

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

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

**Faraday&Future Inc.
 Application No. 18-SM008**

Tuesday, April 17, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Faraday&Future Inc.

Location – Hanford, Kings County; Compton, Los Angeles County; Gardena, Los Angeles County

Industry – Electric Vehicle Manufacturing

Project – New Electric Vehicle Manufacturing Facility (Advanced Transportation)

Currently Recommended for Approval	Total Project
Value of Qualified Property – \$239,234,449	Value of Qualified Property – \$250,000,000
Estimated STE Amount² – \$20,000,000	Estimated STE Amount – \$20,900,000
Estimated Quantifiable Net Benefits – \$19,039,568	Estimated Quantifiable Net Benefits – \$19,896,349

Application Score –

Fiscal Benefits Points:	1,902
<u>Environmental Benefits Points:</u>	<u>50</u>
Net Benefits Score:	1,952

<u>Additional Benefits Points:</u>	<u>91</u>
Total Score:	2,043

Staff Recommendation – Approval of an award for the purchase of up to \$239,234,449 in Qualified Property anticipated to result in an approximate sales and use tax exclusion of \$20,000,000, pursuant to the \$20 million in STE per Applicant cap.³

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 current average statewide sales tax rate of 8.36%.

³ California Code of Regulations Title 4, Division 13, Section 10032(a)(4)

THE APPLICANT

Faraday&Future Inc. (“Faraday Future” or the “Applicant”), a California corporation, was founded in 2015, and has businesses located in Hanford, Compton and Gardena dedicated to developing, prototyping and producing high-performance electric vehicles. Faraday Future’s first model will be its flagship FF91 vehicle, with other models following in the years to come.

On April 14, 2016, Faraday Future was approved for a tax credit of \$12,725,000 under the California Competes Tax Credit Program.

The major shareholders (10.0% or greater) of Faraday&Future Inc. are:



The corporate officers of Faraday&Future Inc. are:

- Jia Yueting, Chief Executive Officer
- Nick Sampson, Senior Vice President of R&D/Engineering
- Dag Reckhorn, Vice President of Global Manufacturing
- Peter Savagian, Vice President of Propulsion Engineering

THE PROJECT

Faraday Future is requesting a sales and use tax exclusion to upgrade its existing facilities in Compton and Gardena to facilitate research, design, and prototype testing of its first high-performance electric vehicle, the FF91, and construct a facility in Hanford that will manufacture its vehicles (the “Project”). The Gardena facility primarily will be used to perform research and development, and the Compton facility is designated for the assembly and testing of the prototype vehicles. Faraday Future represents that as production expands to full capacity, approximately 1,100 annual full-time equivalent employees will be employed at these locations.

The FF91 is built on Faraday Future’s Variable Platform Architecture (VPA), a powertrain that enables vehicles to be produced efficiently. According to the Applicant, the FF91 is revolutionary in design and performance and has unrivaled technical specifications. Faraday Future represents that the adaptable design of the FF91 enables the chassis to be extended and contracted depending on the vehicle’s need allowing the vehicle to store an adjustable number of

batteries by arranging them in “strings”. The removal or addition of battery strings will adjust the vehicle’s weight, energy efficiency, and distance travelled from one charge. The Applicant represents that the 130kWH battery will carry an industry leading range of 378 miles per charge and can charge the battery life to 80% in less than 30 minutes with DC charging. In comparison to other vehicles in its class, the FF91 has 1,050 horse power and allows drivers to travel from zero to 60 mph in 2.39 seconds while sitting in NASA inspired zero gravity seats. Moreover, as represented by Faraday Future, the FF91 offers several luxury features including driverless valet parking, highway auto drive, and fiber speed mobile internet. The flagship FF91 is expected to debut at the end of 2018.



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases for the total Project are listed below:

Body and Seat Assembly Equipment	\$ 78,000,000
Logistics Supplies	15,500,000
Body Paint Equipment	27,000,000
Powertrain Equipment	16,000,000
Stamping/Pressing Equipment	7,000,000
Battery Production Equipment	20,000,000
Safety Equipment	2,500,000
Tooling Equipment	14,000,000
Engineering Multimedia	18,000,000
Design Equipment	7,750,000
Testing/Prototyping Equipment	8,000,000
Vehicle Assembly Line	18,500,000
Welding Equipment	5,250,000
Facility Improvements	<u>12,500,000</u>
Total	<u>\$250,000,000</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 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

According to the Applicant, the Hanford facility will be committed to manufacturing the FF91 and possibly other more economical models after construction commences summer of 2018. The Applicant represents the installation of Qualified Property for the Compton facility and the Gardena facility will begin towards the end of 2018. Faraday Future anticipates the first FF91 vehicles will be produced towards the end of 2018, and that full production capacity will be reached in the next several years.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$250,000,000 and the total quantifiable net benefits are valued at \$19,896,349 for the Project. The Project received a Total Score of 2,043 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,902 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 \$39,742,774 resulting in a Fiscal Benefits score of 1,902 points for the Project.
- B. Environmental Benefits (50 points).** The Project will result in \$1,053,576 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 50 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 (91 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 91 additional points.
 - 1. Permanent Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 1,100 permanent jobs at its Facility. CAEATFA estimates that approximately 75 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 represents that the Project will support a total of 200 construction 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. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
3. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Hanford County which has an average annual unemployment rate of 9.6 %. This is above 110% of the statewide average annual unemployment rate which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.
4. **Non-CA Environmental Benefits (1 of 40 points)**. The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at \$42,995.03 resulting in a Non-CA Environmental Benefits Score of 1 point for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Faraday Future has sought building, water, air and occupancy permits from the City of Hanford and San Joaquin Valley Air Pollution Control District for the Project. These permits are expected to be approved by the end of June 2018.

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 of up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM008 for Faraday&Future Inc.'s purchase of Qualified Property in an amount not to exceed \$239,234,449 anticipated to result in an approximate sales and use tax exclusion value of \$20,000,000.

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

Agenda Item – 4.A.2
Resolution No. 18-SM008
Application No. 18-SM008

Program regulations state that if any STE is available at the last Board meeting of the calendar year, the Board may provide additional STE to Applicants that qualified for additional STE but were capped at \$20 million in STE.⁵ Because the Applicant requested a total of \$250,000,000 in Qualified Property, if STE is available in December 2018 and Faraday Future is still interested in pursuing an additional award, Staff may then work with Faraday Future to bring an updated Application before the Board for consideration. If multiple Applicants request additional STE, beyond the \$20 million cap, the remaining STE from the \$100 million allocation will be split evenly amongst the Applicants.

⁵ California Code of Regulations Title 4, Division 13, Section 10032(a)(4)(A)

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH FARADAY&FUTURE INC.**

April 17, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Faraday&Future 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 \$239,234,449 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.2
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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.