

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

*Request to Approve Project for a Sales and Use Tax Exclusion<sup>1</sup>*

**Newlight Technologies, Inc.  
Application No. 23-SM009**

**Tuesday, July 18, 2023**

Prepared By: *Stefani Wilde, Program Analyst*

**SUMMARY**

**Applicant** – Newlight Technologies, Inc

**Location** – Huntington Beach, Orange County

**Industry** – AirCarbon Manufacturing

**Project** – Expansion of an Existing AirCarbon Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount <sup>2</sup>
\$17,949,389	\$1,500,569

Estimated Net Benefit <sup>3</sup>	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$2,631,420	1,754
Estimated Environmental Benefits	N/A	30
Additional Benefits	N/A	135
<b>Total</b>	<b>\$2,631,420</b>	<b>1,919</b>
<b>Estimated Quantifiable Net Benefit</b>	<b>\$1,130,851</b>	

**Competitive Criteria Score** – 70

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

<sup>3</sup> 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).)

**THE APPLICANT**

Newlight Technologies, Inc. (the “Applicant”) is a Delaware Corporation that formed in 2017. The Applicant manufactures polyhydroxybutyrate (“PHB”), a naturally occurring material made from greenhouse gas emissions (CO<sub>2e</sub>) which the Applicant refers to as “AirCarbon”. AirCarbon is currently sold to three industries: food, fashion, and automotive, which includes distributors such as US Foods and Sysco, Target, Gelson’s Market, Nike, H&M, and Sumitomo.

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

- Mark Herrema (14.72%)
- Kenton Kimmel (14.69%)

The corporate officers of the Applicant are:

- Mark Herrema, Chief Executive Officer
- Kenton Kimmel, Chief Technology Officer

**THE PROJECT**

The Applicant is requesting a sales and use tax exclusion (“STE”) award to expand its existing Air-Carbon manufacturing facility (“Eagle 3 Facility”) located in Huntington Beach (the “Project”). The Applicant states its Eagle 3 Facility is the only commercial scale production facility in the world that produces AirCarbon material, a carbon-negative biodegradable plastic substitute that can be used in a variety of applications including straws, cutlery, paper coatings, sunglasses, and leather alternatives.

The Applicant states purchasing a second bioreactor will allow it to increase its capacity by removing double the current amount of CO<sub>2e</sub>. The AirCarbon production process uses highly precise tools and methods to ferment, extract, separate, wash, dry, extrude, label, package, and ship products. According to the Applicant, its innovative industrial biotechnology process includes placing microorganisms that naturally occur in the ocean off the California coast into a bioreactor that mimics ocean like conditions. The Applicant then feeds the microorganisms air and greenhouse gases, which fills their cells with PHB. Once this process is complete, the Applicant states the PHB is harvested, purified, dried, and melted into pellets to produce products that would normally be made of legacy plastics.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Bioreactors	\$1,211,375
Blowers	\$232,890
Agitator	\$545,828
Cooling Tower	\$105,700
Seed Tanks and Associated Equipment	\$2,400,000
Electrical and Instrumentation	\$1,897,500
Mechanical and Civil Construction Equipment	\$7,931,833
Detailed Engineering Equipment	\$1,084,905

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Construction Management Equipment	\$1,010,919
Power and Distribution Equipment	\$773,727
Instrumentation and Valves	\$375,212
Start Up and Commissioning Equipment	\$379,500
<b>Total</b>	<b><u>\$17,949,389</u></b>

*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 its Eagle-3 Facility expansion is underway and expects equipment with long lead times to be ordered by the end of Q4 of 2023. Additionally, the Applicant expects construction to begin in the Q1 of 2024 and peak in the Q3 of 2024. Construction completion is anticipated in the Q1 of 2025, as well as the equipment placed in service period.

**STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

The Applicant states all other permits including air, wastewater, stormwater and hazardous materials to be received after construction completion, and its construction permits have already been approved.

**COMPETITIVE CRITERIA SCORE**

The Applicant received 70 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 (0 of 50 points).** The Applicant's Project is located in Orange County, which has an average annual unemployment rate of 3.2%.<sup>4</sup> When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.

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<sup>4</sup> Unemployment rates are based on data available in October 2022.

3. **Job Creation (55 of 75 points)**. The Applicant anticipates the Project will support a total of 195 production-related jobs at its facility. CAEATFA estimates that approximately 12.5 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 55 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.
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 1,919 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 30 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,754 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 \$2,631,420, resulting in a Fiscal Benefits score of 1,754.
- B. **Environmental Benefits (30 points)**. The Project earned an Environmental Benefits Score of 30. The Applicant received points in the following categories:
  1. **Air Pollutants (30 of 30 points)**. The Applicant anticipates the Project will result in a 100% reduction in air pollutants produced relative to the industry standard of plastic manufacturing.

C. **Additional Benefits (135 points)**. Applicants may earn additional points for their Total Score. The Applicant received 135 additional points.

1. **Production Jobs (55 of 75 points)**. The Applicant anticipates the Project will support a total of 195 production-related jobs at its facility. CAEATFA estimates that approximately 12.5 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 55 points.
2. **Construction Jobs (30 of 75 points)**. The Applicant anticipates the Project will support a total of 49 construction jobs at its facility. CAEATFA estimates that approximately 3.14 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 (0 of 50 points)**. The Applicant’s Project is located in Orange County, which has an average annual unemployment rate of 3.2%.<sup>5</sup> When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero 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 materials science and biotechnology, including the production of AirCarbon.
5. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, bonuses, retirement contributions, profit sharing, gym subsidies, employee discounts, and paid leave 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,<sup>6</sup> the Applicant has paid CAEATFA an Application Fee of \$8,974.69 and will pay CAEATFA an Administrative Fee of up to \$71,797.56.

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<sup>5</sup> Unemployment rates are based on data available in October 2022.

<sup>6</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RECOMMENDATION**

Staff recommends the approval of Resolution No. 23-SM009-01 for Newlight Technologies, Inc.'s purchase of qualifying tangible personal property in an amount not to exceed \$17,949,389 anticipated to result in an approximate STE value of \$1,500,569.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A  
REGULATORY AGREEMENT WITH NEWLIGHT TECHNOLOGIES, INC.**

**July 18, 2023**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Newlight Technologies, Inc.** (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 \$17,949,389 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

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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.