

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**QuantumScape Corporation
Application No. 21-SM010**

Tuesday, March 16, 2021

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – QuantumScape Corporation

Location – San Jose, Santa Clara County

Industry – Electric Vehicle Battery Manufacturing

Project – Expansion of Existing Electric Vehicle Battery Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$19,999,333	\$1,699,943

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$2,040,086	1,200
Estimated Environmental Benefits	N/A	170
Additional Benefits	N/A	145
Total	\$2,040,086	1,515
Estimated Quantifiable Net Benefit	\$340,143	

Competitive Criteria Score – 90

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the STE Program’s statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

THE APPLICANT

QuantumScape Corporation (the “Applicant”) is a Delaware corporation that formed in 2010. The Applicant was founded to develop and commercialize an electric battery solution to enable long-range, low-cost electric vehicles, and a mass market for electric vehicles.

On October 17, 2017, the CAEATFA Board granted the Applicant an STE award for the purchase of up to \$18,243,000 in Qualified Property for an estimated STE value of \$1,536,061 to manufacture electric vehicle batteries at its facility in San Jose. The Applicant completed the project in 2020.

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

- Volkswagen Group of America (17.91%)
- Khosla Ventures III, LP (11.3%)

The corporate officers of the Applicant 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, Vice President, Business Operations

THE PROJECT

The Applicant is requesting an STE award to expand its existing electric vehicle battery manufacturing facility located in San Jose (the “Project”). The Applicant has been conducting research and development at its facility since 2014 and is scaling-up its engineering line for battery production. According to the Applicant, its proprietary advanced materials and battery cells are capable of storing significantly more energy per unit mass and volume than the industry standard. The Applicant explains the Project will use integrated computational materials engineering and an advanced workforce to develop and model the physics behind its batteries. The Applicant states that because this technology requires fewer materials to store an equivalent amount of energy, the Project will require fewer resources, including raw materials, tools, energy, and solvents, and will produce a lighter battery system to improve the range of electric vehicles.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Material Prep Equipment	\$399,376
Testing Equipment	\$2,057,136
Separator Processing Equipment	\$2,705,367
Assembly Equipment	\$2,833,700
Cathode Processing Equipment	\$3,980,000

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Analytic Equipment	\$4,637,276
Automation, Heat Treatment, and Additional Processing Equipment	\$3,386,478
Total	<u>\$19,999,333</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, engineering planning has been completed and equipment will be placed in service in 2021 and be completed by 2022.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, the expansion of the current facility building will require a construction permit from the city of San Jose. The Applicant has applied for a permit with San Jose and is expecting approval in the first half of 2021.

COMPETITIVE CRITERIA SCORE

In the event that the Applications received by CAEATFA requesting \$2 million or less in STE by the deadline for a particular Board meeting represent STE in excess of the \$20 million set-aside for that calendar year, the Applications submitted for that particular Board meeting will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The Applicant received 90 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points)**. The Applicant's Project did not earn any environmental benefits points, as calculated pursuant to the method for calculating points for environmental benefits for Advanced Transportation, Alternative Source, and Recycled Resource Extraction Applications in Section 10033(c)(4). Therefore, no points are awarded.

2. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Santa Clara County, which has an average annual unemployment rate of 6.0%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (75 of 75 points)**. The Applicant anticipates the Project will support a total of 454 production-related jobs at its Facility. CAEATFA estimates that approximately 37.22 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 75 points.
4. **California Headquarters (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,515 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 170 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,200 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant’s sales and use taxes, personal income taxes paid by the firm’s employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$2,040,086, resulting in a Fiscal Benefits score of 1,200.
- B. **Environmental Benefits (170 points)**. The Project earned an Environmental Benefits Score of 170. The Applicant received points in the following categories:

⁴ Unemployment rates are based on data available in October 2020.

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1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that it states will track water, electricity, industrial gas, and waste to reduce emissions and the consumption of energy and raw materials.
 2. **Energy Consumption (30 of 30 points)**. The Applicant anticipates the Project will result in a 33% reduction in energy consumption compared to the industry standard manufacturing process due to the higher gravimetric energy density in its battery cells compared to industry standards.
 3. **Solid Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 33% reduction in solid waste produced relative to the industry standard manufacturing process by eliminating material used in manufacturing as a result of the higher gravimetric energy density in its battery cells compared to industry standards.
 4. **Hazardous Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 50% reduction in hazardous waste produced relative to the industry standard manufacturing process. The Applicant explains that the industry standard for lithium batteries uses two electrode mixing, coating, drying, and slitting lines, while the Applicant's system eliminates the need for one of those lines.
 5. **Air Pollutants (30 of 30 points)**. The Applicant anticipates the Project will result in a 33% reduction in the emission of air pollutants produced relative to the industry standard manufacturing process. The Applicant explains the higher gravimetric energy density in its battery cells compared to industry standards reduces the amount of emissions of air pollution, such as solvent evaporation, per unit of output.
 6. **Other Pollutants (30 of 30 points)**. The Applicant anticipates the Project will result in a 33% reduction in other pollutants produced relative to the industry standard manufacturing process. The Applicant explains the higher gravimetric energy density in its battery cells compared to industry standards reduces the amount of pollution per unit of output.
- C. **Additional Benefits (145 points)**. Applicants may earn additional points for their Total Score. The Applicant received 145 additional points.
1. **Production Jobs (75 of 75 points)**. The Applicant anticipates the Project will support a total of 454 production-related jobs at its Facility. CAEATFA estimates that approximately 37.22 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 75 points.

2. **Construction Jobs (20 of 75 points)**. The Applicant anticipates the Project will support a total of 20 construction jobs at its Facility. CAEATFA estimates that approximately 1.64 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 20 points.
3. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in Santa Clara County, which has an average annual unemployment rate of 6.0%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
4. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to the development of materials and manufacturing for high energy density batteries.
5. **Benefits and Fringe Benefits (25 of 25 Points)**. The Applicant states it provides medical, health, dental, vision, dependent care and assistance reimbursement, transportation subsidies, and education reimbursement to its employees, earning the Applicant 25 points.

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,⁶ the Applicant has paid CAEATFA an Application Fee of \$9,999.67, and will pay CAEATFA an Administrative Fee of up to \$79,997.33.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM010 for QuantumScape Corporation’s purchase of qualifying tangible personal property in an amount not to exceed \$19,999,333, anticipated to result in an approximate STE value of \$1,699,943.

⁵ Unemployment rates are based on data available in October 2020.

⁶ California Code of Regulations Title 4, Division 13, Section 10036.

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

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **QuantumScape Corporation** (the “Applicant”) for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10030(a), with the Applicant for the Project; and

WHEREAS, the Applicant has estimated the Project has an estimated cost not to exceed \$19,999,333 over a period of three years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

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qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.