

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
July 28, 2010**

1. CALL TO ORDER & ROLL CALL

Bill Lockyer, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 11:08 a.m.

Members Present: Bill Lockyer, State Treasurer
Cindy Aronberg for John Chiang, State Controller
Cynthia Bryant for Ana J. Matosantos, Department of Finance
Paul Clanon for Michael R. Peevey, Director, Public Utilities
Commission
Panama Bartholomy for Karen Douglas, Chair, California Energy
Commission

Staff Present: Christine Solich, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum: The Chairperson declared a quorum.

4. BUSINESS ITEM

A. APPROVAL OF APPOINTMENT OF EXECUTIVE DIRECTOR

Mr. Lockyer recommended appointment of the new Executive Director, Christine Solich. Ms. Solich has various kinds of financial expertise including her previous position as an Assistant Director in the Investment Division at the State Treasurer's Office (STO). While there she addressed deals for the State's Pooled Money Investment Fund of \$60,000,000,000 in its daily investment work. Ms. Solich has represented the Treasurer's Office on the California Public Employees' Retirement System and California State Teachers' Retirement System. Some of the projects included green investing, which will be particularly relevant for CAEATFA. Ms. Solich was also involved in the purchase of the first green bond in the country through the World Bank. She has been doing dual work recently in Investments and helping CAEATFA on implementation of Senate Bill (SB) 77, the Property Assessed Clean Energy Program (PACE).

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Mr. Lockyer asked if there were any questions or comments from the Board. There were none.

Ms. Aronberg moved approval of the item which was seconded.

Mr. Lockyer asked if there were any comments from the public. There were none.

Mr. Lockyer called the roll and Ms. Solich's appointment was unanimously approved. Mr. Lockyer along with the Board members congratulated Christine Solich on her appointment.

2. MINUTES

Mr. Lockyer asked if there were any questions or comments concerning the April 6, 2010 and April 28, 2010 meeting minutes. There were none.

Mr. Lockyer asked if there was a motion.

Mr. Clanon moved approval of the minutes; upon a second, both minutes were approved. Mr. Bartholomy abstained from voting on the April 6, 2010 minutes.

3. EXECUTIVE DIRECTOR'S REPORT (INFORMATION ITEM)

Ms. Wahl started with the administrative report that it has been very busy since April 2010 after SB 71 and SB 77 passed. The previous Executive Director retired shortly after and staff had a lot of work to do. Staff worked on getting a Budget Change Proposal (BCP) in to get a quick loan. CAEATFA had another loan of \$75,000 from California Pollution Control Financing Authority (CPCFA) to help CAEATFA get jumpstarted. Staff is in the process of getting office space put together. CAEATFA staff received authority for several staffing positions, and is currently busy with the hiring process for Treasury Program Manager II, Executive Assistant, Office Technician and some analysts. Staff has also been working on regulations, which will be discussed later in the meeting.

Ms. Wahl reported on some of the contracting that has been done so far. Blue Sky Consulting Group was hired through a competitive process to assist with implementing Senate Bill (SB) 71. The contract amount is \$221,744. She stated that Blue Sky has been great to work with.

SB 99 passed which requires independent audits of conduit issuers. CAEATFA staff sent out a Request For Proposal and has retained the Reznick Group on a two-year contract for \$20,000 to conduct an audit of the bond program. CAEATFA has three outstanding bond issues and the auditors will be looking at CAEATFA's processes. Various other authorities are going through this right now also.

CAEATFA staff expects to be busy with upcoming contracts needed for the Bond Program. Staff will need assistance reviewing the various financing structures as they are reviewing technologies not familiar to them, and will be getting those technologies to market along with

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bonds sold. A CAEATFA RFP for a financial advisor went out this day (July 28, 2010) advertised for up to \$250,000. Staff project having a financial advisor on board in September.

Finally, the Authority will be entering into an agreement with the California Energy Commission (CEC) for the California Ethanol Producers Incentive Program (CEPIP) for up to \$15 million. Staff invited CEC representative Mike Smith to make a presentation about the programs that CAEATFA will be assisting with to the Board. Mike Smith is on special assignment for the Deputy Director for Fuels and Transportation.

Mr. Lockyer commented that, before Mr. Smith starts his presentation, he would like to mention that the Blue Sky Consulting Group, as part of the requirements under the new law, is determining how to calculate the net benefits of various waivers of sales tax exemptions on manufacturing equipment, and how many jobs are produced. It is these types of technical issues that feed into the regulatory framework that Blue Sky has been assisting with and it seems to be more complicated than Mr. Lockyer initially thought.

Mr. Smith provided hand outs of the CEPIP program to the Board and presented an overview to the Board members. He discussed the types of relationships that CEC is trying to establish with CAEATFA, as well as CPCFA, to benefit CEC's programs, and extend the reach of the programs.

After the presentation, Mr. Smith asked if there were any questions or comments from the Board. Board Member Bartholomy expressed his appreciation and support of CAEATFA staff's work with the CEC.

Mr. Lockyer asked if there were further questions or comments from the Board or public. There were none.

Ms. Solich said that it is a pleasure to be in this meeting. She thanked the Treasurer and the Board members for this opportunity. Ms. Solich has had the opportunity to work with a couple of the Board members in the past and she is looking forward to working with them and their expertise in moving forward the programs that have already been established in CAEATFA, and for new programs that staff will be developing in the future. It is very important work that CAEATFA is doing.

Ms. Solich added that Ms. Wahl and staff is moving along with hiring staff for CAEATFA. She took the opportunity to thank CPCFA staff which have been excellent over the last few months and particularly in the last few weeks with helping her get comfortable in her new role. She introduced Heather Williams and Martha Alvarez; staff that has been helping implement a couple of the new programs. One program is SB 71 and the other is the SB 77 that will be discussed in this meeting.

Ms. Solich continued her report that SB 77, was signed into law in April of this year. SB 77 authorizes \$50,000,000 in clean energy bond reserve funds and is intended to assist local jurisdictions to reduce the cost of their PACE bond issuance, and ultimately the cost to consumer over all. The Authority will be providing a reserve fund of up to 10% of qualifying

bonds. The Authority has done significant outreach to local jurisdictions with PACE programs in California. The Authority has also taken a look at the Department of Energy (DOE) guidelines and the CEC guidelines as well as the underwriting of these loans, encouraging energy efficiency by doing retrofits, looking at the qualifications of contractors, reviewing qualified projects, and so forth. The Authority held a workshop in Van Nuys on June 30th and had about 20 participants, and received public comments. Shortly after the workshop, on July 6th, just as many of the PACE programs were getting started in California, the Federal Housing Finance Agency, which oversees Fannie Mae and Freddie Mac, called for a pause of these programs. This caused quite a bit of stir in the PACE program and communities around the country. There is a momentum building including a coalition of about 22 states now, media outreach, outrage and a proposed letter writing campaign. There are also a couple of pieces of legislation at the federal level being proposed, one of which is sponsored by Barbara Boxer regarding the legislation to urge Fannie Mae and Freddie Mac to not discriminate against PACE programs and to adopt underwriting criteria that is consistent with the guidelines that have been established for pilot PACE programs throughout the country, which include the guidelines of the Department of Energy, CEC, and the case of California. The Treasurer sent a letter regarding the Thompson bill to support it as well and, despite all that is happening on this issue, staff is moving forward with the regulations. Staff has regulations in development and expects to hold the next workshop in late August. Staff will ask for comments on the draft regulations at that time. If all goes well, the Authority will be able to support programs in California sometime in the Spring of 2011.

Ms. Solich then reported on SB 71, which is the sales and use tax exclusion for manufacturing. Staff is moving along with the implementation and development of emergency regulations for this program. Staff's goal is to be able to take applications by the end of September or early October, with the first projects coming to the Board for approval in mid November. So far, CAEATFA has held two public workshops. One was in Sacramento on May 27th and the other in Southern California on June 30th. The Authority hired a consultant, as Ms. Wahl initially mentioned, Blue Sky Consulting. Ms. Solich introduced Matthew Newman, one of the principals in the consulting firm who has done an excellent job. He has ably assisted staff in developing regulations. CAEATFA staff currently has draft regulations for public comment available on the CAEATFA website. The Authority is planning to hold the third workshop on August 2nd here in the Treasurer's office. She noted that among the comments received, staff has been asked to consider alternative energy generation facilities in the context of SB 71. Later in the CAEATFA agenda, the Authority has two items that will be discussed related to energy generators.

Mr. Lockyer asked if there were any questions or comments from the Board. There were none.

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B. REQUEST FOR APPROVAL OF AN INTERAGENCY AGREEMENT WITH THE CALIFORNIA ENERGY COMMISSION FOR THE CALIFORNIA ETHANOL PRODUCER INCENTIVE PROGRAM (CEPIP)

Presented by: Heather Williams

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Staff requested Board approval of an Interagency Agreement with the California Energy Commission (CEC) to establish program, administrative, and financial structures for the implementation of the California Ethanol Producer Incentive Program (CEPIP). The CEPIP is funded through the CEC's Alternative and Renewable Fuel and Vehicle Technology Program (AB 118 Program) in an amount not to exceed \$15,000,000.

Mr. Lockyer asked if there were questions or comments from the Board or public. There were none.

Mr. Lockyer asked if there was a motion.

Mr. Bartholomy moved approval of the item which was seconded.

Mr. Lockyer asked if he could substitute the prior roll. As there was no objection, the item was unanimously approved.

C. REQUEST TO APPROVE RESOLUTION AUTHORIZING THE TRANSFER OF CDLAC REALLOCATION OF QUALIFIED ENERGY CONSERVATION BONDS (QECCB)

1) Transfer Of Reallocation To Oxnard Unified School District For An Amount Not To Exceed \$5,975,242 In Qualified Energy Conservation Bonds CDLAC Reallocation
Presented by: Heather Williams

Oxnard Union High School District (the "District") requested approval of a Resolution to consent to a transfer of the CDLAC reallocation of Qualified Energy Conservation Bonds from CAEATFA to the District in the amount of \$25,148,710.

Mr. Lockyer asked why they had to reallocate.

Ms. Williams responded that as the Allocation was granted to CAEATFA, and the Allocation Resolution limits the use of the Allocation solely to CAEATFA, the Allocation needed to be transferred to the District to complete the financing in the form described as a private placement of a Lease financing, where the District would be the issuer of the QECCBs. Any transfer of the Allocation from CAEATFA to the District would also need to be approved by CDLAC. CDLAC has agreed to amend the Allocation Resolution to provide for a direct allocation of the QECCB award to the District, subject to approval by the CDLAC Board on July 28, 2010.

Mr. Lockyer asked if there were further questions or comments from the Board or public. There were none.

Mr. Lockyer asked if there was a motion.

Mr. Clanon moved approval of the item which was seconded.

Mr. Lockyer asked if he could substitute the prior roll. As there was no objection, the item was unanimously approved.

D. REQUEST FOR STAFF CONSIDERATION OF PRE SB-71 SALES AND USE TAX EXCLUSION POLICY FOR ALL ALTERNATIVE SOURCE GENERATION PROJECTS (CPUC AND CEC)

Mr. Lockyer stated that this item allows the Board to review the fact that CAEATFA got a joint letter from Chairman Peevey of the PUC and the CEC suggesting that CAEATFA consider the use of the prior authority that CAEATFA had, the pre-SB 71 authority to provide sales tax exclusions for a couple of major renewable generation projects in the State, which was the narrow purpose of having this item on the agenda. The broader issue is to make sure that the Board is familiar with staff efforts with respect to completing the regulatory framework and to provide some needed direction to the staff with respect to these final phases of the regulatory work.

Ms. Solich added that the letter specifically requests that staff explore pre-SB 71 opportunities to expand the program. She reminded the Board of its action in June of 2008 to approve the policy to provide the sales tax exemptions specifically for Zero Emission Vehicles. Under that policy in October of 2009, Tesla was approved for a sales tax exemption. The current request is to potentially consider the sales tax exemption benefit application to other alternative energy source projects under pre-SB 71. Staff was seeking direction from the Board to potentially craft a policy that might define a narrow set of eligible participants in the program much like Tesla early on.

Ms. Aronberg questioned whether the \$100 million soft cap would apply for pre-SB 71 projects.

Bob Hedrick, State Treasurer's Office Legal Counsel, stated that it was counsel's opinion that at this point the soft cap—the notification limit—does apply. However, the provision in which that cap was established references approvals prior to the enactment of SB 71 in the context of saying that if you have a project that was approved by CAEATFA prior to the enactment date, that is not subject to the cap.

Mr. Lockyer expressed a preference to have all of the potential projects filter through the more refined law that the governor signed in April.

Mr. Clanon clarified that CAEATFA had existing law before SB 71 that permitted CAEATFA to grant certain exemptions, but the Board had only ever directed the staff to consider one—no particular one—and that happened a couple years ago. CAEATFA never really took advantage of the broader authority for a lot of good reasons. That has left the staff, up until SB 71, not able to do an analysis of other projects and or make recommendations. Now even with SB 71 we are still looking into a narrow little splice. He further commented that this is not the time for anybody to be proposing massive sales tax exemptions in California but stated that there are good state policies to be pursued including: job creation, clean energy, and economic development in places where that's really needed; integration of renewables into the grid; alternative energy technologies that are better than others; technologies that are good and needed for renewable power into the grid that are welcomed by local authorities for whatever reasons; technologies that can help multiply money that is being invested in the grid and otherwise;

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technologies that are cheaper, cleaner, and better for those reasons. He stated that those are the sorts of criteria that the PUC would encourage the staff to come with—not looking for a categorical long list of exemptions here, but looking for the ability for CAEATFA to do some targeted work to help multiply the efforts all in state government doing hard work in this area.

Ms. Bryant commented that DOF obviously has concerns about anytime there is reduction in tax revenues, but these are important policy areas and she would like to see the staff work with Energy Commission and PUC staff to develop this. She also suggested that it would be good to know what other states are doing and whether or not this should be associated with funding that is already available like recovery act money.

Mr. Lockyer stated that some of those who advocated for SB 71 viewed it essentially as fine tuning in significant ways. The old law that had been signed by Jerry Brown 30 years ago had never used except for Tesla Motors, Inc. It was really meant to try to figure out how to get it and other alternative energy programs into that ambit. He expressed concern about the two-track problem, but thought the Board could address the needs Mr. Clanon pointed out. He added one general point and stated it is one that again the Board will have to focus and vote on—not necessarily today, but whenever the Board would think it is appropriate; he stated there is no way the State can manage to blanket-exempt all renewable generators. That would result in \$250 million to \$500million annual loss in sales tax revenue which is a huge, huge amount. That would be imprudent to do particularly when the Legislature has this sort of \$100 million-a-year idea that has been expressed not as a hard cap, but a cap, or a reporting requirement that is a means to notify the Legislature so it can take the authority away from doing it anymore. So CAEATFA has to be sensitive about the amounts.

Mr. Lockyer further stated that he would like see ways to distinguish among the potential universes of renewable projects to see a consistent with the sort of taxonomy mentioned that may allow the Board to make decisions that do not spend \$500 million, but are smart investments to encourage. Then CAEATFA can do some of them. He suggested that staff in all three or four relevant agencies be talking with each other and report back about some potential screening criteria.

Mr. Bartholomy shared his concern that we do not bankrupt the State through a program such as this. He suggested the staff come back with a report on some of the potential ways this could be implemented in a targeted approach. Some of the criteria he suggested, though not exclusively, was technologies that help us most quickly get off a dependence on coal based energy and coal based electricity in the State that provides quality base load generation; renewable electricity in the State, particularly technologies that provide a good return on investment and public funds to local communities that they are in; real job creation benefits in the program that focuses in areas that have been hardest hit by the downturn in our economy and the employment rates in those areas; then particularly looking at ability to deal with peak load problems here in the State. He offered CEC staff assistance to work with CAEATFA staff.

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Mr. Lockyer solicited additional thoughts or comments and asked Mr. Newman if he wanted to provide a two-minute comment on how complicated it is to assess net benefits so those present could get a sense of the conversations staff has been having.

Mr. Newman gave a brief overview of the approach that staff and Blue Sky Consulting are using to develop the evaluation criteria to quantify fiscal, economic and environmental benefits of proposed projects in order to meet the statute's net benefits consideration. This is all being covered in the public rule making process.

Mr. Lockyer thanked Mr. Newman for his summary.

At this point, Mr. Lockyer inquired of Ms. Solich as to Items D and E that are related general topics, whether she felt that the Board had provide sufficient comments and direction. Ms. Solich responded affirmatively.

E. REQUEST FOR STAFF CONSIDERATION OF PRE-SB 71 SALES AND USE TAX EXCLUSION POLICY FOR ZERO EMISSION VEHICLES TO INCLUDE GEOTHERMAL ALTERNATIVE SOURCE PROJECTS (MIDAMERICAN ENERGY HOLDINGS CORPORATION)

Jonathan Weisgall, Vice President from MidAmerican Energy Holdings Company responded that the company did have a presentation that he would leave with the Board. He instead responded to the Board's comments concerning criteria as he was not requesting approval of an application. Mr. Weisgall's comments covering environmental benefits included suggestions: to drill down more on advanced transportation environmental benefits; any alternative or renewable energy reduction of green house gases; the nature of the resource; phase load versus intermittent advantages, disadvantages; employment profile; impact in the local economy; grid reliability or impact on the grid; impact on other State goals; for AB 32, the extent the project would help reach a higher rate. Concerning some of the financial questions, he suggested looking at the payback period; the corporate taxes the company's going to pay; nature of the permitting; size of the project as it may relate AB 32; what other states do; and whether you would want to look at who is backing the company itself.

Steve Evans, Vice President of Taxation, MidAmerican Energy Holdings Company added that the company spent hundreds and hundreds of millions of dollars on wind as a company and had yet to face sales and use tax on any of those wind components in the four states it had built that wind.

After further discussion amongst the Board Members and company representatives, Mr. Lockyer reminded all that CAEATFA will have an upcoming workshop on August 2nd that is meant to be a more focused discussion.

Chuck White with Waste Management Inc. stated that the company had already submitted comments related to providing the sales and use tax exclusion for the production of biofuels from waste derived materials—particularly the production of

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biofuel to generate electricity—and encouraged the Board to seriously consider opportunities for renewable energy as well as renewable fuels.

After further discussion of this issue amongst Mr. Lockyer, Mr. White and Mr. Newman, Bob Hedrick concluded that this is an issue to be further discussed during the workshop process. Mr. Hedrick stated that people were confusing the difference in criteria to be used to evaluate projects and the definition of projects on the front end of the process. Further, it is that definition of projects as adopted by the legislature in SB71, what is now Public Resources Code §26003(g)(2), that is in play and how that is going to be interpreted. He stated that's an issue best reserved for the workshop process.

5. PUBLIC COMMENT

Mr. Lockyer asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 12:19 p.m.

Respectfully submitted,

Christine Solich
Executive Director