

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

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

**STION CORPORATION
Application No. 10-SM011**

Wednesday, November 17, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – Stion Corporation

Location – San Jose, Santa Clara County

Industry – Solar: Thin-Film Photovoltaic

Project – Expansion of Current Thin-Film Photovoltaic Manufacturing Facility

Value of Qualified Property – \$105,473,402

Estimated Sales and Use Tax Exclusion Amount² – \$9,598,080

Application Score –

Fiscal Benefits Points:	647
<u>Environmental Benefits Points:</u>	<u>366</u>
Net Benefits Score:	1,013

<u>Additional Benefits Points:</u>	<u>40</u>
Total Score:	1,053

Staff Recommendation – Approval

THE APPLICANT

Stion Corporation (“Stion” or the “Applicant”), a corporation founded in Delaware in 2006, is, according to the Applicant, one of the world’s highest-efficiency manufacturers of low-cost thin-film photovoltaic (“PV”) solar modules for residential, commercial, utility and off-grid

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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applications. Stion, located in San Jose, California, is in consideration for a \$75 million loan guarantee from the U. S. Department of Energy. In addition, the Applicant secured a \$37.5 million renewable energy manufacturing tax credit through the American Recovery and Reinvestment Act's 48C stimulus program. According to the Applicant, these financing opportunities will enable expansion of Stion's current 5 MW pilot Facility to a 140 MW Facility by 2011.

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

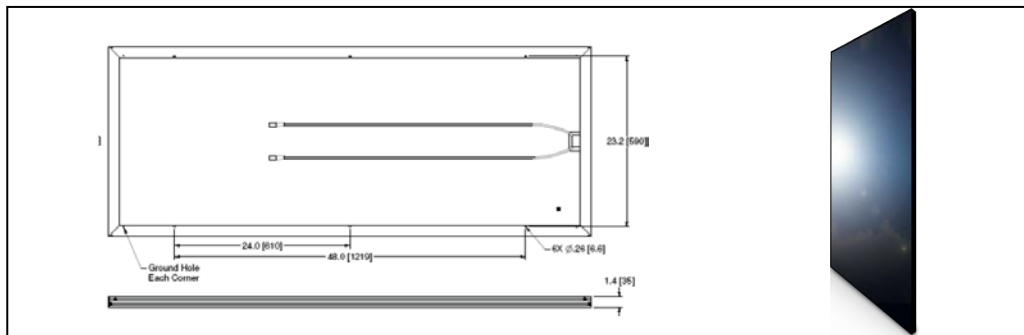
- VentureTech Alliance
- Lightspeed Venture Partners
- Khosla Ventures
- Khosla Ventures III

The officers of Stion Corporation are:

- Chet Farris, CEO/President
- Vineet Dharmadhikari, COO
- Howard Lee, CTO

THE PROJECT

Stion will be expanding its current pilot Facility, which has the capacity to manufacture solar panels to produce 5 MW of power, to a 10 MW Facility by the end of 2010. The company's goal is to reach a manufacturing capacity to produce 140 MW capacity of solar panels by the end of 2011. The Applicant will expand into the remainder of its current building, located in San Jose, California, and will occupy an adjacent building on the same campus that will be used for manufacturing of their solar modules. As part of the expansion, Stion intends to purchase \$105,473,402 in Qualified Property that will consist of manufacturing equipment to produce thin-film PV solar modules. As the figure below shows, the 65 cm by 165 cm size is approximately 25 percent larger than many other leading thin-film products. According to the Applicant, this form factor allows for easy handling and installation, enabling more panels per rack. The anodized aluminum frame is compatible with most industry standard racking solutions.



Stion's SN -110/ SN -120/ SN -130 Series Solar Panels

ANTICIPATED COSTS OF QUALIFIED PROPERTY

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The anticipated Qualified Property purchases are listed below:

Absorber Formation Equipment	\$ 29,470,909
Backend Operations	16,997,922
TCO Deposition	13,129,602
Automation Equipment	7,265,036
Facilities Equipment	7,147,000
Precursor Deposition	6,796,000
Emitter Formation	6,175,000
Electrode Deposition	5,730,531
Cell Patterning	3,981,800
Quality Assurance	2,500,000
IT Equipment	2,000,000
Inspection Equipment (13 items)	1,324,000
Material Handling	1,080,000
Waste Management	780,000
Glass Preparation (6 items)	742,599
Storing and Shipping	290,602
WIP Tracking	62,400
Total	<u>\$105,473,402</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

Stion has already begun to place orders with the necessary vendors for the expansion of its pilot Facility, initiated design review, and will soon begin Facility retrofitting and construction. Stion began development of its expanded Facility in July 2010 and the installation of the Qualified Property is scheduled to occur between quarters 1 and 3 of 2011. Stion expects the Facility to be completed and operational by December 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$105,473,402 and the total net benefits are estimated at \$121,648 for the Project. The Project received a Total Score of 1,053 which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 366 which exceeds the 100 point threshold.

- A. Fiscal Benefits (647 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 \$6,207,404 in fiscal benefits, resulting in a Fiscal Benefits Score of 647 points for the Project.
- B. Environmental Benefits (366 points).** CAEATFA staff estimated that the Project will result in an environmental benefits value of \$3,512,324 over the life of the Facility resulting in 366 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 final 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 343 permanent jobs at the Facility. CAEATFA staff estimated that approximately 33 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 150 construction jobs at the Facility. CAEATFA staff estimated that approximately 14 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) Process Improvement (0 of 40 points).** The Applicant provided documentation in which it certifies the Project will have substantial process improvement in industrial and post-consumer solid waste since Stion is the only U.S.-based company that has process technology proven capable of manufacturing cadmium-free modules. CAEATFA staff has not evaluated this documentation further as

the Applicant has already obtained the minimum point threshold necessary to qualify for the sales and use tax exclusion. Thus, no additional points were awarded in this category.

- 4) **Non-CA Environmental Benefits (40 of 40 points)**. The Applicant's total out-of-state non-greenhouse gas pollution benefits are valued at \$901,802 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Stion has reviewed its expansion plans with the City of San Jose Planning Department and has complied with all permits and requirements necessary to execute the Project to its current stage. Stion does not anticipate obstacles in permitting to fully commission and operate the Project on schedule. The expansion will not entail any change in use of the buildings and property. The location is properly zoned for light industrial use.

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 \$350,000 if approved for a sales and use tax exclusion.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM011 for Stion Corporation's purchase of Qualified Property in an amount not to exceed \$105,473,402, anticipated to result in an approximate sales and use tax exclusion value of \$9,598,080.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH STION CORPORATION**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Stion Corporation** (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 \$105,473,402 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.