



# Sales & Use Tax Exclusion Program:

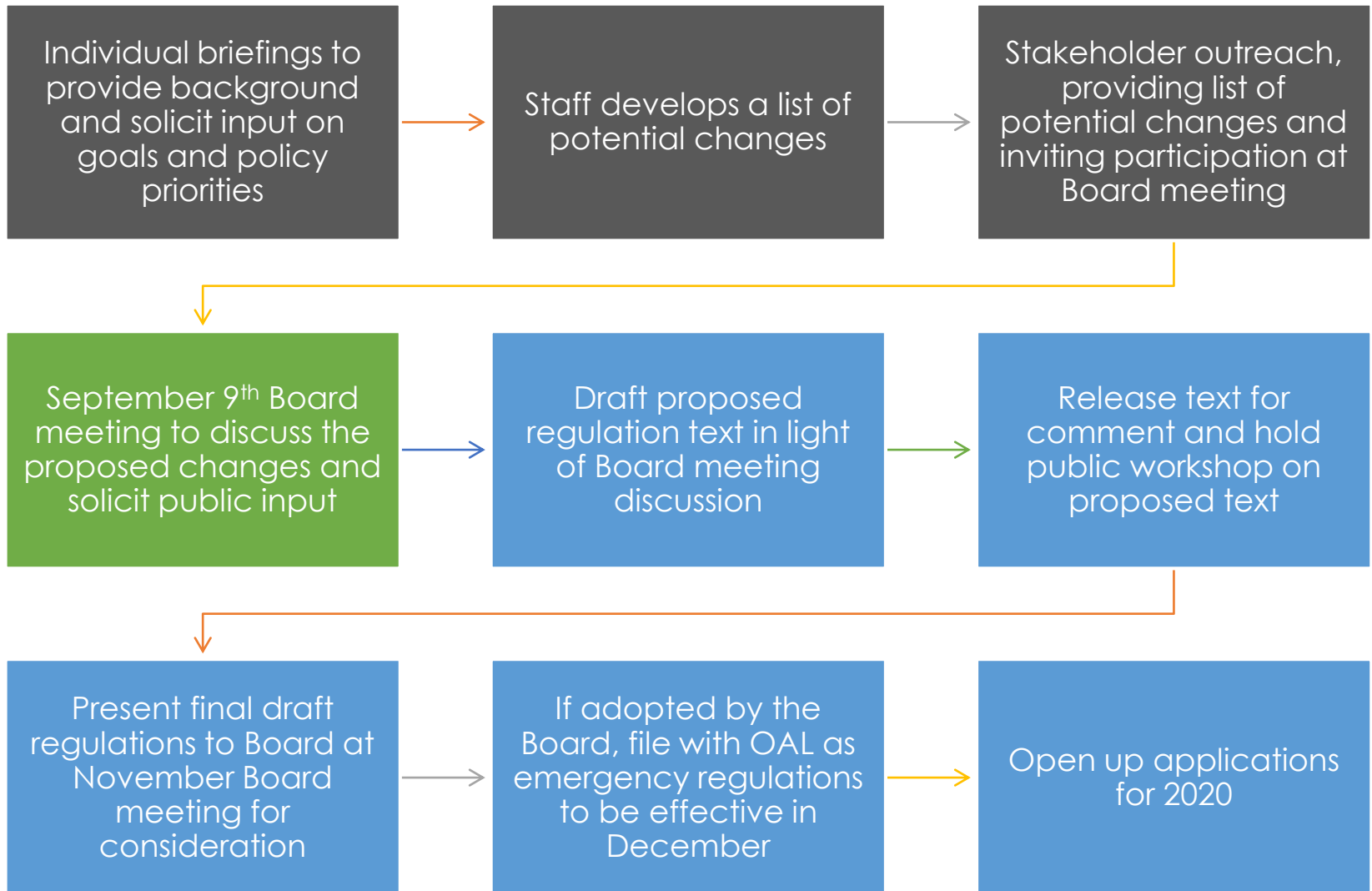
Discussion of Proposed Changes to the  
Program's Regulations


September 9, 2019

# Agenda

- Staff's Stakeholder Process
- Program Background and Performance
- Discuss Program Goals and Preliminary Recommendations of Potential Program Modifications to Consider
- Public Comment
- Next Steps

# Regulation Development Process





# **Program Background and Portfolio Analysis**

# Program's Purpose

Program's purpose is to promote

- The creation of California-based manufacturing
- California-based jobs
- Advanced Manufacturing
- The reduction of greenhouse gases
- Reductions in air and water pollution
- Reductions in energy consumption

*In furtherance of this purpose, the Authority may approve a project for financial assistance in the form of a sales and use tax exclusion.*

# Statutory History & Program Design

- Program is a front-end incentive to help applicants make business decisions to move to or grow in California.
- Awards are made prior to investments and business plans being implemented, therefore application information is based on projections.

2010	2012	2015
<p>SB 71 – Provided targeted exclusion to Alternative Source and Advanced Transportation manufacturers</p> <p>Required to notify legislature when awards exceeded \$100 million</p> <p>Given sunset date of January 1, 2021</p> <p>First apps considered November 2010</p>	<p>SB 1128 – Added Advanced Manufacturing as an eligible project until July 1, 2016</p> <p>Set a \$100 million in STE cap per calendar year</p> <p>First Advanced Manufacturing apps considered December 2013</p>	<p>AB 199 – Added projects that process or utilize Recycled Feedstock</p> <p>AB 1269 – Extended sunset date of Advanced Manufacturing from July 1, 2016 to January 1, 2021 (current sunset date of program)</p> <p>First Recycled Feedstock apps considered October 2016</p>

# Program Overview

## Eligible manufacturers and recyclers apply to receive a Sales and Use Tax Exclusion.

- Four eligibility pathways – Alternative Source, Advanced Transportation, Advanced Manufacturing, Recycling
- CAEATFA limited to awarding \$100MM in STE each calendar year by statute
- Per-company cap of \$20MM in STE each year (may receive more if any remains at end of year)
- Must submit application at least 60 days prior to Board Meeting (accepted on a rolling basis)
- Application Fee of .0005 of Qualified Property (min \$250, max \$10K)
- Two-part Application: Part A – Project narrative, Part B – List of Qualified Property + Scoring spreadsheet

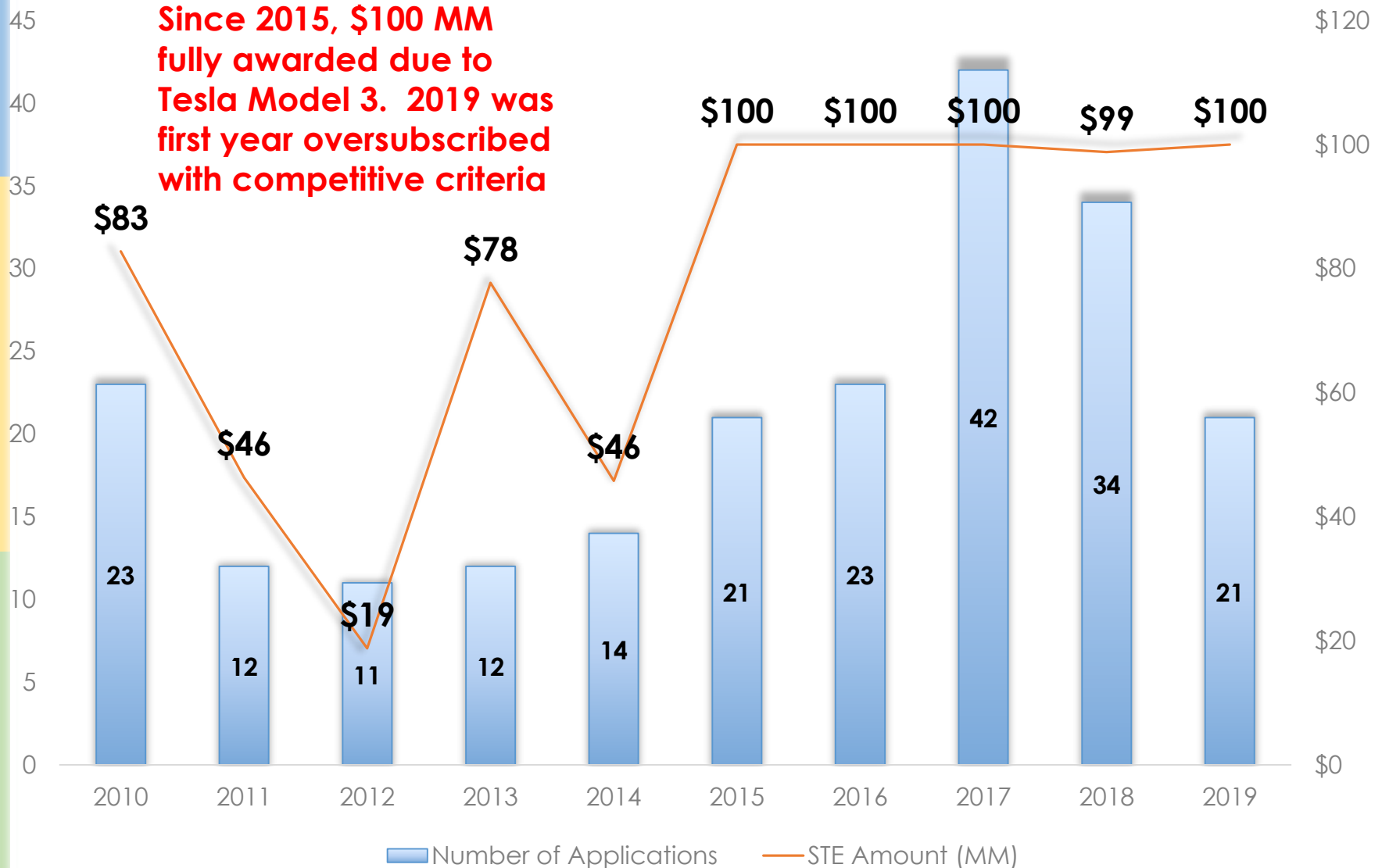
## Staff reviews the application to ensure compliance and assumptions are reasonable

- Applications reviewed on a rolling monthly basis, if oversubscribed in a particular month, then reviewed based on competitive criteria score
- Iterative review process between staff and applicant
- Staff prepares staff summary on application and provides recommendation based on project meeting points threshold ( \$fiscal benefit+ environmental benefit+ Non-Monetary benefit = Points)

## If approved, the company does not pay sales or use tax on eligible equipment

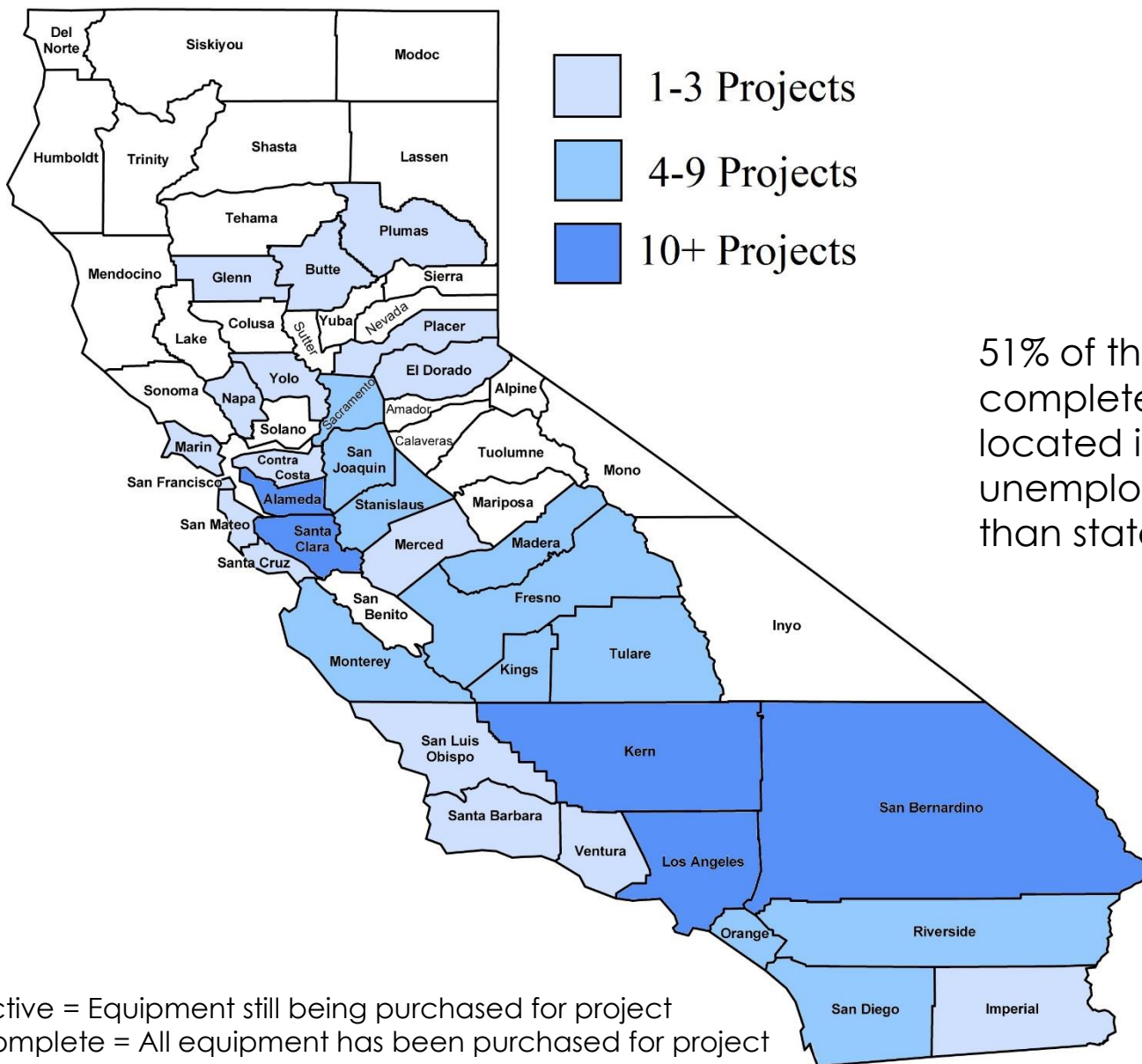
- The company has 3 years to use the award (Board may waive or extend), and must make at least 15% of purchases within one year (10/16 – present).
- Companies report
  - semi-annually on equipment purchases (generally 3 years or until done making purchases)
  - annually on the status of the project (1/2 useful life of equipment – average 9.5 years)
- Pay administrative fee of .004 of QP (\$15K min paid up front, rest paid with semi-annual reports as QP is purchased; max \$350K)

# While the universe of potential applicants has expanded, the funding remains restricted





# Active and Completed Projects Located Across 33 Counties

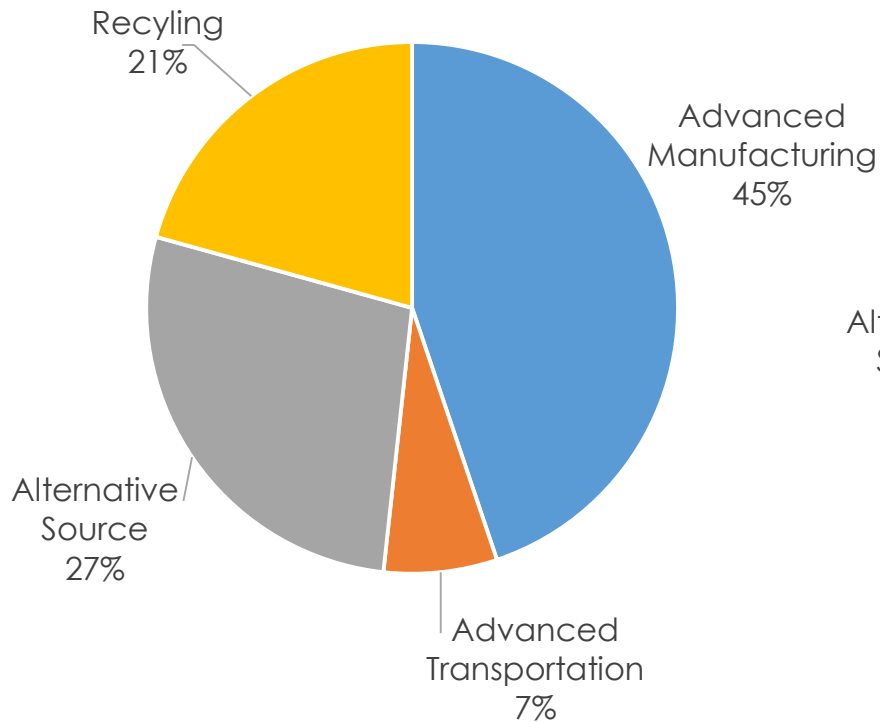


51% of the active and complete projects are located in counties with unemployment rates higher than statewide average.

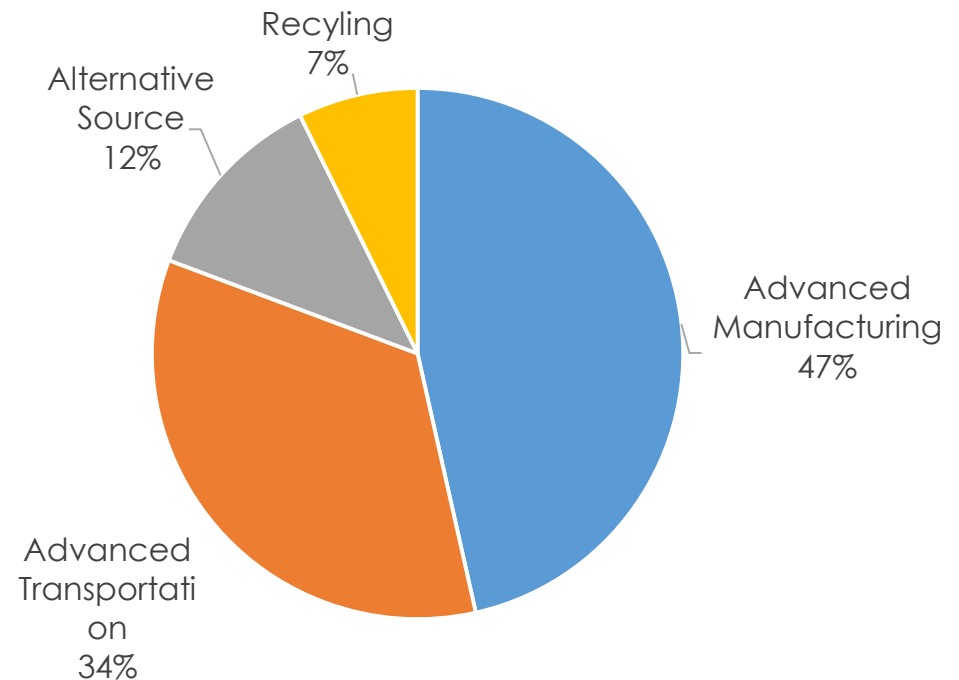
Active = Equipment still being purchased for project  
 Complete = All equipment has been purchased for project

Since October 2016 (when Recycling was added to the Program), Advanced Manufacturers have been the largest awardee, both by number and value of awards

**Percent of Number of Awards**

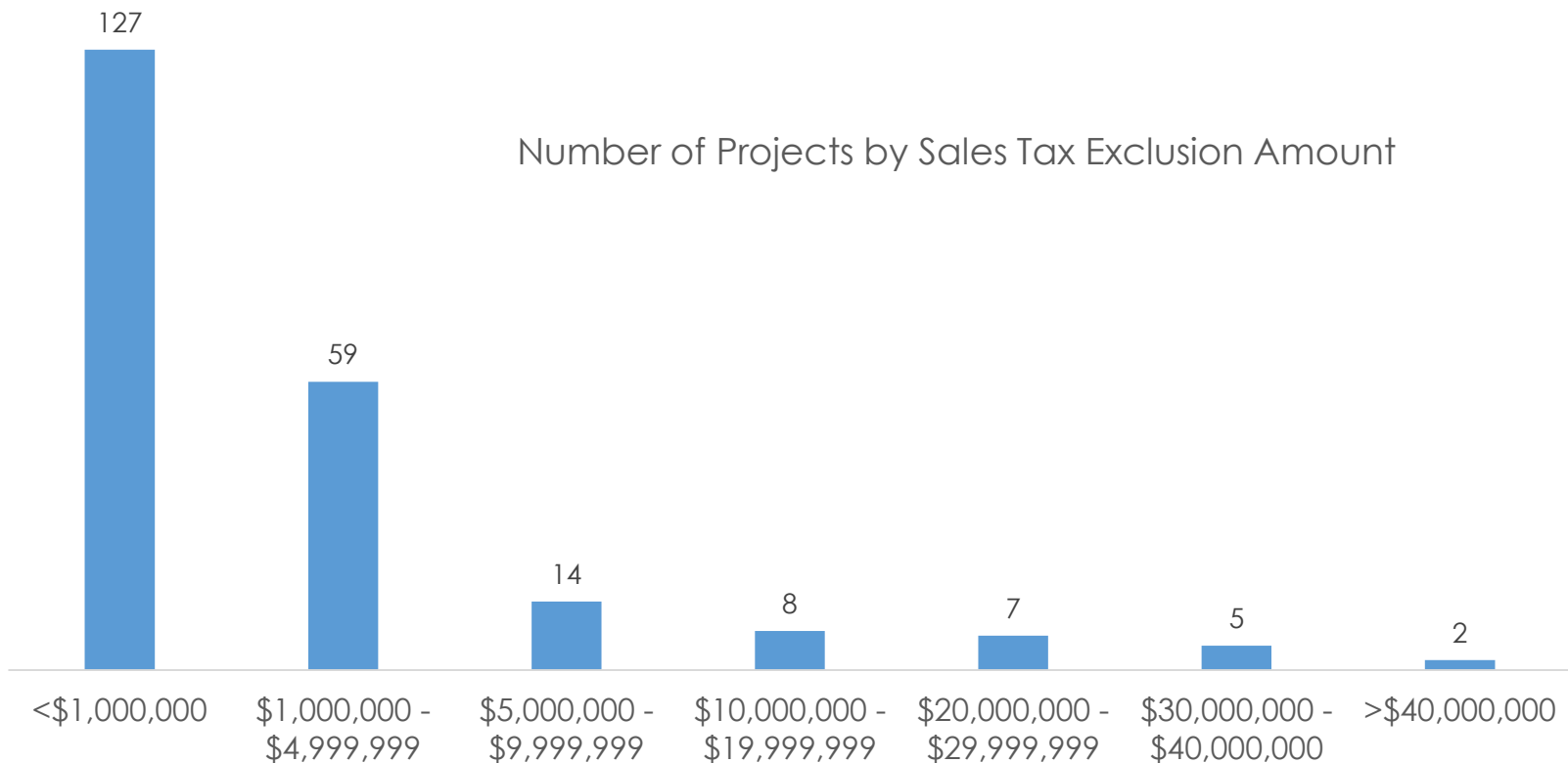


**Percent of Sales Tax Exclusion**



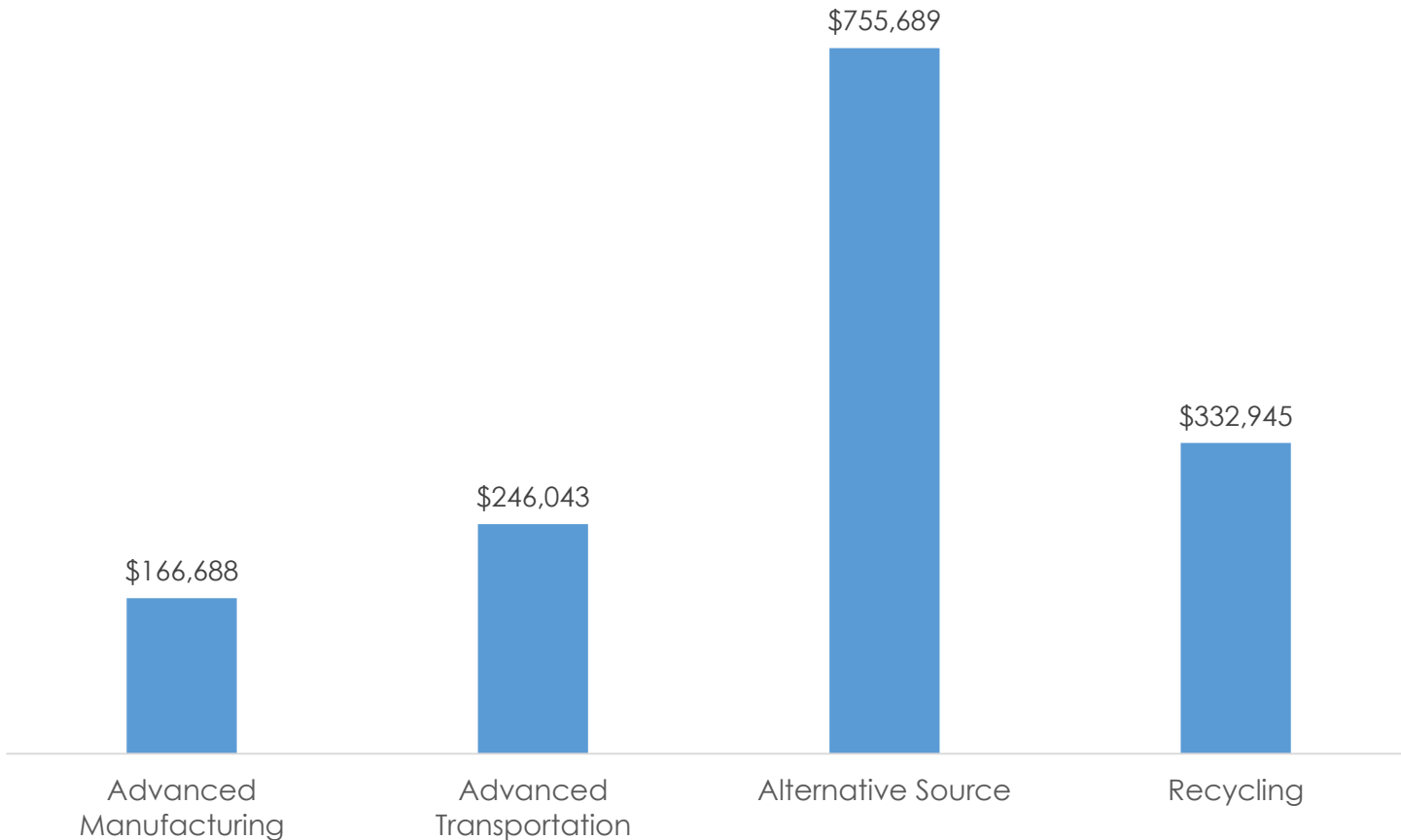
# Over 50% of awards are under \$1MM; 84% are under \$5MM

Average Project Size - \$3.7MM in Sales Tax Exclusion  
Median Project Size - \$765,547 in Sales Tax Exclusion



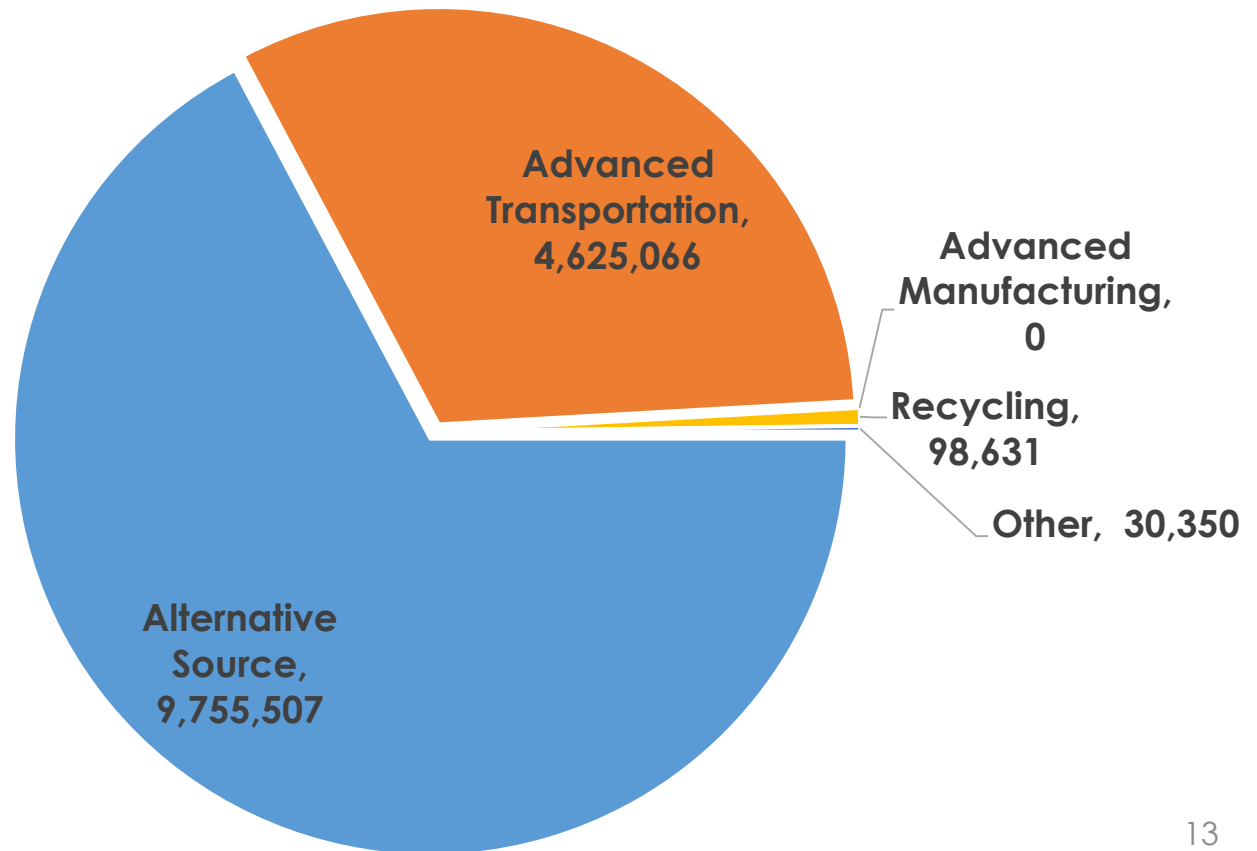
# Advanced Manufacturing and Advanced Transportation production jobs created by the STE tend to cost less per \$ of STE

Median \$ of STE per Estimated Number of Production Jobs Created, By Project Type



# STE Projects are anticipated to reduce over 14 million tons of GHG emissions – largely from Alternative Source and Advanced Transportation Projects

Estimated GHG Benefits by Application Type, 2010 - 2019 (Tons GHG)



# It's Common for Applicants to Request Extension to Purchase Equipment Beyond 3 Years

- Applicants have 3 years to use the STE award.
  - This timeframe was chosen when the Program first began in 2010 based on what staff believed would be a reasonable amount of time to complete a project.
- The 3 year initial term may be waived or extended by the Board (either at the time of application or after approval) upon a finding that it is in the public interest and advances the purposes of the Program.

Over 30% of Applicants have requested an extension

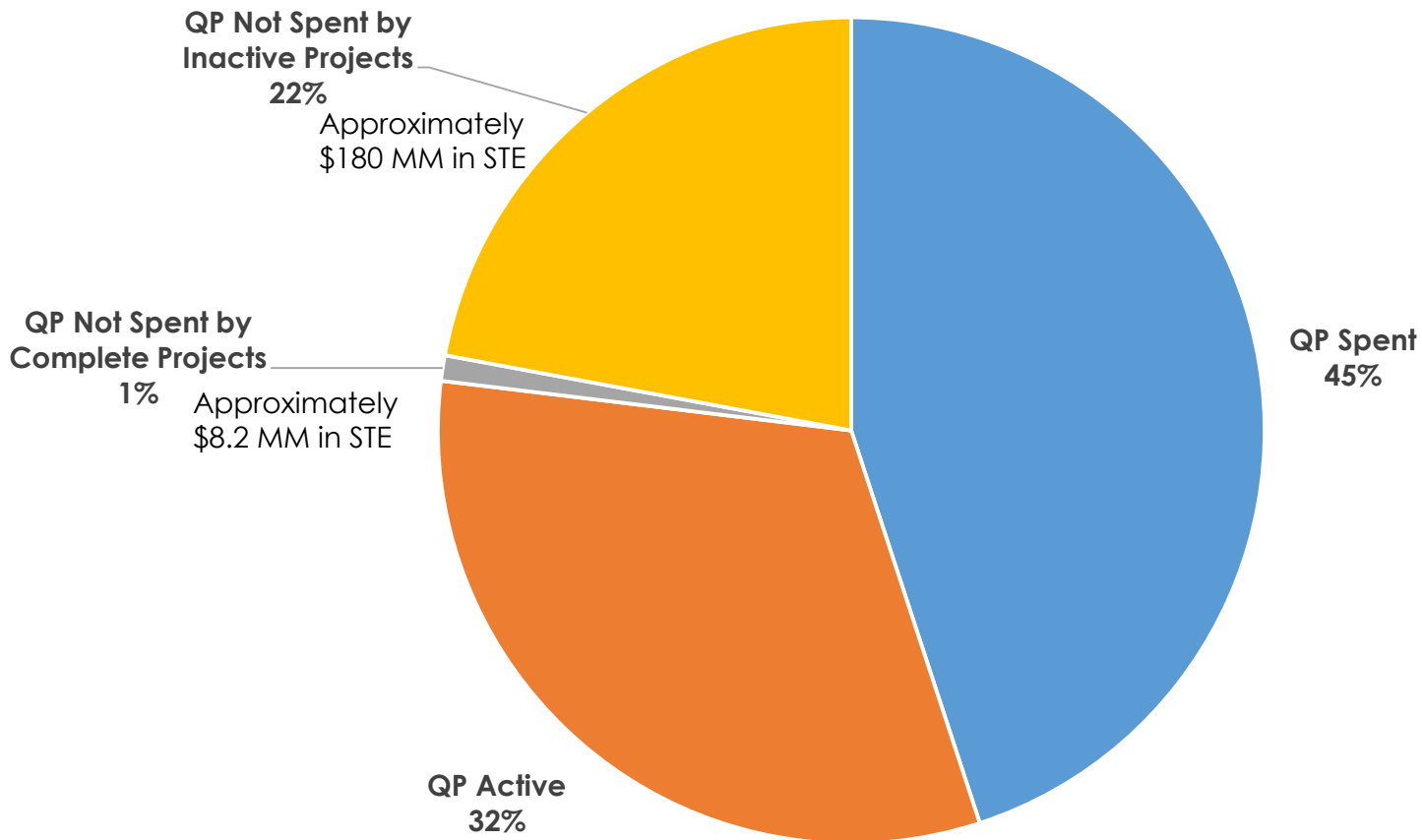
77% of those Projects are active or complete

Over 56% of extensions requests seek terms for 5 years or less

# 15% Purchase Requirement

- After the Program became oversubscribed for the first time, CAEATFA adopted regulations requiring approved Applicants to purchase at least 15% of the Qualified Property amount within one year, without the ability to waive this requirement (Applicants approved on or after October 2016).
- **17%** of Applicants did not meet the requirement to date (13/75 Applicants), for a total of **\$28.7MM in STE (16% of STE awarded)**.
  - These Applicants must reapply if they wish to receive an STE award once the project is ready, which can reduce the amount of STE available for other projects in the future.
  - 2 Applicants have already reapplied once permitting issues were settled.
- Common Reasons:
  - Permitting delays
  - Funding
  - Market conditions
- A slightly larger percentage of Recycling projects did not meet the requirement compared to other types of projects.
  - 16% of Advanced Manufacturers AM (5 out of 31 projects)
  - 20% of Advanced Transportation (1 out of 5 projects)
  - 15% of Alternative Source (3 out of 20 projects)
  - 21% of Recycling (4 out of 19 projects)

# Projects Generally Use Full Award, But a Large Percentage is Left on the Table by Inactive Projects





# 2019 Was the First Year CAEATFA Utilized Competitive Criteria

How 2019 was different from previous years -

- Larger number of mid-sized projects and fewer “micro” projects (under \$750,000 in STE)
- Two projects were returning Applicants that did not meet the 15% purchase requirement due to permitting (\$21MM STE)
- Strong economy
- Increased outreach and coordination with state partners (GO-Biz, CDTFA)



# **Discussion of Goals, Potential Issues and Modifications**

# Policy Tensions

- Various policy goals do not neatly align
- \$100 million cap places additional constraints on program, cannot be available to everyone
  - How do we choose the “best” projects between diverse industries and varied benefits?
  - How do we ensure that awards are going to those projects that need it (riskier with more uncertainty) and ensure that the awards are used (more likely to go to projects that would have moved forward anyway)

# Summary of Goals & Priorities Discussed

- Strategic investment of STE awards to strengthen promotion of policy goals
- Maximize the number of eligible companies receiving an award
- Streamline administration and user experience
- Other?

# Goal: Strategic investment of STE awards to strengthen promotion of policy goals

- Application Consideration Process:
  - Continue rolling application review until there is more precedent for competition.
  - Apply Competitive Criteria earlier in the process
  - Help ensure there is a competitive process by awarding in 2 tranches of \$50 MM
- Jobs/Workforce
  - Prioritize projects with higher paying jobs compared to area median income
  - Prioritize projects in high unemployment areas
  - Prioritize projects that have a high number of jobs compared to value of STE
  - Require companies with a large number of employees to have a plan for housing their workforce.

## Goal: Strategic investment of STE awards to strengthen promotion of policy goals (Cont.)

- Prioritize Small Businesses
- Prioritize coordination with and leveraging of other state programs/priorities
- Target transformative projects that will have a big impact in their industries and the environment
- Prioritize recycling projects in this time of industry turmoil
- Refine definition of “Manufacturing” for Advanced Manufacturers based on manufacturing sector (31-33) under NAICS

# Goal: Maximize the number of eligible companies receiving an award

- Cap annual per-Applicant awards at \$10 MM in STE (and allow for requests of additional STE at the end of the year if any of the \$100 MM remains)
- Allow for projects over \$10 million only if they meet certain criteria.
- Prioritize first-time applicants

## Goal: Streamline administration and user experience

- Extend required timeframe to purchase 15% of equipment from 1 to 2 years
  - Also give the Board the ability to waive/extend this timeframe if needed.
- Remove 15% purchase requirement
- Extend required timeframe to purchase all equipment from 3 to 5 years
  - Continue to allow the Board to waive/extend this timeframe if needed.





# **Staff's Preliminary Recommendations of Potential Program Modifications to Consider**

# Staff's Preliminary Recommendations of Potential Program Modifications to Consider

- Strategic investment of STE awards to better promote policy goals
  - Additional competitive criteria and prioritize (adjust points)
  - Explore alternative approaches to distributing awards (status quo of rolling basis v. tranches)
  - Explore defining “Manufacturing” for Advanced Manufacturers based on manufacturing sector (31-33) under NAICS
- Maximize the number of eligible companies receiving an award
  - Lower annual per Applicant cap to \$10MM (and can still receive more at the end of the year if STE is available)
- Streamline Program Administration & User Experience
  - 15% purchase requirement: 2 years and ability to waive/extend
  - Initial term to make QP purchases: 5 years and ability to waive/extend
- Potential Additional Application Requirements
  - Specific workplace safety requirements
  - Collect more detailed information on jobs and wages

# Potential Modifications to Competitive Criteria

Criteria	Point Value
Unemployment rate higher than statewide average (existing criterion)	Minimum 5 points, up to 10 points (from up to 5 points)
Cost of STE per job created as a result of the STE is no more than \$1,500,000 (potential new criterion)	4 points
Small Business (existing criterion)	3 points (from 1 point)
Median wage of production employees higher than median wage in county (potential new criterion)	3 points
Project includes Alternative Source, Advanced Transportation, or Recycled Resource Extraction component (potential new criterion)	3 points
New Applicant (existing criterion)	2 point (from 5 points)
Headquarters located in CA (existing criterion)	1 point (remains the same)

# Potential Additional Application Requirements

- Specific workplace safety requirements
  - Cannot be on OSHA's Severe Violator Enforcement Program List
  - Cannot have been found guilty of a willful OSHA violation
- More detailed information on jobs and wages
  - Average and minimum wage for each classification of full-time employees proposed to be hired or not retained
  - Any permanent full-time jobs lost as a result of the project
- Include a description of employee housing options if the facility will have at least 5,000 employees

# Next Steps and Tentative Timeline

- Accept written comments on potential modifications to the Program
- Consider input from this meeting and written comments
- Staff develops draft regulations
- Stakeholder input at a public workshop in October 2019
- Board considers regulations at November 2019 Meeting (tentative)

Concurrently: Program sunsets Jan 1, 2021; AB 1583 seeks to extend the Program until **Jan 1, 2031** (on Senate Floor)



# Discussion and Public Comment

# Written Comments

Written comments on the proposed modifications will be accepted until 5:00 p.m. on Friday, September 20, 2019

Please submit to:

Attn: Matthew Parsons  
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Sacramento, CA 95814

or

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