

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

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

**SunLine Transit Agency
Application No. 17-SM058**

Tuesday, October 17, 2017

Prepared By: *Matthew Newman, Blue Sky Consulting Group with Melanie Holman, Analyst*

SUMMARY

Applicant – SunLine Transit Agency

Location – Thousand Palms, Riverside County

Industry – Renewable Hydrogen Production

Project – New Renewable Hydrogen Production Facility (Alternative Source)

Value of Qualified Property – \$7,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$589,400

Application Score –

Fiscal Benefits Points:	1,223
<u>Environmental Benefits Points:</u>	<u>40</u>
Net Benefits Score:	1,263

<u>Additional Benefits Points:</u>	<u>36</u>
Total Score:	1,299

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

SunLine Transit Agency (“SunLine” or the “Applicant”) is a Joint Powers Authority (“JPA”) founded in 1977 that operates Coachella Valley’s public transportation system. Members of the JPA include the nine cities of the Coachella Valley and Riverside County. The Applicant’s facility is located in Thousand Palms.

The Board Members of SunLine include:

- Russell Betts, Desert Hot Springs – Chair
- Troy Strange, Indio – Vice Chair
- Greg Pettris, Cathedral City
- Emmanuel Martinez, Coachella
- Ty Peabody, Indian Wells
- Robert Radi, La Quinta
- Kathleen Kelly, Palm Desert
- Ginny Foat, Palm Springs
- G. Dana Hobart, Rancho Mirage
- V. Manual Perez, Riverside County

THE PROJECT

SunLine Transit Agency, in partnership with Proton OnSite and Nel Hydrogen, plans to construct a hydrogen production facility at their bus depot in Thousand Palms, California that will use an electrolyzer to produce renewable hydrogen fuel for their fleet of Fuel Cell Electric Buses (“FCEBs”) (the “Project”). The Applicant represents the Project will have a capacity to produce 900 kilograms-per-day to fuel a planned fleet of 25 zero-emission FCEBs. In the future, SunLine plans to offer public hydrogen fueling of trucks and cars. According to the Applicant, the Project will be the largest such facility in North America. Sunline will be the owner and operator of the Project, relying on the industry expertise of Proton Onsite and Nel Hydrogen. According to the Applicant, the Project will utilize Proton Onsite’s M400 PEM Electrolyzer while Nel Hydrogen will be delivering its H2Station fueling equipment.

The Project will use renewable electricity from onsite generation and the grid to produce the hydrogen fuel. According to the Applicant, the project has received public funding and support from the California Air Resources Board under the Air Quality Investment Plan and Greenhouse Gas Reduction Fund. Therefore, the Applicant is required to dispense at least 33.3% renewable hydrogen content on a per-kilogram basis. SunLine represents it aims to surpass the minimum requirements and dispense 100% renewable hydrogen content by enlarging the size of its solar photovoltaic generation system and also procuring Renewable Energy Certificates (RECs) for all additional electricity consumed for hydrogen production.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Electrolyzer	\$3,500,000
Hydrogen Storage	900,000
Hydrogen Compression	2,500,000
Hydrogen Dispensing	<u>100,000</u>
Total	<u>\$7,000,000</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

A construction contract between SunLine and Proton OnSite and Nel Hydrogen was executed on September 22, 2017. SunLine anticipates the Project will be operational in late 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$7,000,000 and the total net benefits are valued at \$155,186 for the Project. The Project received a Total Score of 1,299 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 40 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,223 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 \$720,765 resulting in a Fiscal Benefits score of 1,223 points for the Project.

- B. Environmental Benefits (40 points).** The Project will result in an Environmental Benefits Score of 40 points.

- C. Additional Benefits (36 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 36 additional points.

1. **Permanent Jobs (0 of 75 points)**. The Applicant represents that the Project will support one permanent job at its Facility. CAEATFA estimates that this job will not be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 0 points for the Project.
2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of three 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 20 points for the Project.
3. **Unemployment (16 of 50 points)**. The Applicant's Project is located in Riverside County which has an average annual unemployment rate of 8.7% percent. This is above 110 percent 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 16 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents it has worked with the South Coast Air Quality Management District to obtain environmental clearances and ensure that the Project complies with the California Environmental Quality Act. The Applicant anticipates receipt of relevant permits from the County of Riverside, such as land use, building, safety, and a National Pollutant Discharge Elimination System permit, within 3-4 months from permit application submission.

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 \$3,500 and will pay CAEATFA an Administrative Fee of up to \$28,000.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM058 for SunLine Transit Agency's purchase of Qualified Property in an amount not to exceed \$7,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$589,400.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SUNLINE TRANSIT AGENCY**

October 17, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **SunLine Transit Agency** (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 \$7,000,000 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.

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Application No. 17-SM058

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.