

California Opportunities for Offshore Wind Businesses

A. The Advantages of California

California offers many advantages to companies from a variety of business services and incentives to integrated transportation systems and market access. Furthermore, California leads the nation in trends and innovation and has the highest concentration of engineers, scientists, mathematicians, and skilled technicians. It is the nation's leading high-tech state, with over 930,000 high-tech workers and a high-tech exports market valued at \$48 billion. California also leads the nation in green technology and "green collar" jobs.¹

The Governor's Office of Business and Economic Development serves as California's single point of contact for economic development and job creation. The office assists with business development, permit streamlining, small business assistance, innovation and entrepreneurship, international trade development, and assistance with state government.

Industrial R&D expenditures ranked \$58.4 billion in 2006, the highest in the nation. The state offers a 15% tax credit for R&D, and is ranked first in "Access to Capital" by CNBC's *America's Top States for Business Rankings* for 2010 and 2011.

California is connected to global and national markets through its world-class infrastructure. The state has eleven cargo seaports, twelve cargo airports, 15,000 miles of highways, and 25 freight railroads operating on over 5,000 miles of track. Companies located within one of California's 17 Foreign Trade Zones can defer or eliminate import/export duties. Location and transportation infrastructure contribute to California's position as one of the largest trade networks in the nation, with exports in 2011 totaling nearly \$160 billion. California's largest export market is Mexico, followed by Canada, China, Japan, and South Korea. Machinery manufactures were amongst the top exports. Small and medium-sized businesses produced more than two-fifths of California's total exports in 2007.²

B. Government Policies Pertaining to Offshore Wind Power

Renewable Resource Portfolio Standard

In 2011, California revised its renewable portfolio standard (RPS) requiring utilities to obtain at least 33% of their electricity from clean, renewable sources by 2020. This standard is the most

¹ The California Investment Guide is available here:
<http://www.business.ca.gov/Portals/0/AdditionalResources/Docs/%5BCalBIS%5D%20Investment%20Guide%20%2712.pdf>

² More on California's economy here:
<http://www.business.ca.gov/Portals/0/AdditionalResources/Reports/California%27s%20Economy.pdf>

aggressive renewable energy requirement in the nation. Interim targets include 20% by 2013 and 25% by 2016.

Offshore Wind Planning

California requires that offshore test and pilot projects meet regulatory and permitting requirements. The Ocean Protection Council has developed a permitting guidance document to aid project proponents in preparing for regulatory review.

Though the state has substantial offshore wind resources, its deep coastal waters would likely require floating turbines. In 2007, Stanford University completed a study on California's offshore wind potential. The study concluded that significant potential exists for offshore wind development in California. Northern California has the best 80m wind resource, but has the least transmission capacity. The San Francisco Bay Area has high potential with access to the grid, but would require floating turbines given the water depth.³

C. Government Policies Pertaining to Manufacturing and Service Activities Related to Offshore Wind

Business Incentive Loans and Bonds

California's Industrial Development Revenue Bond Program provides tax-exempt securities directly to private companies to provide funds for the acquisition, construction, rehabilitation, and equipping of manufacturing and processing facilities. A company can potentially borrow up to \$40 million in certain tax-exempt bonds over a three year period. The program is primarily interested in manufacturing, processing, and fabrication. Businesses must meet certain public benefit criteria. The interest rate is usually 20%-30 % below conventional financing rates.

Tax Credits

The Manufacturer's Investment Credit is available to qualified taxpayers engaged in manufacturing activities and can reduce income or franchise tax. The credit is generally unlimited and can be used to offset taxes based on the purchase of equipment or on certain labor costs or on special purpose buildings. The credit is 6% of qualified costs.

Companies that conduct qualified research in California are eligible for the **Research and Development Credit**, which is 15% of the excess of current-year research expenses.

California has designated two **Manufacturing Enhancement Areas (MEA)** in which companies are eligible for state tax credits. In addition, the MEAs offer streamlined regulatory controls and reduced local permitting fees. All manufacturing businesses described in Codes 2011-3999 are

³ Dvorak, M.J., Jacobson, M.Z., Archer, C.L. (2007): California offshore wind energy potential. Proceedings from Windpower 2007: *American Wind Energy Association Windpower 2007 Conference & Exhibition*, June 36, 2007, Los Angeles, CA: AWEA.
http://offshorewind.net/Other_Pages/Links%20Library/California%20Offshore%20Wind%20Energy%20Potential.pdf

eligible for the MEA program benefits. Up to nearly \$27,000 is available in state tax credits for each qualified employee.

California has also designated 42 **Enterprise Zones** to encourage new private-sector investment and growth through partnerships between local governments, government agencies, non-profits, and private businesses. Within Enterprise Zones, various incentives and programs are available to businesses, including tax credits for sales and use tax on qualified machinery, tax credits for hiring qualified employees, and priority for state programs and contracts.

Programs for Small Businesses

The **Small Business Loan Guarantee Program** helps businesses obtain loans by providing a loan guarantee on revolving lines of credit, small loans, and agricultural loans. A small business with fewer than 100 employees is eligible, and the funding may be used as capital, or for the purchase of new equipment or expansion into new facilities. The guarantee covers 90% of the loan, the loan amount not exceeding \$350,000. Companies must have business plans and demonstrate a consistent, positive credit score.

Similarly, the **California Export Finance Services Loan Guarantee Program** offers loan guarantees to financial institutions to help small and medium-sized businesses access short-term capital loans for specific export transactions. The guarantee covers up to 90% of the export loan, allowing for a maximum guarantee of \$750,000 and a loan of \$833,000. The loan may be used to purchase materials, services, and labor for specific export orders and to extend open account terms to foreign buyers of California goods and services.

Small businesses (with 20 or fewer employees) may claim a credit of up to \$3,000 for each additional full-time employee through the **New Jobs Tax Credit**. The credit may be pro-rated for employees employed less than a full year. The total amount of credit available is capped at \$400 million.

California's **Capital Access Program (CalCAP)** encourages banks and other lenders to make loans to small businesses that fall outside of conventional underwriting standards. The program provides a loan loss guarantee to participating banks and contributes a match into the reserve account at the time of each loan enrollment. Businesses may use the loan to purchase land or equipment, to renovate buildings, or for capital projects.

Other Incentives

The California Energy Commission manages the **Energy Innovations Small Grant Program**, which provides up to \$95,000 for hardware projects and up to \$50,000 for modeling projects to small businesses, non-profits, and academic institutions that research the feasibility of innovative energy concepts. The funding is meant to support the development of promising new energy technologies, a niche not covered by other Commission solicitations.