

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Hell’s Kitchen LithiumCo 1 LLC
Application No. 23-SM035**

Tuesday, July 18, 2023

Prepared By: *Stefani Wilde, Program Analyst*

SUMMARY

Applicant – Hell’s Kitchen LithiumCo 1 LLC

Location – Calipatria, Imperial County

Industry – Lithium Recovery and Processing

Project – New Lithium Recovery and Processing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$119,617,224.88	\$10,000,000

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$30,633,838	3,063
Estimated Environmental Benefits	N/A	90
Additional Benefits	N/A	220
Total	\$30,633,838	3,373
Estimated Quantifiable Net Benefit	\$20,633,838	

Competitive Criteria Score – 140

Staff Recommendation – Approval

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

² This amount is calculated based on the average statewide sales tax rate of 8.36%.

³ 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).)

THE APPLICANT

Hell’s Kitchen LithiumCo 1 LLC (the “Applicant”) is a California limited liability company that formed in 2020. The Applicant is developing and will own and operate a project at the Salton Sea geothermal field in Imperial County, where a substantial subsurface brine resource holds what may be the largest deposit of lithium in the world.

The major shareholders (10.0% or greater) of the Applicant are:

Controlled Thermal Resources (U.S.) Inc.
(100%)

The company officers of the Applicant are:

Rodney Colwell, Chief Executive Officer
James Turner, Chief Operating Officer
Eric Thayer, Chief Financial Officer
Jeff Garber, General Counsel & Corporate Secretary.

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build a new lithium extraction facility located in Calipatria (the “Project”). The Applicant states it is a fully integrated, closed loop, direct lithium extraction (“DLE”) facility located in the CA Lithium Valley industry cluster in Imperial County. According to the Applicant, the Project is unique in that it is a green field development project that is designed with battery minerals as its primary product (as opposed to geothermal power). The Applicant states although the DLE technology it utilizes is used by other lithium extraction facilities around the world, the technology at its facility is unprecedented because it combines an innovative process flow that enables successful mineral extraction at volume. Its process also provides the ability to deliver large quantities of battery minerals without the environmental impacts associated with more traditional mining methods. The battery minerals extracted will be used to produce lithium batteries, including batteries for electric vehicles.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Koch Lithium Extraction System	\$84,000,000.88
Aquatech (South Process Equipment)	\$14,517,224.00
Standard Pressure & Low Pressure Crystallizers	\$21,100,000.00
Total	<u>\$119,617,224.88</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

The Applicant states the Project plans are on track and anticipates breaking ground in October 2023, with the plant being placed in service by July 2025.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states permits are in process, are undergoing review, or have been approved and the permitting process is on track to be completed by the end of Q3 2023.

COMPETITIVE CRITERIA SCORE

The Applicant received 140 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points).** The Application does not have a Recycled Resource Extraction Project or Project that produces an Advanced Transportation Technology or an Alternative Source product, component, or system. Therefore, no points are awarded.
2. **Unemployment (50 of 50 points).** The Applicant's Project is located in Imperial County, which has an average annual unemployment rate of 14.3%.⁴ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 50 points.
3. **Job Creation (0 of 75 points).** The Applicant anticipates the Project will support a total of 71 production-related jobs at its facility. CAEATFA estimates that approximately 5.3 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 zero points.
4. **California Headquarters (15 of 15 points).** The Applicant has a California Corporate Headquarters, and, therefore, 15 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 (0 of 50 points).** The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

⁴ Unemployment rates are based on data available in October 2022.

7. **Emerging Strategic Industry (75 of 75 points).** The Project’s industry, lithium recovery and production, is in an Emerging Strategic Industry, and, therefore, 75 points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 3,373 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 90 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (3,063 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 \$30,633,838, resulting in a Fiscal Benefits score of 3,063 points.
- B. **Environmental Benefits (90 points).** The Project earned an Environmental Benefits Score of 90. The Applicant received points in the following categories:
1. **Water Use (30 of 30 points).** The Applicant anticipates the Project will result in an 83% reduction in water use relative to the industry standard manufacturing process.
 2. **Air Pollutants (30 of 30 points).** The Applicant anticipates the Project will result in nearly 100% reduction in air pollutants produced relative to the industry standard manufacturing process. This is achieved because the Project is a “greenfield” project so there are no emissions from operations when compared to open pit mining operations.
 3. **Other Pollutants (30 of 30 points).** The Applicant anticipates the Project will result in nearly 100% reduction in other pollutants produced relative to the industry standard manufacturing process where NO_x, SO_x, and other fugitive pollutants are generated. This is achieved because the Project is a “greenfield” project and can be designed with nearly zero pollutants especially when compared to open pit mining operations.
- C. **Additional Benefits (220 points).** Applicants may earn additional points for their Total Score. The Applicant received 220 additional points.
1. **Production Jobs (0 of 75 points).** The Applicant anticipates the Project will support a total of 71 production-related jobs at its facility. CAEATFA estimates that approximately 5.3 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 zero points.

2. **Construction Jobs (30 of 75 points).** The Applicant anticipates the Project will support a total of 250 construction jobs at its facility. CAEATFA estimates that approximately 18.66 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 30 points.
3. **Unemployment (50 of 50 points).** The Applicant's Project is located in Imperial County, which has an average annual unemployment rate of 14.3%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 50 points.
4. **Research and Development Facilities (25 of 25 points).** The Applicant has verified that it has a facility located in California that performs research and development functions related to lithium recovery and production.
5. **Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with Imperial Valley College and San Diego State University for the purpose of assisting in the training of potential future workers.
6. **Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by the State of California as a Lithium Valley industry cluster of the region of the Project's location.
7. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental, and vision benefits, bonuses, education reimbursement, and paid leave to its employees, earning the Applicant 25 points.
8. **Emerging Strategic Industry (40 of 40 points).** The Project's industry, lithium recovery and production, is in an Emerging Strategic Industry, earning the Applicant 40 points.

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.

⁵ Unemployment rates are based on data available in October 2022.

CAEATFA FEES

In accordance with STE Program 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.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM035-01 for Hell’s Kitchen LithiumCo 1 LLC’s purchase of qualifying tangible personal property in an amount not to exceed \$119,617,224.88 anticipated to result in an approximate STE value of \$10,000,000.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH HELL’S KITCHEN LITHIUMCO 1 LLC**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Hell’s Kitchen LithiumCo 1 LLC** (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 \$119,617,224.88 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.