

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**
Meeting Date: November 17, 2010

Executive Summary

Discussion and Consideration of Applications for the SB 71 Sales and Use Tax Exclusion

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Summary. Senate Bill (SB) 71 (Padilla), signed into law on March 24, 2010, authorizes the California Alternative Energy and Advanced Transportation Financing Authority (“Authority” or “CAEATFA”) to approve Projects for sales and use tax exclusions (“STE”) on Qualified Property utilized for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components or systems.¹

Emergency Regulations for the Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program (“Program”) were adopted on October 4, 2010. The Authority has begun accepting Applications on a rolling basis, and will report to the Legislature once approved Participating Parties use a combined total of \$100 million in sales and use tax exclusions.²

CAEATFA received 15 Applications by the initial deadline of October 11th, 12 of which are being brought to the Board for consideration at its November meeting.³ Staff is recommending approval of these 12 Projects – as described in Agenda Items 4.B.1 – 4.B.14 – which have a combined value of \$785,739,579 in anticipated Qualified Property purchases, anticipated to result in approximately \$71,502,302 of sales and use tax exclusion over the next three years.⁴ Attachment A provides a brief summary of these 12 Applications.

Overview of Projects.

Based on the net benefits methodology embodied in the Program Regulations and on representation from these initial Applicants, staff estimates that approximately \$71.5 million in STE will assist in creating environmental benefits valued at approximately \$48 million and fiscal benefits valued at approximately \$55 million. This results in approximately \$103 million in total benefits and a net benefit value of \$31.3 million.

Together these projects are anticipated to create 4,914 jobs (3,189 permanent jobs and 1,725 temporary construction or installation jobs). CAEATFA staff calculates that approximately 471 of these jobs (289 permanent jobs and 182 construction jobs) are attributed to the Program, based

¹ All capitalized terms not defined here are defined in the Program’s statute and regulations.

² Public Resources Code Section 26011.8(h). CAEATFA will notify the Legislature when \$100 million in STE has been actually used.

³ Three of these Applications were not complete as submitted; CAEATFA staff requires additional time to review the accompanying materials submitted by the Applicant after the deadline. The Staff intends to bring these Applications to the Board for its consideration in December.

⁴ This is an estimated amount calculated by using the average statewide tax rate of 9.1%.

on the estimation methodology embodied in the Regulations. This is because the Program specifically evaluates the fiscal and environmental results that stem directly from the STE, with only the marginal additional production (and resulting fiscal and environmental benefits) associated with the STE included for purposes of evaluating Applicants. The marginal additional production associated with an Application is estimated based on the percent reduction on costs that an Applicant experiences as a result of receiving the STE.

Initial Projects Span a Range of Industries Covered by SB 71.

These initial Projects include landfill gas and biogas capture and production Facilities that turn waste methane into a usable, renewable fuel; a solid oxide fuel cell system manufacturing Facility, the output of which can generate electricity without the need for an expanded electricity distribution system using traditional or bio methane; and several solar photovoltaic manufacturing Facilities that, taken as a whole, will significantly expand the State’s photovoltaic industry (see Figure 1).

Type of Project	Frequency
Landfill Gas Capture and Production	1
Solid Oxide Fuel Cell Manufacturing	1
Biogas Capture and Production	3
Solar Photovoltaic Manufacturing	7
Total	<u>12</u>

Project Locations Span the State.

These Projects are located across the State with a concentration in the Bay Area, most heavily concentrated in Santa Clara County (see Figure 2). It is expected that these Projects will provide significant economic benefits to the State and local jurisdictions in the form of corporate, personal income, sales and property tax revenues, increased employment, and additional economic activity created by the manufacturing Facilities and purchases from related suppliers. It’s important to note that while the location of the Facilities helps to identify where much of the economic and fiscal activity will take place (e.g., new jobs created, property tax payments), it does not by itself provide CAEATFA with sufficient information to determine the fiscal impact of the Program on individual local communities. The impact on individual local communities will also depend on where the Qualified Property will actually be purchased. Approved Participating Parties will provide that information to CAEATFA after they purchase the Qualified Property.

The value of the Projects ranges from approximately \$1 million to \$382 million, with corresponding anticipated STE amounts ranging from \$103,000 to \$34 million. The median size Project is \$28.7 million with an anticipated STE amount of \$2.6 million.

Figure 2: Initial Projects by County						
County	Number	Percentage of Total Projects	Amount of Qualified Purchases	Projected STE Amount	Net Benefit Value	Number of Jobs
Orange	1	8%	\$ 9,240,000	\$ 840,840	\$ 565,704	30 (3 STE) ⁵
Merced	1	8%	1,245,000	113,295	809,038	30 (3 STE)
Kern	2	17%	5,869,584	534,132	3,288,134	76 (9 STE)
Alameda	2	17%	389,576,000	35,451,416	9,915,289	2,264 (242 STE)
Santa Clara	6	50%	379,808,995	34,562,619	16,703,175	2,514 (214 STE)
<u>TOTAL:</u>	<u>12</u>	<u>100%</u>	<u>\$785,739,579</u>	<u>\$71,502,302</u>	<u>\$31,281,340</u>	<u>4,914 (471 STE)</u>

Application Review Process

Eligibility Criteria.

To qualify, an Applicant must show that the property to be purchased subject to the STE will be used to design, manufacture, produce or assemble an Advanced Transportation Technology or Alternative Source product, component or system *at least 75 percent of the time it is being used.*

Evaluation Criteria.

Applications were evaluated based on criteria in the Regulations. These evaluation criteria are designed to measure and quantify the fiscal and environmental benefits of the Project and to compare the result to the cost of the STE.

As briefly described above, CAEATFA evaluates the fiscal and environmental results that stem directly from the STE. Only the marginal additional production (and resulting fiscal and environmental benefits) associated with the STE are included for purposes of evaluating Applications. The marginal additional production resulting directly from the STE is determined based on an estimated increase in equipment purchases resulting from the STE. That is, because the STE in effect lowers the cost of purchasing capital equipment, Applicants are assumed to purchase more such equipment than would be the case in the absence of the STE.

The resulting increase in output associated with the additional equipment purchases is subsequently calculated, and the fiscal and environmental effects associated with just this additional output is used for purposes of scoring the Application.

Fiscal and environmental benefits associated with the (marginal) additional production of Advanced Transportation or Alternative Source products, components, or systems are calculated according to the methodology embodied in the Regulations. The value of these benefits (in dollars) is compared to the value of the STE in order to calculate the Applicant’s score.

⁵ Example: of the 30 jobs created, 3 are attributable to the STE under the Program Regulations.

Scoring.

Applicants receive scores in the areas of fiscal benefits and environmental benefits which translate into a numerical score. In addition, Applicants may receive up to 200 points for optional supplemental information related to the economic and environmental benefits of the Project if the Applicant provides such data. Applications that receive a total score greater than or equal to 1,000 points and a total pollution benefit score (i.e., environmental benefits) greater than or equal to 100 will be recommended to the Board for approval.

This round of Applications represents the first test of the scoring system embodied in the Regulations. Each of the 12 Applications presented for Board consideration received a score above 1,000, and a total pollution benefit score of at least 100 indicating that the Project is likely to produce net benefits for the State. Among the initial 12 Applications, scores ranged from 1,053 to 8,201 points; the median score is 2,167 points. In general, CAEATFA staff observed that the dairy biogas Facilities yielded the highest environmental benefits scores due to the methane that these Projects will capture and convert into fuel. Many of the solar panel manufacturing Facilities received significant fiscal benefits scores (in addition to the environmental benefits that these Projects are anticipated to produce).

Supplemental Scoring Factors.

The Regulations allow Applicants to submit additional information which may be used for purposes of augmenting Applicant scores from the net benefits test. During this initial round of Applications, staff included only a partial range of “supplemental points” in the score—jobs, unemployment and out of State environmental benefits—if Applicants clearly surpassed the established point threshold based on the net benefits test alone.

Legal Documents under the Program.

CAEATFA will be executing a Master Regulatory/Conveyance Agreement with each approved Applicant within 30 days of the Board’s approval of an Application.⁶ The procedures and templates of legal documents were posted to the CAEATFA website and provided to Applicants on November 5, 2010.

Recommendation. Staff recommends the Authority approve the Projects as described in Agenda items 4.B.1 – 4.B.14 (omitting agenda items 4.B.7 and 4.B.10).

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⁶This time period may be extended by CAEATFA.

Attachment A

Agenda Item	Application	Location of Facility	Industry/Use of Proceeds	Qualified Property Amount	STE Amount (Anticipated) ¹	Estimated Environmental Benefit Value	Estimated Fiscal Benefit Value	Estimated Net Benefit Value	Total Jobs	Total Jobs Due To SB 71
4.B.1	Bowerman Power LFG, LLC	Irvine (Orange County)	Landfill Gas Capture & Production	\$ 9,240,000	\$ 840,840	\$ 398,492	\$ 1,008,052	\$ 565,704	30	3
4.B.2	ABEC Bidart Stockdale, LLC	Bakersfield (Kern County)	Biogas Capture & Production	\$ 1,131,584	\$ 102,974	\$ 228,808	\$ 73,809	\$ 199,643	26	3
4.B.3	ABEC Bidart Old River, LLC	Bakersfield, (Kern County)	Biogas Capture & Production	\$ 4,738,000	\$ 431,158	\$ 3,080,806	\$ 438,844	\$ 3,088,491	50	6
4.B.4	First Solar, Inc.	Santa Clara (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 37,700,000	\$ 3,430,700	\$ 1,668,971	\$ 1,971,559	\$ 209,831	174	17
4.B.5	Solyndra Fab 2 LLC	Fremont (Alameda County)	Solar Photovoltaic Manufacturing	\$ 381,776,000	\$ 34,741,616	\$ 22,202,363	\$ 20,765,274	\$ 8,226,021	2,084	225
4.B.6	The Solaria Corporation	Fremont (Alameda County)	Solar Photovoltaic Manufacturing	\$ 7,800,000	\$ 709,800	\$ 834,403	\$ 1,564,665	\$ 1,689,268	180	17
4.B.8	Nanosolar Inc.	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 140,187,900	\$ 12,757,099	\$ 10,527,415	\$ 6,992,728	\$ 4,763,045	410	36
4.B.9	Stion Corporation	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 105,473,402	\$ 9,598,080	\$ 3,512,324	\$ 6,207,404	\$ 121,648	493	47
4.B.11	NuvoSun Incorporated	Milpitas (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 20,000,000	\$ 1,820,000	\$ 2,137,232	\$ 2,594,509	\$ 2,911,741	160	18
4.B.12	Calisolar Inc.	Sunnyvale (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 39,000,000	\$ 3,549,000	\$ 1,971,609	\$ 1,975,797	\$ 398,407	273	13
4.B.13	Bloom Energy Corporation	Sunnyvale (Santa Clara County)	Solid Oxide Fuel Cell Systems Manufacturing	\$ 37,447,693	\$ 3,407,740	\$ 562,054	\$ 11,144,189	\$ 8,298,503	1,004	83
4.B.14	Gallo Cattle Company	Atwater (Merced Atwater)	Biogas Capture & production	\$ 1,245,000	\$ 113,295	\$ 791,959	\$ 130,374	\$ 809,038	30	3
			Total:	\$ 785,739,579	\$ 71,502,302	\$ 47,916,436	\$ 54,867,204	\$ 31,281,340	4914	471