



**CALIFORNIA
ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION
FINANCING AUTHORITY**

**2012 ANNUAL REPORT TO THE
CALIFORNIA STATE LEGISLATURE**

March 2013

About CAEATFA:

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) provides financing for facilities needed to develop and commercialize advanced transportation technologies and alternative energy that conserve energy, reduce air pollution, and promote economic development and jobs. Over the last few years, CAEATFA has provided financial assistance through various programs, including:

- The Qualified Energy Conservation Bonds (QECBs) to provide low-interest financing to promote the use of alternative energy and energy efficiency in state, local and tribal government facilities.
- The Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program (SB 71, 2010) for companies that design, manufacture, produce or assemble advanced transportation technologies or alternative source products, components or systems.
- The Clean Renewable Energy Bond (CREB) Program to provide low-interest bond financing for renewable energy projects.
- The Zero Emission Vehicle Program (ZEV) provides advanced transportation projects financial assistance in the form of a sales and use tax exclusion for the purchase of manufacturing equipment.
- The California Ethanol Producers Incentive Program (CEPIP), on behalf of the California Energy Commission, may provide operators of existing ethanol production plants in California with temporary financial assistance during difficult economic conditions.
- The Clean Energy Upgrade Financing (CEUFP) Program provides financial assistance in the form of credit enhancements to financial institutions making loans to finance energy efficiency and renewable energy improvements on residential properties.
- The Property Assessed Clean Energy (PACE) Bond Reserve Program may provide credit enhancements to local jurisdictions financing the installation of distributed generation renewable energy sources or energy or water efficiency improvements that are permanently affixed on residential and commercial property through the use of a voluntary contractual assessment.

The CAEATFA Board consists of:

Bill Lockyer, Chair
State Treasurer

John Chiang
State Controller

Ana J. Matosantos
Director, Department of Finance

Robert B. Weisenmiller
Chair, California Energy Commission

Michael R. Peevey
President, California Public Utilities Commission

Overview of 2012 Annual Report

In accordance with the provisions of Sections 26017 and 26141 of the Public Resources Code, the California Alternative Energy and Advanced Transportation Financing Authority (“Authority” or “CAEATFA”) respectfully submits its Annual Report on program activities for the calendar year ending December 31, 2012.

This Annual Report contains information on the Authority’s revenues and expenditures for fiscal year 2011-12, projections of the Authority’s need for the coming fiscal year, and CAEATFA’s outstanding bond report. The report also includes an overview of program activity on the Qualified Energy Conservation Bonds (QECBs), the Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program, and status of the sales and use tax exclusion for Tesla Motors.

In addition, pursuant to Public Resources Code Section 26141, a report contains a summary of CAEATFA’s activities related to the Clean Energy Upgrade Program (ABx1 14, Skinner, 2011) and Property Assessed Clean Energy Bond Reserve Program (SB 77, Pavley, 2010).

TABLE OF CONTENTS

Report of Authority’s Finances and Outstanding Bonds	1
Qualified Energy Conservation Bond Financing Program	3
Senate Bill 71 Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program	4
Sales and Use Tax Exclusion for Tesla Motors	12
Overview of Activities in Financing Residential Energy Efficiency Retrofits.....	13
Assembly Bill X1 14 Clean Energy Upgrade Financing Program	14
Senate Bill 77 Property Assessed Clean Energy (PACE) Bond Reserve Program	18

LIST OF TABLES

Table 1: Revenues and Expenditures – FY 2011-12	1
Table 2: Projected Needs and Requirements – FY 2012-13; FY 2013-14	1
Table 3: Outstanding Bonds.....	2
Table 4: SB71 Applications Received in 2012.....	5
Table 5: SB 71 Approved Projects by Industry in 2012	6
Table 6: SB 71 Approved Projects by County in 2012.....	7
Table 7: SB 71 Sales and Use Tax Exclusion Transactions by Applicant in 2012	8
Table 8: SB 71 Applications Approved Since Program Inception to December 31, 2012.....	9
Table 9: 2012 Tesla Motors, Inc. Sales and Use Tax Exclusion Transactions.....	12
Table 10: Status of SB 77 and ABX 1 14 Funds.....	13

REPORT OF AUTHORITY'S FINANCES AND OUTSTANDING BONDS

REPORT OF 2012 ACTIVITIES

This report of the Authority's finances is submitted pursuant to Public Resources Code Section 26017 for the calendar year ending December 31, 2012.

1. REVENUES AND EXPENDITURES – FY 2011-12

The Authority's total revenues for fiscal year 2011-12 were \$811,871.42 and the total expenditures were \$878,413.20.

TABLE 1: REVENUES AND EXPENDITURES – FY 2011-12	
Total Revenues:	\$841,129.10
Expenditures:	
Salaries and Wages	\$424,512.98
Staff Benefits	\$152,785.90
Operating Expenses and Equipment	\$301,114.32
Other (Adjustments, GAAP Reporting, 21 st Century Project, etc)	\$3,381,341
<u>Total Expenditures</u>	<u>\$881,794.61</u>

2. PROJECTED NEEDS AND REQUIREMENTS – FY 2012-13; FY 2013-14

The Authority anticipates it has the financial needs and requirements identified in Table 2 for the 2012-13 and 2013-14 fiscal years.

TABLE 2: PROJECTED NEEDS AND REQUIREMENTS – FY 2012-13; FY 2013-14		
	FY 12-13	FY 13-14
Total Salaries and Wages	\$518,082	\$550,160
Staff Benefits	\$167,642	\$184,263
Total Operating Expenses and Equipment	\$1,388,477	\$1,015,000
Reimbursements	\$253,000	\$48,000
<u>Total Projected Needs and Requirements</u>	<u>\$1,821,201</u>	<u>\$1,701,423</u>

3. OUTSTANDING BONDS

The Authority has four (4) outstanding bond issues, amounting to a combined total of \$73,158,059 in bond debt.

TABLE 3: OUTSTANDING BONDS					
Closing Date	Bond Short Name	Bond Type	Final Maturity	Amount of Issue	Outstanding Debt
10/01/1993	Arroyo Energy Project Series 1993A and B	CFRB ¹	10/01/2020	\$55,000,000	\$50,660,000
10/31/1995	SRI International Project Series 1985 Reissue	CFRB	12/01/2020	\$4,475,000	\$1,375,000
06/10/2009	Caltrans Projects Series 2009	CREB ²	12/15/2023	\$20,000,000	\$14,666.667
11/18/2010	Fallbrook Public Utility District Solar Project Series	QECP ³	11/18/2027	\$7,227,000	\$6,456,392
	<u>TOTAL</u>			<u>\$86,702,000</u>	<u>\$73,158,059</u>

¹ Cogeneration Facility Revenue Bonds

² Clean Renewable Energy Bond

³ Qualified Energy Conservation Bond

QUALIFIED ENERGY CONSERVATION BOND FINANCING PROGRAM

PROGRAM SUMMARY

The Qualified Energy Conservation Bond (“QECCB”) Financing Program (the “Program”) provides low-interest financing to promote the use of alternative energy and energy efficiency in state, local and tribal government facilities to reduce greenhouse gas emissions. This is a “tax-credit bond” designed to provide the bond purchaser with a 70 percent interest subsidy in federal tax credits by the United States government. Issuers repay principal on a regular schedule, but generally do not pay interest. Instead, the bond purchaser, or holder, of a QECCB receives a federal tax credit in lieu of interest that may be applied against the bond purchaser’s regular and alternative minimum tax liability. This subsidy provides a rate savings for the purchaser, which allows the public entity to receive low-interest financing upon the sale of these bonds.

The Authority may serve as a qualified applicant to the California Debt Limit Allocation Committee (CDLAC) and as a conduit issuer of the QECCB bonds. However, the Authority is not responsible for payment and only acts as a conduit between the borrower and bond purchaser.

REPORT OF 2012 ACTIVITIES

This report of activities for the Qualified Energy Conservation Bond Financing Program is submitted pursuant to Public Resources Code Section 26017 for the calendar year ending December 30, 2012.

1. APPLICATIONS RECEIVED

None.

2A. INITIAL RESOLUTIONS ADOPTED

None.

2B. FINAL RESOLUTIONS ADOPTED

None.

3. BONDS SOLD

None.

4. BONDS AUTHORIZED BUT UNSOLD

None.

SENATE BILL 71

ADVANCED TRANSPORTATION AND ALTERNATIVE SOURCE MANUFACTURING SALES AND USE TAX EXCLUSION

PROGRAM SUMMARY

The Senate Bill 71 Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program (“SB 71 Program” or “Program”) provides eligible projects financial assistance in the form of a sales and use tax exclusion (“STE”) on equipment and machinery (“Qualified Property”) used for the “design, manufacture, production, or assembly” of either advanced transportation technologies or alternative energy source products, components or systems, as defined by statute.⁴ The purpose of this Program is twofold: to promote the creation of California-based manufacturing jobs that will stimulate the California economy and to incentivize manufacturing of green technologies that will help reduce greenhouse gas emissions, as well as reductions in air and water pollution or energy consumption.

Senate Bill 71 (Padilla) was signed into law on March 24, 2010. The Authority began accepting applications in October 2010 and the first round of applicants were approved by the Board at its November 2010 meeting.

Under the SB 71 statute, all applications are evaluated to determine the extent to which the anticipated benefits to the State from the project exceed the projected cost in the avoided sales and use tax. Specifically, through the net benefits test established in the Program’s regulations, applicants are evaluated based on criteria designed to measure and quantify an estimate of the fiscal and environmental benefits of their projects.

Once approved, the program requires that an applicant purchase at least 25 percent of its approved qualified property within one year, and the remainder within three years of application approval.

Since the inception of the program to December 31, 2012, CAEATFA has approved a total of 50 applications of which 40 are still active and 10 are not moving forward. The 40 active applications have been approved for \$1.16 billion in anticipated qualified property purchases, estimated to result in approximately \$98.5 million in sales and use tax exclusions. These projects are located across 14 counties and are anticipated to produce an estimated \$72.5 million in environmental benefits and \$125.7 million in fiscal benefits, resulting in approximately \$99.7 million in net benefits.

In addition to the information provided in this report, the Legislative Analyst’s Office will submit a final report to the Joint Legislative Budget Committee on the effectiveness of this program on or before January 1, 2019, pursuant to Public Resources Code Section 26011.8(g).

In 2013, Senate Bill 1128 (Padilla), implementation of which was signed into law on September 27, 2012, will expand CAEATFA’s existing sales and use tax exclusion program to include advanced manufacturing projects. SB 1128 also caps sales and use tax exclusions at \$100 million per calendar year for all projects.

⁴ Public Resources Code Section 26003(a)(8)(B)

REPORT OF 2012 ACTIVITIES

This report on SB 71 Program activities is for the calendar year ending December 31, 2012. A summary of the projects approved since inception of the Program can be found in Table 8 on page 9.

1. APPLICATIONS RECEIVED

The Authority received 12 new applications for a combined value of approximately \$433.9 million in anticipated qualified property purchases, estimated to result in nearly \$35.1 million in sales and use tax exclusions at the time of application submittal. (See Table 4 for a list of Applications Received).

TABLE 4: SB 71 APPLICATIONS RECEIVED IN 2012							
	Date Received	Applicant Name	Project Location	Use of Proceeds	Qualified Property Amount	Estimated STE Amount at time of Application	Status
1	1/20/2012	Stion Corporation	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$6,417,810	\$519,843	Approved
2	2/17/2012	Soitec Solar Industries LLC	Mountain Pass (San Bernardino County)	Concentrated Photovoltaic Manufacturing	\$104,381,342	\$8,454,889	Approved
3	3/16/2012	Molycorp Minerals, LLC	Galt (Sacramento County)	Extraction, Purification And Separation Of Rare Earth Elements	\$252,830,756	\$20,479,291	<i>Currently Under Review</i>
4	3/19/2012	John Galt Biogas Inc.	San Diego (San Diego County)	Biogas Capture & Production	\$1,025,769	\$83,087	Approved
5	3/29/2012	Reflexite Soitec Optical Technology LLC	San Diego (San Diego County)	Concentrated Photovoltaic Manufacturing	\$24,500,000	\$1,984,500	Approved
6	4/19/2012	North Star Biofuels LLC	Watsonville (Santa Cruz County)	Biodiesel Production	\$4,115,500	\$333,356	Approved
7	8/16/2012	ABEC New Hope LLC	Stockton (San Joaquin County)	Biogas Capture & Production	\$2,633,359	\$213,302	Approved
8	8/17/2012	Electric Vehicles International, LLC	Sacramento (Sacramento County)	Electric Vehicle Manufacturing	\$5,744,962	\$465,342	Approved
9	8/21/2012	Clean World Partners LLC	Galt (Sacramento County)	Biomass Processing & Fuel Production	\$11,796,759	\$955,537	Approved
10	8/29/2012	Zero Waste Energy, LLC	Marina (Monterey County)	Biogas Capture & Production	\$1,187,000	\$96,147	Approved
11	9/13/2012	Oberon Fuels, Inc.	Brawley (Imperial County)	Biogas Capture & Bio DME Production	\$13,500,000	\$1,093,500	Approved
12	11/9/2012	CleanWorld	Davis (Yolo County)	Biomass Processing & Fuel Production	\$5,851,298	\$489,754	Approved in January 2013
				TOTAL	\$433,984,555	\$35,168,547	

2. APPLICATIONS APPROVED

The Authority approved 10 applications⁵ for a total dollar amount of \$175,302,501 in qualified property purchases, with an anticipated total dollar amount of \$14,199,503 of sales and use tax exclusions over the next three years. (See Tables 5, 6 ,and 7)

Projects Span a Range of Industries Covered by SB 71

The 10 applicants approved in 2012 for a sales and use tax exclusion encompass several industries, including bio diesel, biogas, bio dimethyl ether (“DME”), biomass, concentrated photovoltaic, electric vehicle, and solar photovoltaic production.

TABLE 5: SB 71 APPROVED PROJECTS BY INDUSTRY IN 2012	
Type of Project	Frequency
Biodiesel Production	1
Biogas Capture and Production	3
Biogas Capture & Bio DME Production	1
Biomass Processing & Fuel Production	1
Concentrated Photovoltaic Manufacturing	2
Electric Vehicle Manufacturing	1
Solar Photovoltaic Manufacturing	1
<u>TOTAL</u>	<u>10</u>

3. PROJECT LOCATIONS AND ANTICIPATED BENEFITS

The 2012 approved projects are located in seven counties throughout California. It is expected that these projects will provide significant economic benefits to the state and local jurisdictions in the form of corporate taxes, personal income taxes, sales and property tax revenues, increased employment, and additional economic activity created by the manufacturing facilities and purchases from related suppliers.

Based on the net benefits methodology embodied in the Program regulations and on representation from these applicants, the Authority estimates the 10 applicants approved in 2012 will produce estimated combined environmental benefits valued at approximately \$5.3 million and fiscal benefits valued at approximately \$17.8 million. Together, these environmental and fiscal benefits will result in approximately \$8.9 million in total estimated net benefits. See Table 7 for a breakdown of the various project benefits by county.

⁵ Soraa, Inc. was approved in February 2012. However, the Soraa, Inc. application was received in 2011 and reflected in the 2011 Annual Report to the California State Legislature.

TABLE 6: SB 71 APPROVED PROJECTS BY COUNTY IN 2012

County	Number	Percentage of Total 2012 Projects (%)	Amount of Anticipated Qualified Property Purchases	Projected STE Amount	Estimated Environmental Benefit Value	Estimated Fiscal Benefit Value	Estimated Net Benefit Value	Total Jobs	Total Jobs Attributed to SB 71
Imperial	1	10%	\$ 13,500,000	\$ 1,093,500	\$ 426,866	\$ 679,196	\$ 9,561	17	3
Monterey	1	10%	1,187,000	96,147	18,139	95,062	17,054	5	1
Sacramento	3	30%	15,455,887	1,251,926	358,734	1,314,587	421,394	65	8
San Diego	2	20%	128,881,342	10,439,389	4,064,591	12,007,538	5,632,740	513	52
San Joaquin	1	10%	5,744,962	465,342	83,283	906,571	524,512	114	8
Santa Clara	1	10%	6,417,810	519,843	277,896	253,546	11,600	28	3
Santa Cruz	1	10%	4,115,500	333,356	84,522	2,616,810	2,367,976	30	1
<u>TOTAL</u>	<u>10</u>	<u>100%</u>	<u>\$175,302,501</u>	<u>\$14,199,503</u>	<u>\$ 5,314,031</u>	<u>\$17,873,310</u>	<u>\$ 8,984,837</u>	<u>772</u>	<u>76</u>

EVALUATION METHODOLOGY

CAEATFA Staff evaluates the fiscal and environmental results that stem directly from the sales and use tax exclusion. Only the marginal additional production (and resulting fiscal and environmental benefits) associated with the sales and use tax exclusion are included for purposes of evaluating applications. The marginal additional production directly from the sales and use tax exclusion is determined based on an estimated increase in equipment purchases resulting from the sales and use tax exclusion. That is, because the sales and use tax exclusions in effect lower the cost of purchasing capital equipment, applicants are assumed to purchase more such equipment than would be the case in the absence of the sales and use tax exclusion.

The net present value of the total *fiscal benefits* over the lifetime of the qualified property is derived from the applicant's projected sale taxes, personal income taxes paid by the applicant's employees, corporation taxes on profits, property taxes and other indirect fiscal benefits of the applicant.

The *environmental benefits* include estimates of the dollar value of greenhouse gas reductions and reduction on dependence of fossil fuels. The environmental benefits are also derived from the capacity of manufactured products to generate electricity from alternative sources, thereby reducing the need for traditionally generated electricity.

4. QUALIFIED PROPERTY CONVEYED AND RECONVEYED

The conveyance and re-conveyance of Qualified Property is a legal transaction that takes place between the Applicant and CAEATFA that provides the formal structure under which an Applicant may use the sales and use tax exclusion.

Since inception of the program up to December 31, 2012, CAEATFA has approved a total of 50 applications of which 40 are still active. The 40 active applications have been approved for \$1.16 billion in anticipated qualified property purchases. In 2012, 24 of these projects purchased approximately \$130 million in qualified property, resulting in approximately \$10.5 million in sales and use tax exclusions (See Tables 7 and 8).

TABLE 7: SB 71 SALES AND USE TAX EXCLUSION TRANSACTIONS BY APPLICANT IN 2012

	Approved Applicant	Total Amount of Qualified Property Approved	2012 Qualified Property Conveyed	2012 Estimated STE	Cumulative Total of Qualified Property Conveyed	Cumulative Total of Estimated STE
1	Alta Devices	\$40,845,000	\$7,846,927.00	\$635,601.09	\$13,356,537.60	\$ 1,083,756.98
2	Ameresco Forward	2,227,596	648,500.00	52,528.50	648,500.00	52,528.50
3	Ameresco San Joaquin	1,723,486	648,500.00	52,528.50	648,500.00	52,528.50
4	Ameresco Vasco Road	1,828,204	613,500.00	49,693.50	613,500.00	49,693.50
5	ABEC Bidart Stockdale	1,131,584	157,965.16	12,795.18	118,793.65	90,622.29
6	BioFuels Point Loma	6,236,024	2,596,946.57	210,352.67	4,682,765.58	379,304.01
7	Bloom Energy	37,447,693	1,082,239.00	87,661.36	10,535,831.80	895,149.82
8	California Institute of Technology	13,400,000	2,694,336.60	218,241.26	6,105,020.66	510,311.95
9	DTE Stockton	10,120,000	8,668,943.00	702,184.38	8,668,943.00	702,184.38
10	EVI	5,744,962	3,170,809.00	256,835.53	3,170,809.00	256,835.53
11	Leyden	1,306,525	586,884.92	47,537.68	708,404.12	57,380.73
12	MiaSolé	26,092,000	1,228,447.29	99,504.23	10,883,941.14	881,599.23
13	Nanosolar	140,187,900	624,675.65	50,598.73	53,035,063.31	4,306,411.56
14	Northstar Biofuels	4,115,500	468,800.78	37,972.86	468,800.78	37,972.86
15	NuvoSun	20,000,000	673,260.07	54,534.07	11,100,702.48	963,373.06
16	Reflexite	24,500,000	7,598,598.00	615,486.44	12,100,001.00	992,253.87
17	SCS Energy	3,155,300	3,049,631.77	247,020.17	3,049,631.77	247,020.17
18	Symbol	42,484,174	581,063.89	47,066.18	1,938,796.34	164,277.79
19	Soitec	104,381,342	68,507,166.86	5,549,080.52	68,507,166.86	5,549,080.52
20	Solaria	7,800,000	493,000.00	39,933.00	3,027,134.55	258,677.76
21	SoloPower	8,411,240	4,617,000.00	373,977.00	6,104,736.00	494,483.62
22	Stion	6,417,810	6,056,069.00	490,541.59	6,056,069.00	490,541.59
23	Tesla	292,000,000	6,911,429.00	559,825.75	6,911,429.00	559,825.75
24	Zero Waste	17,156,875	532,000.00	43,092.00	532,000.00	43,092.00
	TOTAL	\$818,713,215	\$130,056,693.56	\$ 10,534,592.18	\$232,973,077.64	\$ 19,118,905.97

Table 8: SB71 Applications Approved Since Program Inception to December 31, 2012

Application Number	Date of Board Consideration	Applicant Name	Location	Use of Proceeds	QP Amount	STE Amount (Anticipated) ¹	STE Used to Date ¹	Estimated Environmental Benefit ²	Estimated Fiscal Benefit ²	Estimated Net Benefit ²	Expected Total Jobs	Expected Total Jobs from SB 71 ²	
APPLICATIONS PREVIOUSLY APPROVED - ACTIVE													
1	10-SM001	11/17/2010	Bowerman Power LFG, LLC	Irvine (Orange County)	Landfill Gas Capture & Production	\$ 9,240,000	\$ 840,840	\$ -	\$ 398,492	\$ 1,008,052	\$ 565,704	30	3
2	10-SM002	11/17/2010	ABEC Bidart Stockdale, LLC	Bakersfield (Kern County)	Biogas Capture & Production	\$ 1,131,584	\$ 102,974	\$ 77,827	\$ 228,808	\$ 73,809	\$ 199,643	26	3
3	10-SM004	11/17/2010	First Solar, Inc.	Santa Clara (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 37,700,000	\$ 3,430,700	\$ 3,409,567	\$ 1,668,971	\$ 1,971,559	\$ 209,831	174	17
4	10-SM007	11/17/2010	The Solaria Corporation	Fremont (Alameda County)	Solar Photovoltaic Manufacturing	\$ 7,800,000	\$ 709,800	\$ 258,678	\$ 834,403	\$ 1,564,665	\$ 1,689,268	180	17
5	10-SM009	11/17/2010	Nanosolar Inc.	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 140,187,900	\$ 12,757,099	\$ 3,978,697	\$ 10,527,415	\$ 6,992,728	\$ 4,763,045	410	36
6	10-SM013	11/17/2010	NuvoSun Incorporated	Milpitas (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 20,000,000	\$ 1,820,000	\$ 810,684	\$ 2,137,232	\$ 2,594,509	\$ 2,911,741	160	18
7	10-SM015	11/17/2010	Bloom Energy Corporation	Sunnyvale (Santa Clara County)	Solid Oxide Fuel Cell Systems Manufacturing	\$ 37,447,693	\$ 3,407,740	\$ 895,150	\$ 562,054	\$ 11,144,189	\$ 8,298,503	1,004	83
8	10-SM020	12/15/2010	Ameresco Butte County LLC	Paradise (Butte County)	Landfill Gas Capture and Production	\$ 1,085,554	\$ 98,785	\$ 43,722	\$ 71,701	\$ 185,955	\$ 158,870	12	1
9	10-SM021	12/15/2010	SCE Crazy Horse LLC	Salinas (Monterey County)	Landfill Gas Capture and Production	\$ 1,558,460	\$ 141,820	\$ -	\$ 103,093	\$ 432,228	\$ 393,501	12	1
10	10-SM022	12/15/2010	Ameresco Forward LLC	Manteca (San Joaquin County)	Landfill Gas Capture and Production	\$ 2,227,596	\$ 202,711	\$ 52,529	\$ 37,823	\$ 277,169	\$ 112,281	11	1
11	10-SM023	12/15/2010	Ameresco Johnson Canyon LLC	Gonzales (Monterey County)	Landfill Gas Capture and Production	\$ 766,293	\$ 69,733	\$ 33,899	\$ 33,124	\$ 168,912	\$ 132,303	12	1
12	10-SM024	12/15/2010	Ameresco San Joaquin LLC	Linden (San Joaquin County)	Landfill Gas Capture and Production	\$ 1,723,486	\$ 156,837	\$ 52,529	\$ 99,894	\$ 419,234	\$ 362,292	12	1
13	10-SM025	12/15/2010	Ameresco Vasco Road LLC	Livermore (Alameda County)	Landfill Gas Capture and Production	\$ 1,828,204	\$ 166,367	\$ 52,529	\$ 66,258	\$ 333,415	\$ 233,306	11	1
14	10-SM026	12/15/2010	BioFuels Point Loma, LLC	San Diego (San Diego County)	Wastewater Treatment Biogas Capture and Production	\$ 6,236,024	\$ 567,478	\$ 379,304	\$ 120,126	\$ 509,292	\$ 61,939	25	3
15	10-SM027	12/15/2010	Alta Devices, Inc.	Sunnyvale (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 40,845,000	\$ 3,716,895	\$ 1,083,757	\$ 561,404	\$ 5,025,666	\$ 1,870,175	322	37
16	10-SM028	12/15/2010	California Institute of Technology	Pasadena (Los Angeles County)	Research & Development of Solar Fuel Generator Systems	\$ 13,400,000	\$ 1,219,400	\$ 382,242	\$ -	\$ 702,662	\$ (516,738)	133	15
17	10-SM012	12/15/2010	SunPower Corporation	Milpitas (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 8,000,000	\$ 728,000	\$ 704,816	\$ 903,595	\$ 1,877,730	\$ 2,053,325	94	11
18	10-SM010	12/15/2010 2/22/2011	Simbol, Inc.	Calipatria, Niland, Brawley (Imperial County)	Lithium and Battery Material Manufacturing	\$ 42,484,174	\$ 3,866,060	\$ 164,278	\$ 558,363	\$ 9,552,414	\$ 6,244,717	212	23
19	11-SM001	1/25/2011	Leyden Energy, Inc.	Fremont (Alameda County)	Lithium Ion Battery Manufacturing	\$ 1,306,525	\$ 118,894	\$ 57,381	\$ 21,400	\$ 944,754	\$ 847,260	26	2
20	11-SM002	1/25/2011	MiaSolé	Sunnyvale (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 26,092,000	\$ 2,374,372	\$ 881,599	\$ 3,246,664	\$ 1,363,913	\$ 2,236,205	56	3

(continued on next page) -

Table 8: SB71 Applications Approved Since Program Inception to December 31, 2012

Application Number	Date of Board Consideration	Applicant Name	Location	Use of Proceeds	QP Amount	STE Amount (Anticipated) ¹	STE Used to Date ¹	Estimated Environmental Benefit ²	Estimated Fiscal Benefit ²	Estimated Net Benefit ²	Expected Total Jobs	Expected Total Jobs from SB 71 ²	
21	11-SM003	1/25/2011	Alameda-Contra Costa Transit District	Emeryville (Alameda County)	Demonstration Hydrogen Fuel Production	\$ 5,387,950	\$ 490,303	\$ 362,320	\$ 16,040	\$ 274,173	\$ (200,090)	6	1
22	11-SM006	3/22/2011	Mt. Poso Cogeneration Company, LLC	Bakersfield (Kern County)	Biomass Processing and Fuel Production	\$ 14,374,000	\$ 1,308,034	\$ 1,164,294	\$ 197,027	\$ 3,470,273	\$ 2,359,266	97	11
23	11-SM005	6/28/2011	Recology East Bay	Oakland (Alameda County)	Biomass Processing and Fuel Production	\$ 3,703,090	\$ 336,981	\$ -	\$ 111,243	\$ 506,852	\$ 281,113	46	5
24	11-SM009	6/28/2011	DTE Stockton, LLC	Stockton (San Joaquin County)	Biomass Processing and Fuel Production	\$ 10,120,000	\$ 920,920	\$ 702,184	\$ 2,221,793	\$ 4,297,636	\$ 5,598,509	62	7
25	11-SM010	7/26/2011	SCS Energy	Fresno (Fresno County)	Biogas Capture & Production	\$ 3,155,300	\$ 255,579	\$ 247,020	\$ 40,230	\$ 271,233	\$ 55,884	9	1
26	11-SM012	8/23/2011	CE Obsidian Energy, LLC	Imperial (Imperial County)	Geothermal Brine Extraction	\$ 174,453,978	\$ 14,130,772	\$ -	\$ 7,487,143	\$ 11,697,269	\$ 5,053,640	381	39
27	11-SM014	8/23/2011	SoloPower Inc.	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 8,411,240	\$ 681,310	\$ 494,484	\$ 419,024	\$ 575,484	\$ 313,197	40	1
28	11-SM019	11/15/2011	Zero Waste Energy Development Company, LLC	San Jose (Santa Clara County)	Biogas Capture & Production	\$ 17,156,875	\$ 1,389,707	\$ 43,092	\$ 1,355,423	\$ 2,233,575	\$ 2,199,291	174	17
29	11-SM016	12/13/2011	Tesla Motors, Inc.	Fremont (Alameda County); Hawthorne (Los Angeles County); Palo Alto (Santa Clara County); Menlo Park (San Mateo County)	Electric Vehicle Manufacturing	\$ 292,000,000	\$ 23,652,000	\$ 559,826	\$ 2,386,636	\$ 35,023,610	\$ 13,758,246	1,237	108
30	12-SM001	2/21/2012	Soraa, Inc.	Fremont (Alameda County)	Energy Efficient LED Lighting Manufacturing	\$ 57,002,457	\$ 4,617,199	\$ -	\$ 30,775,968	\$ 2,368,664	\$ 28,527,434	180	14
31	12-SM003	3/20/2012	Stion Corporation	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 6,417,810	\$ 519,843	\$ 490,542	\$ 277,896	\$ 253,546	\$ 11,600	28	3
32	12-SM006	5/15/2012	John Galt Biogas Inc.	Galt (Sacramento County)	Biogas Capture & Production	\$ 1,025,769	\$ 83,087	\$ -	\$ 112,933	\$ 128,931	\$ 158,777	19	2
33	12-SM004	5/15/2012	Soitec Solar Industries LLC	San Diego (San Diego County)	Concetrated Photovoltaic Manufacturing	\$ 104,381,342	\$ 8,454,889	\$ 5,549,080	\$ 3,706,841	\$ 10,302,813	\$ 5,554,765	399	44
34	12-SM007	5/15/2012	Reflexite Soitec Optical Technology LLC	San Diego (San Diego County)	Concetrated Photovoltaic Manufacturing	\$ 24,500,000	\$ 1,984,500	\$ 615,486	\$ 357,750	\$ 1,704,725	\$ 77,975	114	8
35	12-SM008	6/19/2012	North Star Biofuels LLC	Watsonville (Santa Cruz County)	Biodiesel Production	\$ 4,115,500	\$ 333,356	\$ 37,973	\$ 84,522	\$ 2,616,810	\$ 2,367,976	30	1
36	12-SM010	10/16/2012	Electric Vehicles International, LLC	Stockton (San Joaquin County)	Electric Vehicle Manufacturing	\$ 5,744,962	\$ 465,342	\$ 256,835	\$ 83,283	\$ 906,571	\$ 524,512	114	8
37	12-SM011	10/16/2012	Clean World Partners LLC	Sacramento (Sacramento County)	Biomass Processing and Fuel Production	\$ 11,796,759	\$ 955,537	\$ -	\$ 204,651	\$ 977,083	\$ 226,196	24	3
38	12-SM009	10/16/2012	ABEC New Hope LLC	Galt (Sacramento County)	Biogas Capture & Production	\$ 2,633,359	\$ 213,302	\$ -	\$ 41,150	\$ 208,573	\$ 36,421	22	3

(continued on next page) -

Table 8: SB71 Applications Approved Since Program Inception to December 31, 2012

Application Number	Date of Board Consideration	Applicant Name	Location	Use of Proceeds	QP Amount	STE Amount (Anticipated) ¹	STE Used to Date ¹	Estimated Environmental Benefit ²	Estimated Fiscal Benefit ²	Estimated Net Benefit ²	Expected Total Jobs	Expected Total Jobs from SB 71 ²
39	12-SM012	Zero Waste Energy, LLC	Marina (Monterey County)	Biogas Capture & Production	\$ 1,187,000	\$ 96,147	\$ -	\$ 18,139	\$ 95,062	\$ 17,054	5	1
40	12-SM013	Oberon Fuels, Inc.	Brawley (Imperial County)	Biogas Capture & Bio DME Production	\$ 13,500,000	\$ 1,093,500	\$ -	\$ 423,866	\$ 679,196	\$ 9,561	17	3
SUBTOTAL:					\$ 1,162,127,884	\$ 98,478,814	\$ 23,842,324	\$ 72,502,378	\$ 125,734,934	\$ 99,758,498	5,926	557
TOTAL OF ACTIVE APPLICATIONS APPROVED AND CONSIDERED					\$ 1,162,127,884	\$ 98,478,814	\$ 23,842,324	\$ 72,502,378	\$ 125,734,934	\$ 99,758,498	5,926	557

APPLICATIONS PREVIOUSLY APPROVED - INACTIVE

1	10-SM003	ABEC Bidart Old River, LLC	Bakersfield, (Kern County)	Biogas Capture & Production	\$ 4,738,000	\$ 431,158	\$ -	\$ 3,080,806	\$ 438,844	\$ 3,088,492	50	6
2	10-SM005	Gallo Cattle Company	Atwater (Merced Atwater)	Biogas Capture & Production	\$ 1,245,000	\$ 113,295	\$ -	\$ 791,959	\$ 130,374	\$ 809,038	30	3
3	10-SM006	Solyndra LLC	Fremont (Alameda County)	Solar Photovoltaic Manufacturing	\$ 381,776,000	\$ 34,741,616	\$ 25,127,322	\$ 22,202,363	\$ 20,765,274	\$ 8,226,021	2,084	225
4	10-SM011	Stion Corporation	San Jose (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 105,473,402	\$ 9,598,080	\$ -	\$ 3,512,324	\$ 6,207,404	\$ 121,648	493	47
5	10-SM014	Calisolar Inc.	Sunnyvale (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 39,000,000	\$ 3,549,000	\$ -	\$ 1,971,609	\$ 1,975,797	\$ 398,406	273	13
6	10-SM016	Quantum Fuel Systems Technologies Worldwide, Inc.	Irvine (Orange County)	Solar Photovoltaic Manufacturing	\$ 8,945,858	\$ 814,073	\$ -	\$ 508,282	\$ 5,895,571	\$ 5,589,780	94	11
7	10-SM018	Green Vehicles, Inc.	Salinas (Monterey County)	Electric Vehicle Manufacturing	\$ 3,708,050	\$ 337,433	\$ -	\$ 65,608	\$ 3,018,494	\$ 2,746,669	126	14
8	10-SM019	Soliant Energy, Inc.	Monrovia (Los Angeles County)	Solar Photovoltaic Manufacturing	\$ 9,966,500	\$ 906,952	\$ -	\$ 1,142,989	\$ 1,709,894	\$ 1,945,932	38	5
9	11-SM007	Amonix, Inc.	Seal Beach (Orange County)	Solar Photovoltaic Manufacturing	\$ 2,278,900	\$ 207,380	\$ -	\$ 244,895	\$ 557,789	\$ 595,304	153	2
10	11-SM015	Amonix, Inc.	Seal Beach (Orange County) & Milpitas (Santa Clara County)	Solar Photovoltaic Manufacturing	\$ 7,879,667	\$ 638,253	\$ -	\$ 740,148	\$ 2,884,021	\$ 2,985,916	200	12
TOTAL OF INACTIVE APPROVED APPLICATIONS					\$ 565,011,377	\$ 51,337,239	\$ 25,127,322	\$ 34,260,983	\$ 43,583,462	\$ 26,507,206	3,541	338

Total STE Used to Date (Active and Inactive Approved Applications): \$ 1,727,139,261

¹ Under the Program the value of a specific project's sales and use tax exclusion is calculated using the statewide sales and use tax average. The statewide average was estimated at 9.1% through June 2011, changed to 8.1% in July 2011, and 8.37% beginning in January 2013.

² These benefits are estimates that are calculated under the Program's evaluation system at the time of Board approval. Applicants are required to provide annual reports to CAEATFA on actual project activity.

SALES AND USE TAX EXCLUSION FOR TESLA MOTORS

PROGRAM SUMMARY

Under existing statute, CAEATFA has the authority to provide sales and use tax exclusions (STE) for the purchase of advanced transportation manufacturing equipment.⁶ Stakeholders expressed strong interest to encourage zero emission vehicles manufacturing in California that would provide significant greenhouse gas reductions, green jobs, economic expansion and reduce the state's dependence on foreign oil. In June 2008, the Authority directed staff to process and evaluate applications associated with zero emission vehicle manufacturing projects for purposes of a sales and use tax exclusion. In October 2009, this policy direction permitted Tesla Motors, Inc. (Tesla) to be evaluated and approved for a sales and use tax exclusion for an amount not to exceed \$320 million in qualified property.

Tesla develops and manufactures both high-performance all-electric powertrain components for automotive applications and fully-electric automobiles.

As of December 31, 2012, Tesla had purchased \$242,302,826 in qualified property, with an estimated sales and use tax exclusion amount of \$20,097,009.34. At the end of calendar year 2012, Tesla had a purchase balance of \$77,697,174 in qualified property purchases.

TABLE 9: 2012 TESLA MOTORS, INC. SALES AND USE TAX EXCLUSION TRANSACTIONS

2012 Qualified Property Purchase	2012 Estimated STE ⁷	Total Qualified Property Conveyed	Total Estimated STE	Qualified Property Purchase Balance
\$164,607,571	\$13,333,213.25	\$242,302,826	\$20,097,009.34	\$77,697,174

⁶ California Revenue and Taxation Code Section 6010.8.

⁷ The estimated STE amount is based on the statewide sales tax average of 8.1 percent.

OVERVIEW OF ACTIVITIES IN FINANCING RESIDENTIAL ENERGY EFFICIENCY RETROFITS

BACKGROUND

Under Senate Bill 77 (Pavley), signed into law in April 2010, CAEATFA was authorized to develop and administer a \$50 million PACE Bond Reserve Program (“SB 77 Program”) to assist in reducing the overall finance costs to property owners securing a voluntary contractual assessment on their property to make energy efficiency or renewable energy improvements to their property.

In July 2010, several legal issues raised by the Federal Housing Financing Agency (“FHFA”) caused many local jurisdictions throughout the country, including jurisdictions in California, to slow or put a hold on developing, launching and administering their PACE residential programs. FHFA concluded early in the process that PACE programs “present significant safety and soundness concerns” and violated standard mortgage provisions since PACE tax liens have priority over any other loan or mortgage (first in line if there is a default). Subsequently, the federal district court in the Northern District of California directed FHFA to initiate an official rulemaking process to allow stakeholder input in regards to the PACE energy financing programs. Throughout 2012, FHFA continued to undertake a public participation and administrative process to identify and address its concerns with PACE financing.

In addition, in 2011, subsequent legislation was enacted that reduced the \$50 million that was originally appropriated for the implementation of the SB 77 Program to other purposes, and decreased the funds available for the program to \$25 million.⁸ In addition, the AB X1 14 Clean Energy Upgrade Financing Program (“AB X1 14 Program”) was enacted, which expands CAEATFA’s statutory authority for the \$25 million to fulfill the intended purpose of the original legislation. The AB X1 14 Program will provide financial assistance in the form of credit enhancements to financial institutions making loans to finance energy efficiency and renewable energy improvements on residential and small commercial properties. Both SB 77 and AB X1 14 are authorized through January 1, 2015.

TABLE 10: STATUS OF SB 77 AND AB X1 14 FUNDS

Cost	FY 09/10	FY 10/11	FY 11/12	Total Expenditures	Remaining Funds
Administrative	\$2,928	\$26,666	\$155,380	\$184,974	\$365,026
Financial Assistance	\$0	\$0	\$5,000,000 ⁹	5,000,000	\$24,450,000

⁸ Senate Bill 679 (Pavley, Statutes of 2011), reappropriated \$25 million from SB 77 to establish the Energy Conservation Assistance Account to finance energy retrofits to local governments and public institution buildings.

⁹ \$5,000,000 of financial assistance funding was moved to the Program’s trustee bank in the Spring 2012. \$3,492 had been allocated to specific lenders’ loan loss reserve accounts as of December 31, 2012.

ASSEMBLY BILL X1 14 CLEAN ENERGY UPGRADE FINANCING PROGRAM

BACKGROUND

LEGISLATIVE SUMMARY.

With the future of PACE financing undecided at the federal level, the Legislature sought statutory changes to preserve the legislative intent of SB 77 through the passage of ABX1 14 in September 2011. This legislation allows for the previously appropriated funds for the PACE Bond Reserve Program to be expanded to include financial incentive programs that fulfill the intended purpose of the original legislation. CAEATFA is authorized to establish the Clean Energy Upgrade Financing Program (“AB X1 14 Program) to provide financial assistance in the form of credit enhancements to financial institutions making loans to finance the installation of distributed generation renewable energy sources, electric vehicle charging infrastructure, or energy or water efficiency improvements on homes or small commercial properties. The funds are available through January 1, 2015.

PROGRAM GOAL.

The purpose of the AB X1 14 Program is to reduce the overall costs to property owners of a loan by providing credit enhancement support to financial institutions making loans to finance energy efficiency and renewable energy improvements on real property. More specifically, the AB X1 14 Program has three underlying goals: 1) to promote the creation of California-based green jobs, 2) to promote the reduction of greenhouse gases, air and water pollution, or energy consumption consistent with the statute, and 3) to increase access to retrofit financing at better rates than a borrower would be able to receive without the existence of credit enhancements.

CAEATFA proposes to meet the goals of the AB X1 14 Program in two phases. In phase one, the Authority established a Loan Loss Reserve Program designed to help financial institutions make loans to California homeowners for energy efficiency and renewable energy retrofits. In phase two, the Authority will consider alternative financing structures that might add value to the program.¹⁰

The Authority’s initial financial assistance program – in the form of a Loan Loss Reserve Program – will help mitigate some of the perceived risk financial institutions associate with making loans in what is considered to be a new market. By providing an incentive to participating financial institutions, they may be more likely to gain confidence and express interest in making loans and offering new products to their customers who wish to make an energy efficiency or renewable energy investment. It is the intent of the AB X1 14 Program to encourage lenders to offer loans at lower rates, ideally with interest rates in the five to eight percent range.

¹⁰CAEATFA issued an Request For Information (RFI) in April 2012 and received several responses proposing alternative financing structures. Subsequently, it determined that the most efficient use of its resources is for CAEATFA to initially focus on the loan loss reserve program to ensure its being effectively implemented prior to considering any expansions.

AB X1 14 LOAN LOSS RESERVE PROGRAM DEVELOPMENT

After an eight-month stakeholder engagement process, Staff developed a Loan Loss Reserve Program designed to help Financial Institutions make lower-cost loans to more California homeowners for energy efficiency and renewable energy retrofits.

The California Energy Commission (“CEC”) and California Public Utilities Commission (“CPUC”) staff have provided significant input and subject matter expertise in the development of the quality assurance standards and contractor qualification requirements. Staff gathered relevant information and conducted stakeholder meetings and public workshops involving state agencies, cities and counties, environmental and consumer advocacy groups, financial institutions, independent contractors and contractor associations, electric vehicle charging infrastructure manufacturers, and consulting groups representing the energy efficiency and renewable energy industries. Through this public process, Staff gained a strong understanding of the Program’s mandate, California’s need for energy efficiency financing incentives, and Program structuring issues and concerns.

CAEATFA approved the initial Program emergency regulations on April 17, 2012 (“Regulations”), beginning the formal emergency rulemaking process. The Regulations were enacted on May 4, 2012. In marketing the Program to Financial Institutions, Staff continued to review and evaluate the Program’s structure, and determined modifications and clarification of the Regulations were necessary prior to approving Financial Institutions for participation in the Program. Revised regulations were enacted in July 2012. Subsequently, CAEATFA initially enrolled four lenders into the Program and enrolled its first two loans into the program by December 31, 2012.

Since then, staff has been working on the early implementation of this new Program, focusing on developing internal administrative structures and procedures, conducting outreach and training new lenders, and incorporating lessons learned into the regular rulemaking process.

PROGRAM STRUCTURE

WHAT IS A LOAN LOSS RESERVE PROGRAM?

A loan loss reserve program encourages a lender to provide loans by reducing the perceived risk it has for financing a new type of asset class (or other activity, e.g. small businesses, etc.). Under this program, CAEATFA puts a percentage of the value of each enrolled eligible loan into a trust account on behalf of each lender. As the lender makes more eligible loans, its loan loss reserve funds pool together to cover the loan portfolio that is enrolled in the Program. In the future, if the lender finds that one of its enrolled loans has “gone bad” and is charged-off, CAEATFA will make the bank whole for the outstanding principal loan balance.

This type of credit enhancement provides a structure that enables the State to leverage private capital, while simultaneously providing lenders with the risk mitigation they need to expand their financing terms beyond the status quo. Once lenders have established a track-record with this type of loan portfolio – energy efficiency and renewable energy retrofits – CAEATFA anticipates they will find

that these types of loans are lower-risk than previously anticipated. And ultimately, state funds won't be necessary to encourage this type of lending.

WHO CAN QUALIFY FOR FINANCIAL ASSISTANCE?

Public Resource Code 26102 defines an applicant as a financial institution providing a loan for eligible property owners and improvements. CAEATFA defines "Financial Institution" in regulation as any insured depository institution, insured credit union, or community development financial institution, as those terms are each defined in Section 103 of 12 U.S.C. 4702. A Financial Institution also includes a municipal utility district as described in Section 12850 of the Public Utilities Code.

LEVEL OF FINANCIAL ASSISTANCE

CAEATFA provides a tiered loan loss reserve program that assists lenders by providing a high loan loss reserve contribution early in the process when they are just beginning to build the loan loss account; and then decreasing it over the longer term.

- CAEATFA provides an initial 15 percent (15%) loan loss reserve contribution for each qualified loan enrolled in the Program, and then decreases it to 10 percent (10%) when a participating financial institution's enrolled loan volume reaches \$250,000.
- Participating financial institutions may claim up to 100% of a charged-off loan principal amount.
- Qualified Loans will be covered for a loss for up to ten (10) years.

ELIGIBLE PROPERTY AND IMPROVEMENTS

- Residential project of three units or fewer.
- Loans are used to finance energy efficiency improvements on real property and/or the installation of distributed generation renewable energy sources.
- All projects that include distributed generation must first achieve a minimum ten percent (10%) reduction in total property energy use through energy efficiency in order to qualify for financing.
- All improvements assisted through the Program must meet quality assurance standards, including contractor certification and energy assessment requirements.
- Eligible Improvements must be recommended by a pre-project energy efficiency assessment, meet a ten percent (10%) estimated energy savings requirement and be verified by a post-project energy assessment conducted by a third-party inspector.

LOAN RECIPIENTS AND MINIMUM UNDERWRITING CRITERIA

Financial Institutions may establish additional underwriting criteria in addition to those described below.

- Loan recipients are the legal owners of the underlying property in California.

- Loan recipients are current on mortgage and property tax payments.
- Loan recipients are not in default or in bankruptcy proceedings.
- Loans are for less than ten percent (10%) of the value of the property.

HOW TO APPLY TO PARTICIPATE

Financial Institutions that meet the regulatory definitions may apply to participate in the Program at any time. Applications from lenders are reviewed on a rolling basis.

LENDERS AND LOAN PORTFOLIO

From program inception through December 31, 2012, four lenders had been enrolled into the Program, they include: Sacramento Municipal Utility District, SAFE Credit Union, Bank of Stockton, and Matadors Community Credit Union.

Participation in the loan loss reserve program has allowed lenders to modify their lending terms in various ways, including:

- Lowering the required FICO score (as low as 640);
- Loan maximum increasing from \$3,500 to \$20,000 (FICOs 640-669 and up) and to \$35,000 (FICO scores above 730).
- Increasing loan terms from 3 years to 7 years; and
- Lowering interest rate ranges from 6.5% - 15.9% to 4.99% - 8.99% for loans enrolled in the program;

Participating Financial Institutions began their initial months under the program establishing their own internal program procedures and structures. From program inception through December 31, 2013, two energy efficiency retrofit loans were enrolled in the Program. The loan amounts averaged at \$12,000 over a ten-year term with fixed interest rates at 5.5%. The lender estimates that the borrowers saved an average in \$1,785 in financing costs and an anticipated average of 37% in annual energy savings (kWh).

It is too early in program implementation to estimate the number of jobs it has assisted in retaining or creating. In the future, CAEATFA anticipates adopting the federal standard for job retention and creation estimates, which assumes that \$92,000 of government spending creates one job-year.

NEXT STEPS

CAEATFA Staff has continued to evaluate the Program in its early implementation phase, and received comments from several stakeholders requesting that CAEATFA modify its definition of eligible improvements and quality assurance requirements to ensure consistency with other energy efficiency policies and programs in the State – specifically the whole house energy efficiency programs created and established by the CEC and CPUC. CAEATFA will continue to work with stakeholders over the next several months to increase the programs usability and access across the State.

SENATE BILL 77 PROPERTY ASSESSED CLEAN ENERGY (PACE) BOND RESERVE PROGRAM

BACKGROUND

LEGISLATIVE SUMMARY

Senate Bill 77 (Pavley) authorized CAEATFA to establish a Property Assessed Clean Energy (“PACE”) Bond Reserve Program (“SB 77 Program”) to assist local jurisdictions in financing the installation of distributed generation renewable energy sources or energy or water efficiency improvements that are permanently affixed on residential and commercial property through the use of a voluntary contractual assessment. Tax liens created by assessments are typically senior to other obligations, including mortgages, and must be paid first. In response to the legislation, CAEATFA began conducting research to develop minimum loan structure and credit underwriting criteria.

PROGRAM GOAL

The purpose of the PACE Bond Reserve is to provide credit enhancement support to local jurisdictions with existing PACE programs to reduce the interest rate on issued bonds. In essence, local jurisdictions establish a financing district and issue bonds to make voluntary assessments available to residential and commercial property owners who wish to make energy efficiency or renewable energy improvements to their property. CAEATFA, in turn, may develop and administer a PACE Bond Reserve Program to reduce the overall costs of bond issuance. The SB 77 Program allows a reserve of no more than ten percent of the initial principal amount of the PACE bond. Per statute, the applicant must show how the savings will be passed on to borrowers. By providing a credit enhancement, the PACE financing would continue to create jobs, lower energy demand and spur new clean industries that could grow the California economy.

SB 77 PROGRAM DEVELOPMENTS

CAEATFA continues to stay informed and current on California’s existing residential and commercial PACE programs in an effort to engage on appropriate program structure and bond underwriting criteria being employed by municipalities and counties.

As CAEATFA reported last year, the Authority slowed its program development efforts due to several issues raised at the federal level. Throughout 2012, the Authority continued to monitor activities at the federal level and has maintained communication with existing PACE programs to assess their ultimate interest and readiness to utilize a PACE bond reserve program.

LEGISLATIVE AND LEGAL CHALLENGES WITH PACE PROGRAMS

On July 6, 2010, the Federal Housing Finance Agency (“FHFA”) issued a pronouncement concluding that PACE programs “present significant safety and soundness concerns” and violated standard mortgage provisions since PACE tax liens have priority over any other loan or mortgage. The concerns expressed by FHFA caused the majority of the PACE residential programs throughout the

country to be placed on hold, including many of the existing residential PACE programs in California.¹¹

In an August 2011 ruling favorable to the plaintiffs, the federal district court in the Northern District of California directed FHFA to publish, accept and consider comments on FHFA's directive regarding mortgages with PACE obligations. In January 2012, the Northern District court ordered FHFA to initiate an official rulemaking process to allow for stakeholder input in regards to the PACE energy financing programs. The FHFA is required by federal law to factor all comment into a reassessment of their current position on residential PACE programs.

In 2012, FHFA began its formal rulemaking process. CAEATFA has continued to monitor its activities and provided comment for its consideration along with other California PACE stakeholders.

NEXT STEPS

As the future of PACE financing remains undecided at the federal level, the Authority will continue to monitor any legislative advances in Congress as well as the outcome of the FHFA's rulemaking process.

Over the next several months, the Authority will continue to engage jurisdictions with active PACE residential programs to determine whether they have enough loan volume to issue a bond that could be supported by the PACE bond reserve funds. The timing of such an effort is undetermined.

¹¹ Since these legal concerns do not apply to the commercial sector, several PACE commercial programs were launched in California in 2011. While CAEATFA is monitoring the development and implementation of new PACE programs, the Authority has not engaged the administrators of PACE commercial programs given a statutory restriction allowing the bond reserve funds to only be used to support bonds with commercial property project costs less than \$25,000, and, most commercial buildings that undergo any energy efficiency or renewable energy improvements have project costs ranging from \$250,000 to \$1 million.