

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
December 13, 2011**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 11:35 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Pedro Reyes for Ana J. Matosantos, Director, Department of Finance
Paul Clanon for Michael R. Peevey, President,
Public Utilities Commission
Kevin Barker for Robert B. Weisenmiller, Chair,
California Energy Commission

Staff Present: Christine Solich, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the November 15, 2011 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Gordon moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Solich began her report by announcing that Martha Alvarez was promoted to an Associate Treasury Program Officer. She then announced that Jennifer Gill, who has a double-degree from UC Berkeley, was promoted to a Staff Services Analyst and will be assisting Martha Alvarez with the implementation of AB x1 14 along with Amy Nabel, an Executive Fellow, who will be working part-time with CAEATFA.

Ms. Solich continued to report that CAEATFA entered into an interagency agreement with

the State Treasurer's Office (STO) in the amount of \$15,740 for annual building rent and security. CAEATFA also entered an agreement in the amount of \$17,550 with the STO for webcasting services.

Ms. Solich then reported that Staff had held four stakeholder meetings in regard to AB x1 14 since the November 15, 2011 Board meeting. She then introduced Martha Alvarez who has been vital in the implementation of AB x1 14.

Ms. Alvarez reported that over the past several weeks, CAEATFA had made significant progress towards designing the Clean Energy Upgrade Financing Program. Over the past two months, CAEATFA has been collaborating with the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC) staff to develop appropriate quality assurance and contractor certification requirements. Staff has also met with California Pollution Control Financing Authority (CPCFA) staff to become more familiar with their California Capital Access Program (CalCAP) since it has been so successful and CAEATFA will be modeling the loan loss reserve program based on CPCFA's experience with CalCAP.

Ms. Alvarez then reported that CAEATFA had identified that the best way to receive public input was by having targeted public meetings with a variety of stakeholders. In November and December 2011, Staff held four meetings with local governments, investor owned utilities, contractors and financial institutions. CAEATFA's stakeholder meetings were very well attended with participants in person and over the phone.

- At the November 18, 2011 contractor's meeting there were more than 59 participants in person and over the phone.
- At the November 29, 2011 local governments' meeting there was more than 15 participants.
- At the December 2, 2011 financial institutions' meeting there was more than 55 participants, mostly credit unions and community banks.

At this point CAEATFA is proposing an initial 15% loan loss reserve contribution for each loan made, and once financial institutions reach \$250,000 in loan volume, CAEATFA will reduce the contribution amount to 10% for any additional loans made.

She continued to report that Staff had received very positive feedback from those who participated in the meetings and received comments that an initial 15% contribution was sufficient. Lenders liked that CAEATFA will allow participating financial institutions to develop their own underwriting criteria and seemed to appreciate that there will be quality assurance standards.

She then reported that the deadline to submit a written public comment was December 12, 2011 and Staff had received nine written public comments to date. Since the deadline Staff has been working on integrating some of those comments into regulations and anticipates that draft emergency regulations will be released in January 2012. CAEATFA will host another public workshop to solicit comments on regulations for lending criteria and structure of the loan loss reserve. The regulation process will include identifying minimum eligibility

requirements and the framework and criteria for a program that will maximize the use of the available funds.

Staff anticipates bringing final emergency regulations to the Board for approval in February 2012. Staff's goal is to have effective regulations by March 2012 and start enrolling and training qualified financial institutions soon after the regulations are effective. She advised that Staff will continue to collaborate with the CEC and PUC to engage local governments, the utilities and contractors, educate consumers, and enroll interested financial institutions as participating lenders.

Mr. Reyes asked what was meant by local government.

Ms. Alvarez explained that local governments included cities and counties, many of which have energy efficiency financing programs already in place.

Ms. Solich reported that Sonoma County has requested access to the PACE Bond Reserve Fund. Legislation was passed in 2010 to create a bond reserve program for PACE financing and the Federal Housing Finance Agency then gave notification to local governments and agencies throughout the country that essentially shut down most of those programs. Sonoma County continued to move forward and currently has a pipeline of assessments and they would like to seek take out financing. Sonoma County commissioned a market feasibility study for this purpose – one that could be replicated by other cities and counties as well. CAEATFA Staff will begin promulgating the regulations for the SB 77 PACE bond reserve program.

With respect to the SB 71 program, she continued to report that all applicants are required to purchase 25% of the qualified property within the first year after board approval and not all projects will be moving forward due to market conditions and various other reasons. There are six projects on the agenda that are requesting extensions to purchase qualified property that Staff will be recommending approval for. Quantum Fuel System Technologies, a solar panel manufacturer that did not meet the requirement to purchase 25% of the qualified property within the first year and will not be moving forward and has requested to withdraw their application. The regulatory agreement for Quantum Fuels Systems technologies will be terminated but the company can reapply to the program in the future.

With regard to Agenda Item 3 – the pipeline report of the SB 71 Program applications – Ms. Solich reported that Staff would be presenting one SB 71 project for approval. The project is Tesla Motor, Inc., an electric vehicle manufacturer, located in Fremont, California. With the approval of Tesla the Board will have approved \$115 million in sales and use tax exclusions (STE) representing about \$1.3 billion in qualified property. Staff has revised the pipeline report to reflect projects that are not moving forward.

She then ended her report.

4. BUSINESS ITEMS

A. REQUEST FOR APPROVAL OF BOND POST ISSUANCE COMPLIANCE PROCEDURE

Presented by: Alejandro Ruiz, Analyst

These procedures outline the Borrower's responsibilities for complying with IRS guidelines established for the use of bond proceeds, record keeping requirements, and arbitrage rebate and yield. All of the Authority's bond issuances, including those for exempt facilities, Qualified Energy Conservation Bonds and Clean Renewable Energy Bonds, will be covered by these procedures.

Staff recommended the Authority approve a resolution authorizing the adoption of the written procedures for post bond issuance tax compliance.

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

B. DISCUSSION AND CONSIDERATION OF APPLICANTS' REQUESTS FOR WAIVER OF TIME REQUIREMENT TO PURCHASE AT LEAST 25% OF QUALIFIED PROPERTY UNDER SB 71 PROGRAM

To be presented by Heather Williams, Analyst and Cheryl Ide, Analyst

Prior to the presentation by Staff, Mr. Reyes moved approval on agenda items 4.B.1 – 4.B.6; upon a second, the items were unanimously approved.

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

Mr. Clanon commented that Staff had done a good job on the staff summaries.

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

C. REQUEST TO APPROVE PROJECT FOR SB 71 SALES AND USE TAX EXCLUSION

Presented by: Heather Williams, Analyst

Tesla currently benefits from a sales and use tax exclusion (STE) awarded by CAEATFA in December 2009, prior to establishment of the SB 71 Program, for up to \$320 million for the equipment and tooling required for the production of its Model S

sedan and for powertrain components it manufactures for Daimler AG and the Tesla Roadster. To date, Tesla has committed approximately \$180 million of this amount to its vendors of which \$70.5 million has been submitted to CAEATFA through the conveyance/reconveyance process. Tesla anticipates exhausting the remaining existing STE award by the end of 2012.

This application is a new request for STE for two additional projects: 1) Tesla Model X and 2) expansion of manufacturing activities for electric vehicle powertrain components those for the Toyota Rav4 EV.

The Model X is a crossover model that will be Tesla's third vehicle. Tesla currently plans to reveal a prototype Model X in the first quarter of 2012, followed by commercial introduction of this vehicle in the fourth quarter of 2013.

Tesla is also developing an electric powertrain for the Toyota RAV4. Tesla also anticipates expanding its powertrain manufacturing activities beyond current arrangements with Daimler and Toyota and building additional vehicle and powertrain components for its own vehicles.

Tesla anticipates it will begin purchasing equipment for both the Model X production and the powertrain activities during the fourth quarter of 2011. The Model X equipment is anticipated to be placed in service in time to launch the Model X in 2013, and the powertrain equipment will be placed in service within a month or two after installation.

Staff recommended approval of Resolution No. 11-SM016 for Tesla Motors, Inc.'s purchase of Qualified Property in an amount not to exceed \$292,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$23,652,000.

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

Mr. Reyes asked what the benefit of the project would be.

Ms. Williams replied that the benefit would be \$13.7 million.

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

Ms. Redway asked if there was a motion.

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

D. DISCUSSION AND CONSIDERATION OF MODIFICATIONS TO THE SB 71 SALES AND USE TAX EXCLUSION PROGRAM'S REGULATIONS

Presented by: Deana Carrillo, Program Manager

CAEATFA Staff proposed modifications to the SB 71 Program. Since implementation, Staff has continued to evaluate the SB 71 Program. The changes are being proposed in response to comments and testimony made at the SB 71 oversight hearing conducted by the legislature on October 19, 2011 as well as the experience of Staff in dealing with previously approved and prospective applicants.

After Board consideration, a draft of these proposed modifications will be noticed for public comment according to the emergency rulemaking process. The modifications include:

- Modifying the scoring methodology to better estimate net benefits of a project in certain unusual circumstances, such as when applicants anticipate operating an a substantial loss for the duration of the period covered by the application.
- Correct an inaccurate description of the Board approval process – the Board approves an amount of eligible Qualified Property, not sales and use tax exclusion.
- Clarifies the terminology and circumstances under which the Authority may choose to terminate an agreement under the Program, and/or rescind an award of financial assistance.
- Modifies the time period an Applicant is required to maintain equipment from a period equal to the term of the regulatory agreement or three years, whichever is shorter, to one year. The modifications would allow applicants that seek to upgrade and modernize their equipment the opportunity to do so by allowing them to sell or otherwise dispose of the older equipment without penalty.

Pursuant to the SB 71 statute, CAEATFA was granted emergency rulemaking authority which provides the ability to make modifications or changes to the regulations in an expedited manner. During this time period CAEATFA staff will also promulgate the regulations through the regular rulemaking process.

Staff does not anticipate any negative public comment to these proposed modifications, and will bring any unanticipated substantive issues to the Board for consideration and deliberation.

Staff recommended adoption of a resolution to approve the proposed modifications to regulations for the SB 71 Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax Exclusion Program.

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

Mr. Reyes asked what corrections had been made to the staff summary.

Ms. Carrillo explained that there were two modifications that were made to ensure that there was consistency with the one-year requirement and clarification to the certification letter and compliance report to ensure consistency with the regulations.

Ms. Redway clarified for the Board that the information was the same as originally intended but since the information was located in various sections of the regulations Staff made sure that information was addressed correctly and consistently in the staff summary.

Ms. Redway commented that the one-year limit is a policy call where Staff is trying to balance the rapidly changing technology.

Mr. Reyes commented that the one-year limit makes sense because a lot of the technology comes and goes rather quickly.

Ms. Redway encouraged Staff to continue to look at that policy and make sure the State's interests were protected in keeping the equipment in place for as long as possible while being flexible for the businesses.

Mr. Reyes asked if property is transferred and that becomes a taxable event can that property be donated to someone else.

Mr. Hedrick explained that whether or not the transfer of ownership is a taxable event would be determined by the Board of Equalization (BOE).

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

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

5. PUBLIC COMMENT

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

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:58 a.m.

Respectfully submitted,

Christine Solich
Executive Director