

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
October 28, 2009**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) meeting to order at 10:35 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Ruth Holton-Hodson for John Chiang, State Controller
Tom Sheehy for Michael C. Genest, Director, Dept. of Finance
Carol Brown for Michael R. Peevey, Director,
Public Utilities Commission
Panama Bartholomy for Karen Douglas, Chair,
California Energy Commission

Staff Present: Jan McFarland, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the July 22, 2009 meeting minutes. There were none.

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

3. EXECUTIVE DIRECTOR'S REPORT (INFORMATION ITEM)

Ms. McFarland reported news from the Internal Revenue Service (IRS) that out of \$840,000,000 new Clean Renewable Energy Bonds (CREBS) applications nationwide, California received approval of \$640,000,000 applications.

CAEATFA staff proposed a revolving fund to implement energy efficiency measures in state buildings in the California Public Utilities Commission's (CPUC) energy efficiency proceeding. On September 24, 2009, the CPUC Decision Approving the 2010 to 2012 Energy Efficiency Portfolios and Budget, directed staff to work with CAEATFA and the State Treasurer's Office (STO) on the proposed revolving fund. She suggested that creating a ratepayer funded revolving loan fund for energy efficiency retrofits in state buildings

through the CPUC is likely to take several months, but worth the effort. Mr. Sheehy encouraged staff to diligently pursue this proposed energy efficiency revolving loan fund.

Ms. McFarland reported that the Western GeoPower’s proposed taxable bond has been delayed. The company discovered that converting an American Recovery and Reinvestment Act (ARRA) tax credit into a grant is treated as income under the California tax law. Western GeoPower is looking for new investors to finish their project. Staff is hopeful that Western GeoPower will be able to put their project financing together and be in a position to issue a taxable bond in December 2009 or January 2010.

Ms. McFarland responded to Mr. Sheehy’s inquiries regarding the use of ratepayer funding to make the state’s buildings more energy efficient. Ms. McFarland explained that CAEATFA is working with the CPUC’s Energy Division staff to work out the details of establishing a revolving fund. She estimated that it should take about four to six months to design a program. Ms. McFarland added that it has been helpful that staff made a filing proposing a ratepayer funded revolving fund in the CPUC’s energy efficiency proceeding.

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

4. BUSINESS ITEM

A) APPROVAL OF 2010 MEETING CALENDAR

Presented by: Brian Gorban, Staff Services Analyst.

Staff requested approval of the proposed 2010 meeting schedule.

Month	Day	Time	Date
January	Wednesday	10:30 a.m.	01/27/2010
February	Wednesday	10:30 a.m.	02/24/2010
March	Wednesday	10:30 a.m.	03/24/2010
April	Wednesday	10:30 a.m.	04/28/2010
May	Wednesday	10:30 a.m.	05/26/2010
June	Wednesday	10:30 a.m.	06/23/2010
July	Wednesday	10:30 a.m.	07/28/2010
August	Wednesday	10:30 a.m.	08/25/2010
September	Wednesday	10:30 a.m.	09/22/2010
October	Wednesday	10:30 a.m.	10/27/2010
November	Wednesday	10:30 a.m.	11/17/2010
December	Wednesday	10:30 a.m.	12/15/2010

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

Mr. Sheehy requested CAEATFA staff to notify the Board members if any Board meetings will be cancelled and Ms. McFarland agreed.

Ms. Redway asked if there was a motion.

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

B) APPROVAL FOR PERMANENT REGULATIONS TO ESTABLISH FEE STRUCTURE

Presented by: Brian Gorban, Staff Services Analyst.

Staff requested approval to amend and file permanent regulations to establish a fee structure for CAEATFA's renewable program, as well as, a fee structure for all other CAEATFA programs.

Mr. Gorban clarified Ms. Redway's questions about the initial adoption of the fee structure through emergency regulations. Mr. Gorban explained that the initial adoption was for renewable energy projects and that staff is now proposing that the emergency regulations be expanded under a similar fee structure to include all CAEATFA programs. CAEATFA's emergency regulation authority is limited to renewable energy programs.

Ms. McFarland added that under the proposed permanent regulations, there is a minimum \$15,000 fee to ensure all CAEATFA expenses are covered.

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

Mr. Gorban answered Mr. Sheehy's inquiries about the length of the public review process that started in July and if there has been any feedback from potential customers concerning the fees being too high or low?

Ms. McFarland announced there is a public workshop scheduled in Sacramento December 8, 2009 to finalize the process.

Mr. Sheehy requested confirmation that companies previously participating in CAEATFA Programs have had a chance to review and comment. He said that the permanent regulation process sounds like a transparent process; he had no concerns over supporting the proposed resolution.

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

Ms. Redway asked if there was a motion.

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

C) REQUEST TO APPROVE RESOLUTION APPROVING AND AUTHORIZING THE EXECUTIVE DIRECTOR TO EXECUTE A TITLE CONVEYANCE AGREEMENT WITH TESLA MOTORS, INC. CONCERNING ZERO EMISSION VEHICLE MANUFACTURING EQUIPMENT WITH A VALUE NOT TO EXCEED \$320,000,000 TO FACILITATE TESLA MOTORS' UTILIZATION OF THE SALES TAX EXCLUSION PURSUANT TO REVENUE AND TAXATION CODE SECTION 6010.8

1) Tesla Motors, Inc.

Presented by: Brian Gorban, Staff Services Analyst.

Staff requested approval of a resolution to enter into a Title Conveyance Agreement for an amount not to exceed \$320,000,000 for the purchase of Zero Emission Vehicle (ZEV) manufacturing equipment. The Company requested that CAEATFA enter into a Title Conveyance Agreement under which the Company will convey title of equipment, tooling and other manufacturing equipment purchased directly from vendors to CAEATFA and CAEATFA will re-convey title back to the Company. The Company believes the conveyance/reconveyance arrangement will enable it to avail itself of the benefits of the sales and use tax exclusion provided by California Revenue and Taxation Code Section 6010.8.

Tesla develops and manufactures both high-performance all-electric powertrain components for automotive applications and fully-electric automobiles which fall under the classification of ZEV. The Company plans to make significant capital investments for four project components: \$238 million worth of equipment to establish California-based production of the Tesla Model S, \$59 million worth of equipment to establish an advanced electric powertrain components manufacturing plant, \$18 million is proposed as unbudgeted equipment purchases, and \$5 million worth of equipment that the Company is considering for an expanded California-based assembly of Tesla Roadsters. Presented by Brian Gorban.

Staff introduced Mike Taylor, Finance Vice President and Sendil Palani, Senior Financial Analyst of Tesla Motors, Inc.

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

Mr. Sheehy asked if the full amount of \$320,000,000 would all be for equipment and Mr. Taylor replied yes.

Mr. Taylor responded to Mr. Sheehy's inquiry regarding the current status of the production by stating that there are 800 vehicles on the road today. Mr. Taylor further explained that it is important to know that the Tesla Roadster is just the first incarnation of the Company's powertrain. Tesla has built a full electric powertrain that will not be limited to their own vehicles, but will also be available to other vehicle manufacturers including an existing range of Daimler vehicles. The vehicles will initially be available in Europe, but Tesla is working with Daimler (a strategic

investor in Tesla) to help migrate some of their vehicles in the United States. Tesla is producing more battery packs and chargers than the Roadsters the Company has on the road. Tesla is trying to get vehicles to a much more affordable price than the Roadster. The Company has initiated the expansion of the production facility in Palo Alto; it has signed the lease and is actively hiring employees. Some portion of the sales tax exemptions requested from CAEATFA will be going directly to that site. Tesla is also pulling jobs from Taiwan and potentially from Korea ensuring manufacturing within the state of California because there is value for Tesla to stay in California and to stay close to the Silicon Valley.

Mr. Taylor answered Ms. Holton-Hodson's inquiries about the facility location in Palo Alto and if entry level jobs would be available to disadvantaged communities. Mr. Taylor assured that the company's intent is to have jobs for the surrounding neighborhood, especially for disadvantaged communities.

Mr. Sheehy asked if Tesla is coming back to the Board again as production moves further along and if it is going to be a recurring transaction. If the company builds more cars, would the Company purchase additional equipment?

Mr. Taylor responded that the Resolution will help Tesla get the Model S into full production which will be available in 2011 perhaps 2012. The Company staff planned carefully with CAEATFA staff to figure out exactly what the Company needs to avoid taking the Board's time and keep coming back. An agreement was created that allows Tesla to make multiple transactions under the agreement for up to \$320,000,000 in equipment purchases. The Company will purchase this manufacturing equipment over a 3-year period.

Mr. Taylor also responded to Ms. Brown's inquiries on if there would be jobs created in Southern California. Mr. Taylor explained that part of the plan is for a second facility. There have been two sites that have been announced, front runners and other sites in consideration. The front runners in Southern California include the City of Downing and the City of Long Beach for the Model S production.

Ms. Brown asked Mr. Taylor to explain what the Model S is. Mr. Taylor explained that it is a 4-door sedan available for under \$50,000 that is fully electric. It will range from 160-300 miles on a single charge. The Company is seeing a demand for those vehicles as part of the Company's strategy to take the technology they have developed and put it into more affordable cars for the general consumers. The Company will make the same technology available for other vehicles like the Daimler's "Smart for 2".

Ms. Brown asked Mr. Taylor if the Company is focused on all electric only or if they have any plans to look at hybrid combos of other kind.

Mr. Taylor clarified that Tesla is focused only on all electric. The Company feels that the technology they have developed has a sufficient range that it does not need to rely

on the internal combustion engine. They can offer greater greenhouse gas savings by transitioning all the way to electric vehicles rather taking an intermediate step to the hybrid.

Ms. Brown asked if the company is forecasting some battery breakthroughs.

Mr. Taylor responded that the Company did work on the chemistry of the small battery that goes into a battery pack. The Company works directly with the battery manufacturers to ensure that all the energy in a pack is safe for vehicles, to operate on the highways, and be reliable to last over 100,000 miles. The Company has a lot invested on the battery side, this technology directly leverages all of the benefits because it is standardized on a commodity form factor cell which is the same cell used in laptops. As people make improvements to those batteries, the Company will be on top of those improvements to provide greater range for the Company's electric vehicles.

Mr. Bartholomy said that it is good to be able to tell a story of importing jobs and exporting alternative energy technologies and to have the Tesla project before the Board. On the workforce note, the California Energy Commission is about to engage and develop the employment training panel to give them a significant amount of funds for training of the workforce for alternative energy vehicles and fuels. Mr. Bartholomy highly recommends that as the Company moves forward and builds the manufacturing capacity, to look at the opportunity to be able to use some of those funds to train the workers that are going to be in those areas. Mr. Taylor agreed.

Ms. Redway thanked all the staff, especially Bob Hedrick and Jan McFarland, who had been working hard for the past two years and several people from Tesla. She also thanked the Department of Energy staff who also had also been extremely helpful.

Mr. Sheehy supported Ms. Redway's comments and praised the hard work by staff. He added that Tesla Company is going to save millions of dollars for putting the production plant together and that it will result benefits for California, like good paying jobs for people and pull some economic activity in from other areas. Mr. Sheehy commented that California has to look at all of its policies to understand how it is promoting economic growth and what can be done to stem the flow of the laws that result in manufacturing jobs leaving this State. He was delighted to be at this meeting and support the project. He also believes that California should have a policy in place to encourage green technology, high paying jobs to stay in California, and to be creative in California. Mr. Sheehy stated that if this type of transaction is good for Tesla, then he believes that a manufacturer's investment credit would in fact be good for other companies doing business or who would like to do business in California.

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

Ms. Redway asked if there was a motion.

Mr. Sheehy 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 Board or the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 10:59 a.m.

Respectfully submitted,

Jan E. McFarland
Executive Director