

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
May 21, 2019**

1. CALL TO ORDER AND ROLL CALL

Jovan Agee, 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: Jovan Agee for Fiona Ma, CPA, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Karen Finn for Keely Martin Bosler, Director, Department of Finance
Ken Rider for David Hochschild, 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. Agee asked if there were any questions or comments concerning the April 16, 2019, meeting minutes. There were none.

Mr. Agee asked if there was a motion.

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

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Carrillo announced that the agenda for today’s meeting was amended to remove items 4.A.5 through 4.A.15, consideration of FirstElement Fuel Inc.’s (“FEF”) requests for sales and use tax exclusions. She stated that this was due to questions being raised by Board members during their meeting briefings about FEF’s applications, given that they are not a “traditional” manufacturer,

and Staff was asked to refresh its analysis on its projects' eligibility from the original project that was approved last year. Ms. Carrillo continued by stating that given CAEATFA has new legal counsel and given the timing of the request, Staff has determined it was most appropriate to pull the items from this month's agenda to complete their review and anticipates bringing them to the Board for consideration at next month's Board meeting.

Ms. Carrillo then 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 60% of the total sales and use tax exclusions for the calendar year, leaving \$40 million left to award in 2019. CAEATFA received 11 applications before the application due date on Friday, May 17, for consideration at the July meeting. CAEATFA currently has 17 additional applications under review; if they are all eligible and qualify, the program will be oversubscribed by nearly \$10 million in exclusions for 2019 as a result of the \$100 million statutory cap. The STE Program's regulations provide a process for this scenario: when applications received are in excess of the statutory cap for that calendar year, for the month in which the program allocation is exhausted—in this case anticipated to be in July 2019. The order in which the applications are considered is based on a ranking of Competitive Criteria of all projects moving forward before the Board within the same month. The ranking criteria is points-based, and includes consideration of:

- Unemployment in the area of the project location;
- Location of a corporate headquarters in California;
- Whether the applicant is a small business; and
- If the project is from a new applicant.

Ms. Carrillo continued by explaining that unawarded projects will be placed on a waiting list for the following year's allocation. Ms. Carrillo noted that Staff was still reviewing the applications, so the information being provided is subject to change. She stated that this is the first time in the history of the STE Program that the Program has been oversubscribed this early in the year. Staff will be conducting research on trends of the overall portfolio and evaluating administration approaches for future years.

Under the California Hub for Energy Efficiency Financing ("CHEEF"), Ms. Carrillo stated that the Residential Energy Efficiency Loan Assistance Program reached an enrolled loan volume of over \$7 million in private capital leveraged. She continued by noting that the Affordable Multifamily Energy Efficiency Financing Program regulations were approved by the Office of Administrative Law last month, and Staff has also been working on operationalizing the limited launch of the Commercial Energy Efficiency Financing Program Pilot, which is the subject of agenda item 4.C.

Under legislative updates, Ms. Carrillo stated, as she had previously reported, that various companies and industries have expressed interest in extending the STE Program beyond its currently scheduled sunset date of January 1, 2021. She reported that there are currently two bills which propose to extend the program: Senate Bill 162, authored by Senator Galgiani, which Treasurer Ma is supporting; and Assembly Bill 176, authored by Assemblymember Cervantes. She reported that Assembly Bill 176 had been modified by the Assembly Committee on Revenue and Taxation to establish a process to address issues raised in the 2018 Legislative Analyst's

Office report on the Program. Ms. Carrillo stated she is working with the Treasurer's legislative staff to continue to monitor the bills, and will be working to meet with interested legislative staff on an informational hearing. Ms. Carrillo also reported that Staff continues to monitor the progress of Assembly Bill 1583, related to recycling market development, and Assembly Bill 56, related to CAEATFA serving as the power purchaser of last resort.

Ms. Carrillo reported that under her delegated authority, she approved an optional one-year, time only, extension for PACE Trustee services with Zions Bank, with a total max contract amount of \$11,325 over the whole contract term. The contract's new expiration date will be June 22, 2020 and the amount remaining in the contract is \$6,900. The time extension amendment was approved and signed on May 17, 2019.

Ms. Carrillo announced that CAEATFA gained two new members with the hiring of Traci Hukill, who joins the CHEEF team for marketing and education efforts, and has over 20 years of experience in journalism as a writer and editor; and Geoff Larson, who joins the CHEEF as an analyst for the Commercial Program and the upcoming on-bill repayment, and has a background as an inventor and entrepreneur, with a degree in mechanical engineering.

Ms. Carrillo then concluded her report.

Ms. Baker asked if Staff would seek to increase the yearly STE Program award cap, considering the Program is projected to be oversubscribed in July, and stated that if Staff is pursuing extending the Program, it would make sense to increase the cap concurrently. Mr. Agee agreed increasing the cap would be a goal worth pursuing. Ms. Carrillo replied that CAEATFA has advocated for either unawarded exclusions from previous years to roll-over, or increasing the yearly award cap, and legislative interest on this topic has been mixed thus far.

4. BUSINESS ITEMS

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

- 1) Quantitative BioSciences, Inc.
Presented by Matthew Parsons, Analyst

Staff introduced Natalie Anne Cookson, Chief Executive Officer, Quantitative BioSciences, Inc.; and Michael Ferry, Chief Science Officer, Quantitative BioSciences, Inc.

Mr. Parsons reported that Quantitative BioSciences, Inc. ("QBI" or the "Applicant") is requesting a sales and use tax exclusion to build a new biofuel production facility located in Modesto (the "Project"). QBI has partnered with family owned and operated Fiscalini Dairy to construct an algae-based waste treatment plant that uses biogas from Fiscalini Dairy's anaerobic digesters to produce fuel-quality biomethane for vehicle use, generate high-protein algae feed for livestock, and remediate water for improved crop irrigation. The Applicant states that the yield from the system will be approximately 164,000 diesel gallon equivalents annually, and will be used in transportation applications exclusively in order to harness the economic benefits of the Renewable Fuel Standard and the Low

Carbon Fuel Source credits. According to QBI, the Project provides additional environmental and financial benefits due to the use of algae raceway ponds that sequester the carbon dioxide stream from the refinement process and integrate the gas, along with the high level of nutrients in the digester effluent wastewater, into a high protein feed for the farm’s cows. According to the Applicant, the ponds will also be used to grow and harvest algae that not only helps sequester the carbon dioxide that would otherwise be emitted and improves water quality, but also helps offset the farm’s large expense of purchasing animal feed.

Staff recommended approval of a resolution for Quantitative BioSciences, Inc.’s purchase of Qualified Property in an amount not to exceed \$875,511, anticipated to result in an approximate sales and use tax exclusion value of \$73,193.

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

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

Ms. Finn asked about the source of the algae for the Project. Ms. Cookson replied that the company has a lab facility that keeps a seed stock growing for its algae.

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

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

- 2) SANCO Services, L.P.
Presented by Matthew Parsons, Analyst

Staff introduced Steve South, Chief Executive Officer, SANCO Services, L.P.

Mr. Parsons reported that SANCO Services, L.P. (“SANCO” or the “Applicant”) is requesting a sales and use tax exclusion to install a new anaerobic digester system at its existing Resource Recovery Facility located in Escondido (the “Project”). According to the Applicant, it is entering the fourth phase of its Escondido Master Facility Development Plan with the installation of the anaerobic digester system, which will be the first operational anaerobic digestion facility in San Diego County. SANCO states the digesters will convert 93,000 tons per year of food and organic waste, collected from its sister company EDCO’s network of waste collection facilities, into 128,400,000 standard cubic feet per year of carbon-negative renewable natural gas. According to SANCO, it will inject the renewable natural gas into the San Diego Gas & Electric natural gas grid, from

which it will be consumed by EDCO’s fleet of 245 natural-gas-powered waste collection trucks. SANCO suggests the proposed Project will increase the volume of low-carbon biomethane available for blending with transportation fuel, increase the availability of renewable compost and fertilizer to local farmers, reduce dependence on fossil fuels, and divert food and green waste from landfills.

Staff recommended approval of a resolution for SANCO Services, L.P.’s purchase of Qualified Property in an amount not to exceed \$15,216,783, anticipated to result in an approximate sales and use tax exclusion value of \$1,272,123.

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

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

Mr. Rider asked what amount of biogas will be consumed by EDCO’s fleet compared to the amount that will be injected into the natural gas pipeline system. Mr. South stated the fleet will consume more fuel than the Project’s facility will produce, so the injection into the system will be used to offset the costs of fueling the fleet. Mr. Mack asked whether there will be a dedicated pipeline for the fleet. Mr. South stated the biogas will be mixed with the general natural gas pipeline system. He added that SANCO’s facility for the Project is will be located within 300 feet of a main transmission line, so the injection will take place there.

There were no further comments and Mr. Agee called for a vote.

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

- 3) Fortis Solutions Group West, LLC
Presented by Matthew Parsons, Analyst

Staff introduced Brendan Kinzie, President, Fortis Solutions Group West, LLC; and James Stone, Director of Wine and Spirits, Fortis Solutions Group West, LLC.

Mr. Parsons reported that Fortis Solutions Group West, LLC (“Fortis” or the “Applicant”) is requesting a sales and use tax exclusion to build a new wine label production facility located in Napa utilizing advanced Hewlett-Packard 6900 and Nilpeter printers (the “Project”). The Project will be utilizing printmaking technology designed to be more energy efficient, produce significantly less raw material, reduce post-consumer waste sent to landfills, lower overall production costs, and improve air quality by eliminating volatile organic compound (“VOC”) emissions. According to the Applicant, it will be partnering

with raw material suppliers to use 50% uncoated premium stocks crafted from 100% post-consumer waste inputs, and recycle its waste back into the supply chain. The Project will also minimize environmental impacts by using label inks and coatings that require less water and are UV-based to create higher quality labels, compared to current VOC solvent alternatives that produce toxic emissions. Fortis states that compared to the industry standard, the Project will reduce overall energy consumption by 10%, solid waste by 15%, air pollutants by 90%, and hazardous waste by 100%.

Staff recommended approval of a resolution for Fortis Solutions Group West, LLC’s purchase of Qualified Property in an amount not to exceed \$7,045,460, anticipated to result in an approximate sales and use tax exclusion value of \$589,000.

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

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

Ms. Finn asked for clarification of Fortis’ market presence and distribution and whether the company already produces wine labels. Mr. Kinzie confirmed that the company already produces wine labels for sale throughout the country, but this Project presents the company’s first production within California.

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

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

4) Taft Ammonia Company, LLC
Presented by Matthew Parsons, Analyst

Staff introduced Thomas T. Dubel, Jr., Senior Director, State and Local Tax (Consultant), Altus Group.

Mr. Parsons reported that Taft Ammonia Company, LLC (“Taft” or the “Applicant”) is requesting a sales and use tax exclusion to construct its ammonia fertilizer manufacturing plant located in Taft (the “Project”). The plant is operated in partnership by Grannus LLC, CALAMCO, and the Project’s investors. CALAMCO, the largest agricultural cooperative and ammonia distributor in the state, imports its nitrogen fertilizer from foreign sources and has been trying to secure a California-based source of ammonia to reduce costs, to secure a production pricing advantage, and to reduce the carbon footprint of its operations. According to the Applicant, the Project will be the first facility to use next generation

Grannus Process™ technology, which partially oxidizes natural gas for the manufacture of synthetic as that is then used to produce ammonia as well as saleable food-grade carbon dioxide byproduct. Taft represents that the use of the Grannus technology will allow the plant to have a near-zero emission profile, and a substantial reduction in air emissions compared to previous practices. Additionally, the Project will eliminate the transportation-related emissions currently generated by CALAMCO's imports of ammonia from Canada and Trinidad & Tobago. According to Taft, another advantage of the facility design is that the cost per ton of ammonia produced by the Project is expected to be 25% less, giving CALAMCO growers a competitive advantage.

Staff recommended approval of a resolution for Taft Ammonia Company, LLC's purchase of Qualified Property in an amount not to exceed \$239,234,449, anticipated to result in an approximate sales and use tax exclusion value of \$20,000,000.

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

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

Mr. Rider asked about power cogeneration at the facility. Mr. Dubel responded by stating that the plant will be near-zero emissions producing, and therefore will not require an air permit, and the plan for the cogeneration is for the facility to be mostly self-sustainable. Mr. Rider asked about the amount of ammonia the company will produce compared to the market and California's agriculture needs. Mr. Dubel stated CALAMCO currently supplies nearly 100% of the states ammonia fertilizer needs. He added that the new facility will allow for more efficiency and reduce costs for the market, as the need to import much of the supply will be eliminated, thereby removing an entire step from the process to get the product to market.

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

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

B. REPORT FROM FARADAY&FUTURE INC. ON STATUS OF PROJECT PURSUANT TO RESOLUTION NUMBER 18-SM008 (INFORMATIONAL ITEM)

Staff introduced John Lehn, Director of Government Affairs, Faraday&Future Inc.; Alex Tran, CPA, Managing Partner (Consultant), California Incentives Group; and Leslie McBride, Director (Consultant), California Incentives Group.

On April 17, 2018, the CAEATFA Board approved resolution 18-SM008 granting a sales and use tax exclusion award for Faraday&Future Inc.'s ("Faraday") purchase of up to \$239,234,449 in Qualified Property to upgrade its existing facilities in Compton and Gardena to facilitate research, design, and prototype testing of its first high-performance electric vehicle, the FF91, and construct a facility in Hanford that will manufacture its electric vehicles (the "Project"). The resolution requires that Faraday update the CAEATFA Board in writing and in person every six months for up to three years with regards to the following:

1. Any significant developments in the status of the Project;
2. Progress in meeting its production goals; and
3. Any other matters the Executive Director shall deem appropriate.

Faraday attended the CAEATFA Board meeting on October 17, 2018 as required and provided its first report. Faraday reported that it was experiencing challenges involving financing for the Project and would provide further updates to their progress during the February reporting period. Due in part to the non-standardized request of mandated reporting, an increase in Staff workload, and adjustment to the new requirements, Faraday did not report in February as required. Staff has since developed new tools and controls to ensure Faraday will report every six months. Additionally, Faraday has represented to Staff that it has secured financing for the Project, and has been successful in restructuring and obtaining qualified employees, enabling it to better self-monitor its compliance with CAEATFA reporting requirements.

Mr. Lehn reported that the first pre-production FF91 rolled off the line in Hanford on August 28, 2018. He stated multiple pre-production vehicles are undergoing required vigorous testing and validation. He noted company employment as 350 in Gardena, 20 in San Jose, and five in Hanford. A video was shown which chronicled some of the major Faraday activity and accomplishments in the past three years.

Mr. Lehn continued his report by stating that the manufacturing plant in Hanford will have a maximum capacity of 10,000 vehicles in 2020, and that a planned expansion would result in a capacity of 65,000 vehicles per year beginning in 2021. To date, approximately \$150 million has been invested by Faraday in equipment and other Qualified Property, representing over 60% of the purchases under the award. He stated that Faraday expects to invest over \$600 million in the Hanford manufacturing plant, and projected employment is estimated at 100 in Hanford and 650 companywide.

Faraday had previously reported that it had a disagreement with its equity investor, Evergrande Health, a subsidiary of the Chinese conglomerate and real estate developer, Evergrande Group, and had initiated private arbitration in Hong Kong. Mr. Lehn reported that all issues involving the dispute have since been resolved. He stated that Faraday is actively seeking equity partners and is targeting completion of construction by the end of 2019 and production in mid-2020, assuming financing is received. He added Stifel Nicholas & Co. and Birch Lake Fund Management firms have been engaged to assist with the company's equity and debt investment needs, and a secured Vendor Trust has been established by Faraday to coordinate the payment to all vendors.

Mr. Rider asked for clarification of the production timeline. Mr. Lehn replied that Faraday

anticipates completing construction at its facility by the end of 2019; then, in the first two quarters of 2020 to be installing equipment and training workers. He stated the company expects to roll the first FF91 off the production line in April of 2020.

Mr. Mack asked about other Faraday car models. Mr. Lehn replied that the first production vehicle, the FF91, will be a high-end luxury and performance vehicle, similar to what would be expected of a Bentley. After its release, the company plans to move to a more affordable, standard luxury car option, similar to what is expected of a BMW 500 or 700 series. Mr. Mack asked about Faraday's battery supplier. Mr. Lehn stated he believes it is LG.

Ms. Finn asked what approvals or permits Faraday still needs before it can go into mass production. Mr. Lehn responded by stating that the company still needs to undergo government-required testing of its cars, such as winter and leak testing, and that they've already been working on some of the testing, such as crash testing.

Mr. Agee asked how many employees will be employed at the Hanford facility at buildout. Mr. Lehn replied the company anticipates having approximately 100 employees by the middle of 2020, and plans to have as many as 150 once the second vehicle model is in production. Mr. Agee asked about the housing infrastructure in the facility's area. Mr. Lehn replied by stating Faraday will mostly be a regional employer, and anticipates largely employing workers from Hanford, Visalia, and Fresno. He continued that the company has made a pledge to the City of Hanford to begin recruitment there before expanding its employment search. Mr. Lehn added that many of the jobs at the facility will involve cross-over skills that local workers in manufacturing industries already possess, though technical requirements of some of the jobs at the facility will likely require a broader search. Mr. Agee suggested Faraday might proactively work on a housing plan concurrent to the construction of their facility. He stated the Treasurer's Office has been working with the Governor's Office toward the goal of creating more housing tax credits. Mr. Lehn agreed that the company would like to add this kind of value, and aligns with his 40 years of experience as a workforce development director in Kings County.

C. REQUEST TO APPROVE MODIFICATIONS TO THE COMMERCIAL ENERGY EFFICIENCY FINANCING PROGRAM UNDER THE EMERGENCY REGULATION RE-ADOPTION PROCESS

Presented by David Gibbs, Program Manager

Staff requested approval to re-adopt the Commercial Energy Efficiency Financing Program ("Commercial Program" or "Program") regulations with additional modifications under the emergency rulemaking process.

Mr. Gibbs stated the CHEEF is comprised of four Pilots launching sequentially:

1. Residential Energy Efficiency Loan Assistance Program
2. Commercial Energy Efficiency Financing Program
3. Affordable Multifamily Energy Efficiency Financing Program
4. Non-Residential Program, including On-Bill Repayment

Mr. Gibbs stated that the Commercial Program initial regulations were approved by the Board in November of 2018 and enacted by the Office of Administrative Law in December under the emergency rulemaking process. These modifications are being made during the first of potentially two emergency 90-day rulemaking extensions. The regulation modifications incorporate early lessons learned, modify and clarify data points, and better align participation requirements with industry standards.

Under the emergency rulemaking process, regulations are effective for 180 days from the date of adoption, with two 90-day extensions permitted. At the end of the emergency rulemaking period, regulations either expire or must undergo the regular rulemaking process. Staff is currently working on the regular rulemaking process.

Mr. Gibbs also reported that since December two finance companies have enrolled in the Commercial Program and Staff is reviewing current applications, 13 contractors and project developers are enrolled with several applications under review. Staff has conducted contractor outreach through all four Investor-Owned Utilities commercial trade-pro networks, and two projects have been pre-approved for enrollment, with a combined financed amount of \$220,000. He stated the Program is currently in a limited launch phase, with the broader launch scheduled for August or September when the public-facing web interface is established.

Staff recommended the adoption of a resolution to approve the re-adoption of the emergency Regulations with additional modifications for the Commercial Energy Efficiency Financing Program.

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

Mr. Agee 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 comments and Mr. Agee called for a vote. The item was unanimously approved.

The item was passed by the following vote:

Jovan Agee for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Karen Finn for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

5. PUBLIC COMMENT

Mr. Agee 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 11:39 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director