

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion¹

**CALISOLAR INC.
Application No. 10-SM014**

Wednesday, November 17, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – Calisolar Inc.

Location – Sunnyvale, Santa Clara County

Industry – Solar: Photovoltaic Cell Manufacturing

Project – Expansion of Manufacturing Facility

Value of Qualified Property – \$39,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$3,549,000

Application Score –

Fiscal Benefits Points:	557
<u>Environmental Benefits Points:</u>	<u>556</u>
Net Benefits Score:	1,112

<u>Additional Benefits Points:</u>	<u>40</u>
Total Score:	1,152

Staff Recommendation – Approval

THE APPLICANT

Calisolar Inc. (“Calisolar” or the “Applicant”), a Delaware corporation established in 2006, is a solar cell manufacturing company with headquarters and a 60 MW capacity manufacturing facility located in Sunnyvale, California (“Facility”). Calisolar utilizes upgraded metallurgical

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based off of the average statewide sales tax rate of 9.1%.

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silicon (“UMG Si”) to design and manufacture photovoltaic (“PV”) cells, the critical component in solar panels that convert sunlight into electricity. Calisolar sells its PV cells to PV module manufacturers throughout the world.

As of August 2010, Calisolar employed 353 employees worldwide, with 194 employees in Sunnyvale. In addition to the Facility, Calisolar has a UMG Si manufacturing facility located in Vaughan, Ontario, Canada, as well as a research and development office in Berlin, Germany.

The major shareholder (10 percent or greater) of Calisolar Inc. is:

Hudson Calisolar Holdings, LLC (subsidiary of Hudson Clean Energy Partners)

The corporate officers are:

Sandra Beach Lin, President & CEO

Dr. Kamel Ounadjela, Founder & Chief Development Officer

John R. Beaver, CFO

Terry Jester, Executive VP of Operations

Dr. Fritz Kirscht, Founder, Managing Director & CTO

Ed Roseberry, VP of Business Development & Sales

Steve Debenham, VP of Corporate Development & General Counsel

THE PROJECT

Calisolar plans to expand capacity at the Sunnyvale manufacturing Facility from the current 60 MW to 155 MW of PV cell capacity due to an increased demand for its PV cells. The Qualified Property that will be purchased will be used to expand the production of PV cells. According to the Applicant, Calisolar’s competitive advantage is its proprietary method of using significantly less expensive UMG Si to manufacture high quality PV cells which are indistinguishable from PV cells produced with electronic grade silicon (“EG Si”). In addition, according to the Applicant, Calisolar’s total capital outlays for its UMG Si manufacturing Facility are approximately one-sixth of the outlay required for a similar sized, Siemens-based EG Si manufacturing facility. Calisolar believes the Facility will be a global cost leader in PV cell manufacturing due to its significant (approximate 50 percent) silicon feedstock cost advantage.

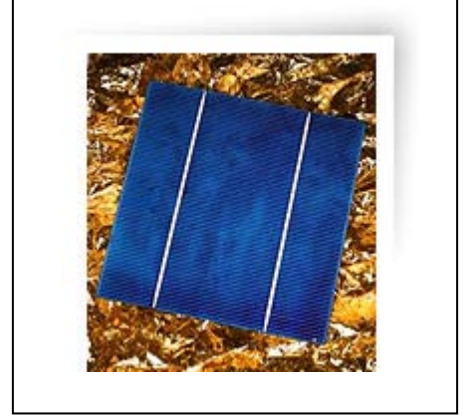
Calisolar considered several locations outside of California to expand its current manufacturing and silicon foundry Facility. These locations offered competitive financial assistance incentives such as customized employee training and a sales and use tax exclusion program. CAEATFA staff did not evaluate this alternative site documentation further, however, as the Applicant already obtained the minimum point threshold necessary to qualify. Thus, no additional points were awarded in this category.



Casting of Purified Silicon



Processing of Wafers into Cells



The Finished Product

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Two Casting Tools for 60 to 75 MW expansion	\$ 900,000
Eighteen Casting Tools for 75 to 155 MW expansion	8,100,000
Two Wafer Tools for 60 to 75 MW expansion	1,800,000
Twelve Wafer Tools for 75 to 155 MW expansion	10,700,000
Two Cell Tools for 60 to 75 MW expansion	3,000,000
Ten Cell Tools for 75 to 155 MW expansion	14,500,000
Total	<u>\$ 39,000,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the conveyance/reconveyance agreement a finalized Project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons.

TIMELINE

Calisolar began its expansion to 75 MW capacity in mid-summer and expects to finish by the end of 2010. The company is planning to further expand to 155 MW by 2011, in which such further expansion will be subject to final approval by the company's Board of Directors. It is anticipated that this expansion will take approximately 12 months from initial approval and tool

purchase to full production. It is also currently anticipated that Qualified Property will be purchased within the next 18 months.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$39,000,000 and the total net benefits are estimated at \$398,407 for the Project. The Project received a Total Score of 1,152, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 556, which exceeds the 100 point threshold.

- A. Fiscal Benefits (557 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's projected sales taxes, personal income taxes paid by the Applicant's employees, corporation taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to an estimated \$1,975,797 in fiscal benefits, resulting in a Fiscal Benefits Score of 557 points for the Project.
- B. Environmental Benefits (556 points).** CAEATFA staff estimated that the Project will result in an environmental benefits value of \$1,971,609 over the life of the Facility resulting in an Environmental Benefits Score of 556 points for the Project. These benefits derive from the capacity of solar PV cells to generate electricity from alternative sources, thereby reducing the need for traditionally generated electricity.
- C. Additional Benefits (40 of 200 points).** Applicants may earn up to 200 additional points for their final score. The Applicant submitted information and received an additional 40 points.

 - 1) Permanent Jobs (0 of 40 points).** The Applicant's Project will support a total of 238 permanent jobs at the Facility. CAEATFA staff estimated that approximately 11 of these jobs will be attributable to a marginal increase in jobs created due to the approved sales and use tax exclusion. Zero (0) points were awarded because the marginal increase in jobs created does not meet the required threshold.
 - 2) Construction Jobs (0 of 20 points).** The Applicant's Project will support a total of 35 construction jobs at the Facility. CAEATFA staff estimated that approximately 2 of these jobs will be attributable to a marginal increase in jobs created due to the approved sales and use tax exclusion. Zero (0) points were awarded because the marginal increase in jobs created does not meet the required threshold.

- 3) **Non-CA Environmental Benefits (40 of 40 points)**. The Applicant's total out-of-state non-greenhouse gas pollution benefits are valued at \$580,964 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Calisolar has secured all required site permits and the expansion adheres to all applicable environmental requirements and zoning restrictions. The City of Sunnyvale has determined that the Facility is located on a property within the M-S Zoning District, which allows for the type of manufacturing Calisolar is proposing. The City of Sunnyvale has also determined that this Project is considered Categorically Exempt under Class 1 (Section 15301) of the California Environmental Quality Act ("CEQA"), which applies to existing facilities.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA regulations,³ the Applicant has paid CAEATFA an Application Fee of \$5,000, and will pay CAEATFA an Administrative Fee of up to \$156,000 if approved for a sales and use tax exclusion.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM014 for Calisolar Inc.'s purchase of Qualified Property in an amount not to exceed \$39,000,000, anticipated to result in an approximate sales and use tax exclusion value of \$3,549,000.

³ California Code of Regulations Title 4, Division 13, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH CALISOLAR INC.**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Calisolar Inc.** (the “Applicant”), for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement transferring title of Project equipment with a cost not to exceed \$39,000,000 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director or Chair of the Authority, to execute the necessary documents to effectuate the Agreement is now sought.

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided

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that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same, may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant's Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property conveyance pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(A), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.