

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**De Groot South Biogas LLC
Application No. 23-SM005**

Tuesday, July 18, 2023

Prepared By: *Jeannie Yu, Program Analyst*

SUMMARY

Applicant – De Groot South Biogas LLC

Location – Hanford, Kings County

Industry – Dairy Biogas

Project – New Dairy Biogas Facility (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$5,364,667	\$448,486

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$467,126	1,042
Estimated Environmental Benefits	\$179,083	399
Additional Benefits	N/A	180
Total	\$646,209	1,621
Estimated Quantifiable Net Benefit	\$197,723	

Competitive Criteria Score – 185

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 8.36%.

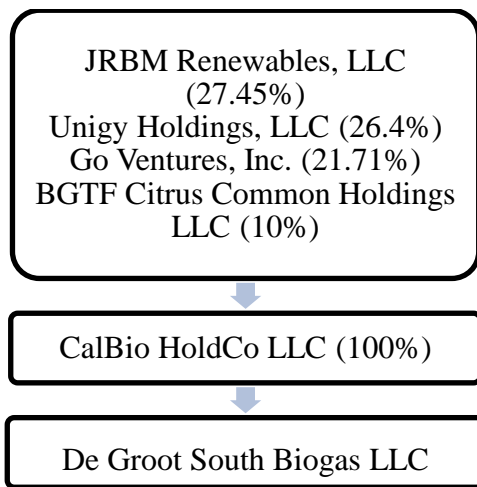
³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

THE APPLICANT

De Groot South Biogas LLC (the “Applicant”) is a California limited liability company that formed in 2019. The Applicant is a new dairy biogas facility headquartered in Visalia. The Applicant is able to obtain its manure digester feedstock through its relationship with California dairy farmers.

The Applicant has secured funding for digester related expenses from the California Department of Food & Agriculture (CDFA) for up to \$1.54 million in 2018.

The ownership structure of the Applicant is as follows:



The company officers of the Applicant are:

- N. Ross Buckenham, CEO
- Neil Black, President
- Abdulla Kagalwalla, CFO

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build a new dairy biogas facility located in Hanford (the “Project”). According to the Applicant, the Project utilizes a covered lagoon digester to create biogas that will be conveyed to a non-combustion solid oxide fuel cell to produce power. The power is then consumed to support operational machinery such as water and wastewater pumps, fans, chillers, and manure mixers, and other Project activities such as feedstock processing and separation, gas dehydration, and gas cleanup and compression. The power will also be delivered for EV charging usage. The Applicant states the production of dairy biogas creates environmental credits, Renewable Energy Credits (“RECs”) and Low Carbon Fuel Standard (“LCFS”) credits. The RECs are sold to an electric vehicle recharger such as BMW, Tesla, ChargePoint or EV-GO, thus creating the LCFS credits. The LCFS credits are sold to obligated parties, such as Chevron.

The Applicant anticipates the Qualified Property purchased for the Project will be used to manufacture dairy biogas; consistent with STE Program regulations,⁴ the Qualified Property also includes a portion of the power generation equipment used to power the facility for production purposes. The Project’s equipment will consume approximately 50% of the total amount of available energy generated from dairy biogas combustion; therefore, 50% of the power generation equipment is eligible for a sales and use tax exclusion. However, 50% of the power generation equipment is not included in this Application, as it represents the proportion of available energy in the form of electricity that will be sold.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Digester	\$1,453,206
Dairy H2S Treatment Plant	\$1,385,461
Fuel Cell	\$2,526,000
Total	<u>\$5,364,667</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 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

The Applicant states construction began in 2022 and the final completion of the Project is planned for August 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all the necessary permits have been approved by Kings County, the San Joaquin Valley Air Pollution Control District, and the Central Valley Regional Water Quality Control Board.

⁴ California Code of Regulations Title 4, Division 13, Section 10031(x)

COMPETITIVE CRITERIA SCORE

The Applicant received 185 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Applicant has a Project that produces an Alternative Source product, component, or system, and, therefore, 100 points are awarded.
2. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Kings County, which has an average annual unemployment rate of 6.9%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 50 points.
3. **Job Creation (20 of 75 points)**. The Applicant anticipates the Project will support a total of two production-related jobs at its Facility. CAEATFA estimates that approximately 0.30 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 20 points.
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)**. 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 1,621 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 399 points, which exceeds the 20-point threshold.

⁵ Unemployment rates are based on data available in October 2022.

- A. Fiscal Benefits (1,042 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 \$467,126, resulting in a Fiscal Benefits score of 1,042.
- B. Environmental Benefits (399 points).** The Project is anticipated to result in \$179,083 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 399 points. These benefits derive from the production of dairy biogas, which offsets the need for the use of fossil methane.
- C. Additional Benefits (180 points).** Applicants may earn additional points for their Total Score. The Applicant received 180 additional points.
- 1. Production Jobs (20 of 75 points).** The Applicant anticipates the Project will support a total of two production-related jobs at its Facility. CAEATFA estimates that approximately 0.30 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 20 points.
 - 2. Construction Jobs (60 of 75 points).** The Applicant anticipates the Project will support a total of 34 construction jobs at its Facility. CAEATFA estimates that approximately 5.05 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 60 points.
 - 3. Unemployment (50 of 50 points).** The Applicant’s Project is located in Kings County, which has an average annual unemployment rate of 6.9%. When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 50 points.
 - 4. Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with College of the Sequoias and Fresno State University for the purpose of assisting in the training of potential future workers.
 - 5. Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental, and vision benefits, bonuses, pension plans, retirement contributions, profit sharing, and paid leave 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 STE Program regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$7,834.56 and will pay CAEATFA an Administrative Fee of up to \$21,458.67.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM005-01 for De Groot South Biogas LLC's purchase of qualifying tangible personal property in an amount not to exceed \$5,364,667 anticipated to result in an approximate STE value of \$448,486.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH DE GROOT SOUTH BIOGAS LLC**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **De Groot South Biogas 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 \$5,364,667 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).

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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 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.

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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.