

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
July 17, 2018**

1. CALL TO ORDER AND ROLL CALL

Tim Schaefer, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA” or the “Authority”) meeting to order at 10:46 a.m.

Members Present: Tim Schaefer for John Chiang, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Jacqueline Wong-Hernandez for Michael Cohen, Director,
Department of Finance
Michael Murza for Robert B. Weisenmiller, Chair,
California Energy Commission
Grant Mack for Michael Picker, President, Public Utilities Commission

Staff Present: Deana J. Carrillo, Executive Director

Quorum: The Chairperson declared a quorum.

2. MINUTES

Mr. Schaefer asked if there were any questions or comments concerning the June 19, 2018, meeting minutes. There were none.

Mr. Schaefer asked if there was a motion.

Ms. Wong-Hernandez moved for approval of the minutes; upon a second from Ms. Baker, the minutes were 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 |
| Jacqueline Wong-Hernandez for the Director of Finance | Aye |
| Michael Murza for the California Energy Commission | Aye |
| Grant Mack for the Public Utilities Commission | Aye |

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Carrillo summarized recent activity under CAEATFA's programs, beginning with the Sales and Use Tax Exclusion ("STE") Program. Ms. Carrillo reported that CAEATFA has awarded approximately 60% of the sales and use tax exclusion for the year, leaving \$40.15 million left to award. CAEATFA currently has five applications under review; if they are all approved, approximately \$38.5 million of the \$100 million cap will remain for 2018. The deadline for applications to be considered for the September Board meeting is Friday, July 20th.

Ms. Baker asked what CAEATFA is doing in terms of outreach for the STE Program, and whether it would be possible to award all of the \$100 million in STE awards in 2018. Ms. Carrillo stated that CAEATFA currently has several partnerships and participates in various outreach efforts. The most prominent is a partnership with the Governor's Office of Business and Economic Development. CAEATFA also has a partnership with the California Association for Local Economic Development and the California Manufacturers Associates, and has established channels to reach their members. CAEATFA also has plans with the California Department of Tax and Fee Administration, formerly the Board of Equalization, involving "Manufacturing Day" in October. Ms. Carrillo continued, stating that last year was a banner year, where the number of applications approved by the Board increased by approximately 50%, and CAEATFA is working to maintain that level of participation, but that it is too early to tell if the \$100 million will all be awarded, although this is always CAEATFA Staff's ("Staff") goal.

Under the Property Assessed Clean Energy ("PACE") Loss Reserve Program, Ms. Carrillo reported that CAEATFA's contract for audit services has been approved by the Department of General Services ("DGS"), and the contract for risk analysis is currently under review by DGS.

Under the California Hub for Energy Efficiency Financing ("CHEEF"), Ms. Carrillo reported that the Residential Energy Efficiency Loan ("REEL") Assistance Program continues to grow. CAEATFA has now enrolled over 200 loans with over \$3.5 million in loan activity; over 52% of loans finance projects in the Low-to-Moderate Income census tracts. She continued by reporting that Miriam Joffe-Block, CHEEF Program Manager in charge of development and implementation, recently participated in a financing panel at the Statewide Energy Efficiency Collaborative, highlighting efforts to help underserved populations reach their energy goals.

Under legislative updates, Ms. Carrillo reported that Assembly Bill 1547 (Quirk-Silva) was approved by the State Senate Business, Professions, and Economic Development Committee in late June, and is scheduled to be heard by the Appropriations Committee in coming weeks. The bill had been amended to include a number of provisions specific to the California Industrial Development Financing Advisory Commission and the California Pollution Control Financing Authority, as well as technical clean-up language specific to CAEATFA which includes: adding water efficiency to the definition of "Project," modifying the type of eligible properties under the PACE Loss Reserve Program from "fewer than four units" to "four units or fewer" to make the language consistent with industry standards and other residential PACE statute, and clarifying requirements for exclusion use and applicability for contractors and subcontractors under the STE Program.

Ms. Carrillo reported that under her delegated authority, no actions were taken.

Ms. Carrillo then concluded her report.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF APPLICANT'S REQUEST TO EXTEND THE TERM OF THE MASTER REGULATORY AGREEMENT OF STE AWARD

1) Hi Shear Corporation Presented by Xee Moua, Analyst

Ms. Moua reported that in July 2015, the CAEATFA Board approved a sales and use tax exclusion for Hi Shear Corporation (“Hi Shear” or the “Applicant”) to upgrade infrastructure and specialty aerospace fastener manufacturing equipment at its Torrance facility (the “Project”). As of December 31, 2017, Hi Shear has used the exclusion to purchase \$27,817,779 in Qualified Property (71% of the total Qualified Property approved). Hi Shear is requesting to extend the initial term of the Master Regulatory Agreement (the “Agreement”) to accommodate Project delays due to capital constraints following a short-term decline in business. Hi Shear represents that it had not anticipated a change in the component consumption of its main customer, thereby generating less capital and affecting business objectives. According to the Applicant, demands have increased over the last several months and it estimates that approximately \$32,685,000 of Qualified Property (83% of the total Qualified Property approved) will be purchased by the end of July 2018. Hi Shear represents that the remainder of the Qualified Property will be acquired by the end of 2018 and expects all equipment to be in use by the end of 2019. Based on this information, Staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

Staff recommends that the Board approve Hi Shear’s request to extend the initial term of the Agreement to December 31, 2019 to purchase up to \$39,385,000 in Qualified Property, anticipated to result in a sales and use tax exclusion of \$3,316,217.

Ms. Wong-Hernandez 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.

Mr. Schaefer asked if it was reasonable to assume that the company has sorted out the sources of delays to the project timeline. Ms. Carrillo responded, stating that Staff has considered the Applicant’s claims and believe the extension of time is reasonable.

There were no further comments and Mr. Schaefer called for a vote. 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 |
| Jacqueline Wong-Hernandez for the Director of Finance | Aye |
| Michael Murza for the California Energy Commission | Aye |
| Grant Mack for the Public Utilities Commission | Aye |

- 2) Orbital ATK, Inc.
Presented by Xee Moua, Analyst

Staff introduced Mario Domico, Senior Finance Director, Orbital ATK, Inc.

Ms. Moua reported that in August 2015, the CAEATFA Board approved a sales and use tax exclusion for Orbital ATK, Inc. (“Orbital” or the “Applicant”) to expand manufacturing operations for advanced ballistics technologies at its facility in Northridge (the “Project”). Orbital is requesting to extend the initial term of the Master Regulatory Agreement (the “Agreement”) to accommodate unforeseen circumstances that affected its timeline such as underestimating time needed for internal corporate reviews, unplanned facility expansion, limited staffing, and changes in material lead times. Orbital states that Project changes can also be attributed to an acquisition involving the consolidation of Orbital and Northrop Grumman Corporation that was executed in June 2018. To ensure the Project will be completed, the Applicant provided Staff an amended timeline specifying the updated acquisition timeframes and corresponding costs, as well as accounting for expenditures to be met by 2021. According to Orbital, corporate reviews and approvals of new release agreements are complete, facility upgrades have been scheduled to be completed by the end of 2018, a recruiter was hired to see that proper staffing was met, and the Applicant has set expectations through negotiations for future Qualified Property purchases. Based on this information, Staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

Based on this information, Staff recommends that the Board approve Orbital ATK, Inc.’s request to extend the initial term of the Agreement to August 18, 2021 to purchase \$16,275,154 in Qualified Property, anticipated to result in a sales and use tax exclusion of \$1,370,368.

Ms. Wong-Hernandez 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 no further comments and Mr. Schaefer called for a vote. 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 |
| Jacqueline Wong-Hernandez for the Director of Finance | Aye |
| Michael Murza for the California Energy Commission | Aye |
| Grant Mack for the Public Utilities Commission | Aye |

B. REPORT FROM TESLA, INC. ON STATUS OF PROJECT PURSUANT TO RESOLUTION NUMBERS 17-SM003 AND 18-SM004 (INFORMATIONAL ITEM)

Staff introduced Erin Bradley, Tax Credits and Incentives Lead, Tesla, Inc.; Laurie Shelby, Vice President of Environmental Health and Safety, Tesla, Inc.; Sanjay Ranchod, Director and Counsel, Business Development and Policy, Tesla, Inc.; and Dr. Nic Patee, President, Work Right NW Inc.

On March 20, 2018, the CAEATFA Board approved resolutions 17-SM003 and 18-SM004 approving two sales and use tax exclusion awards for Tesla, Inc.'s ("Tesla") expansion of its manufacturing facility to accommodate production of its Model 3 vehicle. Both resolutions require that Tesla update the CAEATFA Board in writing and in person every four months for three years with regards to the following:

1. Progress in meeting its production goals;
2. Progress in improving the health and safety standards at its facilities; and
3. Providing an updated Legal Status Questionnaire.

Ms. Bradley gave a summary of productivity at Tesla, stating that Tesla manufactured 53,339 vehicles in the second quarter, representing a 55% increase over the first quarter, making it the most productive quarter at Tesla to date, and Model 3 production exceeded the combined rates of Model S and Model X vehicles. She continued by stating that the weekly production rate of the Model 3 more than doubled during the quarter, and Tesla achieved its goal of producing 5,000 Model 3 vehicles per week in the last week of the second quarter while still meeting Model S and Model X production targets. She added that Tesla anticipates being able to reach a rate of 6,000 Model 3 vehicles produced per week by the end of next month.

Ms. Bradley continued by stating that Tesla currently employs over 10,000 workers at its Fremont factory, and has approximately 20,000 employees in all. She added that based on third party research conducted last year, Tesla's business also supported over 30,000 additional supplier and third party jobs in California, with \$4 billion in direct investment in California in 2017 alone.

Ms. Shelby gave an overview of environmental health and safety ("EHS") at Tesla, stating that Tesla has ambitions to become the safest factory in the world. She stated that injuries at the Fremont facility have been in decline, and are down approximately 10% from the same time last year, and that Days Away and Restricted Transfer (DART) injuries were down 20%.

She added that the company's rate of injury was below the industry average for both of these indicators, based on the last available public data. Tesla achieves this by regularly communicating with employees and reducing risk, placing EHS committees in all departments of the Fremont facility, and implementing a "Find It, Fix It" policy, whereby employees may suggest ways to improve safety practices. Ms. Shelby continued by stating that Tesla has recently established a 24/7 occupational clinic at the Fremont factory, managed by Access Omnicare, and headed by Dr. Basil Besh. She stated that the ergonomics program at Tesla is important for preventing injuries. Currently, the schedule for ergonomic work station rotation is tracked manually, but the company has plans to automate the process. Each station is set up to give information on ergonomic impacts, which helps inform the rotation schedule. Ms. Shelby added that weekly audits are conducted by Tesla's safety committees in order to ensure that factory workers adhere to a two-hour rotation routine. She continued by reporting that Tesla is hosting an EHS week around the factory to better inform employees on best practices in health and safety. Tesla has also hired Work Right NW, Inc. ("Work Right") to help implement an early symptom prevention program, also called the Industrial Athlete Program.

Dr. Patee summarized the work that Work Right does at Tesla by explaining that the workforce at Tesla operates on a similar physical level to that of athletes. Work Right partners with Tesla's EHS team to bring a sports medicine approach to Tesla production, integrating athletic trainers into the workforce, assisting the ergonomic team, and giving workers tools to help prevent injury. Approaches include instruction on warm-ups before physical activity, body-mechanics coaching, and task-specific exercises to integrate into the workday. He stated that since implementing the program, over 1,200 interactions with workers have taken place.

Mr. Mack stated he was impressed by the fact that Tesla met its production goals and that EHS has become a priority at the company.

Mr. Schaefer stated that there were two investigations by the California Occupational Safety and Health Administration ("Cal/OSHA"), and asked about a May 2018 citation concerning nine "serious safety violations," one of which required the payment of a fine for an injury involving an electrical shock. Ms. Shelby replied, stating that the injury involving the fine happened in Massachusetts, and was related to their energy business. Tesla has made some adjustments in response to the injury, but is appealing the fines as the company does not agree with the allegations. She continued by stating that one of the investigations by Cal/OSHA into Tesla's painting operations involved recordkeeping allegations. Tesla does not find the allegations to be accurate or valid, and the company uses former federal leadership to oversee recordkeeping. She added that Cal/OSHA has yet to rule on those investigations.

Mr. Schaefer asked what the consequences are from an outsider perspective on Tesla's current levels of production, and asked Ms. Bradley to comment on news media reports of employment cuts at Tesla in recent months. Ms. Bradley stated that there was a recent 9% reduction in workforce at Tesla in an effort to reduce costs, but that it did not affect production employees, and the company does not believe it will affect Model 3 production. Mr. Ranchod added that the Fremont factory is continuing to hire production staff.

Ms. Baker asked about operations within a tent-like structure, which was recently constructed

near the Fremont factory building, and whether the company expects the structure to be a permanent addition. Mr. Ranchod replied, stating that the structure, which is around two and one-half football fields long, is similar to an airport hangar, and houses an assembly line. It was deemed necessary to build the structure in order to meet production goals. Tesla has acquired all of the necessary permits from the city of Fremont, but has not applied for permanent status.

Mr. Schaefer asked if there were any conditions on approval from the city of Fremont concerning the new production line. Mr. Ranchod replied, stating that he is not aware of any conditions on the approvals.

Ms. Wong-Hernandez asked for an elaboration on the operation of the 24/7 occupational health clinic, specifically whether it serves as an appointment-based clinic, and what level of medical staff attends the clinic. Ms. Shelby responded, stating that the clinic handles medical surveillance and regulatory requirements for items such as hearing testing, respiratory fitness testing, and check-ups. It also provides immediate care to injured employees. It is staffed by occupational physicians, registered nurses, and Dr. Besh is a hand surgeon whose staff is skilled in ergonomic medicine. She added that though the clinic is not designed for non-occupational ailments, almost 60% of visits have been for issues like colds and flus.

Ms. Baker stated that when Space Exploration Technologies, Inc. (“SpaceX”), another Elon Musk led company, came before the Board in June, it was not supported by the State Controller’s Office, and that the Controller abstained from that vote due to concerns about the amount of financial assistance being more broadly distributed. She further stated that the amount of awards to specific entities, and how ownership is defined by the Program will be discussed in the near future. Ms. Baker also expressed approval of Tesla’s openness and flexibility in the current proceedings. Mr. Ranchod responded, stating that Elon Musk owns approximately 22% of Tesla’s outstanding shares, which is not a controlling interest by traditional standards. He added that Tesla supported the \$20 million cap on STE awards for individual companies, and that neither SpaceX nor Tesla’s applications have precluded the ability of other companies to have access to awards.

C. REQUEST TO APPROVE MODIFICATIONS TO THE RESIDENTIAL ENERGY EFFICIENCY LOAN (REEL) ASSISTANCE PROGRAM UNDER THE REGULAR RULEMAKING PROCESS

Presented by Susan Mills, Program Specialist

Following the California Public Utilities Commission Decision in March 2017, which allowed CAEATFA additional flexibility in administering the Residential Energy Efficiency Loan (“REEL”) Assistance Program, staff shared with the Board the intent to make modifications to REEL in stages, quickly implementing some changes to streamline operations, while addressing more complex issues in subsequent rounds of modifications. The regular rulemaking includes modifications from the September 5, 2017, emergency rulemaking and the subsequent re-adoption of the emergency regulations, along with additional modifications. The most substantive additional modifications include:

- adding the ability for enrolled loans to be secured by a UCC-1 fixture filing; and

- adding the requirement that lenders submit information regarding their intent to sell enrolled loans (an indicator of broader market impact).

These regulations were subject to a 45-day public comment period, and no modifications were requested.

Staff requests Board approval to adopt the REEL regulations with modifications under the regular rulemaking process.

Ms. Wong-Hernandez 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.

Ms. Wong-Hernandez acknowledged Staff's efforts in implementing the updates to the Program's regulations.

There were no further comments and Mr. Schaefer called for a vote. 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 |
| Jacqueline Wong-Hernandez for the Director of Finance | Aye |
| Michael Murza for the California Energy Commission | Aye |
| Grant Mack for the Public Utilities Commission | Aye |

5. PUBLIC COMMENT

Mr. Schaefer 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 11:31 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director