

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)¹

**Solexel, Inc.
Application No. 14-SM019**

Tuesday, October 21, 2014

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – Solexel, Inc.

Location – Milpitas, Santa Clara County

Industry – Solar Photovoltaic (PV) Module Manufacturing

Project – Expansion of Existing PV Module Manufacturing Facility

Value of Qualified Property – \$20,500,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,726,100

Estimated Net Benefits – \$11,387

Application Score –

Fiscal Benefits Points:	731
<u>Environmental Benefits Points:</u>	<u>276</u>
Net Benefits Score:	1,007

<u>Additional Benefits Points:</u>	<u>45</u>
Total Score:	1,052

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Solexel, Inc. (“Solexel” or the “Applicant”) is a Delaware corporation that organized in 2007 to develop and commercialize thin-silicon solar photovoltaic technology. The Applicant originally incorporated under the name Soltaix, Inc., but changed its name to Solexel, Inc. in May 2008. Solexel currently operates a pilot-engineering production line at its headquarters in Milpitas.

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

- KPCB Holdings, Inc. (15%)
- DAG Ventures (13%)
- Northgate Capital (10%)

The corporate officers of Solexel are:

- Michael Wingert, President and CEO
- Mehrdad Moslehi, Ph.D., Executive Chairman and CTO
- Mark Kerstens, Chief Sales & Marketing Officer and Acting CFO

THE PROJECT

Solexel is retrofitting its existing pilot-engineering line in Milpitas to enable high-volume production of mono-crystalline-silicon solar cells and the assembly of those cells into PV modules on a 15 MW production line (the “Project”). The Applicant represents that its PV modules will offer the superior performance and durability of other silicon-based PV modules at a price point comparable to the lower cost non-silicon thin-film PV modules. The Applicant also represents that its modules will be able to generate more electricity for a given area of installed PV and more electricity in adverse environmental conditions, such as shade, compared to the industry’s leading mainstream products. The PV cell’s design also removes the metal gridlines typically visible on the front of a cell and puts them on the back, resulting in a consistent, smooth, nearly all black aesthetic.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Texture and Etch Equipment	\$ 3,062,000
Screen Print and Dry Equipment	2,046,000
Furnaces	1,160,000
Lasers	4,150,000
Atmospheric Pressure Chemical Vapor Deposition	1,588,000
Plasma Enhanced Chemical Vapor Deposition	1,922,000
Physical Vapor Deposition	1,100,000
Lamination Equipment	2,285,000
Module Assembly Equipment	777,000
Test & Sort; Inspection; Metrology Equipment	2,410,000
Total	<u>\$20,500,000</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance 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) over 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 Applicant represents it has already begun the process of retrofitting its existing facility and will continue to install the remaining equipment into early 2015. The Applicant expects to begin manufacturing in the first quarter of 2015 and be producing at full capacity six to nine months thereafter.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$20,500,000 and the total net benefits are valued at \$11,387 for the Project. The Project received a Total Score of 1,052 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 276 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (731 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$1,261,678 resulting in a Fiscal Benefits score of 731 points for the Project.
- B. Environmental Benefits (276 points).** The Project will result in \$475,809 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 276 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 electricity generated by fossil fuels.
- C. Additional Benefits (45 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 45 additional points.
 - 1. Permanent Jobs (45 of 75 points).** The Applicant's Project will support a total of 118 permanent jobs at its Facility. CAEATFA estimates that approximately 11 of these jobs will be attributable to a marginal increase in

jobs created due to the approved STE resulting in a Permanent Jobs Score of 45 points for the Project.

2. **Construction Jobs (0 of 75 points)**. The Applicant's Project will support a total of 10 construction jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that it already has the necessary permits to operate at its facility and anticipates that all other local permits for installation of the Qualified Property, including building and fire permits and air and water permits, will be secured by the beginning of 2015.

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 \$10,000 and will pay CAEATFA an Administrative Fee of up to \$82,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM019 for Solexel's purchase of Qualified Property in an amount not to exceed \$20,500,000 anticipated to result in an approximate sales and use tax exclusion value of \$1,726,100.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SOLEXEL, INC.**

October 21, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Solexel, Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or 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 to acquire Project equipment with an estimated cost not to exceed \$20,500,000 over a period of three years; 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(a)(8)(B).

Section 2. The requested master regulatory agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(a)(7).

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.

Agenda Item – 4.B.1
Resolution No. 14-SM019
Application No. 14-SM019

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 listed in the semi-annual reports 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.