

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Archer Aviation, Inc. and Archer Air LLC
Application No. 24-SM025**

Tuesday, July 16, 2024

Prepared By: *Matthew Newman, Technical Consultant, Blue Sky Consulting Group*

SUMMARY

Applicant – Archer Aviation, Inc. and Archer Air LLC

Location – San Jose, Santa Clara County

Industry – Electric Vertical Take-Off and Landing Aircraft Manufacturing

Project – Expansion of Existing Electric Propulsion System and Electric Vertical Take-Off and Landing Aircraft Production Facilities (Advanced Transportation)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$117,250,000	\$9,895,900

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$48,752,604	4,927
Estimated Environmental Benefits	\$4,571,872	462
Additional Benefits	N/A	99
Total	\$53,324,476	5,488
Estimated Quantifiable Net Benefit	\$43,428,576	

Competitive Criteria Score – 155

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 8.44%.

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).)

THE APPLICANT

Archer Aviation, Inc. and Archer Air LLC (collectively the “Applicant”) are headquartered in San Jose. Archer Aviation, Inc. is publicly traded on the New York Stock Exchange under the ticker ACHR and was incorporated in 2020. Archer Air LLC is a limited liability company formed in 2022 for the purpose of holding FAA licenses and certification, and to run the business’s air taxi. The Applicant is designing and developing a new and novel form of transportation, an electric vertical takeoff and landing (eVTOL) aircraft. The aircraft is initially targeted for use in urban air mobility networks in major U.S. cities and other major cities globally. The Applicant’s mission is to unlock the skies, helping address the congestion issues prevalent in major cities across the world. The proprietary electric propulsion system and aircraft that are being designed and developed by the Applicant are intended to help propel the world toward a zero-emission future and are designed to be safe, sustainable, and low noise.

The corporate officers of the Applicant are:

Adam Goldstein, Founder & CEO

Geoff Bower, Chief Engineer

Mark Mesler, CFO

Tom Muniz, CTO

Tosha Perkins, Chief People & Partnerships
Officer

Eric Lentell, General Counsel

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to support expansion of its existing test and production facilities for electric propulsion system and electric aircraft located in San Jose (the “Project”). These facilities have been operational since 2023 and are being used for ongoing research and development, testing, and as its initial production facility for its lithium-ion battery packs, electric engine, and its eVTOL aircraft, with the initial model called Midnight. Midnight is designed to carry four passengers plus a pilot up to 100 miles at speeds up to 150 mph and is optimized for back-to-back short distance trips of around 20 miles, with a charging time of approximately 10 minutes between trips. The Applicant is working to certify Midnight with the Federal Aviation Administration (FAA) as promptly as possible so that it can enter into commercial service.

The Applicant plans to primarily generate revenue from: 1) the direct sales of its eVTOL aircraft to customers, such as its strategic partner and customer, United Airlines; and 2) from operating an electric air taxi service using its Midnight aircraft to be deployed in select cities globally, with the goal to be able to offer the service at a price that is competitive with ground-based ride share options.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing and Production Equipment, Machinery & Related Property	\$39,000,000
Testing and Quality Control Equipment & Related Property	\$27,000,000
Research & Development, Design, Engineering Property	\$15,000,000
Construction of Facilities, Upgrades and Improvements to Real Property	\$28,000,000
IT, Computer, and Electronic Property	\$7,000,000
Storage Systems, Logistics and Related Property	\$1,250,000
Total	<u>\$117,250,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. In accordance with 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

The Applicant plans to begin purchasing and installing Qualified Property at its San Jose facilities in 2024.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant does not require any additional certifications, permitting, or approvals to conduct the research and development, testing, production or flight test activities contemplated as part of this Project. However, the Applicant will use the aircraft built as a result of the facilities that are a part of this Project to further its ongoing work to certify its Midnight aircraft with the FAA.

COMPETITIVE CRITERIA SCORE

The Applicant received 155 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points).** The Application has a Project that produces an Advanced Transportation Technology and, therefore, 100 points are awarded.

2. **Unemployment (0 of 50 points).** The Applicant’s primary Facility is located in Santa Clara County, which has an average annual unemployment rate of 3.3%.⁴ When compared to the statewide average annual unemployment rate of 4.6%, the Project location earned the Applicant zero points.
3. **Job Creation (40 of 75 points).** The Applicant anticipates the Project will support a total of 729 production-related jobs at its Facilities. CAEATFA estimates that approximately 36.94 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 40 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 (0 of 75 points).** The Project’s industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 5,488 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 462 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (4,927 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 \$48,752,604, resulting in a Fiscal Benefits score of 4,927.
- B. **Environmental Benefits (462 points).** The Project is anticipated to result in \$4,571,872 of total pollution benefits over the life of the Project, resulting in an

⁴ Unemployment rates are based on data available in December 2023.

Environmental Benefits Score of 462 points. These benefits derive from replacing fossil fuel powered vehicle trips with flights powered by the Applicant’s electric aircraft.

- C. **Additional Benefits (99 points).** Applicants may earn additional points for their Total Score. The Applicant received 99 additional points.
1. **Production Jobs (40 of 75 points).** The Applicant anticipates the Project will support a total of 729 production-related jobs at its Facilities. CAEATFA estimates that approximately 36.94 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 40 points.
 2. **Construction Jobs (0 of 75 points).** The Applicant anticipates the Project will support a total of 15 construction jobs at its Facilities. CAEATFA estimates that approximately 0.76 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 Santa Clara County, which has an average annual unemployment rate of 3.3%.⁵ When compared to the statewide average annual unemployment rate of 4.6%, the Project location earned the Applicant zero points.
 4. **Non-CA Environmental Benefits (9 of 40 points).** The Applicant’s total value of out-of-state non-greenhouse gas emissions pollution benefits are valued at \$184,280 resulting in a Non-CA Environmental Benefits Score of 9 points for the Project.
 5. **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 producing its electric aircraft.
 6. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental, and vision benefits, retirement, education reimbursement, and paid leave benefits to its employees, earning the Applicant 25 points.

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.

⁵ Unemployment rates are based on data available in December 2023.

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 \$350,000.

RECOMMENDATION

Staff recommends the approval of Resolution No. 24-SM025-01 for Archer Aviation, Inc. and Archer Air LLC's purchase of qualifying tangible personal property in an amount not to exceed \$117,250,000, anticipated to result in an approximate STE value of \$9,895,900.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH ARCHER AVIATION, INC.
AND ARCHER AIR LLC**

July 16, 2024

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Archer Aviation, Inc. and Archer Air LLC** (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 \$117,250,000 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.