

**MINUTES**

**California Alternative Energy and Advanced  
Transportation Financing Authority  
915 Capitol Mall, Room 587  
Sacramento, California  
June 28, 2011**

**1. CALL TO ORDER & ROLL CALL**

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 11:13 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer  
Alan Gordon for John Chiang, State Controller  
Pedro Reyes for Ana J. Matosantos, Director, Department of Finance  
Paul Clanon for Michael R. Peevey, President,  
Public Utilities Commission  
Paul Feist for Robert B. Weisenmiller, Chair,  
California Energy Commission

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

Quorum: The Chairperson declared a quorum

**2. MINUTES**

Ms. Redway asked if there were any questions or comments concerning the May 18, 2011 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the minutes; upon a second, the minutes were unanimously approved.

**3. EXECUTIVE DIRECTOR'S REPORT**

Ms. Solich began her report by welcoming Alan Gordon to the Board and introducing Justin Berg, a student intern from UC Santa Cruz, who will be assisting CAEATFA staff during summer break.

Ms. Solich continued her report with details of the CAEATFA Staff's site visits, conducted on June 8, 2011, for two projects previously approved by the Board. Staff visited Tesla Motors in Palo Alto and Solyndra in Fremont. Tesla was approved for a sales tax exclusion

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(STE) in October 2009 for the purchase of \$320 million in equipment and machinery, to outfit facilities for its electric vehicle production. Staff toured the facility where Tesla's electric power drives are produced in Palo Alto, most of which are shipped overseas to Mercedes and Toyota.

In addition to the production of power drive trains at the Palo Alto facility, Tesla is also conducting research and development on its Model S, a 4-door sedan that holds 7 passengers, which will be available in 2012 and priced to compete at under \$50k.

A majority of CAEATFA's assistance is going into the purchase of machinery and equipment for the S-model production at the Fremont facility (the former Toyota Nummi operations). One of the highlights of the visit was that Staff test drove the Roadster, Tesla's all-electric sports car that will do 0-60mph in 2.7 seconds.

Staff also visited Solyndra, a solar module manufacturer in Fremont which was approved for the purchase of \$380 million in qualified property for its manufacturing facility in November 2010. About 2/3 of the machinery and equipment has been purchased, installed and put into use. Solyndra is a highly automated facility with a number of production lines running continuously. Staff observed some of the equipment and machinery that had been purchased with assistance from the STE under the Sales and Use Tax Exclusion Program (SB 71 Program).

Staff observed the production and assembly process of the cylinder thin film modules which are utilized on commercial flat-top buildings. Staff was quite amused by the musical robots and robotic forklifts that toiled around the production facility moving solar panels while playing music. Staff was advised that the robots had a number of tunes available in their repertoire.

Ms. Solich further reported on outreach efforts for the SB 71 Program. Staff has continued its efforts to collaborate with other state and federal agencies to bring awareness of business assistance and financing programs that exist within the State. Staff has been working with the California Energy Commission (CEC) to develop SB 71 outreach through the CEC's website.

Staff attended the Venture Capital Forum earlier this month sponsored by the CEC's PIER Program (Public Interest Energy Research). This forum was used to encourage investments in emerging technologies. The focus of the meeting was on the Clean Energy Sector. Staff had the opportunity to introduce the SB 71 Program to interested participants.

Staff also had a second meeting with the United States Department of Commerce's regional office and various state agencies including the CEC, Public Utilities Commission (PUC), California Environmental Protection Agency (CalEPA) and I-Bank as staff continued to coordinate efforts to assist business development and job creation in California. At that meeting, Deloitte Consulting gave an overview of clean tech financing activities and Clean Edge provided proprietary research regarding the sector.

Ms. Solich provided some facts that were discussed at the forum:

- The 1<sup>st</sup> quarter of 2011 saw \$2.7 billion in investments (which was the 2<sup>nd</sup> highest

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- ever) in clean tech. 86% of the \$2.7 billion was in North America; of the 86% in North America 80% of that was in California.
- By Sector, solar attracted 25% (\$641 million), transportation 12%, energy storage 8%, and energy efficiency 6%.

She continued to report that Clean Edge shared state rankings in the United States Clean Energy Leadership Index:

- California ranked first overall based on 70 indicators that are evaluated.
- California ranked first in terms of technology and capital.
- California ranked third in policy, outranked by Massachusetts and New York.

Some recommendations for a continued leadership position were:

- California should maximize first move advantage by being proactive, as other states are luring companies away from California.
- Preserve AB 32 as a commitment to developing and deploying technology.
- Support incubation and funding of technology.
- Focus on innovation in manufacturing and leverage high end skills.
- Develop creative financing mechanisms such as a green bank, noting that Connecticut passed legislation to create a green bank to leverage private capital.

With regard to Agenda Item 3, the pipeline report of SB 71 Program applications, Ms. Solich stated that Staff would be recommending two new projects to the Board for approval, Recology and DTE Stockton. These projects will represent approximately \$13.8 million in purchases and \$1.3 million in Sales and Use Tax Exclusions (STEs). Upon approval of the projects the Board will have authorized \$89 million in STEs to date since the program began in October 2010. This represents nearly \$1 billion in machinery and equipment purchases and over 6,000 jobs created with more than 600 of those being a direct result of the SB 71 Program. She continued to report that Staff would be recommending the Board approve the SB 71 regulations under the permanent rulemaking process.

Ms. Solich then ended her report.

Mr. Reyes asked if Staff confirms that the numbers of jobs being stated in the applications are actually being created.

Ms. Solich stated that annual reporting is required of all approved applicants. Beginning in January 2012, the applicants must provide detailed reports on the jobs created, taxes, and other information including economic and environmental benefits of the projects.

Ms. Redway added that the even though the Board has approved \$89 million the applicants have only used \$28 million to date so some of the job creation may be three to four years away.

Mr. Reyes wanted to confirm that when a project is brought before the Board and the application states that there will be certain environmental and fiscal impacts that Staff will be following up to ensure those impacts occur.

Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

**4. BUSINESS ITEMS**

**A. DISCUSSION AND CONSIDERATION OF APPLICATIONS FOR SB 71 SALES AND USE TAX EXCLUSION (STE)**

Presented by: Heather Williams, Analyst

Staff recommended approval of two projects —as described in Agenda Items 4.A.1 and 4.A.2—which have a combined value of \$13,823,090 in anticipated qualified property purchases, anticipated to result in approximately \$1,257,901 of sales and use tax exclusions over the next three years.

Based on the net benefits methodology embodied in the program regulations and on representation from these Applicants, staff estimated that approximately \$1.2 million in STE will assist in creating environmental benefits valued at approximately \$2.3 million and fiscal benefits valued at approximately \$4.8 million. This resulted in approximately \$7.1 million in total benefits and a net benefit value of \$5.8 million.

Together these projects are anticipated to create 108 jobs (16 permanent jobs and 92 temporary construction or installation jobs). CAEATFA staff calculates that approximately 12 of these jobs (two permanent jobs and ten construction jobs) are attributed to the Program, based on the estimation methodology embodied in the Regulations.

These projects include two biomass processing and fuel production facilities; one facility processes wood waste and the other processes food waste. The value of the projects range from approximately \$3.7 million to \$10 million, with corresponding anticipated STE amounts ranging from \$330,000 to \$920,000.

Ms. Redway asked if there were any questions or comments from the Board or public.

Mr. Clanon asked why the net benefits for these particular projects seem to be so large.

Ms. Williams stated that Mr. Newman was working on scoring of the projects and the different intensities of equipment that are required for different types of projects affect scoring. In working on the regulations and developing the new application, the scoring will be addressed and that may result in a change to the net benefits in future applications. Also, in terms of outreach, Staff will be focusing on companies that may not be aware that the initial stages of their projects may be eligible for the SB 71 Program.

Mr. Clanon noted that one of the projects is a repowering of a coal power plant and that the environmental benefits of the project would be easily recognized.

Ms. Redway added that the two projects being presented were great projects. Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the items; upon a second, the items were unanimously approved.

**B. REQUEST TO APPROVE REGULATIONS FOR THE SB 71 SALES AND USE TAX EXCLUSION (STE) PROGRAM**

Presented by: Deana Carrillo, Program Manager, Cheryl Ide, Analyst and Matt Newman, Blue Sky Consulting

The CAEATFA Board approved the initial regulations through the emergency rulemaking process on September 16, 2010 which established the SB 71 Program. To continue to operate the Program, CAEATFA must approve regulations promulgated through the regular rulemaking process. CAEATFA Staff has made proposed modifications to the emergency regulation text and published a draft for public comment according to the regular rulemaking process.

Upon Board approval of the modified regulation text, Staff will submit the regulation package to the Office of Administrative Law (OAL) for review. Once approved, OAL will submit the regulations to the Secretary of State for a 30-day review upon which the regulations will be enacted.

Staff recommended adoption of a resolution to approve the proposed regulations for the SB 71 Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program.

Ms. Redway asked if there were any questions or comments from the Board or public.

Ms. Redway stated that Mr. Newman helped Staff through the regulatory process and with the net benefits test. She asked if there was anything that Mr. Newman was particularly focused on while working on the regulations.

Mr. Newman stated that the scoring of the projects was the main focus. When projects are received a simplified cost benefits analysis is performed which is what the scoring consists of. Due to time constraints, Staff is prevented from doing a cost benefit analysis on a per project basis; so, a standardized system was developed to perform the analysis on all the projects. Staff discovered that one of the reasons that some projects were scoring more highly than others was because of the capital intensity of their manufacturing processes. Companies that have a capital intensive project such as Tesla that has \$300 million in manufacturing equipment are

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responding more than the ones that do not have capital intensive projects, such as software companies, who do not use very much capital equipment. Staff has adjusted the scoring methodology that is embodied in the regulations to more accurately reflect what the impacts will be.

Mr. Reyes asked if the modeling took into account companies just starting out and purchasing new equipment versus those companies who have been in business and are upgrading equipment.

Mr. Newman replied that Staff looks at the capital equipment that a company is planning to buy and the capital equipment that they already own and from that total the output is calculated.

Mr. Newman addressed Mr. Clanon's question regarding higher scores. He stated that there are a number of factors that affect scoring, such as: the life of the equipment; how much capital is used versus the output produced; how much of the product is sold in California; and how many of their supplies do they buy from California.

Mr. Clanon stated that it is the kind of targeting that comes with some experience in the program and outreach should be targeting projects that will maximize the benefits.

Mr. Newman replied that there will be analysis done after the first year of compliance reports are received.

Ms. Redway stated that the biofuel projects seem to score very high mainly because of environmental reasons.

Mr. Clanon noted that the projects just presented to the Board also seemed to score very high and that may have been due to the sophisticated operations of the projects.

Mr. Newman added that the biogas projects that are capturing dairy methane seem to score highly because that methane would otherwise be released into the air. The landfill gas projects are already capturing and flaring the methane and there is still an environmental benefit, but it is not as high.

Ms. Carrillo noted that the list of variables asked for in the annual certification could be found on page three of the staff reports and page B-25 in the regulations.

Ms. Redway asked if the regulations had been out for public comment.

Ms. Carrillo replied that the regulations have been out for a 15-day and 45-day public comment.

Ms. Redway asked if there had been any responses.

Ms. Carrillo replied there had been one comment.

Mr. Clanon commented that the fact that there was only one public comment was worth highlighting. The action that the Board is taking is the culmination of about four months of various rounds of public comments. It is a success story when there has been a workshop process and series of public comments that in the end results in very few comments.

Mr. Feist thanked Staff and Blue Sky Consulting.

Ms. Redway asked if there were any further comments from the Board, or the public. There were none.

Ms. Redway asked if there was a motion.

Mr. Gordon moved approval of the item; upon a second, the item was unanimously approved.

**5. PUBLIC COMMENT**

Ms. Redway 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 11:37 a.m.

**Respectfully submitted,**

Christine Solich  
Executive Director