

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

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

**Sunergy California, LLC
Application No. 17-SM044**

Tuesday, June 20, 2017

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Sunergy California, LLC

Location – McClellan, Sacramento County

Industry – Solar Photovoltaic Manufacturing

Project – New Solar PV Manufacturing Facility

Value of Qualified Property – \$7,823,286

Estimated Sales and Use Tax Exclusion Amount² – \$658,721

Estimated Net Benefits – \$5,980,298

Application Score –

Fiscal Benefits Points:	5,710
<u>Environmental Benefits Points:</u>	<u>4,369</u>
Net Benefits Score:	10,079
<u>Additional Benefits Points:</u>	<u>130</u>
Total Score:	10,209

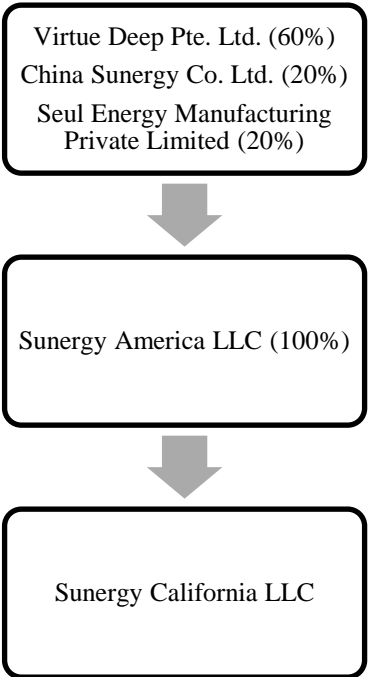
Staff Recommendation – Approval

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%.

THE APPLICANT

Sunergy California LLC (“Sunergy California” or the “Applicant”), a California Limited Liability Company, is a wholly owned subsidiary of Sunergy America LLC formed in 2017 for the purpose of manufacturing solar photovoltaic (“PV”) modules. Sunergy America LLC is partly owned by China Sunergy Co. Ltd. (“CSUN”), a Chinese-based solar PV manufacturer formed in 2004. CSUN’s research and development is headed by Dr. Jianhua Zhao and Dr. Aihua Wang who fabricated the crystalline silicon solar cell with the current world record efficiency rate of 25% over 20 years ago.

The ownership chain of Sunergy California LLC is as follows:



The sole corporate officer of Sunergy California LLC is:

Zhou Xiao Li, CEO

THE PROJECT

Sunergy California is building two automatic solar PV module production lines at its headquarters in McClellan, with a total production capacity of approximately 400MW (the “Project”). The Project will produce passivated emitter rear contact (“PERC”) solar modules, Black Silicon solar modules, and bifacial double-glass modules for residential and commercial rooftop projects, as well as conventional polycrystalline modules and conventional monocrystalline modules for utility-scale projects.

The Applicant represents the Project will utilize most up-to-date fully automatic production techniques and equipment to substantially optimize costs, time, and product quality. For

example, the Applicant anticipates the automated production line will have a less than 0.0001% product defect rate and an average equipment repair time of less than 30 minutes. The Project will also incorporate manufacturing execution systems (“MES”) to provide dynamic data collection, storage, analysis and reporting.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Glass feeding machine	\$ 57,143
EVA Automatic lay up and cutting machine	60,571
Automatic placing template unit	53,143
Automatic lay up string machine	414,000
EVA/TP Automatic cutting and punching machine	60,571
EVA/TP Automatic lay up manipulator	88,571
Storage and stack machine	108,571
Automatic Rotary table	96,000
Automatic Edge trimmer	85,714
90° Rotary tester	21,429
Automatic frame placing and framing machine	108,571
Solidition manipulator	72,000
Plate Solidification line	32,000
Module Rotary Unit	42,857
Unidirectional transmission unit	190,714
Bidirectional transmission unit	192,857
Electroluminescent tester	177,143
Palletization Robot	102,857
Cell soldering machine	1,100,000
Automatic Busbar soldering machine	714,286
Automatic taping machine	128,571
Laminating machine	850,000
Insulation Withstand voltage tester	2,857
IV tester	62,857
Equipment Lines Testing, Shipping, Installation and Site Works	1,800,000
Building Improvement	<u>1,200,000</u>
Total	<u>\$7,823,286</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

The Applicant represents the production line equipment testing began in March 2017 and facility improvements and renovation have already commenced. The Applicant anticipates installing equipment in August 2017, with testing taking place in November 2017, and production beginning in December 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,823,286 and the total net benefits are valued at \$5,980,298 for the Project. The Project received a Total Score of 10,209 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 4,369 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (5,710 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 \$3,761,032 resulting in a Fiscal Benefits score of 5,710 points for the Project.

- B. **Environmental Benefits (4,369 points)**. The Project will result in \$2,877,987 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 4,369 points for the Project. These benefits derive the capacity of solar PV modules to generate electricity from alternative sources, thereby reducing the need for traditionally generated electricity.

- C. **Additional Benefits (130 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 130 additional points.
 1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 180 permanent jobs at its Facility. CAEATFA estimates that approximately 11 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 60 points for the Project.

 2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 15 construction jobs at its Facility. CAEATFA estimates that approximately one 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 30 points for the Project.

3. **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 \$367,214.18 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents construction work permits for the building improvements have already been obtained and equipment permits are anticipated by the end of June 2017.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$3,911.64 and will pay CAEATFA an Administrative Fee of up to \$31,293.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM044 for Sunergy California LLC's purchase of Qualified Property in an amount not to exceed \$7,823,286 anticipated to result in an approximate sales and use tax exclusion value of \$658,721.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SUNERGY CALIFORNIA LLC**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Sunergy California LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized 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 \$7,823,286 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.5
Resolution No. 17-SM044
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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.