

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
August 21, 2012**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA or Authority”) meeting to order at 11:04 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Alan Gordon for John Chiang, State Controller
Pedro Reyes for Ana J. Matosantos, Director,
Department of Finance
Saul Gomez for Robert B. Weisenmiller, Chair,
California Energy Commission

Staff Present: Christine Solich, Executive Director
Sherri Kay Wahl, Deputy Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the June 19, 2012 and the June 26, 2012 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the minutes; upon a second, the minutes were unanimously approved.

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Solich began her report by announcing that Heather Williams, CAEATFA’s most senior staff member, would be leaving after being with CAEATFA for more than two years. Ms. Williams accepted a promotional opportunity with the Department of Education where she will be working on strategic planning for after school programs. Ms. Williams was the lead analyst on the Senate Bill 71 program (SB 71) and was involved in the program development, implementation, evaluation and modifications. Ms. Williams started with the State Treasurer’s Office (STO) in a Fellowship program several years ago and has also worked in

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the Public Finance Division. CAEATFA was elated to have Ms. Williams as a member of its staff, she did a terrific job and Staff wished her the best.

Ms. Redway congratulated Ms. Williams on her promotion and wished her well in her work on after school programs.

Ms. Solich then announced that after 22 wonderful years with the STO in the Investment Division and CAEATFA, and an additional 10 years with another local agency, that she would be retiring. She thanked the Staff and the Board for their support. She informed the Board that she would be working until the end of November as she transitions from the position. The Treasurer has intentions on replacing Ms. Solich and will be receiving interest from potential candidates.

Ms. Redway commented that Ms. Solich was irreplaceable and thanked her for her long career at the STO.

Ms. Solich continued her report with an update on legislation that would impact CAEATFA programs. Senate Bill 1128 (SB 1128) would add advanced manufacturing to the SB 71 Sales and Use Tax Exclusion (STE) program. This bill was recently voted out of the Appropriations Committee with technical amendments. If the bill is passed by August 31, 2012 it would go to the Governor's desk for signature. The bill defines advanced manufacturing as that which improves existing, or creates entirely new, materials, products, and processes through the use of science, engineering and information technologies; high-precision tools and methods; a high-performance workforce; and innovative business or organizational models in any of the following technology areas: micro and nanoelectronics, including semiconductors, advanced materials, integrated computational materials engineering, nanotechnology, additive manufacturing and industrial biotechnology. The bill also includes a rewrite of the CAEATFA statute which consists of deleting old language and programs and clarification of the statute. This exercise was undertaken by the California Pollution Control Financing Authority (CPCFA) several years ago. Staff has worked with the Legislature on amendments to the bill which virtually modernizes the CAEATFA bond provisions to be consistent with those of CPCFA and eliminates the conveyance and reconveyances that are currently done under the SB 71 program. It retains all of the current CAEATFA programs including SB 71, Senate Bill 77 ("SB 77") and Assembly Bill x1 14 (AB x1 14) and consolidates the programs under one division to more effectively clarify administrative authority over these programs. Staff will continue to monitor the bill as it moves forward.

Ms. Redway added that SB 1128 would set a hard cap on the STE program at \$100 million a year cumulatively for SB 71 and advanced manufacturing, which is a significant change to the current statute.

Mr. Gordon asked what the cap is for the current program.

Ms. Redway answered that there is not a cap for the current program but Staff is required to report to the Legislature when the program nears \$100 million in STE's granted.

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Ms. Solich then reported that CAEATFA had awarded a three year contract to Gilbert Associates, Inc. for auditing services to comply with Senate Bill 99 (SB 99) that requires an annual audit of CAEATFA's bond program. This contract will not exceed \$35,700 over the term.

She informed the Board that the AB x1 14 regulations were enacted in mid-July and Staff had enrolled two financial institutions as defined under the regulations. She introduced Martha Alvarez to provide an update on activities for the AB x1 14 Loan Loss Reserve Program (LLRP).

Ms. Alvarez began her update by informing the Board that the modified emergency regulations became effective on July 16, 2012 and will expire on November 1, 2012 unless otherwise extended. At that point, CAEATFA will need to begin the permanent rulemaking process.

Once the modified emergency regulations became effective, CAEATFA began outreach to financial institutions who had expressed interest in recent months. This outreach effort has included one-on-one conference calls with various financial institutions throughout the state. To date, CAEATFA has received two complete applications from SAFE Credit Union and the Sacramento Municipal Utility District (SMUD). Per regulations, applicants were required to submit information on geographic area(s) served in California, and detailed descriptions of the loan program to finance eligible improvements, transactional activities associated with loan issuance, and a description of the mechanism by which savings produced by participation in this Program will be passed on to the borrowers in the form of lower cost financing.

In the case of one of the applicants, by participating in the loan loss reserve program, the proposed loan terms may have the following benefits:

- Will expand to provide financing to borrowers with lower FICO scores (as low as 640);
- Loan amounts will be raised from a current maximum of \$3,500 to a proposed \$20,000 for FICOs 640-669 and up to \$35,000 for those with FICO scores above 730.
- The term of the loan will also increase from a minimum of 3 years to 7 years; and
- Existing interest rates vary from 6.50% to 15.90%, and with participation in the Program, the proposed interest rates may be between 4.99% to 8.99%;

In the case of the other applicant, with access to the loan loss reserve, proposed terms will allow the lender to provide the following benefits:

- Raise loan amounts from an existing \$5,000 limit to a proposed \$20,000 maximum.
- The existing interest rate of 10.75% is proposed to be reduced to 5.5% for all borrowers, with a maximum 10-year loan term.
- As an example of savings for this particular lender, under the existing terms (10.75%),

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a \$14,000 loan with a 10-year term could result in \$8,905 in interest over the loan term.

- Under the new terms (5.5% rate), a qualified borrower with excellent credit would potentially pay only \$4,232 in interest if the loan was paid over the 10 year term, saving nearly \$4,700 as a result of the reduced interest rate.

After careful evaluation and consideration CAEATFA's Executive Director, determined the applications of SAFE Credit Union and SMUD were both complete and met the requirements set forth in the Program regulations. Staff sent SAFE Credit Union and SMUD a letter welcoming each as a Participating Financial Institution (PFI) in the LLRP, and the trustee bank has been instructed to establish a loss reserve account for each of the PFIs. In the coming weeks, CAEATFA Staff will provide trainings for the lending staff at SAFE and SMUD to help them understand the program regulations and the process for enrolling a complete qualified loan into the program.

CAEATFA staff will continue its outreach efforts to other financial institutions. Given the initial interest Staff has received from lenders, Staff anticipates having several other lenders enrolled in the program within the next several months which will assist Staff in achieving statewide coverage.

Ms. Alvarez then ended her report and asked if there were any questions from the Board.

Mr. Reyes commended Ms. Alvarez on a job well done and added that once the two current PFIs start enrolling loans other institutions may show interest.

Ms. Redway commented that Staff should share information with the California Public Utilities Commission (CPUC) since they are collecting data on different financing mechanisms.

Ms. Solich then ended her report.

4. BUSINESS ITEMS

Mr. Reyes moved approval of items 4.A. and upon a second, the item was unanimously approved.

Ms. Redway asked if there were any questions by the Board or the public. There were none.

A. REQUEST TO APPROVE RE-ADOPTION OF THE SB 71 EMERGENCY REGULATIONS

Senate Bill (SB) 71 (Padilla), signed into law on March 24, 2010, authorizes CAEATFA to approve projects for STE's on qualified property utilized for the design, manufacture, production or assembly of advanced transportation technologies or alternative source products, components or systems. The Program's initial regulations were approved by the Board in September 2010. Since then, Staff has continued to evaluate and modify the Program as necessary. In February 2012, Staff proposed and the CAEATFA Board

adopted modifications to the Program regulations under the emergency rulemaking process. The Office of Administrative Law (OAL) approved the emergency regulations on March 8, 2012, putting them into effect for 180 days until September 5, 2012. All modifications to the regulations will take place in the regular rulemaking process. The final proposed regulations will be brought back to the Board for consideration and approval prior to final submittal to OAL.

B. DISCUSSION OF POLICY OPTION FOR ENERGY EFFICIENCY APPLICATIONS UNDER THE SB 71 SALES AND USE TAX EXCLUSION PROGRAM

Presented by Deana Carrillo, Program Manager and Matthew Newman, Blue Sky Consulting

CAEATFA Staff is presented policy options in evaluating energy efficiency products under the SB 71 Program for discussion.

Ms. Carrillo stated that after additional deliberation, Staff has determined that an initial public workshop with subject matter experts is necessary to provide staff with additional feedback in order to bring a more substantive discussion and recommendation to the board for consideration.

Current SB 71 regulations allow products that increase energy efficiency to qualify for the STE program.

However, based on the experience of staff with previous energy efficiency applications and inquiries from potential applicants, CAEATFA staff believes that the policies for evaluating energy efficiency applications should be updated to better define what type of products should be approved under the program.

CAEATFA has approved one energy efficiency application to date – SORAA which produces LED lightbulbs – which was rather straight forward. CAEATFA has also received inquiries from other potential applicants that include:

- glass manufactures for windows
- energy efficient computer chips

Staff would like to get additional feedback from the Board today to assist in framing issues at the upcoming workshop.

Mr. Newman suggested that Staff and the Board should begin with a discussion of the different options for evaluating energy efficiency applications.

Ms. Redway announced that Nancy Ryan, representing the CPUC, had arrived at the meeting. Nancy arrived at 11:20 a.m.

Mr. Newman stated that the statute and the current regulations allow for Staff to evaluate

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and approve energy efficiency applications. As Staff developed and implemented the program they worked on as many parts as possible but the issue of energy efficiency is something where more thought and clarity would be helpful. The primary issue is not one that is different in kind but is different in scope from what CAEATFA has already done. When Staff currently evaluates an application the information that applicants submit is reviewed and Staff decides if it's a reasonable estimate of the energy generation capacity of a project and then calculates the environmental benefits. Even though the range of potential technologies is quite broad in alternative sources and advanced transportation when energy efficiency is added the scope is much bigger.

Mr. Newman continued to say that almost anything that plugs-in, runs on gasoline or natural gas could be made more efficient and almost any kind of product could be made energy efficient in theory, so the scope of the kinds things and the kinds of claims that staff would have to evaluate would become much larger. The issue is how to make this into a manageable size and what should Staff concentrate on. The range of options that staff, proposed for discussion range from option one, which is not approving any energy efficiency applications at this point, to continue to evaluate the issue and along with implications of SB 1128; to option number five which is putting in place changes in the regulations which would allow any product or component of a product with energy efficiency benefits that are determined by Staff to be real benefits to qualify. Other options include looking at only final products that are ready and meet an existing state or federal energy efficiency guideline, like Energy Star.

Mr. Gordon commented that products that already meet an existing state or federal guideline appeals to him the most based on the size of the staff at CAEATFA. He added that the CEC does a good job at rating these types of things and he is not comfortable having CAEATFA staff making those types of determinations on its own.

Mr. Newman stated that an issue to keep in mind in considering this option is that it would only apply to final products, so unless a company actually makes the product they would be excluded. If a company made an energy star computer that company would qualify under the program but if a company only made the microprocessor and wanted to establish a microprocessor manufacturing facility in California they would not be eligible under this option. He continued to say that this would put CAEATFA staff in a position to have to say "no" to a project that is going to bring a manufacturing facility to the State that would generate environmental benefits. There are trade-offs with each option, from having to say no to applicants that might be doing projects that are consistent with the purpose of the statute and putting in a place a program that overwhelms the ability of the CAEATFA staff to do what they are not qualified to do, which is evaluating the energy efficiency characteristics of individual components of products.

Mr. Gomez asked what the potential pool of applicants would be given these options.

Mr. Newman responded that because the different products or components could be almost anything it would be difficult to know how large the applicant pool would be under any of the given options. He continued to say as far as the option of looking at

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only final products it would be very limited because even if components of a product were manufactured in California it is highly likely that the final assembly of the product itself would be done outside of California limiting the pool of applicants.

Mr. Gordon asked if there is a distinctive line between something such as the casters that go on the bottom of a washing machine and the efficiency components. He added that as you start moving into components of a finished product it seems that Staff is entering an area of murkiness in trying to make distinctions without a difference at some level and that would be a difficult position to put Staff in.

Mr. Reyes commented that Staff started out with the thought of a workshop with subject matter experts and felt that as he read the staff report it was almost like a solution looking for a problem. He continued by stating that asking the Board to establish policies without understanding what the industry wants leaves the Board guessing as to what the needs are. As a Board member he would feel more comfortable if he had a sense of what industries are asking for this and would rather a workshop be held with members of the industries that would be interested in moving to California if they received a tax exclusion for their projects. Staff would then be able to tell potential applicants what the program is looking for. He wants to use this as a way to bring jobs to the State because one of the qualifying point criteria is jobs. He would like to know who is applying, who is not qualifying and why, and maybe that would help determine which one of the options would best suit the Program.

Ms. Ryan commented that she has spent time working with a team from the Governor's office to develop an action plan for zero emission vehicles and focused on the part that created jobs and economic development. She has had a number of conversations with companies focusing on the STE and the issue of component manufacturers. She suggested that Staff may want to think about whether there are particular elements of vehicle or energy efficient appliances that have broad applications across the board that Staff may want to focus on; this ties into the point of trying to understand who is potentially being turned away that has something to offer-something that is viable to California. She continued to explain that a large part of making things energy efficient is making them lightweight which is true for vehicles. She added that the staff report mentions smart grid technology and smart grids can have different applications that can be difficult to tease out the spectrum of different uses. She does not feel that having someone tease out all of the different uses is something that CAEATFA has or should develop the capacity to do. She suggested that Staff look at the extent to which some of these products or components get examined at the CEC and the CEC's standard setting process. It would be a good idea to learn if the standards are set from bench testing finished models and/or more from a checklist of different components that are considered energy efficient.

Mr. Gomez stated that he had spoken with Chair Weisenmiller and the Chair is happy to have CEC staff work with CAEATFA on organizing a workshop and finding the right stakeholders.

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Ms. Ryan noted her concern about SB 1128 moving along and the cap that it includes, which will make things more competitive and if that is the case it would make sense to narrow the field of eligible projects.

Ms. Redway summarized the previous comments by stating that the Board needs more information, a workshop, as well as assistance from the CEC staff to understand the analytics that the CEC currently uses would be helpful. She also noted that there is a sense that whatever recommendation that Staff comes up with should be simpler and smaller. She also noted that the ultimate policy may not be as expansive as it could be under the law, but that is what the Board would support especially if SB 1128 passes- there would be a desire to shrink the list of potential applicants. She continued to state that the Board does not have enough information to make a recommendation at this time, but Staff has made it clear to the Board that the issue is complicated and outlined some of the struggles for applicants or potential applicants that have energy efficiency projects. It is good that Staff is grappling with how to evaluate energy efficiency projects and trying to come up with some guidelines-even if it is not perfect. She added that the Board looks forward to hearing the results of the workshop and reminded Staff they should utilize the analytics of CEC staff as a starting point.

Mr. Reyes commented that Staff should reach out to Governor's Office of Business and Economic Development (GoBiz) and make sure the State entities are collaborating efforts and are headed in the same direction.

Ms. Redway suggested that Staff get data from GoBiz about what industries are trying to come to California. She observed that Mr. Newman may be correct in his statement that almost any manufacturer doing energy efficiency projects can claim that they are doing something to make a product more energy efficient.

Ms. Ryan added that one of the challenges is that the same process of making components more lightweight can make a product more energy efficient, which can also be made to make it more powerful and compelling.

Ms. Carrillo commented that Staff appreciated the feedback from the Board and would be holding a workshop and doing more research in the next several months.

Mr. Newman asked what the Board thought might be missing beyond the scope or type of applicant.

Ms. Redway responded that there were questions of whether the approach could be narrowed, not only by applicant but also by the types of component parts.

Mr. Gomez commented that there are certain types of components that create the environmental benefit, and should be evaluated.

Ms. Redway stated that there was a question to whether or not Staff should look at just identifying certain component parts that would be eligible as opposed to the whole

product.

Mr. Newman responded this option was discussed in the staff report and is possible in theory. In respect to the process currently in place for evaluating advanced transportation applications the regulations attempts to define eligibility based on the component that produces the environmental benefit and is called the Green Component in the existing regulations. The same concept could be put into place for energy efficiency, but it would put Staff in a position of determining whether or not something produces an energy efficient benefit.

Ms. Redway suggested Staff look into other sources of information or databases to see if there are other places that can make the determination of energy efficiency and if those existing standards can be relied on instead of having CAEATFA staff making those determinations else to rely on instead of having CAEATA staff making those determinations.

Mr. Gomez responded that the CEC relies on the certifications from third party certifiers.

Ms. Redway commented that she is not sure if Staff would want to have to go out and do certifications, but would want to understand what the process is for certifying consumer products as energy efficient. At this point any piggy-backing or information that can be gathered from other state agencies or federal agencies will be useful because Staff will not be able to handle determining what qualifies as energy efficiency without assistance.

Ms. Carrillo commented that the Board discussion was helpful. In providing Staff with appropriate direction for next steps in exploring the issues.

Ms. Redway asked if there were any questions by the Board or the public. There were none.

5. PUBLIC COMMENT

Ms. Redway asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 11:41 a.m.

Respectfully submitted,

Christine Solich
Executive Director