

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
December 15, 2015**

1. CALL TO ORDER & ROLL CALL

Tim Schaefer, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or the Authority) meeting to order at 10:34 a.m.

Members Present: Tim Schaefer for John Chiang, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Eraina Ortega for Michael Cohen, Director,
Department of Finance
Jana Romero for Robert B. Weisenmiller, Chair,
California Energy Commission
Nick Zanjani for Michael Picker, President, Public Utilities
Commission

Staff Present: Deana Carrillo, Executive Director

Quorum: The Chairperson declared a quorum.

2. MINUTES

Mr. Schaefer asked if there were any questions or comments concerning the November 17, 2015 meeting minutes. There were none.

Mr. Schaefer asked if there was a motion.

Ms. Ortega moved for approval of the minutes; upon a second from Ms. Baker, the minutes were approved.

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| The item was passed by the following vote: | |
| Tim Schaefer for the State Treasurer | Abstain |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Carrillo reported that the Sales and Use Tax Exclusion program staff have been working with new stakeholders eligible under the “Program” expansion authorized by AB 199—the subject of Agenda Item 4.C. Staff is also working through various research questions to inform modifications to the Program regulations.

Ms. Carrillo further reported that the California Hub for Energy Efficiency Financing (CHEEF) Program staff is working on completing the regular rulemaking for the launch of the Residential Energy Efficiency Loan Assistance Program – or REEL. She noted that CAEATFA was hosting a public hearing, and anticipates having the regulations before the Board for consideration in March.

Ms. Carrillo also reported that CAEATFA has filled that Staff Services Manager II position. Jennifer Gill was recently promoted to CAEATFA’s Operations Manager position. She has been with CAEATFA since 2011.

Ms. Carrillo stated that two actions fell under her delegated authority this month, both related to contracts.

- Ms. Carrillo extended an existing \$1.5 Million contract with Concords Servicing Corporation, for a one-year period to December 31, 2016 (initially executed April 23, 2015)
- Ms. Carrillo also extended an existing \$180,000 contract with US Bank, for a one-year period to December 31, 2016 (initially executed March 11, 2015)

Ms. Carrillo then concluded her report.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF APPLICATIONS FOR SALES AND USE TAX EXCLUSION

1. ABEC #2 LLC

Presented by: James Shimp, Analyst

ABEC #2 is seeking a sales and use tax exclusion in order to install two lagoon style anaerobic digesters at an existing dairy in Buttonwillow, CA. The system, once installed, will convert dairy cow manure to biogas, which will then be used to generate heat and power for the biogas operation. Additional energy generated by the project will be sold to PG&E. The applicant has been approved for an interconnection agreement and, as soon as PG&E’s bioMAT feed in tariff program is launched, will be executing a power purchase agreement.

Agenda Item 2.

Staff recommended approval of a resolution for ABEC #2 LLC's purchase of qualified property not to exceed \$5,990,614 anticipated to result in a sales and use tax exclusion of \$504,410.

Ms. Ortega moved for approval and there was a second by Ms. Baker.

Mr. Schaefer stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none and the item was unanimously approved.

The item was passed by the following vote:

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| Tim Schaefer for the State Treasurer | Aye |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

2. Millennium Space Systems, Inc. Presented by Ashley Bonnett, Analyst

Staff introduced Dave Thompson, Strategic Advisor to the Chairman & CEO of Millennium Space Systems, Inc..

Ms. Bonnett reported that Millennium Space Systems, Inc. designs and manufactures satellites and satellite components for military, national security, and civil space applications. The Applicant is requesting a sales and use tax exclusion to expand its existing facility located in El Segundo in order to increase its capacity, utilizing advanced science, engineering, and information technologies to enable a more efficient automated manufacturing process to meet production goals. For example, the project will include a Surface Mount Technology soldering line that can pick up and place electronic parts on printed circuit boards within 55 micrometers of accuracy at a rate of up to 30,000 components per hour. The project will also use advanced materials such as titanium alloys and composite thermoplastics, and additive manufacturing to create component parts.

Ms. Bonnett further stated that the Applicant represents the project will produce products up to 80% smaller in a significantly smaller facility with fewer people compared to industry standard, providing a corresponding reduction in its environmental impact compared to competitor facilities. Ms. Bonnett related that the Applicant indicates the project will use less energy and water and produce less solid waste, hazardous waste, and air pollutants compared to industry standard.

Staff recommended approval of a resolution for Millennium Space System's purchase of qualified property not to exceed \$4,284,672 anticipated to result in sales and use tax exclusion of \$360,769.

Agenda Item 2.

Ms. Ortega moved for approval and there was a second by Ms. Baker.

Mr. Schaefer stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none and the item was unanimously approved.

The item was passed by the following vote:

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| Tim Schaefer for the State Treasurer | Aye |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

3. Tesla Motors, Inc.

Presented by James Shimp

Staff introduced Mark Olson, Domestic Transaction Tax Director and Daniel Witt, Manager Business Development and Policy

Mr. Shimp reported Tesla Motors, Inc. is seeking a sales and use tax exclusion in order to expand the body shop, stamping line, vehicle assembly, plastics shop, production control, tooling, and prototyping for its Model S and X vehicles. Tesla is a current participant in the STE program. Its first award, in 2009, went toward establishing Model S manufacturing operations in California. To date, the Applicant estimates that there are 78,000 of these vehicles on the road worldwide. Tesla also received an award for the ramp up to production of its Model X, a crossover vehicle that was unveiled in September 2015. Currently, the Applicant's production capacity is roughly 77,000 vehicles. With the current application, Tesla plans to expand production of both vehicles by an additional 118,000 vehicles per year. The equipment to be purchased will be used in the production of both Models, and will be located at existing facilities in Fremont, Palo Alto, Hawthorne, and Lathrop. Mr. Shimp further stated that the applicant, in addition to expanding production, represents that the new project will add approximately 1,384 new jobs.

Staff recommended approval of a resolution for Tesla Motors, Inc.'s purchase of qualified property not to exceed \$463,625,000 anticipated to result in a sales and use tax exclusion of \$39,037,225.

Ms. Ortega moved for approval and there was a second by Ms. Baker.

Mr. Schaefer stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none and the item was unanimously approved.

The item was passed by the following vote:

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| Tim Schaefer for the State Treasurer | Aye |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

B. RESOLUTION OF THE CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY DELEGATING CERTAIN POWERS AND AUTHORIZING CERTAIN ACTIONS RELATED TO BOND FINANCING

Presented by Ashley Bonnett, Analyst

Ms. Bonnett reported that staff requested Board approval of a resolution authorizing delegation authority to the Executive Director and Deputy Executive Director of CAEATFA for certain discretionary routine matters with respect to the Authority’s bond program. Ms. Bonnett further stated that Public Resources Code Section 26008 provides that, “The authority may, by resolution, delegate to one or more of its members, its executive director, or any other official or employee of the authority any powers and duties that it may deem proper, including, but not limited to, the power to enter into contracts on behalf of the authority.”

Ms. Bonnett continued that the resolution recommended adds Section 4 to the existing delegation resolution to authorize certain amendments to bond documents after they have been approved by the Board, but before bond closing. This resolution also extends the expiration date to January 31, 2017.

Staff recommended adoption of this delegation resolution.

Ms. Ortega moved for approval and there was a second by Ms. Baker.

Mr. Schaefer stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none and the item was unanimously approved.

The item was passed by the following vote:

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|--|-----|
| Tim Schaefer for the State Treasurer | Aye |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

C. DISCUSSION AND CONSIDERATION OF THE 2016 AWARD SET-ASIDE FOR PROJECTS ELIGIBLE UNDER AB 199

Presented by James Shimp

Mr. Shimp provided a Staff Report on the 2016 Awards under that Sales and Use Tax Exclusion recommending

- (1) That the initial set-aside for applications eligible under AB 199 be raised from \$15 million to \$23 million under the 2016 annual \$100 million cap; and
- (2) subsequent to modifications to the Program Regulations, the CAEATFA Board limit its consideration of new Application to projects eligible under AB 199 for a two month period, after which time it shall resume considering all eligible projects under the Program.

He began his report by noting that as of November 16, 2015, CAEATFA received requests for sales and use tax exclusion awards that would potentially oversubscribe the program's \$100 million annual cap in both 2015 and 2016. In addition to dealing with the historic program oversubscription, Staff was tasked with incorporating Assembly Bill 199 into the STE program, which would expand eligible projects to include manufacturers that process or utilize recycled feedstock. To address this issue, at the November 17, 2015 meeting the CAEATFA Board approved Staff's recommendation to stop accepting new applications and initially set-aside no less than \$15 million of the 2016 Award Cap for projects eligible under AB 199. In addition, the Board requested Staff to conduct additional research and outreach to stakeholders to determine whether a \$15 million set-aside would be sufficient to meet industry demand.

Mr. Shimp stated that to this end, on November 23, 2015 staff sent out a Request for Information (RFI) on the email service lists for CAEATFA, CalRecycle, and Californians Against Waste. Respondents were asked to provide a description of how they would meet the statutory definition of a project that "processes or utilizes recycled feedstock," in addition to details about anticipated purchase amounts. CAEATFA Staff recognized that the RFI response period was necessarily short, due to the process for bringing an updated recommendation to the December Authority meeting, and while it is likely not fully representative of projects that are potentially eligible under AB 199, it provided Staff with additional information. He expressed Staff's intent to carry out a more robust public process during regulation development.

Mr. Shimp provided information on the RFI, noting that as of the deadline, December 2, 2015, twelve companies had responded. According to these responses, projected Qualified Property purchase amounts are anticipated to total roughly \$277 million for all respondents. This places the total estimated STE for all respondents at \$23 million. Mr. Shimp related that given project sizes represented in the RFI responses, the \$15 million set-aside approved at the November Board meeting may be insufficient to accommodate the needs of

prospective AB 199 applicants. He also noted the fact that while a potential applicant has responded to the RFI does not guarantee they would qualify under AB 199 or pass the net benefits test in the application process because future regulations would specify which types of projects are eligible and how environmental and fiscal benefits will be calculated for the various types of projects.

Mr. Shimp stated that Staff recommended increasing the initial set-aside from \$15 million to \$23 million. He noted that doing so would preserve sufficient awards under the 2016 \$100 million cap for the prospective AB 199 applicants that responded to the RFI, while still allowing the Authority to provide assistance to the majority of the current non-AB 199 applications that would otherwise be eligible under the 2016 cap. Under this arrangement the Authority would be able to consider projects identified in *Table 2* up to and including Escondido Bioenergy without exceeding the \$23 million set-aside amount.

Staff also recommended establishing an initial time period during which only projects eligible under AB 199 would be heard under the \$23 million set-aside. This limited time period would prioritize the consideration of AB 199 projects initially under the \$23 million set-aside for a period of two Board meetings, and then allow any remaining 2016 allocation to be awarded to any eligible applications under modified regulations – minimizing the impact on non-AB 199 applicants. Staff specifically recommend:

- (1) That the initial set-aside for applications eligible under AB 199 be raised from \$15 million to \$23 million under the 2016 annual \$100 million cap; and
- (2) the Authority resume accepting all applications at the first Authority meeting in which AB 199 applications shall be considered.

Mr. Schaefer asked for public comment and the following people addressed the Board in support of the staff's recommendations:

- Nick Lapis from Californians Against Waste
- Veronica Pardo from California Refuse Recycling Council
- John Dane from California Resource Recovery Association
- Steve Lautze from California Association of Recycling Market Development Zones by letter

There was no public opposition to the recommendations.

The Board acknowledged the work of the staff and Ms. Baker encouraged frequent program updates regarding AB 199 implementation.

Ms. Baker moved for approval and there was a second by Ms. Ortega.

Agenda Item 2.

Mr. Schaefer stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none and the item was unanimously approved.

The item was passed by the following vote:

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| Tim Schaefer for the State Treasurer | Aye |
| Anne Baker for the State Controller | Aye |
| Eraina Ortega for the Director of Finance | Aye |
| Jana Romero for the California Energy Commission | Aye |
| Nick Zanjani for the Public Utilities Commission | Aye |

5. PUBLIC COMMENT

Mr. Schaefer 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 11:05 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director