

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**
Meeting Date: January 25, 2011

Executive Summary
*Discussion and Consideration of Applications for the SB 71 Sales and Use Tax Exclusion
Program (STE)¹*

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Summary.

CAEATFA received 3 Applications by the November 23rd deadline, all of which are being brought to the Board for consideration at its January meeting.² Staff is recommending approval of these 3 Projects—as described in Agenda Items 4.A.1 – 4.A.3—which have a combined value of \$32,786,475 in anticipated Qualified Property purchases, anticipated to result in approximately \$2,983,569 of sales and use tax exclusions over the next three years.³ Attachment A provides a brief summary of these 3 Applications.

Overview of Projects.

Based on the net benefits methodology embodied in the Program Regulations and on representation from these Applicants, staff estimates that approximately \$3 million in STE will assist in creating environmental benefits valued at approximately \$3 million and fiscal benefits valued at approximately \$2.5 million. This results in approximately \$6 million in total benefits and a net benefit value of \$2.8 million.

Together these Projects are anticipated to create 88 jobs (52 permanent jobs and 36 temporary construction or installation jobs). CAEATFA staff calculates that approximately 6 of these jobs (3 permanent jobs and 3 construction jobs) are attributed to the Program, based on the estimation methodology embodied in the Regulations.⁴ Attachment B provides a summary of the evaluation process under the Program.

The value of the Projects ranges from approximately \$1.3 million to \$26.1 million, with corresponding anticipated STE amounts ranging from \$490,000 to \$2.4 million. The median size Project is \$5.4 million with an anticipated STE amount of \$490,000.

¹ All capitalized terms not defined in this document are defined in the Program's Regulations.

² One of these Applications was submitted to CAEATFA for an earlier Board meeting. It was not complete at that time, but is now considered complete.

³ This is an estimated amount calculated by using the average statewide tax rate of 9.1%.

⁴ 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.

Agenda Item – 4.A.

Projects Span a Range of Industries Covered by SB 71.

These Projects include a lithium ion battery manufacturer for electric vehicles, a solar photovoltaic (solar panels) manufacturer; and a demonstration hydrogen fueling production station. (see Figure 1).

Figure 1: Project by Industry	
Type of Project	Frequency
Lithium Ion Batteries	1
Solar Panels	1
Hydrogen Fueling	1
Total	<u>3</u>

Project Locations.

These Projects are located in two State Counties (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 is 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 Applicants will provide that information to CAEATFA after they purchase the Qualified Property.

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
Alameda	2	66	6,694,475	609,197	647,170	32
Santa Clara	1	33	26,092,000	2,374,372	2,236,206	56
<u>TOTAL:</u>	<u>3</u>	<u>100%</u>	<u>\$32,786,475</u>	<u>\$2,983,569</u>	<u>\$2,883,376</u>	<u>88</u>

Finding of Public Interest.

CAEATFA staff is recommending approval of one Application (Agenda Item 4.A.3) that does not meet the Program’s standard point threshold or net benefit test; however, Staff strongly believes the Project is in the public interest and advances the purposes of the Program. This Applicant, the Alameda Contra Costa Transit District, is constructing a demonstration hydrogen fueling station for hydrogen buses and potentially hydrogen cars at its Emeryville Facility. The Project does not meet the threshold point requirements for the economic or environmental benefits, yet the Project has great potential for the future of the State’s advanced transportation industry.

Staff anticipated these types of situations in developing the Program structure. If a Project receives a total score of less than 1,000 points, a pollution benefit score less than 100 points, or both, the Executive Director may recommend it to the Authority for approval upon a statement articulating specific reasons why the approval is in the public interest and advances the

Program.⁵ While CAEATFA anticipated numerous potential Project scenarios in developing the Regulations, this provision was included to allow CAEATFA to more appropriately evaluate unique and innovative Projects which may not have been anticipated in the evaluation criteria established in the Regulations. A more detailed discussion of the Project can be found in Agenda Item 4.B.3.

Summary of Applications Approved to Date

Figure 3 summarizes some of the attributes of the Applications approved under the Program approved to date as well as adjusted attributes if the Board approves the Applicants recommended at this meeting.

Figure 3: Applicants Approved Attributes		
	Approved Applicants to Date	Approved Applicants Including January Recommendations
Number of Projects	26	29
Qualified Property Amount	\$928,514,778	\$961,301,253
STE Amount (Anticipated)	\$84,494,846	\$87,478,415
Estimated Environmental Benefit Value	\$52,182,980	\$55,467,084
Estimated Fiscal Benefit Value	\$84,975,840	\$87,558,680
Estimated Net Benefit Value	\$52,669,692	\$55,553,068
Total Jobs	6,027	6,115
Total Jobs Due to SB 71	596	602

Recommendation. Staff recommends the Authority approve the Projects as described in Agenda items 4.A.1 – 4.A.3.

⁵ Section 1033(C)(6-7)

ATTACHMENT A

Agenda Item	Applicant	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.A.1	Leyden Energy, Inc.	Fremont (Alameda County)	Lithium Ion Battery Manufacturing	\$1,306,525	\$118,894	\$21,400	\$944,754	\$847,260	30	2
4.A.2	MiaSolé	Sunnyvale (Santa Clara County)	Solar Photovoltaic Manufacturing	\$26,092,000	\$2,374,372	\$3,246,664	\$1,363,913	\$2,236,206	26	3
4.A.3	Alameda-Contra Costa Transit District	Emeryville (Alameda County)	Demonstration Hydrogen Fuel Production	\$5,387,950	\$490,303	\$16,040	\$274,173	(\$200,090)	6	1
			Total:	<u>\$32,786,475</u>	<u>\$2,983,569</u>	<u>\$3,284,104</u>	<u>\$2,582,840</u>	<u>\$2,883,376</u>	<u>88</u>	<u>6</u>

ATTACHMENT B

Application Evaluation

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.

CAEATFA Staff 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.

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.

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. The procedures and templates of legal documents were posted to the CAEATFA website and provided to Applicants on November 5, 2010.