

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

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

QuantumScape Corporation
Application No. 17-SM060

Tuesday, October 17, 2017

Prepared By: *Joel Schwartz, Blue Sky Consulting Group with Melanie Holman, Analyst*

SUMMARY

Applicant – QuantumScape Corporation

Location – San Jose, Santa Clara County

Industry – Electric Vehicle Battery Manufacturing

Project – New Electric Vehicle Battery Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$18,243,000

Estimated Sales and Use Tax Exclusion Amount² – \$1,536,061

Application Score –

Fiscal Benefits Points:	790
<u>Environmental Benefits Points:</u>	<u>140</u>
Net Benefits Score:	930

<u>Additional Benefits Points:</u>	<u>80</u>
Total Score:	1,010

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%.

THE APPLICANT

QuantumScape Corporation (“QuantumScape” or the “Applicant”), a Delaware corporation, was founded in 2010 with the mission to develop and commercialize an energy storage solution to enable long-range, low-cost electric vehicles and mass market electrification of transportation.

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

VW Credit, Inc.	13.99%
Khosla Ventures III, LP	13.13%

The corporate officers of QuantumScape are:

- Jagdeep Singh, Chief Executive Officer
- Mohit Singh, Chief Development Officer
- Tim Holme, Chief Technical Officer
- Michael McCarthy, Chief Legal Officer
- Howard Lukens , Chief Sales Officer
- Kevin Hettrich, VP Business Operations

THE PROJECT

QuantumScape is requesting a sales a use tax exclusion to manufacture electric vehicle batteries at its facility in San Jose, California (the “Project”). According to the Applicant, it has been conducting research and development at its facility since 2014, and is now ready to build an engineering line for its first phase of battery production. QuantumScape represents integrated computational materials engineering is used to model and test the physics behind the products, and unlike traditional battery cell companies, QuantumScape plans to produce the materials as well as the battery cell components. The Applicant represents these new, proprietary advanced materials are capable of storing significantly more energy per unit mass and volume than what is conventionally used today. According to the Applicant, because this technology requires fewer materials to store an equivalent amount of energy, the Project will utilize a more sustainable manufacturing process requiring fewer resources, including raw materials, tools, energy, and solvents, compared to current industry standard.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Abatement system	\$ 250,000
Assembly tools	1,500,000
Automation equipment	1,000,000
Component processing tools	1,500,000
Cutting tools	1,502,250
Deposition tools	2,600,000
Environmental control equipment	3,900,000
Fixtures, jigs, shelves, benches	300,000
Heat treatment tools	2,250,000

Agenda Item – 4.A.3
Resolution No. 17-SM060
Application No. 17-SM060

Test and quality assurance tools	1,000,000
Material treatment tool	120,750
Mills	300,000
Mixers	370,000
Storage bunkers	650,000
Test channels	450,000
Vessels	50,000
Welding tools	500,000
Total	<u>\$18,243,000</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

Project construction is planned to begin in mid-2017 and to be completed by 2020.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$18,243,000 and the total net benefits are valued at -\$322,277 for the Project. Although the cumulative fiscal benefits fall short of the estimated sales and use tax exclusion amount, resulting in a negative net benefit, the Project has additional environmental and employment related benefits that are not quantifiable in fiscal terms. The Project received a Total Score of 1,010 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 140 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (790 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 \$1,213,783 resulting in a Fiscal Benefits score of 790 points for the Project.

- B. Environmental Benefits (140 points).** The Project will result in an Environmental Benefits Score of 140 points. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that it represents will track water, electricity, industrial gas, and waste, and will result in lower material purchases, lower energy usage, less waste, and lower emissions.
 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Solid Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in solid waste produced relative to the industry standard manufacturing process.
 4. **Hazardous Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 5. **Air Pollutants (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 33% reduction in air pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (80 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 80 additional points.
1. **Permanent Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 130 permanent jobs at its Facility. CAEATFA estimates that approximately 12 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 55 points for the Project.
 2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of five construction jobs at its Facility. CAEATFA estimates that zero 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. **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 advanced battery development.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that engineering planning has been completed and the required application materials, facility, and engineering drawings have been submitted to the City of San Jose for approval. The Applicant expected to receive approval in the fourth quarter of 2017.

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 \$9,121.50 and will pay CAEATFA an Administrative Fee of \$72,972.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM060 for QuantumScape Corporation’s purchase of Qualified Property in an amount not to exceed \$18,243,000 anticipated to result in an approximate sales and use tax exclusion value of \$1,536,061.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH THE QUANTUMSCAPE CORPORATION

October 17, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **QuantumScape Corporation** (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 \$18,243,000 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.

Agenda Item – 4.A.3
Resolution No. 17-SM060
Application No. 17-SM060

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.