

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Enovix Corporation
Application No. 23-SM037**

Tuesday, July 18, 2023

Prepared By: *Jeannie Yu, Program Analyst*

SUMMARY

Applicant – Enovix Corporation

Location – Fremont, Alameda County

Industry – Lithium Ion Battery Manufacturing

Project – Expansion of an Existing Lithium Ion Battery Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$30,382,973	\$2,540,017

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$1,914,806	754
Estimated Environmental Benefits	N/A	180
Additional Benefits	N/A	135
Total	\$1,914,806	1,069
Estimated Quantifiable Net Benefit	(\$625,210)	

Competitive Criteria Score – 135

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.36%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Enovix Corporation (the “Applicant”) is a Delaware corporation that formed in 2007 and publicly traded on the NASDAQ Stock Exchange under the ticker symbol ENVX. The Applicant currently has a battery pilot line and research and development operations in Fremont. According to the Applicant, the energy density of the Applicant’s battery cells is protected by 91 patents issued worldwide. The Applicant’s customer base includes businesses in the consumer electronics industry, many of which are in the United States.

On February 18, 2014, the CAEATFA Board granted the Applicant a sales and use tax exclusion (“STE”) award for the purchase of up to \$16,234,215 in Qualified Property for an estimated STE value of \$1,358,804 to produce lithium ion batteries using its patented 3-D wave architecture. As of December 2020, the Applicant has reported \$16,234,215 in Qualified Property purchases (100% of the total Qualified Property amount approved) and completed this project.

On May 18, 2021, the CAEATFA Board granted the Applicant a second STE award for the purchase of up to \$49,075,888 in Qualified Property for an estimated STE value of \$4,171,450 to upgrade and expand its existing lithium ion battery manufacturing facility located in Fremont. As of December 2022, the Applicant has reported \$41,486,595.83 in Qualified Property purchases (84% of the total Qualified Property amount approved).

The corporate officers of the Applicant are:

Raj Talluri, President & CEO

Steffen Pietzke, Chief Financial Officer

Ajay Marathe, Chief Operating Officer

Murali Ramasubramanian, SVP, Research & Development

Ralph Schmitt, Chief Commercial Officer

THE PROJECT

The Applicant is requesting an STE award to expand its existing lithium ion battery manufacturing facility located in Fremont (the “Project”). The Applicant states upgrades will be made to its first manufacturing line (the “Fab-1 Line”) and new Agility Line. The Fab-1 Line produces lithium battery units to ship to customers and serves as the Applicant’s small cell line for wearable products. The Agility Line is being built to manufacture a multitude of qualified batteries that can be installed into customer products. According to the Applicant, its manufacturing process differs from traditional battery manufacturers in that it focuses on the architectural design of battery cells to increase the lifespan of a product as opposed to utilizing a chemical-based technology. Distinctively, the Applicant’s batteries include a patented 3-D cell architecture that contains an exclusive 100% silicon anode, which allows for batteries to achieve 50% to 100% more power density and maintain a longer life cycle when compared to the industry standard carbon anode. The Applicant states it uses advanced materials such as engineered silicon particles that are not being used by other battery manufacturer.

The Applicant states its battery requires 33% less material in the cell to achieve the same energy efficiency as traditional batteries, leading to an overall reduction in cell materials, such as metals, solvents, and packaging materials. The Applicant states that its manufacturing process is one of a kind and will be co-developed with custom-made high-precision automated tools for fabricating its battery architecture. That custom machinery will consist of laser process tools that utilize computer vision systems and feed-forward algorithms to ensure proper processing of the Applicant's electrodes to minimize scrap and material waste. Moreover, the Applicant states its ability to create a higher density battery will reduce the overall energy consumption at its facility and reduce the use of harmful chemicals that are commonly heat evaporated and released into the atmosphere.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Agility Line Zone 0 and 1	\$6,230,000
Agility Line Zone 2	\$7,000,000
Agility Line Zone 3	\$3,046,200
Agility Line Zone 4	\$2,185,000
Fab 1 Equipment	\$11,921,773
Total	<u>\$30,382,973</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, purchase orders have been placed with equipment vendors, and the Agility Line and equipment are currently expected to be placed in service in Q4 of 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states there are no additional permits required to upgrade its facility.

COMPETITIVE CRITERIA SCORE

The Applicant received 135 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points)**. The Application does not have a Recycled Resource Extraction Project or Project that produces an Advanced Transportation Technology or an Alternative Source product, component, or system. Therefore, zero are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant's Project is located in Alameda County, which has an average annual unemployment rate of 3.3%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (45 of 75 points)**. The Applicant anticipates the Project will support a total of 425 production-related jobs at its Facility. CAEATFA estimates that approximately 13.10 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
4. **California Headquarters (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.
7. **Emerging Strategic Industry (75 of 75 points)**. The Project's industry, lithium battery production, is in an Emerging Strategic Industry, and, therefore, 75 points are awarded.

⁵ Unemployment rates are based on data available in October 2022.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,069 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 180 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (754 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales and use taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$1,914,806 resulting in a Fiscal Benefits score of 754.
- B. Environmental Benefits (180 points).** The Project earned an Environmental Benefits Score of 180. The Applicant received points in the following categories:

 - 1. Energy Consumption (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will use 33% less energy for the same amount of batteries produced by other battery manufacturers.
 - 2. Water Use (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will use 33% less water for the same amount of batteries produced by other battery manufacturers.
 - 3. Solid Waste (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will produce 33% less solid for the same amount of batteries produced by other battery manufacturers.
 - 4. Hazardous Waste (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will generate 33% less hazardous for the same amount of batteries produced by other battery manufacturers.
 - 5. Air Pollutants (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry

standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will generate 33% less air pollutants for the same amount of batteries produced by other battery manufacturers.

6. **Other Pollutants (30 of 30 points).** The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process by producing batteries that have a volumetric energy density that is on average 50% higher, thus its facility will generate 33% less other pollutants for the same amount of batteries produced by other battery manufacturers.

C. **Additional Benefits (135 points).** Applicants may earn additional points for their Total Score. The Applicant received 135 additional points.

1. **Production Jobs (45 of 75 points).** The Applicant anticipates the Project will support a total of 425 production-related jobs at its Facility. CAEATFA estimates that approximately 13.10 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
2. **Construction Jobs (0 of 75 points).** The Applicant anticipates the Project will support a total of zero construction jobs at its Facility. CAEATFA estimates that approximately zero of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
3. **Unemployment (0 of 50 points).** The Applicant's Project is located in Alameda County, which has an average annual unemployment rate of 3.3%. When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
4. **Research and Development Facilities (25 of 25 points).** The Applicant has verified that it has a facility located in California that performs research and development functions related to the production of lithium batteries.
5. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental, and vision benefits, bonuses, dependent care & assistance reimbursement, transportation subsidies, and paid leave to its employees, earning the Applicant 25 points.
6. **Emerging Strategic Industry (40 of 40 points).** The Project's industry, lithium battery production, is in an Emerging Strategic Industry, earning the Applicant 40 points.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with STE Program regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$121,531.89.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM037-01 for Enovix Corporation's purchase of qualifying tangible personal property in an amount not to exceed \$30,382,973 anticipated to result in an approximate STE value of \$2,540,017.

⁶ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH ENOVIX CORPORATION**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Enovix Corporation** (the “Applicant”) for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$30,382,973 over a period of three (3) years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.