

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

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

**Tesla, Inc.
Application No. 20-SM025**

Tuesday, March 17, 2020

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Tesla, Inc.

Location – Fremont, Alameda County

Industry – Electric Vehicle Manufacturing

Project – Expansion of Electric Vehicle Manufacturing Facility (Advanced Transportation)

Value of Qualified Property – \$119,617,224

Estimated Sales and Use Tax Exclusion Amount² – \$10,000,000

Estimated Quantifiable Net Benefits – \$44,668,380

Competitive Criteria Score – 160

Application Score –

Fiscal Benefits Points:	4,932
<u>Environmental Benefits Points:</u>	<u>535</u>
Net Benefits Score:	5,467
 <u>Additional Benefits Points:</u>	 <u>119</u>
Total Score:	5,586

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 8.36%.

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. The Company’s products include the Model S sedan, the Model X crossover, the Model 3, and the Tesla Semi. More recently, Tesla announced and revealed its Model Y SUV, the subject of this application, and the Tesla Cybertruck. Tesla is a publicly traded company on the NASDAQ under the symbol TSLA.

Tesla has benefited from eight previous STE awards. The awards are as follows:

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	\$560,917,080	\$47,229,218	\$47,229,218.14
01/17/2017	Model 3*	\$287,322,328	\$287,322,316.11	\$24,192,540	\$24,113,805.21
03/20/2018	Model 3*	\$239,234,449	\$239,113,950.19	\$20,000,000	\$19,989,926
4/16/2019	Model 3	\$81,906,653	\$67,398,133.66	\$6,847,396	\$5,634,484
Totals:		\$2,660,005,510	\$2,645,103,473.98	\$222,294,141	\$222,080,280

*Completed projects

**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.

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

The corporate officers of Tesla are:

Elon Musk, CEO
Zack Kirkhorn, CFO
Jerome Guillen, President of Automotive

THE PROJECT

Tesla is requesting a sales and use tax exclusion to purchase equipment and tooling to expand its Model Y SUV manufacturing operations in Fremont (the “Project”). Tesla unveiled the Model Y, a compact crossover SUV on March 14, 2019, and is currently producing vehicles based on custom orders. Tesla states that the Qualified Property will be installed at the Applicant’s five million square-foot facility where other Tesla models are currently produced, and will also be utilized to manufacture the electric powertrains used in the Model Y vehicle and future electric vehicles. Tesla states this expansion will support over 3,000 jobs, which includes new hires and reallocated or cross-trained employees.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Press	\$ 1,526,438
Body Line	57,310,805
Paint-Body Equipment	38,785,398
General Assembly	17,345,885
Seat Assembly	4,648,698
Total	<u>\$119,617,224</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 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

According to Tesla, production of the Model Y vehicles has begun. Tesla states it will purchase and install tooling and equipment needed to expand its existing line throughout 2020 and 2021.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 160 Competitive Criteria points as follows:

1. **Environmental Benefits (100 points).** The Applicant's Project earned more than zero Total Pollution Benefits points (i.e. had environmental benefits that could be monetized and scored pursuant to the Program's regulations³), therefore 100 points are awarded.
2. **Unemployment (0 of 50 points).** The Applicant's Project is located in Alameda County, which has an average annual unemployment rate of 2.9%. When compared to the statewide average annual unemployment rate, 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.
3. **Job Creation (45 of 75 points).** The Applicant represents that the Project will support a total of 3,122 production-related jobs at its Facility. CAEATFA estimates that approximately 55 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
4. **California Headquarters (15 points).** The Applicant has a California Corporate Headquarters, therefore 15 points are awarded.
5. **Natural Disaster Relief (0 points).** The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in the state of emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$119,617,224 and the total quantifiable net benefits are valued at \$44,668,380 for the Project. The Project received a Total Score of 5,586 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 535 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (4,932 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 \$49,321,388, resulting in a Fiscal Benefits score of 4,932 points for the Project.
- B. **Environmental Benefits (535 points).** The Project will result in \$5,346,992 of total pollution benefits over the life of the Project resulting in an Environmental Benefits

³ California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

Score of 535 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 vehicle.

- C. **Additional Benefits (119 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 119 additional points.
1. **Production Jobs (45 of 75 points)**. The Applicant represents that the Project will support a total of 3,122 production-related jobs at its Facility. CAEATFA estimates that approximately 55 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
 2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 102 construction jobs at its Facility. CAEATFA estimates that approximately two of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned zero points.
 3. **Unemployment (0 of 50 points)**. The Applicant's Project is located in Alameda County, which has an average annual unemployment rate of 2.9%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.
 4. **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 the production of electric vehicles, the subject of this Application.
 5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Evergreen Valley College and Rio Hondo College for the purpose of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to Tesla, permits and necessary approvals for the Project have 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.

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

Staff recommends approval of Resolution No. 20-SM025 for Tesla, Inc.'s purchase of Qualified Property in an amount not to exceed \$119,617,224, anticipated to result in an approximate sales and use tax exclusion value of \$10,000,000.

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

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

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Tesla, 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 \$119,617,224 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.F.8
Resolution No. 20-SM025
Application No. No. 20-SM025

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.