

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**California Safe Soil, LLC
Application No. 22-SM029**

Tuesday, June 21, 2022

Prepared By: *Stefani Wilde, Program Analyst*

SUMMARY

Applicant – California Safe Soil, LLC

Location – McClellan, Sacramento County

Industry – Mixed Organics Recycling

Project – Upgrade of Existing Organics Recycling and Soil Amendment Manufacturing Facility (Recycled Resource Extraction)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$23,089,719	\$1,962,626

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$3,333,560	1,699
Estimated Environmental Benefits	\$48,106	25
Additional Benefits	N/A	105
Total	\$3,381,666	1,829
Estimated Quantifiable Net Benefit	\$1,419,039	

Competitive Criteria Score – 145

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 8.5%.

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).)

THE APPLICANT

The Applicant is a Delaware limited liability company established for the purpose of converting unsold organics from supermarkets into soil amendment and animal feed. The Applicant operated a pilot plant in West Sacramento from 2013 to 2015, serving local grocery chains such as Safeway, Nugget, Whole Foods, Save Mart, and Grocery Outlet. The Applicant has since added Sacramento’s Golden1 Center as a recycling customer. The Applicant has also partnered with scientists at UC Davis to study the efficacy and environmental benefits of its process and product.

On January 19, 2016, the CAEATFA Board granted the Applicant an STE award for the purchase of up to \$3,750,000 in Qualified Property for an estimated STE value of \$315,750 to build a commercial-scale organics recycling and soil amendment manufacturing facility. As of November 2021, the Applicant has used the STE to purchase \$2,223,004 of Qualified Property (59% of the total Qualified Property amount approved) and has placed the initial equipment in service as of July 2016.

The Applicant received approval from the California Municipal Finance Authority to issue bonds and is preparing to submit its application to the California Debt Limit Application Committee and expects to receive an allocation by July 2022.

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

- Daniel Morash (13.6%)
- REDF – OR, Inc. (12.2%)
- Mikael and Beth Salovaara (20.4%)

The corporate officers of the Applicant are:

- Daniel Morash, CEO
- Mark LeJeune, COO
- Mark Bauer, CMO
- Steve Zicari, CTO

THE PROJECT

California Safe Soil, LLC, is requesting an STE award to upgrade and expand its existing commercial-scale mixed organics recycling, fertilizer and animal food by-product production facility located in McClellan (the “Project”).

The Applicant has built a commercial-scale mixed organics recycling, fertilizer and animal food by-product production facility in an 80,000 square foot warehouse in McClellan and will be expanding it to accommodate an increase in demand for its pet food byproduct.

The Applicant’s business model involves collecting unsold food from participating grocery chains before it starts to rot or ferment. The Applicant states that this is different from all other methods of food waste recycling, where food is allowed to become putrescent in the process. By using special insulated totes and buggies to keep food waste fresh, the Applicant’s facilities can be permitted in urban areas, closer to the waste sources. This advantage eliminates the need for long distance hauling to a landfill or composting site, which in turn saves money and reduces GHG emissions.

Once at the Applicant’s facility, food waste is put through a proprietary system that uses heat, mechanical action, and enzymes to convert food into a liquid soil amendment with a small particle size (approximately 26 microns) in only three hours. The Applicant maintains that this new technology saves time and energy relative to composting food waste. The Applicant also notes that, because food waste is fresh, the resulting fertilizer, called Harvest to Harvest (“H2H”), is of a higher quality than industry standard. The Applicant has been working with scientists at UC Davis and the UC Coop Extension offices to demonstrate that H2H can increase crop yields, cut the use of nitrate fertilizer, and increase water efficiency. Additionally, because of the manufacturing process, the Applicant represents that the end-product is pathogen free, which is not the case for composted soil amendments.

The Applicant states it has recently discovered its product is also highly palatable to animals in the form of a byproduct known as “yellow grease”. Yellow grease is used in animal feed to add nutrients and calories, which can allow healthier and more rapid growth in livestock. The demand for this animal food byproduct has increased since production began in 2016, and has now become a larger part of its business than the Applicant previously realized. At this time, the demand for its product from the pet food market has surpassed the demand from the organic fertilizer market, which has been the main focus up until this point. Currently, the Applicant indicates its current capacity is 5,000 tons per year, and its goal is to increase that capacity by six times, to 30,000 tons per year.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Food receiving and raw processing system	\$2,082,368
Liquefaction and hydrolysis system	\$913,988
Centrifugation system	\$913,988
Pasteurization system	\$913,988
Finished product storage tanks	\$1,033,934
Fertilizer processing and storage equipment	\$545,721
Clean-in-place sanitation and automated bin washing systems	\$1,038,955
Wastewater pretreatment and dissolved air floatation systems	\$539,550
Hot water boilers/compressed air utility equipment	\$1,091,391
HVAC and refrigeration equipment	\$2,544,825
Odor management biofiltration and ventilation systems	\$848,645
Electrical distribution, lighting, and motor control systems	\$2,881,250
Automation and instrumentation hardware and software	\$1,216,118
Building hardware and mechanical systems	\$1,501,996
Freeze drying equipment	\$1,600,000
Bins and totes	\$2,735,504
Tools and plant safety equipment	\$312,500
Laboratory equipment	\$312,500
Office equipment and furniture	\$62,500
Total	<u>23,089,719</u>

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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, construction for the upgrade and expansion is scheduled to last for 18 months, concluding by July 2024. The Applicant anticipates signing purchase orders for Qualified Property in January 2023, with delivery of all equipment anticipated by July 2024.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it is working with McClellan Park Holdings (MPH) on approval for its project and expects final approval in Q2 of 2022. The Applicant has secured operating permits from the California Department of Food and Agriculture, the Sacramento Metropolitan Air Quality Management Department (SMAQMD) and the Sacramento Region Sewer District. It has also received its Certificate of Occupancy and “no action” letter from CalRecycle. Sacramento County has issued zoning approval, and the Applicant has secured air permit approvals from SMAQMD. The facility upgrade, which includes appropriate standards for pet food, is complete, and appropriate licensing is expected in Q2 of 2022.

COMPETITIVE CRITERIA SCORE

The Applicant received 145 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Recycled Resource Extraction Project and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Sacramento County, which has an average annual unemployment rate of 7.2%.⁴ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant zero points.
3. **Job Creation (30 of 75 points)**. The Applicant anticipates the Project will support a total of 48 production-related jobs at its Facility. CAEATFA estimates that approximately four 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 30 points.

⁴ Unemployment rates are based on data available in December 2021.

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 Facility 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 1,828 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 25 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,699 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 \$3,333,560, resulting in a Fiscal Benefits score of 1,699.
- B. **Environmental Benefits (25 points)**. The Project is anticipated to result in \$48,106 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 25 points. These benefits derive from the processing of organic food material, which diverts waste from landfills.
- C. **Additional Benefits (105 points)**. Applicants may earn additional points for their Total Score. The Applicant received 105 additional points.
 1. **Production Jobs (30 of 75 points)**. The Applicant anticipates the Project will support a total of 48 production-related jobs at its Facility. CAEATFA estimates that approximately four 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 30 points.

2. **Construction Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of six construction jobs at its Facility. CAEATFA estimates that approximately 0.51 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 zero points.
3. **Unemployment (0 of 50 points)**. The Applicant's Project is located in Sacramento County, which has an average annual unemployment rate of 7.2%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant zero points.
4. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to lab and third party agronomic and animal tests of formulations
5. **Industry Cluster (25 of 25 points)**. The industry associated with this Application has been identified by Sacramento Regional Technology Alliance as an industry cluster of the region of the Project's location.
6. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, bonuses, pension plans, retirement contributions, and paid leave benefits 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 CAEATFA regulations,⁵ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$92,358.88.

RECOMMENDATION

Staff recommends the approval of Resolution No. 22-SM029-01 for California Safe Soil, LLC's purchase of qualifying tangible personal property in an amount not to exceed \$23,089,719, anticipated to result in an approximate STE value of \$1,962,626.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH CALIFORNIA SAFE SOIL, LLC**

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **California Safe Soil, 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 \$23,089,719 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

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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.