

THE CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE
December 3, 2008
Staff Report
REQUEST FOR A QUALIFIED PRIVATE ACTIVITY BOND ALLOCATION FOR AN
EXEMPT FACILITY PROJECT

Prepared by Brady Hill.

Applicant: California Statewide Communities Development Authority

Allocation Amount Requested: \$26,130,000

**PROJECT ORIGINALLY RECEIVED ALLOCATION ON JULY 16, 2008. APPLICANT
REQUESTED AWARD BE DEFERRED TO DECEMBER 3 ALLOCATION MEETING.**

Project Name: Microgy, Inc.
Project Address: 24387 Whitesbridge Road
City, County, Zip Code: Kerman, Fresno, 93630

Project Sponsor Information:

Name: Microgy, Inc.
Address: 120 White Plains Road, 6th Floor
Tarrytown, New York 10591
Principals: Richard E. Kessel, Dennis Haines, Michael E. Thomas, Michael
Newman and Michael Hvisdos
Contact: Micky Thomas
Phone: (914) 631-1435

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: Orrick, Herrington & Sutcliffe LLP
Underwriter: Ziegler Capital Markets
Credit Enhancement Provider: Not Applicable
Private Placement Purchaser: To Be Determined (See Comments on Page 3)
TEFRA Hearing: February 26, 2008

Project Sponsor's principal activity: According to the application, this project is a facility for the local furnishing of electric energy or gas, which includes the construction of a new facility, and the purchase of new equipment.

First Tier Business (Yes/No): Yes

Regulatory Mandate (Yes/No): Yes, California Integrated Waste Management Act (AB 32)

Sources of Funds:

Tax-Exempt Bond Proceeds	\$26,130,000
Other Sources	<u>\$ 5,007,736</u>
Total Sources	\$31,137,736

Uses of Funds:

Site Preparation	\$ 365,265
Construction of New Building(s)	\$ 1,125,563
Utilities Connection	\$ 54,141
Acquisition and Installation of New Equipment	\$22,049,959
Legal, Permits, etc.	\$ 793,750
Bond Issuance Expenses (including discount)	\$ 650,000
Interest During Construction	\$ 3,500,000
Interest Income During Construction	\$ (200,942)
Debt Service Reserve	<u>\$ 2,800,000</u>
Total Uses	\$31,137,736

Description of Proposed Project: According to the application, the project will use anaerobic co-digestion. This process utilizes dairy manure solids and other agricultural- and food-based residuals. Specifically, the facilities will utilize a proven above-ground, fully-mixed, thermophilic co-digestion technology to produce renewable natural gas. According to the application, the project will produce approximately 601,000 MMBtu/year of renewable natural gas. PG&E will purchase the renewable natural gas under the terms of a 10-year gas purchase agreement with the Project Sponsor so as to produce electricity to help meet California’s renewable portfolio standards. PG&E will distribute the electricity to customers in its service territory. In addition, the Project Sponsor will not acquire land for the project. The facilities will be located directly on the sites of the Project Sponsor’s dairy partners: plots of land owned directly by the Project Sponsor’s dairy partners. The Project Sponsor has entered into a long-term lease agreement with the dairy partners for plots of land adequate to accommodate the construction and operation of the project components. Moreover, approximately 180,000 sq. ft. will be consumed by the footprint of the Renewable Energy Facility. Within each layout, the area is dominantly comprised of the following equipment: 4 Anaerobic Digesters, above ground steel, 65’ diameter; 2 Liquid Substrate Tanks, 30’ diameter; 3 Maintenance Buildings, each with an area of approximately 1,800 square feet; 1 Gas Treatment and Compression Area located on a 50’ X 50’ concrete pad. The following equipment will be installed or purchased: 4 Anaerobic Digesters; 2 Liquid Substrate Tanks; 1 Maintenance Building; 1 Manure Slurry Vessels; 1 Utility Water Tank, above ground steel, volume of 145,000 gallons; 1 Gas Treatment and Compression Area located on a 50’ X 50’ concrete pad; Driveway Access; 1 Hot Water Boiler; 1 Flare; 2 Honey Vacs to collect manure from the dairy free stalls for transport to Microgy’s digester facility. In addition, according to the application, the project will directly or indirectly serve the Riverdale area, the Fresno County area and communities served by PG&E gas and/or electric service. Interestingly, the Project Sponsor’s thermophilic, above-ground, fully-mixed co-digestion technology was developed in Europe. According to the application, the Project Sponsor holds the exclusive license to market the technology in North America. Approximately two dozen applications of the technology have been in operation in Europe for approximately 15 years. In addition, the Project Sponsor has been operating three applications of the technology on three Wisconsin dairies for approximately three years. According to the application, the Project Sponsor has been operating an additional application of its technology in Stephenville, TX for approximately 15 months, and they have three additional projects under construction in Texas. The project included in this application represents the first application of the Project Sponsor’s technology in California.

Environmental impact:

- 1) Air Quality: According to the application, the project will produce air quality benefits by reducing greenhouse and criteria emissions. The installation and operation of the anaerobic digester and the operation of the vacuum trucks used to collect the manure for processing in the digester will reduce greenhouse gas emissions and other criteria emissions.
- 2) Water Quality: According to the application, the specific measures included in the waste discharge requirements issued by the California Regional Water Quality Control Board are designed to mitigate any potential impacts on water quality. Specifically, these measures include 1) the deployment of equipment designed to insure proper management and land application of effluent, and 2) extensive ground water monitoring.
- 3) Energy Efficiency: According to the application, all Microgy, Inc. Renewable Energy Facilities incorporate insulation that offers a minimum of 25 watts per cubic meter in order to reduce the necessary energy consumption associated with heating the anaerobic digesters and consequently producing Renewable Natural Gas®.
- 4) Recycling of Commodities: According to the application, the project will recycle agricultural and food-based residuals that in many cases would otherwise be disposed of through land application or at landfill sites.
- 5) Safety and Compliance: According to the application, the Project Sponsor is in compliance with all applicable state and federal environmental regulations regarding solid waste disposal.
- 6) Consumer Costs Savings and Efficiencies: According to the application, the project will produce approximately 601,000 MMBtus/Year of renewable natural gas, which is enough natural gas to fuel approximately 13,000 average California residences. The renewable natural gas will be sold to PG&E under a 10-year gas purchase agreement between the Project Sponsor and PG&E. PG&E will use the renewable natural gas to produce renewable electricity to meet the requirements of California's renewable portfolio standard.

Local government support: Letters of support have been received from Phil Larson, Supervisor, of District One of the County of Fresno and George Radanovich, Member of Congress, of the 19th District of the U.S. House of Representatives.

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

COMMENTS:

- 1) Ziegler Capital Markets is the bond underwriter for this proposed Microgy, Inc. tax-exempt bond transaction. To be sure, Ziegler Capital Markets is an acceptable source of financing based on the following "conditional" requirements:
 - **90-day issuance expiration date**
 - **Prior to the issuance of bonds, the Applicant agrees to notify CDLAC of the identified Accredited Investor as defined by CDLAC Procedures.**
 - **A STO Policy Review was conducted by the California Pollution Control Authority (CPCFA) and presented to the CPCFA board on April 23, 2008 in support of the proposed technology.**
(see attached summary of findings memo)
- 2) At the May 28, 2008 Meeting, the Committee awarded \$65,350,000 to Microgy, Inc. for the 12863 West Kamm Avenue, Riverdale and the 7905 Kansas Avenue, Hanford project sites. The current allocation request of \$26,130,000 for the July 16th, 2008 Meeting is a separate allocation request for the following project site: 24387 Whitesbridge Road, Kerman.

Recommendation: Staff recommends that the Committee approve \$26,130,000 in tax-exempt bond allocation.