Agenda Item 2.

MINUTES

California Alternative Energy and Advanced Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
January 17, 2017

1. CALL TO ORDER & ROLL CALL

Alan Gordon, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or the "Authority") meeting to order at 10:50 a.m.

Members Present:	Alan Gordon 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 Grant Mack for Michael Picker, President, Public Utilities Commission
Staff Present:	Deana Carrillo, Executive Director
Quorum:	The Chairperson declared a quorum.

2. MINUTES

Mr. Gordon asked if there were any questions or comments concerning the December 13, 2016 meeting minutes. There were none.

Mr. Gordon asked if there was a motion.

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

The item was passed by the following vote:

Alan Gordon 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
Grant Mack for the Public Utilities Commission	Abstain

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Carrillo reported that the informational agenda item on CAEATFA's Property Assessed Clean Energy (PACE) Loss Reserve Program would provide the Board the opportunity to meet several of CAEATFA's enrolled PACE program administrators, as well as a forum for questions and answers on this rapidly changing and growing program.

Ms. Carrillo further explained that PACE has been seen as an innovative financing tool to assist California in meeting its goals of reducing greenhouse gas emissions. The PACE Loss Reserve Program was established in 2014, in an effort by California to address Federal Housing Finance Agency (FHFA) concerns about risk and to grow PACE. The PACE Loss Reserve Program essentially puts first mortgage lenders in the same position they would be in without a PACE assessment on the property.

Ms. Carrillo added that since the inception of PACE, FHFA has maintained its position on PACE's first lien priority, while concurrently, the Federal Housing Administration (FHA) and Veteran Affairs (VA) have issued guidelines that allow for PACE on their insured properties. Throughout this period, CAEATFA has continued administration of the reserve in an effort to maintain support of PACE and collect data to better ascertain risk. The $10 million fund is currently supporting over 81,700 assessments valued at $1.8 billion.

Ms. Carrillo reported that the PACE industry continues to grow and that the Department of Energy recently published best practice guidelines for residential PACE. Additionally, CAEATFA staff have been reaching out to colleagues at the California Energy Commission and the California Public Utilities Commission to identify data points that could be collected to better ascertain the environmental impact of PACE financing. Over the last several months, CAEATFA staff began internal research to identify appropriate modifications to the reserve program and its underwriting criteria to strengthen the program. Ms. Carrillo added that this informational item on PACE will better inform this effort, and help guide proposed revised regulations for stakeholder feedback later in the first quarter.

Ms. Carrillo reported that she had no items to report under her delegated authority.

Ms. Carrillo then concluded her report.

4. BUSINESS ITEMS

A. Discussion and Consideration of Applications for Sales and Use Tax Exclusion

1. North Fork Community Power, LLC
   Presented by Alejandro Ruiz, Program Manager

   Staff introduced Milan Alex, Project Engineer for North Fork Community Power, LLC

   Mr. Ruiz reported that North Fork Community Power, LLC (the "Project") is requesting approval of a project to purchase $6.8 million in Qualified Property to develop a small-scale bioenergy facility at a retired sawmill site in North Fork, California. The facility will convert sustainably harvested forest biomass into syngas and biochar using a gasification process. The syngas will power a 2 megawatt (MW) engine that will generate electricity to sell to the grid. The Applicant represents that they are in application process for the BioMAT program and grid interconnection, which they expect to be completed in the near future. The Project also received approximately $5 million in grant funding from the California Energy Commission's Electric Program Invest Charge Program in August 2015.

Staff recommends approval of a resolution for North Fork Community Power, LLC's purchase of Qualified Property in an amount not to exceed $6,819,733 anticipated to result in an approximate sales and use tax exclusion value of $574,222.

Mr. Gordon asked for clarification on where the fuel for the Project would be originating. Mr. Alex indicated that the fuel would originate from both public and private lands.

Mr. Mack requested clarification on the status of the Project under the BioMAT program, and Mr. Alex responded that the company has completed all the application procedures and is clarifying questions related to the application.

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

Mr. Gordon 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 approved.

The item was passed by the following vote:

Alan Gordon 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
Grant Mack for the Public Utilities Commission	Abstain

2. Atara Biotherapeutics, Inc.
   Presented by Ellen Hildebrand, Analyst

   Staff introduced Tanya Erbe, Consultant to Atara Biotherapeutics, Inc.

   Ms. Hildebrand reported that Atara Biotherapeutics is a biopharmaceutical company that is focused on developing therapies for patients with severe and life-threatening diseases. The Applicant currently outsources all manufacturing of T-cell products. It applied to CAEATFA as an advanced manufacturer and is requesting a sales and use tax exclusion for $16,285,217 to build a new manufacturing facility in Ventura County.

   The Project will manufacture T-cell products, such as the EBV-CTL product, which is currently in trials for Epstein-Barr virus and other disorders. The facility will be configured as a modular clean room system with pre-fabricated walls, ducting, and air handlers within a mixed industrial use building. Additionally, it will contain space for research and development staff. The Project is expected to have significant net benefits to the State, valued at approximately $7.5 million.

Staff recommends approval of a resolution for Atara Biotherapeutics' purchase of no more than $16,285,217 of Qualified Property, anticipated to result in a sales and use tax exclusion of $1,371,215.

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

Mr. Gordon 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:

Alan Gordon 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
Grant Mack for the Public Utilities Commission	Aye

3. Tesla Motors, Inc.
Presented by Ellen Hildebrand, Analyst

Staff Introduced Mark Olson, Tax Director for Tesla Motors, Inc.

Ms. Hildebrand reported that Tesla Motors is an electric vehicle manufacturer that designs, manufactures, and sells electric vehicles and electric vehicle powertrain components. Tesla Motors is requesting approval of a project to purchase $1.1 billion in Qualified Property to expand its design and manufacturing capabilities to produce the Model 3 electric vehicle. The Model 3 will be the first lower-priced sedan offered by Tesla at $43,000.

Ms. Hildebrand continued by stating that statute limits CAEATFA to granting up to $100 million in sales and use tax exclusions per calendar year. An application for the same Tesla Model 3 project was approved at the December 2016 Board Meeting. The December award of approximately $48 million was for the STE remaining after the other December applications were approved. Because that award was only 48% of Tesla's request, Tesla has applied again under the new regulations.

Ms. Hildebrand reported that because the STE Program was oversubscribed in recent years, CAEATFA adopted new regulations that limit applications to requesting $20 million in STE, with the ability to receive additional STE if it is un-awarded at the end of the calendar year. Because this application was submitted under the new regulations, staff is recommending approval of a $20 million award, which will correspond to approximately 20% of the total request. Staff estimates that the State will receive approximately 20% of the benefits attributed to the entire request, or about $3 million in net benefits.

Staff recommends approval of a resolution for Tesla Motors, Inc.'s purchase of no more than $237,529,691 in Qualified Property, anticipated to result in a sales and use tax exclusion of $20 million.

Mr. Gordon asked when the product would be available and Mr. Olson indicated that Tesla expected the first models to be available by the end of 2017.

Mr. Gordon wanted to know how many units would be available. Mr. Olson indicated that he was uncertain of exact numbers. Mr. Gordon wanted to know if the product was going to launch slowly and how many employees would be in place in Fremont in approximately five years. Mr. Olson indicated that he expected a slow launch with a rapid acceleration in production. He further explained that Tesla currently employs about 10,000 people in Fremont and expects to hire about 3,000 more individuals for this project across the State.

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

Mr. Gordon 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:

Alan Gordon 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
Grant Mack for the Public Utilities Commission	Aye

B. Discussion and Consideration of Applicant's Request to Extend the Term Agreement of STE Award

1. Enovix Corporation
   Presented by Ellen Hildebrand, Analyst

   Staff introduced Harrold Rust, Chief Executive Officer of Enovix Corporation

   Enovix is a California corporation focused on developing and manufacturing lithium ion batteries. The CAEATFA Board originally approved an STE for Enovix on February 18, 2014 for the purchase of $16,234,215 of Qualified Property for the construction of a lithium ion battery production facility in in Fremont. As of January 5, 2017, the Applicant had used the STE to purchase approximately $3 million in Qualified Property, which is about 19 percent of the total Qualified Property approved.

Ms. Hildebrand reported that the Applicant requested an extension of the Agreement initial term by two years to accommodate delays in the achievement of technical milestones. Enovix represents that the Project has experienced delays when additional development work was required on the anode and cathode in the battery. The Applicant had to modify its battery to use a new material, which was only recently made available. Because the Project involves the development of new cutting-edge technology, some delay in the development timeline can be expected. The Applicant states that now that they have overcome the technical issues they have a clear path forward and expect to resume purchasing equipment in mid-2017.

Ms. Hildebrand continued by stating that staff believes that extending the term of the Agreement will allow for the Applicant to continue purchasing and complete the Project, which is in the public interest and advances the purposes of the STE Program.

Staff recommends approval of an extension of two years for Enovix Corporation's purchase of Qualified Property in an amount not to exceed $16,234,215, anticipated to result in a sales and use tax exclusion of $1,358,804. Staff recommends approval of an extension of two years for Enovix Corporation's purchase of Qualified Property for no more than $16,234,215, anticipated to result in a sales and use tax exclusion of $1,358,804.

Mr. Gordon asked regarding the end use of the battery and if it might be used in solar storage applications. Mr. Rust responded that the technology could be used for multiple purposes, from computer electronics to transportation. The technology increases energy density compared to conventional batteries and could ultimately be used for industrial solar storage, though the company was initially starting with smaller battery projects.

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

Mr. Gordon 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:

Alan Gordon 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
Grant Mack for the Public Utilities Commission	Aye

C. OVERVIEW OF PROPERTY ASSESSED CLEAN ENERGY (PACE) LOSS RESERVE PROGRAM

Presented by Ashley Bonnett, Analyst

Ms. Bonnett provided an overview of the PACE structure, and explained that

California statute allows local agencies to enter into voluntary contractual assessments with property owners, or to create a special tax district for property owners to opt into financing for energy efficiency, water efficiency, renewable energy, and/or seismic improvements. Ms. Bonnett added that PACE was first authorized in statute by AB 811 in 2008, and according to the legislative intent language, the purpose of PACE is to help combat global climate change by making these improvements more affordable. The legislation took a decentralized approach: in California PACE programs are created and overseen by local agencies—there is no State-sponsored or State-funded PACE program, and there is no State regulatory agency overseeing PACE. Programs may be administered directly by the local government agency or through a public/private partnership.

Ms. Bonnett further explained that, like all property tax assessments in California, PACE has first lien-priority, even against a first-mortgage. In 2010, FHFA issued a directive banning Fannie Mae and Freddie Mac from purchasing or refinancing mortgages on properties with first-priority PACE liens, and advising protective actions, including redlining PACE districts. The directive described FHFA's concerns with PACE, which include: (1) the first-lien status, (2) unsound underwriting and consumer protections, and (3) PACE is unlike routine tax assessments in size and duration.

Ms. Bonnett reported that in 2010 after FHFA issued its directive, many residential PACE programs suspended operations, although some chose to continue to operate. California and other parties sued FHFA for not going through the rulemaking process, but in 2013, the 9th Circuit Court of Appeals held that the directive was a lawful exercise of FHFA's authority as conservator of the Enterprises, which is not subject to judicial review. Therefore, as part of the 2013 Budget, CAEATFA was directed to establish a PACE risk mitigation program for PACE financing to increase its acceptance in the marketplace and protect against the risk of default and foreclosure. The program received a one-time appropriation of $10 million for the loss reserve. Ms. Bonnett reported that the goal of the PACE Loss Reserve Program (the "Program") is to put first mortgage-lenders in the same position they would be without a PACE lien. Ms. Bonnett continued by saying that PACE administrators apply to CAEATFA by submitting PACE program formation documents and handbooks that must demonstrate they meet the Program's eligibility requirements. Once enrolled, the loss reserve covers financings originated by that PACE program for their full terms or until funds are exhausted.

Ms. Bonnett reported that the Program launched in March 2014 and initially enrolled 8 PACE programs in June 2014. Since then CAEATFA has enrolled 6 more PACE programs—4 in 2015 and 2 in 2016. PACE programs report and enroll financings semi-annually. With each six-month reporting period, PACE has shown continued significant growth, with the last reporting period from January through June 2016 enrolling over 31,500 financings with a principal value of over $745 million, about double the amount enrolled at Program launch, which represented activity from 2009 through June 2014. The $10 million loss reserve is currently supporting a portfolio of over 81,700 financings with a value of over $1.8 billion

Ms. Bonnett discussed that PACE has been identified as a tool for meeting California's aggressive environmental goals, which require innovative financing solutions to support energy efficiency adoption. Pursuant to SB 350, the California Energy Commission published a study on the barriers for low-income customers to energy efficiency and weatherization investments that identified lack of access to capital as a significant barrier. Additionally, a strategy identified in the Existing Buildings Energy Efficiency Action Plan is to support the implementation of residential and commercial PACE.

However, Ms. Bonnett continued, PACE is receiving conflicting messages from federal agencies: while FHFA maintains its position against first-lien PACE, Federal Housing Administration (FHA) and the Department of Veteran Affairs (VA) will insure mortgages on properties with PACE liens if specific guidelines are met. Ultimately, properties owners may still have to repay PACE financing before sale or refinance.

Ms. Bonnett reported that PACE is still relatively new and different from a traditional method of financing, so the industry is still developing best practices and incorporating lessons learned. Until recently there were few to no Statewide statutory requirements with regard to consumer protection. AB 2693 (2016, Dababneh), which became effective this year, took a first step in developing uniform standards for California PACE programs by requiring a standard Financing Estimate Disclosure Document and a 3-day right to cancel, and establishing minimum underwriting requirements. Additionally, Department of Energy released an update to its residential PACE best practices guidelines in November last year.

Ms. Bonnett also discussed that data collection has been a significant topic of discussion at the State level. Except for data collected through the PACE Loss Reserve Program, there is no centralized depository of information on PACE in California. Therefore, the State and industry stakeholders are exploring efforts to collect more data to better understanding the whole of California's PACE market and the associated environmental savings.

Ms. Bonnett concluded by stating that CAEATFA staff anticipate releasing proposed regulations shortly to: (1) add new data points collected in Program reports and switch to a quarterly reporting schedule for origination activity, and (2) strengthen program's underwriting requirements to reflect current best practices. Staff is also currently drafting an RFP to hire an auditor to assess compliance with Program eligibility requirements. Staff anticipate having regulations complete and adopted and a contractor on board for the audits in the second quarter of 2017.

Ms. Ortega asked for clarification on whether the $10,000,000 remained static even if the PACE program grew. Staff responded that the $10,000,000 was a static fund.

D. PRESENTATION BY VARIOUS PACE PROGRAM ADMINISTRATORS ENROLLED IN THE PACE LOSS RESERVE PROGRAM

PACE Administrators from several of the PACE programs enrolled in the PACE Loss Reserve Program provided brief overviews of their PACE programs. Presenters included:

- Ronald Mohr, Los Angeles County Internal Services Department
- Crystal Adams, Western Riverside Council of Governments (WRCOG)
- Laura Franke, Public Financial Management, on behalf of San Bernardino Council of Governments (formerly San Bernardino Associated Governments) (SANBAG)
- Jewel James Simmons, Renovate America
- Cliff Staton, Renew Financial
- Bob Schuman, AllianceNRG
- Mark Schmidt, PACE Funding
- Caroline Judy, Sonoma County Energy Independence Program (SCEIP)
- Liz Yager, SCEIP
- Taylor Libolt, Energy Efficient Equity (E3)
- Jenine Windeshausen, mPOWER Placer

Ms. Romero also read a statement on behalf of the California Energy Commission Chair, Robert Weisenmiller, noting that PACE was an important program because it provides consumers financing for energy efficiency measures in homes, as well as water conservation, renewable energy and earthquake preparedness. Consumers in the program are deserving of consumer protections which is why the Energy Commission supports updates to the program that will ensure a robust program to pursue California’s clean energy future.

PACE administrators responded to questions posed by the Board members. Discussion covered the following topics:

<u>Consumer Disclosures</u>

Mr. Gordon asked about financial disclosures. Mr. Gordon wanted further clarification on the financial disclosure—whether the interest rate was spelled out, how much the property tax would be, and what the increase in the escrow account would be. Mr. Gordon wanted to verify that homeowners understood that their property taxes would increase as a result of a PACE loan and asked what responsibilities the contractor would have to disclose this information.

PACE administrators explained the recent legislation, AB 2693, which created standard disclosure requirements for residential PACE programs in California, and discussed additional efforts some programs have taken.

Ms. Adams described how WRCOG has made the disclosure forms easier to read and understand, and that the program has integrated multiple avenues for ensuring consumers understand their financing obligations such as live phone calls to verify the consumer understands the conditions, the financial documents, and a welcome packet of information. Ms. Adams also stated contractors are instructed on how to present information to consumers, and contractors who did not follow protocol could be required to attend additional training or might be suspended from the program. Ms. Adams indicated that, in the phone calls with consumers, they ensure the consumer understands that this financing might be attached to an impound account and will affect the amount owed, that the information must be conveyed to the financial institution before the next payment is due, and when the next payment is due. Ms. Adams added that their call center helps consumers connect with the right individuals regarding impound accounts, but that the program cannot actually connect with the financial institution on behalf of the consumers.

In order to minimize issues related to contractors, Ms. James Simmons indicated that Renovate America provides confirm term calls, which let consumers know the financial terms of the agreement, confirm that the project will appear on their property tax bill and let the consumer know approximately what that impact might be, and how to reach out to their financial institution if they have an escrow account. She reported that this program also sends out documents that are in line with "Know before You Owe" policies.

Ms. Windeshausen indicated mPOWER, along with providing TILA-RESPA adapted disclosures, requires applicants to attend a seminar which covers an explanation of financing, the application and the contract process, fees and costs, information on selecting a contractor, information on other financing options, FHFA disclosures and mortgage impact information. In addition, mPOWER explains the lien priority and that implication, as well as information on their impound account.

<u>Program Fees and Costs</u>

Mr. Gordon asked about interest rates on PACE loans, noting financings from some programs have an APR of 9% and would cost a homeowner 36% in interest payments over the life of the loan. Ms. Carrillo also noted PACE loans are actually secured loans and wanted to know how PACE programs could effectively use the security in those loans to lower interest rates.

Ms. Simmons indicated that interest compounds and that she does not feel this is against the core of the PACE program. Mr. Staton said that he believed that PACE should compare to other financial loans and a 9% APR is lower than many consumers access to credit through a credit card. Mr. Staton further explained that the PACE program is still relatively new and the market is constrained by the opposition of the FHFA which restricts the ability to get program financing. He stated that clarifying the policy environment will allow freer access to program financing and drive interest rates down.

Ms. Judy indicated SCEIP has a 7.318% interest rate, and Ms. Windeshausen stated that mPOWER, as a not-for-profit program, has the lowest fees of current PACE programs. Ms. Libolt reported that CMFA PACE Program reduces costs by working with fewer contractors who meet rigorous screening requirements and require less oversight; strategically partnering with their chosen capital provider, Oaktree; requiring contractors sign a repurchase agreement which makes the contractors responsible for the entire financial agreement in the case of misrepresentation or fraud; and considering household income and requiring an equity cushion of 96.5% after the PACE financing. Ms Libolt stated the program is able to maintain interest rates at 2.99% to 6.9%.

<u>Energy Savings</u>

Board representatives asked if there were any guarantees or requirements that projects deliver specific energy or water savings. Ms. Carrillo pointed out that it was difficult to measure savings because consumer behaviors might change and therefore measurements might not be accurate.

PACE administrators indicated that they do not provide guarantees on estimated environmental savings and include a statement in their disclosure documents that energy savings cannot be guaranteed. Generally, eligibility of energy or water projects is determined based on some kind of third-party verification that the product is energy efficient or water efficient. Some programs noted that for them, most consumers are not actually looking for energy savings, but are simply repairing broken items.

Mr. Mack asked what types of projects are primarily financed. According to the PACE administrators, percentage breakdowns vary among programs and also vary by jurisdiction.

Mr. Mack asked if PACE programs track changes in energy consumption, for instance, twelve months prior, twelve months post. Ms. James Simmons indicated that Renovate America provides projected energy savings based on the actual product being installed, size of the home, and geographic location. They use existing resources such as Energy Star ratings and do sample testing to determine how accurate their projections are. She stated the projections are very close to the actual results.

Mr. Staton reported that they launched a pilot program with PG&E where 100 homeowners agreed to release data to the program. Mr. Staton said that the pilot was promising, but the actual implementation of the program would prove whether the measures were sufficient. Mr. Staton also reported that many PACE administrators met with the California Energy Commissioner, Andrew McAllister, and a number of other individuals to examine how to measure energy savings in PACE.

Ms. Judy stated that for SCEIP, getting data from the utility companies reliably and timely has proven difficult.

Ms. Windeshausen reported mPOWER has obtained from property owner data-releases from the four utility companies in their district. Ms. Windehausen indicated that the program is using that information by inputting data into the U.S. Department of Energy's portfolio manager, along with information regarding the age and size of the property.

Ms. Carrillo added that CAEATFA is considering requiring PACE programs to offer a utility customer release form to enable the comparison of actual before and after data for projects.

<u>Role of the PACE Loss Reserve</u>

Mr. Gordon asked the administrators how big of an impact the CAEATFA PACE Loss Reserve Program has on their operations, and given that a $10 million loss reserve is leveraging over $1.8 billion, what the program-impact would be if CAEATFA potentially suspended enrollment of new PACE financings.

Some PACE administrators stated that the fund may have minimal impact on their program operations, and others indicated they would have to further explore the potential impact.

Ms. Franke stated that she believed the current reserve fund is adequate, is unlikely to be depleted in the near future and could be designed to allow programs to reimburse the reserve fund. Ms. Franke stated that their firm has done analysis for programs around the country and that the current reserve fund needs are not as extreme as it seems because many of the assessments are being paid off early, and property tax delinquency rates of approximately 3% at the State level are not reflective of the less than 0.15% delinquency rate the program is actually experiencing. Mr. Staton reported that he felt the reserve was small, but that it was difficult to get attention on this issue since the reserve had never been used.

Additionally, Ms. James Simmons indicated that HERO has its own delinquent tax reserve so that if a consumer did not pay his taxes on time, a foreclosure would not be automatically triggered.

PACE administrators seemed to all agree that the Program's role with data collection for the State was important.

5. PUBLIC COMMENT

Mr. Gordon asked if there were any comments from the public and there were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 12:42 p.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director