

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Element Lancaster 1 LLC
Application No. 24-SM007**

Tuesday, July 16, 2024

Prepared By: *Joel Schwartz, Technical Consultant, Blue Sky Consulting Group*

SUMMARY

Applicant – Element Lancaster 1 LLC

Location – Lancaster, Los Angeles County

Industry – Renewable Hydrogen

Project – New Green Hydrogen Production Facility (Alternative Source)

	Recommended for Approval	Total Request
Value of Qualified Property	\$118,483,412.32	\$236,966,824.64
Estimated Sales and Use Tax Exclusion (“STE”) Amount ²	\$10,000,000	\$20,000,000
Estimated Net Benefit³		
Estimated Fiscal Benefits	\$12,730,373	\$25,460,746
Estimated Environmental Benefits	\$1,793,460	\$3,586,920
Total	\$14,523,833	\$29,047,666
Estimated Quantifiable Net Benefit	\$4,523,833	\$9,047,665

	Points Earned ⁴
Estimated Fiscal Benefits	1,273
Estimated Environmental Benefits	179
Additional Benefits	59
Total	1,512

Competitive Criteria Score – 109

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 8.44%.

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).)

⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

Staff Recommendation – Pursuant to the per-Applicant cap provisions, Applicants requesting more than \$10 million in STE in the first application period of the calendar year from the large project pool set aside of \$15 million in STE are considered in the order in which they ranked based on the Program’s Competitive Criteria.⁵ Based on this Applicant’s Competitive Criteria Score, Staff recommends approval of an award for the purchase of up to \$118,483,412.32 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of \$10,000,000.

THE APPLICANT

Element Lancaster 1 LLC (the “Applicant”) is a California limited liability company that formed in 2023. The Applicant is located in Lancaster and headquartered in Houston, Texas. The Applicant plans to produce green hydrogen with electricity from a dedicated, on-site solar power installation.

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

Element Resources, Inc. (100%)

Steve Meheen owns 66% of Element Resources, Inc.

The corporate officers of the Applicant are:

Steve Meheen, CEO and founder
Avery Barnebey, CFO

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build a new green hydrogen production facility located in Lancaster (the “Project”). According to the Applicant, its alternative source project will produce green hydrogen via electrolysis using dedicated on-site renewable solar electricity, which will result in no emissions being generated. The Applicant states most hydrogen is produced at conventional refineries using natural gas through a process known as Steam Methane Reforming, whereas the Applicant’s electrolysis process will split water into hydrogen and oxygen.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Electrolyzers	\$68,441,738.00
Long Duration Battery Storage	\$58,250,620.64
Hydrogen Liquefaction Units	\$60,318,090.00

⁵ California Code of Regulations Title 4, Division 13, Section 10032(a)(5)(B)

Storage Units for Liquefied and Gaseous Hydrogen	\$32,693,623.00
Cabling & Switchgear	\$17,262,753.00
Total	\$236,966,824.64

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. In accordance with 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 has provided the following timeline for project implementation:

- Commencement of site preparation and construction: May 2024
- Financial close: October 2024
- Begin operation: January 2026

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Project has received a conditional use permit as of February 2024.

COMPETITIVE CRITERIA SCORE

The Applicant received 109 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points).** The Application has an Alternative Source product, component, or system, and, therefore, 100 points are awarded.
2. **Unemployment (9 of 50 points).** The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 5.1%.⁶ When compared to the statewide average annual unemployment rate of 4.6%, the Project location earned the Applicant nine points.
3. **Job Creation (0 of 75 points).** The Applicant anticipates the Project will support a total of 32 production-related jobs at its Facility. CAEATFA estimates that approximately 1.40 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.

⁶ Unemployment rates are based on data available in December 2023.

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 (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 (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 1,512 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 179 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,273 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 \$25,460,746, resulting in a Fiscal Benefits score of 1,273 points.
- B. **Environmental Benefits (179 points)**. The Project is anticipated to result in \$3,586,920 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 179 points. These benefits derive from green hydrogen produced thereby displacing fossil fuels that would otherwise be used.
- C. **Additional Benefits (59 points)**. Applicants may earn additional points for their Total Score. The Applicant received 59 additional points.
 1. **Production Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of 32 production-related jobs at its Facility. CAEATFA estimates that approximately 1.40 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 (0 of 75 points).** The Applicant anticipates the Project will support a total of 250 construction jobs at its Facility. CAEATFA estimates that approximately 10.95 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.
3. **Unemployment (9 of 50 points).** The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 5.1%.⁷ When compared to the statewide average annual unemployment rate of 4.6%, the Project location earned the Applicant 9 points.
4. **Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by Governor's Office of Business and Economic Development as a Hydrogen Hub industry cluster of the region of the Project's location.
5. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, dental, health, and vision benefits, bonuses, transportation subsidies, education reimbursement, gym subsidies, paid leave, and retirement contribution benefits to its employees, earning the Applicant 25 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.

CAEATFA FEES

In accordance with STE Program regulations,⁸ 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. 24-SM007-01 for Element Lancaster 1 LLC's purchase of qualifying tangible personal property in an amount not to exceed \$118,483,412.32, anticipated to result in an approximate STE value of \$10,000,000.

⁷ Unemployment rates are based on data available in December 2023.

⁸ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH ELEMENT LANCASTER 1 LLC**

July 16, 2024

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of Element Lancaster 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 \$118,483,412.32 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.