

**CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY**

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**SUNPOWER CORPORATION
Application No. 10-SM012**

Wednesday, December 15, 2010

Prepared By: *Heather Williams*

SUMMARY

Applicant – SunPower Corporation

Location – Milpitas, Santa Clara County

Industry – Solar: Silicon photovoltaic (“PV”)

Project – New Solar Silicon PV Module Manufacturing Facility

Value of Qualified Property – \$8,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$728,000

Estimated Net Benefits - \$ 2,053,325

Application Score³ -

Fiscal Benefits Points:	2,579
<u>Environmental Benefits Points:</u>	<u>1,241</u>
Net Benefits Score:	3,821

<u>Additional Benefits Points:</u>	<u>70</u>
Total Score:	3,891

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based off of the average statewide sales tax rate of 9.1%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

SunPower Corporation (“SunPower”) was incorporated in April 1985 in California and is headquartered in San Jose, California. SunPower designs, manufactures and delivers solar electric systems worldwide for residential, commercial and utility-scale power plant customers. SunPower represents its solar modules generate up to 50 percent more power than conventional solar technologies. SunPower’s products include solar panels, monitoring systems, the patented SunPower® Tracker, and the non-penetrating Solar Roof Tile.

The major shareholders (10.0% or greater) of SunPower are:

Wellington Management Company LLP

The corporate officers of SunPower are:

Thomas H. Werner – CEO, Director
Dennis V. Arriola – EVP, CFO
Bruce R. Ledesma – EVP, General Counsel
Marty T. Neese – COO
Jim Pape – President
Douglas J. Richards – EVP
Howard Wenger – President

THE PROJECT

The first SunPower U.S. solar PV module manufacturing Facility is planned for Milpitas, California. The plant will open in a 53,600-square foot building and of that space 42,022 square feet will be devoted to manufacturing. The plant will manufacture equipment capable of producing 75 megawatts of solar energy per year. The Facility will manufacture solar modules comprised of electrical circuit components, encapsulant, back-contact solar cells, frame sets, glass covers, backsheets, and junction box assemblies. In its Application materials, SunPower claims that it will reduce its overall system costs by 50 percent by 2012 and implement cost-reduction changes in the supply chain by moving to a more regionally focused panel manufacturing strategy.

SunPower did consider alternate sites; however, the Applicant decided to build its facility in California. CAEATFA staff did not evaluate this alternative site documentation further, as the Applicant already obtained the minimum point threshold necessary to qualify; thus no additional points were awarded in this category.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Stringer 1 and 2	\$1,450,000
Stringer 3 and 4	1,300,000
Laminators 1 and 2	550,000
Lay-up/Front End Retrofit Conveyors	1,700,000
Foil Cutters	1,000,000
X-Ray	150,000
Oven	10,000
Glass Washer	50,000
Back End Retrofit	1,500,000
RTV Dispenser	150,000
Flash Tester	40,000
EL Tester	<u>100,000</u>
Total	<u>\$8,000,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. At the termination of the conveyance/reconveyance agreement a finalized project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations from the costs shown in the Application and in this report may occur prior to the closing due to increased costs of certain components of the Project from original estimates, and other reasons. In addition, such costs may vary after closing due also to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation or for other reasons.

TIMELINE

All equipment purchases and installation are scheduled to take place during the fourth quarter of 2010, with production scheduled to commence during the first quarter of 2011.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$8,000,000 and the total net benefits are valued at \$2,053,325 for the Project. The Project received a Total Score of 3,891 which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 1,241 which exceeds the 100 point threshold.

- A. Fiscal Benefits (2,579 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes and other indirect fiscal benefits of the Applicant which amounts to \$1,877,730 resulting in a Fiscal Benefits Score of 2,579 points for the Project.
- B. Environmental Benefits (1,241 points).** The Project results in \$903,595 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 1,241 points for the Project. These benefits derive from the capacity of solar PV modules to result in generation of additional MW of electricity from alternative sources, thereby reducing the need for traditionally generated electricity.
- C. Additional Benefits (70 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received 40 additional points.
- 1. Permanent Jobs (30 of 40 points).** The Applicant’s Project will support a total of 94 permanent jobs at its Facility. CAEATFA estimates that approximately 11 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 30 points for the Project.
 - 2. Non-CA Environmental Benefits (40 of 40 points).** The Applicant’s total value of out-of-state non-greenhouse gas pollution benefits are valued at \$259,733 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

SunPower has obtained all necessary permits required for its Project.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the applicant has paid CAEATFA an Application Fee of \$4,000 and will pay CAEATFA an Administrative Fee of up to \$32,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM012 for SunPower Corporation's purchase of Qualified Property in an amount not to exceed \$8,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$728,000.

⁴ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH SUNPOWER CORPORATION**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **SunPower Corporation** (the “Applicant”) for financial assistance in the form of a conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components, or systems (“Qualified Property”) as more particularly described in the staff summary and in the Applicant’s Application to the Authority (collectively, the “Project”); and

WHEREAS, the Applicant has requested the Authority to enter into the Agreement transferring title of Project equipment with a cost not to exceed \$8,000,000 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; and

WHEREAS, the Applicant believes that this form of financial assistance will enable it to avail itself of the benefits of an exclusion from sales and use taxes relative to the Qualified Property pursuant to California Revenue and Taxation Code Section 6010.8; and

WHEREAS, approval of the terms of the Agreement and authority for the Executive Director, Deputy Executive Director, or Chair of the Authority to execute the necessary documents to effectuate the Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Project constitutes a “project” within the meaning of Public Resources Code Section 26003(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

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Section 4. The Executive Director, Deputy Executive Director, or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to the Project as the Executive Director shall deem appropriate, provided that the amount of the Qualified Property to be purchased may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Agreement between the Applicant and the Authority, as filed with the Authority prior to this meeting, is hereby approved. The Authorized Signatories are hereby authorized and directed, for and on behalf and in the name of the Authority, to execute, acknowledge and deliver to the Applicant the Agreement in substantially the form filed with or approved by the Authority, with such insertions, deletions or changes therein as the Authorized Signatory executing the same, may require or approve, and with particular information inserted therein in substantial conformance with the staff summary and in the Applicant’s Application to the Authority, such approval to be conclusively evidenced by the execution and delivery thereof. The Authority understands and agrees that pursuant to the terms of the Agreement, the obligations of the Applicant may, under some circumstances be carried out or assumed by a successor or assignee entity, or by an affiliate of the Applicant.

Section 6. Each of the Authorized Signatories, acting alone, is hereby authorized and directed to do any and all ministerial acts, including (without limitation) the execution and delivery of any and all documents and certificates they may deem necessary or advisable in order to consummate the Agreement and otherwise effectuate the purposes of this resolution.

Section 7. The Applicant shall assure CAEATFA that all Qualified Property conveyance pursuant to the Agreement shall be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Agreement shall only apply to Qualified Property that the Applicant certifies will be installed, maintained and operated at facilities within the State of California.

Section 9. The adoption by the Authority of this Resolution for the Applicant shall not be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project or in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately and will remain in full force and effect unless the Regulatory Agreement, as defined in CAEATFA Regulations Section 10035(A), is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty days if necessary.