

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

Request to Amend Resolution for Sales and Use Tax Exclusion¹

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

Tuesday, December 12, 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
\$179,425,837.32	\$15,000,000

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$36,117,257	2,408
Estimated Environmental Benefits	N/A	90
Additional Benefits	N/A	220
Total	\$36,117,257	2,718
Estimated Quantifiable Net Benefit	\$21,117,257	

Competitive Criteria Score – 140

Staff Recommendation – Approval. The Program held additional Application periods for lithium extraction related projects, however, no additional Applications were received. Per Program regulations, the Applicant may be eligible to receive additional STEs from the lithium project pool if any remains at the end of the calendar year. If approved, the existing Regulatory Agreement will be amended to increase the Qualified Property amount from \$119,617,224.88 to \$179,425,837.32 with the estimated STE value increasing from \$10,000,000 to \$15,000,000.

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).)

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Resolution No. 23-SM035-01

This Staff Report reflects the changes to the original Staff Report related to Resolution No. 23-SM035-01 approved on July 18, 2023. Staff recommends approval of Resolution No. 23-SM035-01, as amended, increasing Hell’s Kitchen LithiumCo 1 LLC’s purchase of qualifying tangible personal property in an amount not to exceed \$179,425,837.32, anticipated to result in an approximate STE value of \$15,000,000.

(Report continues on following page)

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, CEO
James Turner, COO
Eric Thayer, CFO
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	\$84,000,000.32
Aquatech (South Process Equipment)	\$14,517,225.00
Standard Pressure & Low-Pressure Crystallizers	\$21,100,000.00
Brine Pre-Conditioning Equipment	\$59,808,612.00
Total	<u>\$179,425,837.32</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 at the end of December 2023, with the plant being placed in service by July 2025.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states permits are in process, undergoing review, or have been approved and the permitting process is on track to be completed by the end of December 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 5.93 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.

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

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.
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 2,718 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 (2,408 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 \$36,117,257, resulting in a Fiscal Benefits score of 2,408 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 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 5.93 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 20.89 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.

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

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 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

Statute limits CAEATFA to awarding up to \$115 million in sales and use tax exclusion each calendar year, of which \$15 million in STE is designated for lithium extraction projects in years 2022-2024.

With certain exceptions, Program regulation Section 10032(a)(5) provides that an Application shall be capped at \$10 million of STE per Applicant, per calendar year.

On July 18, 2023, the CAEATFA Board awarded the Applicant an STE award for \$119,617,224.88 in Qualified Property for an STE value of \$10,000,000. CAEATFA held its last application cycle ending October 9, 2023, at which no additional lithium extraction Applications were received. Pursuant to Program regulation section 10032(a)(5)(A), if STEs will be available at the last application period of the calendar year after all Applications are considered, the Authority may provide additional STEs to qualified Applicants that were capped. In this case, the Applicant qualified for additional STEs but was originally subject to the \$10 million cap.

Accordingly, Staff recommends the approval of Resolution No. 23-SM035-01, as amended, increasing Hell's Kitchen LithiumCo 1 LLC's purchase of qualifying tangible personal property in an amount not to exceed \$179,425,837.32 anticipated to result in an approximate STE value of \$15,000,000.

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

**RESOLUTION AMENDING ORIGINAL RESOLUTION NO. 23-SM035-01
AND AUTHORIZING AMENDMENT TO REGULATORY AGREEMENT
WITH HELL’S KITCHEN LITHIUMCO 1 LLC**

December 12, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) 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 in the form of a regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant was approved for a Sales and Use Tax Exclusion on July 18, 2023 pursuant to Resolution No. 23-SM035-01 and entered into the Agreement on August 18, 2023 to acquire Project equipment with an estimated cost not to exceed \$119,617,224.88 over a period of three (3) years; and

WHEREAS, the Applicant has requested the Authority increase the amount of Qualified Property to an amount not to exceed \$179,425,837.32 over a period of three (3) years as more particularly described in the amended Staff Report presented at the meeting; 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 an amendment to original Resolution No. 23-SM035-01 and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the same is now sought;

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

Section 1. The July 18, 2023 Hell’s Kitchen LithiumCo 1 LLC Resolution No. 23-SM035-01 is amended to replace the \$119,617,224.88 in Qualified Property with \$179,425,837.32. With the exception of the changes described above, all other terms of said resolution shall remain in full force and effect.

Section 2. The Executive Director, Deputy Executive Director, or Chair of the Authority is hereby authorized to execute an amendment to the Agreement to effectuate the changes and

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Resolution No. 23-SM035-01

purposes described above. With the exception of the changes described above, all other provisions, terms, obligations, and covenants contained in the Agreement shall remain in full force and effect.