

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
June 25, 2008**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) meeting to order at 11:01 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Les Kleinberg for John Chiang, State Controller
Anne Sheehan for Michael C. Genest, Director, Dept. of Finance
Paul Clanon for Michael R. Peevey, President,
Public Utilities Commission
Tim Tutt, for Jackalyne Pfannenstiel Chair, California Energy
Commission

Staff Present: Jan McFarland, Executive Director

Quorum: The Chairperson declared a quorum

Ms. Redway informed Board Members that Tony Fisher, with New United Motor Manufacturing Inc. (NUMMI), is attending this Board Meeting via telecom from the Public Utilities Commission office in San Francisco.

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the February 13, 2008 meeting minutes. There were none.

Ms. Sheehan moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT (INFORMATION ITEM)

Ms. McFarland introduced Brian Gorban and Meg Waltner, a student from Stanford University, who will be assisting on CAEATFA projects.

Ms. McFarland stated that staff is currently working on two projects. One is a project for CalTrans that involves the installation of solar PV in 70 buildings across the State. These CalTrans PV projects would be financed through Clean Renewable Energy Bonds (CREBs).

Under federal law, CREBs must close by the end of 2008. CREBs are cost effective to the state in terms of acquiring and installing PVs.

The second project Ms. McFarland discussed is working with the California Air Resources Board (CARB) on financial incentives for truckers to meet CARB's new diesel truck regulations. CPCFA and CAEATFA staff met with a few trucking companies to begin development of ideas for a program that offers financial products to assist truckers. CAEATFA staff would like to present an overall diesel truck financing program to CARB by the end of October and have the program in place by January 2009. Ms. McFarland added that CAEATFA is working closely with CPCFA and that both Authorities are in the process of retaining a Financial Advisor.

Ms. Redway clarified that CARB is producing regulations for projects and CAEATFA is helping by developing financial lending products to finance whatever the regulations would require.

Ms. McFarland replied in the affirmative and added that CARB would be guiding CAEATFA on what CARB's priorities are in 2009.

Ms. McFarland further stated that CAEATFA has the authority to issue private activity bonds for district heating and cooling with advanced solar thermal technology. She also stated that staff is in the process of working with CARB, the Public Utilities Commission and the Energy Commission to develop an appropriate program that could have tax-exempt financing for these projects.

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

There were none.

4. BUSINESS ITEM

There will be public comment period at the end of this item.

A. CONSIDERATION OF STAFF RECOMMENDATION REGARDING THE STATE ISSUING SALES TAX EXEMPTIONS FOR ZERO EMISSION VEHICLES

Ms. McFarland presented staff's recommendation on providing Sales Tax Exemptions on manufacturing equipment for new manufacturing in California for Zero Emission Vehicles (ZEVs). CAEATFA's purpose is to provide industries in California with alternative methods of financing alternative energy and advanced transportation technologies. She stated that the statute defines advanced transportation-related technologies identified by the authority as capable of creating long-term, high value-added jobs for Californians while enhancing the State's commitment to energy conservation, pollution reduction, and transportation efficiency.

Ms. McFarland mentioned that there has been strong interest and commitment to encourage ZEV manufacturing due to their benefits of reduced pollution, greenhouse gas emissions (GHG), and foreign oil dependence. She stated that CARB's definition of a ZEV has no tailpipe emissions, evaporative emissions, onboard emission-control systems that can deteriorate over time, and no emissions from refining of gasoline or sales. She also stated that the transportation sector emits approximately 40 percent of total greenhouse gas in California.

Ms. McFarland stated that in 2005, Governor Schwarzenegger issued Executive Order S-3-05 establishing a goal to reduce GHG emissions by 80 percent below 1990 levels by 2050 and that CARB plans to develop a Low-Carbon Fuel Standard that could increase the use of alternative fuels without adversely affecting air or water quality, or causing negative health effects. She also stated that Assembly Bill 32—the California Global Warming Solutions Act of 2006—which requires the State to cut total GHG emissions, has given CARB a leadership role in working with other State agencies to forge new approaches to reduce the State's carbon footprint.

Ms. McFarland directed the Board Member's attention to the staff summary (4.A.1.) section defining each of the ZEV technologies: Fuel Cell Electric Vehicles (FCEV), Battery Electric Vehicles (BEV), Plug-in Hybrid Electric Vehicles (PHEV), Hydrogen Internal Combustion Engines, Advanced Technology Partial Zero Emission Vehicles (AT PZEVs), Neighborhood Electric Vehicles (NEV). She stated that interest in Electric Vehicles (EVs) continues to grow due to technology advances in batteries used to power them, rising gasoline prices, increasing awareness over global warming trends, and a desire to lessen dependency on foreign oil. She further stated that the success of these vehicles is tied to the continued advances in battery technology, especially lithium-ion, a type of battery that offers more power and energy storage capacity than current batteries, and is expected to be in large scale production for transportation applications in the next year or two.

Ms. McFarland discussed how CAEATFA could provide sales and use tax exemptions for the purchase of equipment to be used in the manufacturing of electric vehicles. She stated that CAEATFA would enter into a "sales-lease-back arrangement" with a company for the purchase of specified manufacturing equipment, with the net effect of exempting those purchases from sales and use tax. CAEATFA would purchase the specified equipment on behalf of a company and finance that purchase through a bond or loan. The company would then lease the equipment from CAEATFA and the lease payments would pay for the bond or loan. The lease would stay in existence only for a couple of weeks, from the time of purchase until the equipment is placed into use.

Ms. McFarland stated that CAEATFA does not have to pay sales or use tax and that the Board of Equalization (BOE) oversees sales and use tax exemptions and is consulted during the process. In the past, the State Treasurer's Office legal counsel, as well as BOE legal counsel, reviewed similar arrangements and agreed that sales and use tax are exempt for CAEATFA Sales Lease Back Arrangements.

Ms. McFarland added that by offering Sales Tax Exemptions for ZEV manufacturing equipment in California, it could help stimulate green industry, create green manufacturing jobs, long-term high-value jobs, decrease GHG emissions, and reduce the states foreign oil dependency. She also stated that there is a risk of having many companies come forward which could lead to loss in state and local government treasuries.

Ms. Redway asked Ms. McFarland to clarify for the Board Members if CAEATFA is presently seeking interested parties for new manufacturing facilities that have job-added value to California and if those projects would come forward for approval from the Board.

Ms. McFarland responded affirmatively.

Ms. Sheehan commented that the Department of Finance is very supportive of CAEATFA taking this action for development of jobs. She then asked if there is anything under CAEATFA's authority for battery production here in California. She commented that CAEATFA needs to continue to create incentives for new technology and that this technology not be displaced, but go forward with this technology so that California can benefit from the advantages of those technologies.

Ms. Sheehan stated that she would like CAEATFA staff to do further investigation regarding battery manufacturing and to encourage production manufacturing facilities in California.

Ms. Redway stated that shipping of batteries could be expensive so it would be better to manufacture in California.

Ms. Sheehan commented that the price of gas has helped produce this technology, but that in the future California may still be dependent on gas.

Mr. Tutt stated that the Energy Commission highly supports the concept and that the proposal fits with the Energy Commission's petroleum ~~production~~-reduction goals that have been developed over the years. Mr. Tutt also stated that there may be some issues with using the equipment that is consistently used to manufacture zero emission vehicles as opposed to other vehicles, but he added that these issues can be worked out by staff.

Mr. Clanon commented that the Public Utilities Commission is also highly supportive and thanked CAEATFA staff for their impressive work.

Mr. Kleinberg also expressed his support and complimented Brian Gorban's excellent work.

5. PUBLIC COMMENT

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

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 11:23 a.m.

Respectfully submitted,

Jan E. McFarland
Executive Director