

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

*Notice to Board of Executive Director’s Determinations for Specific Parameters under the
Sales and Use Tax Exclusion Program*

Tuesday, March 17, 2015

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SUMMARY

The regulations for the Sales and Use Tax Exclusion (“STE”) Program (the “Program”) contain several provisions that require the Executive Director of the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA” or the “Authority”) to determine various parameters for use by the Authority when evaluating applications for the Program.

The ability to adjust parameters provides CAEATFA with an important tool to respond to the dynamic nature of the technologies and industries served by the Program. These parameters can be updated by the Executive Director when the Executive Director determines that an adjustment of parameters will further advance the goals of the Program, is required by the regulations, or will otherwise improve the accuracy of Application evaluations.

This item is presented for the Board’s information only. No action is required.

BACKGROUND

In order to evaluate the fiscal and environmental benefits of an application, the evaluation criteria embodied in the Program regulations rely on a number of specific values and parameters that change from time to time. The Executive Director has the regulatory authority to establish the parameters based on relevant research literature, consultation with professional economists or outside experts, information provided by other State agencies, and data provided by the public.

The Blue Sky Consulting Group, CAEATFA’s technical consultant, provided significant input into the selection of the parameters and their initial values, these proposed modifications, and the integration of parameters into the net benefits evaluation.

The Board approved the Program’s initial parameters in September 2010. The most recent update to the parameters was adopted in March 2014.

The following is a list of the specific parameters that the Executive Director has determined should be updated (see Attachment A for justifications provided for each of the assumptions and proposed parameters made to date):

- **Discount Rate.** The discount rate is used to adjust the value of a stream of future costs and benefits such that they reflect a value in current dollars.

- **Current Statewide Average Income Tax Rate.** The income tax rate is used to calculate the benefit to the state from increased income tax payments stemming from increased economic activity.
- **Ratio of State and Local Government Revenues to Gross State Output.** This parameter is used to estimate the additional revenue that state and local governments will collect as a result of the additional economic activity generated by an applicant's project.
- **Current Annual Average Unemployment Rate for the State and Counties.** Applicants in high unemployment areas are eligible for additional points based on the unemployment rate where the facility is located compared to the statewide average unemployment rate.
- **Pollution Cost Per Megawatt hour of electricity, Gallon of Gasoline Equivalent (GGE), and Million British Thermal Units (MMBTU) for Carbon Dioxide (CO₂).** The pollution cost measures are used to quantify the benefits (in terms of pollution avoided) of an applicant's product.

Attachment A

EXECUTIVE DIRECTOR DETERMINATIONS FOR CHANGES TO PARAMETERS

Discount Rate (§10033.c.1.C.i): 3.75%, based on the state's cost of borrowing as reflected by the yield on a 30 year tax exempt general obligation pursuant to the most recent Debt Affordability Report prepared by the State Treasurer's Office.

Current Average State Income Tax Rate, SIR (§10033.c.1.G.i.b): 5.2%, based on the average of the most recent two year's data regarding adjusted gross income and total tax liability from the Franchise Tax Board.

Ratio of State and Local Government Revenues to Gross State Output, GRSO (§10033.c.1.G.ii.a): 5.98%, based on the sum of the latest four-year average of actual state general fund revenues from the California Department of Finance, the latest four-year average of actual aggregate city and county revenues excluding intergovernmental transfers and service charges from the cities annual report and the counties annual report from the California State Controller's Office, divided by the latest four-year average of gross state product from U.S. Department of Commerce's Bureau of Economic Analysis.

Current Annual Average Unemployment Rate for the State and Counties (§10033.C.5.A.i.): 7.53% for the state (county rates in table below), based on the most recent annual data from the Employment Development Department.

County	2013 Rate
ALAMEDA	6.00
ALPINE	10.22
AMADOR	8.16
BUTTE	8.48
CALAVERAS	8.54
COLUSA	17.43
CONTRA COSTA	6.14
DEL NORTE	9.87
EL DORADO	7.09
FRESNO	11.37
GLENN	10.55
HUMBOLDT	7.37
IMPERIAL	23.41
INYO	7.18
KERN	10.56
KINGS	12.17
LAKE	9.91
LASSEN	9.48
LOS ANGELES	8.22

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MADERA	10.33
MARIN	4.15
MARIPOSA	7.58
MENDOCINO	6.58
MERCED	13.07
MODOC	9.98
MONO	7.33
MONTEREY	9.13
NAPA	5.18
NEVADA	6.41
ORANGE	5.28
PLACER	6.22
PLUMAS	10.21
RIVERSIDE	8.70
SACRAMENTO	7.27
SAN BENITO	9.33
SAN BERNARDINO	8.38
SAN DIEGO	6.20
SAN FRANCISCO	4.66
SAN JOAQUIN	11.14
SAN LUIS OBISPO	5.59
SAN MATEO	4.35
SANTA BARBARA	5.90
SANTA CLARA	5.46
SANTA CRUZ	8.17
SHASTA	9.05
SIERRA	10.12
SISKIYOU	11.16
SOLANO	6.98
SONOMA	5.43
STANISLAUS	11.40
SUTTER	13.51
TEHAMA	9.73
TRINITY	10.18
TULARE	12.88
TUOLUMNE	8.08
VENTURA	6.60
YOLO	7.98
YUBA	12.29

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Pollution Cost Per MWh, GGE, and MMBTU of Carbon Dioxide, Nitrous Oxide and Sulfur Dioxide Released in California and the rest of the United States (§10033.C.2.b.i): values in tables below based on benefit values and emission values from the relevant research literature.

<i>Total Cost/MWh</i>		
	CA	US
NOx	\$ 0.03	\$ 0.09
SO2	\$ 0.03	\$ 0.85
CO2	\$ 2.65	\$ 5.57
TOTAL	\$ 2.71	\$ 6.51

<i>Total Cost/GGE</i>	
	\$/Gallon
VOC+NOx	\$0.00137
CO2	\$0.09700
TOTAL	\$0.09837

<i>Total Cost/MMBTU</i>	
CO2	\$0.58500