

**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. 16-SM036**

Tuesday, December 13, 2016

Prepared By: *Ashley Bonnett, Analyst*

SUMMARY

Applicant – Telsa Motors, Inc.

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

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facilities

Value of Qualified Property – \$1,169,260,000

Estimated Sales and Use Tax Exclusion Amount² – \$98,451,692

Estimated Net Benefits – \$14,587,057

Application Score³ –

Fiscal Benefits Points:	981
<u>Environmental Benefits Points:</u>	<u>167</u>
Net Benefits Score:	1,148
<u>Additional Benefits Points:</u>	<u>38</u>
Total Score:	1,186

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.

**Proportion of Estimated Net Benefits Attributable to
Qualified Property Amount Recommended for Approval –**

	Total Project	Benefits Attributable to Amount Recommended for Approval
Fiscal Benefits	\$96,604,442	\$46,343,056
Environmental Benefits	\$16,434,307	\$7,883,861
Total Cost (Estimated STE)	<u>(\$98,451,692)</u>	<u>(\$47,229,218)</u>
Net Benefits	\$14,587,057	\$6,997,699

Staff is recommending approval of approximately 48% of the \$1.1 billion of Qualified Property requested by Tesla. Since application scoring is linear, staff estimates that the state will receive approximately 48% of the fiscal and environmental benefits attributable to the \$1.1 billion request. Staff estimates that the state will receive \$6,997,699 in net benefits by approving the proposed staff recommendation.

Staff Recommendation – Approval of an award in an amount not to exceed the remainder of the 2016 calendar year \$100 million statutory cap after the subsequent applications on the agenda for the December 13, 2016 Board meeting have been considered, estimated to be \$560,917,080 in Qualified Property purchases anticipated to result in an approximate sales and use tax exclusion value of \$47,229,218.

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. 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 Telsa Motors, Inc. are:

- Elon Musk, CEO
- Eric Branderiz, CFO
- Jeffrey B. Straubel, CTO
- Brad W. Buss, Director
- Robyn M. Denholm, Director
- Ira Ehrenpreis, Director
- Antonio J. Gracias, Director

BACKGROUND

Tesla has benefited from four previous STE awards, the first of which was granted by CAEATFA on October 28, 2009, prior to the establishment of the existing 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. Tesla has since exhausted the entirety of its award, and the purchase agreement terminated on December 31, 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. Tesla has since exhausted the entirety of its award, and the purchase agreement is set to terminate on December 17, 2016.

The fourth Tesla award was granted by CAEATFA on December 15, 2015 for up to \$463,625,000 for equipment and tooling required to expand the production of its Model S and Model X electric vehicles. This award represented an estimated \$39 million in STE. Tesla has purchased \$393,975,440.96 of its award as of June 30, 2016.

Figure 1: Tesla Motors, Inc. Awards to Date					
Board Meeting	Project	QP Amount	QP Purchases	Estimated STE Awarded	Estimated STE Used
10/28/2009	Model S	\$320,000,000	\$320,000,000	\$26,600,262	\$26,600,262
12/13/2011	Model X	\$292,000,000	\$291,889,530.09	\$23,652,000	\$24,546,044.83*
12/17/2013	Model S Expansion	\$415,000,000	\$414,840,044.17	\$34,735,500	\$34,929,531.72*
12/15/2015	Models S and X Expansion	\$463,625,000	\$393,975,440.96	\$39,037,225	\$33,172,732.13
Totals:		\$1,490,625,000	\$1,420,705,015	\$124,024,987	\$119,248,571

*Estimated STE Used is higher than Estimated STE Awarded due to average statewide sales tax rate increasing from 8.37% to 8.42% in 2014.

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 to design and manufacture the newest model in Tesla’s line of fully electric vehicles, the Model 3 (the “Project”). On March 31, 2016, Tesla unveiled the Model 3, a lower-priced sedan designed for the mass market, with an anticipated average price of \$43,000. Pre-orders for the Model 3 have begun, and the Applicant represents the Model 3’s first delivery is planned for late 2017.

Tesla anticipates spending approximately \$1.17 billion to support the design, development, and prototyping of the Model 3, primarily to expand its factory in Fremont, corporate headquarters in Palo Alto, and design studio in Hawthorne. Tesla represents the Project will launch the Model 3 and provide the capacity to produce and deliver an average of 226,563 units per year over a five-year period, in addition to its Model S and Model X production. Tesla also represents this initial production ramp of the Model 3 will support an additional 3,249 direct manufacturing jobs.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Tooling	\$ 49,060,000
Body Shop Equipment	376,000,000
Vehicle Assembly Equipment	284,500,000
Fremont Material Flow	161,000,000
Press Equipment	80,000,000
Paint Shop	85,000,000
Returnable Packaging	14,700,000
Seat Assembly	35,000,000
Manufacturing Test Equipment	32,000,000
Plastic Shop Equipment	24,000,000
Facility Improvements	16,000,000
Seat Frame Welding Line	12,000,000
Total	<u>\$1,169,260,000</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

The Applicant represents equipment orders began in early 2016, and that application approval would accelerate the pace of investment. The Applicant anticipates delivery of Model 3 vehicle orders to begin in late 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$1,169,260,000 and the total net benefits are valued at \$14,587,057 for the Project. The Project received a Total Score of 1,186 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 167 points, which exceeds the 100 point threshold, as required under the regulations at the time of application submission.

- A. Fiscal Benefits (981 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 \$96,604,442 resulting in a Fiscal Benefits score of 981 points for the Project.
- B. Environmental Benefits (167 points).** The Project will result in \$16,434,307 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 167 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 (38 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 55 additional points.

 - 1. Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 3,249 permanent jobs at its Facility, approximately 1,559 of which are attributable to the Qualified Property Amount recommended for approval. CAEATFA estimates that approximately 164 of the 3,249 jobs will be attributable to a marginal increase in jobs created due to the total requested STE resulting in a Permanent Jobs Score of 30 points for the Project. Approximately 79 of these jobs are attributable to the marginal increase in jobs created due to the STE amount recommended for approval.
 - 2. Construction Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of 55 construction jobs at its Facility. CAEATFA estimates that approximately three 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 \$1,548,447 resulting in a Non-CA Environmental Benefits Score of 8 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,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

RECOMMENDATION

Statute limits CAEATFA to granting up to \$100 million in sales and use tax exclusion per calendar year. In response to the STE Program's statutory cap and oversubscription, CAEATFA recently adopted regulations that limit applicants to requesting \$20 million in STE, with a mechanism to provide additional STE to larger projects as requested if funds are available at the end of the year. The Authority instituted a competitive process to determine the order of consideration of applications in situations where STE requests exceed the available remaining annual program cap. The competitive criteria include: (1) unemployment rate in the county of the facility, (2) presence of corporate headquarters in California, (3) status as a small business, (4) and being new to the Program. The purpose of imposing a project cap and instituting a competitive process based on objective criteria when the Program is oversubscribed is to ensure a more equitable dispersion of awards and maximize the effectiveness of the Program in achieving its goals.

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

Agenda Item – 4.A.1
Resolution No. 16-SM036
Application No. 16-SM036

Tesla submitted this application on November 16, 2015, prior to the August 9, 2016, effective date of the revised Program regulations; therefore, this application is subject to the prior regulations in effect at that time.

To better effectuate the purpose of the program and the public interest, and in light of the recent regulation changes and competitive nature of the Program, staff recommends approving the Applicant for an award in an amount not to exceed the remainder of the 2016 calendar year \$100 million statutory cap after the subsequent applications on the agenda for the December 13, 2016 Board meeting have been considered. This would enable awarding the remaining applicants on the agenda for consideration, should the Board vote to approve those applications, while providing Tesla a significant STE award, with leave to submit applications in the future for additional assistance for the Project under the newly revised regulations.

Staff recommends approval of Resolution No. 16-SM036 for Tesla Motors, Inc.'s purchase of Qualified Property in an amount not to exceed \$560,917,080 anticipated to result in an approximate sales and use tax exclusion value of \$47,229,218.

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

December 13, 2016

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 to process Recycled Feedstock, or 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 \$560,917,080 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.1
Resolution No. 16-SM036
Application No. 16-SM036

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.