

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 110
Sacramento, California
February 18, 2014**

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 10:46 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Eraina Ortega for Michael Cohen, Director,
Department of Finance
Paul Clanon for Michael R. Peevey, President,
Public Utilities Commission
Sekita Grant for Robert B. Weisenmiller, Chair,
California Energy Commission

Staff Present: Deana J. Carrillo, 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 January 21, 2014 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Clanon moved for approval of the minutes; upon a second from Mr. Gordon, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Carrillo started her report with an update on CAEATFA's program activity. The loan loss reserve program for residential energy efficiency retrofits enrolled 24 new loans valued at approximately \$334,000 since the new year, bringing the total program portfolio to 230 loans valued at \$3.2 million. In CAEATFA's Sales and Use Tax Exclusion Program, four of the

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awardees purchased nearly \$1 million in equipment since the beginning of 2014. In addition, Staff has been working on the development of the Property Assessed Clean Energy (PACE) Loss Reserve Program, which the Board will be considering today under Agenda Item 4.A.

Ms. Carrillo continued her report by noting that CAEATFA's request for budgetary authority to carry out the Energy Efficiency Financing Pilots on behalf of the California Public Utilities Commission was included in the Governor's budget. Budget subcommittee meetings will start to take place later in February.

Ms. Carrillo continued by noting that she was pleased to announce that CAEATFA selected an excellent candidate for its vacant Program Manager II position, Nancee Trombley. Nancee Trombley has served as the manager of the California Capital Access Program for the last five years, during a great time of growth. Ms. Trombley has an excellent skill-set and background that she will be bringing to CAEATFA's innovative financing programs. Staff is excited to have as part of the team. She will be starting at CAEATFA in March.

Ms. Carrillo concluded her report by stating there have been no actions taken under the Executive Director's delegated authority.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF EMERGENCY REGULATIONS FOR THE PROPERTY ASSESSED CLEAN ENERGY (PACE) LOSS RESERVE PROGRAM

Presented by: Noah Proser, Analyst

PACE is an innovative method of financing where property owners can pay for renewable energy or energy efficiency retrofits through property taxes for up to 20 years. In 2010, the Federal Housing Finance Agency (FHFA) raised concerns about residential PACE financing due to its priority lien on a property, which means it would be paid before a mortgage in a foreclosure. FHFA instructed federal mortgage enterprises to adjust lending criteria, and in response many residential PACE programs halted their operations. Senate Bill 96, 2013, authorized the Authority to develop and administer a PACE risk mitigation program – the PACE Loss Reserve Program – to address these concerns. The PACE Loss Reserve Program would make first mortgage lenders whole for any losses resulting from the existence of a PACE assessment on a property during a foreclosure or forced sale. Residential PACE programs would apply to the Program and, once enrolled, would report semi-annually on loan activity and loan portfolio information. They would also submit a nominal administrative fee to the Authority to cover the costs of administering the Program.

Staff has worked with stakeholders for several months on the concept for and structure of the Program and published an initial draft of regulations for public comment on January 16, 2014. Staff held a workshop on January 24th, and published revisions to the regulations on February 3rd, for additional comments.

Staff requested approval of the resolution authorizing the Authority to conduct emergency and regular rulemaking proceedings to implement the PACE Loss Reserve

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Program.

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

Mr. Clanon asked whether Staff had received any indication whether FHFA would be satisfied that this program addressed its concerns. He also inquired whether FHFA had participated in the workshops and regulatory process.

Ms. Carrillo noted that the Governor's Office and CAEATFA had reached out to FHFA to make its staff aware that California was moving forward with developing a program to address its concerns. FHFA had not participated formally in the workshop process, but was sent a copy of the regulations; CAEATFA and the Governor's office will be briefing FHFA on the program structure and invite additional input on the program as CAEATFA undertakes the regular rulemaking process.

Ms. Redway stated that the program was designed to address a few major concerns raised by FHFA. Staff has strategically tried to address their concerns so federal mortgage enterprises will not incur any losses due to PACE loans.

Mr. Clanon asked if any other states are doing a program like this.

Ms. Carrillo responded that California is the only state she was aware of that chose this type of reserve fund structure, and shared that she believed Vermont moved forward with a legislative solution to address FHFA's concerns.

Mr. Gordon asked where the funding for the program came from.

Ms. Redway stated that the program received a \$10 million budget allocation from a California Energy Commission fund in the 13-14 Budget Act.

Ms. Grant asked if the structure of this program addresses the holding that the courts found in the lawsuit between California and FHFA.

Mr. Proser responded by explaining that the lawsuit that California was party to was focused on a technical point of process, whether or not FHFA could make the decision to instruct federal mortgage enterprises to adjust the lending criteria without a formal rulemaking. It did not address the content of the issues raised by FHFA.

Ms. Redway reiterated that the lawsuit was more procedural on whether or not FHFA followed the rules for its own rulemaking process.

Mr. Clanon confirmed that the action today was to establish an emergency program and begin a rulemaking process that will culminate in final rules in the fall. Mr. Clanon moved for approval, and there was a second from Mr. Gordon.

Ms. Redway asked if there were any further comments from the Board or public. There were none. The item was unanimously approved.

B. DISCUSSION AND CONSIDERATION OF APPLICATION FOR SALES AND USE TAX EXCLUSION

- 1) Enovix Corporation
Presented by: Alejandro Ruiz, Analyst

Staff introduced Neal Sarswat, Technology Development Manager for Cypress Semiconductor and Harrold Rust, CEO of the Enovix Corporation (Enovix).

Mr. Ruiz stated that Enovix requested approval of a project for \$16,234,215 worth of qualified property to construct a lithium-ion battery manufacturing facility in Fremont, California. Enovix is considered an advanced manufacturing applicant under the Sales and Use Tax Exclusion Program. This is primarily due to the application of silicon wafer manufacturing technology in the manufacturing of lithium-ion batteries. Enovix has stated that this will result in an energy density that is approximately twice as much as lithium-ion batteries manufactured with traditional techniques.

Staff recommended approval of the resolution for Enovix's purchase of qualified property in an amount not to exceed \$16,234,214 that is anticipated to result in an approximate sales tax exclusion value of \$1,358,804.

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

Mr. Clanon asked how the permitting was coming along.

Mr. Sarswat stated that the permitting was going well and that all of the permits were anticipated to be received by the end of the year.

Mr. Clanon expressed his appreciation for the write-up on this project and was impressed by the description of patented 3-D wave architecture manufacturing replacing the traditional jelly roll manufacturing.

Ms. Redway asked where Enovix would look to expand its facility if they were successful past the pilot stage.

Mr. Rust stated that the operation in Fremont could grow in size for certain market segments. For very large markets, Enovix will have some production in Asia. If Enovix gets involved in the automotive industry there will be more production facilities in the United States as well.

Mr. Gordon asked if Enovix was working with Tesla Motors, Inc. (Tesla) on this project.

Mr. Rust stated that he met with Tesla and while Enovix's facility is across the freeway from Tesla's facility, he explained that making batteries for Tesla was not the starting point for this project, but would definitely be a long term

consideration.

Mr. Gordon moved for approval and there was a second from Ms. Ortega.

Ms. Redway asked if there were any further questions or comments from the Board or public. There were none. The item was unanimously approved.

C. DISCUSSION AND CONSIDERATION OF APPLICANT'S REQUEST FOR WAIVER OF TIME REQUIREMENTS TO PURCHASE QUALIFIED PROPERTY UNDER THE STE PROGRAM

- 1) Tesla Motors, Inc.
Presented by: Alejandro Ruiz, Analyst

Staff introduced Mark Olson, Domestic Transaction Tax Director for Tesla.

Tesla has requested a waiver of the 25% purchase requirement to provide additional time for Model X expenditures as it reconfigures existing production lines to meet demand for the Model S. Tesla received one extension of the 25% purchase requirement in 2012, however, the continued demand for the Model S means that Tesla will require even more time than what had been requested to meet the Model X expenditure requirements. Tesla has purchased some Qualified Property for the Model X production, however, the majority of the expenditures cannot proceed until the Model S manufacturing requirements are met. Tesla has been in the process of re-configuring existing manufacturing lines to meet Model S demand and is now ready to increase capital expenditures for the Model X production. The Applicant represents that it will meet the 25% purchase requirement in the latter part of 2014 and spend the remaining award amount by the end of 2015. Tesla expects its first Model X to roll off of the production line in late 2014.

Staff recommended that the Board approve Tesla's request to extend the 25% purchase requirement to December 31, 2014 as it is in the public interest and advances the purpose of the original award.

Mr. Gordon moved for approval and there was a second by Mr. Clanon.

Ms. Redway asked if there were any further questions or comments from the Board or public. There were none. 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 11:02 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director