

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
September 18, 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 10:32 a.m.

Members Present: Tim Schaefer for John Chiang, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Jacqueline Wong-Hernandez for Keely Martin Bosler, Director,
Department of Finance
Michael Murza for Robert B. Weisenmiller, Chair,
California Energy Commission
Rohimah Moly 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 August 21, 2018 meeting minutes. There were none.

Mr. Schaefer asked if there was a motion.

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

The item was passed by the following vote:

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
Rohimah Moly for the Public Utilities Commission	Abstain

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 if all of the applications before the Board are approved, CAEATFA will have awarded approximately 66% of the total exclusion for the year, leaving \$34 million to award. CAEATFA currently has 12 applications under review; if they are all approved, approximately \$16 million of the \$100 million cap would remain for 2018. The deadline for applications to be considered for the December Board meeting is Friday, October 19th. Ms. Carrillo added that there was a staffing update. Matthew Parsons has joined CAEATFA as an STE analyst.

Ms. Carrillo reported on recent updates regarding Tesla, Inc. ("Tesla"), pursuant to the request of the Controller's representative. Ms. Carrillo stated that Tesla and Elon Musk have been in the news recently regarding Tesla's progress in meeting its production goals and challenges related to Model 3 vehicles. Ms. Carrillo relayed that Mr. Musk has stated that he was exploring the possibility of privatizing Tesla, leading the U.S. Securities and Exchange Commission to launch an investigation which includes an examination of manufacturing goals and sales targets. The investigation resulted in a subpoena. Ms. Carrillo continued by noting that there have also been reports of shareholder lawsuits related to Mr. Musk's statements, and an additional defamation lawsuit has been filed against Mr. Musk. The media has also reported that several Tesla executives have left the company.

Ms. Carrillo stated that Tesla will be providing a report directly to the Board at an upcoming board meeting, and Faraday&Future Inc. ("Faraday Future") will be reporting at October's meeting, as required under their respective Board Resolutions.

Ms. Baker expressed concerns of the Controller relating to financial support of Tesla and other Elon Musk affiliated companies. She stated that Tesla will likely be back for the remainder of the 2018 sales and use tax exclusion awards before the end of the year, and that the State needs to strongly consider what should be done regarding financial support of the company, citing recent controversial news headlines. Mr. Schaefer stated he shared Ms. Baker's concerns.

Under the Property Assessed Clean Energy ("PACE") Loss Reserve Program, Ms. Carrillo reported that CAEATFA is undertaking a risk analysis of the PACE Loss Reserve; Blue Sky Consulting Group, LLC has begun work under its contract. In addition, Crowe LLP (previously known as Crowe Horwath LLP) is conducting research and developing its audit plan. Concurrently, CAEATFA staff ("Staff") is monitoring legislation to assess any potential impact to the Program's regulations.

Under the California Hub for Energy Efficiency Financing ("CHEEF") Program, Ms. Carrillo reported that Staff has been working with the consumer marketing team, which is being led by the Center for Sustainable Energy, and the Investor Owned Utilities to relaunch consumer marketing efforts. Ms. Carrillo continued by stating the CHEEF now has a more user-friendly consumer website, gogreenfinancing.com. She continued by noting that the Residential Energy Efficiency Loan ("REEL") Assistance Program continues to grow. CAEATFA currently has seven credit unions enrolled which have financed over \$4.2 million in energy efficiency retrofits, by providing approximately 250 loans. Approximately 50% of these loans are in the Low-to-Moderate Income

census tracts. Ms. Carrillo added the Program contains a feature under which the loan loss reserve contributions are revolved, thereby lowering the cost of ratepayer subsidies, and the Program recently implemented its first annual re-capture process. Staff is continuing to develop the Small Business and Affordable Multifamily pilots that are off-bill. A workshop for the Small Business pilot is scheduled for October 9th, and it is anticipated Staff will be able to present regulations to the Board for consideration at the November or December meeting. Staff also has plans to conduct outreach operations to the affordable multifamily sector over the next several months in the Bay Area, southern California, and San Diego regions.

Under legislative updates and policy efforts, Ms. Carrillo reported that Assembly Bill 1547 (Quirk-Silva) has been approved by both houses and is on the Governor's desk for consideration. The bill, which until recently included a number of program improvements for CAEATFA, as well as provisions related to the California Pollution Control Financing Authority and the California Industrial Development Financing Advisory Commission, was modified prior to its approval, and the only elements specific to CAEATFA are modifications to the STE Program, which streamline the Program for approved Applicants using construction contractors.

Ms. Carrillo stated that under her delegated authority there were no actions to report.

Ms. Carrillo then concluded her report.

Mr. Schaefer excused himself, and Treasurer John Chiang assumed the role of chair.

4. BUSINESS ITEMS

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

Katerra Construction LLC
Presented by Xee Moua, Analyst

Staff introduced J.Z. Rigney, Senior Manager – Stakeholder Engagement & Government Affairs, Katerra Construction LLC; and Matthew Ryan, Head of Manufacturing, Katerra Construction LLC.

Ms. Moua reported that Katerra Construction LLC (“Katerra” or the “Applicant”), an Advanced Manufacturing Applicant, is requesting a sales and use tax exclusion to build a new facility located in Tracy that will manufacture multifamily unit building components (the “Project”).

According to the Applicant, the Project includes automated lines for the production of wood frame walls, floors, cabinets, finish areas, trusses, windows, and light-gauge steel. Katerra represents the Project will apply Radio Frequency Identification (RFID) tags onto all components, which are linked to an archived file showing the assembly of each component. These files will then be accessible on a mobile device on the job site. Furthermore, the automated floor truss line will position wiring, venting, sprinkler systems, lighting, and ceiling-side drywall in the trusses, while methods such as gluing and clamping associated with traditional cabinetry production will be replaced with a dowel-based approach.

Katerra explains that its cutting-edge equipment is designed to conserve production materials, reduce labor costs, increase efficiency, and create higher-quality components. For example, because the Applicant does not focus on aesthetics but rather product components and manufacturability, it's able to produce superior windows with less waste at a lower cost. And finally, Katerra states it will incorporate advanced materials such as engineered cross-laminated timber which is lightweight, yet durable enough to produce structural components.

Staff recommends approval of a resolution for Katerra Construction LLC's purchase of no more than \$53,348,261 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of \$4,459,915.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Moly.

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

Mr. Chiang asked for information regarding Katerra's operations as they pertain to the industry. Mr. Ryan replied that Katerra is vertically integrated, which allows the company to build multifamily and other projects faster, of higher quality, and in a more cost-effective way compared to the industry standard. Mr. Ryan stated that it is typical in the construction industry for a given project to use multiple firms, such as an architectural firm and an engineering firm, which creates inefficiency, additional costs, and waste. Mr. Ryan explained that Katerra has its own in-house architecture firm, an interior design team, engineering specialists, and a manufacturing line in their factory, allowing the company to be more efficient, eliminate waste, and ensure quality. Once built, components are delivered to construction sites to be assembled by Katerra's construction team. He added that the company also has its own renovations team to do upgrades and repair damage.

Mr. Chiang asked if Katerra focuses on market rate or affordable housing. Mr. Ryan responded that Katerra's business model will allow the company to work largely on affordable housing projects.

Ms. Wong-Hernandez asked for clarification regarding the sourcing of the lumber and the assembly location of the cross-laminated timber, specifically whether the lumber originated from California. Mr. Ryan replied by stating the cross-laminated timber facility is under construction currently in Spokane, Washington – it represents a \$125 million investment for the company and will be the largest cross-laminated timber facility in North America. Katerra's supply-chain team is currently looking at qualified sources, working with mills across the US. Mr. Ryan explained that cross-laminated timber is a structural product with strength comparable to that of concrete or steel. Mr. Ryan stated the quality of the finished lumber is very important, so aspects such as humidity control will be key; Katerra is working to source from lumber mills that can meet their specifications.

Ms. Wong-Hernandez asked whether any of the milling or manufacture of the cross-laminated timber will take place at the Tracy facility. Mr. Ryan replied the Tracy plant will not construct that item; rather, the facility will be the manufacturing headquarters for projects in California.

He explained Kattera’s business model works best within 500 miles of the construction site; beyond that, cost advantages associated with their process are lost due to logistics.

Ms. Moly asked if Kattera has any construction projects in the pipeline for California. Mr. Ryan replied, stating Kattera has 17 projects currently underway in California, and a pipeline of over 155 projects. He added the Tracy plant will support these projects.

Mr. Murza asked if Kattera has considered energy efficiency in the design of their products, or if efficiency is part of Kattera’s plan for their ten-to-fifteen year retrofits. Mr. Ryan responded that Kattera is designing energy efficiency into their products; specifically, they use a smart system which will centralize the electrical core of the building. He explained, the buildings will have adapters able to use wind or solar power in addition to battery backup. Mr. Ryan stated that installing energy-efficiency measures during renovations will prove somewhat more complicated; however, the company is working on significantly more efficient air conditioning systems. Mr. Ryan added that Kattera has plans over the next year to add sensors which can detect leaking pipes, thereby lowering insurance claim amounts and allowing repairs to be made before the issue becomes more serious.

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

The item was passed by the following vote:

John Chiang, 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
Rohimah Moly for the Public Utilities Commission	Aye

5. PUBLIC COMMENT

Mr. Chiang 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 10:52 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director