

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Phillips 66 Company
Application No. 22-SM031**

Tuesday, June 21, 2022

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Phillips 66 Company

Location – Rodeo, Contra Costa County

Industry – Renewable Diesel

Project – New Renewable Diesel Production Facility (Alternative Source)

	Recommended for Approval²	Total Request
Value of Qualified Property	\$195,834,944.70	\$235,294,118
Estimated Sales and Use Tax Exclusion (“STE”) Amount ³	\$16,645,970	\$20,000,000
Estimated Net Benefit⁴		
Estimated Fiscal Benefits	\$37,500,207	\$45,056,198
Estimated Environmental Benefits	\$53,648,295	\$64,457,997
Total	\$91,148,502	\$109,514,997
Estimated Quantifiable Net Benefit	\$74,502,532	\$89,514,195

	Points Earned
Estimated Fiscal Benefits	2,253
Estimated Environmental Benefits	3,223
Additional Benefits	65
Total	5,541

Competitive Criteria Score – 170

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

³ This amount is calculated based on the average statewide sales tax rate of 8.5%.

⁴ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

Agenda Item – 4.A.20
Resolution No. 22-SM031-01

Staff Recommendation – Approval of an award for the purchase of up to \$195,834,944.70 in Qualified Property anticipated to result in an approximate sales and use tax exclusion of \$16,645,970, pursuant to the per-Applicant cap provisions in program regulation Section 10032(a)(5).

THE APPLICANT

Phillips 66 Company (the “Applicant”) is a Delaware corporation that formed in 2011 and is headquartered in Houston, TX. The Applicant is a wholly owned subsidiary of Phillips 66, a publicly traded company operating under the ticker PSX on the New York Stock Exchange. Phillips 66 is engaged in energy manufacturing and logistics comprised of four operation segments: midstream, chemicals, refining, and marketing & specialties. Phillips 66 operates 12 refineries across the United States and Europe, with two of those refineries located in California (greater Los Angeles area and San Francisco bay area).

The corporate officers of the Applicant are:

- Mark Lasher, President & COO (CEO effective 7/1/22)
- Greg Garland, Executive Chairman & CEO
- Rich Harbison, Executive VP, Refining
- Vanessa Allen Sutherland, Executive VP, Legal and Government Affairs, General Counsel, & Corporate Secretary
- Brian M. Mandell, Executive VP, Marketing and Commercial
- Kevin J. Mitchell, Executive VP, Finance & CFO
- Timothy D. Roberts, Executive VP, Midstream
- J. Scott Pruitt, VP & Controller
- Kerry Creager, Company Officer
- Melanie Holder, Company Officer

THE PROJECT

Phillips 66 Company is requesting an STE award to convert its existing crude-oil refinery into a new renewable diesel production facility located in Rodeo (the “Project”). According to the Applicant, the Project will convert cooking oils, fats, greases, and vegetable oils into a renewable diesel that can be used as fuel for transportation vehicles. As part of the plant transformation, the Applicant states it will construct a pre-treatment unit and reconfigure its current hydroprocessing operations to accommodate new feedstock inputs. As part of this Project iteration, the Applicant will be able to produce 52,000 barrels of renewable diesel per day (or 800 million gallons per year). According to the Applicant, the Project is expected to result in a 55% reduction in air pollutants at its facility, including an 80% reduction in sulfur dioxide emissions and a water usage savings of 160 million gallons annually.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Pre-Treatment Unit	\$116,835,706
Fat, Oil, and Grease Recovery Unit	\$18,906,869
Inside Battery Limit Equipment	\$67,150,695
Outside Battery Limit Equipment	\$32,346,848
Total	<u>\$235,294,118</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, it is currently engaged in the planning and permitting stages of the Project and anticipates construction to begin Q2 of 2022. The Applicant states the Project will take approximately 21 months to complete.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has been approved for a land-use permit. The Applicant states it has applied for an air permit as well as various building permits, which are anticipated to be secured in Q2 of 2022. The Applicant explains that additional permits may be needed as the Project progresses, and it will work to secure those permits as needed.

COMPETITIVE CRITERIA SCORE

The Applicant received 170 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Project that produces an Alternative Source product, component, or system, and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant's Project is located in Contra Costa County, which has an average annual unemployment rate of 6.6%.⁵ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant zero points.
3. **Job Creation (20 of 75 points)**. The Applicant anticipates the Project will support a total of 300 production-related jobs at its Facility. CAEATFA estimates that approximately 18.75 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.

⁵ Unemployment rates are based on data available in December 2021.

4. **California Headquarters (0 of 15 points)**. The Applicant does not have a California Corporate Headquarters, and, therefore, zero points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (50 of 50 points)**. The Applicant is not eligible to use any of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, 50 points are awarded.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project's industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 5,541 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 3,223 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,253 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales and use taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$45,056,198, resulting in a Fiscal Benefits score of 2,253.
- B. **Environmental Benefits (3,223 points)**. The Project is anticipated to result in \$64,457,997 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 3,223 points. These benefits derive from the production of renewable diesel, which offsets the need for the use of fossil diesel.
- C. **Additional Benefits (65 points)**. Applicants may earn additional points for their Total Score. The Applicant received 65 additional points.
 1. **Production Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 300 production-related jobs at its Facility. CAEATFA estimates that approximately 18.75 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.

2. **Construction Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 377 construction jobs at its Facility. CAEATFA estimates that approximately 23.56 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.
3. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Contra Costa County, which has an average annual unemployment rate of 6.6%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant zero points.
4. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, bonuses, pension plans, retirement contributions, profit sharing, dependent care and assistance reimbursement, transportation subsidies, education reimbursement, gym subsidies, employee discounts, and paid leave benefits to its employees, earning the Applicant 25 points.

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.

Of note, the Applicant reported numerous air district violations or allegations of certain violations over the past 10 years related to the Applicant’s refineries across the country, including its California-based facilities. As a subsidiary of Phillips 66, one of the largest oil corporations in the United States, Staff understands the Applicant is, and will continue to be, involved in a number of legal and regulatory actions, with many related to environmental conditions. The Applicant states it has complied, settled, or entered into orders for each enforcement action or is working with the appropriate agencies to resolve the allegations.

CAEATFA FEES

In accordance with CAEATFA regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends the approval of Resolution No. 22-SM031-01 for Phillips 66 Company's purchase of qualifying tangible personal property in an amount not to exceed \$195,834,944.70 anticipated to result in an approximate STE value of \$16,645,970.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH PHILLIPS 66 COMPANY**

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Phillips 66 Company** (the “Applicant”) for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$195,834,944.70 over a period of three (3) years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

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

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

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.