CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

Board Meeting Date: Tuesday, September 15, 2026

Request to Approve Project for a Sales and Use Tax Exclusion[1]

Heron Power Electronics Company
Application No. 26-SM014

Prepared By: *Lindsay Guthrie, Program Analyst*

SUMMARY

Applicant: Heron Power Electronics Company

Location: Morgan Hill, Santa Clara County

Industry: Electrical Components

Project: New Electrical Components Manufacturing Facility (Alternative Source)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion ("STE") Amount[2]
$80,000,000	$6,800,000

Estimated Net Benefit[3]	Dollar Value	Points Earned
Estimated Fiscal Benefits	$22,593,618	3,323
Estimated Environmental Benefits	$143,203,109	21,059
Additional Benefits	N/A	180
Total	**$165,796,727**	**24,562**
Estimated Quantifiable Net Benefit	$158,996,727	N/A

Competitive Criteria Score: 150

Staff Recommendation: Approval

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[1] All capitalized terms not defined in this document are defined in the STE Program's statutes and regulations.
[2] This amount is calculated based on the average statewide sales tax rate of 8.5%
[3] Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

THE APPLICANT

Heron Power Electronics Company (the "Applicant"), formed in Delaware as a corporation in 2024. Headquartered in Scotts Valley, Santa Cruz County, California, the Applicant specializes in integrated power electronics devices such as solid-state transformers that serve as power conversion and interconnection components for energy storage systems.

The Applicant received a $26,375,000 income tax credit under the California Competes Tax Credit Program[4] administered by the Governor's Office of Business and Economic Development on April 30, 2026.

The major shareholder (10.0% or greater) of the Applicant is:

- Andrew Baglino (44%)

The corporate officers of the Applicant are:

- Andrew Baglino, CEO and Founder
- Michael Wang, VP of Finance & Operations

THE PROJECT

Heron Power Electronics Company requests a sales and use tax exclusion ("STE") award to build a new electrical components manufacturing facility located in Morgan Hill (the "Project"). The Project will produce silicon carbide-based solid-state transformers, called Heron Link, that will replace conventional transformer + inverter power conversion system. This integrated medium-voltage device serves as the primary power conversion and interconnection component for utility-scale energy storage and distributed renewable generation, supporting applications such as solar, storage, and large grid-connected loads while reducing fossil-fuel dispatch and associated emissions.

As an energy efficiency device, Heron Link enables faster, lower-cost, and higher-efficiency interconnection. It significantly reduces conversion losses compared to legacy transformer systems and increases the availability and simplicity of grid integration for storage and renewable installations.

The Project will utilize an advanced, vertically integrated manufacturing process featuring automated precision assembly equipment, material dispense and cure systems, vision inspection, inline electrical testing, and software-driven quality assurance and process control. These processes are the result of extensive simulation and modeling of material behavior, thermal performance, and electrical characteristics. Production will incorporate advanced power electronics materials, such as semiconductor devices, magnetic materials, thermal management components, insulation materials, and thermal interface compounds, enabling rapid iteration from design through prototyping and full production.

[4] California Code of Regulations, Title 10, Chapter 13, Article 1 (commencing with Section 8000).

Anticipated Costs of Qualified Property

Anticipated Qualified Property Purchases		Cost
Transformer Assembly Equipment & Tooling		$8,000,000
Transformer Assembly Automation & Controls		$2,000,000
Cell Assembly Equipment & Tooling		$16,000,000
Cell Assembly Automation & Controls		$4,000,000
Subsystems Assembly Equipment & Tooling		$9,000,000
Subsystems Assembly Automation & Controls		$1,000,000
Final Assembly Equipment & Tooling		$13,500,000
Final Assembly Automation & Controls		$1,500,000
Final Testing Equipment & Tooling		$4,500,000
Final Testing Automation & Controls		$500,000
Building Facilities Upgrades		$5,000,000
Utilities Systems Upgrades		$15,000,000
	Total	**$80,000,000**

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. In accordance with the Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variance 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 over original estimates, and other reasons. In addition, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

Timeline

The Applicant has executed a lease for its manufacturing facility in Morgan Hill. Tenant improvements and electrical upgrades are expected to begin in Q4 2026 and continue through Q2 2027. Pilot line commissioning and prototype builds will begin in Q2 2027, followed by delivery of mass production assembly equipment and tooling in the second half of 2027. Initial full-scale production will begin ramping in Q4 2027, with full-volume manufacturing expected by 2029.

Status of Permits/Other Required Approvals

Once facility design documents are sufficiently developed, the Applicant anticipates securing all required permits in Q4 2026 prior to the start of construction. Expected permit categories include South Coast Air Quality Management District for any regulated air emissions; a Stormwater Pollution Prevention Plan (SWPPP) through the State Water Resources Control Board; a Hazardous Materials Business Plan (HMBP) filing with Santa Clara County; facility renovation and equipment installation permits from the City of Morgan Hill; fire safety approvals covering occupancy, hazardous materials handling, and life-safety systems; and coordination with utility providers.

COMPETITIVE CRITERIA SCORE

The Applicant received 150 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points).** The Application has a Project that produces an Alternative Source product, component, or system, and, therefore, 100 points are awarded.

2. **Unemployment (0 of 50 points).** The Applicant's Project is located in Santa Clara County, which has an average annual unemployment rate of 4.3%.[5] When compared to the statewide average annual unemployment rate of 5.5%, the Project location earned the Applicant zero points.

3. **Job Creation (35 of 75 points).** The Applicant anticipates the Project will support a total of 321 production-related jobs at its Facility. CAEATFA estimates that approximately 19 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 35 points.

4. **California Headquarters (15 of 15 points)**. The Applicant maintains its Corporate Headquarters in Scotts Valley, California, 15 points are awarded.

5. **Natural Disaster Relief (0 of 50 points).** The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.

6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points).** The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

7. **Emerging Strategic Industry (0 of 75 points).** The Project's industry is not in an Emerging Strategic Industry, as defined by CAEATFA, therefore, zero points are awarded.

PROJECT EVALUATION

Project Benefits

The Project received a Total Score of 24,562 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 21,059 points, which exceeds the 20-point threshold.

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[5] Unemployment rates are based on data available in March 2026.

1. **<u>Fiscal Benefits (3,323 points)</u>.** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales and use taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to $22,593,618, resulting in a Fiscal Benefits score of 3,323.

2. **<u>Environmental Benefits (21,059 points)</u>.** The Project is anticipated to result in $143,203,109 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 21,059 points. These benefits derive from the annual improvement in system energy consumption for the energy efficiency device.

3. **<u>Additional Benefits (180 points)</u>.** Applicants may earn "Additional Benefits" points in the categories listed below. The Applicant received 180 Additional Benefits points.

   A. **<u>Production Jobs (35 of 75 points)</u>.** The Applicant anticipates the Project will support a total of 321 production-related jobs at its Facility. CAEATFA estimates that approximately 19 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 35 points.

   B. **<u>Construction Jobs (30 of 75 points)</u>.** The Applicant anticipates the Project will support a total of 200 construction jobs at its Facility. CAEATFA estimates that approximately 12 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 30 points.

   C. **<u>Unemployment (0 of 50 points)</u>.** The Applicant's Project is located in Santa Clara County, which has an average annual unemployment rate of 4.3%. When compared to the statewide average annual unemployment rate of 5.5%, the Project location earned the Applicant zero points.

   D. **<u>Non-CA Environmental Benefits (40 of 40 points)</u>.** The Applicant's total value of out-of-state non-greenhouse gas emissions pollution benefits are valued at $5,088,476.99 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

   E. **<u>Research and Development Facilities (25 of 25 points)</u>.** The Applicant has verified that it has a facility located in California that performs research and development functions related to product design iteration, prototype fabrication and testing, materials characterization, and development of the simulation and modeling tools used to optimize design and manufacturing parameters.

   F. **<u>Industry Cluster (25 of 25 points)</u>.** The industry associated with this Application has been identified by the City of Morgan Hill's Economic Blueprint as an industry cluster of the region of the Project's location.

G. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental & vision benefits, employee discounts, and paid leave to its employees, earning the Applicant 25 points.

LEGAL STATUS QUESTIONNAIRE
The Applicant indicated they had nothing to report for the questions contained in the Legal Status portion of the Application. Staff conducted a broad online search of publicly available sources, including SEC Form 10-K filings and OSHA records, as well as other relevant sources as appropriate, and did not find any matters affecting the financial viability or legal integrity of the Applicant.

CAEATFA FEES
In accordance with STE Program regulations,[6] the Applicant paid CAEATFA an Application Fee of $10,000 and will pay CAEATFA a total Administrative Fee of $320,000 should the Applicant be approved for an award. Upon execution of the Regulatory Agreement, the Applicant shall pay $160,000.

RECOMMENDATION
Statute limits CAEATFA to granting up to $100 million in sales and use tax exclusion each calendar year. Program regulation Section 10032(a)(6)(A) provides that when the amount requested in the final Application considered exceeds the STE available in the calendar year, the Authority shall award the remaining STE request using STE from the following calendar year, up to $2 million in STE. Assuming all other Applications brought before the Board for consideration are approved, $100 million in STE (or $1,176,470,588.24 in Qualified Property) remains in the 2027 calendar year, of which $21,228,541.76 in Qualified Property for an estimated STE value of $1,804,426 will be awarded to the Applicant, if approved.

Therefore, Staff recommends the approval of Resolution No. 26-SM020-01 for Heron Power Electronics Company's purchase of qualifying tangible personal property in an amount not to exceed $58,771,458.24, anticipated to result in an approximate STE value of $4,995,574, effective immediately, and for the purchase of up to $21,228,541.76 in qualifying tangible personal property, anticipated to result in an approximate STE value of $1,804,426, effective January 1, 2027. In total, the amount of qualifying tangible personal property will be $80,000,000, anticipated to result in an approximate STE value of $6,800,000.

[6] California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A REGULATORY AGREEMENT WITH HERON POWER ELECTRONICS COMPANY

September 15, 2026

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority") has received the Application of **Heron Power Electronics Company** (the "Applicant") for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant's qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the "Project"); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed $80,000,000 over a period of five (5) years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

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

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

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The Regulatory Agreement constitutes financial assistance within the meaning of Public Resources Code Section 26003(a)(6).

Section 3. The Applicant is a participating party within the meaning of Public Resources Code Section 26003(a)(7).

Section 4. The 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 that do not affect eligibility, provided that the amount of the qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to in any application for any required permission or authority to acquire, construct or operate the Project.

Section 10. This Resolution is effective immediately for up to $58,771,458.24 in qualifying tangible personal property, and effective on January 1, 2027, for up to an additional $21,228,541.76 in qualifying tangible personal property and will remain in full force and effect unless the Regulatory Agreement is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.