Agenda Item No. 5.3
Application No. 08-079

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
March 26, 2008
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN EXEMPT FACILITY PROJECT

Prepared by Brady Hill.

Applicant:	California Pollution Control Financing Authority
Allocation Amount Requested:	$13,100,000
Project Name:	**Air Products Manufacturing Corporation**
Project Address:	3485 Pacheco Boulevard
City, County, Zip Code:	Martinez, Contra Costa, 94553

Project Sponsor Information:

Name:	Air Products Manufacturing Corporation
Address:	17330 Brookhurst Street, Suite 260 Fountain Valley, CA 92708-3720
Principals:	Jeffrey A. Lockett, Eric J. Guter and Hubertus R. Law
Contact:	Jennifer S. Thomas
Phone:	(610) 481-7445

Project User Information:

Name:	Same as Project Sponsor
Address:	Same as Project Sponsor
Contact:	Same as Project Sponsor
Phone:	Same as Project Sponsor

Project Financing Information:

Bond Counsel:	Law Offices of Leslie M. Lava
Underwriter:	Banc of America Securities LLC and Goldman Sachs & Co.
Credit Rating:	Corporate Rating of "A"
Credit Enhancement Provider:	Not applicable
Private Placement Purchaser:	Not applicable
TEFRA Hearing:	November 2, 2007

Project Sponsor's principal activity: According to the application, the Project Sponsor's principal activity is the manufacture and sale of industrial gases.

First Tier Business (Yes/No): No

Regulatory Mandate (Yes/No): No

Sources of Funds:

Tax-Exempt Bond Proceeds	$ 13,100,000
Other Sources	$153,000,000
Total Sources	$166,100,000

Uses of Funds:

New Equipment Purchase & Installation	$166,100,000
Total Uses	$166,100,000

Description of Proposed Project: According to the application, the bond issue for the Martinez hydrogen facility qualifies for tax-exempt financing as an asset related and subordinated to the clean fuels operations performed in the Royal Dutch Shell PLC (Shell) refinery in Martinez, California. The hydrogen produced by the facility is an essential ingredient in the recycling of solid wastes generated in the refining operations. In the facility, the hydrogenator reactor uses catalysts to treat olefins and organic sulfur in the feed gas stream. Two desulfurizer reactors remove hydrogen sulfide. The purified feed gas is mixed with superheated steam and sent to the reformer, which is basically a large furnace with catalyst beds. The reformer breaks the feed gas down into the mixture of hydrogen, carbon oxides, unreacted methane, steam and nitrogen. The reformed gas is cooled by generating steam in the process gas boiler. Purge gas from the steam is used to fuel the reformer and the hydrogen is sent to the PSA unit for final purification. The PSA unit removes nearly all constituents of the gas except hydrogen. The purified hydrogen is compressed for delivery to the refineries at pressure levels ranges from 450 psig to 2000 psig. In conclusion, the Martinez hydrogen plant produces 88 MMSCFD of high purity hydrogen and 300,000 lbs/hr of superheated steam for export to Royal Dutch Shell PLC using feed gas streams coming from the refinery.

Environmental impact:

1) Air Quality: According to the application, the bonds will fund a portion of the cost of facilities that manufacture hydrogen for use in oil refineries. Significant environmental benefits are achieved from the use of this hydrogen by refineries to produce cleaner burning fuels. Hydrogen is used as an integral part of the refinery process to reduce sulfur, olefins, and aromatics in reformulating gasoline to a cleaner-burning transportation fuel. In addition, the hydrogen plant also uses pressure swing absorption technology to recover hydrogen from refinery fuel steams and provides the added benefit of reduced emissions of nitrogen oxides, sulfur oxides and other particulate matter from the refinery.
2) Water Quality: None indicated.
3) Energy Efficiency: According to the application, this facility is a large and efficient plant which uses less natural gas than smaller plants. This facility uses “off” gases, which conserves even more natural gas.
4) Recycling of Commodities: According to the application, the portion of the facility that qualifies for tax-exempt financing produces hydrogen that is used to process vacuum residual, which is a solid waste by-product of the refinery operations. By recycling this vacuum residual into useable fuels, the refineries avoid the need to dispose of this by-product through other means.
5) Safety and Compliance: According to the application, the Project Sponsor is in compliance with all the state and federal environmental regulations regarding the operation of the proposed facility and its existing facilities that it currently operates.
6) Consumer Costs Savings and Efficiencies: According to the application, the tax-exempt financing reduces the overall cost of financing the hydrogen facility. This enables Air Products to lower the cost of the hydrogen produced at the facility to its customer and in turn allows the refinery to hold down the cost of reformulated fuels sold to consumers.

Other public benefits provided by the project: According to the application, for the five-year period including and following construction, the Facilities[1] will produce 3990 jobs and generate $60.2 million in new spending. The Facilities will also generate the following tax revenue:

Property taxes (for Facilities)	$2 million (annually)
Payroll taxes/Property Taxes/Sales Taxes (paid by employees)	$19.3 million (five year period)
Tax Revenues on Bonds	$87.8 million (over 30 year period)

Contribution to Small Business Assistance Fund: According to the application, the Facilities were originally funded with taxable bonds issued by CPCFA. Upon the closing of the taxable bond issues, payments of $96,000 and $75,000, respectively, were made to the Small Business Assistance Fund. An additional $70,000 was paid during 1988 when a portion of the bonds was converted to tax-exempt status. When a bond cap allocation was received for the balance of the bonds, additional payments of $154,000 and $175,000 were made to the Fund for a total contribution of $570,000. In this Project, the conversion of the remaining taxable bonds to tax-exempt status will result in the collection of additional SBAF fees in the amount of $91,700.

Legal Questionnaire: No information was disclosed that raised any question regarding the financial viability or legal integrity of the applicant.

Recommendation: Staff recommends that the Committee approve $13,100,000 in tax-exempt bond allocation.

[1] The proposed Project and a Wilmington hydrogen facility