

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

BYD Coach and Bus LLC
Application No. 17-SM007

February 21, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – BYD Coach and Bus LLC

Location – Lancaster, California

Industry – Electric Bus Manufacturing

Project – Expansion of Electric Bus Manufacturing Facilities

Value of Qualified Property – \$3,189,014

Estimated Sales and Use Tax Exclusion Amount² – \$268,515

Estimated Net Benefits – \$13,300,915

Application Score³ –

Fiscal Benefits Points:	44,099
<u>Environmental Benefits Points:</u>	<u>6,436</u>
Net Benefits Score:	50,535
<u>Additional Benefits Points:</u>	<u>199</u>
Total Score:	50,734

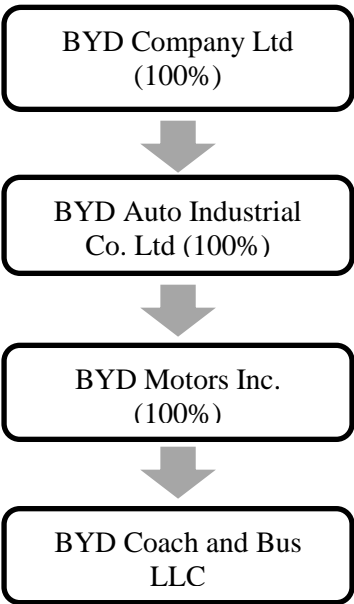
Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.
² This amount is calculated based on the average statewide sales tax rate of 8.42%.
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

BYD Coach and Bus (“BYD”, the “Company”, or the “Applicant”) is a wholly owned subsidiary of BYD Company Ltd, a Chinese company whose mission is to help worldwide transportation become green and sustainable through the use of cutting edge battery electric technology. BYD Company Ltd invented an industry-leading rechargeable battery, and with its subsidiaries is developing and marketing a family of zero-emission electric cars, trucks, and buses built around its battery technology. BYD Coach and Bus is based in California, with North American corporate headquarters in Los Angeles and North American manufacturing based in Lancaster.

The chain of ownership for BYD Coach and Bus is as follows:



The corporate officers of BYD Coach and Bus are:

- Ke Li – President
- Macy Neshati – Vice President of Bus Sales and Acting Plant Manager
- John Zhuang – Legal Counsel

THE PROJECT

The Applicant is requesting a sales and use tax exclusion to expand its electric bus manufacturing facility in Lancaster, California (the “Project”). BYD currently manufactures seven all electric coach and bus models ranging from a 23’ over-the-road coach up to a 60’ articulated bus. The Project will roughly double the size of the facility, ramping up production capabilities and allowing BYD to add additional models to its product lineup. BYD expects that the increase in production capability will lead to decreases in vehicle costs, which will allow more customers to access the zero emission technology. A diesel bus is estimated to consume the equivalent of 30,353 gallons of gas per year. The Applicant represents that replacing 500 diesel vehicles is estimated to prevent 21,600 metric tons of carbon dioxide emissions from being released into the atmosphere. BYD expects that as a result of the Lancaster expansion and reduced costs, more zero emission electric vehicles will be deployed in California, reducing greenhouse gas emissions across the state.

The Applicant represents that the project is being undertaken in three phases. Phase One, which is already complete, consisted of interior upgrades and remodeling of the existing manufacturing area. Phase Two consists of a 45,000 square foot addition to the existing Lancaster facility that will allow BYD to further increase its capacity to manufacturing electric buses by providing additional space for the installation of overhead production cranes, paint booths, and other manufacturing equipment. In Phase Three, BYD will purchase an adjacent parcel of land and expand the facility by an additional 300,000 square feet, doubling production capacity and creating additional employee facilities and office space.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Warehouse Canopies	\$ 318,064
Spray Booth	628,000
Fiberglass Booth	119,616
Prep Booth	120,000
Paint Mixing Booth	36,341
Front Flow Parts/Fiberglass Spray	30,000
10 Ton Crane	157,700
Electrical for Spray booths, Jig & Crane-Welding Drops	51,804
Welding Equipment	102,067
Warehouse Racks	35,000
Compressors	224,000
Hydraulic jacks	42,000
LED Lights	528,300
Bluetooth adapter supplies	3,644
Install Circuit	1,279
Concrete	340,200
Table Saws	5,000
Drill Press	7,000
Solar Panels	350,000
Jig	75,000
Cooling Fans	5,000
Glass Manipulator	9,000
Total	<u>\$3,189,014</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components (of the Project) over original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Phase One and Phase Two of the Project have already been completed. Phase Three has begun and is slated to be completed by mid to late 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$3,189,014 and the total net benefits are valued at \$13,300,915 for the Project. The Project received a Total Score of 50,734 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 6,436 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (44,099 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$11,841,232 resulting in a Fiscal Benefits score of 44,099 points for the Project.
- B. **Environmental Benefits (6,436 points)**. The Project will result in \$1,728,198 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 6,436 points for the Project. These benefits derive from the manufacturing of electric buses since these vehicles deliver a significant net reduction in energy consumption and CO2 emissions relative to a comparable diesel powered bus.
- C. **Additional Benefits (199 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 199 additional points.
 1. **Permanent Jobs (75 of 75 points)**. The Applicant's Project will support a total of 1,054 permanent jobs at its Facility. CAEATFA estimates that approximately 27 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 75 points for the Project.
 2. **Construction Jobs (75 of 75 points)**. The Applicant's Project will support a total of 225 construction jobs at its Facility. CAEATFA estimates that approximately 6 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 75 points for the Project.
 3. **Unemployment (9 of 50 points)**. The Applicant's Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which

was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 9 points for this Project.

- 4. Non-CA Environmental Benefits (40 of 40 points).** The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at \$38,631 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

BYD has obtained several required permits, including a Fish and Game Wildlife permit, City of Lancaster site plan review, and Phase One environmental assessment, and has plans to obtain several other required permits. The Applicant does not foresee any roadblocks to obtaining the required permits and expects that all permits will be successfully granted by early 2017.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the Applicant has paid CAEATFA an Application Fee of \$1,595 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM007 for BYD Coach and Bus's purchase of Qualified Property in an amount not to exceed \$3,189,014 anticipated to result in an approximate sales and use tax exclusion value of \$268,515.

⁴ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH BYD COACH AND BUS LLC**

February 21, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **BYD Coach and Bus LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, in an Advanced Manufacturing process or for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$3,189,014 over a period of three years; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Agenda Item – 4.A.3
Resolution No. 17-SM007
Application No. 17-SM007

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances, be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property listed in the semi-annual reports pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(a), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.