

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

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

**Chanje Energy, Inc.
Application No. 18-SM012**

Tuesday, June 19, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – Chanje Energy, Inc.

Location – Hawthorne, Los Angeles County

Industry – Electric Vehicle Manufacturing

Project – New Commercial Electric Vehicle Manufacturing Facility (Advanced Transportation)

Value of Qualified Property – \$22,329,400

Estimated Sales and Use Tax Exclusion Amount² – \$1,866,738

Estimated Quantifiable Net Benefits – \$85,573,152

Application Score –

Fiscal Benefits Points:	38,496
<u>Environmental Benefits Points:</u>	<u>8,345</u>
Net Benefits Score:	46,841

<u>Additional Benefits Points:</u>	<u>95</u>
Total Score:	46,936

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 8.36%.

THE APPLICANT

Chanje Energy, Inc. (“Chanje” or the “Applicant”), a Delaware corporation, was founded in 2015 as Nohm, Inc. and rebranded to Chanje Energy, Inc. in March 2017. The Applicant designs, manufactures, markets, and distributes commercial electric medium and heavy duty vehicles. The Applicant represents it has partnerships with companies such as Ryder Systems, Inc., Ranger Design, Inc., and Enel Group’s eMotorwerks, Inc.

The major shareholders (10.0% or greater) of Chanje Energy, Inc. are:

- FDG Electric Vehicles LTD, 76.67%
- Smith Electric Vehicles Corp., 17.78%

The corporate officers of Chanje Energy, Inc. are:

- Bryan Hansel, Chief Executive Officer
- Ian Gardner, President
- Joerg Sommer, Chief Operating Officer
- James Chen, Vice President and General Counsel

THE PROJECT

Chanje Energy, Inc. is requesting a sales and use tax exclusion to build a new commercial electric vehicle assembly facility located in Hawthorne (the “Project”). The Applicant represents it will be utilizing an existing facility and will be constructing the interior of the facility and installing equipment necessary in order to meet a goal of deploying an average of 13,500 vehicles annually. Chanje’s initial electric vehicle, the V8070, and its current vehicle, the V8100, are medium-duty panel vans. According to the Applicant, the V8070 already has volume orders, deliveries of which began in late 2017, and deliveries of the V8100 are anticipated to begin within the coming months. The Applicant also represents it is developing a range of zero-emission, battery-electric class 4, 5, and 6 vehicles.

Figure 1: Chanje’s V8100 Panel Van



The V8100, pictured in Figure 1, is Chanje’s current model, with a payload of 6,000 pounds and a 100 kWh battery with a range of 150 miles.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Assembly Process Equipment	\$17,007,500
Electrical and Lighting	1,705,400
Facility Infrastructure Upgrades	1,735,000
Global Headquarters Equipment and Furniture	340,000
Logistics Receiving and Returning	630,000
Office Electronics and IT	655,000
Workplace and Environmental Safety	256,500
Total	<u>\$22,329,400</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 the Project is anticipated to begin with construction on the interior of the existing facility on July 1, 2018. Chanje calculates that the Project will be complete by August 30, 2019.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$22,329,400 and the total quantifiable net benefits are valued at \$85,573,152 for the Project. The Project received a Total Score of 46,936 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 8,345 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (38,496 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 \$71,861,266 resulting in a Fiscal Benefits score of 38,496 points for the Project.

- B. Environmental Benefits (8,345 points).** The Project will result in \$15,578,624 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 8,345 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 (95 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 95 additional points.
- 1. Permanent Jobs (55 of 75 points).** The Applicant represents that the Project will support a total of 250 permanent 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 55 points for the Project.
 - 2. Construction Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of 10 construction jobs at its Facility. CAEATFA estimates that approximately one 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 (40 of 40 points).** The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at \$544,337 resulting in a Non-CA Environmental Benefits Score of 40 points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that the Project will require building, plumbing, mechanical, electrical, and food service permits. Chanje anticipates applications for each permit will be submitted by July 31, 2018, and that all permits will be obtained by the end of September 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,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$89,318.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM012 for Chanje Energy, Inc.'s purchase of Qualified Property in an amount not to exceed \$22,329,400 anticipated to result in an approximate sales and use tax exclusion value of \$1,866,738.

³ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH CHANJE ENERGY, INC.**

June 19, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Chanje Energy, 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 \$22,329,400 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.