

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

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

**Tesla Motors, Inc.
Application No. 13-SM015**

Tuesday, December 17, 2013

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Tesla Motors, Inc.

Location – Fremont, Alameda County; Palo Alto, Santa Clara County and Hawthorne, Los Angeles County

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facilities

Value of Qualified Property – \$415,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$34,735,500

Estimated Net Benefits – \$24,418,775

Application Score –

Fiscal Benefits Points:	1,563
<u>Environmental Benefits Points:</u>	<u>140</u>
Net Benefits Score:	1,703

<u>Additional Benefits Points:</u>	<u>66</u>
Total Score:	1,769

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 8.37%.

THE APPLICANT

Tesla Motors, Inc. (“Tesla” or “Applicant”) was incorporated in 2003 in Delaware and is headquartered in Palo Alto, California. Tesla designs, manufactures and sells electric vehicles and electric vehicle powertrain components. Tesla’s products include the Model S sedan and the Model X crossover, and previously included the Roadster, which concluded production at the end of 2012. Tesla also sells electric powertrain systems and components to Daimler AG and Toyota. The Applicant also owns its entire sales and service network for its electric vehicles.

The major shareholders (10.0% or greater) of Tesla Motors, Inc. are:

Elon Musk

The corporate officers of Tesla Motors, Inc. are:

Elon Musk – Chief Executive Officer
Deepak Ahuja – Chief Financial Officer
Jeffrey B. Straubel – Chief Technology Officer
Jermoe Guillen – Vice President
Gregory D. Reichow – Vice President

BACKGROUND

Tesla currently benefits from a STE awarded by CAEATFA in December 2009, prior to the establishment of the STE Program, for up to \$320 million for the equipment and tooling required for the production of its Model S sedan and for powertrain components it manufactures for Daimler AG and, previously, for the Tesla Roadster. To date, Tesla has submitted \$315 million to CAEATFA through the conveyance/reconveyance process. Tesla anticipates exhausting the remaining award amount by the end of 2013. The agreement will terminate on December 31, 2013.

In addition, Tesla received a second STE award from CAEATFA in December 2011 under the existing STE Program for up to \$292 million for equipment and tooling required for the development and production of the Tesla Model X and the expansion of manufacturing activities for electric vehicle powertrain components, including those sold to Toyota. To date, Tesla has submitted \$24 million to CAEATFA through the conveyance/reconveyance process. Tesla anticipates using the remaining STE award by the end of 2015.

THE PROJECT

For the purposes of this Application, Tesla will focus is capital expenditures in three primary project areas: 1) the expansion of Model S manufacturing capabilities, 2) the expansion of electric vehicle powertrain production and 3) the continuous development of the Model S program for future electric vehicle development (the “Project”).

Tesla currently manufactures the Model S sedan, which is a fully electric, four-door passenger sedan. Tesla represents that the vehicle has a range of up to 265 miles on a single charge. Deliveries of the Model S began in June 2012, and by the end of 2012, Tesla had delivered

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approximately 2,650 vehicles and produced over 3,100. In the first half of 2013, Tesla delivered over 10,000 Model S sedans and is on pace for a total of 21,000 deliveries in 2013.

Tesla will spend approximately \$310 million to expand its Model S production and development capabilities. By making additional capital purchases to expand its body shop, stamping line, vehicle assembly, plastics shop, production control, tooling and prototyping, Tesla anticipates it will produce approximately 35,000 additional Model S vehicles per year. This is an addition to the Applicant's current annual run rate of approximately 25,000 Model S vehicles per year. The capital expenditures for production will be focused on the Fremont and Palo Alto facilities, while the expansion of design related activities will take place at the Hawthorne facility.

Tesla also anticipates spending approximately \$105 million to expand and integrate its powertrain production activities in Fremont and Palo Alto.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Model S Capital Requirements

Body shop equipment	\$63,000,000
Stamping line equipment	53,000,000
CNC machining equipment	26,000,000
Vehicle assembly equipment	24,000,000
Paint equipment	23,000,000
Facility improvements	21,000,000
Plastics shop equipment	20,000,000
Castings equipment	18,000,000
Equipment engineering equipment	7,000,000
Production control	6,000,000
Vehicle sustaining equipment	6,000,000
Tool and die manufacturing equipment	2,000,000

Component Tooling

Body	14,000,000
Chassis	12,000,000
Interior	10,000,000
Electrics	3,000,000
Thermal	2,000,000

Powertrain Componentry Capital

Battery processing equipment	21,000,000
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Assembly equipment	32,000,000
Charging and final test equipment	12,000,000
Conveyance equipment and systems	31,000,000
Facility improvements	5,000,000
Materials receiving and racking	<u>4,000,000</u>
Total	<u>\$415,000,000</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 agreement a finalized project equipment list will be prepared detailing the value of the Project equipment and the estimated tax benefit realized. Variations from the costs shown in the Application and in this report may occur prior to or following the execution of the master agreement due to changes in costs of certain components of the Project from original estimates, common design and equipment modifications during construction, differences in equipment due to future changes in law or regulation, or for other reasons.

TIMELINE

Tesla anticipates beginning the purchases for its project by the end of 2013.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$415,000,000 and the total net benefits are valued at \$24,418,775 for the Project. The Project received a Total Score of 1,769 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 140 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1563 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 \$54,306,869 resulting in a Fiscal Benefits score of 1,563 points for the Project.
- B. Environmental Benefits (140 points).** The Project will result in \$4,847,406 of total pollution benefits over the life of the Facilities resulting in an Environmental Benefits Score of 140 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 (66 of 200 points).** Applicants may earn up to 200 additional points for their Total Score. The applicant submitted information and received 66 additional points.

1. **Permanent Jobs (35 of 75 points)**. The Applicant’s Project will support a total of 2,000 permanent jobs at its Facility. CAEATFA estimates that approximately 112 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 35 points for the Project.
2. **Construction Jobs (0 of 75 points)**. The Applicant’s Project will support a total of 50 construction jobs at its Facility. CAEATFA estimates that approximately 3 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 (6 of 40 points)**. The Applicant’s total value of out-of-state non-greenhouse gas pollution benefits are valued at \$418,025 resulting in a Non-CA Environmental Benefits Score of 6 points for the Project.
4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the manufacturing of electric vehicles.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Tesla has indicated that it has acquired all necessary permits in order to proceed with its Project.

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 \$350,000.

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

RECOMMENDATION

Staff recommends approval of Resolution No.13-SM015 for Tesla Motor, Inc.'s purchase of Qualified Property in an amount not to exceed \$415,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$34,735,500.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH TESLA MOTORS, INC.**

December 17, 2013

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Tesla Motors, 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 \$415,000,000 over a period of 3 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.