

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

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

**T2Energy, LLC
Application No. 15-SM004
June 16, 2015**

Prepared By: *James Shimp*

SUMMARY

Applicant – T2Energy, LLC

Location – Vista, San Diego County

Industry – Omega Oil Production

Project – Installation of grow tanks for industrial biotechnology manufacturing (Advanced Manufacturing)

Value of Qualified Property – \$4,737,500

Estimated Sales and Use Tax Exclusion Amount² – \$398,898

Application Score –

Fiscal Benefits Points:	4,716
<u>Environmental Benefits Points:</u>	<u>200</u>
Net Benefits Score:	4,916
<u>Additional Benefits Points:</u>	<u>65</u>
Total Score:	4,981

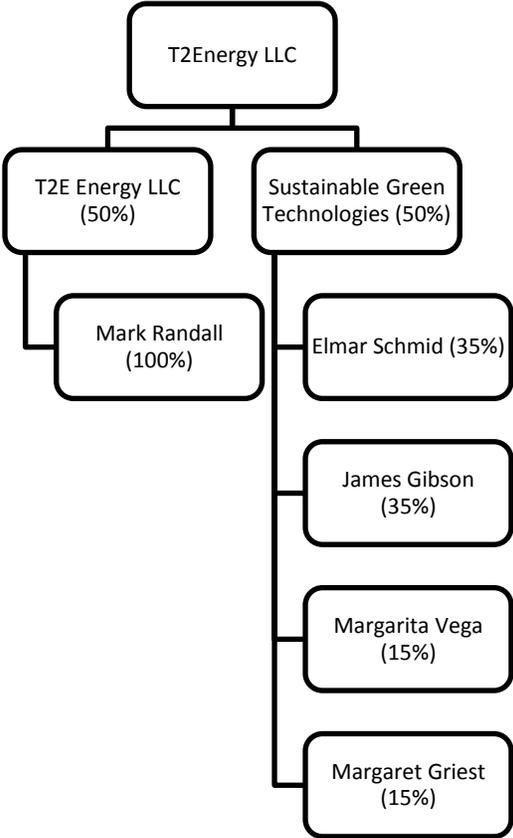
Staff Recommendation – Approval

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%.

THE APPLICANT

T2Energy, LLC (“T2Energy” or the “Applicant”) was formed in Delaware in 2012, and is a subsidiary of T2E Energy, LLC and Sustainable Green Technologies. T2Energy produces raw materials for chemical companies, as well as transportation fuels for military, aviation and private industry. Additionally, the Applicant manufactures omega oils using proprietary closed-loop algae grow tank systems.

The chain of ownership of T2Energy, LLC is as follows:



The corporate officers of T2Energy, LLC are:
Mark Randall, President and CEO
Elmar Schmid, Treasurer and Secretary

THE PROJECT

T2Energy plans to lease a 40,000 – 50,000 square foot facility where they will be installing their patent-pending industrial biotechnology growth tanks (the “Project”). These tanks will grow algae that are rich in beneficial omega oils, specifically Docosahexaenoic and Eicosapentaenoic acids. Currently, these omega oils are extracted from fish, necessitating a system of commercial fishing, transportation, and processing in order to produce the oil. Instead, the Applicant will utilize an innovative closed-loop system, which they assert will enable faster and larger algal growth. Additionally, the closed-loop system is designed to grow algae continually, as it does not rely on the photosynthetic day. The Applicant believes that these advances will result in lower

costs and higher quality product, thus making omega oil extraction from algae competitive with more traditional methods. In addition to cost savings, the Applicant’s system reduces waste by eliminating the need for fresh water, cutting energy use per unit of oil produced, and avoiding the pollution and hazardous waste disposal issues associated with commercial fishing and processing typically used to produce omega oils.

The Project facility will also be used to develop the Applicant’s technology for capturing flue gas at host power plants. T2Energy currently has a contract with San Diego Gas and Electric to demonstrate the technology being developed at their proposed facility. The Applicant anticipates that the demonstration will capture and reuse 3,200 pounds of CO2 daily, producing 1,200 gallons of omega oils and an equal amount of biomass.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Grow Tank	\$	1,520,000
Lighting system		570,000
Clarifier tank		665,000
Oil mixing tanks		190,000
Rotary drums		190,000
Spectrometer		150,000
Biodiesel analyzer		150,000
Fluorescence activated cell sorter		100,000
Cryopreservation system		200,000
Photo bioreactor		150,000
Light panels		75,000
Facility improvements		537,500
Electrical		120,000
Plumbing		120,000
Total	\$	<u>4,737,500</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

T2Energy is currently in talks with property owners and anticipates signing a lease in June of 2015, with actual production beginning in August of 2015.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$4,737,500. The Project received a Total Score of 4,981 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 200 points, which exceeds the 20 point threshold.

A. Fiscal Benefits (4,716 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 \$1,881,353 resulting in a Fiscal Benefits score of 4,716 points for the Project.

B. Environmental Benefits (200 points).

The Project will result in an Environmental Benefits Score of 200. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that will result in a reduction in water and energy use.
2. **Energy Consumption (30 of 30 points).** The Applicant's manufacturing process will result in a 45% reduction in energy consumption relative to the industry standard manufacturing process.
3. **Water Use (30 of 30 points).** The Applicant's manufacturing process will result in a 95% reduction in water use relative to the industry standard manufacturing process.
4. **Solid Waste (30 of 30 points).** The Applicant's manufacturing process will result in a 100% reduction in solid waste produced relative to the industry standard manufacturing process.
5. **Hazardous Waste (30 of 30 points).** The Applicant's manufacturing process will result in a 100% reduction in hazardous waste produced, primarily mercury, relative to the industry standard manufacturing process.

6. **Air Pollutants (30 of 30 points)**. The Applicant’s manufacturing process will result in a 100% reduction in air pollutants produced relative to the industry standard manufacturing process.
 7. **Other Pollutants (30 of 30 points)**. The Applicant’s manufacturing process will result in a 100% reduction in other pollutants, namely trace chemicals, produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (65 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 65 additional points.
1. **Permanent Jobs (45 of 75 points)**. The Applicant’s Project will support a total of 40 permanent jobs at its Facility. CAEATFA estimates that approximately three 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 45 points for the Project.
 2. **Construction Jobs (20 of 75 points)**. The Applicant’s Project will support a total of eight construction 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 Construction Jobs Score of 20 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant will be seeking permits for tenant modifications as soon as a final location is established.

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,³ the Applicant has paid CAEATFA an Application Fee of \$2,500 and will pay CAEATFA an Administrative Fee up to \$18,950.

³ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM004 for T2Energy LLC's purchase of Qualified Property in an amount not to exceed \$4,737,500 anticipated to result in an approximate sales and use tax exclusion value of \$398,898.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH T2ENERGY LLC**

June 16, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **T2Energy 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 \$4,737,500 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.

Agenda Item – 4.A.1
Resolution No. 15-SM004
Application No. 15-SM004

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.