (“R-CNG”). The Applicant is able to obtain its manure digester feedstock through its relationship with California dairy farmers.

The Applicant has secured funding for digester related expenses from the California Department of Food & Agriculture (CDFA) for up to \$6.01 million in 2019.

The major shareholders (10.0% or greater) of the Applicant are:

Chevron U.S.A. Inc. (100%)

The company officers of the Applicant are:

N. Ross Buckenham, CEO

Neil Black, President

Abdulla Kagalwalla, CFO

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build new dairy digesters that will produce dairy biogas at a cluster of seven facilities located in Hilmar (the “Project”). According to the Applicant, it will process biogas into renewable natural gas (“RNG”) and sell it directly or indirectly as a renewable vehicle fuel known as R-CNG, which can be substituted for diesel in a near zero emission CNG truck or bus engine and can reduce NOx emissions by 90% when compared to the standard diesel fuel engine. The Applicant states individual dairies export their biogas from their dairy digester through a small conditioning plant, compressor station and meter out to a collection or a gathering line system that collects the gas from neighboring dairies. The collection system then delivers the biogas to a centralized upgrading plant for processing into a clean biomethane product. When the renewable gas is delivered to a refinery for incorporation into gasoline or sent to a CNG fueling station for use as a compressed natural gas vehicle fuel, it will generate a Low Carbon Fuel Standard credit. The R-CNG will also generate a cellulosic Federal Renewable Fuel Standard Identification Number, category D3 (D3-RIN).

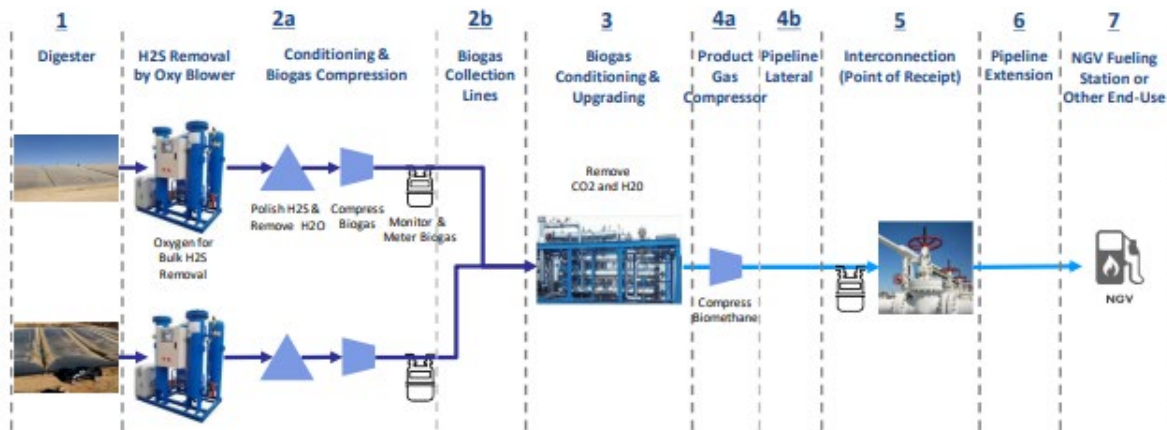


Figure 1: Process to Convert Dairy Biogas into R-CNG

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Digester	\$11,996,161
Dairy H2S Treatment Plant	\$6,470,582
Gas Upgrading System	\$5,429,653
Gas Gathering Line System	\$2,476,832
Total	\$26,373,228

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 is in the final stages of development. Design contracts are in place for each digester and construction is scheduled to be completed before the end of March 2024.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states the Project is in the advanced stage of permitting and design and has received key construction permits from the Merced County, Turlock Irrigation District, the San Joaquin Valley Air Pollution Control District, and the Central Valley Regional Water Quality Control Board.

COMPETITIVE CRITERIA SCORE

The Applicant received 185 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Applicant has a Project that produces an Alternative Source product, and, therefore, 100 points are awarded.
2. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Merced County, which has an average annual unemployment rate of 7.5%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, 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 16 production-related jobs at its Facility. CAEATFA estimates that approximately 1.62 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 (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant's Facilities 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.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 2,886 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 589 points, which exceeds the 20-point threshold.

⁵ Unemployment rates are based on data available in October 2022.

- A. **Fiscal Benefits (2,121 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 \$4,677,066, resulting in a Fiscal Benefits score of 2,121.
- B. **Environmental Benefits (589 points).** The Project is anticipated to result in \$1,299,562 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 589 points. These benefits derive from the production of dairy biogas, which offsets the need for the use of fossil methane.
- C. **Additional Benefits (175 points).** Applicants may earn additional points for their Total Score. The Applicant received 175 additional points.
1. **Production Jobs (20 of 75 points).** The Applicant anticipates the Project will support a total of 16 production-related jobs at its Facility. CAEATFA estimates that approximately 1.62 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 (55 of 75 points).** The Applicant anticipates the Project will support a total of 163 construction jobs at its Facility. CAEATFA estimates that approximately 16.49 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 Merced County, which has an average annual unemployment rate of 7.5%. When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 50 points.
 4. **Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with College of Sequoias and Fresno State University for the purpose of assisting in the training of potential future workers.
 5. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental, and vision benefits, bonuses, pension plans, retirement contributions, profit sharing, 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 STE Program regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$105,492.91.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM003-01 for CalBioGas Hilmar LLC's purchase of qualifying tangible personal property in an amount not to exceed \$26,373,228 anticipated to result in an approximate STE value of \$2,204,802.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH CALBIOGAS HILMAR LLC**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **CalBioGas Hilmar 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 \$26,373,228 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.