

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**East County Advanced Water Purification Joint Powers Authority
Application No. 23-SM018**

Tuesday, July 18, 2023

Prepared By: *Katrina Walters-White, Program Analyst*

SUMMARY

Applicant – East County Advanced Water Purification Joint Powers Authority

Location – Santee, San Diego County

Industry – Wastewater Treatment and Biogas Capture

Project – New Wastewater Treatment and Biogas Capture Facilities (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$105,101,474	\$8,786,483

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$11,722,722	1,334
Estimated Environmental Benefits	\$1,448,143	165
Additional Benefits	N/A	110
Total	\$13,170,865	1,609
Estimated Quantifiable Net Benefit	\$4,384,381	

Competitive Criteria Score – 135

Staff Recommendation – Approval

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 8.36%.

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.

THE APPLICANT

East County Advanced Water Purification Joint Powers Authority (the “Applicant”) is a government entity formed in 2019 to build a new wastewater treatment plant that treats wastewater locally, utilizes solid waste and transforms it into energy. The proposed project is a public agency effort carried out by the Padre Dam Municipal Water District, the County of San Diego, the City of El Cajon, and Helix Water District. Products from this collaboration include advanced treated water, compost, low-carbon biogas, wastewater solids, and food waste slurry.

The Board of Directors for the Applicant are:

- Steve Goble, Director, City of El Cajon
- August Caires, Director, Padre Dam Municipal Water District
- Joel Anderson, Director, County of San Diego
- Joel Scalzitti, Ex-Officio Member, Helix Water District

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build a new wastewater treatment and biogas capture facility located in Santee (the “Project”). As part of this Project, the Applicant will be designing and constructing new facilities that include a water recycling facility (“WRF”), solids handling facility, and energy recovery facilities, as well as associated pump station upgrades and wastewater force mains in the City of Santee. As a result of the new facilities, the Applicant states it is going to be able to treat an average of 16 million gallons of wastewater per day.

Per the Applicant, an added benefit of the Project includes utilizing the produced biogas as energy that offsets purchased electricity. The facilities’ retrieval system will also collect and distribute locally sourced food waste slurry to the anaerobic digesters to increase biogas production. The Applicant states that this in turn will assist waste management companies and local municipalities in complying with AB 1826 (Chesbro, 2014), a bill that requires businesses and multifamily complexes that generate two or more cubic yards of solid waste, recycling, and organic waste combined per week to start recycling organic waste.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Headworks & Grit Classification	\$3,819,396
Flow Equalization	\$4,362,103
Primary Clarifiers	\$2,964,037
Recycled Activated Sludge & Waste Activated Sludge Pump Station	\$1,754,053
Aeration Basins & Blowers	\$13,819,245
Secondary Clarifiers	\$2,589,291
Tertiary Filtration	\$6,984,360
Solids Thickening & Dewatering	\$9,437,800

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Anaerobic Digestion	\$10,969,375
Odor Control	\$2,906,595
Chemical Facilities	\$1,891,705
General Site Utilities, Duct Banks, & Yard Piping	\$7,649,827
Maintenance & Support Systems	\$5,347,982
Electrical, Instrumentation, & Control Systems	\$3,477,618
East Mission Gorge Pump Station	\$7,381,829
Influent Pump Station Upgrades	\$1,258,935
WRF Force Main	\$8,480,945
High Strength Waste Receiving Facility	\$865,200
Combined Heat & Power System	\$9,141,178
Total	<u>\$105,101,474</u>

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

According to the Applicant, the Project timeline includes the following:

- Preliminary design notice to proceed – completed as of October 2020
- Final design and construction notice to proceed – completed as of June 2022
- Final design completion – completed as of June 2023
- WRF construction completion – estimated for May 2025
- Solids Handling Facility construction completion – estimated for May 2025
- System Integration, Startup and Commissioning completion – estimated for Oct 2026
- Project final completion – final acceptance estimated for October 2026
- Energy Recovery Contractor (“ERC”) Design notice to proceed – completed as of March 2023
- ERC design complete – estimated for January 2025
- ERC construction complete – estimated for July 2027
- ERC startup, commissioning, and acceptance – estimated for July 2027

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, the status of its permits is as follows:

- State Water Resources Control Board Construction Stormwater Permit – obtained in June 2022

- State Water Resources Control Board Industrial Discharge Permit – estimated for March 2024
- Regional Water Quality Control Board National Pollutant Discharge Elimination System WRF Waste Discharge Permit – estimated for May 2026
- City of Santee stormwater management permit – obtained in October 2022
- San Diego Air Pollution Control District Permit to Construct – obtained in February 2023
- San Diego Air Pollution Control District Permit to Operate – estimated for July 2025
- Miscellaneous Building Permits- obtained in November 2022
- Encroachment permits for new pipelines from SDG&E for crossings of electric and gas utility easements, and construction in public rights-of-way:
 - Caltrans Encroachment Permit – obtained in December 2022
 - City of Santee Encroachment Permit – obtained in April 2023
 - SDG&E Consent Agreement (Carlton Oaks Golf Course Overhead Elec)- obtained in March 2023
 - SDG&E Consent Agreement (Carlton Oaks Bridge Gas) – obtained in March 2023
 - SDG&E Consent Agreement (North of Ganley Overhead Elec) – obtained in June 2023

COMPETITIVE CRITERIA SCORE

The Applicant received 135 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Project that produces an Advanced Transportation Technology and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant’s Project primary Facility is located in San Diego County, which has an average annual unemployment rate of 3.5%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (20 of 75 points)**. The Applicant anticipates the Project will support a total of 45 production-related jobs at its Facility. CAEATFA estimates that approximately 6.62 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 20 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.

⁵ Unemployment rates are based on data available in October 2022.

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 1,609 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 165 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,334 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 \$11,722,722, resulting in a Fiscal Benefits score of 1,334.
- B. **Environmental Benefits (165 points)**. The Project is anticipated to result in \$1,448,143 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 165 points. These benefits derive from the production of biogas, which offsets the need for the use of fossil methane.
- C. **Additional Benefits (110 points)**. Applicants may earn additional points for their Total Score. The Applicant received 110 additional points.
 1. **Production Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 45 production-related jobs at its Facility. CAEATFA estimates that approximately 6.62 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 20 points.
 2. **Construction Jobs (40 of 75 points)**. The Applicant anticipates the Project will support a total of 237 construction jobs at its Facility. CAEATFA estimates that approximately 35 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 40 points.
 3. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in San Diego County, which has an average annual unemployment rate of 3.5%.

When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.

4. **Workforce Partnerships (25 of 25 points)**. The Applicant has a partnership with San Diego State University for the purpose of training the workers at the Facility.
5. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, bonuses, pension plans, retirement contributions, dependent care & assistance reimbursement, education reimbursement 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.

FINDINGS OF EXTRAORDINARY CIRCUMSTANCES AND OF PUBLIC INTEREST

The Applicant states the Project is a complex, large-scale undertaking that is budgeted to cost almost \$1 billion and the STE will only be supporting a portion of it. According to the Applicant, the Project is separated into five packages so that it can more effectively manage the design, procurement and construction activities. The five packages are as follows:

- Package 1 – Wastewater, solids handling and advanced water treatment facilities
- Package 2 – Advanced water conveyance facilities to surface water supplies
- Package 3 – Wastewater collection and pump stations
- Package 4 – Brine line conveyance
- Package 5 – Energy Recovery

The Applicant’s priority is ensuring completion of Packages 1 through 4 to supplement reliable water supplies to East San Diego County and reduce the discharge of treated effluent to the Pacific Ocean. Because the Project is so broad and water supply is the priority, the timeline for Package 5 has been extended to avoid impacting the timely execution of Packages 1 through 4 and to allow the Applicant sufficient time to effectively manage challenges resulting from long lead times and other supply chain issues.

The Applicant has been working on the Project for a number of years and does not anticipate construction and procurement to be completed until July 2027. Due to the complexity and long-term nature of the Applicant’s Project, the Applicant is requesting to extend the initial term of the Regulatory Agreement (“Agreement”) by one year, from July 18, 2026 to July 18, 2027.

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The CAEATFA Board can extend the initial term of the Agreement upon a finding that an extension is in the public interest and advances the purposes of the STE Program.⁶ Based on the information presented, and in light of the anticipated benefits of the Project, Staff believes these are extraordinary circumstances and that granting the extension is in the public interest and advances the purposes of the STE Program.

CAEATFA FEES

In accordance with STE Program regulations,⁷ 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. 23-SM018-01 for East County Advanced Water Purification Joint Powers Authority's purchase of qualifying tangible personal property in an amount not to exceed \$105,101,474 anticipated to result in an approximate STE value of \$8,786,483.

Staff recommends that the Board approve the Applicant's request to extend the initial term of the Agreement by one year, until July 18, 2027, as it is in the public interest and advances the purposes of the STE Program.

⁶ California Code of Regulations Title 4, Division 13, Section 10035(b)(1)(B)

⁷ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH EAST COUNTY ADVANCED WATER
PURIFICATION JOINT POWERS AUTHORITY**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **East County Advanced Water Purification Joint Powers Authority** (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, within three (3) years of approval by the Authority, the Applicant must make all Qualified Property purchases (STE Program regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three (3) years of Application approval (STE Program regulations Section 10035(b)(1)(B)); and

WHEREAS, the granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits of the Project, thereby advancing both the public interest and the purposes of the STE Program; and

WHEREAS, the Applicant has requested the Authority enter into the Agreement to acquire Project equipment with an estimated cost not to exceed \$105,101,474 over a period of four (4) 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;

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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.

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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. The Authority finds that it is in the public interest and advances the purposes of the Program to extend the Applicant's initial term of the Regulatory Agreement to July 18, 2027.

Section 11. 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.