

**MINUTES**

**California Alternative Energy and Advanced  
Transportation Financing Authority  
915 Capitol Mall, Room 587  
Sacramento, California  
November 13, 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 10:46 a.m.

Members Present: Steve Juarez for John Chiang, State Treasurer  
Alan LoFaso for Betty T. Yee, State Controller  
Jacqueline Wong-Hernandez for Keely Martin Bosler, Director,  
Department of Finance  
Michael Murza for Robert B. Weisenmiller, Chair,  
California Energy Commission  
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 October 16, 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 Mr. LoFaso, the minutes were approved.

The item was passed by the following vote:

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|--|-----|
| Steve Juarez for the State Treasurer                   | Aye |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

### **3. EXECUTIVE DIRECTOR'S REPORT**

Ms. Carrillo summarized recent activity under CAEATFA's programs, beginning with the Sales and Use Tax Exclusion ("STE") Program. Ms. Carrillo reported that if the Board approves all of the applications up for consideration today, CAEATFA will have awarded approximately 85% of the sales and use tax exclusion for the year, leaving \$15 million left to award. CAEATFA currently has five applications under review; if they are all approved, approximately \$1 million of the \$100 million in sales and use tax exclusion will remain for 2018.

Under the California Hub for Energy Efficiency Financing ("CHEEF"), Ms. Carrillo reported that Staff has completed the development of the Small Business Commercial Energy Efficiency Loan Assistance Pilot Program's regulations and will be presenting them to the Board for consideration today.

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

Ms. Carrillo introduced Matthew Newman of Blue Sky Consulting Group, LLC ("Blue Sky").

Mr. Newman gave a presentation on an evaluation of the STE Program (the "Program"), in which he outlined the performance and effectiveness of the Program to date. He stated that the STE Program is unique in regards to its scoring system and assessment of a project's marginal net benefits. He explained that evaluating a project's sales and use tax exclusion on a marginal basis means the STE Program does not evaluate for environmental, fiscal, or other impacts which would have occurred regardless of Program involvement. Mr. Newman continued, stating that part of what Blue Sky looked for in its evaluation of the STE Program were benefits to the State from both an environmental and financial standpoint. He stated that one of the merits of the Program is that by making capital equipment effectively cheaper, smaller startup businesses get an often needed boost in order to make their projects more effective. Mr. Newman also stated the Program has the effect of bringing more money into the State from increased manufacturing, which decreases the need for imports and increases exports. Mr. Newman continued his presentation, stating almost half of the Program's completed projects are in areas with high unemployment.

Mr. Juarez and Mr. LoFaso asked how the fiscal benefits of the projects under the STE Program translate to the economy. Mr. Newman explained that the initial focus of the evaluation by Blue Sky was to look at direct fiscal impacts, without accounting for direct economic impacts. He stated that the fiscal benefits come from increased activity surrounding the projects, leading to more tax revenue for the State, through property taxes, employees' income taxes, and other activity. Mr. Newman continued, stating economic impact can be inferred by looking at the increased activity on account of a company's participation in the Program.

Mr. Picker asked if the analysis of the Program looked at environmental scoring upon project completion in addition to other marginal benefits, such as fiscal benefits. Mr. Newman stated that the analysis by Blue Sky did look at and estimate the environmental benefits achieved by completed projects, such as benefits from the sales of solar panels or biogas, which offset the need to use power from more traditional sources. Ms. Carrillo added that those benefits are specific to the Alternative Source and Advanced Transportation project categories, and though

there are environmental benefits attributed to Advanced Manufacturing projects, the STE Program is not able to quantify those benefits.

Mr. Picker asked if any project categories tend to produce superior net benefits compared with others. Mr. Newman stated that since the data used in the analysis was for applicants that had completed their purchases, the sample size was not large enough to draw too many conclusions, but that it is something that could be included in future analyses. Mr. Newman stated that the net benefits of the 48 completed projects Blue Sky examined added up to \$14 million, including the costs of the exclusion awards. The analysis also included some companies which had gone bankrupt or moved out of California. Those companies' projects were assumed to have no benefits, which makes the analysis somewhat conservative. Mr. Newman added that some of the companies included in the analysis outpaced their own projections for project benefits.

Mr. Juarez asked if there is anything the Program could do that might mitigate the number of companies that underperform compared to their initial projections. Mr. Newman stated that awarding companies upon project completion, for instance, rather than giving early incentives, would undermine the Program's ability to help the smaller or startup companies. He stated these companies are the ones that are more likely to produce new green technologies and methods. He added CAEATFA uses the same data that companies give to their investors, so it would be difficult to improve upon the accuracy of the projections. Mr. Newman continued by stating that CAEATFA staff always looks carefully at company projections and assumptions and makes sure they are internally consistent, validating data from an external source if possible.

Mr. Juarez asked if requiring companies to have established themselves could help to avoid giving exclusion awards to companies that go bankrupt. Mr. Newman replied it would decrease the likelihood of giving awards to failed companies, but would stifle the innovation of small, startup companies.

Mr. Juarez asked how to reduce the number of companies with awards that move out of California. Ms. Carrillo pointed out that companies that move equipment purchased using an STE award out of the state must repay those taxes under the contract with CAEATFA.

Mr. Picker stated the California Energy Commission puts up funds in order to establish new technologies and determine future technologies for investment by the State of California. He stated CAEATFA helps companies with new technologies get to scale in the market.

Ms. Carrillo stated that a report by the Legislative Analyst's Office ("LAO") on the STE Program is statutorily required before January 1, and Staff has been working to provide the LAO with all information they require. Mr. Juarez asked that Staff highlight companies whose projects outperformed their projections at project inception for environmental and fiscal benefits. He added that stories like these show the success of the Program. He also asked if CAEATFA can use the map of previous project locations to go to communities that have yet to see the benefits associated with the Program. Ms. Carrillo stated that Staff will look into doing more outreach in regions that would get value from participation in the Program. Mr. Murza stated the stories of the nearly half of exemption-awarded companies who operate and create jobs in the high-unemployment areas would be a beneficial story to tell.

Ms. Carrillo then concluded her report.

**4. BUSINESS ITEMS**

**A. CONSIDERATION OF INTERAGENCY AGREEMENT WITH THE STATE TREASURER’S OFFICE FOR EXECUTIVE AND SUPPORT SERVICES IN AN AMOUNT NOT TO EXCEED \$477,543**

Presented by Jessica Arceo, Contracts Analyst

Staff requested approval of an Interagency Agreement for Fiscal Year 2018/2019 with the State Treasurer’s Office for executive and administrative support services in the amount of \$477,543.00 for the term of July 1, 2018, through June 30, 2019. This is a yearly recurring agreement which provides legislative, budgeting, personnel, accounting, information systems, and other administrative support services. As the proposed agreement for the current fiscal year exceeds the Executive Director’s delegated authority amount of up to \$300,000, the Board’s approval is required.

Staff recommended approval of a resolution to authorize the Executive Director to execute an interagency agreement with the State Treasurer’s Office for Executive and Support Services for Fiscal Year 2018/2019, in an amount not to exceed \$477,543.00.

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

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. Juarez stated that the dollar amount for support service agreements with the State Treasurer’s Office is distributed amongst various agencies, and is determined by the number of employees within each agency rather than by actual use of support services.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

**B. DISCUSSION AND CONSIDERATION OF EMERGENCY REGULATIONS FOR THE SMALL BUSINESS COMMERCIAL ENERGY EFFICIENCY FINANCING PILOT PROGRAM**

Presented by Miriam Joffe-Block, Program Manager

Staff requested approval of regulations for the Small Business Commercial Energy Efficiency Program (“Program”). Ms. Joffe-Block reported that the Program will be the second of the

financing pilot programs under the California Hub for Energy Efficiency financing. These regulations are for the off-bill direct pay small business program. She stated that some of the significant features include:

- Creation of the role of “project developer,” reflecting the complexity of commercial projects;
- The allowance of traditional loans and leases as well as new products, like service agreements, and “savings-based payment agreements,” to support innovation and the ways energy efficient products are currently being paid for in the market; and
- Three methods by which measures can qualify for the Program, including a broad list of preapproved measures, approval through a utility custom incentive program, and a “custom pathway,” through which a professional engineer or certified energy manager can certify that a measure will save energy.

Ms. Joffe-Block stated that Staff held public workshops in April and October 2018, and solicited feedback from numerous stakeholders and industry representatives. The regulations reflect incorporation of multiple rounds of public comments on the Program, as well as public comments on the draft regulations.

Staff recommended adoption of a resolution to approve the proposed Regulations for the Small Business Commercial Energy Efficiency Financing Program under the Emergency Rulemaking process 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 Mr. Picker.

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. Juarez asked why the Emergency Rulemaking process was used as opposed to the Regular Rulemaking process. Ms. Carrillo stated that CAEATFA is statutorily allowed to conduct Emergency Rulemaking, which allows Programs to be implemented quicker. Mr. Juarez asked if the Emergency Regulations will go to the Office of Administrative Law (“OAL”), and whether an additional public comment period will take place. Ms. Carrillo responded by stating that the regulations will go to OAL, and that public engagement is encouraged throughout the process. She further explained that these regulations would subsequently be subject to the Regular Rulemaking process. She continued by noting that CAEATFA held multiple workshops and webinars for public outreach, and conducted significant stakeholder outreach through the process.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

**C. DISCUSSION AND CONSIDERATION OF APPLICATIONS FOR SALES AND USE TAX EXCLUSION**

- 1) MSB Investors, LLC  
Presented by Matthew Parsons, Analyst

Staff introduced Trevor Leiphardt, Project Manager, MSB Investors, LLC.

Mr. Parsons reported that MSB Investors, LLC (“MSB” or the “Applicant”) is requesting a sales and use tax exclusion to construct a material recovery facility in Santa Barbara County (the “Project”). The Applicant states the Project will recover recyclables from municipal solid waste and commingled source-separated recyclables, such as mixed paper, plastics, metals, glass, wood, and compost, collected from residential, commercial, and institutional customers in Santa Barbara County. MSB represents the Project will divert approximately 137,710 tons annually from the Tajiguas landfill. The Project will also produce an organic fraction that will be processed by an on-site anaerobic digestion facility, which will produce renewable natural gas to fuel fleet trucks and energy to be consumed on-site and sold to Southern California Edison.

Staff recommended approval of a resolution for MSB Investors, LLC’s purchase of Qualified Property in an amount not to exceed \$44,661,209, anticipated to result in an approximate sales and use tax exclusion value of \$3,733,677.

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

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. Juarez stated that MSB had been before the Board previously for a sales and use tax exclusion award, and had requested an extension to the deadline for Qualified Property purchases. He asked if MSB would be able to meet the purchase requirements of the extension, and if the current application is a completely separate item. Mr. Leiphardt replied that MSB would be able to meet the requirements of its extension on the previous project, and that the current Project is indeed separate.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

2) Clerprem USA Corp.  
Presented by Matthew Parsons, Analyst

Staff introduced Gian Roberto Marchesi, Chief Executive Officer, Clerprem USA Corp.; and Pamela Paradiso, Senior Accountant, Clerprem USA Corp.

Mr. Parsons reported that Clerprem USA Corp. (“Clerprem” or the “Applicant”) is requesting a sales and use tax exclusion to develop a new passenger seating system manufacturing facility in Sacramento (the “Project”). Clerprem states the Project will produce fully equipped business and economy passenger seats under a contract with Siemens Mobility, also located in Sacramento, for a railway project that will deliver seats to the California Department of Transportation and the Illinois Department of Transportation. According to the Applicant, the seats are extremely light, yet robust, which will help reduce the power consumption of the train. Additionally, Clerprem represents the Project will utilize foaming equipment that does not use methylene chloride or any other solvent, reducing hazardous waste. Clerprem states the Project will also use water-based chemical components in the foam cushions, which will limit air pollution emissions, and that the Project will utilize more efficient equipment that reduces the number of foaming lines and associated machinery, thereby reducing energy consumption compared to its previous manufacturing processes.

Staff recommended approval of a resolution for Clerprem USA Corp.’s purchase of Qualified Property in an amount not to exceed \$876,493, anticipated to result in an approximate sales and use tax exclusion value of \$73,275.

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

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. Juarez asked what makes Clerprem’s seats different from those of other manufacturers in the industry. Mr. Marchesi responded, stating that Clerprem’s seats are lighter because they are made from die-cast aluminum, and due to the integration of suspension support into the shape of the seat foam, rather than other methods that are commonly used. In addition, he stated that Clerprem’s seats include several luxury features, such as lighting for reading, USB outlets, and a stepless reclining mechanism to increase customer comfort.



Ms. Wong-Hernandez asked how Clerprem chose the locations for its other manufacturing facilities. Mr. Marchesi replied that the company is based in Italy, so the Tunisia location in Africa was chosen for its proximity to their headquarters, and their plants in Germany and Mexico were chosen because the automotive companies there, such as Volkswagen and Audi, are some of Clerprem's largest customers. He added that when Clerprem was awarded their contract with Siemens Mobility, it was requested they build a new facility in California.

Mr. Murza asked if Clerprem's manufacturing facilities located elsewhere use equipment designed to reduce air pollution and hazardous chemicals. Mr. Marchesi replied that Clerprem is committed to reducing pollution, and does have this equipment installed in its other factories in Italy, Germany, Tunisia, and Mexico.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

3) Niagara Bottling, LLC  
Presented by Matthew Parsons, Analyst

Staff introduced David Erling, Facilities Compliance Manager, Niagara Bottling, LLC; and Lisa Sloan, Business Retention & Expansion Analyst, Niagara Bottling, LLC.

Mr. Parsons reported that Niagara Bottling, LLC ("Niagara" or the "Applicant") is requesting a sales and use tax exclusion to expand its existing water bottling facility in Rialto (the "Project"). The Applicant states the Project will add three production lines that include one carbonated soft drink, one hot fill, and one high pH water line. Niagara represents the Project will use a reverse osmosis process to purify water, which creates a byproduct concentrate that will be treated by a Vibratory Shear Enhanced Process system that recovers more water during the purification process compared to traditional methods. Niagara also represents the Project will use integrated computational materials engineering to consistently reduce the weight and amount of raw materials that go into each package of bottled water.

Staff recommended approval of a resolution for Niagara Bottling, LLC's purchase of Qualified Property in an amount not to exceed \$70,220,748, anticipated to result in an approximate sales and use tax exclusion value of \$5,780,455.

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



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 and Mr. Juarez asked about the workforce partnership Niagara has with San Bernardino City College. Ms. Sloan explained Niagara works with San Bernardino City College for training its existing California employees, for whatever training is deemed necessary. She stated this training is not limited to particular courses, rather, Niagara asks for instructors in any areas in which employees may need help, such as with Microsoft Excel, in order to assist with employee careers.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

4) Vivotein, LLC  
Presented by Xee Moua, Analyst

Staff introduced Harout Ajaryan, Founder, Vivotein, LLC; and Alex Tran, Consultant, California Incentives Group.

Ms. Moua reported that Vivotein, LLC (“Vivotein” or the “Applicant”) is requesting a sales and use tax exclusion to build a new animal protein feed, organic plant fertilizer, and reptile food manufacturing facility located in Ontario, and to upgrade its R&D and quality control facility in Los Angeles (the “Project”). According to Vivotein, it will process Black Soldier Fly Larvae (“worms”) into protein feed for farm-raised salmon and trout (“fishmeal”) and exotic reptilian pets, as well as producing a type of organic fertilizer from the worms’ excreta. The Applicant represents it will use a sustainable dietary approach of feeding the worms organic waste. To avoid producing worms with lower than desired body weight, Vivotein represents it will use highly precise shredders to shred waste into one to two centimeter particles, and precise methods to remove hazardous substances from organic waste for the worms’ consumption. In addition, Vivotein states that traditional fishmeal such as soy and fish are expensive and becoming unreliable due to climate changes and concerns regarding the sustainability of row-crop farms and commercial fishing. According to the Applicant, it will be able to produce more than 75,000 pounds of product per day at full capacity.

Staff recommended approval of a resolution for Vivotein, LLC’s purchase of no more than \$7,895,770 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$660,086.

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

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. Picker asked about the size of the exotic reptile market. Mr. Ajaryan stated that market is quite small. Mr. Juarez asked about a note in the staff summary of the Project, which states that Vivotein expects the Food and Drug Administration to approve protein feed for poultry and pigs by 2020. He asked if the expenditures for the current project will involve spending toward that goal. Mr. Ajaryan responded, stating that the current project will only produce feed for the fish and reptile markets. Mr. Juarez asked if Vivotein would need to expand in order to meet demands of the poultry and pig feed markets. Mr. Ajaryan replied that the company would need to grow. Mr. Murza asked if Vivotein grows the worms in California, or if they are imported. Mr. Ajaryan stated they are grown in-state.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

5) Nate’s Fine Foods LLC  
Presented by Xee Moua, Analyst

Staff introduced Jyllian Prewitt, Head of Research & Product Development, Nate’s Fine Foods LLC; and Alex Tran, Consultant, California Incentives Group.

Ms. Moua reported that Nate’s Fine Foods LLC (“Nate’s” or the “Applicant”) is requesting a sales and use tax exclusion to upgrade and expand its existing precooked grain and pasta production facility located in Roseville (the “Project”). The Applicant represents it will install additional production lines that will process batches of pastas and grains, a centralized electronic control workstation, a custom industrial freezer and refrigeration system, and meal kit assembly and food steaming lines. According to Nate’s, the new automatic centralized control station will ensure the highest quality of food products, and at full capacity will be able to produce 60 million pounds of product per year compared to its current capacity of 12 to 13 million pounds per year. The Applicant states the new industrial refrigeration and freezer system will provide a significant amount of racks and vertical storage, enabling employees to pull, move, and store products faster and more efficiently, thus reducing its energy consumption by 40-50%.

Staff recommended approval of a resolution for Nate’s Fine Foods LLC’s purchase of no more than \$5,886,000 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$492,070.

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

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. Juarez asked for clarification on the pasta products. Ms. Prewitt stated that Nate’s takes dry product, cooks it, and can either freeze it before shipping or send it out as fresh pasta. Mr. Juarez asked if individuals can purchase Nate’s pasta. Ms. Prewitt replied that all of the products they produce are private label, and Nate’s sells to industrial, foodservice, deli counters, and makes components for meal kits. Ms. Wong-Hernandez asked if Nate’s sells primarily in or outside of California. Ms. Prewitt stated that Nate’s sells both within and outside of California, to Taylor Farms in Tracy, as well as Tyson Foods, which operates nationwide. Ms. Wong-Hernandez asked about Nate’s sales to the Los Angeles Unified School District. Ms. Prewitt stated that Nate’s makes all of the whole-grain pastas for the school lunches in the district.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

6) Star Manu LLC  
Presented by Xee Moua, Analyst

Staff introduced Jacqueline Baza, Chief Financial Officer, Star Manu LLC; and Alex Tran, Consultant, California Incentives Group.

Mr. Moua reported that Star Manu LLC (“Star” or the “Applicant”) is requesting a sales and use tax exclusion to expand its existing cosmetic, nutraceutical, and health and beauty product manufacturing facility located in San Diego and to develop a new facility in Ontario (the “Project”). The Applicant states the Project will incorporate new capsule filling and direct bottle labeling equipment that will increase the capacity and efficiency of its manufacturing process. According to Star, the capsule filling machinery will increase output to approximately 200,000 capsules per hour compared to the average competitor of approximately 90,000 capsules per hour. Such equipment will also consume 26% less energy than the old equipment. With the direct bottle labeling equipment, Star represents

paper labels will be eliminated, thereby reducing its solid waste generation by 5% compared to the industry standard.

Staff recommended approval of a resolution for Star Manu LLC’s purchase of no more than \$2,821,986 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$235,918.

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

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 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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

**D. DISCUSSION AND CONSIDERATION OF APPLICANT’S REQUEST TO AMEND A RESOLUTION TO INCREASE THE VALUE OF QUALIFIED PROPERTY**

- 1) Katerra Construction LLC  
Presented by Xee Moua, Analyst

Staff introduced J.Z. Rigney, Senior Manager of Stakeholder Engagement and Government Affairs, Katerra Construction LLC; and Mark Evans, General Manager of Tracy Facility, Katerra Construction LLC.

Ms. Moua reported that Katerra Construction LLC (“Katerra” or the “Applicant”) is requesting a sales and use tax exclusion to build a new facility located in Tracy that will manufacture multifamily unit building components (the “Project”). The Applicant was originally approved for a sales and use tax exclusion for \$53,348,261 in Qualified Property at the CAEATFA Board meeting on September 18, 2018. After Board approval of the Project, Staff worked with Katerra to execute its Master Regulatory Agreement. At that time, it was identified that Katerra had underestimated the expenses of its Qualified Property. On October 16, 2018, Katerra submitted a request for an additional \$18,260,000 in Qualified Property. The amendment will accommodate a new floor truss system and the underestimation of machinery and equipment for the Project. Aside from additional equipment needed, the scope of the project remains the same.

Ms. Moua continued that the Applicant states the Project will include automated lines for the production of wood frame walls, floors, cabinets, finish areas, trusses, windows, and

light gauge steel. Katerra explains that its cutting-edge equipment is designed to conserve production materials, reduce labor costs, increase efficiency, and create higher quality components. In all, Katerra will be able to increase output by 300% compared to its Phoenix, Arizona facility, and production times will allow the company to produce the equivalent of one multifamily project a month, compared to the average development and construction timeline of 29 months for a multifamily project using traditional onsite methods.

Staff recommended approval of an amendment to resolution number 18-SM023, increasing Katerra Construction LLC's purchase of Qualified Property to an amount not to exceed \$71,608,261, anticipated to result in an approximate sales and use tax exclusion value of \$5,986,451.

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

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. LoFaso asked about how the environmental benefits scoring system works for advanced manufacturing applicants. Ms. Carrillo stated that for advanced manufacturing projects, environmental benefits are calculated as improvements in manufacturing efficiency.

Ms. Wong-Hernandez asked about the new floor truss system. Mr. Evans explained that the original plan was to model their system after the existing line at their Phoenix, Arizona facility. Mr. Evans explained the new line they plan to build will be in addition to the first planned line, and will be more heavily automated.

Ms. Wong-Hernandez asked if the remainder of the additional requested exclusion is for underestimation of project costs. Mr. Evans replied that there were other changes that were made; for cabinets, Katerra will use a different equipment manufacturer that produces higher-quality components in a higher volume, which will allow the company to do third-party sales. He continued by stating that Katerra was initially planning to produce their own cabinets as well as using a third-party supplier to supplement their stock, and now plan to be completely self-sufficient.

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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

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

- 1) Millennium Space Systems, Inc.  
Presented by Matthew Parsons, Analyst

Mr. Parsons reported that Millennium Space Systems, Inc. (“Millennium” or the “Applicant”) designs and manufactures satellites and satellite components for military, national security, and civil space applications. Millennium was approved for a sales and use tax exclusion award on December 15, 2015 to expand its existing facility located in El Segundo in order to increase its capacity, utilizing advanced science, engineering, and information technologies to enable more efficient automated manufacturing process to meet production goals. The initial term of the Master Regulatory Agreement (“Agreement”) provided the Applicant with three years from the date of Board approval to utilize its award. Millennium represents that by December 15, 2018, the Applicant will have purchased approximately 50% of the total Qualified Property amount approved. Millennium is requesting to extend the initial term of the Agreement by two years to accommodate Project timeline delays.

Mr. Parsons continued that Millennium represents that, to optimize its effectiveness, the Applicant does not make capital purchases all at once, but rather limits expenditures to one project phase at a time, first purchasing the primary equipment, then installing the product(s) and purchasing any necessary supporting equipment, and finally hiring and training the required manufacturing technicians, before focusing on the next phase of the project. However, Millennium states that due to long order lead times and a shortage of qualified manufacturing technicians, these procurement cycles have taken longer than anticipated. According to Millennium, it has completed two of these capital expenditure cycles and intends to complete another cycle in late 2018 and a fourth in early 2019. The Applicant anticipates that, based on its historical rate of spending for the past two years, a two-year extension will be adequate time to complete the Project.

Based on this information, Staff recommended that the Board approve Millennium Space Systems, Inc.’s request to extend the initial term of the Agreement by two years to December 15, 2020, to purchase \$4,284,672 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$360,769.

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

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 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 |
| Alan LoFaso for the State Controller                   | Aye |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, Public Utilities Commission | Aye |

**F. REPORT FROM TESLA, INC. ON STATUS OF PROJECT PURSUANT TO RESOLUTION NUMBERS 17-SM003 AND 18-SM004 (INFORMATIONAL ITEM)**

Staff introduced Erin Bradley, Tax Credits and Incentives Lead, Tesla, Inc.; Sanjay Ranchod, Director and Counsel, Business Development and Policy, Tesla, Inc.; Laurie Shelby, Vice President of Environmental Health and Safety, Tesla, Inc., who joined by phone; and Dr. Basil R. Besh, Orthopedic Surgeon, Founder, Access Omnicare, who joined by phone.

On March 20, 2018, the CAEATFA Board approved resolutions 17-SM003 and 18-SM004 approving two sales and use tax exclusion awards for Tesla, Inc.’s (“Tesla”) expansion of its manufacturing facility to accommodate production of its Model 3 vehicle. Both resolutions require that Tesla update the CAEATFA Board in writing and in person every four months for up to three years with regards to the following:

1. Progress in meeting its production goals;
2. Progress in improving the health and safety standards at its facilities; and
3. Providing an updated Legal Status Questionnaire.

Ms. Bradley gave a summary of productivity at Tesla, stating that Tesla manufactured 53,239 Model 3 vehicles in the third quarter, and 26,903 Model S and Model X vehicles, making the third quarter the most productive quarter at Tesla to date, beating out second quarter production, itself a record, by around 50%. She stated that in the third quarter, the Model 3 was the best selling car in the United States for revenue, and the fifth best selling passenger car by volume. Ms. Bradley added that deliveries of Model 3 vehicles in the third quarter were greater than all previous quarters combined.

Ms. Shelby gave an overview of environmental health and safety (“EHS”) at Tesla, stating that Tesla has expanded its EHS team to over 200 people, with 35 of those added to the Fremont factory. Ms. Shelby stated that Tesla’s injury rates have been trending downward, and Tesla’s injury rate is currently near the national average. She stated that Tesla endeavors to become the safest manufacturer in the world, and focuses on creating a safer workplace through proactive injury prevention and risk mitigation. Ms. Shelby reported Mr. Elon Musk, Chief Executive Officer of Tesla, Inc., had invited her to a quarterly earnings call regarding this subject. She stated that Tesla’s new occupational health clinic is managed by Access Omnicare and overseen by Dr. Besh, an orthopedic surgeon who specializes in musculoskeletal injuries. She stated such injuries comprise most of the injuries at Tesla. She added the clinic is staffed by three full-time physicians. Ms. Shelby continued by reporting that earlier this year, Tesla introduced its Early Symptom Intervention Program, which utilizes professional athletic trainers on the factory line to do onsite ergonomic evaluations. She stated



the trainers have conducted nearly 6,400 consultations to date, and Tesla plans to add four additional trainers to its team.

Ms. Shelby reported that earlier this month, the Division of Occupational Safety and Health (“Cal/OSHA”) under the California Department of Industrial Relations completed a four-month investigation into Tesla’s recordkeeping practices. She stated this investigation included multiple onsite visits and seven document requests, including a review of Tesla’s injury logs and EHS policies. She stated Cal/OSHA identified only two minor issues.

Mr. Ranchod reported that Tesla appointed Robyn Denholm as Chair of the Tesla Board of Directors to replace Elon Musk.

Mr. Juarez asked about a recent article by Reveal News under the Center for Investigative Reporting, a nonprofit news organization based in Emeryville, which alleged that an investigation they undertook showed Tesla had been underreporting the number of injuries at their facilities by minimizing the nature of injuries and restricting use of emergency services, or by not keeping to standards set out by the industry. Ms. Shelby replied the article was biased, because Reveal did not use all of the information from people Tesla recommended for interview. She stated Tesla’s EHS team focuses on accurate recordkeeping and treatment of employee injuries when they occur.

Mr. Juarez stated that the Board is not in a position to determine the truthfulness of claims; however, the purpose of the Board in this regard is to define the standards to which STE applicants are held, including a standard of workplace safety. Mr. Juarez asked about another accusation in the article, which claimed a worker at Tesla was required to return to work while injured. Ms. Shelby replied that Tesla has a Return to Work program, which will restrict workers to light or restricted duty when they are injured. She added that Tesla wants its employees to provide value for both the company and themselves, and there is always some important work that can be performed.

Mr. Juarez asked about Tesla’s injury rate for 2018, citing six new cases which have been reported to Cal/OSHA since July. Ms. Shelby responded, stating that Tesla’s injury rates have not been declining dramatically, but are trending steadily downward. She added that injury rates are calculated based on hours worked, and with the ramping-up of production in the third quarter, there were more employees working more hours, and therefore, more potential for injuries to occur. She continued by stating that examining injuries by rate rather than number of cases shows this downward trend. Mr. LoFaso stated it would be helpful to get input on this issue from Cal/OSHA.

Mr. LoFaso asked for context on sales of the Model 3, given the large number of preorders, and if demand will drop off as the waiting list is diminished. Ms. Bradley stated at the highest point, reservations for the Model 3 hit approximately 500,000. She stated that though some of the sales could be attributed to preorders, with a starting price of \$46,000, Tesla anticipates steady demand, as the Model 3 is more available and affordable for consumers than previous Tesla vehicles.

Mr. Juarez stated Tesla had claimed it would be able to achieve a rate of 6,000 Model 3 vehicles produced per week by the third quarter, and asked if that rate had been achieved. Mr. Ranchod added that Model 3 production is holding consistently over 5,000 vehicles per week, and the production rate has increased significantly since the second quarter. Mr. Juarez asked if this rate can be sustained over time, or if it may be attributable to the desire to satisfy Tesla's stakeholders. Mr. Ranchod stated the rate would be sustained.

Ms. Wong-Hernandez asked about the way the on-site clinic and nearby Access Omnicare off-site clinic operate in terms of patient care and diagnosis. Ms. Shelby replied that the on-site clinic performs medical surveillance and injury care. Employees can either walk or be driven to the clinics, usually after speaking with a supervisor. She stated the on-site clinic offers 24/7 service, with emergency medical technicians and doctors available by telemedicine on the nightshift. Ms. Shelby continued by stating that if an employee needs further assistance, they can be brought to Access Omnicare's off-site clinic, which helps to avoid an hours-long wait in an emergency room. She also stated Tesla gives their permanent employees full access to the clinics, and are working to give access to care for all of its temporary employees as well, who are required to fill out a form to sign up with Access Omnicare. She added that no employees are ever denied care.

Ms. Wong-Hernandez stated she had been contacted as a Board member and was informed the Tesla clinic exists primarily to stop the reporting of work-related injuries. She asked if the purpose of the clinic is to diagnose and treat patients based on the symptoms they present or to determine the work-relatedness of worker injuries. Ms. Shelby stated that the main goal of the clinic is to provide treatment for employees. She stated work-relatedness must also be determined, as it is a legal requirement. Ms. Shelby added she does not understand how the clinic could be used to stop reporting of injuries. Dr. Besh stated diagnoses and work-relatedness are determined in as accurate a manner as possible, adding that this is required under the law. He stated the injury rate at Tesla was trending downward because of the improvements made by the Tesla clinic. Dr. Besh stated that as an orthopedic surgeon, his expertise is well-aligned with 85% of injuries at Tesla, which are musculoskeletal in nature. He added that he believes the author of the Reveal article had an agenda and was trying to make the story fit.

Mr. Juarez asked if he could have assurance that there is a record of everyone that goes to the Tesla clinic. Dr. Besh stated that every patient must be documented, and it is a physician's ethical and professional obligation to keep a record of all patient interactions. Mr. Juarez asked if records could be made available for public scrutiny. Dr. Besh stated privacy laws prohibit the release of such records. Mr. Juarez asked if documentation applies to patients whose conditions were later determined to not be work related. Dr. Besh stated that it is his obligation to do so.

Mr. Picker asked about which injuries occur most often at Tesla's Fremont facility. Dr. Besh stated that the most common complaint is muscle strain. He explained when employees increase their activity level, the normal reaction is muscle soreness, which is not an actual injury most of the time. He stated instead of taking people off of a physical job, the appropriate thing to do is keep them active, so as to acclimate to the new level of activity.

Mr. Picker asked what specific work process or site within the Fremont facility is the greatest source of trauma. Ms. Shelby stated the Model S and Model X assembly lines have the highest number of musculoskeletal injuries, as they are more difficult to build, as opposed to the Model 3, which is easier to build. Mr. Picker asked what the root cause is for most of the injuries that occur. Ms. Shelby responded that most injuries are caused by repetitive strain. She added Tesla's ergonomics team creates heat maps of production lines to try to lower injury rates.

Mr. Picker asked if training to prevent injury is done preventatively, or after a problem has arisen, and how this relates to new employees. Ms. Shelby replied that Tesla tries to train employees on proper techniques before problems are presented. She stated one of the EHS team's main tasks is the training of new hires to avoid injury. Ms. Shelby added that employees stretch every shift, and Tesla's industrial athlete team assists employees with lifting techniques and body positioning.

Mr. Picker asked who has the responsibility of engaging with employees on injury avoidance. Ms. Shelby responded that there are EHS managers and coordinators in every department, and industrial athletes help on the lines by monitoring workers. She added Tesla uses ergonomic sensors on workers to directly monitor progress. Mr. Picker asked how the EHS team knows their injury prevention techniques are working. Ms. Shelby stated the data gathered by Tesla's EHS team shows reductions in injuries. She added the industrial athletes have worked through approximately 6,000 issues to this point.

Mr. Picker asked how performance of safety managers is evaluated at Tesla, and whether there is compensation or a performance review. Ms. Shelby stated there is no compensation for decreased injury rates, but the EHS leaders do a walkthrough of the work stations twice per week, and get feedback from workers.

Mr. Picker asked how often EHS data is reported to Tesla's board of directors. Ms. Shelby stated overall injury rates were reported to the board once in the year that she has worked with Tesla. Mr. Picker asked about the role of risk managers in the EHS process. Ms. Shelby stated Tesla's risk management department deals with overall risk from a business and insurance standpoint, but the EHS team works on compliance and risk mitigation for injuries. She stated the EHS team does risk assessments before and after implementing new procedures in order to evaluate effectiveness. She added that level of detailed data is typically not shared with Tesla's board.

Mr. Picker stated he would like access to data collected by risk managers and the EHS team now and before the next Board meeting in order to evaluate what progress Tesla has made in reducing injuries and mitigating injury risk. Ms. Shelby agreed the data could be made available.

Mr. LoFaso asked if Cal/OSHA has a way to determine the accuracy of information they're presented with regarding injuries and diagnoses. Ms. Shelby replied that a worker's compensation form as well as a doctor's first report must both be made available to Cal/OSHA for a given incident, and are filled out by different people.

Mr. Juarez asked if the Board could expect a decision from the National Labor Relations Board (“NLRB”) regarding allegations of unfair labor practices before the end of 2018. Mr. Ranchod stated that Tesla’s matter with the NLRB is in the hearing phase, which began in June of 2018 in Oakland, California, and concluded October 12. He stated the Administrative Law Judge at the NLRB provided parties with additional time to submit post-hearing briefs, but it is unknown when a ruling will be made.

Mr. Picker asked about Tesla’s progress in developing diverse contractor practices. Mr. Ranchod stated Tesla takes diverse supplier issues seriously, but he would have to defer to Ms. Felicia Mayo, Tesla’s Head of Diversity and Inclusion. He stated Ms. Mayo will attend the next of Tesla’s reports to the Board if possible.

Mr. Juarez stated that the Board is currently ill-equipped to make judgements on the veracity of claims against Tesla given the issues are reviewed under other jurisdictions, but that the accusations are troubling. He asked that CAEATFA staff contact Cal/OSHA and the Secretary of Labor before Tesla’s next report to the Board, and that any future allocations of sales and use tax exclusions to Tesla may be made conditional until a satisfactory resolution has been made. Ms. Carrillo stated CAEATFA staff would make the appropriate contacts.

Mr. Juarez asked if there were any questions or comments from the public.

Ms. Anna Watson, a physician assistant and former employee at Tesla’s onsite clinic, asked whether the use of telemedicine at Tesla’s clinic was acceptable under worker’s compensation. Dr. Besh explained that the worker’s compensation requirements are for billing, and clinically, the use of telemedicine is left to the discretion of the physician. Ms. Watson asked whether medical assistants are allowed to do patient assessments via telemedicine. Dr. Besh stated that they can only do so for triage purposes. Ms. Watson stated that triage is a form of assessment, and stated it was a questionable practice.

Ms. Watson stated she wants the Board to consider the human rights of the workers at Tesla’s Fremont facility. She stated patient complaints related to injuries are largely dismissed on their initial visit to the Tesla onsite clinic. She stated that she brought her observations to Cal/OSHA, and was told to report Dr. Hammonds, one of the Tesla clinic’s physicians, to the medical board. Ms. Watson stated the issues went well beyond Dr. Hammonds, extending to Dr. Besh, Matt Lee, a lawyer for Tesla, clinic workers in charge of recording injuries, and Ms. Shelby. She stated these issues involve inadequate stocking of medical supplies at the onsite facility, such as a lack of sutures, hard splints, or crutches. Ms. Watson stated physician assistants, like herself, were not allowed to give any work restrictions or prescribe medicine when clinically indicated, such as giving antibiotic drops for corneal abrasion, which, left untreated, could lead to blindness. Ms. Watson also stated the clinic is staffed only with medical assistants most of the day who are working outside their scope of practice. She stated this, along with a desire to keep injuries off the books, led to delayed appointment times for sometimes crippling injuries, and that in the mean time, workers with suspected injuries were often told to come in to work on full duty. Ms. Watson continued by stating if an injury cannot be proven at Tesla, such as a bone fracture showing up on an x-ray, a worker may end up having their injuries completely unrecorded and having to work a physical job even while

in constant pain. She stated the practices at Tesla’s clinic fall short of any evidence-based medicine standard and of Cal/OSHA’s intended rules.

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

**G. REQUEST TO MAKE AVAILABLE FOR QUALIFIED APPLICANTS ANY SALES AND USE TAX EXCLUSION REMAINING FROM THE \$100 MILLION STATUTORY CAP UNDER THE SALES AND USE TAX EXCLUSION PROGRAM**

Presented by Ashley Emery, Program Manager

Ms. Emery reported that based on the Applications currently under review, the Program will have sales and use tax exclusion (“STE”) remaining under the \$100 million statutory cap at the December 2018 meeting. If left unawarded in 2018, CAEATFA does not have the authority to “roll over” this STE amount to award in future years. Also, adoption of this resolution does not obligate the Board to approve an Applicant for additional STE, but allows an Applicant to submit a revised Application for the Board to consider in December.

Staff recommended adoption of a resolution making available for qualified Applicants any sales and use tax exclusion remaining from the \$100 million statutory cap under the Sales and Use Tax Exclusion Program in December 2018.

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

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 no further comments and Mr. Juarez called for a vote.

The item was passed by the following vote:

|  |     |
|--|-----|
| Steve Juarez for the State Treasurer                   | Aye |
| Alan LoFaso for the State Controller                   | No  |
| Jacqueline Wong-Hernandez for the Director of Finance  | Aye |
| Michael Murza for the California Energy Commission     | Aye |
| Michael Picker, President, 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 adjourned at 1:28 p.m.

**Respectfully submitted,**

Deana J. Carrillo  
Executive Director