

THE ARIZONA REPUBLIC



Arizona's road to landing Tesla



When Tesla Motors Corp. in February announced four states as finalists for a massive battery factory, it touched off a high-stakes, low-profile bidding war in the Southwest for what could be one of the largest manufacturing projects in the nation in recent memory.

The competition among Arizona, Nevada, New Mexico and Texas has left groups in each state

comparing what each has to offer over the others while wondering whether some X factor could leave them on the outside looking in.

Each state has a menu of incentives, taxes and business attractions, though geography and other concerns are likely to weigh heavily in the company's decision, site-selection experts say.

The unusual announcement brought the secretive site-selection decision into the national spotlight. Simply being named a finalist was a gift to the four states in terms of marketing their business-friendly environments, but only one will get the ultimate trophy of a factory.

"Companies usually keep their relocation decisions close to their vest," said John Boyd, president of the Boyd Co. in New Jersey, which has worked with a variety of companies on site selection, including insurer Progressive's facility in Arizona.

"They don't want escalating land costs in candidate locations," Boyd said. "And they don't want sales pressures from economic development and mayors and governors interfering with their daily tasks."

Those sales pitches to Tesla began immediately as governors, mayors, congressmen and others began issuing public statements contending their areas had the most to offer. But rather than escalating land costs, Tesla's project is being lured with a variety of deals. One Arizona landowner even offered free property to the company for the factory.

The Tesla project, estimated to cost more than \$4 billion and employ 6,500 people, is not the usual development deal. CEO Elon Musk gained international fame as the co-founder of Paypal and continues to set lofty goals with his Space Exploration Technology Corp., which aims to send people to Mars in addition to providing space launches for other clients.

Musk's Tesla is attempting to bring electric cars into the mainstream by selling \$70,000-\$100,000 cars today and eventually offering a \$35,000 Everyman's car. And unlike other automakers, he's doing it without a traditional gas-fueled line of vehicles to provide financial support.

"This is indeed the trophy project of all trophy projects," Boyd said. "It is really of that magnitude given the investment, Elon Musk's background, and given the fact it will open up a whole new galaxy of products, not only in his car, but breakthroughs in battery technology that will revolutionize all sorts of consumer goods."

The search

Tesla officials said they have visited all the states and met with development officials to discuss the potential benefits of each location. However, the company has the candidates bound with confidentiality agreements that prevent them from discussing their offerings, including how many sites might be under consideration in each state.

In Arizona, sites in Pinal County, Buckeye and near Tucson have been suggested as fitting Tesla's needs for highway and railroad connectivity, as well as 500 to 1,000 acres to site a 10 million-square-foot facility, which would be about the size of 100 Walmart stores.

Tesla officials, meanwhile, have seemingly only widened their search since the February announcement. In April, company officials were quoted in the California press saying they were reviewing that state's offers.

Those comments came after California lawmakers expressed frustration at not being on Tesla's short list after giving up millions in incentives to get the company's car factory in Fremont.

Pundits have speculated that Tesla intended to build the factory in California all along, naming the other states only to entice the best bid from its home state.

Boyd said he doesn't think that is the case but said it is a common tactic. "The term is stalking horse," Boyd said. "And companies do that all the time, absolutely. They shop around and get the best deal."

California simply has too costly of a business environment for the Tesla project, he said. "My sense is they have no intentions of going to California," Boyd said. "California is in the hunt again, even just as a courtesy (to the state)."

The bottom line

Each of the four states has myriad incentives in place to help attract such deals, from grants to train workers to property-tax exemptions. Experts say the factory will go to the site where the cost of business is lowest after factoring in taxes, logistics, utilities and any additional sweeteners that can help break down the cost for the company.

The *San Antonio Express-News* recently quoted confidential sources in that city claiming the region offered Tesla \$800 million in incentives, not including any potential cash from the Texas Enterprise Fund — essentially an open checkbook Gov. Rick Perry can use to seal deals.

Offering development incentives took off in the 1970s in the South and East Coast as lower-income areas attempted to bring jobs to their communities, Boyd said.

"Then other states copied them," he said. "Incentives now are assumed. It is part of the process."

And states are conjuring up new incentives each year. Gov. Jan Brewer recently signed a bill exempting the electricity that manufacturers purchase from sales taxes.

Brewer said during a recent interview that she feels Arizona has enough incentives to present serious competition to other states in the running for the factory.

"I absolutely believe we have enough tools in the toolbox," Brewer. "We can always use more."

Brewer said Arizona's offer to Tesla was competitive. She felt at least one of the other sites was not competitive.

Mark Arend, editor in chief of *Site Selection* magazine and other trade journals, said Arizona's exemption of taxes on electricity would be an important factor, because tax policies are more important at the end of the day than grant-type incentives.

"In very general terms, if incentives come into play, it is usually late in the process, once other criteria are addressed," Arend said.

"Taxes generally are a bigger factor, because there are so many kinds — inventory, franchise, energy, transaction privilege tax, etc. — beyond just income and property tax."

The scope of Tesla's proposed factory makes the competition among the biggest ever faced by the state.

According to *Site Selection's* database, the estimated 6,500 employees at the Tesla factory makes it the largest single project proposed in the U.S. in the past several years. The \$4 billion or more price tag is not the biggest, though most of the projects that were more expensive are petrochemical facilities. And the 10-million-square-foot estimate is among the three-largest proposed projects.

"In short, if these project specs hold true, this will be an enormously significant project for whichever location lands it," he said.

Nevada advantage?

Some media outlets have reported Nevada is a frontrunner for the Tesla factory, and Boyd said that the opportunities for tax avoidance would likely push Tesla in that direction. But Arend said Nevada is the least competitive of the four sites mentioned by Tesla.

Although Nevada doesn't have a corporate income-tax rate, that advantage may be smaller than it seems.

In 2011, Arizona passed corporate income-tax changes that allow manufacturers to base their income-tax bill exclusively on sales made in Arizona. For companies like Tesla, which can't even sell cars here, the corporate income-tax bill could fall to Arizona's \$50 annual minimum.

New Mexico is phasing in its own changes to lower taxes for export-based manufacturers. Texas has a gross-receipts tax, but the state offers breaks for products that are manufactured in that state and exported out of it within 175 days.

According to media reports in Nevada, two sites in the northern part of that state are potential sites for the factory. One is the Reno-Stead Airport, north of Reno, and the other is the Reno-Tahoe Industrial Center east of the city.

Musk said he wants to power the factory with renewable energy, and the Reno area has high potential to develop solar power as well as wind farms. And it already has several operating geothermal power plants including some on the fringe of the city.

Nevada also is noted as having the only operating lithium mine in the United States, which would seem to be an advantage for the lithium-ion battery factory.

Rockwood Lithium, a global company with North American headquarters in North Carolina, mines lithium in Silver Peak, Nev.

Although the company does not release production figures for the mine, it likely is a minor player on the global scale. Most of the world reserves for lithium are in Chile, China, Australia and Argentina, according to the U.S. Geological Survey.

Also, lithium can be produced in other ways. A California company called Simbol Materials extracts the mineral from a geothermal power plant near the Salton Sea. Economic-development officials in that part of California are hoping that could bring Tesla's battery plant to that region.

Formidable fund

Texas has the advantage of a deal-closing fund the governor can use to direct tens of millions of dollars toward projects to spur economic development.

"Texas consistently ranks at or near the top of our competitiveness and business-climate rankings," Arend said.

Furthermore, San Antonio, which seems to be the frontrunner in that state, is "one of the best valued large metro areas in the country in terms of low operating costs," Boyd said.

On Monday, Toyota announced it was consolidating U.S. operations in California, Kentucky and New York to a single site in Texas, and the state reported providing \$40 million through the deal-closing fund to encourage the move.

The Japanese auto company already builds pickup trucks in Texas, but the company's move from California shows a clear business preference for the Lone Star state.

The headquarters-consolidation project will bring 4,000 jobs to the state, or about two-thirds of those expected from the Tesla deal, indicating the potential incentive from the fund could be much higher for Tesla. However, the Texas fund can be used only if there is a single site in Texas competing against out-of-state sites, and it is not clear Texans are in agreement regarding a single location in the state to compete against those in the other states.

Other factors

The limited information Tesla has released on the project indicates that access to interstate highways and railroads is crucial, as is the ability to generate electricity from renewable power sources. Otherwise, several more intangible elements may weigh on the decision.

Tesla recently tried to change franchise laws in Texas and Arizona so it could sell cars directly to customers in those states. Facing backlash from auto dealers, the company failed, and still must rely on the Internet to sell vehicles in those places.

Nevada allows direct sales, and Tesla hasn't challenged New Mexico's laws on the issue.

But Boyd said the failure to change Arizona and Texas law doesn't exclude the states from the factory discussion.

"That variable was more window dressing than anything else," Boyd said. "It was more of a litmus test of whether the governor and legislature could work together quickly to get something done."

Regarding Tesla's renewable-energy goals, Arizona has more solar on the grid than the other states in contention, while Texas has more wind power than the others.

But both Nevada and New Mexico offer ample opportunity to build renewable energy were Tesla inclined. And Nevada's geothermal-power plants offer low-cost power around the clock, not just when the sun shines or the wind blows.

The Battle for Tesla's Battery Plant

States in the Southwest are engaged in a high-stakes bidding war for a \$4 billion battery plant Tesla plans to break ground on this summer. Each state is offering up a suite of incentives and brings both strengths and weaknesses to a potential deal. We handicap the competing states for you here.

The battle for Tesla's battery plant: *Arizona*



Pro: Larger workforce and more opportunities for job training than Nevada and New Mexico.

Con: Farther than Nevada and probably can't match the economics of Texas.

Tools and incentives the state can use in wooing companies:

- Arizona Competes Fund

includes \$25 million, much of which could be awarded to a company.

- State corporate income tax allows manufacturers to base their tax bill fully on in-state sales, which could reduce liability close to the \$50 annual minimum.
- There are no franchise, business inventory or estate taxes.
- Tax credits worth up to \$9,000 per job over three years for net new positions that pay median county wage or higher.
- Recently passed bill to exempt manufacturers' electricity purchases from sales tax.

The battle for Tesla's battery plant: *California*



Pro: Tesla headquarters and car factory already located there.

Con: Recent decision from Toyota to move headquarters out of California to Texas not a promising sign. Elon Musk told Bloomberg the state has too many environmental reviews.

Tools and incentives the state can use in wooing companies:

- California "Competes" tax credit
- Sales-tax-exclusion program for "advanced transportation" or

related components.

- Employment-training reimbursement.
- Tesla's existing factory in this state reportedly got financial assistance from the state energy commission, worker training and tens of millions in tax breaks.

The battle for Tesla's battery plant: *Nevada*



Pro: Proximity to Fremont, Calif., Tesla car factory.

Con: Limited presence of high-tech manufacturing in the state and small workforce.

Tools and incentives the state can use in wooing companies:

- No corporate or personal

income taxes.

- Will abate sales tax on equipment purchases.
- Will abate up to 50 percent of payroll taxes for four years.

- Training grants with 25 percent company match.
- Up to 50 percent abatement on personal-property tax for 10 years.

The battle for Tesla's battery plant: *New Mexico*



Pro: Already has a relationships with Elon Musk's Space Exploration Technology Corp. State has some history landing solar-manufacturing facilities.

Con: Arizona, Nevada and Texas are all "right to work" states that prohibit unions from requiring membership to work in certain industries.

Tools and incentives the state can use in wooing companies:

- Changes enacted last year lower the maximum corporate income tax rate to 5.9 percent by 2018 from 7.3 percent in 2014.
- New options for calculating manufacturers' liability with a formula that taxes only sales that occur in the state.
- High-wage-jobs tax credit of up to 10 percent of wages paid for new jobs.
- Rural-jobs tax credit taken as credit against gross receipts.
- Technology-jobs tax credit of 4 percent for research and development.
- Renewable-energy tax credit of 1 cent per kilowatt hour of electricity from qualified sources.
- Investment tax credit for manufacturers, taken as credit against gross receipts.

The battle for Tesla's battery plant: *Texas*



Pro: Probably the biggest incentives to offer.

Con: Farthest site in contention from California car factory.

Tools and incentives the state can use in wooing companies:

- Texas Enterprise Fund, or "deal-closing" account. Cash

grant available if a single Texas site is competing with another out-of-state option.

- Manufacturing exemptions for sales and use taxes.
- Tax exemptions on certain goods that enter and leave the state within 175 days.
- Exemptions for renewable energy.
- Emerging-technology fund provides grants for research and development.
- Workforce-development programs provide financing for job training.

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