

**CALIFORNIA ALTERNATIVE ENERGY AND  
ADVANCED TRANSPORTATION FINANCING AUTHORITY**  
**Meeting Date: June 28, 2011**

*Executive Summary*  
*Discussion and Consideration of Applications for the SB 71 Sales and Use Tax Exclusion  
(STE) Program<sup>1</sup>*

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**Summary.**

Staff is recommending approval of two Projects<sup>2</sup> —as described in Agenda Items 4.A.1 and 4.A.2—which have a combined value of \$13,823,090 in anticipated Qualified Property purchases, anticipated to result in approximately \$1,257,901 of sales and use tax exclusions over the next three years.<sup>3</sup> Attachment A provides a brief summary of these two Applications.

**Overview of Projects.**

Based on the net benefits methodology embodied in the Program Regulations and on representation from these Applicants, staff estimates that approximately \$1.2 million in STE will assist in creating environmental benefits valued at approximately \$2.3 million and fiscal benefits valued at approximately \$4.8 million. This results in approximately \$7.1 million in total benefits and a net benefit value of \$5.8 million.

Together these Projects are anticipated to create 108 jobs (16 permanent jobs and 92 temporary construction or installation jobs). CAEATFA staff calculates that approximately 12 of these jobs (two permanent jobs and ten construction jobs) are attributed to the Program, based on the estimation methodology embodied in the Regulations.<sup>4</sup> Attachment B provides a summary of the evaluation process under the Program.

The value of the Projects range from approximately \$3.7 million to \$10 million, with corresponding anticipated STE amounts ranging from \$330,000 to \$920,000.

**Types of Industries Covered by SB 71.**

These Projects include two biomass processing and fuel production facilities; one facility processes wood waste and the other processes food waste.

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program's Regulations.

<sup>2</sup> CAEATFA staff is currently reviewing 3 additional applications which are expected to come to the board in the coming months.

<sup>3</sup> This is an estimated amount calculated by using the average statewide tax rate of 9.1%.

<sup>4</sup> This is because the Program specifically evaluates the fiscal and environmental results that stem directly from the STE, with only the marginal additional production (and resulting fiscal and environmental benefits) associated with the STE included for purposes of evaluating Applicants. The marginal additional production associated with an Application is estimated based on the percent reduction on costs that an Applicant experiences as a result of receiving the STE.

Project Locations.

These Projects are located in two counties (see Figure 1). It is expected that these Projects will provide significant economic benefits to the State and local jurisdictions in the form of corporate, personal income, sales and property tax revenues, increased employment, and additional economic activity created by the manufacturing Facilities and purchases from related suppliers. It is important to note that while the location of the Facilities helps to identify where much of the economic and fiscal activity will take place (e.g., new jobs created, property tax payments), it does not by itself provide CAEATFA with sufficient information to determine the fiscal impact of the Program on individual local communities. The impact on individual local communities will also depend on where the Qualified Property will actually be purchased. Approved Applicants will provide that information to CAEATFA after they purchase the Qualified Property.

<b>Figure 1: Initial Projects by County</b>						
<b>County</b>	<b>Number</b>	<b>Percentage of Total Projects (%)</b>	<b>Amount of Qualified Purchases</b>	<b>Projected STE Amount</b>	<b>Net Benefit Value</b>	<b>Number of Jobs</b>
Alameda	1	50	3,703,090	336,981	281,113	46
San Joaquin	1	50	10,120,000	920,920	5,598,509	62
<b><u>TOTAL:</u></b>	<b><u>2</u></b>	<b><u>100%</u></b>	<b><u>\$13,823,090</u></b>	<b><u>\$1,257,901</u></b>	<b><u>\$5,879,622</u></b>	<b><u>108</u></b>

Summary of Applications Approved to Date

Figure 2 summarizes some of the attributes of the Applications approved under the Program to date, as well as adjusted attributes if the Board approves the Applicants recommended at this meeting.

<b>Figure 2: Applicants Approved Attributes</b>		
	<b>Approved Applicants to Date</b>	<b>Approved Applicants Including June Recommendations</b>
<b>Number of Projects</b>	29 <sup>5</sup>	31
<b>Qualified Property Amount</b>	\$963,249,653	\$977,072,743
<b>STE Amount (Anticipated)</b>	\$87,655,719	\$88,913,620
<b>Estimated Environmental Benefit Value</b>	\$51,684,927	\$54,017,963
<b>Estimated Fiscal Benefit Value</b>	\$89,438,004	\$94,242,492
<b>Estimated Total Benefit</b>	\$141,122,931	\$148,260,455
<b>Estimated Net Benefit Value</b>	\$53,473,215	\$59,352,837
<b>Total Jobs</b>	6,278	6,386
<b>Total Jobs Due to SB 71</b>	604	616

<sup>5</sup> Thirty-one (31) Applications have been approved to date, however two Applicants have since withdrawn their Applications. This data reflects the 29 Applicants approved and still moving forward under the Program at this time.

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**Recommendation.** Staff recommends the Authority approve the Projects as described in Agenda items 4.A.1 – 4.A.2.



ATTACHMENT A

Agenda Item	Applicant	Location of Facility	Industry/Use of Proceeds	Qualified Property Amount	STE Amount (Anticipated) <sup>1</sup>	Estimated Environmental Benefit Value	Estimated Fiscal Benefit Value	Estimated Net Benefit Value	Total Jobs	Total Jobs Due To SB 71
4.A.1	Recology East Bay	Oakland (Alameda County)	Biomass Processing and Fuel Production	\$3,703,090	\$336,981	\$111,243	\$506,852	\$281,113	46	5
4.A.2	DTE Stockton, LLC	Stockton (San Joaquin County)	Biomass Processing and Fuel Production	\$10,120,000	\$920,920	\$2,221,793	\$4,297,636	\$5,598,509	62	7
			<b>Total:</b>	<b><u>\$13,823,090</u></b>	<b><u>\$1,257,901</u></b>	<b><u>\$2,333,036</u></b>	<b><u>\$4,804,488</u></b>	<b><u>\$5,879,622</u></b>	<b><u>108</u></b>	<b><u>12</u></b>

## ATTACHMENT B

### Application Evaluation

#### Application Review Process

##### Eligibility Criteria.

To qualify, an Applicant must show that the property to be purchased subject to the STE will be used to design, manufacture, produce or assemble an Advanced Transportation Technology or Alternative Source product, component or system *at least 75 percent of the time it is being used.*

##### Evaluation Criteria.

Applications were evaluated based on criteria in the Regulations. These evaluation criteria are designed to measure and quantify the fiscal and environmental benefits of the Project and to compare the result to the cost of the STE.

CAEATFA Staff evaluates the fiscal and environmental results that stem directly from the STE. Only the marginal additional production (and resulting fiscal and environmental benefits) associated with the STE are included for purposes of evaluating Applications. The marginal additional production resulting directly from the STE is determined based on an estimated increase in equipment purchases resulting from the STE. That is, because the STE in effect lowers the cost of purchasing capital equipment, Applicants are assumed to purchase more such equipment than would be the case in the absence of the STE.

The resulting increase in output associated with the additional equipment purchases is subsequently calculated, and the fiscal and environmental effects associated with just this additional output is used for purposes of scoring the Application.

Fiscal and environmental benefits associated with the (marginal) additional production of Advanced Transportation or Alternative Source products, components, or systems are calculated according to the methodology embodied in the Regulations. The value of these benefits (in dollars) is compared to the value of the STE in order to calculate the Applicant's score.

##### Scoring.

Applicants receive scores in the areas of fiscal benefits and environmental benefits which translate into a numerical score. In addition, Applicants may receive up to 200 points for optional supplemental information related to the economic and environmental benefits of the Project if the Applicant provides such data. Applications that receive a total score greater than or equal to 1,000 points and a total pollution benefit score (i.e., environmental benefits) greater than or equal to 100 will be recommended to the Board for approval.

##### Supplemental Scoring Factors.

The Regulations allow Applicants to submit additional information which may be used for purposes of augmenting Applicant scores from the net benefits test. During this initial round of Applications, staff included only a partial range of –supplemental points” in the score—jobs,

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unemployment and out of State environmental benefits—if Applicants clearly surpassed the established point threshold based on the net benefits test alone.

**Legal Documents under the Program.**

CAEATFA will be executing a Master Regulatory/Conveyance Agreement with each approved Applicant within 30 days of the Board's approval of an Application. The procedures and templates of legal documents were posted to the CAEATFA website and provided to Applicants on November 5, 2010.