

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

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

**Karma Automotive LLC
Application No. 15-SM010**

Tuesday, October 20, 2015

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – Karma Automotive LLC

Location – Moreno Valley, Riverside County

Industry – Plug-In Hybrid Vehicle Manufacturing

Project – Construction of a New Plug-In Hybrid Vehicle Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$38,194,860

Estimated Sales and Use Tax Exclusion Amount² – \$3,216,007

Application Score³ –

Fiscal Benefits Points:	1,252
<u>Environmental Benefits Points:</u>	<u>170</u>
Net Benefits Score:	1,422
<u>Additional Benefits Points:</u>	<u>81</u>
Total Score:	1,502

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 on the average statewide sales tax rate of 8.42%.

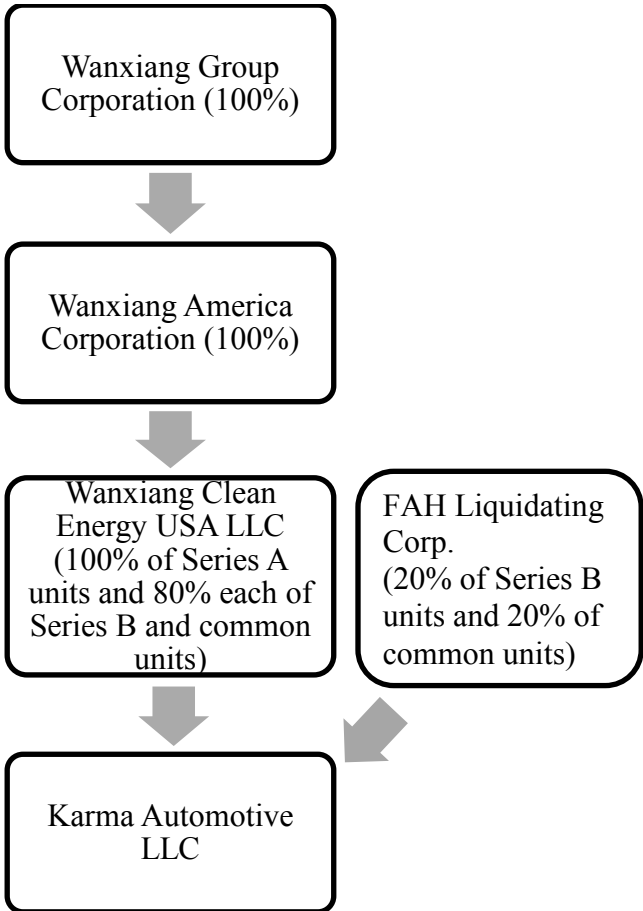
³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Karma Automotive LLC (“Karma” or “Applicant”) is a manufacturer of luxury extended range plug-in hybrid vehicles. Karma (formerly known as Fisker Automotive and Technology Group LLC) was incorporated in Delaware in 2014 for the purpose of purchasing the assets of Fisker Automotive, Inc. (an unrelated legal entity that declared bankruptcy in November 2013) from U.S. Bankruptcy Court. During bankruptcy proceedings, FAH Liquidating Corp was formed to represent the interests of Fisker Automotive, Inc.’s creditors, and it now owns 20% of Series B and common units (non-voting) for Karma Automotive LLC.

Karma is a wholly-owned subsidiary of Wanxiang Clean Energy USA LLC, which is a wholly owned subsidiary of Wanxiang America Corporation, which is the United States office and wholly owned subsidiary of Wanxiang Group Corporation, China’s largest auto parts company.

Karma Automotive LLC’s ownership structure is as follows:



The corporate officers of Karma Automotive LLC are:

- Thomas M. Corcoran, Chief Executive Officer
- Brent Wouters, Chief Operating Officer
- Jim Taylor, Chief Marketing Officer
- Cameron Adamson, Chief Financial Officer
- Bernhard Koehler, Co-Founder and Portfolio Engineering Director
- Bill Stinnett, Vice President and Chief Engineer
- Ron Samaco, Vice President of Finance and Corporate Controller
- John Wilson, General Counsel

THE PROJECT

The Applicant is requesting a sales and use tax exclusion in order to build a plug-in hybrid vehicle manufacturing facility in Moreno Valley (the “Project”). In conjunction with Karma’s headquarters, located in Costa Mesa, the new facility will engineer and assemble the Karma model vehicle. The Karma is a Plug-in Hybrid Electric Vehicle (PHEV) with extended range. According to the Applicant, the electric traction motor, powered by a lithium-ion battery and supplemented by a four-cylinder gasoline engine, offers higher fuel economy and lower emissions than traditional hybrid electric vehicles.

The engineering and assembly process itself involves numerous technologies that the Applicant represents exceed industry standards. Specifically, an innovative dry paint shop system limits water usage, saving approximately 26 million gallons of water per year. The paint shop also uses a regenerative thermal oxidizer to retain and control 95% of emissions. As a result, the Applicant represents that total emissions from the manufacturing process are approximately 30% lower than those of a comparable operation. Additionally, the paint shop utilizes an electrodeposition process with a filtration system that recovers unused paint and returns pigments to the tank. The Applicant states that, without this system, runoff would have to go through wastewater treatment and would generate sludge for disposal, as is the case in many other automotive assembly plants. Using this system, the Applicant represents that they will eliminate approximately 40 to 55 gallons of solid waste each month.

In the coating stage of assembly, Karma will be using zirconium oxide, an advanced material that serves as an alternative to more traditional zinc phosphates. Zirconium oxide offers superior corrosion protection, allows more aluminum to be used (thus reducing weight), and reduces waste sludge by an estimated two-thirds. Karma has also eliminated conditioner from the assembly process, reducing the number of chemicals necessary, and will filter out remaining pollutants using a water treatment plant on site.

The Project also includes the installation of solar photovoltaics in the facility parking structure to provide power to EV charging stations on site. These stations will be used to charge vehicles coming off the assembly line to allow quality assurance testing, and will also be available to employees and customers. Outside of regular working hours, the grid-tied solar electric system will generate electricity and route the excess power into the grid.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Facility overhead structure	\$ 450,000
Coordinate Measuring Machine & Foundation	466,293
Body shop equipment	1,050,000
Paint System	17,316,507
E-coat System	9,075,000
Line 1 Conveyors	375,000
Line 2 Overhead	562,500
Line 3 Conveyors	375,000
Work Station Equipment	375,000
Door Removal Assist Arms	112,500
Instrument Panel Assembly Assist	187,500
Glass Urethane & Installation Equipment	750,000
Chassis Decking Cart	187,500
Wheel & Tire Installation Equipment	112,500
Door Replacement Assist Arms	131,250
Seat Install Assist Arms	131,250
Wheel Alignment Equipment	187,500
Headlamp Aim Equipment	93,750
Roll Test Dyno System	300,000
Wheel Mounting & Balancing Equipment	270,000
Building & Land Improvements - roofing, isolation walls, pits, trusses	1,935,810
Glass Enclosures for Paint Shop	750,000
IT Hardware, Software, Equipment and Plant IT setup	<u>3,000,000</u>
Total	<u>\$ 38,194,860</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual 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, 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

In September 2015 the Applicant signed a long term lease and began construction of the facility in preparation for equipment purchases. Karma is currently procuring equipment and will have it

installed and tested by the end of Q4 of 2015. Pre-production is scheduled for Q1 and Q2 of 2016, with full production anticipated to commence in July 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$38,194,860. The Project received a Total Score of 1,502 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 170 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,252 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 \$4,025,187 resulting in a Fiscal Benefits score of 1,252 points for the Project.
- B. Environmental Benefits (170 points).**
The Project will result in an Environmental Benefits Score of 170. The Applicant received points in the following categories:
- 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant represents that they will implement an environmental sustainability that will track water consumption, energy consumption, solid and hazardous waste generation and air pollution emissions at its facility. The Project will also have a paid sustainability trainer on site to ensure continuous education and improvement in reducing the overall environmental impact.
 - 2. Energy Consumption (30 of 30 points).** The Applicant represents that their manufacturing process will result in a 30% reduction in energy consumption relative to the industry standard manufacturing process.
 - 3. Water Use (30 of 30 points).** The Applicant represents that their manufacturing process will result in a 50% reduction in water use relative to the industry standard manufacturing process.
 - 4. Solid Waste (20 of 30 points).** The Applicant represents that their manufacturing process will result in a 20% reduction in solid waste produced relative to the industry standard manufacturing process.
 - 5. Hazardous Waste (25 of 30 points).** The Applicant represents that their manufacturing process will result in a 25% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 - 6. Air Pollutants (30 of 30 points).** The Applicant represents that their manufacturing process will result in a 30% reduction in air pollutants produced relative to the industry standard manufacturing process.
 - 7. Other Pollutants (15 of 30 points).** The Applicant represents that their manufacturing process eliminates conditioner, thereby reducing chemical

waste and resulting in a 15% reduction in other pollutants produced relative to the industry standard manufacturing process.

C. Additional Benefits (81 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 81 additional points.

- 1. Permanent Jobs (40 of 75 points).** The Applicant's Project will support a total of 176 permanent 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 approved STE resulting in a Permanent Jobs Score of 40 points for the Project.
- 2. Construction Jobs (0 of 75 points).** The Applicant's Project will support a total of 29 construction jobs at its Facility. CAEATFA estimates that approximately 2 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
- 3. Unemployment (16 of 50 points).** The Applicant's Project is located in Riverside County which has an average annual unemployment rate of 9%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 16 points for this Project.
- 4. Research and Development Facilities (25 points).** The Applicant has verified that it has a facility located in California that performs research and development functions related to electric vehicle manufacturing.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Karma has submitted all relevant permit applications and anticipates receiving approvals in October 2015.

LEGAL QUESTIONNAIRE

Staff reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The responses did not disclose any information that raises questions concerning the financial viability or legal integrity of this Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$152,779.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM010 for Karma Automotive LLC's purchase of Qualified Property in an amount not to exceed \$38,194,860 anticipated to result in an approximate sales and use tax exclusion value of \$3,216,007.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH KARMA AUTOMOTIVE LLC**

October 20, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Karma Automotive LLC** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized in an Advanced Manufacturing process or 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 to acquire Project equipment with an estimated cost not to exceed \$38,194,860 over a period of three years; 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(a)(8)(B).

Section 2. The requested master 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, 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.

Agenda Item – 4.A.1
Resolution No. 15-SM010
Application No. 15-SM010

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 listed in the semi-annual reports 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.