MINUTES

California Alternative Energy and Advanced Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
June 16, 2020

1. CALL TO ORDER AND ROLL CALL

Fiona Ma, CPA, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority ("CAEATFA" or the "Authority") meeting to order at 10:53 a.m.

Members Present:	Fiona Ma, CPA, State Treasurer Anne Baker for Betty T. Yee, State Controller Gayle Miller for Keely Martin Bosler, Director, Department of Finance David Hochschild, Chair, California Energy Commission Marybel Batjer, President, Public Utilities Commission
Staff Present:	Deana J. Carrillo, Executive Director
Quorum:	The Chairperson declared a quorum.

Due to the recommended precautions and public health recommendations resulting from the novel coronavirus (COVID-19), members of the Board were instructed by the Governor's Office that they may call in to the meeting by teleconference line, which is an exception to the usual requirement (Bagley-Keene Open Meeting Act – 1967) that they attend in person. CAEATFA staff ("Staff") has implemented additional social distancing measures, and participants have been asked to also participate remotely. Ms. Ma attended the meeting in person. Ms. Baker, Ms. Miller, Mr. Hochschild, and Ms. Batjer all attended the meeting via teleconference line.

2. MINUTES

Ms. Ma asked if there were any questions or comments concerning the April 21, 2020, meeting minutes. There were none.

Ms. Ma asked if there was a motion.

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

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer, President, Public Utilities Commission	Abstain

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Carrillo welcomed the Board members, and thanked them for their continuing support as CAEATFA works to determine how it can assist in the economic recovery efforts in the State. She stated that CAEATFA did not hold a Board meeting in May, as there were no business items at that time, and proceeded with providing updates on the various programs.

Under the California Hub for Energy Efficiency Financing ("CHEEF" or the "Hub"), Ms. Carrillo reported that earlier this month, the Residential Energy Efficiency Loan Assistance Program ("REEL") hit two milestones: the REEL Program reached over $12 million in loans enrolled, and has assisted with 700 projects across the state. A majority of these financings are in the low-to-moderate income census tracts. Ms. Carrillo stated that although REEL has seen moderate activity over the last few months in response to challenges due to COVID-19, CAEATFA staff ("Staff") continues to work with its contractor manager and lenders to provide support, and will work to be a part of the green economic recovery.

Ms. Carrillo continued by reporting that in April, the California Public Utilities Commission ("CPUC") approved Resolution E-5072, which approved the residential pilot's transition into a full-fledged program, as well as funding for CAEATFA's administration of REEL and the remaining pilots for the next two years. The CPUC approval of funding is reflected in CAEATFA's budget request in the 2020 budget, which appears to be on track. Ms. Carrillo added that the REEL Program's continuation also triggers modifications to the administrative governance infrastructure:

- CAEATFA and the CPUC will extend the time period of the existing Memorandum of Agreement, which expires June 30;
- CAEATFA administers the program and is reimbursed under a contract with the four investor-owned utilities (which is being extended under Agenda Item 4.A);
- CAEATAFA also completed a competitive contract solicitation to continue the Master Servicer services under a new contract (which is the subject of Agenda Item 4.B).

Ms. Carrillo continued by stating that CAEATFA is working with CPUC staff to assess how the Hub potentially could be expanded—while its focus is currently limited to energy efficiency, strengthening its impact to support other policy goals such as solar, batteries, and electric vehicle infrastructure would further leverage the program to better meet market needs and the State's policy goals.

Under the Sales and Use Tax Exclusion ("STE") Program, Ms. Carrillo reported that Staff has spent the last several weeks turning back toward its regulatory modification discussions. CAEATFA issued an Invitation for Comment for stakeholder feedback on a several key policy questions related to potential modifications to the STE Program, and has brought this topic to the Board today for a policy discussion prior to Staff's development of a specific proposal and proposed regulation text.

Under the PACE Loss Reserve Program, Ms. Carrillo stated that Staff has continued its work with its consultant on the PACE Risk Analysis, which is being completed and is anticipated to be brought before the Board at next month's meeting. She added that Staff is also completing its audits of the enrolled PACE programs.

Ms. Carrillo also reported that in CAEATFA's collaboration with the American Green Bank Consortium, it came to Staff's attention that there may be some opportunities to leverage federal funding in CAEATFA's clean energy efforts. She stated that the United States Department of Agriculture ("USDA") recently modified its Rural Energy Savings Program, which provides zero percent loans for relending for energy savings measures in rural areas, consistent with CAEATFA's statutory authority and which constitutes an opportunity to leverage CAEATFA's existing efforts and partnerships. Ms. Carrillo stated that CAEATFA worked in collaboration with the California Infrastructure and Economic Development Bank on a joint letter of intent to bring this funding to California, proposing complementary approaches. If the USDA expresses interest in the proposal, Staff will explore the opportunity in more detail and will bring a specific proposal before the Board prior to moving forward.

Under her delegated authority, Ms. Carrillo stated that CAEATFA exercised the pre-approved optional one-year extension for PACE Audit services with Crowe LLP (CAEATFA03-17). The contract's new expiration date will be May 17, 2021. The time extension was approved by Department of General Services on May 12, 2020. The extension is for time only and will not affect the total cost of the Contract ($450,000).

Also under her delegated authority, Ms. Carrillo stated that CAEATFA issued a Request for Proposals ("RFP") on May 1st for trustee services under the PACE Loss Reserve Program. Zions Bancorporation, National Association was selected as the winning bid for the PACE Trustee (CAEATFA02-20), for a two-year contract plus an option to extend for one additional year, with a cost not to exceed $33,700. This contract is currently being prepared to route through the Treasurer's Office for review and execution. CAEATFA anticipates a contract start date within a few weeks.

Ms. Carrillo also reported that under her delegated authority, the current fiscal year Interagency Agreement with the California Pollution Control Financing Authority for Rent and Security (CAEATFA03-19) was executed on June 15th, with a total cost not to exceed $142,862.36 for the term of July 1, 2019 through June 30, 2020.

Ms. Carrillo then concluded her report.

4. BUSINESS ITEMS

A. CONSIDERATION AND APPROVAL TO EXTEND AND INCREASE AN EXISTING RECEIVABLES CONTRACT WITH THE SOUTHERN CALIFORNIA GAS, PACIFIC GAS & ELECTRIC, SAN DIEGO GAS & ELECTRIC, AND SOUTHERN CALIFORNIA EDISON COMPANIES RELATING TO CAEATFA'S ADMINISTRATION OF THE CA HUB FOR ENERGY EFFICIENCY FINANCING PURSUANT TO INITIAL CPUC DECISION 13-09-044 AND SUBSEQUENT ACTIONS

Presented by David Gibbs, Program Manager

Mr. Gibbs reported that for administrative costs for the implementation of the California Hub for Energy Efficiency Financing ("CHEEF" or the "Hub"), CAEATFA has in place a receivables contract with the state's four investor-owned utilities: Southern California Gas Company ("SoCal Gas"), Pacific Gas & Electric Company ("PG&E"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("SoCal Edison").

Mr. Gibbs stated that this receivables contract was initially executed in 2014. It was amended twice in 2015 and later amended and restated in whole and approved by the Board in May 2017. The current agreement is for a total of $15.36 million and expires on June 30, 2020.

Mr. Gibbs explained that CAEATFA's administrative costs for implementing the Hub and the funding of program Credit Enhancement accounts are funded through this receivables contract and the monies described in it are not state funds, but ratepayer funds authorized and assigned by the California Public Utilities Commission ("CPUC"). The proposed amendment will bring the current contract in line with recent CPUC actions.

On April 2016, 2020, the CPUC adopted Resolution E-5072, which, amongst other things:

- Approved the transition of the Residential Energy Efficiency Loan Assistance Program ("REEL Program") from a pilot into a full-scale program;
- Authorized additional funding in the amount of $7.7 million for CAEATFA to continue to implement the Hub programs, and invest in planned infrastructure improvements to help the REEL Program scale to broaden and deepen Program impacts through fiscal year 2021/2022 ("FY 21/22"); and
- Established that the CPUC would continue to explore broader approaches to financing to address comprehensive energy goals, including such efforts as decarbonization, solar photovoltaic, storage, and electric vehicle charging, as well as other financing approaches.

Mr. Gibbs stated that the Implementation Agreement, as amended, will effectuate these actions, increasing the total not-to-exceed amount of the contract to $23.06 million, and extending the term through FY 21/22. In addition, the associated reimbursement and expenditure authority was included in the Governor's May revised budget, and is expected to be included in the Budget Act of 2020. The funding under this receivables contract reimburses CAEATFA for the administrative costs to implement the Hub, including its staffing at levels which facilitate effective implementation of the Hub's scope of work, as well as the various service contracts that have been established to implement the infrastructure for the Hub – including the master servicer contract, which is the topic of the next agenda item.

Staff recommended approval of a resolution to extend and increase an existing receivables contract with Southern California Gas, Pacific Gas & Electric, San Diego Gas & Electric, and Southern California Edison Companies for up to $23.06 million, through FY 21/22.

Mr. Hochschild moved for approval and there was a second by Ms. Batjer.

Ms. Ma 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. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer, President Public Utilities Commission	Aye

B. CONSIDERATION OF CONTRACT WITH CONCORD SERVICING CORPORATION AS MASTER SERVICER FOR THE CALIFORNIA HUB FOR ENERGY EFFICIENCY FINANCING (CHEEF) AND OTHER RELATED EFFORTS IN AN AMOUNT NOT TO EXCEED $5,500,000

Presented by David Gibbs, Program Manager

Mr. Gibbs reported that Staff is requesting approval to enter into a contract with Concord Servicing Corporation to provide assistance to the Authority with the administration of the Hub's financing Pilot Programs, which were authorized by the CPUC under initial Decision 13-09-044, and are currently in various stages of implementation and development within the territories of California's four investor-owned utilities ("IOUs"). The contract would also enable potential future expansion of services to include additional program modifications, including the expansion of the types of eligible measures – including solar, storage and electric vehicle charging units – and to provide services statewide.

The total not-to-exceed aggregate amount of the contract is $5.5 million over the entire term. The initial Contract term will be two years, after which CAEATFA may choose to execute two one-year extensions valued at $1 million each.

Mr. Gibbs provided additional background information on the Hub. He stated that the Hub creates a centralized and standardized platform to develop an open-market infrastructure to encourage private capital investment in the energy efficiency marketplace and is designed to lower financing costs and expand access to capital to implement energy efficiency retrofits for Californians throughout the state. The Pilots encompass multiple energy efficiency retrofit markets sectors including: single-family residential; affordable multifamily housing; and small business; and establish the first-of-its-kind open market on-bill repayment functionality which will be available later this year. Each of the Pilots are in various stages of program development and implementation.

Mr. Gibbs stated that the Master Servicer named in this contract will assist CAEATFA in implementing its services under the Hub; the scope of work has been developed to enable the programs to scale, and provides the flexibility to be expanded to incorporate potential future financing approaches to encourage clean energy improvements statewide. He stated that this will be the third contract executed for these services since the inception of the Hub in 2014. In each instance, CAEATFA issued a competitive Request for Proposal ("RFP") and engaged in a robust outreach process.

The Scope of Work under the contract will fall into three major areas:

1. Receiving and enrolling financings, which include: verifying borrower, project, and financing eligibility; collecting appropriate program data; and communicating loss reserves and credit enhancements based on Program regulations;
2. On-bill repayment servicing; and
3. Providing comprehensive program reporting to CAEATFA, and others, as further described in the contract.

The Master Servicer is critical to CAEATFA's operation of the Hub programs and the operation of the on-bill repayment services.

Mr. Gibbs stated that on April 7, 2020, Staff advertised a Request for Proposal through the Department of General Services Contracts Register, as well as on the CAEATFA website. At the proposal deadline, May 5, 2020, the Authority received one proposal which was considered responsive to the RFP.

Concord Servicing Corporation ("Concord"), which has historically served as the CHEEF Master Servicer, submitted a proposal to continue its services. The company's submission was evaluated and received a score of 90 out of a possible 100 points.

Concord emphasizes the use of technology to efficiently, accurately, and flexibly respond to client needs in the receivables servicing industry. Concord has facilitated servicing for the growing energy financing marketplace, including on-bill financing, on-bill repayment, direct bill energy lending, multifamily lending, and small commercial lending.

Mr. Gibbs continued by stating that Concord, as the current Master Servicer, and having worked with CAEATFA since 2015 on the process, design, and implementation of the Pilot Programs, has demonstrated it is an effective partner. Concord's other engagements, as both master servicer and primary servicer, include managing the New York State Energy Research and Development Authority's on-bill repayment energy loan portfolio, the Association of Bay Area Governments' Bay Area Regional Energy Network multifamily capital advance program, and the Hawaii Green Bank.

The Concord office through which CAEATFA's account will be primarily serviced is located, along with Concord's primary datacenter, in Scottsdale, Arizona. Concord also maintains offices in Buffalo, New York, and Mexico City, Mexico.

Mr. Gibbs stated that the maximum not-to-exceed amount of $5.5 million is larger than previous contracts. He explained that the larger contract amount is, by design, established to accommodate:

- a longer contract term to better ensure consistency in implementation and return on infrastructure investment under the contact—previous contracts had three-year terms;
- a more significant infrastructure investment to improve and modernize the collection of information from users and better align with basic expectations of the private industry and end users, helping to bring REEL from a pilot into a full-fledged program;
- a potential expansion of services to accommodate anticipated future pilot growth, with the potential of including measures beyond energy efficiency (including solar, storage, and electric vehicle charging) and to expand geographically beyond IOU territories and provide services statewide;
- further development and automation of the on-bill repayment functionality, including the potential development of a residential on-bill repayment program; and
- expected increased activity—and corresponding services—under the Hub as the residential pilot transitions into a longer term program.

In addition, given the current economic uncertainty and recovery from COVID-19, CAEATFA, in alignment with all other state agencies, will make best efforts to reduce costs and identify efficiencies as the state works to stimulate and support increased economic activity and green infrastructure investment. Concord is aware that CAEATFA is looking for cost-saving measures, and is committed to partnering with CAEATFA to find efficiencies.

Staff recommended adoption of a resolution authorizing the execution of a contract with Concord Servicing Corporation as Master Servicer for the CHEEF Pilot Programs in an amount not to exceed $5,500,000 over four years.

Ms. Miller moved for approval and there was a second by Ms. Batjer.

Ms. Ma stated there was a motion and a second and asked if there were any questions or comments from the Board or public. There were none. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer, President Public Utilities Commission	Aye

C. Discussion and Consideration of Request to Amend STE Resolution to Change the Participating Party and to Extend the Term of the Master Regulatory Agreement of STE Award

1) Organic Energy Solutions, LLC

Presented by Stefani Carruth, Program Analyst

Staff introduced Michael Brown, San Bernardino Digester Project Manager, Organic Energy Solutions, LLC; and Lisa Hansen, Vice President & General Counsel, Organic Energy Solutions, LLC, both of whom attended by phone.

Ms. Carruth reported that Organic Energy Solutions, LLC ("OES" or the "Applicant") was approved for an STE award in June 2017 to fabricate, construct, and install a renewable energy anaerobic digester in San Bernardino (the "Project"). As of May 11, 2020, OES has used its award to purchase approximately 87% of the Qualified Property amount approved. The Applicant is requesting a two-year extension to accommodate delays to the system interconnection that needs to be completed by Southern California Edison ("SCE") as well as COVID-19 related delays. SCE has indicated to the Applicant that the required interconnection may not be completed until late in 2020, but OES remains in close contact with SCE to stay updated on the status. OES also explains that the equipment manufacturers and suppliers are delayed due to mandatory COVID-19 shutdown. The Applicant also represents that it is experiencing feedstock delivery delays, which are necessary for testing purposes prior to construction completion and ramp up of the Project. However, OES anticipates it will be able to complete the Project within the two-year extension timeframe. Additionally, the Applicant has converted to a limited liability company, and is requesting the initial resolution be amended to reflect the company's name change.

Staff recommended approval of a resolution to change the participating party from Organic Energy Solutions, Inc. to Organic Energy Solutions, LLC and to extend the initial term of the Master Regulatory Agreement to June 30, 2022 to make purchases of up to $24,440,000 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $2,057,848.

Ms. Miller moved for approval and there was a second by Ms. Ma.

Ms. Ma stated there was a motion and a second and asked if there were any questions or comments from the Board or public. There were none. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer for the Public Utilities Commission	Aye

2) Crimson Renewable Energy, LLC

Presented by Xee Moua, Program Analyst

Staff introduced Harry Simpson, President and Chief Executive Officer, Crimson Renewable Energy, LLC; and James Cowan, Controller, Crimson Renewable Energy, LLC, both of whom attended by phone.

Ms. Moua reported that Crimson Renewable Energy, LLC ("Crimson" or the "Applicant") was approved for an STE award in June 2017 to develop a biodiesel production system that will produce biodiesel using trap grease and low quality animal fats in Bakersfield (the "Project"). As of March 2020, it has purchased 79% of the Qualified Property. The Applicant is requesting a one-year and 10-day extension due to unforeseen site remediation and COVID-19. The COVID-19 crisis has affected fuel prices, led to operating losses, and created a feedstock supply shortage. Additionally, since the initial approval, Crimson has converted from a limited partnership to a limited liability company, and is requesting the initial resolution be amended to reflect a name change.

Staff recommended approval of a resolution to change the participating party name from Crimson Renewable Energy, LP to Crimson Renewable Energy, LLC, and to extend the initial term of the Master Regulatory Agreement to June 30, 2021 to make purchases of up to $21,833,100 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $10,087,160.

Ms. Miller moved for approval and there was a second by Mr. Hochschild.

Ms. Ma 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. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer for the Public Utilities Commission	Aye

D. Discussion and Consideration of Applicant's Request Extend the Term of the Master Regulatory Agreement of STE Award

1) Sunergy California LLC

Presented by Stefani Carruth, Program Analyst

Staff introduced Sally Zhou, Executive Chairman, Sunergy California LLC; and Joey Qiao, Assistant General Manager, Sunergy California LLC, both of whom attended by phone.

Ms. Carruth reported that Sunergy California LLC ("Sunergy" or the "Applicant") was approved for an STE award in June 2017 to build two automatic solar photovoltaic module production lines at its headquarters in McClellan (the "Project"). As of April 20, 2020, the Applicant has used its award to purchase approximately 49% of the Qualified Property amount approved. Sunergy is requesting a three-year and 10-day extension to accommodate recent technological advances in the solar industry, which will require additional time to upgrade current equipment lines and other necessary machinery, as well as delays related to COVID-19. According to the Applicant, in order to keep up with the recent developments in the solar industry, Sunergy is upgrading its existing equipment to meet the requirements for high performance solar panels in today's market, which has delayed the timeline for the overall buildout. Sunergy also states that its solar manufacturing component supply chain is centered outside of the US, and its overseas vendors have been directly impacted by COVID-19. The result has been delays to the equipment line upgrades and to vendors and contractors. However, the Applicant expects to have all equipment and components installed at its Sacramento facility by January 2022, and to begin mass production of solar panels by July 2022, after calibration and test runs of the equipment.

Staff recommended approval of Sunergy California LLC's request to extend the initial term of the Master Regulatory Agreement to June 30, 2023 to make purchases of up to $7,823,286 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $658,721.

Mr. Hochschild moved for approval and there was a second by Ms. Miller.

Ms. Ma 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. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer for the Public Utilities Commission	Aye

Ms. Ma stated that to ensure there is sufficient time for the discussion of Agenda Item 4.E, related to the potential modifications of the regulations for the Sales and Use Tax Exclusion Program, she suggested that the Board identify which remaining action items it would like to discuss, and move to consider the remaining items in a group for approval. The Board identified no items for additional discussion.

Ms. Ma asked if there was a motion to approve the remaining items as a group. Ms. Batjer moved approval of items 4.D.2, 4.D.3, and 4.D.4. There was a second by Ms. Miller.

Ms. Ma asked if there were any questions or comments from the public on any of the items. There were none.

The following items were approved:

2) Resolution for Circular Polymers LLC, extending the initial term of the Master Regulatory Agreement by three years, to June 20, 2023, to make purchases of up to $7,548,500 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $635,584.

3) Resolution for eco.logic brands inc., extending the initial term of the Master Regulatory Agreement by two years, to June 20, 2022, to make purchases of up to $6,944,000 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $584,685.

4) Resolution for Sanitation Districts of Los Angeles County, extending the initial term of the Master Regulatory Agreement by one year, to July 18, 2021, to make purchases of up to $11,928,310 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $1,004,364.

The items were passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Anne Baker for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
David Hochschild, Chair, California Energy Commission	Aye
Marybel Batjer for the Public Utilities Commission	Aye

E. Discussion of Potential Modifications to the Sales and Use Tax Exclusion Program (Informational Item)

Presented by Ashley Emery, Program Manager

Ms. Emery reported that CAEATFA staff has been in the process of modifying the regulations of the Sales and Use Tax Exclusion ("STE") Program (the "Program") to address the unprecedented oversubscription over the last two years.

Ms. Emery stated that the purpose of this informational item will be to assist Staff in obtaining Board input on additional regulatory modifications—those that were not addressed in the 2019 emergency rulemaking, which required more due diligence for potential modifications.

In addition, given the unprecedented economic impact of the COVID-19 pandemic, many of these issues will need to be examined in a new light of market uncertainty and rebuilding California's economy.

Ms. Emery stated that after the Program became oversubscribed in July of last year (the first time CAEATFA fully awarded the $100 million before December and the first time the Competitive Criteria were used), the Board approved emergency regulations to address the early 2019 oversubscription and to incorporate lessons learned to help improve Program efficiency and effectiveness.

Some of the substantive changes to the regulations included:

- amending the Competitive Criteria;
- lowering the annual per-Applicant cap from $20 million in sales and use tax exclusions to $10 million; and
- extending the timeframe by which approved Applicants must purchase at least 15% of the Qualified Property amount approved from one year to 18 months with the ability to waive or extend this timeframe.

The regulations made incremental changes to address more immediate Program and Board priorities at the time, while reserving some of the more complex issues for the regular rulemaking process in 2020 after Staff could take more time to solicit input and thoughtfully consider the issues and policy trade-offs.

These topics include:

- the three-year initial term to purchase Qualified Property;
- incorporating AB 176, which requires CAEATFA to consider the extent to which a Project will create new, or result in a loss of, permanent, full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained; and
- job quality and health and safety requirements advocated for by stakeholders during the public process.

Staff is now soliciting Board member and stakeholder input on additional modifications to the Program's regulations to continue the regulation process initiated last year, and to address Program and market updates since the regulations were adopted in November.

Some Program and market updates since the November 2019 regulation changes include:

- the STE Program was oversubscribed for 2020 after one application round (with a larger number of Applicants requesting mid-to-large size awards (over $5 million));
- no current increase of the statutory $100 million annual Program cap; and
- the ultimate market impact of COVID-19 is perhaps the biggest unknown. As has been seen from the companies requesting extensions today, the pandemic may affect purchase timeframes, financing, feedstock supply, construction, and operations.

Ms. Emery stated that Staff requested that representatives from the Resource Recovery Coalition of California ("Resource Recovery Coalition") and the California Manufacturers and Technology Association ("CMTA") join the meeting today to provide a brief update on how manufacturers and recyclers have been impacted by the COVID-19 pandemic.

Laura Ferrante, Government Affairs Advocate for the Resource Recovery Coalition of California, gave some insights on the impacts that the COVID-19 pandemic and the STE Program have had on the recycling industry. She stated that members of the trade association, primarily small- to mid-size independent businesses, have been deemed essential service providers during the pandemic. Ms. Ferrante stated that the shelter-in-place orders and nonessential business closures have caused dramatic changes in the last few months in service and material volumes; specifically, there has been a decrease in the tonnage and services in the commercial sector due to the business closures. This has led to a significant drop in gross revenue to the service providers in the industry. Ms. Ferrante stated that in addition, there has been an increase in tonnage and service in the residential sector due to people staying at home, and thereby generating more waste. This increase in volume without additional compensation has created a difficult situation for service providers.

Ms. Ferrante continued by reporting that the Resource Recovery Coalition asked its members to project the financial impact of COVID-19 over the last few months, and while the figures have been improving, the current effects are still significant. She stated that as of April 1st, the Resource Recovery Coalition is projecting a 28% decrease in gross revenue, which improves to 18% by May 1st, and down to a 10% decrease by June 1st. Ms. Ferrante stated that though things are improving, the full financial impact will not be realized by members and industry partners for several months due to the slow multi-phase reopening process. She also stated that some businesses being permanently closed and a possible second wave and subsequent shelter-in-place order could have further impacts.

Ms. Ferrante then stated that the Resource Recovery Coalition has shifted its focus due to the pandemic to how it can best help support cities and ratepayers, as well as industry service providers, through the economic recovery period. She stated that the Resource Recovery Coalition has identified policies, programs, and regulations that will encourage infrastructure development, which are key to stimulating the local economy and creating green jobs.
Ms. Ferrante added that according to California's Department of Resources Recycling and

Recovery ("CalRecycle"), achieving the state's 75% recycling goal could generate more than 100,000 new green jobs. She stated that on average, recycling 1,000 tons typically creates about 5.7 jobs, which is significantly more than landfilling. Additionally, Ms. Ferrante stated that achieving the state's organic waste recycling goal of 75% will create over 11,000 jobs in 2020, as well as tens of thousands more through 2030.

Ms. Ferrante stated that many of the Resource Recovery Coalition's members and industry partners have benefitted from the STE Program, and the Resource Recovery Coalition is very supportive of the changes being considered, especially those that will make the Program more accessible and flexible during the pandemic recovery. She stated that specific changes the Resource Recovery Coalition believes would be beneficial include awarding competitive criteria points for projects or industries that may be ineligible for the statewide partial tax exemption for manufacturers, removing the waitlist provision that rolls Applications over to the subsequent calendar year, and expanding the $100 million annual statutory cap.

Lance Hastings, President of the California Manufacturers and Technology Association, also gave comments related to the COVID-19 pandemic's economic impacts, the ways in which the STE Program has benefitted manufacturers in the state, as well as how the Program can help in the economic recovery. He stated that the crisis has presented many challenges in the state; however, many manufacturers are considered critical infrastructure for the national and state economies, so many have been able to remain open through the pandemic as part of that supply chain. Mr. Hastings stated that CMTA held a survey of its members weekly in the first month of the crisis, and found that California manufacturers were able to maintain approximately a 70% operational rate, which held steady through May. He stated that even with this high number, CMTA has observed supply chain disruptions, which he said were critical to get restored as soon as possible.

Mr. Hastings continued by stating that manufacturing in California is more expensive than elsewhere in the United States. He stated that the built-in costs associated with manufacturing in the state are concerning, and that CMTA is very supportive of expanding the STE Program, as was proposed previously, to $200 million annually. Mr. Hastings also stated that CMTA would also suggest looking at ways to be flexible in the Program's approach going forward to be able to help in the economic recovery. He added that manufacturing is a critical component of the California economy, so incentivizing companies to do their work in the state is very important. Mr. Hastings continued that there are some 30,000 manufacturers in California, and around 1.3 million jobs associated with the sector, and that the manufacturing sector plays a crucial role in many communities.

Ms. Ma stated that there is about $130 billion in funding remaining in the US Small Business Administration's Paycheck Protection Program ("PPP"), and asked if members of CMTA had received any of this funding. Mr. Hastings replied that several members were able to participate in the PPP. He also stated that Isabel Guzman, Director of the Office of the Small Business Advocate under the Governor's Office of Business and Economic Development ("GoBiz"), has done good work in being a liaison with several manufacturers that reached out, and has led to some individual success stories.

Ms. Carrillo stated that CAEATFA put together a demand survey earlier this year and worked with GoBiz to identify a need, ranging from $100 million to $200 million in additional assistance for 2020. She stated that following the COVID-19 pandemic, there will be a lot of uncertainty moving forward; though companies remain optimistic with plans to continue projects, keeping demand high, this does cause a fair amount of uncertainty. Therefore, it is currently difficult to gauge demand for the Program at this moment. Ms. Ma asked if CAEATFA expects the STE Program to be oversubscribed in the first round as it was in the beginning of 2020. Ms. Carrillo stated that the likelihood of oversubscription seems high, but with the prospect of projects moving forward being more precarious, Staff is interested in making modifications to encourage flexibility to pivot and respond. She stated that with the increased uncertainty, CAEATFA can expect projects to take longer, so extending timeframes might be a good way to address the flexibility issue.

Ms. Emery then continued her presentation. She gave a brief overview of some topics of regulatory discussion items that were raised by the Board and stakeholders last year that Staff had prepared before the COVID-19 pandemic. These items topics included:

- $10 million STE Award per-Applicant cap – the per-Applicant cap for the Program was lowered from $20 million in November 2019 to help maximize the number of Applicants receiving an award. Some stakeholders are in favor of further lowering the cap, while others have expressed the need to continue to support more substantive awards, with a per project cap of $10 million or higher.

- Application cycles – CAEATA currently considers Applications on a first-come, first-served basis until requests reach or exceed the $100 million statutory cap. The Program was competitive last year and this year, with the 2020 allocation being awarded in the first Application cycle. CAEATFA could move to considering Applications two or three times per year on a competitive basis, or considering first-come-first-served until a certain percentage of the annual cap is awarded, at which time CAEATFA may either continue the first-come-first-served basis or begin to consider on a competitive basis in one or two rounds, depending on the month.

  The benefits of the first-come-first-served basis are that CAEATFA can be flexible to meet market demand and Applicants' business plans, and there is more certainty for Applicants given the transparent scoring and eligibility (so Applicants can decide whether to invest the time and money to apply – Application fees are generally thousands of dollars – up to $10,000). Additionally, as CAEATFA has heard previously from stakeholders, this certainly helps Applicants to more easily build the STE award into business plans.

  However, as seen this year, this could mean the exclusions available are gone after one Application round. Additionally, it may encourage Applicants to apply too early if there is fear of early oversubscription.

  Alternatives include moving to two or three competitive rounds, which has the benefit of spreading the awards throughout the year, but means there is less certainty for

Applicants to determine whether to invest the time and money to apply. CAEATFA would also consider awarding on a first-come-first-served basis until a certain percentage is awarded, then switch to competitive rounds or continue first-come-first-served depending on the month.

While there may be pent-up demand in 2021 given that the 2020 allocation ran out so quickly, it is unclear how the market will act given the COVID-19 pandemic. CAEATFA staff issued a demand survey pre-COVID-19 which indicated that there would be high demand. CAEATFA staff has reached out to these same stakeholders, and many still have plans to move forward, but with such high uncertainty in the market, Staff would anticipate high demand but fewer projects moving forward quickly. Additionally, there are six months left before 2021, and it is unclear what the market will look like when the Program can begin accepting Applications again.

- Providing flexibility and addressing increased uncertainty in the market – in the November 2019 regulations, CAEATFA extended the 15% purchase requirement and added the ability to waive/extend this timeframe upon a finding of extraordinary circumstances, but did not change the three-year initial term that companies have to use an award, which already had a waiver provision. These requirements have come up in conversations around how the Program can be flexible given the increased uncertainty in the market. Additionally, CAEATFA discussed extending the three-year initial term given that 30% of Applicants request an extension.

  CAEATFA received comments both recommending waiving/extending the requirements, particularly now with delays in the market, and recommending not extending to discourage Applicants from having overly optimistic projections.

- Implementation of AB 176 (Cervantes, Ch. 672, Statutes of 2019) – this bill amended statute to require CAEATFA to consider not just new jobs, but the extent to which the project will create new, or result in the loss of, permanent full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained. Staff is working to incorporate this in the Application evaluation process.

- Additional Reporting Requirements – stakeholders and Board members have also expressed interest in potentially standardizing additional reporting requirements. All Applicants must report semi-annually on Qualified Property purchases and annually on the status of the Project, including jobs and production numbers. Three out of 200 Applicants have extra, ad hoc reporting requirements: Tesla (3x a year), Faraday (2x a year), and CE&P Imperial Valley (1x a year).

- Competitive Criteria – Staff asked what other Competitive Criteria stakeholders would suggest and how they could prioritize them. Proposals included: highest priority to recyclers using CA discards, points for Applicants manufacturing products to combat COVID-19 (vaccine, therapeutic treatments, testing equipment), and prioritization of

Applicants ineligible for other tax exemption opportunities (recyclers), or those that use California suppliers.

- Other evaluation criteria proposed by stakeholders – stakeholders have proposed that CAEATFA evaluate Applicants' health and safety records and plans, and also make an affirmative finding that the Project will create "high-quality jobs" based on various factors.

- Program compliance requirements – stakeholders have proposed that CAEATFA consider a citation for a "serious" health and safety violation or a failure to comply with other applicable labor, employment, and environmental laws a violation of the Master Regulatory Agreement, subject to award suspension or termination.

Ms. Emery continued by stating that Staff's tentative timeline for developing the regulations is to develop proposed regulations in light of today's Board meeting discussion and release the proposal for public comment, and, depending on time constraints, bring the proposed regulations to discuss at with the Board and stakeholders at the July Board meeting. Staff intends to bring final regulation text for consideration at the August Board meeting, and if approved, will file the Notice of Proposed Rulemaking with the modified regulations to begin the formal Regular Rulemaking process. The modified regulations will also be incorporated in the second readoption of the current emergency regulations, to be effective mid-November in time for 2021 Applications.

Ms. Emery then ended her report.

Ms. Ma asked if there were any questions or comments from the Board or the public.

Mr. Hochschild stated that he believes that changing the $10 million per Applicant cap back to $20 million would be a prudent move. He explained that restricting funds to just $10 million per Applicant sends the message that the State does not reward growing companies, but rather, the lower cap could be seen as a punishment for success in growing to scale in California. He cited a recent example where Tesla, Inc. located its new battery manufacturing facility in Nevada, rather than California. He stated that Nevada spent around $1.5 billion to incent Tesla to make this choice, and while that kind of spending is not currently an option in California, it does say something for the ability of larger incentives to help the State keep manufacturers here. He stated that the STE Program has awarded Tesla a great deal over time, and it has paid off immensely as the number one export from the State of California today is electric vehicles. Mr. Hochschild then suggested that in order to keep funding available for smaller projects, that perhaps raising the per-Applicant cap to $20 million could work if $60 million was set aside for the purpose of these larger projects, with the remaining $40 million available for the smaller ones.

Ms. Batjer asked if there could be a way to ensure that the Program remain competitive in the event the per-Applicant cap was raised to $20 million in sales and use tax exclusion, and whether a pool of funds could make sense, keeping the current $10 million cap, while still offering higher award caps to companies that are expanding. Ms. Carrillo replied that a possible approach would be establishing buckets or tranches for larger awards, where each pathway is competitive amongst the other projects in its group. Ms. Carrillo added that there are different ways this option could be explored.

Ms. Batjer asked how would-be Applicants make sure they can get in line in a first-come, first-served system, stating that at the CPUC, the question of a given Applicant getting in line has been problematic, and whether there is appropriate instruction for Applicants to know how to get in line to be able to make use of the Program. Ms. Carrillo replied that CAEATFA does conduct outreach efforts, but predominately, Program outreach is done through local and regional economic development associations. So, if a manufacturer is not working through that infrastructure, or connected to a business trade group, they might not find CAEATFA easily. She added that the STE Program is listed on the Governor's Office of Business and Economic Development website with other state incentives, as another tool in the state's economic toolbox. Ms. Carrillo added that some Applicants find the Program through referrals from a colleague, friend, or their tax attorney. Ms. Carrillo further stated that in the past, the first-come, first-served basis for accepting STE Program Applications has not caused issues, because the Program did not fully award the funds in the past. This allowed companies to have a level of certainty around whether they would receive an award in order to work the award in with their business plans. She stated that in hearing from Applicants to the Program more recently, the question is not whether or not they will be awarded funds, but rather getting an answer quickly, and the current uncertainty is causing the most uneasiness.

Ms. Miller stated that, per STE Program data, with over 90% of awards being for amounts under $10 million, that Staff should look to the data when trying to determine the demand for larger awards, and whether it makes sense to raise the current per-Applicant award cap. Ms. Miller also stated that with the fairly new sales and use tax exemption being offered through the California Department of Tax and Fee Administration ("CDTFA"), the demand for the Program given both incentives are available, is uncertain. She continued by suggesting Staff reevaluate the net benefits test for the Program and be reflective in assessing whether it can be improved given the current market and the availability of the CDTFA exemption.

Ms. Miller then commented on the subject of award cycles, stating that continuing the first-come, first-served system for awards does allow for more flexibility, which is important in light of the COVID-19 crisis. Ms. Miller added that in order to create a more flexible environment for companies, she would be open to exploring options related to the extension process, which might take a pathway other than direct Board oversight.

Ms. Baker stated that the Controller feels very strongly that the STE Program per-Applicant award cap should remain at $10 million. She added that Tesla, historically, has taken the maximum $20 million award for the past several years, and that giving 20% of the yearly allocation to one company every year does not meet some Program objectives.

Mr. Hochschild stated that he agreed with Ms. Miller's points concerning the award cycles, and on the subject of the per-Applicant cap, suggested that a compromise between the current $10 million cap and a possible larger cap could be a smaller award pool for the larger awards, perhaps enough for two large projects, and the rest of the STE to be awarded under the smaller cap. Ms. Miller replied that possibly, taking into account available data, some small percentage of award funds could be set aside for projects with requests over $10 million. Ms. Baker stated that she would have to speak to the Controller for additional input, but participation of companies like Tesla, which also had related companies applying for funds while receiving the maximum award yearly, raises the question of what the STE Program funds should be used for. She added that some of these questions would not be as much of an issue if the State Legislature approved additional Program funding to expand the yearly allocation. Ms. Ma stated that the Treasurer's Office has been working to increase STE Program funding, and a Spring Finance Letter that was put together before the COVID-19 pandemic included additional award allocations. She stated that though the pandemic has delayed the process for an additional allocation, the STO has been working closely with Senators Hertzberg and Bradford to potentially include additional STE Program funding as part of the State's economic recovery plan.

Ms. Carrillo requested follow-up clarification from Ms. Miller, asking if there were any specific data points related to CDTFA that were of particular interest. She stated that some of the interactions are not entirely clear, and have actually been somewhat counterintuitive to date. It was thought that the CDTFA program would cause lower demand for the STE Program; instead, the STE Program has been oversubscribed since the CDTFA program's inception. Ms. Miller stated that the two awards taken together create a richer environment for companies that could utilize them. Ms. Miller added that a short, anonymized survey to all previous Applicants could provide useful data points on the direction of the Program regulations moving forward.

Ethan Hanohano, Vice President of The Grant Farm Inc. dba Momentum ("Momentum"), stated that his company has worked with about a dozen projects worth about $1.2 billion in Qualified Property to get them ready for Board approval. He stated that the STE Program is one of the best run and smoothest programs Momentum has worked with. He commended Staff for their work to make the Program user friendly and straightforward, pointing to the lack of administrative burden that is common to some other government incentive programs. Mr. Hanohano stated that as the Program regulations change, he hopes that the Program keeps this aspect moving forward. He also wished to thank the Board for their continuing support of companies that have requested extensions due to delays caused by the COVID-19 pandemic.

Harrold Rust, President and Chief Executive Officer of Enovix Corporation ("Enovix"), stated that Enovix, a lithium ion battery company located in Fremont, has been a participant in the STE Program for around three years. He stated that Enovix would be very interested in receiving further Program funding, but the company missed the Application deadline for the 2020 allocation. Mr. Rust added that Enovix has plans to expand its battery line in Fremont, and the STE award would help the company immensely with its project. He also asked if there would be any additional award funding available this year, such as from companies that could not utilize their STE awards. Ms. Carrillo replied that CAEATFA has plans to conduct a survey of existing STE Applicants to determine if they will be moving forward with their projects, so there is some possibility that funding could become available, but that in the current economic climate, this is unpredictable.

Ms. Ma asked if there were any further questions or comments from the Board or public. There were none.

5. PUBLIC COMMENT

Ms. Ma 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 12:17 p.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director