

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

***Consideration of Tesla Motors, Inc.'s Request to Approve a Time Extension for the 25%
Purchase Requirement and the Three Year Purchase Requirement
Under the SB 71 Program***

Tuesday, December 11, 2012

Prepared By: *Cheryl Ide*

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 Amount¹ – \$23,652,000

Amount of Time Requested:

- 1 year, 3 months (March 15, 2014) for the 25% Purchase Requirement
- 1 year, 18 days (December 31, 2015) for the Three Year Purchase Requirement (4 years, 18 days from Initial Board Approval Date)

SUMMARY

On December 13, 2011, the CAEATFA Board approved a sales and use tax exclusion for the purchase of \$292,000,000 in Qualified Property for the expansion of electric vehicle manufacturing facilities and new production lines for its Model X sports utility vehicle (“SUV”) for Tesla Motors, Inc. (“Tesla” or the “Applicant”). The Qualified Property will be located in Fremont (Alameda County), Palo Alto (Santa Clara County), Hawthorne (Los Angeles County) and Menlo Park (San Mateo County). The SB 71 Program (“Program”) requires that Tesla purchase 25% (\$73,000,000) of the total approved Qualified Property within the first year, the “25% Purchase Requirement.”² This Program requirement serves as an indicator of readiness and assists in incentivizing timely economic activity. The 25% Purchase Requirement can be waived by the Board upon a finding that a waiver is in the public interest and advances the

¹ This amount is calculated based upon the average statewide sales tax rate of 8.1%.

² Regulation Section 10035(c)(1)

purposes of the Program.³ As of November 26, 2012, Tesla has conveyed \$524,000 (0.18%) of Qualified Property.

In October 2012, CAEATFA staff sent the Applicant a courtesy reminder of the 25% Purchase Requirement. Tesla responded by requesting an extension of the 25% Purchase Requirement to March 15, 2014 and an extension of the Three-Year Purchase Requirement to December 31, 2015 to accommodate unforeseen delays in production of the Model X SUV in order to focus its energy and capital resources on the Model S sedan. (Attachments A).

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

Project Description

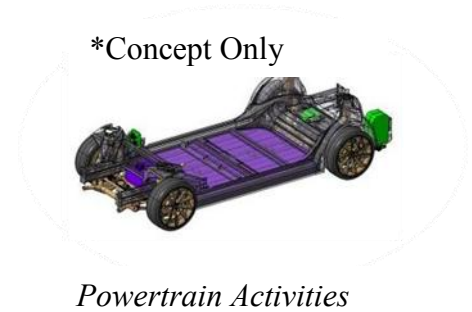
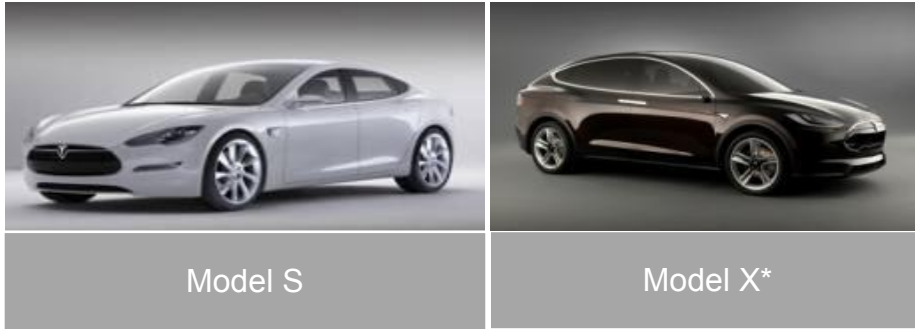
The Application approved by the Board includes two projects: 1) Tesla Model X production and 2) expansion of manufacturing activities for electric vehicle powertrain components, including those for the Toyota Rav4 EV.

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. Tesla has designed 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 revealed a prototype Model X in the first quarter of 2012, with an anticipated commercial introduction of this vehicle in 2014. Tesla 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 is occurring in Tesla’s design studio in Hawthorne and corporate headquarters in Palo Alto. Production will be done in the existing Tesla factory in Fremont, the former Toyota – General Motors New United Motor Manufacturing, Inc. (NUMMI) facility.

Tesla represents its launch of the Model X was the most successful in its history, with over 500 reservations (each reservation requires a \$5,000 refundable minimum payment) received within the first 24 hours. While Tesla does not disclose current Model X reservations, Tesla does represent that reservations have continued to grow, especially considering its limited marketing of the vehicle.

³ Regulation Section 10035(c)(1)(A)



Project 2: Expansion of Powertrain Activities

In July 2010, Tesla entered into an agreement to develop an electric powertrain for the Toyota RAV4 EV. Tesla has developed prototypes and a fully validated version of the Toyota RAV4 EV and began shipping production powertrain systems to Toyota from its Palo Alto facility during the first quarter of 2012. Tesla anticipates expanding production of the Toyota RAV4 EV, expanding its powertrain manufacturing activities beyond current arrangements with Daimler and Toyota and building additional vehicle and powertrain components for its own vehicles.

Waiver Request

Tesla has requested a waiver of the 25% Purchase Requirement and the Three Year Purchase Requirement due to a change in the production plans for the Model S and Model X. When Tesla originally applied for the Model X exemption, it had assumed that the Model X and Model S would be developed in parallel. Tesla subsequently modified its business plan and instead chose to focus its resources primarily on the development of the Model S. As its first large scale vehicle production effort, a successful launch and positive first impression were deemed critical to the company and for the success of its future vehicles, including the Model X. Now that the Model S has been launched, Tesla is ready to continue Model X development.

The focus on the Model S has only slightly delayed the development of the Model X. Next year Tesla intends to begin making partial payments towards tooling and equipment for the Model X and anticipates that it will be able to meet the new Qualified Property deadlines as requested in this waiver.

In addition, Tesla represents that by focusing on the Model S it has actually created more jobs than anticipated due to the insourcing of manufacturing activity at the Fremont facility. Tesla anticipates that will enable at least 700 additional jobs in California with the production of the Model X and expansion of its powertrain facilities.

Staff Evaluation

According to the Program's evaluation process at the time of the initial Board approval, the Project is anticipated to produce a net benefit of an estimated \$13,758,246 with an anticipated

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fiscal benefit of \$35,023,610 and anticipated environmental benefit of \$2,386,636 over the life of the equipment (weighted average of 14.29 years).

Tesla has represented that delays were necessary for the development and successful launch of the Model S. Tesla has further represented that the requested time extensions will allow the Project to move forward. Granting the waivers will allow the Project to proceed and the State to receive the anticipated environmental and economic benefits that justified the initial approval of the Project. Based on the foregoing, staff believes that extending the 25% Purchase Requirement and Three-Year Purchase Requirement is consistent with the intent of the Program, is in the public interest, and advances the purposes of the Program.

Staff Recommendation: Staff recommends Board approval of the attached resolution that finds that it is in the public interest and advances the purposes of the Program to extend the 25% Purchase Requirement to March 31, 2014 and the Three-Year Purchase Requirement to December 31, 2015 for Tesla Motors, Inc. pursuant to Regulations Section 10035(c)(1)(A) and (B).

Attachments

Attachment A: Tesla's Letter Requesting Waiver (October 12, 2012)

Attachment B: Staff Summary on December 13, 2011

**A RESOLUTION OF THE
CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION
FINANCING AUTHORITY APPROVING A TIME EXTENSION OF THE 25%
PURCHASE REQUIREMENT AND THE THREE YEAR PURCHASE REQUIREMENT
FOR TESLA MOTORS, INC.**

December 11, 2012

WHEREAS, on December 13, 2011 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$292,000,000 of Qualified Property for **Tesla Motors, Inc.** (the “Applicant”); and

WHEREAS, within one year of approval by the Authority, the Applicant must make purchases of Qualified Property totaling not less than twenty-five percent (25.0%) of the total amount listed in the approval resolution;⁴ and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution;⁴ and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that the Applicant purchase at least twenty-five percent (25.0%) of the Qualified Property within one year of Board Approval;⁵ and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval;⁶ and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase 25% of Qualified Property within the first year, to address unanticipated delays in the Project’s Model X product launch, and requests extension of the term from December 13, 2012 to March 15, 2014; and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, to address unanticipated delays in the Project’s Model X product launch, and requests extension of the term from December 13, 2014 to December 31, 2015; and

WHEREAS, granting the waiver will allow the Project to proceed and the State to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

⁴ California Code of Regulations, Title 4, Regulations Section 10035(c)(1)

⁵ California Code of Regulations, Title 4, Regulations Section 10035(c)(1)(A)

⁶ California Code of Regulations, Title 4, Regulations Section 10035(c)(1)(B)

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

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Program to waive the requirement that the first year purchases of Qualified Property are at least twenty-five percent (25.0%) of the total amount listed in the approval resolution, and to extend the term to March 15, 2014.

Section 2. The Authority finds that it is in the public interest and advances the purposes of the Program to waive the requirement that all the Qualified Property in the amount listed in the approval resolution be purchased within three years, and to extend the term to December 31, 2015.

Section 3. This resolution shall take effect immediately upon its passage.

Attachment A: Tesla's Letter Requesting Waiver



October 12, 2012

Ms. Christine Solich
Executive Director
California Alternative Energy and Advanced Transportation Financing Authority
915 Capital Mall, Room 457
Sacramento, CA 95814

Re: SB 71 Advanced Transportation and Alternative Source Manufacturing Sales and Use Tax
Exclusion Program – 25% Purchase Requirement and Three Year Duration Compliance for Tesla
Motors, Inc.

Dear Ms. Solich:

I am writing to formally request a waiver of Section 10035 (c) (1), which specifies that 25% of the total eligible equipment and machinery ("Qualified Property") listed in the approved Board resolution must be expended within one year of the date of CAEATFA's approval of the Application and the full amount of the Qualified Property must be purchased within three years of CAEATFA's approval of the Application (the "Expenditure Obligation"). We request a time extension until March 15, 2014 to complete the 25% requirement and an extension of the period in which the full amount of the Qualified Property must be purchased to December 31, 2015. This letter provides the explanation for the current shortfall, an estimate as to when the remainder of the Qualified Property will be expended, an explanation of how the requested timeline will be met and additional information to support the Board's approval of our request.

Background

Tesla Motors benefits from two programs which exclude qualified purchases from California sales and use taxes. Since the award of first sales and use tax exemption in 2009, we have added almost 2,000 jobs in California at Tesla Motors, with many others created from suppliers and contractors as we have refurbished our California facilities. Over 1,500 of these jobs are directly related to the projects funded by CAEATFA. Importantly, Tesla Motors now exports products made in California to over 35 countries around the world, including to countries in which our powertrain customers Daimler and Toyota operate.

In December 2009, Tesla Motors was granted its first sales and use tax exemption for up to \$320 million for the equipment and tooling required for the production of our Model S and for powertrain components we manufacture for Daimler AG and our Tesla Roadster (the "Model S Exemption"). To

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date, we have submitted \$158 million to CAEATFA with an additional \$60 - 65 million on track to be submitted this month.¹

In December 2011, Tesla Motors was granted a sales and use tax exemption under SB 71 for up to \$292 million for the equipment and tooling required for the production of our Model X and for an expansion of our manufacturing activities for electric vehicle powertrain components, including those for the Toyota RAV4 EV (the "Model X Exemption"). To date, we have submitted \$524,000 to CAEATFA, with an additional \$2 – 3 million on track to be submitted this month.

Explanation

The original application for the Model X Exemption assumed that we would develop the Model S and the Model X in parallel. Our Model S sedan is the first vehicle we have developed from the ground up, and the only vehicle we currently have available for sale in the United States. Given the need to create a positive first impression of the vehicle, we elected to focus our time, energy and capital resources on the Model S. As a result, we have not spent funds to develop the Model X at the rate we originally forecasted.

With positive cash flow from operations due to the upcoming increase in Model S deliveries and the recent equity raise of about \$225 million we now expect to accelerate the development of Model X, consequently increasingly availing ourselves of the Model X Exemption, and thereby adding over 700 more engineering and manufacturing jobs in California.

We should note that the delay in the Model X did not come at the expense of job creation in California. Our focus on the Model S allowed us to insource more product development at our Fremont, California facility and add a second shift for Model S production earlier than we had planned. As a result, we have added hundreds of jobs in excess of our prior plans, and intend to add many more jobs in the next couple of quarters. Maintaining our exemption will materially influence other insourcing decisions as we progress on the development of the Model X. As one example, we recently purchased high pressure die casting equipment from suppliers for relocation into our Fremont facility, thereby creating over 25 jobs.

Current Estimate for the Expenditure of Qualified Property under the Model X Exemption

We currently estimate that we will meet the 25% requirement under Expenditure Obligation by March 31, 2014 and the full expenditure requirement by December 31, 2015. There are two reasons for our request for extension for this duration. First, the development of a vehicle is a multi-year process which will start in earnest at the end of this year. Second, spending that is eligible for CAEATFA lags

¹ We anticipate submitting amounts in addition to the \$60 million as purchase additional equipment for the Model S line and we complete the final payments for tooling and equipment. We have not yet submitted the initial payments as title to the equipment does not transfer to Tesla until the equipment is delivered and final payment is made. As we anticipate that this will take a few more months to complete, we will request an extension for the three year period in which we must utilize the full exemption. This request will be under different cover.

development. Specifically, a significant portion of our Model X expenditure next year will be used for partial payments for tooling and equipment. Since title for this tooling and equipment will not transfer until the final payments are made in 2014, only a smaller portion of our overall Model X spend will be completed, and therefore eligible for CAEATFA, in 2013.

Other Information for the Board to Consider

We respectfully request an extension of the Expenditure Requirement. We offer the following in support of our position:

- *Job Creation.* With the help of CAEATFA, Tesla has created almost 2,000 jobs in California since the granting of the first exemption. Almost two-thirds of these have been manufacturing jobs. The extension of the Expenditure Requirement will enable at least 700 additional jobs in California.
- *Revitalized NUMMI Plant and Manufacturing Base in Fremont, California.* Tesla has reinvigorated the community of Fremont, California through the 2012 purchase and reactivation of the automobile manufacturing plant formerly run by New United Motor Manufacturing, Inc. (NUMMI). We are constantly evaluating proposals to bring more equipment (and with it more jobs) into the factory as an alternative to locating the equipment at non-California based suppliers. The extension of the Expenditure Requirement will directly influence upcoming decisions to insource more production at this facility.
- *Exports.* The products created by the jobs enabled by the exemptions are now exported around the world. The extension of the Expenditure Requirement will enable us to continue to promote California as an exporter.
- *Leveraging the Exemption with Private Capital.* Maintaining the exemption serves a very important strategic need for Tesla. The exemption allows us to point to state-level support for our decision to manufacture our vehicles in California. This, in turn, allows us to address investors when they question our long term manufacturing plans. Thus, as we continue to introduce new vehicles, we will be able to continue to leverage the state-level support embodied in the exemption to attract additional private capital into Tesla.
- *Enabling Lower Cost, Green Vehicles.* The Model X exemption will enable us to accelerate the introduction of the Model X. We have already received 1,700 reservations for this vehicle, with almost zero marketing. This success of this vehicle will provide the capital necessary for Tesla to continue its mission of introducing new, lower cost electric vehicles. Whether produced by Tesla or our OEM customers, these products replace fossil fuel burning vehicles at increasing rates as their price falls. The extension of the Expenditure Requirement will therefore hasten future vehicles and help promote cleaner air in California.

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Thank you for your time and consideration of our request. If you have any questions, I can be reached at (650) 681 – 5029.

Sincerely yours,



Mike Taylor
VP, Finance
Tesla Motors, Inc.

Attachment B: Staff Summary at Board Approval

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

Request to Approve Project for SB 71 Sales and Use Tax Exclusion (STE)⁷

**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 Amount⁸ – \$23,652,000

Estimated Net Benefits - \$13,758,246

Application Score⁹ -

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

⁷ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁸ This amount is calculated based upon the average statewide sales tax rate of 8.1%.

⁹ 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 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.
 - a. **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.

 - b. **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.

- c. **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,¹⁰ 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.

¹⁰ 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).

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.