

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
September 18, 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 10:49 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
Saul Gomez 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 August 21, 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 on the Clean Energy Upgrade Financing Program (AB x1 14). In August, Staff reported that two participating financial institutions had been enrolled as lenders under the program, Safe Credit Union and the Sacramento Municipal Utility District (SMUD). On September 11, 2012, the Bank of Stockton, which has lending coverage in nine counties in the central valley, was approved as a participating lender. Staff is in the process of reviewing two other lender applications and has been busy setting up internal processes and training lenders in anticipation of loan enrollments. Staff will update the Board on progress in the program as it continues to move forward.

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Ms. Solich continued to report that the Federal Housing Finance Agency (FHFA) essentially shut down PACE programs throughout the country in 2010. This stalled Staff's effort to implement SB 77 (PACE Bond Reserve Program) which was signed into law in 2010. Staff has been following the FHFA's progress on the court-ordered rulemaking regarding PACE programs. Recently the Treasurer responded by letter, during the public comment period which ended September 13, 2012, in support of the establishment of additional underwriting standards consistent with those set forth in proposed federal legislation the PACE Assessment Protection Act of 2011 (HR 2599). Those standards include: consumer protections including energy audit and qualified contractor requirements, cost benefit analysis, and requirements that the property owner must have at least 15% equity in the home, among other risk mitigators. She further explained there were hundreds of letters submitted in support of the development of additional underwriting standards. The hope is that the FHFA will adopt this position, establish standards and allow PACE programs to move forward.

Ms. Solich reported that at the August meeting the Board discussed potential options for incorporating energy efficiency projects into the Senate Bill 71 (SB 71) program. This discussion led to Board direction to Staff to organize a workshop and work with the California Energy Commission (CEC) to identify key stakeholders that should be included in the workshop. She also reported on legislation that would impact CAEATFA, specifically Senate Bill 1128 (SB 1128), that would add advanced manufacturing to the sales and use tax exclusion (STE) program. Staff has put the energy efficiency workshop on hold until the Governor decides to sign or veto SB 1128. If approved, SB 1128 would have significant implications for the SB 71 program that will need to be considered before moving forward, one of which is a \$100 million annual cap that would be placed on the program. Staff should have better sense of direction by the end of September 2012 and will update the Board at the October meeting.

Ms. Solich then reported that she had approved an interagency agreement with the State Treasurer's Office (STO) in the amount \$21,403 for Rent and Security. This is an increase from \$15,700 from last year due to the way the Department of General Services (DGS) calculates square footage and an increase in security costs. CAEATFA also entered into an interagency agreement in the amount of \$115,918 with the STO for administrative costs – personnel, business services, budgets, information technology and legal services. This is the same amount as last year.

She then ended her report.

Mr. Reyes asked if the Treasurer's letter to FHFA had been mailed to the CAEATFA board members.

Ms. Solich responded that the letter had not been mailed to the Board members but offered to send an electronic copy.

4. BUSINESS ITEMS

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

- 1) SCE Crazy Horse, LLC, Salinas (Monterey County),#10-SM021, Landfill Gas Capture and Production, \$1,558,460 of Qualified Property

Presented by: Cheryl Ide, Associate Treasury Program Officer

In December 2010, the CAEATFA Board approved a landfill gas project for Ameresco Crazy Horse, LLC. SCE Crazy Horse, LLC (SCE) purchased the Project from Ameresco on December 23, 2011. SCE is requesting an assignment of the Project resolution to reflect the change in ownership and a waiver of the 25% Purchase Requirement.

SCE will be installing a similar Project and will be purchasing approximately \$1.5 million in qualified property, resulting in an estimated STE of \$126,000. The project is anticipated to have a net benefit to the State.

SCE is also requesting a waiver for the 25% Purchase Requirement to accommodate the timeframe for its interconnection agreement with PG&E.

Staff recommended approval of an assignment of the resolution from Ameresco Crazy Horse LLC, to SCE Crazy Horse, LLC to reflect the change in ownership of the Project and an extension of the 25% purchase requirement to August 31, 2013.

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

Mr. Reyes asked if the company had not been sold would this have been their second extension.

Ms. Ide replied yes.

Mr. Reyes asked if a one year extension was granted to the original applicant.

Ms. Carrillo confirmed that a one year extension had been approved for the 25% purchase requirement.

Mr. Reyes stated that it has been approximately 24 months since this project was first approved.

Ms. Carrillo confirmed.

Mr. Reyes asked if Staff was giving the applicant an additional year.

Ms. Ide clarified that the extension would be until August 31, 2013 which is less than a

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year.

Mr. Reyes stated that he was concerned that there were not any representatives from SCE in attendance.

Ms. Carrillo stated that representatives from SCE were asked to attend but were unavailable.

Mr. Reyes commented that it appears as though Staff is encouraging Crazy Horse to participate in the program instead of Crazy Horse showing an interest in participating. Though he understands that the award is transferable, he anticipates that Crazy Horse is not ready to move forward with the project.

Ms. Carrillo clarified that when SCE purchased Ameresco Crazy Horse they purchased the full project. The company represented that as a business decision they concluded that it would not make sense to buy the equipment now and have it sit unused and they are making this request to adjust to their business schedule.

Mr. Gordon asked if SCE Crazy Horse was a different entity or if it was an existing corporation using a different dba.

Ms. Carrillo directed the Board members to the ownership information on page two of the staff summary. She explained that Staff had discussed the timing of expenditures with SCE to confirm the company could meet the program requirement that all qualified property be purchased within three years. The company represents that it will be able to meet that requirement, so they are not asking for an extension of the three year requirement.

Mr. Reyes asked if only the 25% requirement is being extended.

Ms. Carrillo confirmed that was correct.

Mr. Reyes then asked is the 36 month time line was being extended.

Ms. Carrillo answered no.

Ms. Redway clarified that the company still has to meet the three year requirement and that they are not asking for an extension on the three year requirement. If they do not meet the three year requirement they will have to re-apply.

Mr. Clanon asked Mr. Reyes if his concern was the viability of the project.

Mr. Reyes stated that his concern is whether this action is consistent with the purpose of the program. He believes the purpose of the program is to provide an incentive to encourage companies to do these types of projects in California. With the transfers and extensions he no longer sees it as an incentive; he sees it more as a windfall. The question becomes is the program doing what it's intended to do, which is provide a

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reward for doing business in the State. He continued to say that from the staff summary it sounds as though Staff reached out to the company several times.

Ms. Carrillo confirmed that CAEATFA Staff does inform applicants of upcoming program milestones and deadlines—like the 25% purchase requirement—prior to deadlines as a professional courtesy.

Mr. Reyes commented that the company was purchased with the provision for a tax exclusion which was not a critical part of the purchase. In other programs there are consultants that go out and evaluate programs that should qualify such as enterprise zones, school area mandates and homeowner appraisals. He added that though he appreciates Staff's business friendliness he views it as SCE getting a "windfall" and not being aware of it when they bought the company.

Ms. Redway responded that the Treasurer made it clear that he did not want to do a project by project analysis. He wanted a neutral scoring test that could be applied to all applicants so that Board members were not asked to make decisions based on representations from one company versus another; an evaluation of a company's actual need—other than what is done through the program's scoring. If there is a heavy demand and the program was coming up against the \$100 million soft cap regularly, the waiver may not have been granted. Staff is being lenient with the 25% requirement especially in light of the economy. If there is a desire for the Board to reconsider the scoring criteria or the way business is done with the applicants in terms of notifying them when deadlines are approaching that can be discussed a later Board meeting however, she is not willing to single out this company or treat them any differently if they are meeting the scoring requirements.

Ms. Carrillo added that one of the ways Staff addresses the unknown of what a company would or would not do without the program is incorporated in the program's evaluation process. The evaluation is not based on the whole project, a basic assumption is made that because of the sales tax exclusion the company is making a small increase in the purchase of equipment. Everything is calculated on the marginal increase in productivity, when the net benefits are calculated it isn't based on the whole project that may or may not have existed without the program.

Mr. Reyes appreciated Ms. Carrillo's comments and said that he agreed with Ms. Redway and is raising the issue because it is the first time a project is requesting a second waiver request under the program. If it were the same company that requests a second extension, there would be a question of whether or not they are ready. The transfer and extension is causing him pause. He suggested that Staff talk to the Governor's Office of Economic and Business Development (GoBiz). He understands that Staff evaluated the numbers and the project would have qualified if SCE would have applied.

Mr. Clanon understands Mr. Reyes' concern about free riders but states that the function of the program's incremental analysis is to minimize free riders—and they will always exist in this type of program.

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Mr. Reyes commented that if it were the original company viability, would have been an issue.

Mr. Clanon added that he wonders what is new about the new financial arrangements that would make it more viable. The viability concern would be a bigger concern if the program was approaching the cap but it is not. He added that it was a good discussion

Mr. Clanon moved approval of the project.

Ms. Redway acknowledged that Staff is two and a half years into the program, Staff works closely with GoBiz and GoBiz has been frustrated that not all of the companies they try to get into the Program qualify. She added that it could be worth looking at the scoring system and it has been talked about with Legislative staff because if SB 1128 passes the programs will need to be streamlined.

Mr. Clanon added that it was wise of the Treasurer not to score individual projects separately because it is incredibly difficult to do.

Ms. Carrillo added that Staff has taken the Board members comments to heart and have coordinated with GoBiz in general and more specifically on what can be done better or differently in the application process.

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

Ms. Redway acknowledged that there was a motion and a second.

The item was approved by the following vote: Bettina Redway, aye; Alan Gordon, aye; Paul Clanon, aye; Saul Gomez, aye; and Pedro Reyes, nay.

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 11:11 a.m.

Respectfully submitted,

Christine Solich
Executive Director