MINUTES

California Alternative Energy and Advanced Transportation Financing Authority
801 Capitol Mall, Room 150
Sacramento, California
September 15, 2020

1. CALL TO ORDER AND ROLL CALL

Fiona Ma, CPA, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority ("CAEATFA" or the "Authority") meeting to order at 11:09 a.m.

Members Present:	Fiona Ma, CPA, State Treasurer Jacqueline Wong-Hernandez for Betty T. Yee, State Controller Gayle Miller for Keely Martin Bosler, Director, Department of Finance Ken Rider for David Hochschild, Chair, California Energy Commission Grant Mack for Marybel Batjer, President, Public Utilities Commission
Staff Present:	Nancee Robles, Executive Director, California Pollution Control Financing Authority
Quorum:	The Chairperson declared a quorum.

Due to the recommended precautions and public health recommendations resulting from the novel coronavirus (COVID-19), members of the Board were instructed by the Governor's Office that they may attend the meeting remotely, which is an exception to the usual requirement (Bagley-Keene Open Meeting Act – 1967) that they attend in person. CAEATFA staff ("Staff") has implemented additional social distancing measures, and participants have been asked to also participate remotely. Ms. Ma attended the meeting in person. Ms. Wong-Hernandez, Ms. Miller, Mr. Rider, and Mr. Mack all attended the meeting via internet conference line.

2. MINUTES

Ms. Ma asked if there were any questions or comments concerning the July 21, 2020, meeting minutes. There were none.

Ms. Ma asked if there was a motion.

Mr. Rider moved for approval of the minutes; upon a second from Mr. Mack, the minutes were approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Jacqueline Wong-Hernandez for the State Controller	Abstain
Gayle Miller for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack Public Utilities Commission	Aye

3. EXECUTIVE DIRECTOR'S REPORT

Today's Executive Director's Report was given by Nancee Robles, Executive Director of the California Pollution Control Financing Authority, in the absence of a CAEATFA Executive Director.

Ms. Robles reported that under the delegated authority of the CAEATFA Executive Director, a contract was executed for Zions Bancorp, N.A. to serve as PACE Trustee. The contract was approved on July 15, 2020, with a total cost not to exceed $19,200 for a two-year term.
Ms. Robles also reported that CAEATFA anticipates posting a Request for Proposals for California Hub for Energy Efficiency Financing ("CHEEF" or the "Hub") trustee services in mid-October, with a selection anticipated to come before the Board for approval at the November meeting. The current contract with US Bank will expire at the end of December.

Under the CHEEF, Ms. Robles reported that after a slowdown in the spring related to COVID-19, CAEATFA staff ("Staff") enrolled 60 loans in each of July and August in the Residential Energy Efficiency Loan Assistance ("REEL") Program, which were two of the highest months for loan enrollment in REEL Program history.

Ms. Robles also stated that Nujtxeng Vang has joined the CAEATFA staff as an office technician for the CHEEF.

Ms. Robles then concluded her report.

4. BUSINESS ITEMS

A. REPORT BY FARADAY&FUTURE INC. ON STATUS OF PROJECT PURSUANT TO RESOLUTION NUMBER 18-SM008 (INFORMATIONAL ITEM)

Staff introduced John Lehn, Director of Government Affairs, Faraday&Future Inc., who joined by phone.

On April 17, 2018, the CAEATFA Board approved Resolution No. 18-SM008 granting a sales and use tax exclusion award for Faraday&Future Inc.'s ("Faraday") purchase of up to $239,234,449 in Qualified Property to upgrade its existing facilities in Compton and Gardena to facilitate research, design, and prototype testing of its first high-performance electric vehicle, the FF91, and construct a facility in Hanford that will manufacture its electric vehicles (the "Project"). The resolution requires that Faraday update the CAEATFA Board in writing and in person every six months for up to three years with regards to the following:

1. Any significant developments in the status of the Project;
2. Progress in meeting its production goals; and
3. Any other matters the Executive Director shall deem appropriate.

To date, Faraday has reported $160,420,502.45 in Qualified Property purchases (67% of the total Qualified Property amount approved). This is the fifth required report, with the sixth and final report anticipated to occur at the February 16, 2021 Board meeting.

Mr. Lehn gave a brief overview of Faraday's previous reports before the Board. He stated that for Faraday's previous reports, the news he had to share was often less than positive, but that the company's outlook for the Project is currently more promising. He elaborated by stating that over the last two years, Faraday has dealt with some formidable challenges, including a major legal battle with a foreign investor, the personal financial restructuring of the company's founder, and the COVID-19 pandemic, which has caused the world's capital markets to retract just when Faraday was seeking the funds needed to launch its electric vehicle lines. Mr. Lehn stated that more recently, Faraday has moved forward with increased business development activity, has seen considerable investment interest and is pursuing joint venture opportunities, and has done some modest rehiring. Mr. Lehn added that worldwide electric vehicle ("EV") sales are increasing, in sharp contrast to traditional vehicle sales.

Mr. Lehn continued by reporting that Faraday anticipates beginning production of its flagship model, the FF91, in 2021 at its Hanford manufacturing facility, assuming investment and funding continues as planned. He stated that the completion of the Hanford facility will require investments that will fully utilize the STE award, and Faraday anticipates using the remainder of its award before its scheduled expiration. He added that this will trigger the hiring and rehiring of hundreds of employees.

Mr. Lehn gave some background on the Project, stating that the first pre-production FF91 was produced at the Hanford manufacturing plant in August 2018. He stated that the facility covers a million square feet, and will have a maximum production capability of over 20,000 vehicles per year. The company is currently reworking the plant layout and processes for maximum efficiency, including the ability to expand the facility. The Hanford plant is projected to employ over 100 workers in the first full year of production. He stated that several hundred million dollars in investments are required to complete and equip the facility.

Mr. Lehn stated that research and development and preproduction builds have continued to take place at Faraday's facilities in Gardena and Compton, with several preproduction vehicles completed to date. He stated that these vehicles are undergoing extensive testing and validation. Faraday currently employs 180 people in California, with the majority at the company's headquarters in the Los Angeles area, and some in Hanford and San Jose.
Mr. Lehn stated that critical positions required for the restart are being filled currently, and major hiring will occur for the manufacturing phase of the Project.

Mr. Lehn then gave a financial update by reporting that Faraday has engaged Stifel Nicolas & Co. and Miller Buckfire as its financial advisors, as well as recently engaging Credit Suisse Securities to develop financial opportunities. He stated that Faraday sold its former manufacturing site in North Las Vegas in September 2019, further solidifying the company's commitment to California. Faraday also continues to pursue joint ventures and strategic relationships with original equipment manufacturers, as well as ongoing discussions with last-mile delivery companies.

Mr. Lehn reported that Faraday appointed Dr. Carsten Breitfeld as Chief Executive Officer in September 2019, which he states has made a significant difference for the company's financing and investment opportunities. Dr. Breitfeld was an executive at BMW, and was responsible for BMW's i8 Hybrid project. Mr. Lehn stated that Dr. Breitfeld is well respected in both the traditional and EV fields. Dr. Breitfeld was also a founder of an EV company called Byton. Mr. Lehn continued that Faraday has also hired Bob Kruse, a former executive at General Motors, and Benedickt Hartmann, a former executive at BMW. Mr. Lehn stated that investors have made favorable comments about the new executive team at Faraday.

Mr. Lehn concluded his report by stating that Faraday is encouraged by the interest of capital investors, and hopes to announce good news for its California production in the near future. He also thanked the Board for its continued support as Faraday moves from the startup phase into production.

Ms. Ma asked if there were any questions or comments from the Board or the public.

Mr. Rider asked if Faraday had made any additional Qualified Property purchases between its previous report and today's presentation, and if the company has plans to purchase more equipment in the near future. Mr. Lehn replied by stating that Faraday has not purchased any new Qualified Property of significance since its last report before the Board, but has identified approximately $600 million of purchases that will be required to complete the Hanford facility. He added that Faraday hopes to be able to ramp up purchasing in the near future.

Ms. Miller praised Faraday for its work to change its management structure and thanked Mr. Lehn for being transparent in its reports to the Board in respect to changes within the company and adjustments to its policies.

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

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

1) PolyPeptide Laboratories, Inc.

Presented by Stefani Carruth, Program Analyst

Staff introduced Zack Beyer, Site Engineer – Capital Expenditure Coordinator, PolyPeptide Laboratories, Inc., who joined by phone.

Ms. Carruth reported that PolyPeptide Laboratories, Inc. ("PolyPeptide" or the "Applicant") was approved for a sales and use tax exclusion award in September 2017 to expand its existing peptide manufacturing facilities located in Torrance and San Diego (the "Project"). As of July 30, 2020, PolyPeptide has used its award to purchase approximately 68% of the Qualified Property amount approved. The Applicant is requesting a nine-month extension to accommodate project timeline delays. The Applicant explains that pre-engineering took longer than expected. In an effort to avoid future delays, rather than having the engineering department handle purchasing, PolyPeptide has hired a Senior Procurement Manager, who is responsible for those tasks. Also, the City of Torrance Building Department's plan check system was hacked, which delayed plan approvals. The COVID-19 pandemic also set back the Project by approximately four months, which Staff recognizes is a reality for many Applicants at this time. PolyPeptide explains that a nine-month extension will allow the Applicant to finish purchasing several pieces of equipment that have manufacturing delivery times of three to eight months and require internal pre-engineering design work of an additional one to two months.

Staff recommended approval of PolyPeptide Laboratories, Inc.'s request to extend the initial term of the Master Regulatory Agreement by nine months to July 19, 2021, to make purchases of up to $12,750,000 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $1,073,550.

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

Ms. Ma stated there was a motion and a second and asked if there were any questions or comments from the Board or public. There were none. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Jacqueline Wong-Hernandez for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

2) Lollicup USA, Inc.

Presented by Matthew Jumps, Program Analyst

Staff introduced Shirly Chyan, Business Development Assistant Manager, Lollicup USA, Inc., who joined by phone.

Mr. Jumps reported that Lollicup USA, Inc. ("Lollicup" or the "Applicant") was approved for a sales and use tax exclusion award in September 2017 to upgrade and expand its Chino manufacturing facility to bring its facility and manufacturing processes beyond current industry standards, and to manufacture more products under its eco-friendly Karat Earth brand (the "Project"). As of June 30, 2020, Lollicup has purchased approximately 56% of the Qualified Property amount. The Applicant is requesting a one-year and six-month extension to accommodate a slowdown in implementation of the Project due to reaching maximum capacity at Lollicup's current facility. Lollicup states it has outgrown its current facility, which has led to a slowdown in purchases of Qualified Property. The Applicant intends to make qualifying purchases over the next 18 months to continue to update and maintain operations in its current facility while it works to find a new facility to accommodate its growth in operations. The Applicant states the scope of the Project remains the same and that the company has already developed additional innovative machine operation processes to further increase efficiency. Lollicup also states that it plans to apply for another STE award once it finalizes plans for a new facility.

Staff recommended approval of Lollicup USA, Inc.'s request to extend the initial term of the Master Regulatory Agreement by one year and six months to March 19, 2022, to make purchases of up to $10,345,200 in Qualified Property, anticipated to result in an approximate sales and use tax exclusion of $871,066.

Ms. Miller moved for approval and there was a second by Mr. Rider.

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

Mr. Mack asked if Lollicup would be transferring existing equipment to the new facility, or if it would possibly be abandoning equipment. Ms. Chyan replied that Lollicup would not be moving its equipment. Rather, it intends to purchase additional equipment to outfit the new facility, and keeping the current facility in operation. She added that Lollicup plans to utilize the remaining Qualified Property available under its award to purchase replacement parts and other equipment to ensure that the output of the facility is not interrupted, and the equipment runs smoothly for the foreseeable future.

There were no further comments and Ms. Ma asked for a vote. The item was unanimously approved.

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Jacqueline Wong-Hernandez for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

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

Presented by Ashley Emery, Program Manager

Ms. Emery began her report by stating that CAEATFA staff is requesting approval of modified regulations to the Sales and use Tax Exclusion ("STE") Program (the "Program") regulations to address the oversubscription over the last two years and the unprecedented economic impact of the COVID-19 pandemic, and to incorporate lessons learned from Program implementation.

Ms. Emery stated the proposed regulation text reflects the feedback received from the Board and Staff's stakeholder outreach process, and seeks to address the following factors:

- User and business experience and industry needs;
- Balancing serving diverse industries and various policy goals;
- Ensuring a broad distribution of awards, while supporting both small and larger scaling capital investments;
- Current economic uncertainty due to COVID-19;
- Existing Program limits and inherent uncertainty in future market activity;
- Flexibility to adjust to various future market conditions; and the
- Need for assistance toward California's economic recovery.

Ms. Emery continued by stating that the proposed regulations continue the rolling, first-come-first-serve basis of accepting Applications until competitive to help invest in the economic recovery quickly, while providing more stability and certainty for Applicants by promptly reviewing requests. However, the proposed regulations provide that the Board may limit the amount of sales and use tax exclusion available to award at each meeting, which, combined with the current ability for the Board to limit the number of meetings at which Applicants will be considered, provides the flexibility for potential competitive award rounds, if necessary in the future.

In an effort to balance the ability to ensure both a broad distribution of awards and to assist large, scalable Projects, the proposed regulations include two modifications to the allocation of the $100 million statutory cap.

First, the proposed regulations set aside $20 million in sales and use tax exclusion for Applications requesting awards of $2 million or less in STE, through September. If any of this $20 million remains, it would be made available to award to all Applicants beginning in

October. If CAEATFA receives more than $20 million in requests for awards of $2 million or less, the order in which the Applicants will be considered for an award from the $20 million set-aside will be based on Competitive Criteria. If the last Applicant considered requests more than what is available from the remaining portion of the $20 million set-aside, the Applicant will be made whole from the general pool of STE award allocation.

Second, the proposed regulations retain the $10 million in STE per-Applicant cap, except that at the first Board meeting of the year, $15 million in STE will be available to award on a competitive basis in addition to the $10 million in STE from the general pool, up to $20 million per Applicant. If the amount requested in the last Application exceeds the exclusion amount available from the $15 million set-aside, the Applicant shall only receive the amount remaining from the $15 million set-aside. If any of the $15 million is not awarded, it will be released to the general pool to be made available to all Applicants. Staff hopes this approach will help provide flexibility to support larger investments and continued business investment in California, but also ensure that larger awards do not inadvertently absorb all of the STE award allocation.

Ms. Emery then stated that the proposed regulations provide that if there is any STE award allocation available at the last board meeting of the year, it will be made available to the last Applicant considered for additional exclusions above the $10 million per-Applicant cap if that Applicant did not receive its full request, then to any additional Applicants wishing to exceed the $10 million cap that were not awarded at the first Board meeting of the year, on a competitive basis. If any portion of the $15 million set-aside remains, then Applicants wishing to exceed $20 million in STE will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The proposed regulations award 50 points in the Competitive Criteria for Applicants that do not qualify to use the Manufacturing and Research & Development Exemption available through the California Department of Tax and Fee Administration (“CDTFA”), which can offset the Applicant’s costs of not receiving a CAEATFA STE award. The proposed regulations also specify that Staff will consult with CDTFA regarding questions of eligibility for the partial exemption.

Current regulations provide that if the Program becomes oversubscribed and the amount requested in the last Application considered exceeds the remaining award allocation in the calendar year, the Authority shall award the remaining request using from the following calendar year. Given the competitive nature of the Program, but while also trying to provide more certainty for Applicants, the proposed regulations provide that the Authority will award up to $2 million in STE from the following calendar year.

Because the proposed regulations do not provide that the last Applicant considered will always be made whole from the next calendar year’s STE award allocation, the proposed regulations provide that if additional STE becomes available during the calendar year, it will first be awarded to the last Applicant considered, if it did not receive its full requested award amount, to make that Applicant’s request whole; then if there is still any award allocation remaining, Applicants on the waiting list will be considered in the order in which they are ranked based on Competitive Criteria.

Additionally, the proposed regulations provide that the waiting list will end at the end of the year to prevent Applicants from applying too early in order to get in line for the following calendar year.

To learn more about Program Applicants to better understand and evaluate Program impact and reach, the proposed regulations add to the Application information requested whether the Applicant is a small business, how the Applicant learned about the Program, and whether the Applicant has received or applied for other state incentives or financing, which also helps further inform the Project's funding status.

Assembly Bill 176 ("AB 176") (Cervantes, Chapter 672, Statutes of 2019), which was enacted last year, adds to the Application evaluation criteria the extent to which a Project will result in the loss of permanent, full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained. To implement AB 176, the proposed regulations ask for the projected number of employees assuming the Qualified Property is not used (i.e. the Project is not implemented) and determine if there would be a net loss in jobs as a result of the Project. If there is a net loss in jobs, the proposed regulations provide that the Applicant will receive a new Jobs Score of zero and will lose points in the Application scoring based on the percent reduction in jobs as a result of the Project.

Additionally, the proposed regulations ask for the minimum and average wage of each classification of full-time employees proposed to be hired or not retained using wage-band categories in $10,000 increments. Staff believes this approach enables CAEATFA to incorporate the statutory modifications into the Program while keeping data anonymized for employee confidentiality concerns and company trade secret concerns. Because some forms of compensation are provisional and amounts may be uncertain, particularly for new companies, wages include monetary compensation paid to the employee each year, not including tips, commissions, bonuses, stock options, overtime, or other compensation of any kind. In response to stakeholder input, the proposed regulations also ask Applicants to provide an explanation of why a classification is being eliminated and if any existing employees in the classification will be retrained or reclassified.

In order to recognize the benefits of providing jobs that include additional benefits to employees in the Application review, while recognizing that the Program supports diverse industries, labor markets, and regional economies, under the proposed regulations, an Applicant that provides benefits or fringe benefits to its employees may submit information on the types of benefits and fringe benefits provided. Applicants will receive five points for each type of benefit or fringe benefit provided, up to 25 points.

To provide additional flexibility to awardees to help mitigate the uncertainty in the current market, the proposed regulations also eliminate the bright-line rule that a current lack of funding does not constitute an extraordinary circumstance for waiving the 15% purchase requirement.

Ms. Emery continued by explaining that approved Applicants must execute a Master Regulatory Agreement with CAEATFA that sets forth the terms of using the award, including providing annual reports on the status of the Project. Current regulations provide that the term of a Master Regulatory Agreement is equal to the longer of (a) three years, or (b) one-half of the Estimated Useful Lifespan of the longest-lived item of Qualified Property identified in the Application. However, current regulations do not provide for extending the term of the Master Regulatory Agreement in the event the initial term to use the STE award is extended after approval. Therefore, the proposed regulations provide that if the Applicant is granted an extension of the initial term to make Qualified Property purchases after initial award approval, the term of the Master Regulatory Agreement shall be extended for an equal amount of time.

Additionally, current regulations require Applicants to pay a $500 administrative fee for modifications to awards. To adjust the fees to better reflect the actual amount of time spent reviewing and processing requests for extensions and Board consideration, and to account for the additional years of reporting and administration, the proposed regulations increase the administrative fee to $1,500 for requests to extend the 15% purchase requirement timeframe, and to $2,000 for requests to extend the three-year initial term to use the STE award.

Finally, the proposed regulations make several other technical changes, including updating section numbers and references throughout and updating all references to the California Board of Equalization to the California Department of Tax and Fee Administration.

If the proposed regulation text is approved, Staff intends to file the Notice of Proposed Rulemaking package for publication in the California Notice Register to begin the 45-day public comment period in October. Simultaneously, Staff will take the necessary steps to incorporate the modified regulations in a new emergency rulemaking package, which would become effective at the end of October 2020 in advance of the 2021 award process.

Staff recommended approval of the proposed modified regulations.

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

Ms. Ma stated there was a motion and a second and asked if there were any questions or comments from the Board or public.

Ms. Miller thanked Staff for their work to bring these regulations before the Board, and for Staff's forecasting of the necessity of these changes even before the coronavirus pandemic.

Mr. Mack commended Ms. Emery and CAEATFA staff for the creativity in the proposals made in order to achieve a balance between various policy objectives. He added that he had concerns about overcomplicating the Program, but that this might be unavoidable given the current environment. He stated he would look forward to how the changes would be implemented.

Mr. Rider stated that the regulation changes are very innovative, and that he is impressed by Staff's outreach efforts in including stakeholders throughout the process. He stated that the proposed changes have been very well received by stakeholders, and that they are all very supportive of the STE Program. He stated that the broad support and participation of stakeholders has been rarely seen in his experience.

Ms. Wong-Hernandez stated that she appreciates Staff's efforts to balance multiple policy goals in bringing the regulations before the Board, and will look forward to how the changes are implemented.

Ms. Ma thanked Staff for their work to bring these regulations before the Board, and stated that before the pandemic, given the Program's oversubscription for the last two years, she was preparing to seek more STE Program allocation. She asked that Staff continue to reach out to members of the State Legislature to let them know about Projects in their districts. Ms. Ma stated that it is important to highlight the success of CAEATFA's programs and its work in meeting the State's sustainable, green, and environmental goals and keeping cutting-edge projects in California. She added that stakeholders in both the STE Program and the California Competes Tax Credit under the Governor's Office of Business and Economic Development have been very grateful, and that both programs are game changers to help companies stay or expand operations in California.

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

The item was passed by the following vote:

Fiona Ma, CPA, State Treasurer	Aye
Jacqueline Wong-Hernandez for the State Controller	Aye
Gayle Miller for the Director of Finance	Aye
Ken Rider for the California Energy Commission	Aye
Grant Mack for the Public Utilities Commission	Aye

5. PUBLIC COMMENT

Ms. Ma 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 11:52 a.m.

Respectfully submitted,

Nancee Robles
Executive Director, CPCFA, Designated Signatory