

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
June 19, 2018**

1. CALL TO ORDER AND ROLL CALL

Steve Juarez, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (“CAEATFA” or the “Authority”) meeting to order at 10:30 a.m.

Members Present: Steve Juarez for John Chiang, State Treasurer
Anne Baker for Betty T. Yee, State Controller
Jacqueline Wong-Hernandez for Michael Cohen, Director,
Department of Finance
Michael Murza for Robert B. Weisenmiller, Chair,
California Energy Commission
Rohimah Moly for Michael Picker, President, Public Utilities Commission

Staff Present: Deana J. Carrillo, Executive Director

Quorum: The Chairperson declared a quorum.

2. MINUTES

Mr. Juarez asked if there were any questions or comments concerning the May 15, 2018 meeting minutes. There were none.

Mr. Juarez asked if there was a motion.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Abstain

3. EXECUTIVE DIRECTOR’S REPORT

Ms. Carrillo began her report by summarizing recent activity under CAEATFA’s programs, beginning with the Sales and Use Tax Exclusion (“STE”) Program. Ms. Carrillo reported that if

all of the applications before the Board are approved, CAEATFA will have awarded approximately 60% of the total sales and use tax exclusion available for the calendar year, leaving \$40.15 million left to award. CAEATFA currently has two additional applications under review, and if they are both approved, \$39.7 million in sales and use tax exclusion would be remaining for the rest of the year. The application deadline for the August Board meeting is Friday, June 22nd.

Ms. Carrillo gave an update of Tesla, Inc.'s ("Tesla") progress since the last meeting, as requested by the Controller's delegate, reporting on both public and STE Program activity specific to Tesla. She stated that Tesla is scheduled to report on its production activity and progress in addressing health and safety issues to the Board at next month's meeting, and will provide more specific information at that time. Ms. Carrillo reported that in the past month Tesla announced it was implementing a restructuring to flatten its management structure that led to the laying off of approximately 9% (4,100 jobs) of its workforce. Ms. Carrillo stated that according to media reports, the cuts focused on salaried positions, leaving manufacturing jobs largely intact, and Tesla reportedly anticipates additional hiring in the manufacturing area.

Mr. Juarez stated that the Board will be interested to hear about the staff cuts at Tesla, as well as implications of the opening of a third production line. Ms. Carrillo reported that she had reached out to Tesla representatives, who stated these layoffs did not have any material impact on current active projects under the STE Program. Ms. Carrillo continued her report on Tesla by stating that media reports indicate weekly production numbers are increasing. On July 11th, it was reported by the media that Tesla submitted a letter to the Air Resources Board regarding a new regulatory action that restricts electric vehicle ("EV") rebates to owners of EVs made by companies that are certified as having a fair and responsible workplace. Additionally, the first hearings were held at the National Labor Relations Board (the week of June 11) to consider allegations of unfair labor practices at Tesla. The hearings are expected to resume in late September. Tesla is due to present its first quarterly report to the Board at the July 17 Board meeting; the content will be as required under the approved resolutions.

Under the Property Assessed Clean Energy ("PACE") Loss Reserve Program, Ms. Carrillo reported that CAEATFA staff ("Staff") continue to work toward executing the contracts for auditor and risk analysis services.

Under the California Hub for Energy Efficiency Financing ("CHEEF"), Ms. Carrillo reported that the Residential Energy Efficiency Loan ("REEL") Assistance Program's activity has continued to grow. CAEATFA has now enrolled over \$3 million in loan activity, and has received a new application from another lender, First US Community Credit Union, which serves Sacramento, Placer, Nevada, El Dorado, Amador, Yuba, Yolo, Sutter, San Joaquin, Solano, Sierra, and Contra Costa Counties, as well as federal employees throughout the state, and select employee groups, such as Safeway employees in Northern California. With this addition, CAEATFA is on track to have seven lenders on board.

Ms. Carrillo continued by stating that the REEL Program has completed a 45-day public comment period and workshop, finishing the certificate of completion under the regular rulemaking process, which is anticipated to be the last modification to the program during the pilot period. The regulations will be presented to the Board at the next meeting. Ms. Carrillo stated Staff's

development of the Small Commercial and Multifamily Program continues, and CAEATFA is on track to have regulations before the Board for approval by the end of the year.

Under legislative updates, Ms. Carrillo reported that Assembly Bill 1547 (Quirk-Silva) has been amended to include a number of provisions specific to the California Industrial Development Financing Advisory Commission (“CIDFAC”) and the California Pollution Control Financing Authority (“CPCFA”), as well as technical clean-up language specific to CAEATFA which includes: adding water efficiency to the definition of “Project,” modifying the type of eligible property under the PACE Loss Reserve Program from “fewer than four units” to “four units or fewer” to make the language consistent with industry standards and other residential PACE statute, and adding clarity for contractors and subcontractors under the STE Program to clarify the exclusion use and applicability.

Ms. Carrillo reported that under her delegated authority, no actions were taken.

Ms. Carrillo then concluded her report.

4. BUSINESS ITEMS

B. DISCUSSION AND CONSIDERATION OF APPLICANT’S REQUEST TO EXTEND THE TERM OF THE MASTER REGULATORY AGREEMENT OF STE AWARD

In order to help with the flow of the day’s discussion, the Chair stated that presentation and consideration of Item 4.B.1 would take place before the rest of the items on the agenda.

1) Space Exploration Technologies Corporation Presented by Xee Moua, Analyst

Staff introduced Mike Sylvester, Senior Director of Tax, Space Exploration Technologies Corporation; and Christopher Sharpe, Director, PricewaterhouseCoopers LLP.

In October 2015, the CAEATFA Board approved a sales and use tax exclusion for Space Exploration Technologies Corporation (“SpaceX” or the “Applicant”) for the purchase of \$360,169,639 of Qualified Property to upgrade and expand its existing design, production, and assembly infrastructure for spacecraft and advanced rockets at its Hawthorne facility (the “Project”). Specifically, SpaceX developed two advanced rockets, the Falcon 9 and Falcon Heavy, and two spacecraft, Dragon Cargo and Dragon Crew. The initial term of the Master Regulatory Agreement (“Agreement”) provided the Applicant with three years from the date of Board approval to utilize its sales and use tax exclusion award.

As of December 31, 2017, SpaceX has used the sales and use tax exclusion to purchase \$84,484,209 of Qualified Property, which is approximately 23% of the total Qualified Property approved. SpaceX is requesting the Agreement be extended to accommodate Project delays due to an anomaly in a static fire rocket test launch that occurred at Cape Canaveral, Florida in September 2016. According to the Applicant, the test launch accident caused damage to several facilities which required significant capital expenditure to rebuild. SpaceX states it has taken several precautions to avoid test launch issues and

has since been able to launch dozens of rockets from multiple locations. The Applicant states that a three year extension would be adequate to address issues that may arise.

Based on this information, Staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the Program. Staff recommends that the Board approve Space Exploration Technologies Corporation's request to extend the initial term of the Agreement by three years, two months, and 11 days to December 31, 2021 to purchase \$360,169,639 in Qualified Property, anticipated to result in a sales and use tax exclusion of \$30,326,284.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Moly.

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

Mr. Sylvester stated that SpaceX is committed to continued investment, employment growth, and production in California. Mr. Sharpe added that SpaceX has resumed full spending as originally intended as part of the 2015 application, spending close to \$42 million in the first 5 months of this year.

Ms. Baker stated the Controller's Office is concerned with the number of Elon Musk companies coming before the Board for awards. She added that going forward it will be important for the Board to reexamine what constitutes an award cap and how the relationships between companies are considered under the STE Program's regulations. Because of these concerns, Ms. Baker stated that she would not be voting on this item.

Mr. Sylvester responded, stating that though SpaceX and Tesla have a common CEO, they don't have a common board or management, and operate as independent companies.

Ms. Baker stated that with the limited amount available to award, focus should be on helping small companies wherever possible. Mr. Juarez stated that currently there is a \$20 million cap per company which does not apply to individuals with interest in multiple companies. If new regulations defined aligned interests, the rules on award caps could change. He affirmed the importance of helping as many small businesses as possible.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Abstain
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

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

- 1) Chanje Energy, Inc.
Presented by Ashley Bonnett, Program Manager

Staff introduced Tim Weaver, Vice President of Business Development, Chanje Energy, Inc.; Jeff Robinson, Vice President of Manufacturing, Chanje Energy, Inc.; and James Dumont, Consultant, The Grant Farm, Inc.

Ms. Bonnett reported that Chanje Energy, Inc. (“Chanje” or the “Applicant”), an Advanced Transportation Technology Applicant, is requesting a sales and use tax exclusion to build a new commercial electric vehicle assembly facility located in Hawthorne (the “Project”), moving assembly of its vehicles from China to California. Chanje will be assembling electric medium-duty panel vans, including its current model, the V8100, which has a payload of 6,000 pounds and a 100 kWh battery with a range of 150 miles. The Project has met all of CAEATFA’s scoring thresholds.

Staff recommends approval of a resolution for Chanje Energy, Inc.’s purchase of up to \$22,329,400 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$1,866,738.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Baker.

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

Mr. Murza asked whether Chanje had any other facilities in the US or California. Mr. Weaver responded, stating this would be Chanje’s first assembly facility in North America, and parts manufacturing takes place in China.

Mr. Juarez stated Tesla was responding to a provision of the state budget that requires car manufacturers to be certified by California’s Secretary of Labor that they are a fair employer, and asked if it applied to Chanje. Mr. Hedrick, Senior Attorney for the State Treasurer’s Office assigned to CAEATFA, stated the provision applied to passenger vehicles eligible for rebates. Mr. Weaver replied that Chanje puts a lot of effort into employee conditions, but the company does not receive the California passenger car rebate, though they are paying attention to the proceedings for legislative intent.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

2) Zanker Road Resource Management, Ltd.
Presented by Ashley Bonnett, Program Manager

Staff introduced Michael Gross, Director of Sustainability, Zanker Road Resource Management, Ltd.

Ms. Bonnett reported that Zanker Road Resource Management, Ltd. (“Zanker” or the “Applicant”), a Recycled Resource Extraction Applicant, is requesting a sales and use tax exclusion to build a new mixed recycling facility located in San Jose (the “Project”).

According to the Applicant, the Project will utilize an automated sorting system to more effectively process and sort the incoming waste materials while achieving higher diversion rates. Zanker states that the Project will divert approximately 155,000 tons per year, increasing their diversion of recyclables by 20%. The Project has passed all of the Program’s scoring thresholds.

Staff recommends approval of a resolution for Zanker Road Resource Management, Ltd.’s purchase of up to \$11,132,857 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of \$930,707.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Baker.

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

Mr. Gross stated that the STE Program is one of the reasons Zanker could pursue this project, and if they did not have this avenue, they likely would not be able to go forward.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

3) WET
Presented by Ashley Bonnett, Program Manager

Staff introduced Maria Villamil, Vice President, WET; and Garret Young, Vice President of Product Design and Engineering, WET.

Ms. Bonnett reported that WET (the “Applicant”), an Advanced Manufacturing Applicant, is requesting a sales and use tax exclusion to expand its existing water feature manufacturing facility located in Sun Valley (the “Project”). WET has designed water

features for locations worldwide, including the Burj al Arab hotel in Dubai and the Bellagio hotel in Las Vegas, using component parts engineered and manufactured by the Applicant itself.

According to WET, the Project will utilize advanced technology and high-precision tools, including laser cutters, 3D printing, injection molding, and robotic welding. The Applicant represents the Project will result in a more sustainable manufacturing process compared to its previous practices; for example, the reduced production time and increased production accuracy and efficiency from the new automated machinery is anticipated to result in lower energy consumption and less solid waste. The Project has met all of the Program's scoring thresholds.

Staff recommends approval of a resolution for WET's purchase of up to \$4,927,301 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$411,922.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Baker.

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

Ms. Wong-Hernandez asked against what standard WET had calculated their efficiency.

Mr. Young responded that they have largely calculated manufacturing efficiency by previous experience working in the industry. He offered an example, stating WET has commissioned one of the largest injection-molding machines ever made by Arburg, German injection-molding manufacturer, which will allow molding of large assemblies previously requiring powder coating and metal or die casting, significantly lowering the carbon footprint of related production.

Mr. Juarez asked if WET already has clients ready to order new fountains. Mr. Young replied that there are active projects that could take advantage of the award and the new equipment would allow WET to more aggressively pursue additional projects worldwide.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

4) Space Exploration Technologies Corporation
Presented by Xee Moua, Analyst

Staff introduced Mike Sylvester, Senior Director of Tax, Space Exploration Technologies Corporation; and Christopher Sharpe, Director, PricewaterhouseCoopers LLP.

Ms. Moua reported that Space Exploration Technologies Corporation (“SpaceX” or the “Applicant”), an Advanced Manufacturing Applicant, is requesting a sales and use tax exclusion to upgrade and expand its infrastructure and equipment at its facilities used to design, manufacture, and assemble spacecraft, advanced rockets, and satellites in Hawthorne, Long Beach, and Irvine (the “Project”). As part of the expansion, the Applicant represents that it will be developing and manufacturing two new space products: the BFR, a larger rocket with a greater payload than any other rocket SpaceX has made to date, and satellites capable of providing affordable high-speed internet services to most parts of the world.

Additionally, SpaceX represents that more than 50% of its rocket parts are designed to be reusable, whereas industry standard rockets consume all components in one flight. According to the Applicant, this advancement, among others, will reduce production costs, increase customer base and market share, and enable space transportation to be more affordable in the future.

The Applicant has met all of the Program’s scoring thresholds. Staff recommends approval of a resolution for Space Exploration Technologies Corporation’s purchase of no more than \$142,708,000 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of \$11,930,389.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Moly.

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

Mr. Sylvester stated that a significant amount of the investment would be at the Port of Los Angeles; SpaceX had opportunities to put the new facility in Florida, Texas, or elsewhere, but is making a commitment to California. He stated that the company expects to have up to 700 employees located at the new facility, which was vacant since 2005, and significant funding went into its development. Mr. Sharpe added that the original application in 2015 was for the Hawthorne facility, also the company’s headquarters, and the current application is an expansion to the Port of Los Angeles and the city of Irvine.

Ms. Moly asked how the satellite internet network would work for the average consumer.

Mr. Sylvester replied, stating consumers would be able to use an individual user terminal with a service contract. The satellites would communicate directly with user terminals and internet gateways on the ground to supply customers with high-speed internet. Currently, the plan is to market this product as a direct-to-consumer service.

Ms. Baker stated that her concerns with this Project were as previously discussed for the SpaceX initial term extension, and that she would not be voting on this item. Ms. Moly stated that the Public Utilities Commission had similar concerns regarding the Elon Musk companies. Mr. Juarez added that though the Board's interest lies in promoting the types of projects these companies are engaged in, it is also the Board's duty to ensure that as many companies as possible take advantage of the sales tax exclusions, and in the future it could come into question whether one person or conglomerate should gain such significant benefits.

Ms. Carrillo responded, stating CAEATFA recognizes the Board's concern and welcomes a discussion on related policy issues. She added that approximately 80% of STE awards go to companies for amounts under \$5,000,000, and Staff has put a lot of effort toward company outreach. She further commented that the Board is in a unique policy position to find a balance between giving awards to both large and small companies. She noted that Staff would be able to open the discussion on these issues with stakeholders over the next several months, once staff vacancies were filled.

Ms. Baker recognized Staff's efforts; she further stated that it is time to revisit the policies that govern who is eligible for awards when it comes to distributing finite state resources. Mr. Juarez stated that so far the Board has had enough sales and use tax exclusion to award to all comers, but there may come a point where they must pick and choose. He added that competition would be a positive development, and a different formula for how to allocate awards may need to be considered rather than the current first-come, first-served approach.

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

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Abstain
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

C. REQUEST TO CONSIDER AND APPROVE REGULATIONS FOR THE SALES AND USE TAX EXCLUSION PROGRAM

Presented by Ashley Bonnett, Program Manager

At the November 11, 2017 Board meeting, the Board approved amendments to the Sales and Use Tax Exclusion Program's regulations to incorporate an Application Fee waiver and a new competitive criterion for companies relocating or rebuilding due to a fire, flood, storm, or earthquake identified in a state of emergency proclamation made by the California State Governor within two years of the time of application. During implementation, the Office of Administrative Law requested clarification of the regulation language that the Executive Director shall, rather than may, waive the Application Fee if the Applicant can demonstrate

the Project meets the requirements. Therefore, the proposed regulations before the Board today clarify this intent.

Staff recommends adoption of a resolution to approve the proposed amendments to the regulations for the Sales and Use Tax Exclusion Program and to authorize Staff to undertake rulemaking proceedings and other actions related to promulgation of the regulations.

Ms. Wong-Hernandez moved for approval and there was a second by Ms. Baker.

Mr. Juarez stated there was a motion and a second and asked if there were any other questions or comments from the Board or public. There were none.

The item was passed by the following vote:

Steve Juarez for the State Treasurer	Aye
Anne Baker for the State Controller	Aye
Jacqueline Wong-Hernandez for the Director of Finance	Aye
Michael Murza for the California Energy Commission	Aye
Rohimah Moly for the Public Utilities Commission	Aye

5. PUBLIC COMMENT

Mr. Juarez asked if there were any comments from the public and there were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 11:06 a.m.

Respectfully submitted,

Deana J. Carrillo
Executive Director