

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**
Meeting Date: August 29, 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

Staff is recommending approval of three Projects—as described in Agenda Items 4.A.1 – 4.A.3—which have a combined value of \$190,744,885 in anticipated Qualified Property purchases, resulting in approximately \$15,450,335² of sales and use tax exclusions over the next four years.³ Attachment A provides a brief summary of these three 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 \$15.5 million in STE will assist in creating environmental benefits valued at approximately \$8.6 million and fiscal benefits valued at approximately \$15.2 million. This results in approximately \$23.8 million in total benefits and a net benefit value of approximately \$8.4 million.

Together these Projects are anticipated to create 621 jobs (251 permanent jobs and 370 temporary construction or installation jobs). CAEATFA staff calculates that approximately 52 of these jobs (15 permanent jobs and 37 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 range from approximately \$7.9 million to \$174.5 million, with corresponding anticipated STE amounts ranging from \$638,253 to \$14.1 million. The median size Project is \$8.4 million with an anticipated STE amount of \$681,310.

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

² This is an estimated amount calculated by using the average statewide tax rate of 8.1%.

³ One of these Applicants, Obsidian (Agenda item 4.A.3), is requesting an extension of time to purchase their qualified property.

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.

Projects Span a Range of Industries Covered by SB 71

These Projects include an alternative source fuel producer (geothermal brine extraction) and two solar photovoltaic (solar panels) manufacturers (see Figure 1).

Type of Project	Frequency
Geothermal Brine Extraction	1
Solar Panels	2
Total	<u>3</u>

Project Locations

These Projects are located in three California 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.

County	Number	Percentage of Total Projects (%)	Amount of Qualified Purchases	Projected STE Amount	Net Benefit Value	Number of Jobs
Imperial	1	33	174,453,978	14,130,772	5,077,577	381
Santa Clara	2	61.1	15,117,907	1,224,550		60
Orange*	1	4.9	1,173,000	95,013		
<u>TOTAL:</u>	<u>3</u>	<u>100%</u>	<u>\$224,770,907</u>	<u>\$18,206,443</u>	<u>\$8,063,493</u>	<u>694</u>

*Amonix is purchasing Qualified Property for two facilities; Milipitas (Santa Clara County) and Seal Beach (Orange County). Amonix estimates it will purchase \$6,706,667 of Qualified Property for the Santa Clara facility and \$1,173,000 in Qualified Property for the Orange County facility.

Summary of Applications Approved to Date

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

Figure 3: Application Attributes		
	Approved Applications to Date	Approved Applications Including August Recommendations
Number of Projects	30 ⁵	33
Qualified Property Amount	\$974,241,093	\$1,130,959,956 <u>\$1,164,985,978</u>
STE Amount (Anticipated)	\$88,624,386	\$101,318,613 <u>\$104,074,721</u>
Estimated Environmental Benefit Value	\$53,747,690	\$62,394,005
Estimated Fiscal Benefit Value	\$90,937,442	\$106,094,216
Estimated Total Benefit	\$144,685,132	\$168,488,221
Estimated Net Benefit Value	\$56,066,748	\$64,419,801
Total Jobs	6,116	6,737
Total Jobs Due to SB 71	601	653

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

⁵ Thirty-four (34) Applications have been approved to date; however, under the program four applicants have since withdrawn their Applications. This data reflects the 30 Applicants approved and still moving forward at this time.

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	Amonix, Inc..	Seal Beach (Orange County) and Milpitas (Santa Clara County)	Solar Photovoltaic Manufacturing	\$7,879,667	\$638,253	\$740,148	\$2,884,021	\$2,985,916	200	12
4.A.2	SoloPower, Inc.	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$8,411,240	\$681,310	\$419,024	\$575,484	\$313,197	40	1
4.A.3	CE Obsidian Energy, LLC	Calipatria (Imperial County)	Geothermal Brine Extraction	\$174,453,978	\$14,130,772	\$7,487,143	\$11,697,269	\$5,053,640	381	39
			Total:	<u>\$190,744,885</u>	<u>\$15,450,335</u>	<u>\$8,646,315</u>	<u>\$15,156,774</u>	<u>\$8,352,753</u>	<u>621</u>	<u>52</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.