

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
April 17, 2012**

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 10:45 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
Sekita Grant for Robert B. Weisenmiller, Chair,
California Energy Commission

Staff Present: Christine Solich, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the March 20, 2012 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

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

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Solich began her report with an update of CAEATFA’s programs. As required by statute, CAEATFA submitted the PACE Bond Reserve Fund (SB 77) and Clean Energy Upgrade (AB x1 14 Program) Annual Report to the legislature by the March 31, 2012 deadline. The report has been posted to the CAEATFA website.

She continued to report that under the SB 71 program, energy efficiency falls within the

definition of alternative source. However, the evaluation of energy efficiency projects is not as clear. Staff is specifically working on defining certain thresholds for eligibility and evaluation of such energy efficiency projects where there are currently no clear standards. Staff and consultants plan to engage experts and analyze criteria in a thoughtful and thorough way. Given this process, it will likely take time and will mean delaying the evaluation of some energy efficiency projects currently in the pipeline. Staff will come back next month with an update on the progress, the timing of implementing any changes, and the pipeline of potential energy efficiency projects.

Ms. Redway clarified that Staff would like to get a better definition of energy efficiency before the Board considers any further applications.

Ms. Solich confirmed.

Ms. Solich then reported on SB 1128 (Padilla), a bill introduced to create a sales and use tax program for advanced manufacturing. Ms. Solich participated in an informational legislative hearing in March on the role of advanced manufacturing in California's economic future. There were several representatives from the manufacturing industry and associations also there to testify. She provided an update on the SB 71 program and Senator Padilla was pleased with the transparency of the program and of Staff's progress in implementing the program. Senator Padilla is looking forward to future updates as the program continues.

Ms. Solich continued to report that Staff had issued a Request For Proposal (RFP) for a trustee bank for the Clean Energy Upgrade Financing Loan Loss Reserve Program under AB x1 14 not to exceed \$150,000. Staff has also released a Request for Information (RFI) under the AB x1 14 program, encouraging interested parties to provide Staff with proposals for credit enhancement structures to supplement the loan loss reserve program that Staff is establishing. Proposals are due in early June.

She then ended her report.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF EMERGENCY REGULATIONS FOR THE LOAN LOSS RESERVE PROGRAM UNDER THE CLEAN ENERGY UPGRADE FINANCING PROGRAM (ABx1 14)

Presented by Martha Alvarez, Associate Treasury Program Officer

CAEATFA has up to \$25 million to provide credit enhancement support for financial institutions making loans to finance energy efficiency and renewable energy improvements on real property. The underlying goals are to promote the creation of green jobs, to promote the reductions of greenhouse gases, air and water pollution or energy consumption, and to increase access to retrofit financing at better rates than a borrower would be able to receive without the existence of credit enhancements.

CAEATFA staff has undertaken a nine month development process and has obtained significant input and subject matter expertise from California Energy Commission (CEC) and California Public utilities Commission (CPUC) staff in regards to quality assurance standards and contractor qualification requirements. In total, eight focus groups and workshops were held with stakeholders to discuss key issues and gain substantial input to develop the program. To date, 35 public comment letters have been received from stakeholders who engaged in the public rulemaking process. Staff has analyzed and considered all comments and incorporated changes to the emergency regulations when appropriate.

In the initial phase of the program, Staff is proposing to establish a Loan Loss Reserve Program in which CAEATFA will make an initial 15 percent contribution for each qualified loan enrolled in the program. This will allow CAEATFA to leverage private capital while mitigating some of the initial credit risk that is perceived with making these types of new loans. Once a Participating Financial Institution's enrolled loan volume reaches \$250,000, CAEATFA's contribution will be reduced to 10 percent for additional loans made.

Under the proposed structure

- Eligible properties include a residential project of three units or fewer.
- Eligible improvements:
 - In regulations, the proposed program limits Eligible Improvements to those recommended by a pre-project energy efficiency assessment and which are designed to achieve a minimum of ten percent energy savings, and distributed generation renewable energy sources as long as they meet a loading order requirement.
- Minimum Underwriting Criteria. As determined by statute, loan recipients, referred to as Borrowers in the regulations, must be the legal owners of the underlying property, must be current on mortgage and property tax payments, and must not be in default or bankruptcy proceedings.
 - The loans must also be in an amount less than ten percent of the value of the property.
 - CAEATFA will allow Participating Financial Institutions to determine the mechanism to assess the value of the property and add additional underwriting criteria for their loans.
- Participating Financial Institutions. For the first phase of the program, the Authority chose to define an applicant as a Financial Institution—an insured depository institution, insured credit union, or community development financial institution.
 - Interested Financial Institutions will be required to submit an application in order to be considered for the Program and may submit them at any time for consideration.

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- Applicants will be evaluated based on information submitted on an application and will be required to submit a detailed description of the cost efficiency, transactional activities and transactional costs associated with its loan program to finance Eligible Improvements.
- Quality Assurance Standards. All improvements financed by the Program must meet quality assurance standards.
 - All projects will be required to have a pre-project energy assessment to assist in identifying appropriate and comprehensive energy efficiency retrofits and operations improvements.
 - Eligible improvements must also be evaluated by a post-project energy assessment conducted by an independent third-party inspection to verify the improvements were installed correctly.

Timeline

Upon Board approval of the proposed emergency regulations, a formal emergency rulemaking process will begin with the Office of Administrative Law.

Staff's goal is to have effective regulations by mid to late May 2012 and start enrolling and training qualified participating Financial Institutions soon after.

Staff recommended approval of a resolution to approve the proposed emergency regulations establishing the Loan Loss Reserve Program under the AB X1 14 Clean Energy Upgrade Financing Program and authorize Staff to undertake emergency and permanent rulemaking proceedings and other actions related to promulgation of the regulations.

Ms. Redway acknowledged that it had been a long nine month process and thanked Ms. Alvarez for her persistence in getting the regulations to the Board. She also thanked the CPUC and CEC staff for their efforts.

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

Mr. Clanon asked how the legislative reporting will work.

Ms. Alvarez advised that the annual report is due to the Legislature by March 31st of every year.

Mr. Clanon asked if Staff would have some experience with energy savings by the time annual reports were due.

Ms. Alvarez confirmed that the Legislature will be interested in energy savings and how those savings were passed on to the consumers. Lenders will be required to provide that information on each loan application.

Mr. Reyes asked about a volume purchase option similar to those that had been

provided to charter schools through another financing authority. When the loan is limited to 10 percent of the value it is a low risk but there will be some participants that are higher risks by virtue of the business that they are in or the project. He hopes that at some point in the future as this program progresses volume purchase is a viable option.

Ms. Redway advised that Staff has asked for alternative proposals through the RFI process. The volume purchase option for the schools was through the bond program so there are some distinctions.

Mr. Reyes commented that it may not be viable.

Mr. Reyes moved approval of agenda item 4.A.1; upon a second, the item was unanimously approved.

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

B. SB 71 ANNUAL REPORTS

Presented by Deana Carrillo, Program Manager

The SB 71 Sales and Use Tax Exclusion Program (Program) requires that approved applicants report to CAEATFA on their activity, including employment and production levels, on an annual basis. In January 2012, twenty-nine applicants filed an annual report. The purpose of the reports is to assist Staff in identifying any issues related to a specific project, and also to provide an aggregated data source to identify broader trends of activity and success under the Program. This overview provides a summary of the broad trends of activity under the Program in 2011.

Given that the Program had been operating for only one year at the end of 2011, this summary highlights the progress being made by applicants as the qualified property is initially purchased and installed. On average, only 10 months had passed between board approval and annual report submission.

Highlights from the 2011 Annual Report include:

- Eighteen of the applicants reporting (62 percent) had purchased over \$157.4 million in equipment and machinery in 2011 for their projects. (Eight Applicants, or 28 percent, were granted extension of the time to purchase at least 25% of the approved Qualified Property in 2011 and early 2012.)
- About half of the applicants (52 percent) had purchased inputs and supplies for the manufacturing of their end-products (this does not include manufacturing equipment).
- Sixteen applicants (55 percent) had full-time employees on staff.

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- About one-quarter of applicants (28 percent) had progressed to the point of product sales.
- More than one-fifth of applicants (21 percent) had purchased Qualified Property, hired full-time employees, made supplier purchases, and sold their product on the market.
- In total, more than 1,400 full-time employees were on company payrolls in 2011.
- More than 600 construction-only employees have been utilized.
- The projects created a total of more than 2,000 jobs in 2011, which is well toward the anticipated number of 5,174 that are anticipated over the lifetime of the combined projects.

The information provided in the annual reports is consistent with what staff anticipated to observe after the initial year of activity under the SB 71 Program. As noted above, as time passes, analysis of these reports will be able to delve more deeply into the effects of the program itself, specifically identifying the fiscal and environmental benefits to the State of the program.

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

Mr. Clanon commented that the report was an excellent summary of the progress. He's encouraged by the fact that the jobs and purchases are roughly in the expected range and is given confidence going forward that the application, evaluation and staff summary processes are accurate.

Ms. Redway asked if there were any further questions or comments from the Board or 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 11:02 a.m.

Respectfully submitted,

Christine Solich
Executive Director