

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
800 Capitol Mall, Room 150
Sacramento, California
December 19, 2017**

1. CALL TO ORDER AND ROLL CALL

Steve Juarez, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or the “Authority”) meeting to order at 10:40 a.m.

Members Present: Steve Juarez for John Chiang, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Eraina Ortega for Michael Cohen, Director,
Department of Finance
Michael Murza for Robert B. Weisenmiller, Chair,
California Energy Commission
Michael Picker, President, Public Utilities Commission

Staff Present: Deana Carrillo

Quorum: The Chairperson declared a quorum.

2. MINUTES

Mr. Juarez asked if there were any questions or comments concerning the November 14, 2017 meeting minutes. There were none.

Mr. Juarez 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:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Eraina Ortega for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Michael Picker for the Public Utilities Commission	Aye

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Carrillo began her report by summarizing recent activity under CAEATFA’s programs. Under the Sales and Use Tax Exclusion (“STE”) Program, she reported that if the applications

before the Board are approved, CAEATFA will have approved a historic number of projects in 2017-- 43 applications which is nearly double the previous all-time high of 26 applications approved the first year of the Program's inception, and exceeds CAEATFA's average number of projects per year, which ranges from 11-15.

Ms. Carrillo reported that under the California Hub for Energy Efficiency Financing (the "CHEEF"), CAEATFA continues to research modifications of the Residential Energy Efficiency Loan ("REEL") Program to take advantage of the new flexibility provided by the CPUC, and will bring regulatory changes to the Board in early February. Due to various timing constraints, this may require an additional Board meeting in February.

Ms. Carrillo added that CAEATFA is working diligently to recruit for new open positions under the CHEEF, and hopes to have some staffing announcements at the January Board meeting.

Ms. Carrillo then reported that, under the Property Assessed Clean Energy ("PACE") Loss Reserve Program, staff is continuing to work on the Request For Offer ("RFO") to select a qualified firm to assess funding level and risk, and review PACE regulations in light of the most recent pieces of legislation and the Department of Business Oversight's regulatory actions. This will be the focus of the PACE Program's efforts in the first quarter of next year.

Ms. Carrillo further reported that there will be a legislative hearing on AB 1547 on January 9, 2018 for consideration by the Assembly Committee on Jobs and Economic Development. If the bill passes out of committee, then it will move on to Assembly appropriations

Ms. Carrillo announced that Angela Xavier has joined the staff as a Contract Analyst. In addition, Jonathan Verhoef and Sim Randhawa were promoted into Specialist positions in CHEEF Development Implementation and Marketing, respectively.

Ms. Carrillo reported that under her delegated authority she executed the Contract resulting from Request for Proposals ("RFP") CAEATFA05-17 for Trustee Services for the California Hub for Energy Efficiency Financing ("CHEEF") Loss Reserve fund with U.S.Bank. The RFP was issued on October 27, 2017. CAEATFA received two proposals. Both Zions Bank and U.S. Bank submitted proposed pricing equal to the upper contract value limit of \$285,000.00, inclusive of the 2-year base term and optional 1- year extension. U.S. Bank was selected and Ms. Carrillo signed the contract on December 15, 2017. DGS approval is pending. The anticipated effective date is January 1, 2018, to coincide with expiration of the current Trustee contract.

Ms. Carrillo then concluded her report.

Mr. Juarez announced that this would be Ms. Ortega's last Board Meeting with CAEATFA. She will be moving to the Department of Transportation as the Inspector General and Mr. Juarez wanted to extend his congratulations and gratitude for her service with the Authority. Jacqueline Wong-Hernandez will be representing the Department of Finance on the CAEATFA Board in the future.

4. BUSINESS ITEMS

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

- 1) WIE-AGRON Bioenergy, LLC
Presented by Xee Moua, Analyst

Staff introduced Bradley Wilson, President and General Manager, WIE-AGRON Bioenergy, LLC.

Ms. Moua reported that WIE-AGRON Bioenergy, LLC (WIE-AGRON” or the “Applicant”) is requesting a sales and use tax exclusion to purchase equipment and assets from AGRON Bioenergy, LLC (formerly North Star Biofuels, LLC) in order to produce biodiesel at a facility owned by CMEL Properties LLC in Watsonville (the “Project”). AGRON Bioenergy was approved for a sales and use tax exclusion on June 19, 2012 to purchase up to \$4.1 million in Qualified Property to build a new biodiesel production facility. AGRON Bioenergy completed the project in 2013, and operated the facility until October 31, 2017. AGRON’s Master Regulatory Agreement with CAEATFA expired on June 19, 2017. WIE-AGRON plans to recommence operations at the facility with a production capacity of over 40,000 gallons per day.

According to the Applicant, the Project will mix animal tallow, vegetable oils and other low-carbon feedstocks with methanol and a catalyst in order to produce biodiesel. The Applicant represents the Project will use distinct processes that rapidly yield ultra-pure biofuels with competitive prices and unconventional traits such as cold-weather performance characteristics. The Project meets all of the STE Program’s scoring thresholds

Staff recommends approval of a resolution for WIE-AGRON Bioenergy, LLC’s purchase of Qualified Property in an amount not to exceed \$3,500,000 anticipated to result in an approximate sales and use tax exclusion value of \$294,700.

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

Mr. Juarez stated there was a motion and a second and asked if there were any other questions or comments from the Board or public.

Mr. Juarez wanted to know if the demand for biodiesel had increased in the thirteen years WIE-AGRON has been operating. Mr. Wilson indicated that the need for biodiesel has dramatically increased, although recent Federal actions have negatively impacted the growth of the industry. However, California has a low-carbon fuel standard which supports the production of biodiesel and the reduction of greenhouse gas. Mr. Wilson mentioned that WIE-AGRON would also be working on reducing its own truck use by relying on railroading feedstock in. For every rail car used, four trucks are off the road.

There were no further comments and Mr. Juarez called for a vote. The item was unanimously approved.

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Eraina Ortega for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Michael Picker for the Public Utilities Commission	Aye

- 2) Sila Nanotechnologies. Inc.
Presented by Xee Moua, Analyst

Staff introduced Christopher Angelo, Consultant, and Michelle Chang, Head of Business Operations, Sila Nanotechnologies, Inc.

Ms. Moua reported that Sila Nanotechnologies, Inc. (“Sila” or the “Applicant”) has applied as an Advanced Manufacturer to request a sales and use tax exclusion to build a new silicon-based anode powder manufacturing facility in Alameda (the “Project”). According to the Applicant, the Project will utilize advanced materials such as proprietary powders along with proprietary software, automated tools, and intelligent operating systems. The powder will be sold to businesses that specialize in lithium battery production. Sila represents the Project will consume approximately 20% less electricity per unit output and increase battery density by approximately 20% compared to industry standard graphite-based powder. The Project meets all of the STE Program’s scoring thresholds.

Staff recommends approval of a resolution for Sila Nanotechnologies, Inc.’s purchase of Qualified Property in an amount not to exceed \$11,018,845 anticipated to result in an approximate sales and use tax exclusion value of \$927,787.

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

Mr. Juarez stated there was a motion and a second and asked if there were any other questions or comments from the Board or public.

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Eraina Ortega for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Michael Picker for the Public Utilities Commission	Aye

- 3) TBC – The Boring Company
Presented by Melanie Holman, Analyst

Staff introduced Meghan Loper, Lobbyist, and Dennis Loper (by phone), Taxpayer Representative, Capitol Strategies Group.

Ms. Holman reported that TBC – The Boring Company (“The Boring Company” or the “Applicant”) has applied to CAEATFA as an advanced manufacturer and is requesting approval of a sales tax exclusion award to purchase \$3,160,000 in Qualified Property to develop a specialized concrete ring manufacturing facility in Hawthorne. The Boring Company plans to construct a tunnel network in Los Angeles County with the intention of providing an autonomous, clean transportation option. The concrete rings will be used to line the tunnels. The Applicant plans to purchase equipment to build a concrete batch plant and a carousel system that will be fully-automated, the first of its kind, according to the Applicant. The Applicant represents that it will be producing concrete rings that are stronger than the industry standard, designed to withstand massive earthquakes and allow for over 100 years of continuous use. The manufacturing process will also use less energy and emit less air pollutants compared to the current industry standard. The Project has also passed all of CAEATFA’s scoring thresholds.

Staff recommends approval of a resolution for TBC – The Boring Company’s purchase of no more than \$3,160,000 of Qualified Property, anticipated to result in a sales and use tax exclusion of \$266,072.

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

Mr. Juarez stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. Mr. Picker noted that the technology seemed to have broader implications than the current project and wanted to know if there were any plans to expand the scope for the specialized tubing into other project involving transportation or other uses. Mr. Loper indicated that current plans are to use the technology in-house.

There were none and the item was unanimously approved.

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Eraina Ortega for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Michael Picker for the Public Utilities Commission	Aye

B. NOTICE TO BOARD OF EXECUTIVE DIRECTOR’S DETERMINATION FOR SPECIFIC PARAMETERS UNDER THE SALES AND USE TAX EXCLUSION PROGRAM (INFORMATIONAL ITEM)

Presented by Xee Moua, Analyst

Ms. Moua reported that the STE Program’s application process calculates fiscal and environmental benefits of a proposed Project by running Applicant data through a series of built-in formulas. These formulas include parameters that change over time; for example, the average sale or income tax rates, unemployment figures, and state revenues. Program regulations enable the Executive Director update the parameters if doing so advances the goals

of the Program, is required by regulations, or will otherwise improve the accuracy of Application evaluations. Parameters were last updated in March of 2015, and the Executive Director has now deemed it appropriate to make the following adjustments:

- The discount rate is used to translate anticipated future benefits into a present day value. The rate is based on the state’s cost of borrowing, as reflected by the yield on a 30 year tax exempt general obligation. The rate will be changed to 2.75%.
- The current average sales tax rate is used to calculate the value of the sales and use tax exclusion benefit to Applicants and the cost of the state. The rate is based on information collected from the California Department of Tax and Fee Administration. The rate will be changed to 8.36%.
- The ratio of state and local government revenues to Gross State Output (“GRSO”) is a key portion of the equation that calculates indirect fiscal benefits of the project. It is based on General Fund revenue data from the Department of Finance, aggregate city and county revenue information from the State Controller’s Office, and gross state product numbers from the United States Department of Commerce. The GRSO is being changed to 6.24%.
- The applicable local property tax rate is used to estimate the additional property taxes that will be generated by an Applicant’s purchases of taxable property. It is based on the latest average tax rate from the California Department of Tax and Fee Administration. A county by county breakdown is available in the staff summary.
- The current annual average unemployment rate for the State and counties generates additional benefit points for Applicants locating in areas of higher unemployment. It is based on the most recent data from the Employment Development Department. The State average is being changed to 5.1%, and a county by county breakdown is available in the staff summary.

C. DISCUSSION AND CONSIDERATION OF APPLICANT’S REQUEST FOR ADDITIONAL SALES AND USE TAX EXCLUSION PURSUANT TO REGULATION SECTION 10032(A)(4)(A)

Presented By Melanie Holman, Analyst

- 1) Tesla Motors, Inc.
Presented by Melanie Holman, Analyst

Staff introduced Daniel Witt, Senior Manager of Business Development and U.S. Policy, and Erin Bradley, Tax Credits and Incentives Lead, Tesla Motors, Inc.

Ms. Holman reported that Tesla Motors, Inc. (“Tesla” or the “Applicant”) is an Advanced Transportation Applicant requesting approval for additional sales and use tax exclusion pursuant to Program Regulation Section 10032(a)(4)(A).

Ms. Holman continued by stating that on November 16, 2015, Tesla submitted an Application requesting approval of a Project to purchase \$1.169 billion in Qualified Property to expand its design and manufacturing capabilities to produce the Model 3 electric vehicle, Tesla’s first lower-price sedan. This Application was submitted prior to the effective date of the revised Program regulations limiting Applicants to \$20 million in sales and use tax exclusion awarded each calendar year.

Ms. Holman reported that it was during this time that the STE Program became oversubscribed for the first time in Program history, and AB 199 was signed into law as an urgency statute expanding the Program to include recycled feedstock projects. This led to CAEATFA halting the approval of projects to provide staff with the time to incorporate recycled feedstock projects into the regulatory framework and provide them with an immediate priority.

Ms. Holman continued by stating that on December 13, 2016, the Board approved the Applicant for an award in an amount not to exceed the remainder of the 2016 calendar year \$100 million statutory cap after the subsequent Applications on the December 2016 agenda had been considered, which was \$47,229,218 in sales and use tax exclusion. Because the December 2016 award represented only 48% of Tesla's request, the Applicant applied and was approved in January 2017 for 2017 award allocation under the new STE Program regulations, which set a cap of \$20 million of sales and use tax exclusion per Project with the possibility to receive additional financial assistance if any sales and use tax awards remained at the end of the calendar year.

Ms. Holman reported that last month, the Board voted to make available any sales and use tax exclusion remaining from the \$100 million statutory cap after all Applications submitted for the 2017 calendar year have been considered pursuant to Program Regulation Section 10032(a)(4)(A). As required under the Program regulations, Tesla submitted a revised Application with updated information about the Project for consideration for additional sales and use tax exclusion. The revised Application contained new information reflecting how the Applicant's business projections have changed over time, and included a revised legal status questionnaire with disclosures not previously made. Given the brief period of time staff has had to review the new information, staff is continuing to review the information provided and requires additional time to understand the updates and request follow-up information from the Applicant, if necessary.

Ms. Holman added that if all the Applications on the agenda for the December 19, 2017 Board meeting are approved, \$4,192,540 in sales and use tax exclusion remains under the 2017 statutory cap. If left unawarded, CAEATFA does not have the authority to "roll-over" the remaining 2017 sales and use tax exclusion amount to grant in future years. Based on the current Application, the Project appears to meet all of the point-threshold requirements.

Staff believes it is in the public interest and furthers the purpose of the Program to conditionally approve Tesla's request for additional sales and use tax exclusion at this time, subject to staff receiving clarification of the updated information, as necessary, and concluding its review of the legal status questionnaire. Staff's findings will be presented to the Board for further consideration before an amendment to the Master Regulatory Agreement may be executed, and if not satisfied, the Authority may deny approval of the amended resolution for additional Qualified Property.

Staff recommends conditional approval to amend the resolution passed January 2017 to increase the amount of Qualified Property to \$287,322,328 for an estimated sales and use tax exclusion value of \$24,192,540.

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

Mr. Juarez stated there was a motion and a second and asked if there were any questions or comments from the Board or public.

Mr. Juarez stated that Treasurer Chiang wants Tesla to be successful in California and that the Board has supported this position with action, however Treasurer Chiang is concerned about recent public media reports about Tesla that indicate issues related to business and production, expected outcomes that relate to employment, and goals related to production that have not been met. He noted that there are also concerns related to significant lay-offs, reported health and safety violations and a complaint lodged with the National Labor Relation Board, that require the Board to scrutinize this Application and all future Applications very stringently. Mr. Juarez further stated that this Program should promote good corporate citizenship. Mr. Juarez went on to state that since January 2017 when Tesla was awarded a \$20,000,000 sales tax exclusion, the anticipated number of Model 3 cars to be produced has dropped, the production schedule has slowed, and the number of jobs needed to produce those cars has declined. As a result, Mr. Juarez stated that he fully expects staff to carefully scrutinize outcomes related to this Project and supports the conditional approval of this award, with the understanding that the acceptance is conditional upon further evaluation of the Project as submitted on December 7, 2017 and Tesla responding quickly to staff requests if need be.

Ms. Ortega asked whether under Regulation Section 10032(a)(4)(A) Applicants applying for additional funding are required to provide an updated Application. Ms. Carrillo responded that updates were required. Ms. Carrillo further explained that this was the first Application under the new procedures and timelines will need to be re-visited. Ms. Ortega asked if conditional approval required the Application be brought back to the Board. Ms. Carrillo responded that this Application would be brought back to the Board with a recommendation to move forward or not based on pending staff analysis. Ms. Ortega asked if the conditional acceptance satisfied the legal requirement to allocate money by the end of the calendar year and Mr. Robert Hedrick, State Treasurer's Office Legal Counsel assigned to the Authority, replied that conditional allocation would satisfy the need for the annual sales and use tax exclusion benefit to be awarded by the end of the year.

Mr. Picker stated that diversity is a crucial issue for both the Public Utilities Commission and the State of California. Mr. Picker added that a concern of diversified community contractors has become the dissemination of contracts to third parties, such as Solar Companies or battery manufacturers. Mr. Picker added that as a result of these concerns, these third-party contractors were invited to begin a dialogue with the diversity communities and Tesla had declined to participate, citing as a reason \$600,000,000 in lost revenue in the last quarter. Mr. Picker added that he is concerned that Tesla's

Unwillingness to commit to diversity and its loss of large sums of revenue call into question both Tesla's ability to be a good corporate citizen and its business practices which should be of concern to the Board.

Mr. Murza stated that the Energy Commission is concerned about the change in employment numbers between January's initial Application by Tesla, and December's revised Application. He suggested that reviewing the numbers on more than an annual basis might be appropriate when those numbers drastically differ and Tesla should keep staff informed. Mr. Juarez agreed with the points raised by Mr. Murza and said that responsiveness to staff questions and concerns is incumbent upon any company.

Mr. Witt responded that because of the STE Program rules and restrictions, the projects are broken down into small bites, which makes it difficult to coordinate information. Mr. Witt stated that Tesla has hired 3,000 employees and expects to hire a total of 4,113 new hires for this Project. Further, he explained that Tesla went from 1,300 employees six years ago to 35,000 individuals, 19,000 employees are in California. Mr. Witt indicated that Tesla is the largest employer of veterans in the state and is proud that the majority of the manufacturing population is represented by minorities and Tesla is committed to diversity. He stated that Tesla has committed billions of dollars to the Projects and is committed to California.

Ms. Ortega wanted to hear a specific commitment from Tesla that they will perform outreach to the manufacturing contractors representing minorities.

Mr. Picker stated that diversity contractors who worked within the regulated utilities were attempting to reach out to other organizations competing in the same space and also receiving public assistance. Mr. Picker indicated that Tesla needed to work with the diversity contractors directly.

Mr. Juarez stated that these issues should not be a surprise to Tesla and that the Board would be looking for evidence of Tesla addressing these issues. Mr. Juarez stated that until the Board was convinced of Tesla's dedication to issues of importance to the state, the Board was likely to continue raising questions and demanding answers and could certainly apply conditions to Applications or deny them entirely.

Ms. Baker indicated that staff needed time to properly assess this Application. She further stated that the Controller would be carefully considering the Application. Ms. Carrillo indicated that the Application was unlikely to be ready for approval in January and CAEATFA would likely be bringing the Application forward in the first quarter. Ms. Baker asked for an update in January, and Ms. Carrillo said that she would update the Board.

There were no further comments from the Board or the public and the item was approved.

The item was passed by the following vote:

Steve Juarez	Aye
Anne Baker for the State Controller	Aye
Eraina Ortega for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Michael Picker for the Public Utilities Commission	Abstain

5. PUBLIC COMMENT

Mr. Juarez 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 11:38 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director