

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

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

**Atieva USA, Inc.
Application No. 16-SM001**

Tuesday, January 19, 2016

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Atieva USA, Inc.

Location – Menlo Park, San Mateo County; Tracy, San Joaquin County; Sacramento, Sacramento County

Industry – Electric Vehicle Manufacturing

Project – New Electric Vehicle Research and Development and Manufacturing Facilities

Value of Qualified Property – \$530,750,000

Estimated Sales and Use Tax Exclusion Amount² – \$44,689,150

Estimated Net Benefits – \$98,374,109

Application Score –

Fiscal Benefits Points:	3,076
<u>Environmental Benefits Points:</u>	<u>125</u>
Net Benefits Score:	3,201

<u>Additional Benefits Points:</u>	<u>36</u>
Total Score:	3,237

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%.

THE APPLICANT

Atieva USA, Inc. (“Atieva” or “Applicant”), a Delaware corporation and wholly owned subsidiary of Atieva, Inc., formed in 2007 initially for the purpose of developing battery systems for automotive, public transit, home storage, and electric grid applications. Headquartered in Menlo Park, Atieva now aims to develop and manufacture a complete battery electric vehicle, using its team of employees formally with companies such as Cisco Systems, Ford Motor Company, Juniper Networks, Tesla Motors, and BMW.

The major shareholders (10.0% or greater) of Atieva, Inc. are:
Beijing Electric Vehicle Hong Kong Co. Ltd
Lesoar Holdings Ltd
Venrock Associates V LP & Affiliates
China Environment Fund III LP

The corporate officers of Atieva USA, Inc. are:
Jeffery Jia, Chief Executive Officer
Mark Medearis, Secretary
Sam Weng, Vice President of Business Development

THE PROJECT

Atieva is requesting a sales and use tax exclusion in order to relocate to an expanded headquarters location and to develop a new manufacturing facility for a new fully electric, four-door passenger vehicle (the “Project”). Atieva represents that the vehicle, which has yet to be named, is anticipated to have a range exceeding 300 miles on a single charge. Atieva represents that this new fully electric vehicle will be the first in a series of vehicles and products, with the second vehicle planned for 2020.

The Project includes capital expenditures necessary for designing, testing, and prototype manufacturing of components and complete vehicles at a research and development center at the expanded headquarters location, as well as equipment for a body stamping shop, paint shop, component assembly, and a final assembly line to be housed at the new manufacturing facility. Atieva anticipates manufacturing will commence in 2018, but customers will be able to begin placing orders in late 2016 or early 2017. Atieva represents the company may eventually produce an average of over 50,000 vehicles annually.

As noted below, Atieva is currently in the process of selecting a site for its manufacturing facility. If approved, the Executive Director intends to extend the 30 day deadline to execute the Master Regulatory Agreement³ to 120 days pursuant to the delegated authority in Section 10 of the Resolution due to the Applicant’s ongoing site selection process, the Project’s large dollar amount of Qualified Property, and the STE Program’s current oversubscription. Once the Master Regulatory Agreement is executed, the Applicant must pay a nonrefundable Administrative Fee of \$15,000, and the \$100 million in STE CAEATFA may grant in 2016 is reduced by \$44,689,150. By extending the deadline to execute the Master Regulatory Agreement

³ California Code of Regulations Title 4, Division 13, Section 10035(a)

until after the Applicant’s site selection process, CAEATFA may re-award the unclaimed STE in 2016 if the Applicant should locate outside of California.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Stamping shop (3 Tandem Press lines)	\$ 96,000,000
Body shop (robots, fixtures, welding equipment, etc.)	80,000,000
Paint shop (facility, equipment, robots, conveyors, etc.)	68,000,000
Assembly shop (structural steel, robots, tooling, conveyors, etc.)	100,000,000
Inventory tracking and management system	5,000,000
Energy substation (chillers, substation, etc.)	10,000,000
Stamping dies	50,000,000
Plastic molds	30,000,000
Casting tools	10,000,000
Other part tooling (to create lamps, seats, windshields, etc.)	60,000,000
R&D center investment (tenant improvements)	900,000
Prototype builds (tooling, parts, and body panels)	11,000,000
Software	1,650,000
R&D capital equipment	<u>8,200,000</u>
Total	<u>\$530,750,000</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 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

The Applicant represents that building design and equipment and layout planning has already begun and will continue through March 2016. Site selection for both the new headquarters and the manufacturing facility is currently underway, with potential locations for the manufacturing facility identified in Tracy and Sacramento, as well as out-of-state locations. The Applicant anticipates making a final location decision by the first half of 2016. The Applicant represents that once the location is determined, building will commence by Q3 2016 and is anticipated to be completed by Q3 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$530,750,000 and the total net benefits are valued at \$98,374,109 for the Project. The Project received a Total Score of 3,237 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 125 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (3,076 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 \$137,469,584 resulting in a Fiscal Benefits score of 3,076 points for the Project.
- B. **Environmental Benefits (125 points)**. The Project will result in \$5,593,675 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 125 points for the Project. These benefits derive from the manufacturing of electric vehicles since these vehicles deliver a net reduction in energy consumption and CO2 emissions relative to a comparable gasoline powered vehicle.
- C. **Additional Benefits (36 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 36 additional points.
 1. **Permanent Jobs (30 of 75 points)**. The Applicant's Project will support a total of 1,297 permanent jobs at its Facility. CAEATFA estimates that approximately 82 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. **Construction Jobs (0 of 75 points)**. The Applicant's Project will support a total of 250 construction jobs at its Facility. CAEATFA estimates that approximately 16 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. **Non-CA Environmental Benefits (6 of 40 points)**. The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at \$516,720.14 resulting in a Non-CA Environmental Benefits Score of 6 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents the Project will require various permits, including building and construction permits, hazardous materials permits, operating permits, waste management permits, land use permit, and water permits, which the Applicant anticipates obtaining by project completion in 2017.

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, the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.⁴

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM001 for Atieva USA, Inc.'s purchase of Qualified Property in an amount not to exceed \$530,750,000 anticipated to result in an approximate sales and use tax exclusion value of \$44,689,150. If approved, the Executive Director intends to extend the 30 day deadline to execute the Master Regulatory Agreement to 120 days pursuant to the delegated authority in Section 10 of the Resolution.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH ATIEVA USA, INC.**

January 19, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Atieva USA, Inc.** (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 \$530,750,000 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.

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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.