

MINUTES

**California Alternative Energy and Advanced
Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
September 24, 2008**

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) meeting to order at 11:20 a.m.

Members Present: Bettina Redway for Bill Lockyer, State Treasurer
Cindy Aronberg for John Chiang, State Controller
Tom Sheehy for Michael C. Genest, Director, Dept. of Finance
Tim Tutt, for Jackalyne Pfannenstiel, Chair, California Energy
Commission

Members Absent: Paul Clanon for Michael R. Peevey, Director, Public Utilities
Commission

Staff Present: Jan McFarland, Executive Director

Quorum: The Chairperson declared a quorum

2. MINUTES

Ms. Redway stated that Mr. Clanon of the Public Utilities Commission was not able to attend the Board Meeting due to jury duty.

Ms. Redway asked if there were any questions or comments concerning the June 25, 2008 meeting minutes.

Mr. Tutt stated that on the June 25, 2008 minutes he discovered an error on page 4, eighth paragraph that should read, Energy Commission's petroleum "reduction" goals, instead of "production" goals.

Ms. Redway stated that the correction was noted for the record and asked if there were any other questions or comments from the Board or the public. There were none.

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

3. EXECUTIVE DIRECTOR'S REPORT (INFORMATION ITEM)

Ms. McFarland reported that CAEATFA, California Pollution Control Financing Authority, (CPCFA) and the Air Resources Board (ARB) staff have been working on several projects during the last seven months. She stated that a Financial Advisor has been retained through CPCFA to examine financing options for truck owners to meet ARB's new diesel regulations.

Ms. McFarland also stated that she expects several zero emission vehicle (ZEV) companies to apply for CAEATFA for sales tax exemptions for the purchase of ZEV manufacturing equipment.

Ms. McFarland noted that, under the Federal Tax Code, the Caltrans' PV projects that will be financed through Clean Renewable Energy Bonds (CREBs) must be closed by the end of 2008. An October approval by the Board will be required in order to allow for a 60-day "Revenue Validation Process per Proposition 58 and to meet the IRS requirement of the first Caltrans installment payment by December 31, 2008. The Senate has approved a version of a bill that would extend Caltrans' CREB payments for one year and that the House and Senate budget bills are now in conference. Ms. McFarland added that staff will be presenting a proposed resolution to the Board at the October 22, 2008 Board Meeting for this consideration and approval.

Ms. Redway asked if in fact Congress did pass the bill, could the Board still envision approving the resolution in October, which would give Caltrans an additional year to make its first installment payment.

Ms. McFarland responded affirmatively and added that CalTrans does not want to make payments before starting the projects.

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

There were none.

4. BUSINESS ITEM

There will be public comment period at the end of this item.

A. CONSIDERATION OF STAFF RECOMMENDATION REGARDING DISTRICT HEATING AND COOLING POLICY REVIEW

Ms. Redway stated to the Board that in the last several years, a variety of new types of technologies and industries have come before the Authority. She stated that when staff prepares a recommendation for policy review to the Board, the Board can later consider these types of technology and industries for financing.

Ms. McFarland presented staff's recommendation on whether CAEATFA should provide private activity bonds for district heating and cooling (DHC) that uses near-zero emission heating and/or cooling technologies (ZEH/C), such as advanced solar thermal (AST), fuel cell, or geothermal. ZEH/C is defined as any technology that provides heating and/or cooling and produces no or low greenhouse gas (GHG) emissions during use. Compared to conventional heating and cooling systems, ZEH/C technologies may also produce electricity in conjunction with heating and/or cooling.

Ms. McFarland stated that CAEATFA's statute calls for alternative methods of financing for renewable energy projects, including the conservation of energy, solar, geothermal or any other source of energy that leads to a reduction in fossil or nuclear fuel consumption. AB 32, the California Global Warming Solutions Act of 2006, calls for the reduction of GHG reductions to 1990 levels by 2020. The Draft Scoping Plan which outlines California's methods for achieving AB 32 goals largely overlooks the potential of ZEH/C and CAEATFA recently filed comments in this regard. According to CAEATFA's calculations, thermal end uses (including commercial, residential, and industrial space, process, and water heating and cooling) accounts for a quarter of California's annual emissions.

Ms. McFarland also stated that, under the Internal Revenue Code, CAEATFA may issue tax-exempt private activity bonds to finance local district heating or cooling facilities. A local heating or cooling system is any local system consisting of a pipeline or network providing hot water, chilled water, or steam to two or more users for residential, commercial or industrial space, water, or process heating, cooling, or steam. The private activity bonds can only be used to pay for the "district" portion of the system that transports the heating or cooling only, but not the energy system itself. The project must serve more than one "user" and must satisfy the public use requirement.

CAEATFA also has the authority to issue private activity bonds for 501(c)(3) non-profits under Internal Revenue Code Section 145(a). CAEATFA could use this authority to issue private activity bonds for DHC systems for non-profits. These bonds would be less restrictive than those specifically for DHC described above, as they could be used for the whole project cost and for a project with only one user. In order to qualify for tax-exempt financing, the ownership and operation of the DHC system would have to be substantially related to the charitable purposes of the non-profit.

Ms. McFarland presented an overview defining different technologies, such as: Distributed Generation, District Heating and/or Cooling (DHC), Advanced Solar Thermal (AST), Fuel Cells and Geothermal.

Ms. McFarland discussed the benefits of GHG reduction and staff estimates that more than 25 percent of California's GHG emissions come from commercial, residential and industrial space and water heating and cooling. She stated that although not all the heating and cooling could be served by district systems, the fact that this sector accounts for a quarter of California's annual emissions shows that it is a place with huge potential for GHG reductions. In addition to the GHG reduction by using renewable energy

sources for heating and/or cooling, employing them as Distributed Generation (DG) and district systems result in a variety of indirect benefits. For instance, the employment of renewable DG also avoids the cost of increased generation capacity (both capital and operation and maintenance costs), of transmission and distribution (building capacity and efficiency losses), and of fuel. She also stated that DG offers the additional benefits of deployment ease and speed, grid independence, fossil fuel price hedge, reduced water use, and reduced health effects. She added that these systems are cost effective over time and are often more cost effective than other renewable options with potential for large savings from the investment.

Ms. McFarland stated that ZEH/C is a relatively new application of solar thermal technology and although ZEH/C's are commercially proven and available technologies, there is still the risk that systems will not be installed properly since there are few experienced U.S. companies who perform installation. Another risk in offering private activity bonds for DHC is that if energy prices were to decrease, profitability of these systems could put these projects in financial jeopardy. This may affect some owners' ability to pay back bonds if they are paying out of an energy budget that is based on current energy prices.

Ms. Redway asked where district heating and cooling plants are currently being used.

Ms. McFarland responded that San Bernardino County has a number of them.

Ms. Redway asked if the DHC systems are being used in schools or hospitals. Ms. McFarland responded that they can be used in schools and hospitals. There is one DHC project in Sacramento which serves all of the downtown area. She stated that there was a DHC project built in Nevada that used the federal tax exemption status which consisted of an entire resort, a gas co-generation system, as well as a post office. Ms. McFarland added that a DHC system involves piping between the buildings and an essential heat plant which could be fossil fuel or zero emission heating and cooling technologies.

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

Ms. Aronberg moved approval of staff's recommendation for the Authority to consider applications for private activity bonds for DHC projects. Upon a second, the item was unanimously approved.

Mr. Sheehy added that he encourages the development of new technology that could reduce greenhouse gases and create new jobs for California.

B. REQUEST TO APPROVE APPOINTMENT OF REMARKETING AGENT

General Electric Capital Corporation (GE Capital) requested the Authority to remove the current Remarketing Agent for the Cogeneration Facility Revenue Bonds (General Electric Capital Corporation – Arroyo Energy Project) 1993 Series B and appoint

Citigroup Global Markets, Inc. to serve as the Remarketing Agent for the 1993 Series B Bonds.

The current Remarketing Agent, UBS Securities, LLC, successor to Kidder Peabody & Co., notified GE Capital of its intent to transfer the 1993 Series B Bonds to Citigroup Global Markets, Inc. since UBS announced its decision on June 5, 2008 to exit the institutional municipal securities business over the next few months.

Pursuant to Section 8.14 of the Indenture of Trust relating to the 1993 Series B Bonds, the Authority may remove a Remarketing Agent and, with the advice of GE Capital, appoint a successor Remarketing Agent by notifying such Remarketing Agent and the Trustee. GE Capital has advised that Citigroup be appointed as the successor Remarketing Agent. The Indenture of Trust provides that the removal of the current Remarketing Agent will be effective only after Citigroup has delivered an acceptance of its appointment to the Trustee.

Staff recommended Board approval of General Electric Capital Corporation's request to remove the current Remarketing Agent and appoint Citigroup Global Markets Inc. as Remarketing Agent for the 1993 Series B Bond. Presented by Brian Gorban.

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

Mr. Tutt moved approval of staff's recommendation; upon a second, the item was unanimously approved.

5. PUBLIC COMMENT

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

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting was adjourned at 11:40 a.m.

Respectfully submitted,

Jan E. McFarland
Executive Director