

ASSEMBLY THIRD READING  
AB 2887 (Eduardo Garcia)  
As Amended May 9, 2022  
Majority vote

## SUMMARY

Increases, from \$100 million to \$150 million, the limit on annual sales and use tax (SUT) exclusions under the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) Act (Act).

### Major Provisions

- 1) Provides the expansion until January 1, 2026.
- 2) Provides that, notwithstanding existing law, no appropriation is made by this bill and the state shall not reimburse any local agency for any lost SUT revenues.
- 3) Takes immediate effect as a tax levy.

## COMMENTS

*What does this bill do?* This bill would increase, from \$100 million to \$150 million, the limit on annual SUT exclusions under the Act.

*This bill's goals:* This bill is clearly motivated by a desire to encourage the exploration and extraction of lithium deposits in California. At the same time, however, this bill never makes mention of lithium or any related extraction activities. This bill simply expands, by \$50 million annually, the amount of SUT exclusions that CAEATFA may grant to projects, without earmarking any of these additional funds for a particular purpose. The author's office has noted, however, that the authority has developed a list of Emerging Strategic Industries that includes activities associated with the development, exploration, and production of lithium within California's Lithium Valley. As such, such projects are potentially eligible for additional points in the authority's application scoring process.

*The Legislative Analyst's Office weighs in:* In December 2018, the Legislative Analyst's Office (LAO) released a detailed evaluation of the CAEATFA sales tax exclusion. This report noted, among many other things, that the state currently administers two overlapping SUT exemption programs – namely, the one administered by the authority, and the partial exemption for manufacturing and research and development activities. The LAO noted that the partial manufacturing exemption is broader than the CAEATFA exemption and easier for businesses to use. As such, the LAO recommended allowing the CAEATFA exclusion to expire.

### According to the Author

The author has provided the following statement in support of this bill:

The world demand for Lithium is expected to grow as much as ten-fold in the next decade, but virtually none is produced in the United States; instead, almost all of the global supply today is mined in Argentina, Chile, China and Australia. The existing Salton Sea geothermal plants are well positioned to become a competitive source of supply that could satisfy more than one-third of today's worldwide lithium demand. The opportunity for Lithium

production in California has the potential to unleash billions of dollars of new economic infrastructure development in our state. AB 2887 complements the Governor's critical efforts in building out a world-class battery manufacturing ecosystem in tandem with Lithium production and processing right here in California.

### **Arguments in Support**

This bill is supported by EnergySource Minerals, LLC, which notes the following:

The transportation sector is responsible for 41% of California's greenhouse gas emissions. Electric vehicles and battery storage connected to renewable electric generation are poised to change this. California has the potential to be a global leader in producing sustainable Lithium, the key ingredient in those batteries, by extracting Lithium from brine that is brought to the surface for geothermal energy production near the Salton Sea in Imperial County.

As with all minerals and commodities, price will remain the driving factor of where Lithium is sourced by major buyers. China, Australia and Chile have long been the dominant global players, and policy should promote [United States] competitiveness. Along with traditional lithium production, sustainable lithium brine resources like the Salton Sea exist elsewhere globally, and we should not take CA's resource for granted. Even other states have viable Lithium brine resources. Emerging producers are already contributing substantially to the Imperial County economy and are poised to do even more, as long as they remain potentially competitive. In order to support this new sector of California-based jobs and industry, policy makers should ensure that investment remains here rather than move to other states with more favorable regulatory and taxation environments.

### **Arguments in Opposition**

None on file

## **FISCAL COMMENTS**

According to Assembly Appropriations Committee:

- 1) Annual General Fund (GF) revenue loss of up to \$23 million, which represents the state's portion (3.9375%) of annual SUT revenue loss from the continued exclusion, if the full amount of SUT exclusions are granted each year.
- 2) Annual local government revenue loss of approximately \$27 million due to the expansion of the exclusion. As a result, GF cost pressures of approximately \$6.2 million annually. One component of California's 7.25% sales tax rate is the 1.0625% rate supporting the 2011 Local Revenue Fund, which provides local governments with public safety realignment money. Proposition 30 (2012) protected the fund by ensuring, in the event the 1.0625% component is reduced or eliminated, local governments continue to receive a commensurate level of state funding.
- 3) Costs of an unknown, but potentially significant amount, in the low hundreds of thousands of dollars, to CAEATFA for additional staff positions to process an increased number of program applications and report program data to the Legislature.

## VOTES

### **ASM REVENUE AND TAXATION: 11-0-0**

**YES:** Irwin, Nguyen, Gray, Grayson, Robert Rivas, Mayes, Mullin, Petrie-Norris, Quirk, Luz Rivas, Seyarto

### **ASM APPROPRIATIONS: 16-0-0**

**YES:** Holden, Bigelow, Bryan, Calderon, Carrillo, Megan Dahle, Davies, Mike Fong, Fong, Gabriel, Eduardo Garcia, Levine, Quirk, Robert Rivas, Akilah Weber, Wilson

## UPDATED

VERSION: May 9, 2022

CONSULTANT: M. David Ruff / REV. & TAX. / (916) 319-2098

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