

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)¹

**TESLA MOTORS, INC
Application No. 11-SM016**

Tuesday, December 13, 2011

Prepared By: *Heather Williams*

SUMMARY

Applicant –Tesla Motors, Inc

Location – Fremont (Alameda County), Palo Alto (Santa Clara County), Hawthorne (Los Angeles County) and Menlo Park (San Mateo County)

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facilities for New Production Lines

Value of Qualified Property – \$292,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$23,652,000

Estimated Net Benefits - \$13,758,246

Application Score³ -

Fiscal Benefits Points:	1,481
<u>Environmental Benefits Points:</u>	<u>101</u>
Net Benefits Score:	1,582
<u>Additional Benefits Points:</u>	<u>13</u>
Total Score:	1,594

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 upon the average statewide sales tax rate of 8.1%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

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 Tesla Roadster and the planned Tesla Model S sedan. Tesla also sells electric powertrain components, including lithium-ion battery packs, to other automakers like Daimler AG and Toyota.

The major shareholders (10.0% or greater) of Tesla are:

Elon Musk (28.4%)
FMR LLC (Fidelity Funds), (14.95%)

The corporate officers of Tesla are:

Elon Musk, Chairman and Chief Executive Officer
Deepak Ahuja, Chief Financial Officer
Jeffrey B. Straubel, Chief Technology Officer
Gilbert Passin, Vice President Manufacturing
George Blankenship, Vice President, Sales and
Ownership Experience
Eric S. Whitaker, General Counsel

BACKGROUND

Tesla currently benefits from a STE awarded by CAEATFA in December 2009, prior to establishment of the SB 71 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 the Tesla Roadster. To date, Tesla has committed approximately \$180 million of this amount to its vendors of which \$70.5 million has been submitted to CAEATFA through the conveyance/reconveyance process. Tesla anticipates exhausting the remaining existing STE award by the end of 2012.

THE PROJECT

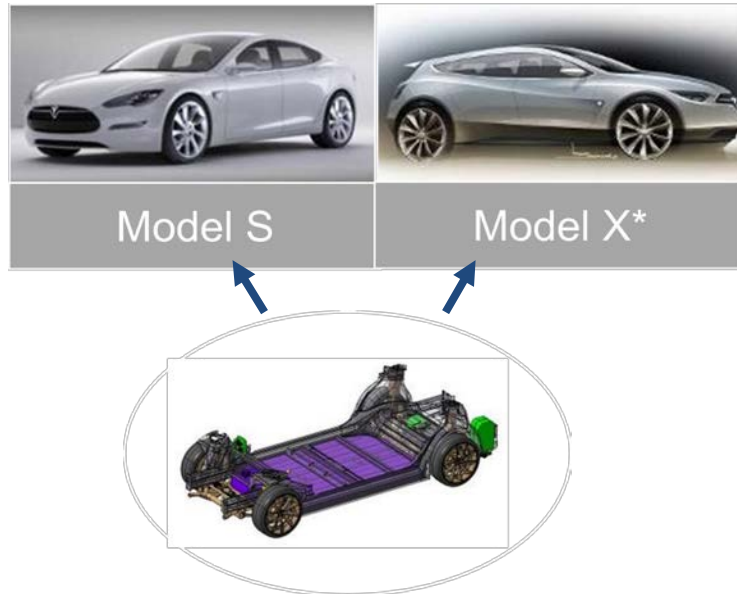
This Application is a new request for STE for two additional projects: 1) Tesla Model X production and 2) expansion of manufacturing activities for electric vehicle powertrain components, including those for the Toyota Rav4EV.

Project 1: Model X Tooling and Manufacturing

The Model X is a crossover model that will be Tesla’s third vehicle. Tesla is designing the Model X to incorporate the functionality of a minivan with the consumer appeal of a sports utility vehicle. The Applicant intends the Model X to leverage the powertrain and the platform of the Model S, saving substantial development costs, and enabling Tesla to launch the Model X at a price competitive with its peers. Tesla currently plans to reveal a prototype Model X in the

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first quarter of 2012, followed by commercial introduction of this vehicle in the fourth quarter of 2013. The Applicant anticipates it will make the Model X available with three price ranges, with a current target production rate of approximately 10,000-15,000 cars per year. The design, development and integration will principally occur in Tesla's design studio in Hawthorne and corporate headquarters in Palo Alto. Production will occur in the existing Tesla factory in Fremont, the former Toyota – General Motors New United Motor Manufacturing, Inc. (NUMMI) facility.



* Concept Only

Project 2: Expansion of Powertrain Activities

In July 2010, Tesla entered into an early phase agreement to develop an electric powertrain for the Toyota RAV4. Under this agreement prototypes have been made by combining the Toyota RAV4 model with the Tesla electric powertrain. In October 2010, Tesla entered into an additional agreement with Toyota for the development of a validated powertrain system, including a battery, power electronics module, motor, gearbox and associated software, which will be integrated into an electric vehicle version of the Toyota RAV4. Tesla anticipates completing the development services by the end of the first quarter of 2012, after which time Tesla intends to manufacture the powertrain components for Toyota. Tesla anticipates that Toyota will begin to market the electric vehicle in the United States in 2012. Tesla intends to develop the prototypes and production components in the Palo Alto and Fremont facilities. Tesla also anticipates expanding its powertrain manufacturing activities beyond current arrangements with Daimler and Toyota and building additional vehicle and powertrain components for its own vehicles.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Powertrain Componentry Capital Requirements	
Materials Receiving and Racking	\$ 5,000,000
Battery Processing Equipment	32,000,000
Assembly Equipment	44,000,000
Charging and Final Test Equipment	38,000,000
Conveyance Equipment & Systems	13,000,000
Facility Improvements	20,000,000
Manufacturing and Test Equipment (Toyota)	1,000,000
Tooling for Battery Pack Enclosures, Motor, Electronics and Transmission	1,000,000
Model X Capital Requirements – Plant Capital	
Stamping Line Equipment	7,000,000
Paint Equipment	7,000,000
Vehicle Assembly Equipment	5,000,000
Body Shop Equipment	15,000,000
Plastics Shop Equipment	10,000,000
Facility Improvements	5,000,000
Component Tooling	
Body	53,000,000
Chassis	10,000,000
Interior	12,000,000
Powertrain	5,000,000
Electrics	4,000,000
Thermal	5,000,000
Total	<u>\$292,000,000</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 conveyance/reconveyance agreement a finalized Project equipment list will be prepared detailing the value of the Project equipment conveyed and reconveyed and detailing the actual tax benefit realized pursuant to Revenue and Tax Code Section 6010.8. Variations 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 from 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

Tesla anticipates it will begin purchasing equipment for both the Model X production and the powertrain activities during the fourth quarter of 2011. The Model X equipment is anticipated to be placed in service in time to launch the Model X in 2013, and the powertrain equipment will be placed in service within a month or two after installation.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$292,000,000 and the total net benefits are valued at an estimated \$13,758,246 for the Project. The Project received a Total Score of 1,594 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 101 points, which exceeds the 100 point threshold.

- A. **Fiscal Benefits (1,481 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 an estimated \$35,023,610 resulting in a Fiscal Benefits Score of 1,481 points for the Project.
- B. **Environmental Benefits (101 points)**. The Project will result in an estimated \$2,386,636 of total pollution benefits over the lifetime of the Qualified Property resulting in an Environmental Benefits Score of 101 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 (13 of 200 points)**. Applicants may earn up to 200 additional points for their Total Score. The Applicant submitted information and received 13 additional points.
 1. **Permanent Jobs (0 of 40 points)**. The Applicant's Project will support a total of 1,187 permanent jobs at its Facility. CAEATFA estimates that 104 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.
 2. **Construction Jobs (0 of 20 points)**. The Applicant's Project will support a total of 50 construction jobs at its Facility. CAEATFA estimates that

approximately four 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 (13 of 40 points):** The Applicant's total value of out-of state non-greenhouse gas pollution benefits are valued at \$595,864 resulting in a Non-CA Environmental Benefits Score of 13 points for the project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

All permits for the use of the Fremont facility as an automotive production facility have been secured. The Palo Alto facility is currently operational and all permits for the use of the facility secured. Tesla is in the process of finishing the leaseholder improvements to the Hawthorne facility. All modifications should be completed and final permits received by the 1st Quarter of 2012.

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 \$5,000 and will pay CAEATFA an Administrative Fee up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 11-SM016 for Tesla Motors, Inc.'s purchase of Qualified Property in an amount not to exceed \$292,000,000 anticipated to result in an approximate sales and use tax exclusion value of \$23,652,000.

⁴ California Code of Regulations Title 4, Division 13, Article 2, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A TITLE
CONVEYANCE AGREEMENT WITH TESLA MOTORS, INC.**

December 13, 2011

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 conveyance/reconveyance of title agreement (the “Agreement”) regarding tangible personal property 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 transferring title of Project equipment with an estimated cost not to exceed \$292,000,000 over a period of three years; and

WHEREAS, the Agreement will provide that the Applicant will, prior to any use of the Qualified Property, transfer title at no cost to the Authority from time to time as purchases of Qualified Property are made and the Authority will then transfer title back to the Applicant without having taken possession of the Qualified Property; 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(g)(2).

Section 2. The requested conveyance agreement constitutes “financial assistance” within the meaning of Public Resources Code Section 26003(e)(2).

Section 3. The Applicant is a “participating party” within the meaning of Public Resources Code Section 26003(f).

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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.

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 conveyance 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.