

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

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

**SOLYNDRA FAB 2 LLC
Application No. 10-SM006**

Wednesday, November 17, 2010

Prepared By: *Heather Williams*

SUMMARY

Applicant – Solyndra Fab 2 LLC

Location – Fremont, Alameda County

Industry – Solar: Thin film CIGS PV

Project – New manufacturing Facility for PV systems

Value of Qualified Property – \$381,776,000

Estimated Sales and Use Tax Exclusion Amount² – \$34,741,616

Application Score –

Fiscal Benefits Points:	598
<u>Environmental Benefits Points:</u>	<u>639</u>
Net Benefits Score:	1,237

<u>Additional Benefits Points:</u>	<u>40</u>
Total Score:	1,277

Staff Recommendation – Approval

THE APPLICANT

Solyndra Fab 2 LLC (“Solyndra”) is a limited liability company that was founded in 2005 and was organized and formed on June 27, 2008 in Delaware. They are headquartered in Fremont, California. Solyndra designs and manufactures solar photovoltaic (“PV”) systems comprised of

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%.

Agenda Item -- 4.B.5
Resolution No. 10-SM006
Application No. 10-SM006

panels and mounts, for the commercial, industrial and public-sector solar panel rooftop market. Solyndra uses innovative cylindrical modules and thin film Copper Indium/Gallium di-Selenide (“CIGS”) technology. The unique Solyndra form factor is designed specifically for large, flat rooftops.

Solyndra is 100% owned by Solyndra, Inc. (“Parent Corporation”).

The major shareholders (10.0% or greater) of the Parent Corporation are:

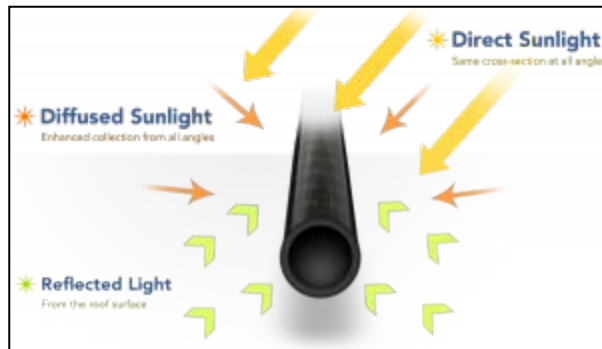
- George Kaiser Family Foundation
- Madrone Partners

The corporate officers of the Parent Corporation are:

- Brian Harrison – CEO
- William G. Stover, Jr. – CFO
- Benjamin B. Bierman – EVP, Operations and Engineering
- John T. Gaffney – SVP, Corporate Development and General Counsel

THE PROJECT

In September 2009 Solyndra began construction of its second manufacturing facility (“Fab 2”) in Fremont, Alameda. Fab 2 will be a highly automated plant where all operations required to process raw materials into the final product will occur. Fab 2 will produce photovoltaic systems that enhance sunlight collection by capturing direct, diffuse and reflected sunlight across a 360-degree PV surface, which is then converted into electricity. According to the Applicant, the systems, which feature proprietary cylindrical modules, achieve the lowest system installation costs on a per watt basis for the commercial, industrial and public-sector rooftop market.



360° PV Module

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Automated Material Handling System	\$ 22,552,000
CIGS System	107,836,000
Glass Cleaning Tool	9,660,000
FE Binning/Tray Swap	3,372,000
FE IVT System	2,832,000
Glass Inspection Tool	2,253,000
Moly Tool	23,286,000
Pre-CdS Tube Inspection System	1,388,000
Transparent Conductive Oxide Sputter Deposition Tool	26,418,000
CdS Layer Tool	19,250,000
P1-P4 Scribe Tools	26,528,000
Gas Bag Cell	13,026,000
Encapsulation Cell	61,756,000
BE Binning Cell	439,000
Automated Panel Framing Line	11,984,000
P1-P4 Scribe Test Cell	3,415,000
Cell IVT System	427,000
Reliability Light Soak Room (Reliability Lab)	2,352,000
Offline FE Metrology	2,152,000
IT Architecture	7,823,000
Production and Process Engineering 1	1,605,000
Carrier RV	644,000
Front End Glass Scrap Tool, HVAC, exhaust system, water systems, chemical, gas and electrical systems, etc.	<u>30,778,000</u>
Total	<u>\$381,776,000</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

The construction of Fab 2 began in September 2009. Solyndra expects the first production output from the first phase of Fab 2 to occur in the fourth quarter of 2010 with full project completion of the first phase of Fab 2 to occur in the second quarter of 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$381,776,000 and the total net benefits are valued at \$8,226,021 for the Project. The Project received a Total Score of 1,277 which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 639 which exceeds the 100 point threshold.

- A. **Fiscal Benefits (598 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Company's sales taxes, personal income taxes, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$20,765,274 resulting in a Fiscal Benefits Score of 598 points for the Project.

- B. **Environmental Benefits (639 points)**. The Project results in \$22,202,363 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 639 points for the Project. These benefits derive from the capacity of solar PV modules 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 Total Score. The Applicant submitted information and received 40 additional points.
 - 1) **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of 721 permanent jobs at their Facility. CAEATFA estimates that approximately 78 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. 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 1,363 construction jobs at the Facility. CAEATFA estimates that approximately 147 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. 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 value of out-of-state non-greenhouse gas pollution benefits are valued at \$6,381,947 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Solyndra expects to obtain all necessary permits for the first phase of Fab 2 prior to beginning operations.

LEGAL QUESTIONNAIRE

The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed in the Solyndra application are not grounds to deny the application.

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 \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. SM-006 for Solyndra Fab 2 LLC's purchase of Qualified Property in an amount not to exceed \$381,776,000 anticipated to result in an approximate sales and use tax exclusion value of \$34,741,616.

³ California Code of Regulations Title 4, Division 13, Article 2, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH SOLYNDRA FAB 2 LLC.**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the application of **Solyndra Fab 2 LLC** (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 an cost not to exceed \$381,776,000 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, 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).

Agenda Item -- 4.B.5
Resolution No. 10-SM006
Application No. 10-SM006

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 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.