

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Calgren Dairy Fuels LLC
Application No. 17-SM018**

Tuesday, March 21, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Calgren Dairy Fuels LLC

Location – Pixley, Tulare County

Industry – Dairy Biogas

Project – New cluster biogas production facilities

Value of Qualified Property – \$20,373,200

Estimated Sales and Use Tax Exclusion Amount² – \$1,715,423

Application Score³ –

Fiscal Benefits Points:	1,413
<u>Environmental Benefits Points:</u>	<u>949</u>
Net Benefits Score:	2,362

<u>Additional Benefits Points:</u>	<u>115</u>
Total Score:	2,477

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.
² This amount is calculated based on the average statewide sales tax rate of 8.42%.
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Calgren Dairy Fuels LLC (“Calgren Dairy Fuels” or the “Applicant”) is a newly formed California Limited Liability Corporation, owned in part by GFP Ethanol LLC dba Calgren Renewable Fuels. Calgren Renewable Fuels is an ethanol refinery located in Pixley, California. Currently, the Calgren Renewable Fuels ethanol refinery consumes approximately 3% digester gas and 97% pipeline fossil natural gas from Southern California Gas Company.

The shareholders of Calgren Dairy Fuels are listed immediately below. Calgren Dairy Fuels has not yet appointed any officers.

Calgren Dairy Fuels is owned by:

- Flyer’s Sustainable Energy, LLC (35%)
- Pixley Finance, LLC (35%)
- GFP Ethanol, LLC (17%)
- Maas Energy Holdings (10%)
- Lyle James Schlyer (3%)

Flyer's Sustainable Energy LLC is owned by:

- David W Dwelle
- Stephen B Dwelle
- Thomas A Dwelle
- Walter A Dwelle

Pixley Finance, LLC is owned by:

- John Moller

GFP Ethanol, LLC is owned by:

- Flyer's Sustainable Energy, LLC
- Pixley Finance, LLC

Maas Energy Holdings, LLC is owned by:

- Maas Energy Works, Inc., which is owned by Daryl Maas

THE PROJECT

Calgren Dairy Fuels is seeking an STE award to build an anaerobic digester cluster project, which will generate renewable biomethane gas to replace much of the current natural gas consumed at the Calgren Renewable Fuels ethanol facility (the “Project”). The Project will contract with approximately 15 nearby dairies and build covered lagoon digester systems on each farm to convert its dairy’s manure into biomethane. Covered lagoons (Figure One) consist of an earthen manure pond covered by a flexible polyethylene tarp. Inside the digester, the manure creates biomethane gas that is captured by the cover. Separated digested solids and liquid effluent are also produced by the digester, and can be used for cow bedding and field fertilizer.

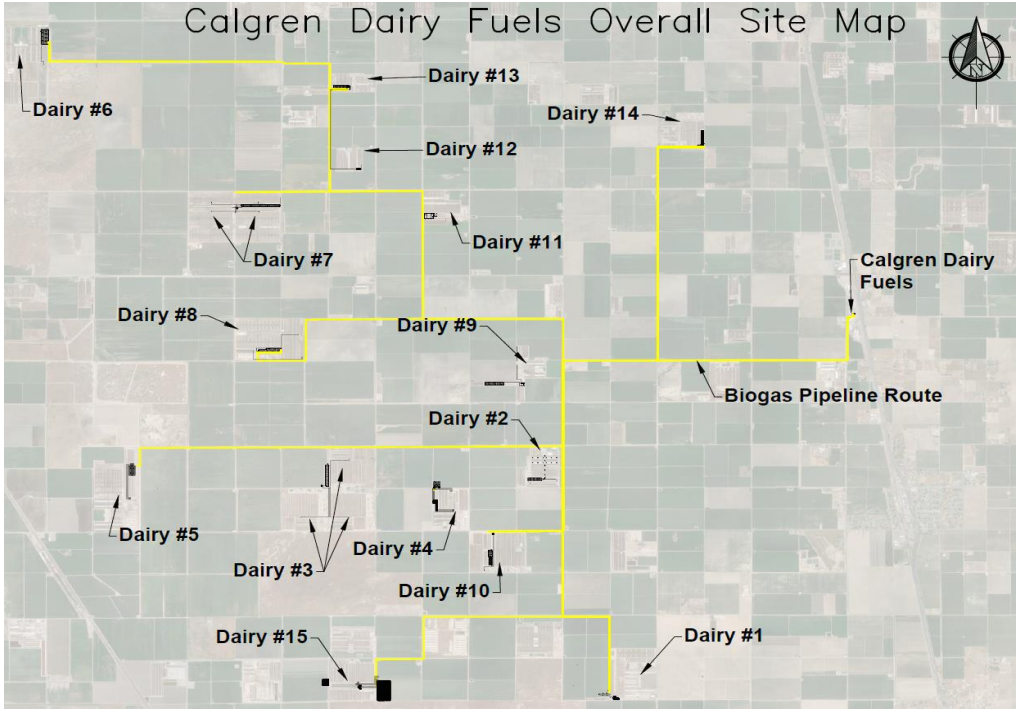
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The captured biomethane will be chilled at each site to remove excess water, and will then be piped (Figure Two) to the Calgren Renewable Fuels ethanol refinery where it will be scrubbed to remove hydrogen sulfide and carbon dioxide. The biomethane will then be either a) compressed and used to fuel two cogeneration turbines and produce electricity and steam for the plant’s daily operations, or b) converted into compressed natural gas vehicle fuel. No electrical equipment is included in the request.

Figure One: Example Covered Lagoon Dairy Digester



Figure Two: Map of Potential Participating Dairies & Pipeline Route



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Digester Liners and Covers	\$ 6,097,997
Mechanical Buildings with Foundations	1,125,000
Pumps, Blowers, Chillers, Pipe, Fittings, Meters, Sensors, & Conduits	8,534,000
Scrubbers and Gas Compression Equipment	<u>4,616,203</u>
Total	<u>\$20,373,200</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual 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, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Calgren Dairy Fuels expects to begin pipeline construction and purchasing of long lead time equipment in May and June of 2017. Digester construction will begin in July 2017, with digesters expected to begin producing methane in stages between September 2017 and December 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$20,373,200 and the total net benefits are valued at \$2,335,968 for the Project. The Project received a Total Score of 2,477 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 949 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,413 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$2,424,238 resulting in a Fiscal Benefits score of 1,413 points for the Project.

- B. Environmental Benefits (949 points).** The Project will result in \$1,627,153 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 949 points for the Project. These benefits derive from the production of dairy biogas, which offsets the need for use of fossil methane.

C. **Additional Benefits (115 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 115 additional points.

1. **Permanent Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of eight permanent jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 20 points for the Project.
2. **Construction Jobs (45 of 75 points)**. The Applicant represents that the Project will support a total of 60 construction jobs at its Facility. CAEATFA estimates that approximately 11 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 45 points for the Project.
3. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Tulare County which has an average annual unemployment rate of 13%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in Unemployment Score of 50 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Calgren Dairy Fuels is in the process of filing building permits, and permits required by the San Joaquin Valley Air Pollution Control District, and Central Valley Regional Water Quality Control Board. Each participating dairy is already California Environmental Quality Act (CEQA) compliant, but CEQA compliance is in the process of being revised for the new facility designs.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$81,493.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CALGREN DAIRY FUELS LLC**

March 21, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Calgren Dairy Fuels LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$20,373,200 over a period of three years; and

WHEREAS, the Applicant believes 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 Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master 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, Deputy 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 Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

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Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, 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 in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or 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, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.