CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

Report from Tesla, Inc. on Status of Project
Pursuant to Resolutions Number 17-SM003 and 18-SM004

March 19, 2019

Prepared By: *Xee Moua, Analyst*

SUMMARY

On March 20, 2018, the CAEATFA Board approved Resolutions 17-SM003 and 18-SM004 approving two sales and use tax exclusion awards for Tesla, Inc.'s ("Tesla") expansion of its manufacturing facility for the production of its Model 3 vehicle. Both resolutions require that Tesla update the CAEATFA Board in writing and in person every four months for three years with regards to the following:

1. Progress in meeting its production goals.
2. Progress in improving the health and safety at its facilities.
3. Providing an updated Legal Status Questionnaire.

ATTACHMENTS

Attachment A: Tesla's ~~second~~ third written report pursuant to Resolutions number 17-SM003 and 18-SM004.

Attachment B: The staff report for Resolution 18-SM004 from the March 20, 2018 Board meeting.

Attachment A: Tesla, Inc.'s ~~Second~~ Third Written Report Pursuant to Resolution Numbers 17-SM003 and 18-SM004

CAEATFA Information Update from Tesla, Inc.
Prepared for CAEATFA Board Meeting on March 19, 2019

1. Model 3 Production Update
    a. In Q4, we delivered 63,359 Model 3 vehicles to customers in North America. In January 2019, we started to produce Model 3 vehicles for Europe and China, and the car is now fully certified for sale in these markets. We believe the market opportunity for Model 3 in Europe and China exceeds North America based on the most recent sales of mid-sized premium sedans in these markets.
    b. Model 3's production rate progressively improved through Q4, with December 2018 being our highest volume month ever. In our Fremont facility, we are now past the steep portion of the production S-curve, and we expect our production rate to gradually improve. As we improve the production rate of Model 3, the cost per vehicle continues to decline. The labor hours per Model 3 in Q4 declined yet again by roughly 20% compared to Q3 and by about 60% in the second half of 2018 alone. Despite introducing a lower-priced mid-range variant and other headwinds, Model 3's gross margin remained stable in Q4 at over 20%.
    c. In the past two years, Tesla vehicles have accounted for all of the electric vehicle (EV) volume growth in the US. Even with the unprecedented EV growth in the second half of 2018, EVs still account for just 2% of the US market, and there remains a substantial opportunity for EVs to continue to gain market share in the US and globally. Consumer purchases have demonstrated that EVs are becoming a preferred option, as EVs in Q4 2018 outsold hybrid electric vehicles in the US for the first time in history.
    d. The appeal of Model 3 continues to go far beyond the mid-sized premium sedan market. Our trade-in data suggests that consumers are significantly changing their purchasing habits in order to buy a Model 3. Of all trade-ins we've ever received from customers buying a Model 3, only 17% are other mid-sized premium sedans. Perhaps more surprisingly, almost 60% of these trade-ins are non-premium vehicles. We are also seeing that a significant number of Model 3 buyers are trading down in size from a larger car or a SUV to a Model 3.

2. Employee Health and Safety
    a. Industry in the United States currently is undergoing a massive transformation that is vastly changing how companies think about safety – it's a "new view of safety" that focuses on preventing injuries by understanding how work is performed, not imagined.[1] Because Tesla has only been operating as a company and engaged in scaled-up manufacturing of automobiles for 8 years – since moving into the Fremont factory in 2010 - we have been able to leapfrog our safety program from the basics to the "new view of safety" philosophy in a very short time span. Tesla's new view of safety is grounded on three strategic foundational pillars:

        1) Do the basics right
        2) Engage our stakeholders; and
        3) Reduce risks.

[1] This requires direct employee engagement and collaboration with the person doing the job - to learn and improve. The "new view of safety" is a well-used global term for a new paradigm of human and organizational performance. It is based on the premise that safety should not be only defined by the absence of accidents, but by the presence of defenses and preventive controls. It is the view that stops seeing safety as an outcome and starts seeing it as a capacity. Humans will make mistakes, so we must work to design systems that allow them to fail safely. It is proven that lowering recordable injury rates does not correlate in a reduction of fatal and serious injuries. In contrast, the old view of safety sees the person as the problem, where the new view of safety is focused on the person as the solution.

What this means is that our safety performance is not measured on a Total Recordable Incident Rate (TRIR), which reflects what happened in the past.[2] Rather, Tesla has adopted a more progressive and proactive approach that incorporates leading indicators that help us better understand and manage our prevention efforts.[3] This is consistent with OSHA's own guidance.

> Specifically, "[w]hile an injury and illness incident rate is a useful indicator of an establishment's safety and health environment, reliance on only one indicator can lead to wrong conclusions."[4]

As stated in the guidance, OSHA strongly advocates the use of multiple variables to evaluate the effectiveness of an employer's safety and health program – "performance indicators should include both leading and lagging indicators."

We shared examples of our leading indicators during the CAEATFA Board Meeting on November 13, 2018, which included our Find it Fix it program, our athletic trainer engagement, and leadership observation walks in the factory. By focusing on leading indicators, Tesla is better able to prevent serious injuries before they occur; this approach is precisely where industry and academic research is proving needs to be front and center of how we now should be thinking about safety. Tesla is also in the nascent stage of implementing what is known as human and organizational performance – developed in the nuclear industry – it changes the way employees think about and perform their work.[5] This approach to safety recognizes that humans inevitably will make mistakes and, when failure occurs, it prioritizes measures to ensure that humans can "fail safely."[6]

Cal OSHA reviewed hundreds of cases and found only one discrepancy in the first investigation and two discrepancies in the second investigation. Tesla provided Cal OSHA with documentation to show that two of the three discrepancies were indeed correct, but was unable to resolve such prior to the tight appeal deadline. As such, both cases are under appeal, so that Cal OSHA can complete its review of the additional documentation and Tesla expects that both citations will be withdrawn. Cal OSHA's investigations illustrate the transparency and accuracy of our injury/illness reporting process. Based on the number of records we processed over the year, we are 99.8% accurate in our recording.

b. Here are some highlights we are proud to share about the effectiveness of our safety program and that address previous questions raised by the CAEAFTA Board:
    i. Prevention of Injuries/Ergonomics**:** Tesla encourages early reporting of signs and symptoms employees experience and has established an early intervention program that allows us to get in front of ergonomic issues before they impact our workers. In June 2018, Tesla hired Work Right to assist in this effort. Work Right partners with Tesla to educate and coach our workforce on the key best practices in combating the common stressors related to production. The Work

[2] As any safety industry professional can share, focusing on only a TRIR rate as a company's safety performance metric is one of the real causes of underreporting and something we have never done at Tesla.
[3] There are many references to credible and well-respected safety associations that have investigated the importance of leading indicators v. TRIR rate. One example can be found on National Safety Council's website: https://www.nsc.org/work-safety/tools-resources/campbell-institute/leading-indicators
[4] See OSHA guidance available at https://www.osha.gov/laws-regs/standardinterpretations/2016-08-23
[5] See http://www.energysafetycanada.com/files/Comms_Uploads/events/events_psc/2013/Conklin-Dr-Todd-Pre-Accident-Investigation-for-Organizational-Safety.pdf. See also https://www.convergencetraining.com/blog/9-things-you-should-know-about-human-organizational-performance-hop
[6] A useful analogy can be derived from the notion of the use of seat belts in vehicles. Inevitably, accidents will occur on the road. But, when one occurs, seat belts and air bags are designed to keep the vehicle occupants safe.

Right team specializes in identifying early warning signs of discomfort to educate our employees on the actions they can take to prevent them from developing into a workplace injury. The benefits include improved wellness of our workforce, resulting in increased efficiency, reduced absenteeism and improved employee morale. To date, Work Right has completed over 5,000 interactions with associates, who are very supportive of this benefit. Tesla will continue to invest in this voluntary program for the foreseeable future. This year alone, Tesla has invested almost $600,000 to implement this program throughout the entire Fremont factory. Tesla has invested in this program because it is fundamental to all three pillars of our safety program. Additionally, Tesla has spent over $4.3 million dollars since mid-2017 in ergonomic enhancements, including lift assists, adjustable benches, tire lifters and mechanical arms.

ii. Employee Feedback: Our Tesla 360 survey in 2017 indicated an 82% employee approval in our commitment to health and safety and well-being. Additional spot surveys in 2018 have indicated our workforce continues to see positive health and safety commitment and visibility.

iii. Daily engagement with production associates: We have multiple staff and resources engaging with employees on a daily basis. These resources include embedded EHS managers (35 additional EHS support staff has been added in 2018 alone), technicians, specialists in every department, and industrial athletes. These individuals are directly on the production line engaging with the employees. Our department managers conduct twice-weekly "Gema" walks in order to solicit direct feedback from associates and verify that safety measures and controls are effective. We track and incorporate these findings into our safety program as a means for continuous improvement. We have also started to use new technologies such as muscle sensors, which are placed on employees after a control or workstation change is made in order to collect quantitative data to verify that strain or force is reduced. When hazards are identified, we put corrective actions in place as soon as practicable to eliminate or control them.

iv. Manager Evaluations: Each department is assigned an injury reduction target and we track the activities of managers towards reaching this target. There is no monetary reward tied to reduction in injury rates for managers/supervisors. We track completed Gema walks, corrective actions closed on time, and the number of Find it – Fix it submittals for respective work groups. We also track Work Right engagements with associates. These are the activities that lead to injury reduction.

v. Risk Management: Tesla's risk management department manages our overall risk from a business and insurance standpoint. The EHS team looks not just at compliance, but also at risk mitigation, and how we can lower risk. We use the Zurich risk assessment tool to determine overall risk of activity by severity and frequency. Workers' compensation reports into EHS, not risk management. We analyze our workers' compensation trends and share those with risk management and finance.

vi. Cadence for Reporting to the Tesla Board: Elon Musk reports our injury rates and targets along with our proactive activities to the Board of Directors. He reports end of year and new year targets. We strive to be first quartile in our industry, yet it is important to note there is no comparable EV manufacturer for purposes of comparison. Laurie Shelby and other business leaders are responsive to Board members on EHS inquiries.

vii. Post-Incident training: The CAEATFA Board previously asked what training is provided after an incident. In the "new view of safety", the focus is on prevention

of injuries. Tesla has expanded our new hire training to include Exos, our exercise consultant, and Work Right, our industrial athletic coaches, as injury prevention measures. We also conduct 30, 60, and 90 day check-ins on new hires to determine if any problems or questions about job tasks exist. There are physical demand descriptions for high-risk stations to make sure we match the associate's ability with the task demands. We provide stretching pre-shift training and conduct regulatory required training. The above items are in addition to all the other prevention measures described in this response.

viii. Safety Ownership: At Tesla, safety is a shared responsibility. Ultimately, Mr. Musk, as the CEO, along with business leaders, own safety just as they own business results. Safety and production go hand in hand at Tesla since good safety = good business. Tesla has a 3-category escalation process to ensure communication of incidents or events throughout the organization. Mr. Musk receives an EHS update on a bi-weekly basis.

ix. Safety Communications: At the Tesla Fremont factory, safety results and actions are shared daily in Tier 5 meetings, which are attended by all department managers, as well as the President of our automotive business. Any high potential incident (near misses included) are reported and discussed. Each manager is held responsible for closing out high-potential action items. Of paramount importance at Tesla is incident reporting. Injury rates mean nothing if incidents are not reported. A major focus of the last year was developing mechanisms to ensure frequent and accurate reporting through our mobile app, hotline, and 24/7 clinic.

x. Incident Management: We have instituted a new incident tracking system and incident management team that links employees and their supervisor to medical, OSHA recordkeeping, and workers' compensation functions to make sure that our workers get the care that they need and that all administrative requirements are fulfilled. We encourage our employees to report injuries and we hold ourselves to a high standard in ensuring that our OSHA 300 logs are accurate and updated.

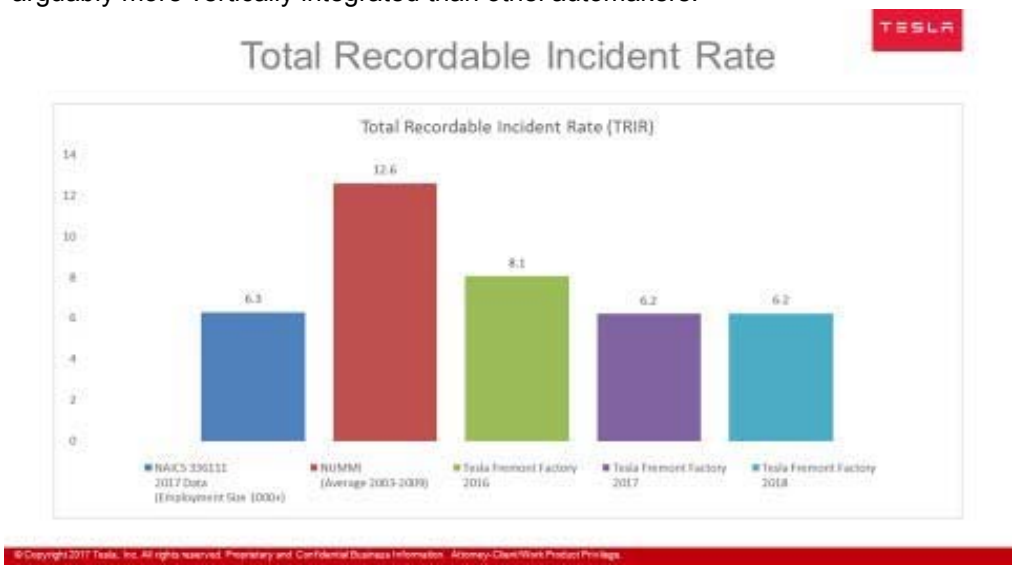
3. LSQ Update – see attached.

Tesla, Inc. Update on Environmental Health and Safety ("EHS") for CAEATFA Executive Director

3/5/2019

Lagging performance injury data for total recordables (injuries resulting in medical treatment, lost work days, restricted or transfer days) is calculated by number of injuries * 200,000/(hrs. worked). At Tesla, we do not provide any incentive pay based on injury reductions. This practice leads to under reporting. Focusing only on lagging injury rates (Total Recordable, Days Away/Restricted Time "DART", and Lost Work days) does not provide a true understanding of a company's overall safety performance. Our previous testimony provided many leading indicators that must also be considered when evaluating a safety program. These indicators include employee engagement in hazard identification, active employee EHS teams, system-focused incident investigations, capital improvement spend, innovated controls, and early symptom intervention interactions.

Below are Tesla's lagging injury rates compared to the North America Industrial Classification System ("NAICS") for automotive manufacturing and New United Motor Manufacturing, Inc. ("NUMMI"). Tesla has been manufacturing Electric Vehicles for only seven years, compared to the other older, established automotive manufacturing operations with over one hundred years of experience. Moreover, Tesla is arguably more vertically integrated than other automakers.



The data illustrates Tesla in 2018 is slightly better than the NAICS average for total recordable incidents and 51% better than NUMMI's average TRIR between 2003- 2009. Our 2017 data is 23% improved over 2016 and we remained flat in 2018 even as we significantly ramped Model 3 production and shifted some automation to human production.

Lagging performance injury data for DART is also calculated using the same formula, except only using number of injuries that resulted in days away, restricted or transfer time.

This data illustrates Tesla in 2018 is 12% higher than the NACIS average for DART, but 52% better than NUMMI. Our 2017 data is 29% improved over 2016, and the downward trend continued in 2018 with another 6% improvement compared to 2017.

Lagging performance injury data for just days away (also referred to as lost work days) is also calculated using the same formula, except only using number of injuries that resulted in lost work days.

This data illustrates Tesla in 2018 is 14% higher than the NACIS average for lost work days but 51% better than NUMMI. Our 2017 data is 27% improved over 2016, but we were 14% higher in 2018 compared to 2017. In 2019, we are focusing on ergonomic injury reductions and improved return to work program to reduce our lost work days.

One of the most critical lagging safety indicators is fatality incident rate. Studies have shown that, as injury rates continue to generally decline, fatalities on the job have increased or remained flat.

Neither Tesla nor NUMMI has experienced a fatality. However, on average, four fatalities occur annually in the automotive sector.

Analysis below of our top five injuries by type illustrate sprains and strains are the highest frequency injuries/illnesses. In 2018, these top five injuries accounted for 83% of all injuries in the Fremont factory. In early 2018, we implemented our industrial athlete program and embedded EHS professionals in major departments to help drive our risk reduction plans with operational leaders. The success of these programs is reflected in an 11% reduction in this injury type.

TESLA

% Change - Injury type 2017-2018

	2017	2018	% Change
Strain	59%	48%	11% reduction
Inflammation	13%	10%	3% reduction
Contusion	10%	12%	2% increase
Laceration	9%	8%	1% reduction
Sprain	6%	5%	1% reduction

Source: Workers Compensation

The re- organization of the Tesla Health Center in 2018 aimed to better treat and prevent our musculoskeletal injuries with expedited treatment and specialized care. For the first time, the Center is now staffed with on- site physicians, with direct access to an orthopedic surgeon.

Cases in which employees accrued lost time decreased in both days open and average cost when comparing 2017 to 2018. This was not aimed to reduce the reporting of claims, but to allow the employees to take advantage of our capabilities. In fact, more workers' compensation claims have been reported in 2018 than any other year at Tesla.

By identifying our injury types at the onset, and guiding towards medical specialists sooner, our injured workers are able to advance their treatment plans, thus reducing severity and days away from work.

Attachment B: Tesla, Inc.'s March 20, 2018 Staff Report

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

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

Tesla, Inc. (FKA Tesla Motors, Inc.)
Application No. 18-SM004

Tuesday, March 20, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – Tesla, Inc. (FKA Tesla 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 (Advanced Transportation)

Currently Recommended for Approval	Total Project
Value of Qualified Property – $239,234,449	**Value of Qualified Property** – $1,169,260,000
Estimated STE Amount[2] – $20,000,000	**Estimated STE Amount –** $97,750,136
Estimated Quantifiable Net Benefits[3] – $1,599,693	**Estimated Quantifiable Net Benefits** – $7,818,512

Application Score –

Fiscal Benefits Points:	951
Environmental Benefits Points:	129
Net Benefits Score:	1,080
Additional Benefits Points:	37
Total Score:	1,117

Staff Recommendation – Conditional approval, pursuant to conditions outlined under Recommendation

[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 current average statewide sales tax rate of 8.36%.
[3] The estimated net benefits are calculated based on the updated scoring parameters adopted by CAEATFA at the December 19, 2017 Board meeting. Some of these parameters, including the applicable estimated STE rate, are different than the parameters under which Tesla's Application No. 17-SM003 was scored, which was calculated based on the scoring parameters used by CAEATFA at the time the application was conditionally approved, prior to the implementation of the updated parameters.

THE APPLICANT

Tesla, Inc. (FKA 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 is a publicly traded company on the NASDAQ under the symbol TSLA.

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

The corporate officers of Telsa, Inc. are:

Elon Musk, CEO
Deepak Ahuja, CFO
Jeffrey B. Straubel, CTO
Doug Field, SVP

BACKGROUND

Tesla has benefited from six 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 manufactured 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 terminated 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 since exhausted the entirety of its award with a final transaction report submitted to CAEATFA staff on May 15, 2017.

Tesla first submitted an application on November 16, 2015 for the purchase of $1,169,260,000 in equipment and tooling required for the development and production of the Tesla Model 3, the same project under consideration and described below. On December 13, 2016, the CAEATFA Board approved Tesla to purchase up to $560,917,080 in Qualified Property for the Model 3 project. Tesla has since exhausted the entirety of its award with a final report submitted to CAEATFA staff on January 31, 2018.

Because the December 2016 award only represented 48% of Tesla's request, the Applicant applied for 2017 award allocation under the new STE Program regulations imposing a $20 million in STE cap per calendar year. Tesla was approved by CAEATFA on January 17, 2017 for up to $237,529,691 in Qualified Property. On December 19, 2017, the Board conditionally approved an amendment to this award to increase the amount of Qualified Property to $287,322,328 pursuant to Program Regulation Section 10032(a)(4)(A). The request for final approval of this amended award is up for consideration at this Board meeting under Agenda Item – 4.B.1.

Tesla submitted this Application for up to $239,234,449 in Qualified Property under the 2018 calendar-year award allocation, as $370,813,229 in Qualified Property still remains under the total Model 3 project.

Figure 1: Tesla , Inc. Awards to Date

Board Meeting	Project	QP Amount	QP Purchases Reported	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	$463,622,419.75	$39,037,225	$39,037,007.74
12/13/2016	Model 3	$560,917,080	$560,876,583.63	$47,229,218	$46,889,282.34
01/17/2017	Model 3	$237,529,691	$156,099,313.39**	$20,000,000	$13,049,902.60**
	Totals:	**$2,289,071,771**	**$2,207,327,891.03**	**$191,254,205**	**$185,052,031.23**

*Estimated STE Used is greater than the Estimated STE Awarded because the average statewide sales and use tax rate increased from 8.37% to 8.42% in 2014.
**Semi-annual reports for the second half of calendar year 2017 are still under review.

THE PROJECT

Tesla is requesting an STE award 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 a starting base price of $35,000. Pre-orders for the Model 3 have begun, and the Applicant represents Model 3 deliveries began in July 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. Tesla represents the Project will launch the first phase of production on the Model 3 and provide the capacity to produce and deliver approximately 250,000 units per year once the Project is ramped, in addition to its Model S and Model X production. Tesla also represents that production of the Model 3 will support an additional 4,113 new manufacturing jobs. The current projections in the Application are consistent with the most recent information provided to investors.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases for the total Model 3 project 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	**$1,169,260,000**

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 represents that equipment orders began in early 2016 and that application approval would accelerate the pace of investment. The Applicant also represents that Model 3 deliveries to customers began in July 2017. According to the Applicant, the Model 3 has faced delays due to production bottlenecks stemming from issues encountered at the Applicant's Gigafactory 1, where the battery packs for Tesla's vehicles are assembled. Tesla represents that production has been slowing ramping up and it expects to reach a production rate of 5,000 units per week by the end of the second quarter of 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be $1,169,260,000 and the total quantifiable net benefits are valued at $7,818,512 for the Project. The Project received a Total Score of 1,117 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 129 points, which exceeds the 20 point threshold.

A. Fiscal Benefits (951 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 $92,951,429 resulting in a Fiscal Benefits score of 951 points for the Project.

B. Environmental Benefits (129 points). The Project will result in $12,617,219 of total pollution benefits over the life of the Project resulting in an Environmental Benefits Score of 129 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 (37 points). Applicants may earn additional points for their Total Score. The Applicant submitted information and received 37 additional points.

1. **Permanent Jobs (30 of 75 points).** The Applicant represents that the Project will support a total of 4,113 permanent jobs at its Facility. CAEATFA estimates that approximately 174 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 30 points for the Project.

2. **Construction Jobs (0 of 75 points).** The Applicant represents that the Project will not support any construction jobs at its Facility.

3. **Non-CA Environmental Benefits (7 of 40 points).** The Applicant's total value of out-of-state non-greenhouse gas pollution benefits are valued at $1,419,382 resulting in a Non-CA Environmental Benefits Score of seven 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 has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

SUMMARY OF STAFF ANALYSIS SINCE DECEMBER 2017 BOARD MEETING

On December 19, 2017, the Board approved CAEATFA Staff's recommendation of an amendment to Resolution No. 17-SM003 for Tesla's purchase of Qualified Property in an amount not to exceed $287,322,328 anticipated to result in an approximate sales and use tax exclusion value of $24,192,540, subject to the following conditions:

1. The Applicant must clarify the basis for the updated estimated job and production calculations, as well as what factors have contributed to the reduced numbers and what the Applicant is doing to address any production delays, as may be requested by Staff to complete its review of the updated information.

2. Staff must continue its due diligence of the revised legal status questionnaire and make a determination as to whether the disclosures affect the financial viability or legal integrity of the Applicant.

Since the December 2017 Board meeting, the Applicant has responded to all of Staff's inquiries, enabling Staff to complete its review of the Application. As mentioned previously, the request for final approval of this amended award is up for consideration at this Board meeting under Agenda Item – 4.B.1.

Changes in Job and Production Numbers and Project Timeline

The Applicant has represented to CAEATFA that job and production numbers from the initially submitted November 2015 Application to the November 2016 and January 2017 approved Applications primarily changed because Tesla originally believed the $1.17 billion investment would be able to produce the target rate of 10,000 vehicles per week, but eventually determined that the equipment would enable the company to achieve a production rate of only 5,000 a week, therefore the production numbers, and correspondingly, the job numbers, were reduced. Since

the January 2017 Application, the estimated average number of jobs has increased from 3,249 to 4,113. The estimated production numbers have decreased, which Tesla represents is due to production beginning later than originally projected.

Tesla states that, once the company completes Phase 1, it plans to make the investments necessary to implement Phase 2 of the Model 3 program to achieve a production rate of 10,000 vehicles per week.

The Applicant also represents that the recent firings reported by the media were related to annual performance reviews and did not affect the Model 3 job projections as they were irrelevant to the production of the Model 3. The Applicant states that the Model 3 employment positions in the Application are newly created specifically for the Model 3, and are still being filled.

As for production delays, the Applicant states that the primary production delay was due to the battery module assembly line at the Gigafactory 1, where battery cells are packaged into modules. According to Tesla, the combined complexity of module design and its automated manufacturing process has taken this line longer to ramp than expected, primarily as a result of needing to take over and redesign the first two zones of a four zone process, key elements of which were done by manufacturing systems suppliers. The Applicant represents that in the last seven working days of 2017, it made 793 Model 3 vehicles, and in the beginning of January 2018 hit a production rate on each manufacturing line that extrapolates to over 1,000 Model 3 vehicles per week. According to Tesla, the company currently expects to achieve a production rate of 5,000 Model 3 vehicles per week by the end of Q2 2018. While these production estimates may appear to be ambitious in comparison to Tesla's previous models and in light of the Model 3 production delays, the information is consistent with what the Applicant has provided to its investors.

Worker Safety

In its LSQ, Tesla identified several incidents of serious harm and explained the steps taken to prevent these injuries in the future. Tesla represents additional changes to address safety issues have included:

1. Adding a third shift to reduce the overtime burden on team members.

2. Creating a safety team for each department that meets monthly

3. Increasing safety awareness throughout the factory for example, all new manufacturing employees must participate in a week-long training program where they learn the essentials of production, safety, ergonomics, and Tesla teamwork. They are also required to complete a hands-on, simulated training program before working in the factory.

4. Hiring a Vice President of Environmental Health and Safety who will create new programs and lead a team committed to achieving the company's safety goals.

Additionally, according to Tesla, nearly two-thirds of its recordable incidents at the factory involve ergonomic issues caused by repetitive tasks, therefore the Applicant hired its first dedicated ergonomist in 2013 and established an ergonomics team in 2015 that is exclusively focused on improving health and safety and reducing ergonomic risk for current and future production. Tesla also represents that the Applicant has improved the process of building the Model S and X and designing the Model 3 specifically with ergonomics in mind. Tesla represents that an automated rotation system for rotating workers on the assembly floor will be rolled out by mid-2018. The Applicant maintains that this program is a priority.

The organization Worksafe, Inc., wrote about the safety issues at Tesla's Fremont facility in a May 24, 2017 report[4] claiming that the facility had a higher Total Recordable Incidence Rate ("TRIR") and a higher rate of serious injuries compared to the industry-wide standard. Addressing this report, Tesla pointed out that the data used to reach this conclusion is out-of-date, and does not reflect the current reality at the company's factory. According to Tesla, the Applicant has focused on continuous improvement and taken several steps to enhance safety. Tesla represents that, based on its data through the end of the year, the Applicant expects its 2017 TRIR at the Fremont facility to be almost exactly at industry average (based on the latest publicly available industry-wide data). The U.S Bureau of Labor Statistics has not yet released final industry-wide injury rates for 2017 – this report is typically released toward the end of the following year. Additionally, Tesla represents that the factory's 2017 TRIR of 6.2 is less than half of the average TRIR of the NUMMI plant from 2003-2009 of 12.6.

Tesla has represented that it is committed to making improvements and intends to make its facility the safest in the industry. Staff's search of Tesla's California facilities on OSHA's website found only two accidents over the last two years. Tesla has also detailed additional steps the Applicant will be making to improve employee safety, including hiring a new medical director to oversee its expanded 24/7 in-house medical center, and implementing an early intervention program with athletic trainers who will work proactively with employees to address aches and pains before they become injuries.

California Public Utilities Commission Utility Supplier Diversity Program Participation

At the December 19, 2017 Board meeting, Board member Michael Picker, President, Public Utilities Commission ("CPUC"), expressed concern over Tesla's failure to participate in the CPUC's efforts to begin a dialogue with the diversity communities to support the dissemination of contracts to diversified community contractors. Staff requested that Tesla provide an update of its participation efforts. The Applicant states that its new Senior Director for Diversity, Felicia Mayo, is leading the company's work on this effort, and that its gathering data and conducting an internal assessment of the company's existing supplier network to understand the level of diversity and to identify opportunities, including when existing contracts end.

The Applicant further states that in November 2017, Ms. Mayo and a member of Tesla's policy team met with Mr. Picker and his staff about supplier diversity and workforce diversity, and have

[4] See Worksafe, Inc. report dated May 24, 2017

since followed up with CPUC staff about the supplier diversity program and about how best to communicate with participants in the program about the company's needs and how to include participants in solicitations or procurement opportunities. The Applicant represents that in December 2017, Ms. Mayo and a senior leader in its Finance Department participated in a solar industry-sponsored CFO networking event with finance companies led by diverse individuals. At which connections were made and a follow-up meeting with one participating finance company already has occurred.

Tesla represents that the company has contracts with at least two vendors who participate in the CPUC's Utility Supplier Diversity Program. The Company represents that it is in the process of identifying additional vendors and that it plans to schedule the first set of meetings with those vendors by the end of the first quarter of 2018, and that the Applicant will host a supplier diversity day at Tesla in Fremont later this year. In addition, Tesla states that it will be participating in the CPUC-organized supplier diversity event in Long Beach in April 2018.

Unfair Labor Practices, Discrimination and Harassment

In light of recent media reports regarding Tesla and allegations of unfair labor practices, racial and gender discrimination, and sexual harassment, Staff requested information from Tesla regarding these claims. Although these cases generally are not within the scope of the Legal Status Questionnaire unless they may have a material impact on the financial viability of the project, Tesla provided responses to Staff's request for additional information on these allegations.

Tesla represents that several Unfair Labor Practice ("ULP") charges have been filed against the Applicant in the past year, which are pending before the National Labor Relations Board ("NLRB"). According to Tesla, because these matters are being adjudicated by the NLRB, out of respect for the NLRB process, the Applicant cannot comment on the proceedings other than to say that the claims lack merit. The Applicant also maintains that allegations of retaliation against employees who spoke out against the Applicant or engaged in union-related activities during the 2017 annual reviews are untrue. Tesla states that 98% of its employees' performances met or exceeded expectations, and 20% received promotions and advancement, plus opportunities for additional compensation and equity awards. Tesla represents that the vast majority of the departures, which amounted to 700 employees out of a company of 33,000, were from sales and administrative positions, not manufacturing positions at the Fremont facility, and that the overall attrition rate of 2017 was comparable to 2016. Tesla further represents it plans to backfill the majority of the positions. To further assess whether the attrition rates were atypical, Staff asked Tesla to provide information on its attrition rates for previous years. According to Tesla, attrition rates have been within 2% between 2012 and 2017, with the exception of 2013 which was 3% lower than 2012.

Tesla represents that claims of discrimination and harassment are inevitable in a company of over 30,000 employees and that these cases are without merit and has represented to CAEATFA that it intends to dispute these cases in court. The Applicant also represents that it requires all employees to attend anti-discrimination courses and that any allegations or complaints are

investigated and addressed by a dedicated team. Additionally, Tesla represents that it has sponsored employee groups made up of female and LGBTQ employees, and has become one of the largest employers of veterans in the State of California. According to Tesla, the company has scored 100% on the Human Rights Campaign's Corporate Equality Index for the past two years.

As the matters regarding alleged unfair labor practices, harassment, and discrimination, as well as the other disclosed lawsuits or investigations, are all still pending, and given the concerns over production delays, Staff is recommending conditional approval of Tesla's request, subject to some additional reporting requirements that would be included in the Master Agreement between CAEATFA and Tesla, as further detailed below. Staff has considered Tesla's response to the allegations in making its recommendation, as well as CAEATFA's possible courses of action if the Applicant provided false information to Staff or is ultimately held liable.

Section 5.D. of CAEATFA's template Master Regulatory Agreement used for all approved applicants provides that, following a finding that an applicant has provided false information pursuant to Section 10035(b)(5) of Title 4 of the California Code of Regulations or has otherwise violated the Master Agreement, the Authority may, after written notice to the applicant, rescind the approval resolution and master regulatory agreement, in addition to other remedies. Upon a final decision by the Authority, the approval resolution and Master Agreement shall be rescinded, and notice of the rescission may be provided to the Board of Equalization.

Additionally Section 6.E. states that if the Applicant violates statute, regulations, or the terms of this Master Agreement, the Executive Director may suspend the Master Agreement until the Executive Director certifies that the Applicant is once again in compliance. Purchases made during this suspension will not be excluded from the imposition of sales and use tax.

CAEATFA FEES

In accordance with CAEATFA Regulations,[5] the Applicant has paid CAEATFA an Application Fee of $10,000 and will pay CAEATFA an Administrative Fee up to $350,000.

RECOMMENDATION

Staff recommends conditional approval of Resolution No. 18-SM004 for Tesla Motors, Inc.'s purchase of Qualified Property in an amount not to exceed $239,234,449 anticipated to result in an approximate sales and use tax exclusion value of $20,000,000, subject to the following conditions, which will be included in the Master Regulatory Agreement between the Authority and the Applicant:

1. Tesla agrees to update the CAEATFA Board in writing and in person every four months with regards to the following:

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

a. Progress in meeting its production goals.
b. Progress in improving the health and safety at its facilities.
c. Providing an updated Legal Status Questionnaire.

2. This reporting will be in addition to the Applicant's semi-annual reporting to CAEATFA, with the first report due at the July 17, 2018 Board meeting and subsequent reports due every four months thereafter for three years.

Agenda Item – 4.C
Resolution No. 18-SM004
Application No. 18-SM004

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

March 20, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority" or "CAEATFA") has received the Application of **Tesla, Inc. (FKA 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 $239,234,449 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.

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 with the recommended

changes set forth as conditions one and two in the staff recommendation on this matter. 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. Tesla shall update the CAEATFA Board in writing and in person every four months with regards to the following: (1) progress in meeting its production goals; (2) progress in improving the health and safety at its facilities; and (3) an updated Legal Status Questionnaire. This reporting will be in addition to the Applicant's semi-annual reporting to CAEATFA, with the first report due at the July 17, 2018 Board meeting and subsequent reports due every four months thereafter for three years.

Section 11. 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.