

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**
Meeting Date: March 22, 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 January 21st deadline, one of which is being brought to the Board for consideration at its March meeting.² Staff is recommending approval of this one Project—as described in Agenda Item 4.A.1—which has a value of \$14,374,000 in anticipated Qualified Property purchases, anticipated to result in approximately \$1,308,034 of sales and use tax exclusions over the next three years.³ Attachment A provides a brief summary of this Application.

Overview of Project.

Based on the net benefits methodology embodied in the Program Regulations and on representation from this Applicant, staff estimates that approximately \$1.3 million in STE will assist in creating environmental benefits valued at approximately \$197 thousand and fiscal benefits valued at approximately \$3.4 million. This results in approximately \$3.6 million in total benefits and a net benefit value of \$2.3 million.

This Project is anticipated to create 97 jobs (8 permanent jobs and 89 temporary construction or installation jobs). CAEATFA staff calculates that approximately 11 of these jobs (1 permanent job and 10 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.

This Project is a biomass processing and fuel production facility.

Project Location.

This Project is located in Kern County. It is expected that this Project will provide significant economic benefits to the State and local jurisdiction in the form of corporate, personal income, sales and property tax revenues, increased employment, and additional economic activity created by the manufacturing Facility and purchases from related suppliers. It is important to note that while the location of the Facility 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

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

² Of the other two not being presented at the March Board meeting, one Application was withdrawn and the other Applicant is currently providing additional information for CAEATFA's consideration.

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.

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.

Summary of Applications Approved to Date.

Figure 1 summarizes some of the attributes of the Applications approved under the Program to date as well as adjusted attributes if the Board approves the Application recommended at this meeting.

Figure 1: Applications Approved Attributes		
	Approved Applications to Date	Approved Applications Including March Recommendation
Number of Projects	27 ⁵	28
Qualified Property Amount	\$946,596,753	\$960,970,753
STE Amount (Anticipated)	\$86,140,305	\$87,448,339
Estimated Environmental Benefit Value	\$51,243,005	\$51,440,032
Estimated Fiscal Benefit Value	\$85,409,942	\$88,880,215
Estimated Total Benefit	\$136,652,947	\$140,320,247
Estimated Net Benefit Value	\$50,518,645	\$52,877,911
Total Jobs	6,027	6,124
Total Jobs Due to SB 71	591	602

Recommendation. Staff recommends the Authority approve the Project as described in Agenda items 4.A.1.

⁵ 29 Applications have been approved to dated, however 2 Applicant’s have since withdrawn their Applications, thus this data reflects the 27 Applicants approved and still moving forward with this program.

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	Mt. Poso Cogeneration Company, LLC	Bakersfield (Kern County)	Biomass Processing and Fuel Production	\$14,374,000	\$1,308,034	\$197,027	\$3,470,273	\$2,359,266	97	11
			Total:	<u>\$14,374,000</u>	<u>\$1,308,034</u>	<u>\$197,027</u>	<u>\$3,470,273</u>	<u>\$2,359,266</u>	<u>97</u>	<u>11</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.