



SALES AND USE TAX EXCLUSION PROGRAM

CalRecycle Zone Works workshop

April 6, 2016

Agenda



- CAEATFA Overview and Legislative Background
- Existing STE Program Structure and Utilization
- AB 199
- Next Steps and Process Timeline
- Marketing

About CAEATFA



- California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or the Authority)
 - Created in 1980 to provide credit support, access to low-cost financing through private activity tax-exempt bonds, loans, and other forms of financial assistance.
- Statutory goals include:
 - reducing greenhouse gas emissions,
 - increasing the deployment of sustainable and renewable energy sources,
 - implementing measures that increase the efficiency of the use of energy,
 - creating high quality employment opportunities, and lessening the state's dependence on fossil fuels.

CAEATFA Board



- John Chiang, State Treasurer and Chair
- Betty T. Yee, State Controller
- Michael Cohen, Director, Department of Finance
- Dr. Robert Weisenmiller, Chair, California Energy Commission
- Michael Picker, President, California Public Utilities Commission

About the STE Program



- In 2010, SB 71 (Padilla) was enacted, providing a targeted exclusion to projects of Alternative Source (AS) and Advanced Transportation (AT) manufacturers.
- Authority was required to notify legislature when awards exceeded \$100 MM in STE for a given calendar year, but could continue to approve applications.
- SB 1128 (Padilla) added Advanced Manufacturing (AM) as an eligible type of project to the program in 2012.
 - AM projects are eligible based on the manufacturing process utilized, rather than the product manufactured.
 - SB 1128 also set a \$100 MM cap on the amount of STE that could be awarded in a calendar year.
- AB 1269 (Dababneh, 2015) extended the sunset date of AM projects from July 1, 2016 to January 1, 2021 (the current sunset date of the entire program).
- AB 199 (Eggman, 2015) added manufacturing projects that utilize recycled feedstock (RF) to the program. Regulations to establish evaluation methods are being developed.

Examples of potentially qualifying technologies



- **Alternative Source**
 - Solar photovoltaics
 - Energy Efficiency
 - E.g. LED Lightbulbs
 - Biogas
 - Energy Storage
- **Advanced Manufacturing**
 - Micro- and nano electronics
 - Integrated computational materials engineering
 - Nanotechnology
 - Additive Manufacturing
 - Industrial biotechnology

Common examples: Aerospace, Telecom, Pharmaceuticals
- **Advanced Transportation**
 - Electric Vehicles
 - Electric Vehicle Batteries or Components
- **Recycled Feedstock**
 - Materials Recovery Facilities (MRFs)
 - Composters
 - Tire Recyclers
 - Mattress Recyclers

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Nature of an STE award



- CAEATFA makes a finding that the proposed facility is a “project” and that the applicant is a “participating party.” This enables the approved applicant not to pay sales and use tax on eligible equipment purchases for a project. Transaction between approved applicant and vendor is not considered a taxable “sale” under sales and use tax law. (Rev. & Tax Code § 6010.8)
- CAEATFA does not provide actual funds to applicants.
- Award is provided on the front end of projects because the STE must be used when purchasing equipment. Due to “functional use” requirement under sales and use tax law, the award cannot be provided on the back end once a project is complete.
- In some circumstances, a participating party may seek a refund of taxes paid on qualifying equipment purchased prior to Board approval of the award. Reimbursements are subject to “functional use” and other eligibility guidelines under Board of Equalization regulations.

Overview of the application process



Application Submission

- Application submitted 60 days prior to a Board meeting
- Application Fee of .0005 of Qualified Property (QP) i.e., equipment
- Accepted on a rolling basis

Application Evaluation

- Staff reviews the application to determine fiscal and environmental benefits of the proposed project
- Evaluation is an iterative process between staff and the applicant
- Staff evaluates and provides recommendation

Board Review

- Board reviews staff recommendation
- Board resolution authorizes Executive Director to enter into a legal agreement with the applicant
- Up to \$100 MM in STE awards per calendar year (approx. \$1.2 B in QP purchases)

Post-Approval Process

- Approved applicant enters into legal agreement with the Authority
- Total administrative fee of .004 of QP
- Semi-annual reporting of purchases of project activity
- 3 Years to purchase equipment (standard)

Projects are evaluated by a net benefits test to estimate the benefits and costs



- Net benefits test is based on business plan data provided by the applicant and checked by staff for internal consistency and plausibility.
- The estimated marginal (rather than aggregate) increase in fiscal and environmental benefits to the state from the project are weighed against the estimated cost of the STE to the state.

Examples of Data Requested

Specific capital equipment that will be purchased and its expected cost

Expected full time equivalent and construction jobs

Projected number of units produced per year

Expected revenue

Projected labor and material costs

Estimated annual state tax liability

Energy generation capacity (AS/AT)

Process improvements (AM)

Award compliance is established in a legal agreement



- Applicants have 3 years to use the STE, but can request extensions from the CAEATFA Board.
- Applicants must submit annual reports on the status of the project and biannual reports of purchases.
- In certain circumstances, CAEATFA may request the applicant to repay the STE or rescind the award to prevent further use.

Without a cap increase, the program is likely to be oversubscribed in 2016 and 2017



- CAEATFA suspended acceptance of new applications in November 2015 while the regulations for AB 199 projects are developed and additional program revisions are made.
- AB 199 projects will get the first shot at remaining funds set aside (\$23 MM) by the board in December 2015, however, demand may exceed supply.

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AB 199



- Some of the project categories included in AB 199 were already eligible under CAEATFA's existing STE program.
- Others are newly eligible due to AB 199.
- Previously eligible categories will continue to be evaluated under the existing program rules.
- Newly eligible categories will be scored with a modified evaluation system.

Eligibility of recycling-related projects under current CAEATFA regulations



Type of Facility/Project	STE Application Pathway
Materials Recovery Facilities	New pathway under AB 199
Composting	
Specialty recyclers (e.g. tire or scrap metal)	
Manufacturing with Recycled Materials	Advanced manufacturing
Intermediate Processing of Recovered Materials	
Biogas	Alternative source

Application information and scoring



- The new AB 199 project pathway will require the same types financial and environmental information required under the existing application requirements.
- In addition, AB 199 projects will need to indicate the type(s) of recycled materials to be processed/produced.
- The information collected in the STE application will be used to score each project based on its estimated economic and environmental benefits in a manner very similar to the approach used currently.

Estimating environmental benefits



- Environmental benefits will be estimated based on increases in the total amount of recycled materials produced.
- Using the U.S. Environmental Protection Agency's (EPA) WARM model, which estimates the greenhouse gas benefits of recycling various waste materials, the increase in recycling will be translated into an estimated greenhouse gas (GHG) reduction.
- Greenhouse gas reductions will then be monetized based on economic estimates of the cost of each additional ton of GHG emissions.
- Only projects that increase the amount of recycled materials produced and generate sufficient environmental benefits will be eligible (e.g. replacing an existing piece of equipment with a similar new piece of equipment would likely not qualify).

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Next steps for the STE program



- Regulatory Modifications
 - Review feedback from workshop to inform draft regulations (March/April).
 - Draft regulations will be presented to the public for comment (April).
 - Draft regulations to be brought before the Board (May).
 - Complete the regulatory process and open the application process to qualifying AB 199 projects (June).
- Legislative Proposals by the STO (Mullin, AB 2334)
 - Raise Program Cap.
 - Create Roll-over function for un-awarded funds.
 - Make language regarding contractors and subcontractors consistent with the BOE partial exemption program.

Process Timeline



March 16: Public workshop



March 25: Deadline for public comments



April: Workshop to discuss and seek feedback on regulations



May 17: Board consideration of proposed regulations



June: Authority begins accepting applications from AB 199 eligible projects



August: First AB 199 projects go before the Board. Authority resumes accepting applications from all other project types



October: First Board meeting at which non-AB 199 projects are heard

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Working with CAEATFA



- Know your market
 - Help us network with the manufacturers, consultants, and economic development specialists who work in your area.
- Know the STE Program
 - Information regarding STE Program statute and regulations is available on our website.
 - Stay up to date by signing up for our listserv.
- Contact us
 - CAEATFA staff is happy to coordinate conference calls with potential applicants, economic development agencies, and other interested parties to go over our program.
- Presentations
 - Staff may also be available to host webinars or attend in-person workshops.
- Feedback?
 - We are happy to consider any additional suggestions for reaching a broader base of applicants.



CONTACT INFORMATION

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