

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion¹ (STE)

**GREEN VEHICLES, INC.
Application No. 10-SM018**

Wednesday, December 15, 2010

Prepared By: *Martha Alvarez*

SUMMARY

Applicant – Green Vehicles, Inc.

Location – Salinas, Monterey County

Industry – Advanced Transportation

Project – New Electric Vehicle Manufacturing Facility

Value of Qualified Property – \$3,708,050

Estimated Sales and Use Tax Exclusion Amount² – \$337,433

Estimated Net Benefits – \$2,746,669

Application Score³ –

Fiscal Benefits Points:	8,945
<u>Environmental Benefits Points:</u>	<u>194</u>
Net Benefits Score:	9,140
<u>Additional Benefits Points:</u>	<u>80</u>
Total Score:	9,220

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 9.1%.

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

THE APPLICANT

Green Vehicles, Inc. (“GREEN” or “Applicant”) is a Delaware C-corporation founded in 2008, with headquarters in Salinas, California. GREEN designs and integrates proprietary battery electric vehicle component technologies into its own freeway commuter, the Triac.

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

Mike Ryan
Nordam Inc.
Ehab Youssef

The corporate officers of GREEN are:

Mike Ryan, President, Board Member
Gordon Shafer – Chief Engineer
Ryan Sarnataro – Controller

THE PROJECT

GREEN has been producing the Triac - an electric vehicle - and selling to early-adopter customers since 2009; the company is now prepared to expand to volume production. The new manufacturing Facility in Salinas is an existing industrial facility equipped with the physical and electrical infrastructure required for automotive manufacturing.

The Applicant asserts this two-seat, three-wheel passenger vehicle is designed to reach speeds of 80 miles per hour and has a range of 100 miles per charge. The Triac, which will eventually be priced below \$25,000, is a fully battery-electric vehicle and completely displaces gasoline usage with electrical charging at home or at charging stations. According to the Applicant, low overall weight and efficiency-enhancing features, in conjunction with the electric drivetrain, will reduce air pollution and greenhouse gas emissions compared to conventional passenger vehicles. In volume production, GREEN expects the Triac to improve energy efficiency by 40.3 percent relative to the Nissan Leaf, the nearest competing battery-electric passenger vehicle, due in part to a size and form factor that achieves a reduction in curb weight (1,300 pounds less than the Nissan Leaf).

The Triac is the first commercial vehicle to utilize a continuously variable transmission coupled with an electric motor. According to the Applicant, this advanced transmission approach improves efficiency over the entire drive cycle, resulting in more than 10 percent improvement compared to known solutions within a typical drive cycle.

The California Energy Commission recently approved a grant of \$2.05 million for GREEN as part of the Alternative and Renewable Fuel and Vehicle Technology Program. GREEN also plans to submit a second Application to CAEATFA at a future date to include the remaining capital investment for a consideration of a sales and use tax exclusion.



Triac Model



Triac Model

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Phase I Pilot Line Purchases

Fabrication Equipment (axis water jet, welder robotic, manual mill, surface grinder, sheetmetal punch, etc.)	\$ 462,000
Sub-Assembly Equipment (terminal crimpers, body prep booth, etc.)	46,000
Vehicle Assembly (dynamometer motor and chassis, tire mounting and balancing equipment)	120,000
Assembly Aids (body mold set, frame, suspension and interior fixtures)	103,250
Support & Facilities (software, fork lift, modular building, servers, etc.)	195,800

Phase II Expansion Purchases

Fabrication Equipment (axis water jet, welder robotic, manual mill, etc.)	1,156,000
Sub-Assembly Equipment (wire stripper, cable tester, electronic test equip.)	230,000
Vehicle Assembly (tire mounting and balancing equipment, assembly conveyor system, tooling and support equipment)	220,000
Assembly Aids (body and interior molding equipment, vehicle storage system, frame, suspension and interior fixtures)	700,000
Support & Facilities (software, fork lift, rapid prototype, etc.)	475,000
Total	<u>\$3,708,050</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

GREEN's Project consists of two phases. Phase I will create a pilot manufacturing line in 2011, allowing GREEN to test its manufacturing processes at modest volume, with a projected peak capacity of 3,000 vehicles per year to meet projected demand through 2013. Phase II will create a commercial production line with capacity to manufacture 15,620 vehicles per year.

GREEN anticipates procuring the equipment possibly between January and April 2011, with the remaining purchases planned for completion by the end of 2013.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated at \$3,708,050 and the total net benefits are valued at \$2,746,669 for the Project. The Project received a Total Score of 9,220, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 194, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (8,945 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 \$3,018,494 resulting in a Fiscal Benefits score of 8,945 points for the Project. Staff believes this high fiscal benefit score may be a result of the Applicant's optimistic sales projections as it relates to its capital investments, although these projections match the projections presented to investors and the company's internal financial projections as included with the Application.
- B. **Environmental Benefits (194 points)**. The Project results in \$65,608 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 194 points for the Project. These benefits derive from the manufacturing of an electric vehicle as these vehicles deliver a net reduction in energy consumption and CO2 emissions relative to a comparable gasoline powered vehicle. Because the vehicles manufactured as a result of the Project is electric, the Applicant projects that the Project will conserve 26.43 million gallons of gasoline over the average useful life of the Qualified Property (8.39 years).
- C. **Additional Benefits (80 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 80 additional points.
 1. **Permanent Jobs (40 of 40 points)**. The Applicant's Project will support a total of 126 permanent new jobs at its Facility. CAEATFA estimates that

approximately 14 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. **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 \$48,311, resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The County of Monterey Planning Department has determined that GREEN’s expansion into its new manufacturing Facility is exempt from “project” status under CEQA since the company is moving into an existing industrial park, and the scope of work has no relevant environmental impact. The Applicant estimates a four-week review process for building permits (including machine shop tool set, electrical distributions, seismic engineering/installation of utility racks, and vehicle lifts) and anticipates having the permits approved by December 2010.

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 \$1,854.03 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 10-SM018 for Green Vehicles, Inc.’s purchase of Qualified Property in an amount not to exceed \$3,708,050 anticipated to result in an approximate sales and use tax exclusion value of \$337,433.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH GREEN VEHICLES, INC.**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Green Vehicles, Inc.** (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 an estimated cost not to exceed \$3,708,050 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).

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

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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.