

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Ontario CNG Station, Inc.  
Application No. 17-SM061**

**Tuesday, November 14, 2017**

Prepared By: *Matthew Newman, Blue Sky Consulting Group with Ashley Bonnett, Program Manager*

**SUMMARY**

**Applicant** – Ontario CNG Station, Inc.

**Location** – Ontario, San Bernardino County

**Industry** – Renewable Hydrogen Production

**Project** – New Renewable Hydrogen Production Facility (Alternative Source)

**Value of Qualified Property** – \$2,000,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$168,400

**Estimated Net Benefits** – \$96,136

**Application Score** –

Fiscal Benefits Points:	1,549
<u>Environmental Benefits Points:</u>	<u>22</u>
<b>Net Benefits Score:</b>	<b>1,571</b>

<u>Additional Benefits Points:</u>	<u>96</u>
<b>Total Score:</b>	<b>1,667</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

**THE APPLICANT**

Ontario CNG Station, Inc. (“Ontario CNG” or the “Applicant”) is a California corporation that plans to construct and operate a hydrogen production and fueling station in Ontario, California. According to the Applicant, the station will be unique in that it will provide other amenities, such as a carwash, convenience store, restrooms, and a 24-hour attendant.

The major shareholders (10.0% or greater) of Ontario CNG Station, Inc. are:  
Ay Irrevocable Trust - 68%  
Dikran Arabian - 32%

The corporate officers of Ontario CNG Station, Inc. are:  
Natalie Danesh, President  
Atabak Youssefzadeh, Project Manager

**THE PROJECT**

Ontario CNG plans to construct a hydrogen production facility in Ontario, where the Applicant will produce renewable hydrogen fuel for trucks and passenger vehicles (the “Project”).

The Project will use an electrolyzer powered by renewable electricity from onsite solar generation to produce the renewable hydrogen. The Applicant represents the Project will have the capacity to produce 70,544 kilograms of hydrogen fuel per year. Ontario CNG plans to use the water produced as a byproduct of the hydrogen production process to operate a carwash and irrigate landscaping on site at the fueling station.

According to the Applicant, the Project has received a \$1,750,000 grant from California Energy Commission and \$200,000 from the Southern California Air Quality Management District.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Hydrogen plant	\$1,837,000
Solar panels	<u>163,000</u>
<b>Total</b>	<b><u>\$2,000,000</u></b>

*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 Facility is scheduled to be operational in January 2018. Construction began in October 2016, and all permits for the Project have granted by the City of Ontario.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$2,000,000 and the total net benefits are valued at \$96,136 for the Project. The Project received a Total Score of 1,667 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 22 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,549 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 \$260,821 resulting in a Fiscal Benefits score of 1,549 points for the Project.
  
- B. **Environmental Benefits (22 points)**. The Project will result in \$3,715 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 22 points. These benefits derive from the production of renewable hydrogen, which offsets the need for use of fossil fuels.
  
- C. **Additional Benefits (96 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 96 additional points.
  1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of three permanent 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 Permanent Jobs Score of 30 points for the Project.
  
  2. **Construction Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 10 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 55 points for the Project.
  
  3. **Unemployment (11 of 50 points)**. The Applicant's Project is located in Ontario which has an average annual unemployment rate of 8.4 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 11 points for this Project.

#### **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

According to the Applicant, all relevant permits have been obtained.

#### **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$1,000 and will pay CAEATFA an Administrative Fee of \$15,000.

#### **RECOMMENDATION**

Staff recommends approval of Resolution No. 17-SM061 for Ontario CNG Station, Inc.'s purchase of Qualified Property in an amount not to exceed \$2,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$168,400.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH ONTARIO CNG STATION, INC.**

November 14, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Ontario CNG Station, Inc.** (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 \$2,000,000 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.

**Agenda Item – 4.A.1**  
**Resolution No. 17-SM061**  
**Application No. 17-SM061**

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.