TITLE 4, DIVISION 13, ARTICLE 2
OF THE CALIFORNIA CODE OF REGULATIONS

NOTICE OF PROPOSED RULEMAKING

The California Alternative Energy and Advanced Transportation Financing Authority ("Authority" or "CAEATFA"), organized and operating pursuant to Division 16 (commencing with Section 26000) of the California Public Resources Code (the "Act")—pursuant to the authority vested in it by Public Resources Code Section 26009 to promulgate regulations and Section 26011.8 to provide financial assistance—proposes to adopt the Sales and Use Tax Exclusion ("STE") Program regulations described below.

PUBLIC HEARING

The Authority has not scheduled a public hearing on this proposed rulemaking. However, a public hearing will be held if any interested person, or their duly authorized representative, requests a public hearing to be held relevant to the proposed rulemaking by submitting a written request to the Agency Contact Person identified in this notice no later than fifteen (15) days prior to the close of the written comment period.

WRITTEN COMMENT PERIOD

Any interested person, or their authorized representatives, may submit written comments relevant to the regulations to the Authority. **The written comment period on the regulations ends on Monday October 12th, 2026.** All comments must be submitted in writing to steprogram@treasurer.ca.gov by that time in order for them to be considered by the Authority.

In the event that substantial changes are made to the regulations during the written comment period, the Authority will also accept additional written comments limited to any changed or modified regulations for fifteen (15) calendar days after the date on which such regulations, as changed or modified, are made available to the public pursuant to Title 1, Division 1, Chapter 1, Article 2, Section 44 of the California Code of Regulations. Such additional written comments should be addressed to the Agency Contact Person identified in this notice.

AUTHORITY AND REFERENCE

Authority: Public Resources Code Section 26011.8. Section 26011.8 of the Public Resources Code authorizes CAEATFA to approve a project for financial assistance in the form of the sales and use tax exclusion established in Section 6010.8 of the Revenue and Taxation Code.

Reference: Public Resources Code Section 26011.8; Revenue and Taxation Code Section 6010.8. This regulation will implement and make specific Section 26011.8 of the Public Resources Code.

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

The California Alternative Energy and Advanced Transportation Financing Authority Act establishes the California Alternative Energy and Advanced Transportation Financing Authority ("CAEATFA") and requires CAEATFA to establish programs to provide financial assistance to participating parties for projects related to alternative energy sources and advanced transportation projects.

Existing law authorizes CAEATFA to provide a sales and use tax exclusion ("STE") to certain types of manufacturers and recyclers to promote the creation of California-based manufacturing, California-based jobs, and advanced manufacturing and the reduction of greenhouse gas emissions, air and water pollution, or energy consumption. Existing law also limits to $100 million the amount of STE CAEATFA is authorized to grant for each calendar year.

Existing regulations establish eligibility and evaluation criteria by which Applications are reviewed and specify the method by which CAEATFA will accept Applications if the STE Program ("Program") becomes oversubscribed. Existing program regulations establish a competitive process whereby Applications are ranked based on specific criteria to determine the order of priority for consideration by CAEATFA if the Program becomes oversubscribed. As part of the Application, existing program regulations require Applicants to submit information on the Applicant's business, the proposed Project, and the product to be manufactured.

Existing law (SB 86 (McNerney, Chapter 211, Statutes of 2025) requires that effective January 1, 2026, an Applicant along with its parent corporation or subsidiary, who employs 500 or more employees, shall not be approved by CAEATFA for an STE award unless the Applicant certifies, in a manner designated by CAEATFA that it will:

1. Provide comparative good wage and benefits to the employees of the applicant or its subcontractors, relative to the industrial sector of the applicant or its subcontractors, occupation, and labor market of those employees;
2. Invest in employee training, growth, and development, such as through comprehensive workforce training programs or apprenticeship programs; and
3. Adopt mechanisms to include worker voice and agency in the workplace.

The authorized $100 million in STE each calendar year is set on a first come first served basis when submitted for a particular deadline. Applications shall be capped at $15 million of STE per Applicant, per calendar year, based on the average statewide sales tax rate at time of Application and will be reviewed and presented to the CAEATFA Board for approval in the order in which the Applications were received. In the event the total STE requested during the calendar year reaches the Statutory Cap, Applications will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The Executive Director will announce the application periods for the Program by March 31 of each calendar year on the Authority website. The announcement will include the (1) application periods, (2) deadline to submit Applications for each application period, (3) tentative dates when the Authority will hold Board meetings to consider Applications, and (4) amount of sales and use tax exclusion available to award during each application period. To the extent the total STE awarded during the calendar year reaches the Statutory Cap, additional Applications will not be reviewed during that calendar year. Applications that are received but not awarded due to the Statutory Cap will be placed on a waiting list.

Existing program regulations incorporate compliance requirements, including a two-year 15% purchase requirement and a five-year initial term for purchases of eligible equipment. Applicants who fail to meet the two-year 15% purchase requirement will be ineligible for a new award for a period of two years from the applicable requirement deadline. Applicants also must report to CAEATFA annual and semi-annually. The annual reports are used to evaluate the over program efficacy and semi-annul reports are completed to track qualified equipment purchases.

Existing program regulations require Applicants to pay fees to cover the cost of reviewing Applications and administering the Program. Other requests such as award transfers or changes to Regulatory Agreements will also incur fees.

Rulemaking History

At the January 20, 2026 CAEATFA Board meeting, CAEATFA staff presented potential modifications addressing the items outlined above to solicit input from Board members and the public. Subsequently, a public workshop was held on January 30, 2026 for attendees to provide verbal and written comments.

At the March 17, 2026 CAEATFA Board meeting, CAEATFA approved emergency regulations to implement the following changes:

1. Address a statutory requirement of SB 86 (McNerney, Chapter 211, Statutes of 2025)
2. Adjust and clarify program policies
3. Make compliance adjustments in response to stakeholder needs
4. Streamline program administration and introduce greater flexibility to address program needs

5. Make fee-related adjustments to reflect cost increases due to inflation and other changes in program costs
6. Make clarifying or technical changes

The emergency regulations became effective upon filing with the Office of Administrative Law on April 6, 2026. This Certificate of Compliance action sees to make these emergency modifications permanent.

The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) is issuing a Notice of Proposed Rulemaking with proposed regulation text for the regular rulemaking process for the Sales Tax Exclusion ("STE") Program. The Notice is planned to be published in the California Regulatory Notice Register on August 28th, 2026. These regulations will complete the rulemaking process initiated by the emergency regulations enacted on April 6, 2026. The public comment period for the Notice of Proposed Rulemaking will end on **October 12th, 2026.**

Anticipated Benefits of the Proposed Action:

These proposed Regulations will allow CAEATFA to offer financial assistance to Alternative Source, Advanced Transportation, Advanced Manufacturing, and recycling projects. By promoting these types of projects, CAEATFA promotes California-based manufacturing, California-based jobs, the reduction of greenhouse gas emissions, and the reduction of air and water pollution and energy consumption.

Evaluation of Inconsistency/Incompatibility with Existing State Regulations:

Government Code Section 11346.5(a)(3) requires that the notice of proposed rulemaking include, "[an] evaluation of whether the proposed regulation is inconsistent or incompatible with existing state regulations." CAEATFA's staff reviewed the California Code of Regulations and found no existing regulations dealing with this issue. Therefore, CAEATFA believes that the proposed regulation is neither inconsistent nor incompatible with existing state regulations.

DISCLOSURES REGARDING THE PROPOSED ACTION / IMPACT ANALYSIS

The Executive Director of CAEATFA has made the following determinations:

Mandate on local agencies or school districts: None.

Cost or savings in federal funding to the state: None.

Cost or savings to any state agency: Aside from fee revenues for CAEATFA, none.

Cost to any local agency or school district which must be reimbursed in accordance with Government Code sections 17500 through 17630: None.

Significant effect on housing costs: None.

Significant, statewide adverse economic impact directly affecting businesses including the ability of California businesses to compete with businesses in other states: The Authority has made the determination that the proposed regulations will not have a significant, statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states. Participation is voluntary and provides access to financial assistance that may otherwise be unavailable.

Effect on Small Business: The proposed regulations affect small businesses because eligible small businesses may voluntarily participate in the program and benefit access to financial assistance that may otherwise be unavailable. The proposed regulation will not adversely affect small businesses.

Cost Impacts on Representative Private Person or Business: The Authority is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

RESULTS OF ECONOMIC IMPACT ANALYSIS

The Authority finds that the regulations will have a positive effect on the state's economy and there may be increased economic activity for manufacturers who participate in the program. The cost savings associated with the program would additionally allow for additional resources to be reinvested into their businesses and the state economy as a whole.

Creation or Elimination of California Jobs: The Authority finds that the regulations may have a positive impact on the creation of jobs within California, through manufacturers participating in the Program who may generate additional sales, income and cost savings in which they are able to reinvest those savings into their businesses and hire additional workers. The Authority has not estimated the number of green jobs that may be created as a result of this Program as participation is voluntary. The proposed regulatory action will not result in the elimination of jobs within California.

Creation of new businesses or Elimination of existing businesses with California: Because the regulations incentivize manufacturing business owners to establish or relocate operations in the State, the elimination of businesses within California is unlikely. These regulations may have a positive impact on the creation of new businesses within the State of California, particularly through the expansion of the program to include fusion technologies under the Alternative Source eligibility pathway, as by providing a competitive advantage for certain emerging strategic industries.

Expansion of Existing Businesses in California: The Authority finds there would be increased economic activity for certain manufacturing businesses eligible for the program, thus potentially expanding such existing businesses.

Benefits of The Regulation to The Health and Welfare of California Residents, Worker Safety, and The State's Environment: The goal of the Program is to offer financial assistance to Alternative Source, Advanced Transportation, Advanced Manufacturing, and Recycling projects. By supporting these types of projects, CAEATFA seeks to reduce greenhouse gas emissions and help meet California's ambitious environmental goals, thus improving the health and welfare of California residents and the State's environment. These amendments will have no impact on worker safety.

SUMMARY OF PROPOSED CHANGES

Section 10031. Definitions.

This section includes definitions of terms commonly used throughout the regulations and program documents. It is amended to add further specificity and clarity, update section numbering, and establish a new definition.

Section 10031(e) is amended to include an entity's subsidiaries or affiliates.

Section 10031(t) is amended to remove reference to a specific statutory subdivision to maintain consistency with other definitions that refer to statute.

Section 10031(v) is amended to allow a de minimis amount—defined as no more than 10% of the Qualified Property—of power generation equipment to qualify when it is ancillary to the Facility's primary purpose. This amendment is necessary to assist Applicants that need to purchase power generation equipment required for production, such as manufacturers that generate electricity to power their production facilities and reduce reliance on fossil fuels in the electricity grid. This section is also amended to remove reference to a specific statutory subdivision to maintain consistency with other definitions that refer to statute.

Section 10031(x) is amended to clarify that purchases under all four eligible pathways, including Recycled feedstock and Advanced Manufacturing, that do not contribute directly to the production process are limited to no more than 1% of the total value of all approved Qualified Property. Previously, this allowance applied only to Advance Transportation and Alternative Source applicants. When the STE Program was first established in 2010, the only two eligible pathways were Alternative Source and Advanced Transportation. The Advanced Manufacturing and Recycled Feedstock pathways were added later, in 2012 and 2015, respectively. This amendment is necessary to extend to all eligible pathways, therefore eliminating biasness and confusion. Additional revisions were made to ensure consistent formatting for percentages and certain written numbers by including numerals in parentheses, and to capitalize terms defined in statute.

Section 10031(z) is amended to remove reference to a specific statutory subdivision to maintain consistency with other definitions that refer to statute.

Section 10031(aa) is amended to clarify that the primary purpose of Applicants with a Recycled Resource Extraction Project must be to process Recycled feedstock. This amendment is necessary to ensure that eligibility is limited to Projects that process a substantial portion of Recycled feedstock.

Section 10031(ac) is removed as the proposed amended regulations will no longer use separate funding pools. Current regulations separate the annual calendar of $100 million in STE funding into three project pools ($20 million small pool, general pool, and $15 million large pool). Managing these pools has created significant challenges for staff as each pool had separate dollar amounts, different request thresholds, and different availability windows. This often resulted in complex scenarios—some without clear solutions—and creates a lot of downstream effects (i.e. extra work) especially when the program is oversubscribed and there are several Applicants on the waitlist. Administering a single funding pool will allow staff to streamline the application process and more easily rank Applicants based on their Competitive Criteria score in the event of program oversubscription.

Section 10031(ad) is amended to remove the reference to a specific statutory subdivision to maintain consistency with other definitions that refer to statute, and is renumbered as Section 10031(ac) as a result of the deletion of the former Section 10031(ac).

Section 10031(ae) is renumbered as Section 10031(ad) as a result of the deletion of the former Section 10031(ac).

Section 10031(ae) is added to define the acronym used for sales and use tax exclusion pursuant to Section 6010.8 of the Revenue and Taxation Code.

Section 10032. Application Requirements.

This section addresses application requirements and is amended to streamline the STE application process and provide greater administrative flexibility. Key changes include adjusting when CAEATFA must announce application periods, allowing more flexibility in how Applications may be submitted, and eliminating the three separate STE funding pools ($20 million small pool, general pool, and $15 million large pool) to reduce program complexity. The Application cap increases from $10 million to $15 million, and prioritization rules are updated accordingly. Several subsections are renumbered and reformatted for consistency. Additional updates clarify completeness requirements, mandate use of the most current Application version, refine scoring criteria for Emerging Strategic Industries, incorporate a new workforce certification required under SB 86 for Applicants with 500 or more employees, and require publication of a list of those Applicants after application submission.

Section 10032(a)(1) is amended to reflect updated timing in which application periods for the Program will be announced. Allowing application periods to be announced into the beginning of the year will allow time for CAEATFA to address any program changes or updates that will take effect in the ensuing calendar year.

Section 10032(a)(2) is amended to indicate the new e-mail address to which Applications should be submitted.

Section 10032(a)(3) is removed because it is redundant with Section 10032(a)(1)(B), which already provides that the Executive Director may reschedule or amend any previously announced application period, provided the information is posted on the CAEATFA website at least 10 days before the scheduled meeting.

Section 10032(a)(4) is amended to remove mention of the $20 million Small Project Pool due to newly proposed amendments eliminating the separate funding pools and add that all Applications will be reviewed and considered in the order they were received, except in the event the Program is oversubscribed, in which case Applications will be considered based on Competitive Criteria scores. Removing the $20 million Small Project Pool is necessary to reduce the complexity created by administering multiple funding pools. This section is also renumbered to 10032(a)(3) as a result of the former Section 10032(a)(3) being removed and changes a section reference.

Section 10032(a)(5) is amended to increase the Application project cap from $10 million to $15 million in STE. Under the current regulations, Applicants seeking more than the general $10 million cap may request up to $20 million during the first Application round of the year (based on availability or competition). Establishing a fixed cap is more effective in ensuring a broader distribution among large companies. Program data indicates that 67% of projects are awarded less than $2 million in STE and 81% awarded are awarded less than $5 million in STE, with the average project size being $3.6 million in STE. Accordingly, this change is not expected to disadvantage smaller companies based on historical trends. This section is also renumbered to Section 10032(a)(4) due to the removal of the former Section 10032(a)(3). It is also amended to remove reference to subsections (A) and (B), as without subsection (B), subsection (A) is no longer necessary. Other amendments include replacing common program language with a newly proposed defined acronym, and updating a percentage to maintain consistent formatting.

Section 10032(a)(5)(A) is amended to reflect the new $15 million application project cap and to clarify the order of Application priority if additional STE becomes available during the last application period after all Applications received have been considered—first to those that were capped, followed by those that were uncapped. This proposed amendment also states that Applicants eligible for additional STE will be notified in writing no later than 28 days prior to the last Authority Board meeting of the calendar year in which Applications are considered. Distinguishing the last application Board meeting is necessary because the last scheduled Authority Board meeting of the calendar year (i.e., December) may not be the final Board meeting in which Applications are considered. This section is also amended to remove unnecessary wording and be consolidated with Section 10032(a)(5), as without section subsection (B), subsection (A) is no longer necessary.

Section 10032(a)(5)(B) is removed due to newly proposed amendments eliminating the separate funding pools. Removing the $15 million large pool is necessary to reduce the complexity created by administering multiple funding pools.

Section 10032(a)(6) is renumbered to Section 10032(a)(5) as a result of the former Section 10032(a)(3) being removed and is amended to replace common program language with a newly proposed defined acronym.

Section 10032(a)(7) is renumbered to Section 10032(a)(6) as a result of the former Section 10032(a)(3) being removed and amends a section reference.

Section 10032(a)(7)(B)(i)(d) is amended to have consistent number formatting with certain written numbers by including numerals in parentheses.

Section 10032(a)(7)(B)(i)(g) is amended to establish that up to 75 points will be awarded if the Project's industry qualifies as an Emerging Strategic Industry (ESI). Under existing regulations, Applicants receive 75 competitive points if their Project falls within one of the industries listed on the ESI list, and zero points if it does not. A key limitation of this approach is that Applicants are classified strictly as either ESI or non-ESI, with no flexibility for partial points when they produce a component that qualifies under one of the ESI designations but their end product does not. Points are calculated based on the percentage of the value of the ESI component relative to the overall value of the end product.

Section 10032(a)(8) is renumbered to Section 10032(a)(7) as a result of the former Section 10032(a)(3) being removed

Section 10032(b)(4) is amended to establish that an Application is considered incomplete if the Application Fee is not received within five business days from the applicable application deadline. This amendment creates a single, uniform deadline for all Application Fees, making it less time consuming for staff to track submissions and provides additional time for Applicants who opt to submit a paper check as payment when they apply early in the application window. This section was also amended to update a section reference.

Section 10032(b)(5) is a newly proposed section that is necessary to ensure transparency in the application process. Publishing a list of all Applicants after the submission deadline provides stakeholders with timely information regarding who has applied, the type of project proposed, and whether the Applicant has 500 or more employees with regard to the SB 86 requirements outlined in Section 20611.8(e) of the Public Resources Code.

Section 10032(c)(1) replaces former Section 10032(c)(1), now renumbered as Section 10032(c)(2), and is revised to reference Application – Part A, a document required as part of the application process.

Section 10032(c)(2) was formerly Section 10032(c)(1) and is renumbered to Section 10032(c)(2) as a result of the addition of new Section 10032(c)(1).

Section 10032(c)(3) was formerly Section 10032(c)(2) in the original proposal and is renumbered to Section 10032(c)(3) as a result of the addition of new Section 10032(c)(1). This amendment is necessary to reference an updated version of the Legal Status Questionnaire, which is incorporated by reference.

Section 10032(c)(4) is established to address a workforce standard in existing law (SB 86), which states that, effective January 1, 2026, an Applicant and its parent corporation or subsidiary with 500 or more employees shall not be approved for an STE award unless the Applicant provides certification in a manner designated by CAEATFA. This certification will be incorporated into the Application, in which Applicants will declare that they meet the requirements outlined in Section 20611.8(e) of the Public Resources Code.

Section 10032(c)(5) is renumbered from Section 10032(c)(3) to Section 10032(c)(5) as a result of new Section 10032(c)(1) and Section 10032(c)(4).

Section 10032(c)(6) is renumbered from Section 10032(c)(4) to Section 10032(c)(6) as a result of the addition of new Section 10032(c)(1) and Section 10032(c)(4).

Section 10032(c)(6)(A)(ix) is amended to have consistent number formatting with certain numbers spelled out and the numeral in parentheses.

Section 10032(c)(6)(C) is renumbered to Section 10032(c)(6)(C) as a result of the addition of new Section 10032(c)(1) and Section 10032(c)(4). This section is amended to remove mention of the Small Project Pool due to newly proposed amendments eliminating the separate funding pools, and to fix a typo clarifying that Applicants (not Applications) cannot increase the amount Qualified Property in their Application when the STE Program is oversubscribed.

Section 10032(c)(7) is renumbered to from Section 10032(c)(5) to Section 10032(c)(7) as a result of the addition of new Section 10032(c)(1) and Section 10032(c)(4). This section is also amended to have consistent number formatting with certain numbers spelled out and the numeral in parentheses.

Section 10033. Eligibility Requirements and Application Evaluation.

This section addresses eligibility requirements and how Applications are evaluated. This section is amended to clarify that project revenues must exceed production costs and refine scoring criteria for Emerging Strategic Industries.

Section 10033(c)(1)(C) is amended to clarify that project revenues must exceed the production cost associated with that production. For a Project to be viable, Applicants must generate revenue that exceeds their labor and supplier costs. In cases where this requirement is not met, Applicants may still satisfy the Program's net benefit test by earning points through other qualifying factors, such as creating environmental benefits or new jobs, locating in a high-unemployment area, establishing educational workforce partnerships, participating in an industry cluster, or providing employee benefits.

Section 10033(c)(5)(D) is amended to establish that up to 40 points will be awarded if the Project's industry qualifies as an Emerging Strategic Industry (ESI). Under existing regulations, Applicants receive 40 points if their Project falls within one of the industries listed on the ESI list, and zero points if it does not, as part of the primary scoring used to determine an Applicant's eligibility. A key limitation of this approach is that Applicants are classified strictly as either ESI or non-ESI, with no flexibility for partial points when they produce a component that qualifies under one of the ESI designations but their end product does not. Points are calculated based on the percentage of the value of the ESI component relative to the overall value of the end product.

Section 10035. Regulatory Agreement and Compliance.

This section addresses Regulatory Agreement terms and requirements, as well as compliance responsibilities. It is amended to establish a fixed term for annual compliance reports; remove the allowance for Applicants to relocate up to 15% of equipment before the end of the purchasing term without sales tax exclusion repayment; provide flexibility regarding when compliance reports are due; extend the 18-month 15% purchase requirement to two years without an option to extend, with failure to meet this requirement resulting in ineligibility for a new award for two years from the requirement deadline; increase the initial three-year purchasing term to five years; prohibit Applicants in suspended status from making changes to an existing award or reapplying; and allow certain post-award changes.

Section 10035(a)(1) is amended to state that the Regulatory Agreement entered into between approved Applicants and CAEATFA must be signed within 30 days of Board approval rather than on the date shown on the notification provided pursuant to Section 10034(f) in order to avoid delays in signing of the Regulatory Agreement due to delays in receipt of the notification. The regulations are also amended to provide flexibility by allowing the Executive Director to extend the execution of the Regulatory Agreement up to 60 days in order to prevent unintended disqualification of Applicants in the event of unavoidable delays.

Section 10035(a)(2) is amended to state that all Regulatory Agreements will have a fixed term of 12 years. The prior variable term resulted in some Applicants having unnecessarily long Regulatory Agreement terms, which also required approved Applicants in these cases to continue to report to CAEATFA beyond a reasonable period of time.

Section 10035(a)(3)(B) is removed as a result of CAEATFA determining that the requirement that Applicants maintain and operate equipment in California was difficult to enforce and did not serve a needed program purpose.

Section 10035(a)(3)(C) is removed as it is not needed without Section 10035(a)(3)(B).

Section 10035(a)(3)(D) is removed as it is not needed without Section 10035(a)(3)(C).

Section 10035(a)(3)(E) is removed as it is not needed without Section 10035(a)(3)(B).

Section 10035(a)(3)(F) is renumbered to Section 10035(a)(3)(B) as a result of Sections 10035(a)(3)(B), (C), (D), and (E) being removed and amended to clarify the reporting periods for the semi-annal reports.

Section 10035(b)(1) is amended to increase the period of time granted to Applicants to complete at least 15% of purchases of Qualified Property, from 18 months to two years. When the program was first established milestone requirements, Applicants were required to purchase at least 25% of Qualified Property within one year; however, because many Applicants encountered permitting and other regulatory issues, CAEATFA lowered the threshold to 15% within one year. Following that change, stakeholders indicated that the revised requirement was still too difficult to meet, which led CAEATFA to extend the 15% purchase requirement to 18 months, with the allowance of including executed purchases. During the COVID-19 pandemic, many Applicants subject to the 18-month requirement requested additional time, with those requesting extensions averaging a total of 3.5 years for the requirement period.

In addition, this section is amended to state that Applicants that do not meet the 15% purchase requirement within two years are not eligible to apply for additional sales tax exclusions for a period of two years from the date of the requirement deadline. This is necessary to ensure that the available sales tax exclusion amounts are available to Applicants that are ready to make Qualified Property purchases. The added two-year penalty for not meeting the 15% requirement also discourages Applicants from applying prematurely and increases the likelihood that award terms will be successfully completed.

Lastly, this section is amended to increase the amount of time Applicants are allowed to make all Qualified Property purchases from three years to five years. Program data shows that approximately 31% of all Applicants have requested additional time beyond the three-year period, with the average total purchasing timeframe at 5.5 years. The most common reasons for the extension requests often reflect issues outside the Applicants' control, such as the COVID-19 pandemic (24%), permitting and regulatory issues (28%), financing issues (24%), construction delays (15%), and interconnection delays (9%). The additional time is therefore necessary and reflects real-world challenges stakeholders face in trying to develop viable projects.

Section 10035(b)(1)(A) is removed as CAEATFA determined that the prior process for requesting extensions was ineffective and resulted in unnecessary workload and higher program costs without producing benefits to program administration.

Section 10035(b)(1)(B) is removed as CAEATFA determined that the prior process for requesting extensions was ineffective and resulted in unnecessary workload and higher program costs without producing benefits to program administration.

Section 10035(b)(2)(A) is removed as this section is no longer needed due to the addition of Section 10035(b)(3).

Section 10035(b)(3) is established to replace deleted Section 10035(b)(2)(A) and clarifies assignment responsibilities when an Applicant is acquired or merges with another business. This section states that a project cannot be transferred or assigned before the expiration of the Regulatory Agreement unless the new owner acquires all, or substantially all, of the Applicant's project assets. It also clarifies that the new owner must agree to assume all duties and responsibilities in the Regulatory Agreement. If the new owner refuses to enter into a Regulatory Agreement with CAEATFA, the Applicant may be required to repay the sales and use tax exclusion received. This provision is necessary so that CAEATFA can track projects, evaluate whether originally projected benefits are realized, and assess program effectiveness.

Section 10035(b)(4) is renumbered from Section 10035(b)(3) to Section 10035(b)(4) as a result of the new Section 10035(b)(3) being established. This section is amended to change the annual reporting deadline to later in the year (i.e. from January to July) in order to ensure that Applicants have sufficient time and the data required necessary to complete the reports. This section is also amended to clarify the reporting requirements for Applicants with Regulatory Agreements that expire prior to the end of the calendar year. This ensures that Applicants submit a full year of data in the year the Regulatory Agreement term expires, rather than only the partial data that would result from the actual expiration date.

Section 10035(b)(5) is renumbered from Section 10035(b)(4) to Section 10035(b)(5) as a result of the new Section 10035(b)(3) being established.

Section 10035(b)(6) is renumbered from Section 10035(b)(5) to Section 10035(b)(6) as a result of the new Section 10035(b)(3) being established.

Section 10035(b)(7) is renumbered from Section 10035(b)(6) to Section 10035(b)(7) as a result of the new Section 10035(b)(3) being established and amended to reflect the renumbering change for new Section 10035(b)(6).

Section 10035(b)(8) is renumbered from Section 10035(b)(7) Section 10035(b)(8) as a result of the new Section 10035(b)(3) being established.

Section 10035(b)(9) is renumbered from Section 10035(b)(8) to Section 10035(b)(9) as a result of the new Section 10035(b)(3) being established and clarifies that Applicants with suspended Regulatory Agreements are not authorized to submit new Applications nor will modifications to existing Applications be approved. Under the Regulatory Agreement, Applicants are required to submit semi-annual and annual reports to CAEATFA as part of their compliance obligations. Applicants who fail to submit these reports prevent CAEATFA from tracking their Qualified Property purchases and calculating the administrative fees associated with their equipment purchases. Applicants that are out of compliance will not be permitted to apply for a new STE award or request modifications to their existing Regulatory Agreement. This section is also amended to specify that the Authority will not accept new applications or requests from any of the Applicant's parent companies or subsidiaries.

Section 10035(b)(10) is added to clarify that non-material changes to previously approved Applications are permissible if approved by the Authority. This amendment is necessary as many Applicants receive a sales and use tax exclusion award before production begins and may encounter unanticipated changes as Projects develop.

Section 10035(c) is amended to increase the length of the period of time during which the Authority can seek recovery of financial assistance in specified cases. This amendment is necessary to align with the increased amount of time Applicants are allowed to make all Qualified Property purchases pursuant to Section 10035(b)(1).

Section 10036. Fees.

This section addresses fees that are charged for program administration. It is amended to increase the minimum Application Fee from $250 to $500; update the timing of post-award administrative fee collection to better align with the time period during which administrative costs are incurred; change the fees for modifications to an Applicant's authorizing resolution or Regulatory Agreement; remove compliance extension fees; eliminate the 75% Application Fee refund; and allow electronic payments to be accepted

Section 10036(a)(2) is amended to increase the minimum Application Fee from $250 to $500. This amendment is necessary to account for inflation and increased complexity of Applications received by the Authority. As new technologies and sectors emerge, staff often spend significant time researching projects, consulting with Applicants and their teams, coordinating with other government agencies, and working with the program's technical advisor to fully understand certain projects (cost not included below).There has not been an adjustment in the Application Fee since the Program was established in 2010.

Application Review Labor Costs				
Staff	**Pay Range**	**Average Pay Per Hour**	**Average Hours Worked Per Application**	**Cost**
Analyst 1/2	$3,861 - $7,547	$32.40	55	$1,782.00
Supervisor 1/2	$7,172 - $9,781	$48.16	12	$577.92
Attorney	$7,969 - $10,473	$52.39	4	$209.56
Executive Director	$15,065 - $18,327	$94.86	4	$379.44
Total Labor Cost Per Application Review				**$2,948.92**

Section 10036(a)(3) is amended to allow electronic payments to be accepted for Application Fees and to establish a uniform fee deadline of five business days after the applicable application period closes. Under the existing regulations, Applicants must submit the Application Fee within five days of submitting their Application. Because the application window is open for several weeks, fee deadlines vary depending on when an Applicant submits their Application. The proposed change would create a single, consistent fee deadline for all Applicants, making it less time consuming for staff to track payments, and provide additional time for Applicants who opt to submit a paper check as payment when they apply early in the application window.

Section 10036(a)(4) is amended to remove the 75% Application Fee refund. This amendment is necessary because reviewing an Application to determine its Competitive Criteria score and ranking requires staff time which is not currently covered by fees if these fees are refunded. This amendment also clarifies that a refund only applies when an application review was not conducted.

Section 10036(b)(4) is amended to change the timing of the receipt of program administrative fees. Under existing regulations, Applicants pay 100% of these fees over the term of the Regulatory Agreement. However, CAEATFA staff costs are substantially higher at the initiation of the Regulatory Agreement. This change would more closely align the receipt of these fees with the timing of the costs incurred requiring that either $15,000 or 50% of the Administrative Fee, which is greater based on the amount of Qualified Property approved, be paid upon execution of the Regulatory Agreement.

Section 10036(b)(5) is amended in conjunction with the change to Section 10036(b)(4) to require that the remaining 50% of the Administrative Fee is payable over the term of the Regulatory Agreement as Qualified Property purchases are completed.

Section 10036(b)(5)(B) is amended to remove the provision allowing for refunding of Administrative Fee overpayment; such overpayments cannot occur under the provisions of Sections 10036(b)(4) and 10036(b)(5) as amended as fees are only paid as Qualified Property purchases are made.

Section 10036(b)(6) is removed as a result of changes made in Section 10036(b)(4) relating to the initial payment of the Administrative Fee.

Section 10036(b)(7) is renumbered from Section 10035(b)(7) to Section 10036(b)(6) as a result of the former Section 10036(b)(6) being removed and is amended to allow electronic payments to be accepted for administrative fees.

Section 10036(b)(8) is renumbered from Section 10036(b)(8)to Section 10036(b)(7) as a result of the former Section 10036(b)(6) being removed and clarifies that administrative fees are not refundable.

Section 10036(c)(1) is amended to increase the fee for Applicants requesting a modification to their Regulatory Agreement or authorizing resolution that requires Board approval, or for Applicants requesting to add an additional subsidiary or affiliate to a Regulatory Agreement subject to the approval of the Executive Director from $500 to $2,000. This amendment is necessary to cover the cost of staff labor as even seemingly simple transactions can require more work than anticipated when the initial fee amounts were established. Such work can include, but is not limited to, reviewing a company's and its parent company's financial statements, such as SEC filings if it is a public company, reviewing OSHA documents, verifying registrations, and ensuring companies are in good standing. This section also clarifies that Applicants who wish to add a subsidiary or affiliate to their Regulatory Agreement may do so by submitting a completed Legal Status Questionnaire. Approval by the Executive Director is required and is contingent upon the entity's compliance with program requirements.

Amending Regulatory Agreement Labor Costs				
Staff	**Pay Range**	**Average Pay Per Hour**	**Average Hours Worked Per Application**	**Cost**
Analyst 1/2	$3,861 - $7,547	$32.40	35	$1,134.00
Supervisor 1/2	$7,172 - $9,781	$48.16	10	$481.60
Attorney	$7,969 - $10,473	$52.39	4	$209.56
Executive Director	$15,065 - $18,327	$94.86	3	$284.58
Total Labor Cost Per Regulatory Agreement Amendment				**$2,109.74**

Section 10036(c)(1)(A) is removed as a result of the proposed amendments eliminating the option to waive the 15% purchase requirement.

Section 10036(c)(1)(B) is removed as a result of the proposed amendments eliminating the option to waive the three-year initial term.

Section 10036(c)(1)(C) is removed as a result of the proposed amendments eliminating the option to waive the 15% purchase requirement and the three-year initial term.

Section 10036(c)(2) is established to specify that the fee for a Regulatory Agreement ownership transfer is set at $2,000. This addition is necessary because an award transfer requires staff work for due diligence and approval by the Board. Such work can include, but is not limited to, reviewing a company's and its parent company's financial statements, such as SEC filings if it is a public company, reviewing OSHA documents, verifying registrations, and ensuring companies are in good standing.

Regulatory Agreement Ownership Transfer Labor Costs				
Staff	**Pay Range**	**Average Pay Per Hour**	**Average Hours Worked Per Application**	**Cost**
Analyst 1/2	$3,861 - $7,547	$32.40	35	$1,134.00
Supervisor 1/2	$7,172 - $9,781	$48.16	10	$481.60
Attorney	$7,969 - $10,473	$52.39	4	$209.56
Executive Director	$15,065 - $18,327	$94.86	3	$284.58
Total Labor Cost Per Regulatory Agreement Ownership Transfer				**$2,109.74**

Section 10036(c)(3) is renumbered from Section 10036(c)(2) to Section 10036(c)(3) due to the addition of new Section 10036(c)(2). This amendment also clarifies that the fee applies to

Applicants who revise their Application for consideration of any additional STE at the end of the year, and it capitalizes the word “Board.”

Section 10036(c)(4) is renumbered from Section 10036(c)(3) to due to Section 10036(c)(4) due to the addition of new Section 10036(c)(2) and is amended to allow electronic payments to be accepted for other administrative fees.

AGENCY CONTACT PERSON

Written comments shall be submitted or directed to: steprogram@treasurer.ca.gov.

Inquiries and any questions regarding the substance of the regulations shall be submitted or directed to:

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AVAILABILITY OF INITIAL STATEMENT OF REASONS AND TEXT OF THE PROPOSED REGULATIONS

The Authority has established a rulemaking file for this regulatory action, which contains those items required by law. The file is available for inspection at the Authority's office at 915 Capitol Mall, Sacramento, California 95814, during normal business working hours. As of the date this Notice is published in the Notice Register, the rulemaking file consists of this Notice, the Initial Statement of Reasons, the proposed text of the regulations, the Economic Impact Statement, and the Technical, Theoretical, and/or Empirical Studies, Reports, or Documents. Copies of these items are available upon request from the Agency Contact Person designated in this Notice or at the Authority's website located at https://www.treasurer.ca.gov/caeatfa/ste/regulations.

AVAILABILITY OF CHANGED OR MODIFIED TEXT

After the public hearing and at the end of the written comment period, the Authority may adopt the regulations substantially as described in this Notice, without further notice. If the Authority makes modifications that are sufficiently related to the originally proposed text, it will make the modified text (with the changes clearly indicated) available to the public for at least fifteen (15) calendar days before the Authority adopts the proposed regulations, as modified. Inquiries about and request for copies of any changed or modified regulations should be addressed to the Agency Contact Person identified in this Notice. The Authority will accept written comments on the modified regulations for fifteen (15) calendar days after the date on which they are made available.

AVAILABILITY OF FINAL STATEMENT OF REASONS

Upon completion, a copy of the Final Statement of Reasons may be requested from the Agency Contact Person designated in this Notice or at the Authority's website located at https://www.treasurer.ca.gov/caeatfa/ste/regulations

AVAILABILITY OF MATERIALS ON THE INTERNET

Materials prepared for this rulemaking, including this Notice, the Initial Statement of Reasons, the text of the proposed regulations, the Economic Impact Analysis, and Technical, Theoretical, and/or Empirical Studies, Reports, or Documents may be accessed on the Authority's website located at https://www.treasurer.ca.gov/caeatfa/ste/regulations