

**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. 15-SM024**

Tuesday, December 15, 2015

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – Tesla Motors, Inc.

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

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facilities

Value of Qualified Property – \$463,625,000

Estimated Sales and Use Tax Exclusion Amount² – \$39,037,225

Estimated Net Benefits – \$27,572,193

Application Score³ –

Fiscal Benefits Points:	1,584
<u>Environmental Benefits Points:</u>	<u>122</u>
Net Benefits Score:	1,706
<u>Additional Benefits Points:</u>	<u>28</u>
Total Score:	1,735

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 8.42%.

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 the “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. Tesla is a publicly traded company on the NASDAQ under the symbol TSLA.

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

Elon Musk
FMR LLC
Capital Venture International

The corporate officers of Tesla Motors, Inc. are:

Elon Musk – Chief Executive Officer
Deepak Ahuja – Chief Financial Officer
Jeffrey B. Straubel – Chief Technology Officer
Gregory D. Reichow – Vice President
Brad W. Buss – Director
Robyn M. Denholm – Director
Ira Ehrenpreis – Director
Antonio J. Gracias – Director

BACKGROUND

Tesla has benefited from three STE awards, the first of which was granted by CAEATFA on October 28, 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. This award represented an estimated \$29 million in STE. Tesla has since exhausted the entirety of its award, and the agreement terminated on December 31, 2013.

The second Tesla award was granted by CAEATFA on December 13, 2011 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. This award represented an estimated \$24 million in STE. To date, Tesla has submitted \$81 million to CAEATFA through the conveyance/reconveyance process and has purchased an additional \$189 million in Qualified Property. Tesla’s purchases to date are approximately 93% of its original award and the Applicant anticipates using the remaining STE award by the end of 2015.

The third Tesla award was granted by CAEATFA on December 17, 2013 for up to \$415 million for equipment and tooling required for the expansion of Model S manufacturing capabilities, the expansion of electric vehicle powertrain production, and the continuous development of the Model S program for future electric vehicle development. This award represented an estimated

\$35 million in STE. To date, Tesla has reported \$134 million to CAEATFA through the semi-annual report process and has purchased an additional \$264 million in Qualified Property. Tesla’s purchases to date are approximately 96% of its original award and the Applicant anticipates using the remaining STE award by the end of 2015.

Figure 1: Tesla Motors, Inc. Awards To Date				
Board Meeting	Project	QP Amount	Purchases to Date	Estimated STE Used⁴
10/28/2009	Model S	\$320,000,000	\$320,000,000	\$26,600,262
12/13/2011	Model X	\$292,000,000	\$270,631,841	\$22,756,147
12/17/2013	Model S Expansion	\$415,000,000	\$397,266,654	\$33,449,852
Totals		\$1,027,000,000	\$987,898,495	\$82,806,261

THE PROJECT

Tesla is requesting an STE award in order to expand its body shop, stamping line, vehicle assembly, plastics shop, production control, tooling, and prototyping for both Models S and X (the “Project”). Tesla currently manufactures both models. Model S is a fully electric, four-door passenger sedan with an estimated range of up to 265 miles on a single charge. Deliveries of the Model S began in June 2012, and the Applicant estimates that it currently has approximately 78,000 vehicles on the road. The Model X is a crossover vehicle with a 90kWh battery pack, which the Applicant represents will combine the “functionality of a minivan with the consumer appeal of a sports utility vehicle.” The Model X was launched in September 2015 and is currently ramping up production.

Tesla will spend approximately \$464 million to expand its Models S and X 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 118,000 additional Model S and X vehicles per year. This is an addition to the Applicant’s current projected annual rate of approximately 77,000 Model S and X vehicles per year.

The capital expenditures will integrate and expand the powertrain component facilities in Fremont and Palo Alto, expand production and machining capabilities in the Lathrop facility, and expand design related activities at the Hawthorne facility. Tesla represents that the Project

⁴ STE based on average statewide tax rate at the time of purchase.

will result in approximately 1,384 new jobs in the San Francisco Bay Area.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Body Shop Equipment	\$ 22,984,000
Paint Equipment	3,155,000
Casting Equipment	19,248,000
Vehicle Assembly Equipment	17,793,000
Battery Processing Equipment	35,455,000
Materials Conveyance	34,992,000
Stamping Line Equipment	10,497,000
Powertrain Assembly Equipment	16,209,000
Computer Numerically Controlled Machinery and Equipment	7,093,000
Final Test Equipment	9,615,000
Tooling and Die Manufacturing Equipment	18,881,000
Facility Improvements	2,641,000
Plastics Shop Equipment	2,292,000
Body Shell Tooling	139,863,000
Chassis Tooling	20,254,000
Interior Systems Tooling	87,580,000
Thermal Tooling	6,360,000
Body Electrical Tooling	8,713,000
Total	<u>\$463,625,000</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 regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing the actual 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, 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 equipment purchasing to take place between January 2016 and the end of 2018, with full production realized within six years.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$463,625,000 and the total net benefits are valued at \$27,572,193 for the Project. The Project received a Total Score of 1,735 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 122 points, which exceeds the 100 point threshold.

- A. Fiscal Benefits (1,584 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 \$61,843,129 resulting in a Fiscal Benefits score of 1,584 points for the Project.
- B. Environmental Benefits (122 points).** The Project will result in \$4,766,289 of total pollution benefits over the life of the Facility resulting in an Environmental Benefits Score of 122 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 (28 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 28 additional points.

 - 1. Permanent Jobs (20 of 75 points).** The Applicant’s Project will support a total of 1,384 permanent jobs at its Facility. CAEATFA estimates that approximately 41 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 20 points for the Project.
 - 2. Construction Jobs (0 of 75 points).** The Applicant’s Project will support a total of 55 construction jobs at its Facility. CAEATFA estimates that none 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 (8 of 40 points).** The Applicant’s total value of out-of-state non-greenhouse gas pollution benefits are valued at \$647,780 resulting in a Non-CA Environmental Benefits Score of eight points for the Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Permits and necessary approvals for all four sites have already been obtained.

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, the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee up to \$350,000.⁵

RECOMMENDATION

Statute limits CAEATFA to granting up to \$100 million in sales and use tax exclusion per calendar year. On November 17, 2015, the Board approved staff's proposal whereby, to the extent an application considered exceeds the \$100 million cap, CAEATFA would award the remainder of the 2015 cap and include in the resolution a provision to award the remainder of the applicant's sales and use tax exclusion request from the 2016 cap.

Therefore staff recommends approval of Resolution No. 15-SM024 for Tesla Motors, Inc.'s purchase of Qualified Property in an amount not to exceed \$463,625,000 anticipated to result in an approximate sales and use tax exclusion value of \$39,037,225. Effective immediately, Tesla Motors, Inc. is authorized to purchase up to \$254,297,428 in Qualified Property anticipated to result in an approximate sales and use tax exclusion value of up to \$21,411,843 and effective January 1, 2016, Tesla Motors, Inc. is authorized to make purchases for the remaining Qualified Property amount of \$209,327,572 anticipated to result in an approximate sales and use tax exclusion value of \$17,625,382.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

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

December 15, 2015

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 \$463,625,000 over a period of three 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.

Agenda Item – 4.A.3
Resolution No. 15-SM024
Application No. 15-SM024

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 for up to \$254,297,428 in Project equipment purchases and effective on January 1, 2016, for up to an additional \$209,327,572 resulting in a total of \$463,625,000 in Project equipment purchases 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.