Sales and Use Tax Exclusion (STE) Program

Program Background and Historical Data

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

May 2018

Legislative History

* **SB 71 (Padilla, 2010)**
  * Authorized CAEATFA to grant STE to Alternative Source (AS) and Advanced Transportation (AT) Manufacturers.
  * Required to notify legislature when awards exceeded $100 MM in STE in calendar year
  * Program sunset date of January 1, 2021
* **SB 1128 (Padilla, 2012)**
  * Added Advanced Manufacturing (AM) as an eligible project until July 1, 2016
  * Set $100 MM cap
* **AB 1269 (Dababneh, 2015)**
  * Extended the sunset date of AM projects to January 1, 2021
* **AB 199 (Eggman, 2015)**
  * Added projects that process or utilize recycled feedstock (RF)

How does a Manufacturer Qualify for an STE?

Two-Step Analysis

1) Eligibility

   Manufacturer must fit one of the four eligibility pathways

   (Alternative Source, Advanced Transportation, Advanced Manufacturing, Recycled Feedstock)

2) Benefits Evaluation

   Project must meet the point-threshold requirements set out in regulations:

Eligibility Pathways

Tangible personal property that:

processes or utilizes **recycled feedstock** to produce another product;

designs, manufacturers, produces, or assembles an **alternative source** product, component or system

designs, manufactures, produces, or assembles an **advanced transportation** technology

is used in an **advanced manufacturing** process

Benefits Evaluation

Not all benefits can be put in dollar terms, so benefits are measured in points:

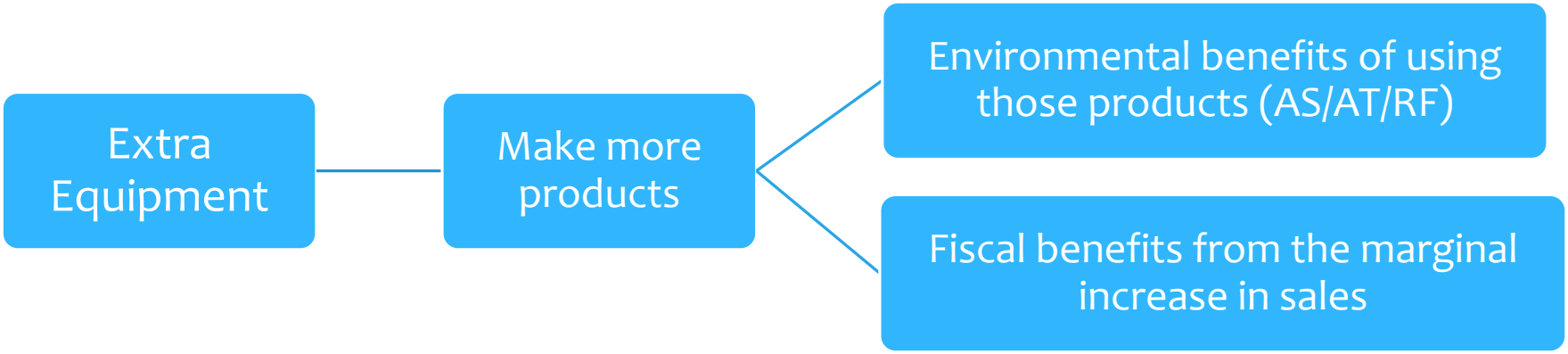
- Total score of at least 1,000 points.
- Environmental benefit score of over 20 points.

Fiscal Benefit Score + Environmental Benefit Score + Other Benefits
Total Score

Benefits Evaluation

- Underlying Assumption: Because the STE lowers the cost of purchasing equipment, the applicants are assumed to purchase more equipment than would be the case without the STE.

- Projects evaluated based on the estimated benefits attributable to that marginal increase in equipment purchases.



Benefits Evaluation – Fiscal Benefits

Total Fiscal Benefits = Direct Fiscal Benefits + Indirect Fiscal Benefits

Direct Fiscal Benefits:

Marginal increase in sales leads to increase in→

- Sales taxes paid by consumers of the "extra" products
- Personal income taxes paid by employees on the wages attributable to making those products
- Corporate/other taxes paid on increase in profits
- Property taxes

Indirect Fiscal Benefits:

Marginal increase in state Economic output from →

- Marginal increase in in-state supplier purchases
- Marginal increase in employee wages
- Multiplier effect

Benefits Evaluation – Environmental Benefits

* Alternative Source and Advanced Transportation– pollution benefit based on the dollar value of pollution costs associated with a GGE, MWh of electricity, or MMBTU.
  * Net change in use of electricity generated from increased use in Alternative Source
  * Net change in fossil fuel consumption from increased use of Alternative Source fuel or Advanced Transportation Technology

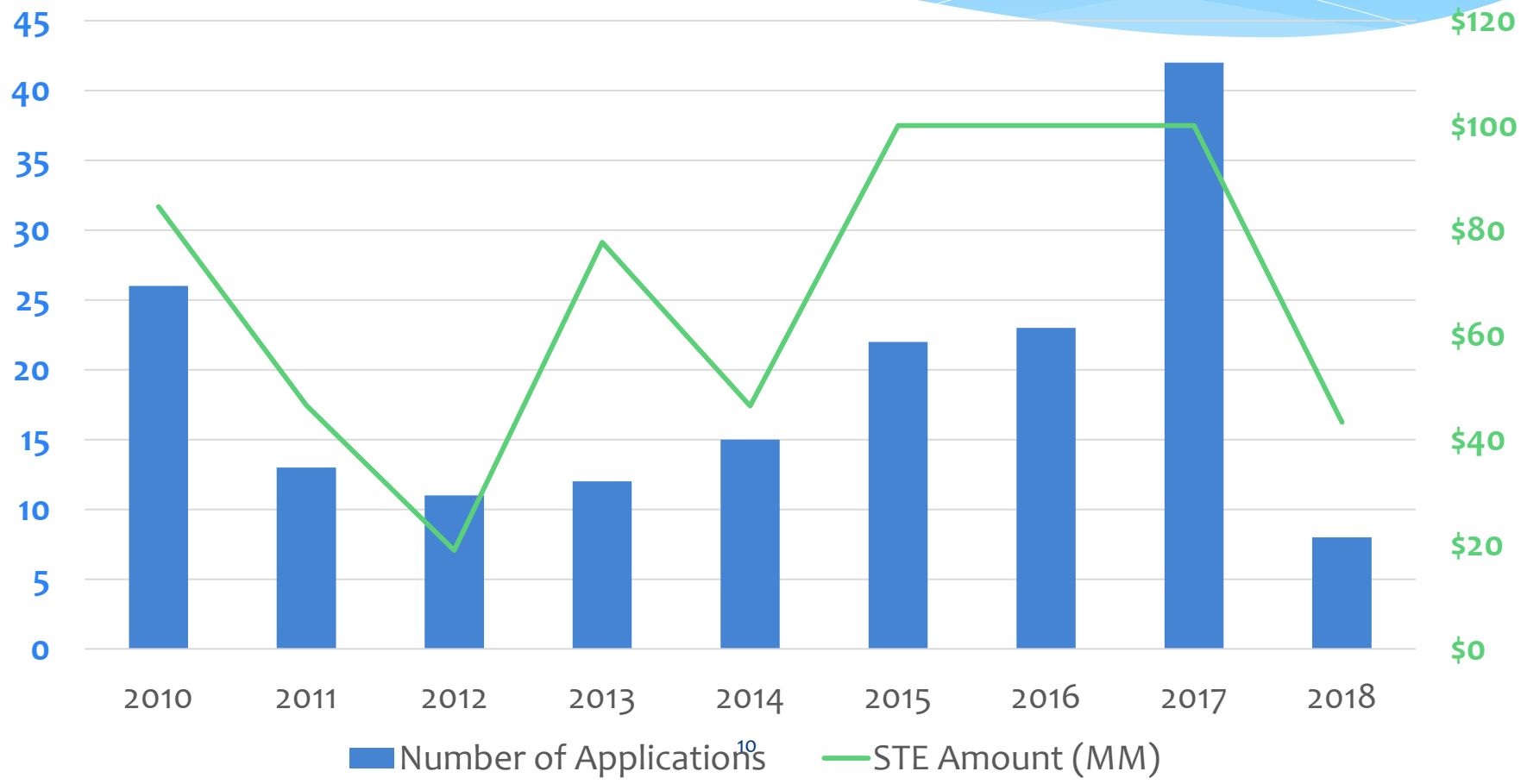
* Recycled Resource Extraction – pollution benefit based on the dollar value of GHG reduction due to increased use of recycled material.

* Advanced Manufacturing – points based on percent reduction in energy use, waste generation, water use, or pollution emissions in manufacturing process compared to baseline (no dollar value given)

Benefits Evaluation – Other Benefits

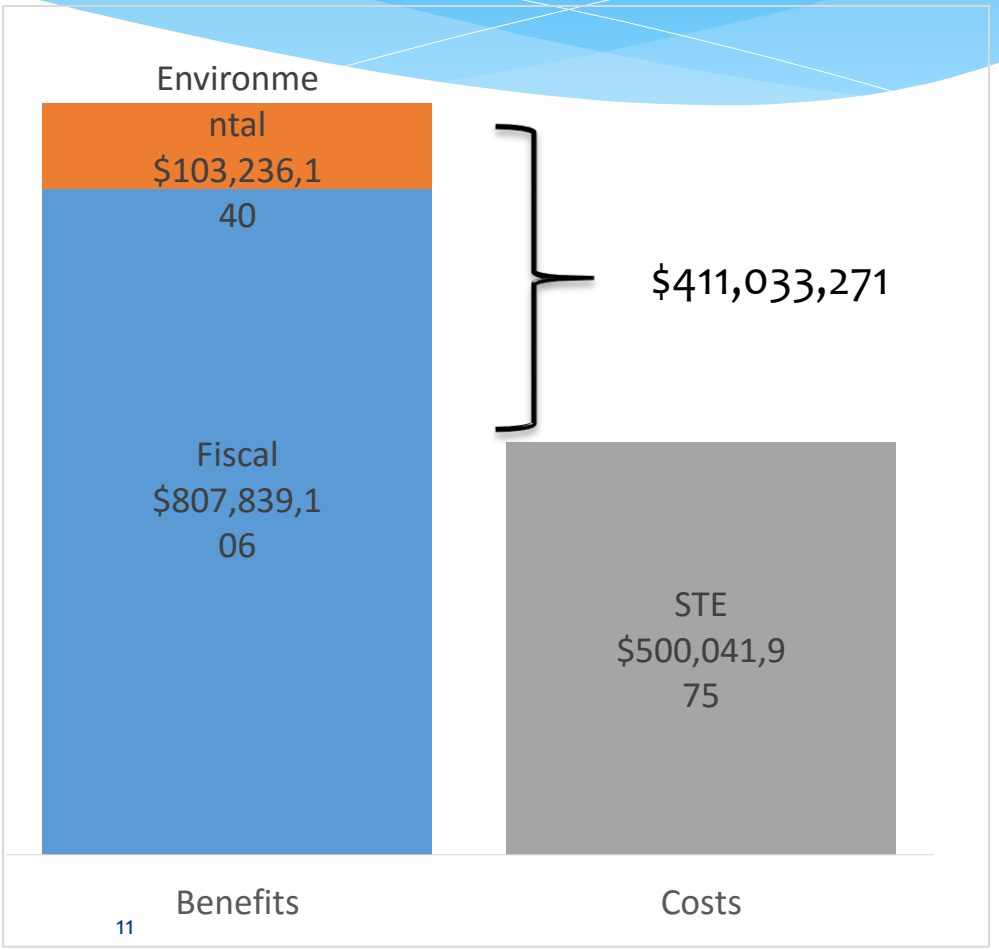
Unemployment	How much greater local unemployment rate is compared to statewide average
Jobs	Amount of STE per job created as a result of marginal increase in QP
Construction Jobs	Amount of STE per job created as a result of marginal increase in QP
Out-of-State Environmental Benefits (AS & AT)	Value of non-greenhouse gas benefits (reductions in VOC, NOx)
Advanced Manufacturing Projects:	R&D facility in CA; Partnerships with educational institutions; Industry cluster

Number of Applications and Amount of STE Awarded Each Year



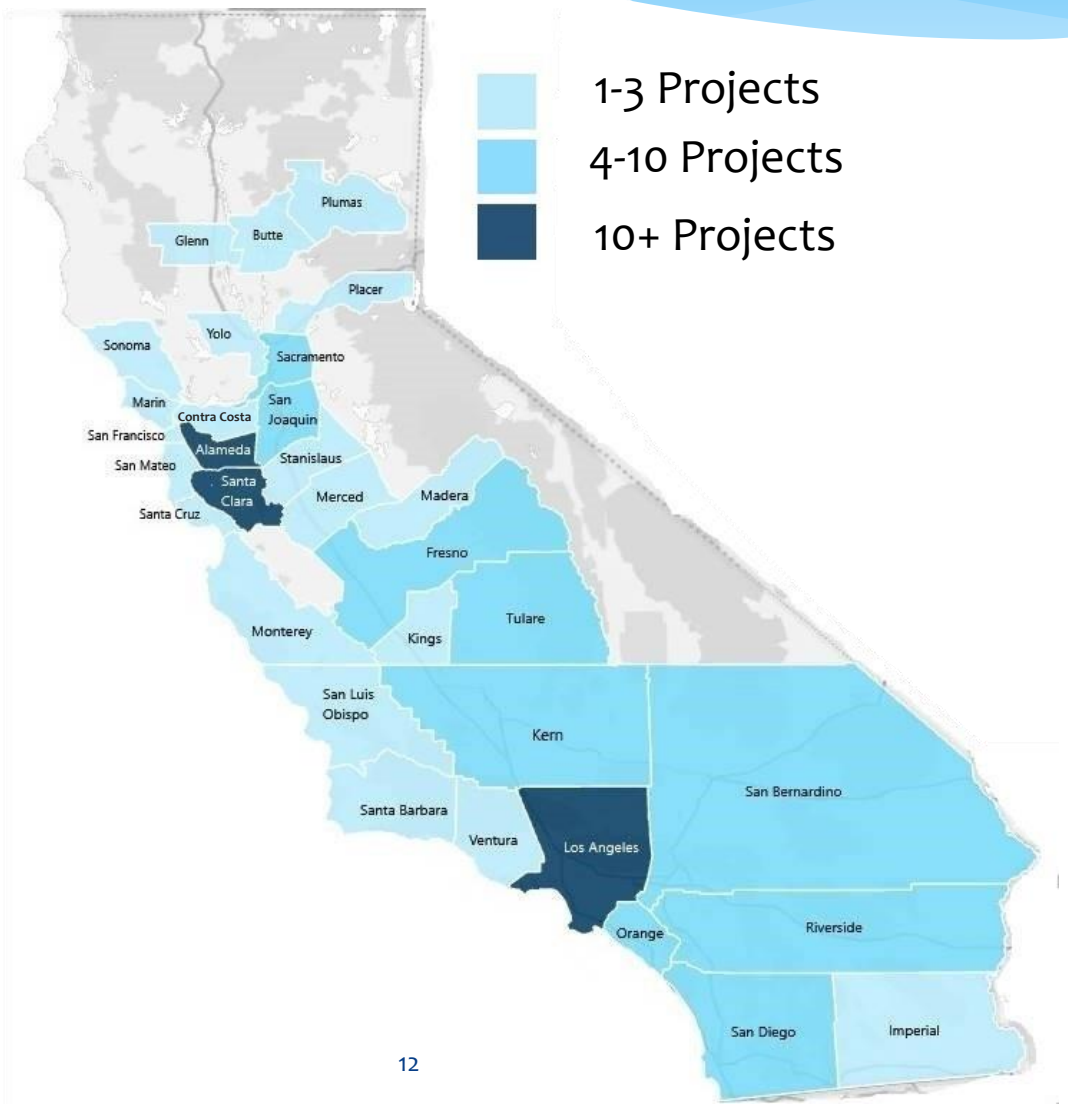
Lifetime Estimated Net Benefits to the State

Active and Complete Projects:	141
QP Approved	$5,961525,553
Estimated STE	$500,041,975
Jobs Retained/Created	36,154
Jobs Attributed to STE	2,011

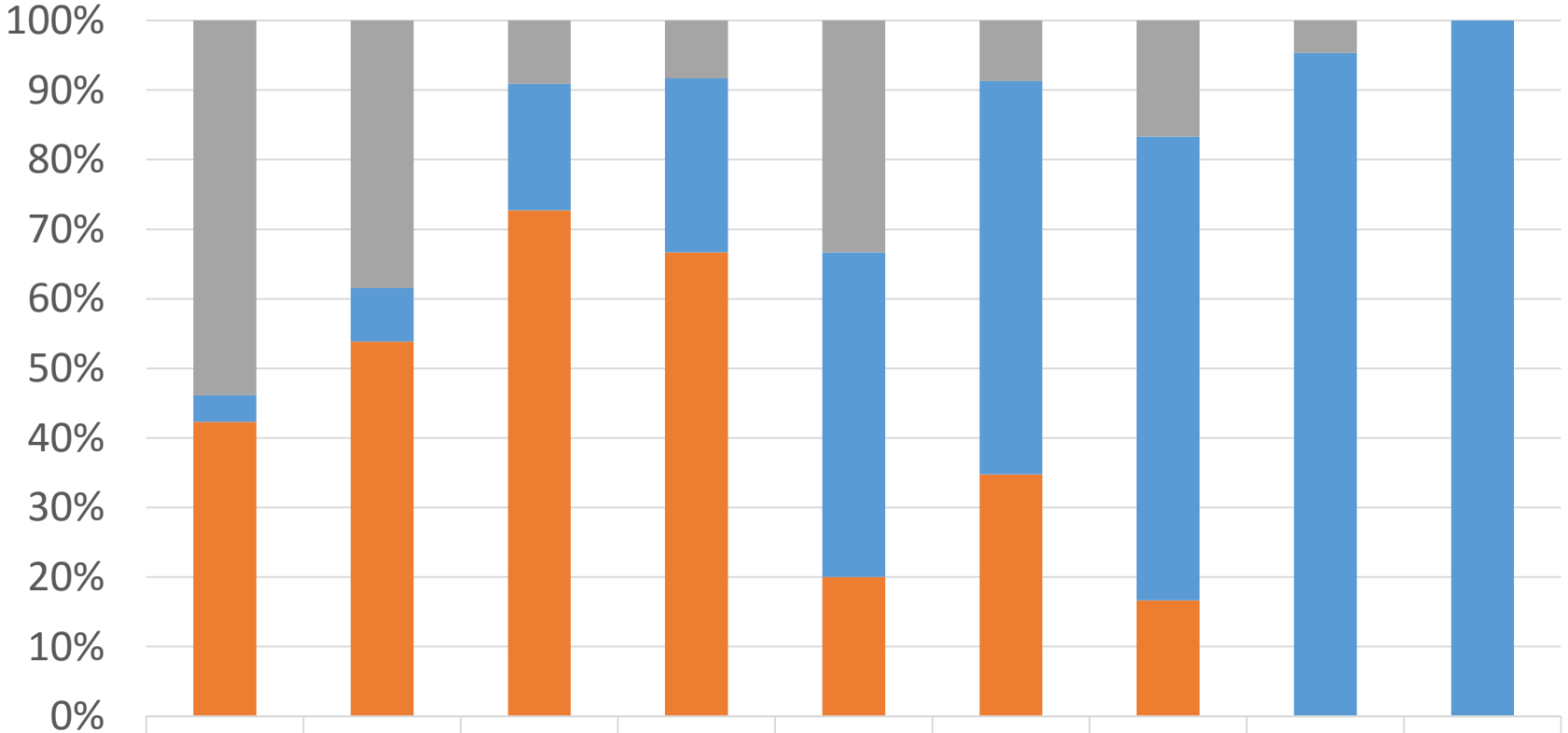


Projects Located Across 32 Counties

Alameda	16
Butte	2
Contra Costa	1
Fresno	6
Glenn	1
Imperial	3
Kern	9
Kings	2
Los Angeles	22
Madera	3
Marin	2
Merced	1
Monterey	3
Orange	5
Placer	1
Plumas	1
Riverside	5
Sacramento	5
San Bernardino	8
San Diego	7
San Francisco	2
San Joaquin	7
San Luis Obispo	1
San Mateo	2
Santa Barbara	2
Santa Clara	14
Santa Cruz	2
Sonoma	1
Stanislaus	1
Tulare	4
Ventura	1
Yolo	1

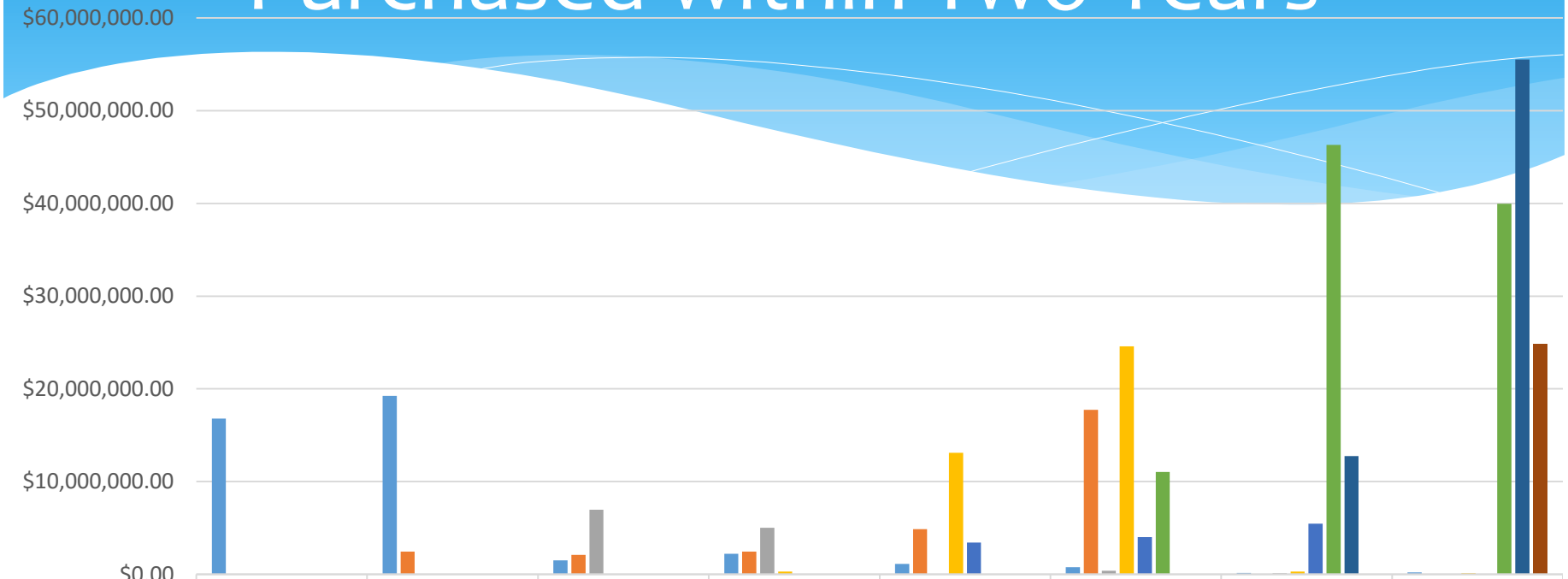


Project Status by Year Approved
(Number of Projects)



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Inactive	14	5	1	1	5	2	4	2	0
Active	1	1	2	3	7	13	16	41	8
Complete	11	7	8	8	3	8	4	0	0

Generally Most QP Purchased within Two Years



	2010	2011	2012	2013	2014	2015	2016	2017
2010 Projects	$16,775,345.50	$19,236,076.85	$1,498,738.85	$2,198,689.41	$1,106,804.46	$756,923.80	$149,064.31	$185,606.46
2011 Projects		$2,439,058.71	$2,073,141.21	$2,437,412.84	$4,875,453.27	$17,736,159.61		
2012 Projects			$6,949,353.85	$4,997,974.04		$378,064.81	$118,472.93	
2013 Projects				$297,499.47	$13,107,015.40	$24,591,617.94	$274,328.17	$100,524.60
2014 Projects					$3,401,208.49	$3,993,729.66	$5,465,962.17	$34,547.57
2015 Projects						$11,030,458.48	$46,314,779.48	$39,964,757.74
2016 Projects							$12,749,017.83	$55,528,327.59
2017 Projects								$24,862,909.88

Only a Small Fraction of Applicants Request Extensions

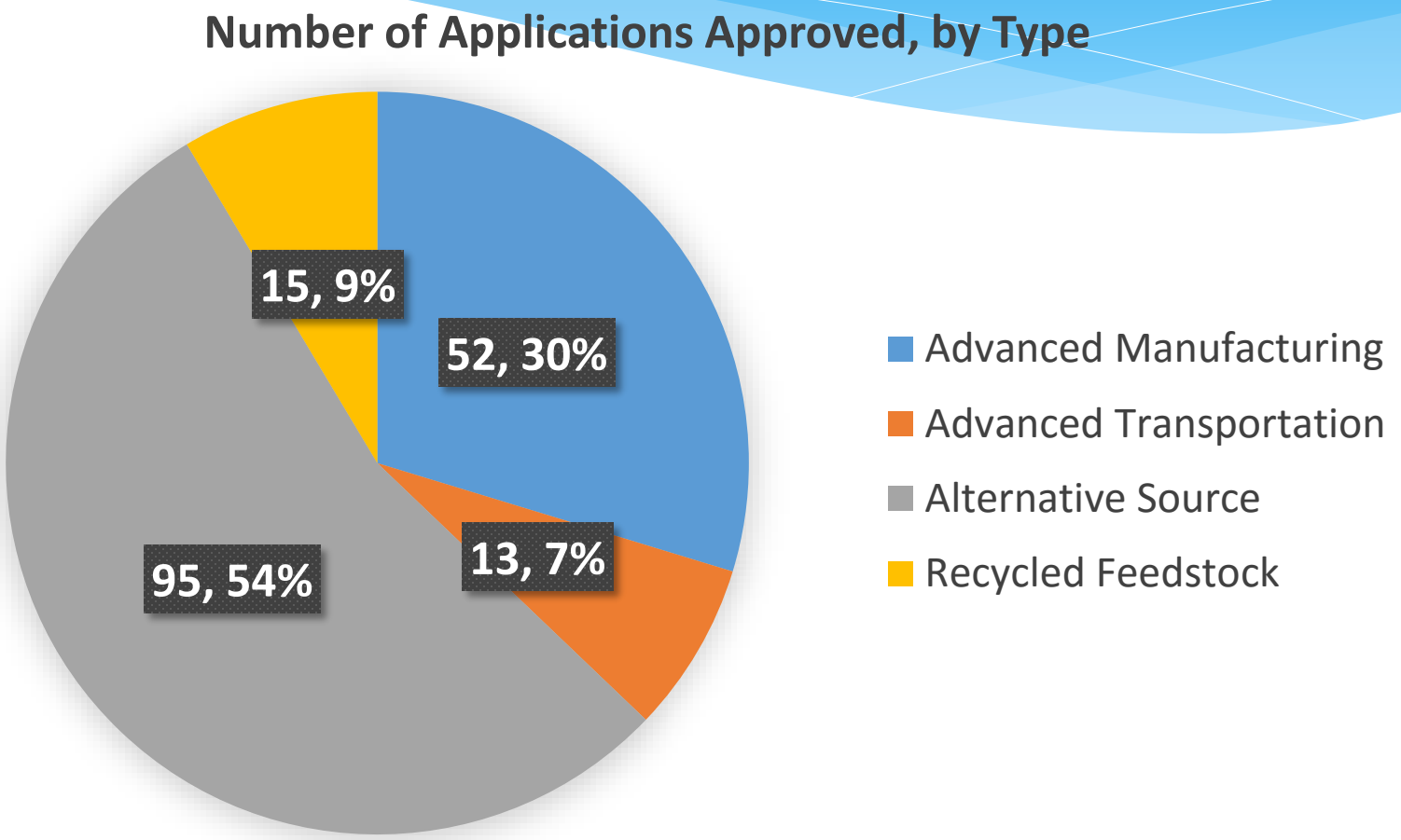
Initial Term

- 3 granted at initial application approval
- 19 granted post-approval (includes one of the projects granted an extended term at application) (11%)

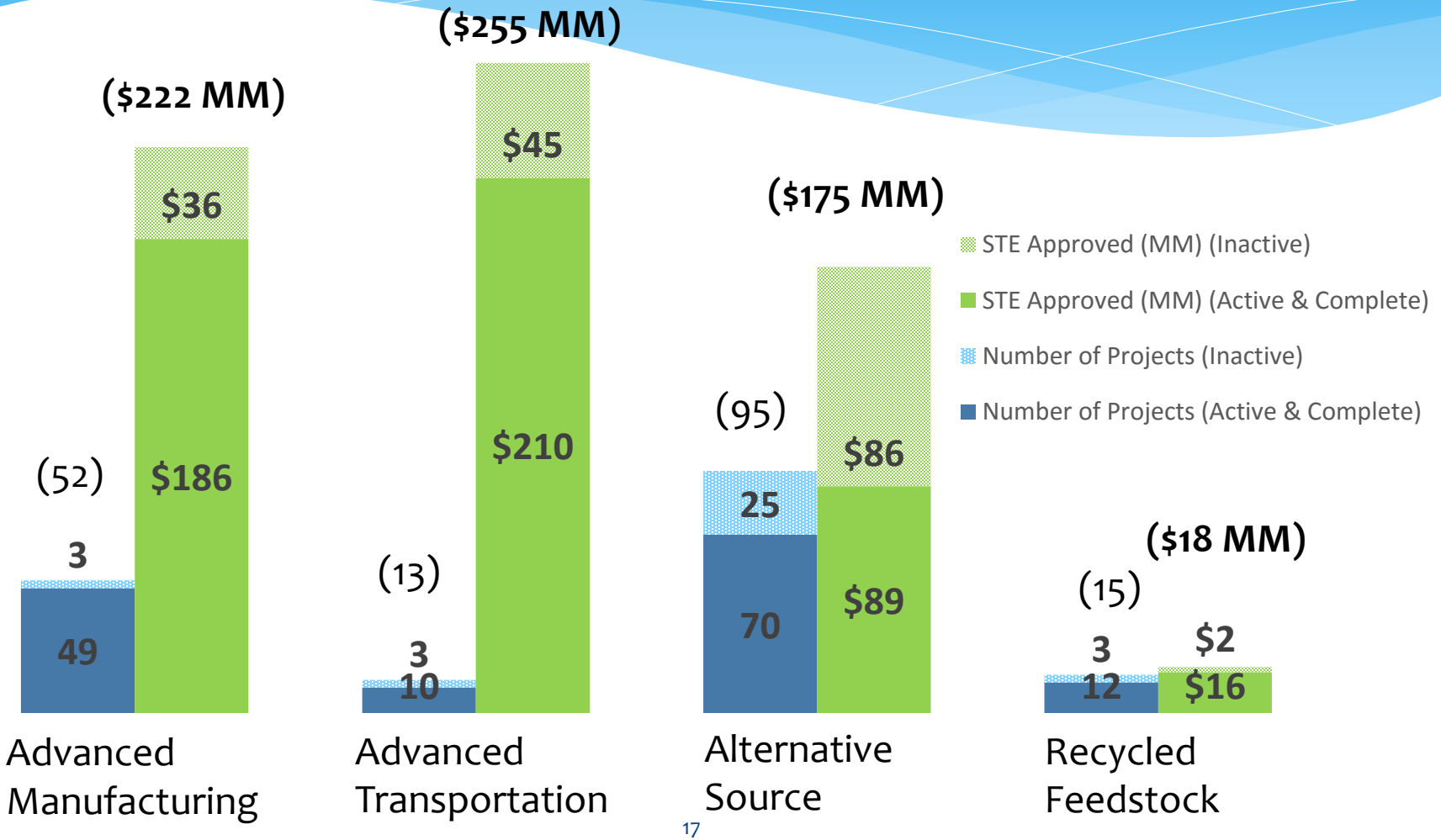
25% Purchase

- 10 granted (17.5%)
  - Out of 57 projects approved before October 2013 when requirement was removed

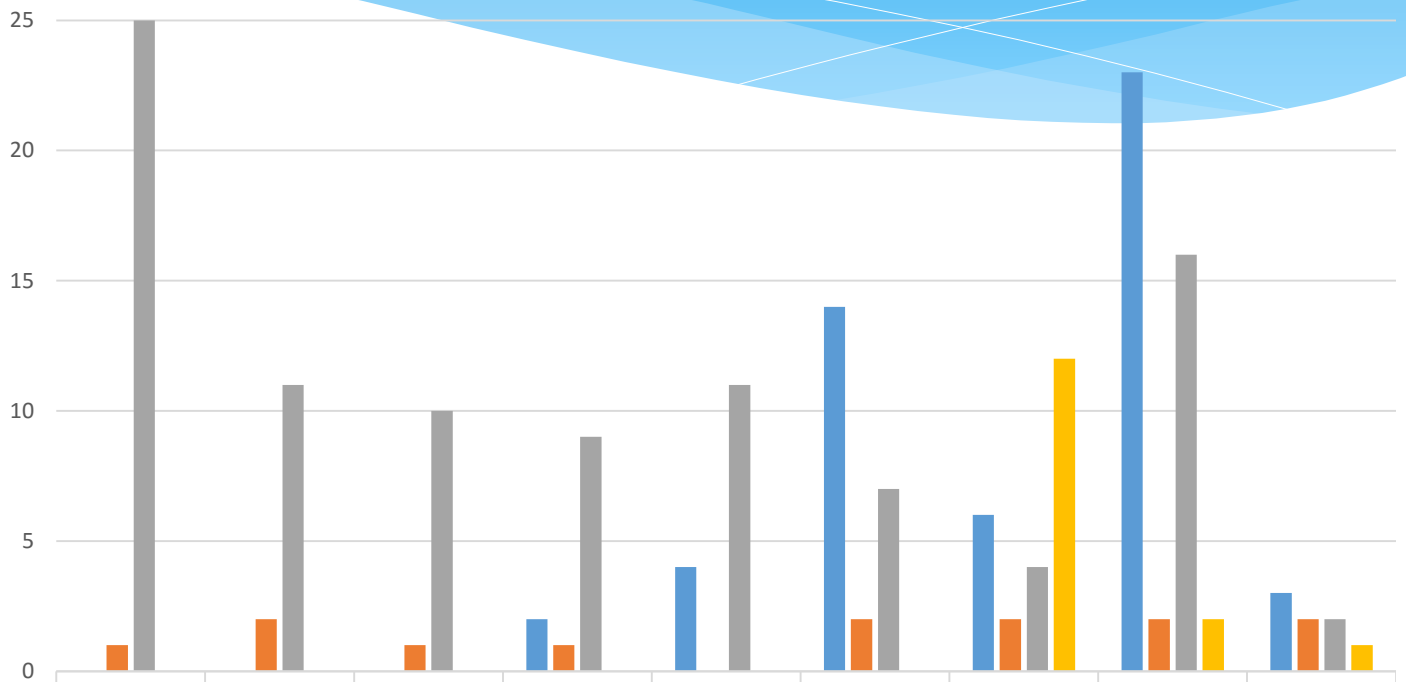
Most Common Projects – AS & AM



Number and STE Amount Approved by Project Type

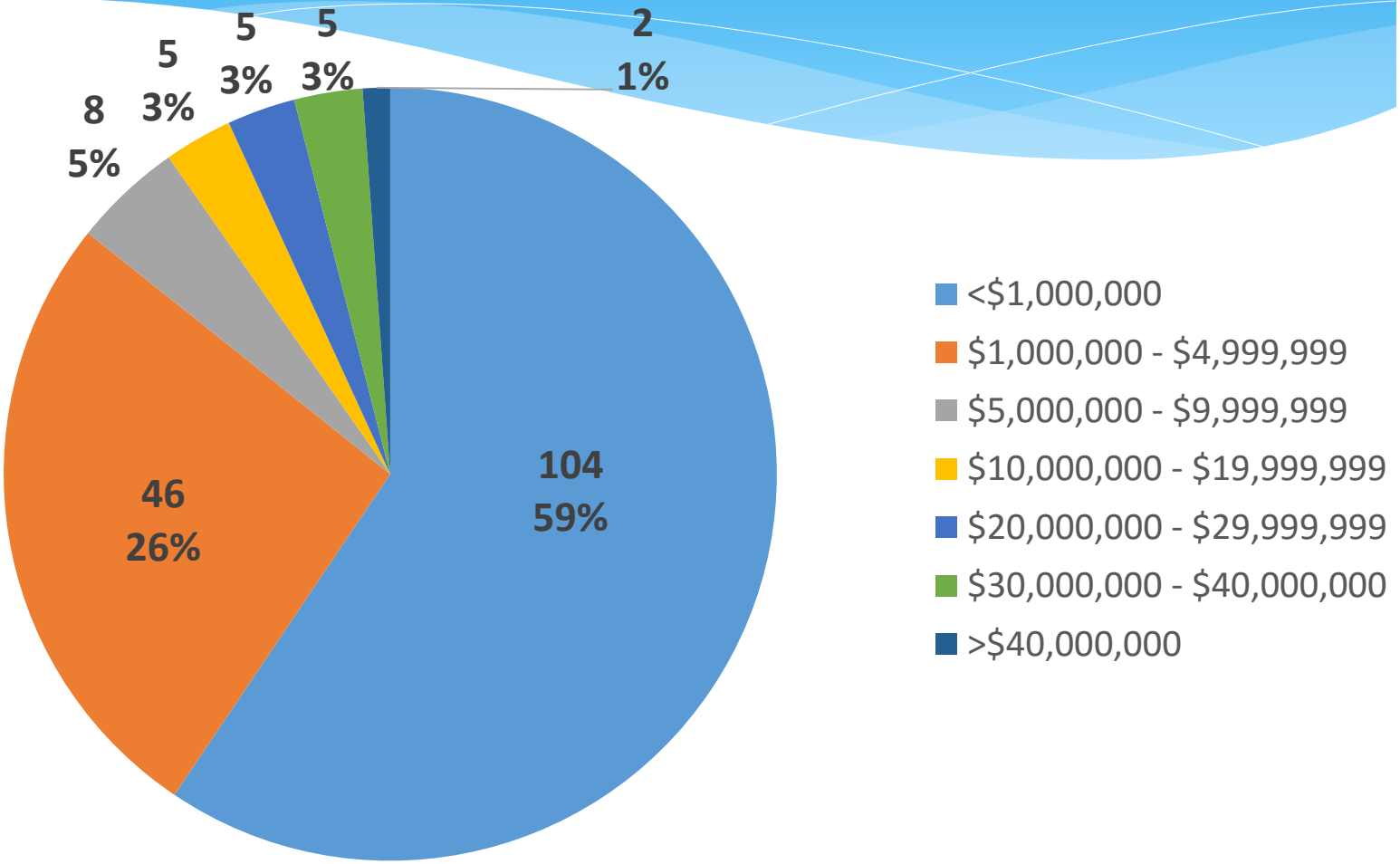


Number of Projects Approved Each Year, by Project Type



	2010	2011	2012	2013	2014	2015	2016	2017	2018
Advanced Manufacturing				2	4	14	6	23	3
Advanced Transportation	1	2	1	1		2	2	2	2
Alternative Source	25	11	10	9	11	7	4	16	2
Recycled Feedstock							12	2	1

Majority of Approved Projects are for Small Awards



Larger Projects

Date	Applicant	Project Type	Industry	QP	STE Amount	STE Used	QP Amount Reported	% Conveyed	Project Status
12/13/2016	Tesla	AT	EV Manufacturing	$560,917,080	$47,229,218	$47,229,218	$560,917,080	100%	Complete
1/19/2016	Atieva	AT	EV Manufacturing	$530,750,000	$44,689,150	$0	$0	0%	Inactive
12/15/2015	Tesla	AT	EV Manufacturing	$463,625,000	$39,037,225	$39,037,008	$463,622,420	100%	Complete
12/17/2013	CE&P Imperial Valley	AM	Sugarcane to Ethanol	$444,811,275	$37,230,704	$0	$0	0%	Active
11/17/2010	Solyndra	AS	Solar PV	$381,776,000	$34,741,616	$25,127,322	$277,309,757	73%	Inactive
12/17/2013	Tesla	AT	EV Manufacturing	$415,000,000	$34,735,500	$34,929,532	$414,840,044	100%	Complete
10/20/2015	SpaceX	AM	Aerospace	$360,169,639	$30,326,284	$7,113,570	$84,484,210	23%	Active
9/16/2014	Lockheed Martin	AM	Aerospace	$345,296,354	$29,073,953	$0	$0	0%	Inactive
1/17/2017	Tesla	AT	EV Manufacturing	$287,322,328	$24,192,540	$13,143,562	$156,099,313	54%	Active
12/13/2011	Tesla	AT	EV Manufacturing	$292,000,000	$23,652,000	$24,546,045	$291,889,530	100%	Complete
3/20/2018	Tesla	AT	EV Manufacturing	$239,234,449	$20,000,000	$0	$0	0%	Active
4/17/2018	Faraday&Future	AT	EV Manufacturing	$239,234,449	$20,000,000	$0	$0	0%	Active

STE Program – Next Steps

* LAO Report to Joint Legislative Budget Committee on effectiveness of the Program
  * Due January 1, 2019

* AB 1547 (Quirk-Silva)
  * Would allow contractors to use STE on purchase of QP that will be used as an integral part of an approved applicant's project.

* Regulations
  * Staff continually reviewing ways to improve the program