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March 16, 2016

>> Hi everyone. Thank you for coming today. There are copies today. There's a sign-in sheet for those who have RSVPed. You can initial there. There are slips if you wish to submit them in writing unless you want to come up to speak. If you have comments, you can give them to James Shimp on my right. Those are the logistical announcements. My name is Alejandro. With me, I have Matt Newman, our technical consultant from Blue Sky Consulting Group.

Here is kind of an agenda of the presentation. We are going to hold questions until the end. We are going to give the overview of CAEATFA and the existing STE Program Structure, some of the program modifications and we will also go into the specific evaluation criteria for projects eligible under AB199. And we will cover some next steps and process time. And we will open it up to questions and comments.

So CAEATFA was started in 1980 to provide credit support through bonds. Some of the statutory goals is reducing greenhouse gas emissions, increasing the use of energy efficiency, and creating high-quality employment opportunities and lessening the State's dependence on fossil fuels. We have the chair of the California State controller's office. The SB71 Bill was launched in 2010. This included projects known as alternative source and Advanced Transportation manufacturers. These are projects like biogas. The manufacturing equipment that is purchased can be excluded from sales and use tax.

Originally, the program didn't have a cap on the amount that could be awarded if CAEATFA exceeded more than \$100 million in exclusions awarded in any given calendar year. We would just provide notice to the legislature, but in 2012, with the passage of SG1128, that passed where the cap was put in place as a hard cap of \$ 100 million. That also expanded the types of projects that included advanced manufacturing which is -- the eligibility of those projects is based on the manufacturing process rather than the product that is made.

Last year, AB12 69 was passed and that extended the sunset date to coincide with the sunset date for the rest of the project. That brings all of our projects eligible through 2021. We can award up until January 21st 2021 and projects can continue to purchase throughout then. Last year, AB199 passed. And this added program -- manufacturers that utilize recycled feedstock to the program -- so here is some of the broad categories. Projects that are eligible under the current program. This list is, by no means, exhaustive. But these are common samples of applications we typically receive.

So the STE award is unique in terms of incentives provided by the State. We basically provide an award on the front end before a project is often -- kind of fulfilled -- their goals of setting up their manufacturing or production. So we don't actually give money to any of the projects, we just give them the legal authority to not pay sales and use tax on the equipment that they are purchasing.

The award is provided on the front end and essentially applicants must be approved for the award before they can put the equipment to use. In some instances, projects can receive reimbursement for purchases they have already made. But this process is done through the State Board of Equalization where there is reimbursement that is provided either from the vendor -- in the case of sales tax -- or for the reimbursement of use tax for purchases made from vendors outside of California.

We don't actually provide the explicit guidance on how to navigate that process, because it's ultimately governed by the Board of Equalization.

One of the key requirements is that before getting reimbursed, the equipment can't be put to functional use. As soon as that happens, you can't really go back and retroactively seek reimbursement. I'll talk more about that later.

This is a brief overview of the application process. So essentially, applications are submitted 60 days prior to a board meeting. There's an application fee that's .005 of the amount of the equipment that's requested in the application and we accept applications on a rolling basis.

The process is a fairly iterative process. The assumptions made in the application should be reasonable and consistent with other types of applications that we've received.

And at the end of that review process, stop and provide a recommendation that is provided to our board members at our monthly board meeting. The board members then review the application and then -- on the item -- and whether or not it should be approved for the funding that's been requested. We can award up to \$100 million in sales and use tax exclusions. This is about \$1.2 billion in equipment purchases.

And that's over the life of the project. So for example, someone submitted an application and they were approved in September for \$10 million in purchases. That is taken from the \$2 billion and is spread out over the life of the project. Even though some of the award might be used in 2017 or 2018, all of it is counted toward the current calendar year count.

At the post-approval process, applicants enter into a legal agreement with the authority -- you can't take the equipment out of state, for example, we've outlined some of the reporting requirements. This is also when the applicants pay an administrative fee. There's a minimum fee of \$15,000, which is .4% of the qualified property amount. \$15,000 is the minimum fee. If your total equipment request is less than \$3.75 million, then you pay \$15,000 regardless of how little -- how small the project size is. If it's greater than \$3.75 million, you essentially pay the \$15,000 up front and then the remaining fee is paid based on the amount of equipment that is purchased on a semi-annual basis.

The standard term for the award is 3 years. One of the key parts of the application is a net benefits test. We are required by statute to figure out whether there is a net benefit to the state where the benefits that accrue to the state are greater than the cost of the sales and use tax exclusion.

For this, we request various types of information from the applicants that are -- I think, kind of pretty typical of any business plan such as the amount of capital that they're going to spend, the number of jobs that they're going to need to produce whatever output listed in their application. We ask for the number of units that they're going to produce per year and the expected revenue they expect to produce. And other things like estimated annual tax liability and labor and material costs.

We then -- this information is put into an Excel spreadsheet and then at the end, the estimated marginal increase in fiscal and environmental benefits that the State receives from the project are weighed against the process of the STE. How much additional activity is being created by the sales and use tax exclusion and whether or not that is greater than the cost of the exclusion.

So we don't look at really the aggregate -- of the project, but rather just the amount of economic activity that is increased as a result of the sales and use tax exclusion.

This is kind of a little snapshot of the end result. Applicants are scored. They need 1000 points. That is kind of the amount that is equal to the cost of the sales and use tax. There is also a component where we quantify the environmental benefits of the projects and the minimum threshold for alternative source and advanced transportation projects is 100 points. For advanced manufacturing projects, it's 20 points. There's various additional points that applicants can get for the number of jobs that they create. Whether or not there's different process improvements, if there are -- if they're located in an area of particularly high unemployment.

So the word "compliance" is in the file. So they say essentially how much production have they done in that year? How many STEs have they hired? How much money do they think they've made? What their estimated tax liability is. This is really to ensure that projects are following through with their plans.

So we want to know how much stuff have you actually purchased? We asked this basically in the summer and winter every year.

There are certain circumstances where CAEATFA can request the applicant to repay the STE or rescind the award or prevent further use. You take the equipment out of state or do something significantly different from what was proposed in the application.

Kind of an update on the current situation. So we funded -- suspended the acceptance of the new applications in 2015. In December, we set aside \$23 million for projects eligible under AB199. And this may or may not be enough to satisfy the demand for projects eligible under AB199. Depending on what the initial demand is. But so far, we have awarded about \$74 until and change from the 2016 funds. So there's a little bit over \$25 million left.

Here are some of the main proposed project -- program changes. One of the main things is that we are going to implement a per-project cap. So historically, CAEATFA has actually awarded most of its funds to projects that are relatively small in size. So 75% have gone to projects that are less than \$2.4 million. And there are also a significant number of really large projects that we get every year that -- like 15 all the way up to \$44 million in sales and use tax exclusions. Historically, we have not capped the size of

projects and this hasn't been an issue as we have never been over-subscribed. 2015 was the first year we were over-subscribed.

So what we are proposing is that individual projects be capped at \$20 million of sales and use tax exclusion. We think this would provide a pretty meaningful amount for a project and essentially what we would do is -- let's say a project were to come to CAEATFA with a request for \$35 million in a given calendar year. If there were funds available, we would give them the \$20 million and we would continue to accept applications throughout the year. If there was still money left at the end of the year, those large projects that had a request greater than \$20 million could then receive whatever additional funding there is available. If there were multiple large projects that had a request greater than \$20 million, that amount of extra funding would then be allocated evenly across the applicants.

If a large project submitted an application this year and there was no money left and they were only able to get like the \$20 million, they could then make an application for the full amount. Say it was \$30 million. In if they were approved in 2016, in 2017 they can resubmit the same application to get the funding for the rest of their project. There wouldn't be any additional application fees for that and it would just be to keep the same application in front of the board and kind of keep things consistent.

So award timing. This is one thing that we kind of thought a lot about. We considered a few different alternatives, having different funding rounds. And basically to date, we've always accepted application on a rolling basis. This provides a lot of flexibility for projects. They can get the money when they need and we think that is the best approach so far. Originally, we had a 20% purchaser requirement where applicants had to purchase 20% of their equipment within a year. This is intended to encourage ready-projects, but since the project hadn't ever really gotten particularly close -- I think we had gotten into the mid \$80 millions, and because of the economic down turn, people had difficulty reaching the purchase requirement. There was no ability to get back the money from the applicant and so there wasn't -- (Streamtext Freeze)

>> They're all essentially different types of projects. We can't compare them directly to one another. You can't compare a solar manufacturer to material covered facility. They're different types of projects. They provide different benefits and moreover, the type of information that we request in an application is based on future applicants. I think businesses tend to give it their best estimate, but there are certain things that happen in the business cycle or companies are not able to spend quite as much of their money as they planned or there are disruptions in their market. So those estimates don't always necessarily come true exactly as an applicant might predict.

So we couldn't really say one project says they're going to employ 100 people and in this other place they're going to employ 90 people, so we give the money to the project that is going to employ 100 people. Because those projects might change. We need objective criteria that are verifiable at the time of application.

And this would only be used in the event of over-subscription. So applicants -- if there was a funding round where the amount requested would be greater than \$100 million, we would only look at projects that could receive at least 75% of their funding request.

If there are multiple projects that are able to get 75% of their funding requests met, we would then move to these potential objective criteria and give points for each of these criteria. So if the project was located in an area that had particularly high unemployment, they would get a certain amount of points. If they were a small business, they would get another amount of points. If they had a business -- if their headquarters were based in California -- or let's say they are from a type of project hadn't actually been funded by the CAEATFA board, they would get additional points. They would take the total of these points and the project that has the most points would then be the one that receives the funding.

So again, the focus is on things that are verifiable at the time of application.

Application streamlining. So we took essentially a lot of parts -- a lot of pieces out -- or questions out of the application. There's a whole list in the appendix of this presentation that goes into each -- basically each part that was removed. You know, we want to really balance the accessibility of application along with maintaining kind of the rigorous scoring system. So we've basically automated some things like the estimated annual tax liabilities that an applicant will pay and then remove other parts of the application that were never really filled out by any other applicants because they didn't need them in order to pass a test.

So hopefully that will make it easier for people to fill out our application.

On the compliance end, we have statutory requirements such as the legislative report to the legislative analysts office and this is kind of the driving force behind a lot of the reports that we collect. So as I mentioned before, there's an annual report that kind of updates the progress of your project and some of the annual reports that include the lists of purchases that are being made for that given time of the year.

We are going to consolidate applicants and pushing back deadlines. So the deadlines will be moved from the end of July to August 15th for purchases made between June and January of that year and then January 31st deadline will be pushed back to February 15th to report on purchases made from July to December of the preceding year.

And then we are also going to add a clause that basically suspends the award -- if an applicant is out of compliance. So purchases made when an applicant is out of compliance will not be eligible for a sales and use tax award.

So I'm going to pass it over to Matt and he is going to talk about how we're planning to evaluate projects under AB199.

>> MATT: I've been working with them on this program since 2010. I'm going to talk a little bit about how project has become eligible and how AB199 will be incorporated into the program.

That bill added a couple of different kinds of projects to the list of things that would be eligible. Recycling and composting projects and projects that manufacture other products with at least 50% recycled content; however, some of the kinds of projects that were added by AB199 were already eligible under the existing program rules, specifically certain kinds of facilities that capture biogas were eligible under the alternative source portion of the program and projects that use recycled materials would have been eligible un (Streamtext Freeze)

Also, facilities that do intermediate processing of recycled materials. So if you take an all right-sorted and processed output for a specialty recycler and you do some further processing -- say a plastic to make it suitable for use in a regular manufacturing facility, those kinds of facilitys are probably advanced manufacturers under the definition of advanced manufacturing, and can probably apply after these changes are put into effect.

The new AB199 pathway as we call it will require essentially the kinds of information about the financial characteristics of the applicant and will evaluate environmental benefits in basically a parallel or very similar way. There's really just one kind of additional piece of information that the AB199 applicants -- the recyclers will need to provide, which is what they're going to make, what they're begun to produce, what they're going to recycle, and how much of that is going to be produced.

But otherwise, the information these applicants will need to provide is the same kind of information which CAEATFA already requires of other applicants. How many people are going to be employed, how much capital is going to be purchased, what they're going to buy from local suppliers and so on.

The information that we collect will be used to score each project based on its economic and environmental benefits. Basically the same way we score things for alternative source and advanced transportation applicants. A very similar approach.

In fact, the economic and fiscal benefits will use exactly the same methodology that's used for alternative source and advanced transportation and advanced manufacturing will look at things like increases and taxes paid, increases in employment and supplier purchases and that will allow us to measure the fiscal impact of the project.

The environmental benefits will be scored in a slightly different way. Basically, we will look at the environmental benefits based on increases in recycled materials produced. So things that don't increase the amount of recycling that is taken place in the amount of recycled materials that are produced in California don't produce any environmental benefits and so they won't be scored. But any increases in recycling will be used to estimate the environmental benefits of a project.

So we will -- for example -- if a facility will increase the amount of plastic that's available to be used in other manufacturing, we will take the amount of increase in recycled plastic and we will use the Federal EPA has a model called the WARM model which estimates the greenhouse gas benefits for anything that you can think of that can be recycled.

So there's an extra 10 tons of plastic produced as a result of this project. The WARM model estimates how much greenhouse gas is reduced from that recycled products -- we monetize that and turn it into dollars based on the same approach that we use for monetizing greenhouse gas benefits throughout the rest of the program and use that and combine it with the fiscal benefits which are in dollars to figure out what the applicants' final score will be.

Again, only projects that increase the amount of recycled materials produced will be eligible to receive an award. And so if you're just replacing one kind of equipment with another kind of equipment that doesn't necessarily increase the amount of recycling, that project will not be eligible. There are other

purchases that do not directly lead to an increase in recycling or content or products produced, then those projects -- because they wouldn't produce any environmental benefits -- would not be eligible -- or likely would not be eligible.

So just to kind of clarify or reiterate, increases in recycling due to incentive effect of the STE based on supply and demand characteristics and relevant recycling market. By lowering production costs, we are going to estimate how much more people will producer how much lower the cost of the material will be. Both will lead to an increase in the amount of materials that will be used. That drives the rest of the economic benefits analysis that we do.

So that's it for the AB199 pathway. Very similar to the approach we already used for the alternative source and advanced transportation project. Estimating how much more recycling there will be and how much solar panels get produced or electric cars are made.

>> So the next steps in the process for regulations, we are going to look for public comment. The deadline is next Friday, March 25th. This information -- the information is how to submit that. We will take that feedback. We are planning to have regulations presented to the public next month for comment. Draft regulations will be presented to the public in April. Simultaneously, there's also some various legislator proposals to create rollover funds. Allowing contractors and subcontractors to utilize the sales and use tax exclusion program. Right now, it's a little bit complex where basically, they would have to go to the Board of Equalization, they have to drop their contracts in a certain way. There are bills that allow these things to happen.

I don't know if there's anyone here that -- that was at the first board meeting. These are kind of a few key questions. Are there any other indicators of readiness that CAEATFA should consider? Are there other objective criteria that CAEATFA could use to rank projects? And then we're also looking for potential AB199 applicants to test out some of our application process.

So we can open it now to questions or comments. We can start in the room. Is that okay?

>> Yeah.

>> Hi, Nick, with Californians Against Waste. We are based in Sacramento. We were the sponsors of AB199. So thank you for all the effort you put into implementing it and for being very responsive to questions we've e-mailed. I know we've talked a lot. You've been responsive to questions that others have raised, too. So we definitely appreciate that.

We are going to have more indepth comments. But there are a few things I wanted to flag. I think maybe a typo -- or maybe a misinterpretation -- so I want to get it clarified. On slide 30 -- so if you can go back to that -- you specify that it is for recycling -- manufacturing projects where at least 50% recycled content is used to make a product. 50 percent was really meant to be cut off for the equipment. So it's primarily equipment that is used to make -- to process recycled feedstock.

So an example would be that you can have recycled content, but you could have a big water bottle manufacturer that is going to be using 10% of recycled content. But they will have to buy a bunch of

material and that equipment will be used to recycle feedstock, but the end product will not be 50%. So 199 was meant to apply to the process of feedstock.

>> I appreciate the clarification. We are operating under the assumption that those would qualify for advanced manufacturers. So that particular part of the law wouldn't necessarily apply because those companies are already eligible.

>> If you're not taking not 199 applicants. It's a minor distinction, but I figured it was worth highlighting. Fair enough. If they're applying under the existing program, it wouldn't matter. But the 50% is really for the life of the equipment that is used primarily for processing recycled feedstock. And so if you're buying an optical sorter or something like that -- even if the final product doesn't have 50% recycled content is the way 199 is written.

>> Okay. Thank you.

>> A couple other minor things. I noticed you said a few times, increase recycling. The other category that isn't necessarily increasing recycling but would still have recycle benefits, is keeping things here as opposed to shipped overseas. You have the ability to not ship overseas and also manufacturing and cleaner facilities here. Something to flag.

And then on the quantification methodologies, you mentioned the WARM model. It works well for most materials but not all materials. The ARB has updated some of the figures for the WARM model, especially for folks applying for the GGR funding. They are supposed to use the ARB methodology. It might be better for them to use the same thing as you guys so they're not doing two sets of calculations.

Also the WARM and ARB models are based on greenhouse benefits. Natural resource savings, not cutting down trees, sufficient like that. I don't know how you would include that -- some of those are hard to quantify. But I would probably encourage you to allow clients to bring these up.

And that's it.

>> Thank you.

>> Thank you.

>> Hi. California Recycling Council. If you could clarify a question. We are going to be submitting comments, but we have questions. Would used equipment be eligible for purchases?

>> Like -- someone used it and you're buying it?

>> Yeah.

>> Yes.

>> Great.

>> Equipment that is eligible -- we have equipment that is leased as well under this section.

>> Leased as well. Thank you for that clarification. Let's see. Sorry. You have a list of possible -- I'm sorry, now I'm missing the page. But there is a list of -- here we go. Examples of potentially qualifying technologies on slide 6. And I just wanted to clarify under advanced transports, it mentioned electric vehicles and components. Is this for purchase, for production, or both?

>> Manufacturers that are producing those products.

>> Okay. Thank you. That's all the questions I have today.

>> I have a few questions from online if we can start from one of those here. This comes are Ross. Can you confirm projects that recycle manure 100%, as well as manufacturing alternative source I would imagine?

>> I think that would be a project -- without knowing the specifics awould be hard to say -- is probably eligible under "alternative source" not as an advanced manufacturer, but probably is already eligible.

>> Follow-up question to that also from Ross. How should a manure-to biogas submit if it can be considered as AB199 or alternative source advanced manufaturings?

>> If you could lay it out more clearly?

>> We've got some more on here. Are there anymore in the room? Okay.

>> So the next comes are Paul Strong. I am a plastic blow molder using recycled material for bottles, how do I obtain an application for advanced manufacturing category? Paul, all of the applications will be available on our website. If you go to the CAEATFA main page, click on the STE page and "applications materials" everything will be available there. You can go there now. The application materials are up. So keep in mind that we are not accepting applications now and that application process might look a little different once the regulations are passed. That is it from online.

>> Does anyone else have comments or questions? Feel free.

>> One more question.

>> Sure.

>> Sorry.

>> Yeah.

>> A lot of time. You mentioned for folks who are applying -- seeking a retroactive reimbursement, if you don't start using the equipment -- have you guys put that out in an FAQ, or put that on the website? Because I think that process is really confusing people.

>> Yeah. So we can add a link to the website, but it's actually on the Board of Equalization's website. They have a small website that is specific to CAEATFA's sales and use tax exclusion program and discusses different kinds of reimbursements and also the contractor/subcontractor issue and also some general guidelines. But for a lot of those cases, it's very much on a case-by-case basis, just depending on the applicants, basically.

>> So would you recommend that applicants call you or BOE?

>> Yeah, so we can -- look on our website. It will make it clear.

>> Okay.

>> A few more questions rolling in now. Ross asked, if alternative funds are depleted and not available, can a project that also recycled also file as AB199 to access available funds?

>> That's kind of similar to the --

>> Yeah. I think one thing to clarify is that we don't have buckets set aside for the different eligibility pathways. So if that's what you're getting at, that wouldn't be an issue. And then if you're referring to this set aside for AB199, that is something we are still considering, how we would go forward on that.

Next question comes from Jeffrey Reid. Would rendering plants qualify under AB199?

>> The answer is we don't know yet. We haven't specifically considered that. So if environmental benefits derived are the project, then potentially. But I don't know for sure.

>> We did find one rendering facility under the alternative source pathway, but that is because they were producing biogas.

>> Probably the best thing you can do, Mr. Reid, is to submit some additional information by the 25th close of business if you could let us know a little bit more about what you do, we would be happy to take that into consideration as we move forward.

Next question up is from Steve Lautts, not really a question, regarding the presentation per se, but wondering if there is an updating or evolving list of projects that have expressed intent to apply?

I think the best resource for that in our December board meeting we had a list of folks who had responded to a request for information. That is listed, I believe, staff item 4c. So if you go to our website and check for agenda items and staff reports, it's on the right-hand side under one of the gray stars, check that out from December.

Last question on here is from Sandra Dudley. Would rendering facilities be eligible? Again, Sandra, as we mentioned before, we don't know at this point in time, so the best thing to do is to go ahead and submit some information to us about our project and its benefits by the 25th close of business and we will be happy to take that into conversation as we move forward.

Is there a timeframe for making available additional funding for 2016 projects? Let's see. Let's see. Timeframe for funding for projects that are currently about to start construction and need the assistance.

>> I would say we have to work through the AB199 set aside first before considering other applications.

>> All right. And Eric Pott-Ashner. Will it be eligible under STE?

>> Generally speaking, the answer is no. The environmental benefits are measured as benefits over and above complying with the existing State or Federal regulations or requirements. So you have to have benefits above and beyond what is required in order to qualify.

>> Any further questions?

>> Let's see if anyone else has any questions online.

>> Sorry. Veronica CRC. Under the recycled feedstock potentially qualifying technologies, would collection of these materials count? Tires? Mattresss or otherwise. Collection of the material, not the processing into the product of that material.

>> Do you mean the trucks?

>> So a transfer facility, let me give the example of mattresss. They may collect mattresss, and may increase the amount of mattresss. Those would be sent to a processor that would tear them apart and pull them into their various pieces. Some do that on site. Depending on where it is in the system, who would qualify under mattress recyclers?

>> I don't know the specific answer to your question in the abstract, but the general principle that some kind of environmental benefits have to derive from the purchase applies, that benefit comes from an increase in recycling. So it's just a truck that is taking something from one place to another, it may not produce any environmental benefits. But if it was somehow more integral to the production process, then it's possible that it could qualify.

>> Okay. Thank you so much.

>> I do have one more question here. Since the production of electricity from biogas, could it qualify as an AB199 project?

>> No. So the rules governing the generation of electricity remain the same for AB199 projects.

>> We will give it a couple more minutes for questions, I will point out that the slide show will be available on the website, same place where you signed up. So if anybody would like a copy of the materials we've used today, please check in. It should be up there later today or tomorrow at the latest. We are also recording this presentation and it will be made available as well.

>> Okay. That's it. Anyone else have any other questions? All right. Thank you.