

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Applied Materials, Inc.
No. 23-SM034**

Tuesday, July 18, 2023

Prepared By: *Katrina Walters-White, Program Analyst*

SUMMARY

Applicant – Applied Materials, Inc.

Location – Santa Clara, Santa Clara County; Sunnyvale, Santa Clara County

Industry – Production of Lithium Anodes for Electric Vehicle Batteries

Project – Upgrade of Existing Lithium Anode Production Facilities (Advanced Transportation)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$86,000,000	\$7,189,600

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$4,156,457	578
Estimated Environmental Benefits	\$3,594,759	500
Additional Benefits	N/A	147
Total	\$7,751,216	1,225
Estimated Quantifiable Net Benefit	\$561,616	

Competitive Criteria Score – 220

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 8.36%.

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

Founded in 1967 and headquartered in Santa Clara, Applied Materials, Inc. (the “Applicant”) is a Delaware corporation publicly traded on the NASDAQ stock exchange under the ticker symbol AMAT. The Applicant began as a small start-up and has transformed to a leader in materials engineering solutions that are used to produce virtually every advanced display and new microchip on the planet. The Applicant is now branching into new markets, which include the manufacturing of solar cell, energy storage and electric vehicle (“EV”) batteries. More specifically, the Applicant has developed a component that will increase the speed of charging EV batteries. Its customers include EV lithium battery manufacturers throughout California and the United States.

On March 17, 2020, the CAEATFA Board granted the Applicant a sales and use tax exclusion (“STE”) award for the purchase of up to \$118,692,224 in Qualified Property for an estimated STE value of \$9,922,670 to upgrade its existing display and semiconductor fabrication equipment manufacturing facilities in Santa Clara and Sunnyvale. As of June 2022, the Applicant has reported \$118,692,147 in Qualified Property purchases (approximately 100% of the total Qualified Property amount approved) and completed this project.

On March 16, 2021, the Applicant was granted a second STE award by CAEATFA Board to purchase equipment of up to \$23,225,000 in Qualified Property for an estimated STE value of \$1,974,125 to further upgrade and expand its existing display and semiconductor fabrication equipment manufacturing facilities in Santa Clara and Sunnyvale. As of December 2022, the Applicant has reported \$21,997,626 in Qualified Property purchases (95% of the total Qualified Property amount approved).

The Applicant received an income tax credit under the California Competes Tax Credit Program⁴ administered by the Governor’s Office of Business and Economic Development. The Applicant signed an agreement for the income tax credit in April of 2022.

The corporate officers of the Applicant are:

- Gary E. Dickerson, President & CEO
- Brice Hill, SVP, CFO and Enterprise Enablement Group
- Prabu Gopalaraja, SVP, Semiconductor Products Group
- Terri Little, SVP, Chief Legal Officer and Corporate Secretary
- Omkaram Nalamasu, Ph.D., SVP, CTO, & President, Applied Ventures, LLC
- Brian Shieh, Ph.D. GVP, Display and Flexible Technology

⁴ California Code of Regulations, Title 10, Chapter 13, Article 1 (commencing with Section 8000).

THE PROJECT

The Applicant is requesting an STE award to upgrade its existing pilot production facilities located in Santa Clara that will develop and manufacture advanced lithium anodes for use in EV batteries (the “Project”). According to the Applicant, most of the anodes produced today for EVs are made from graphite and lithium metal oxides and only provide EVs with an average driving range of about 250 miles per charge. According to the Applicant, it has developed a new Roll-to-Roll (“R2R”) lithium deposition system to produce prelithiated Si/SiOX-graphite anodes and lithium on Cu (Copper) anodes. Such advancements to the anodes are expected to improve the cost of batteries, increase energy density by 20%, and decrease charging time to under 15 minutes. The Applicant states it plans to build or expand its facilities to support the research and design of its R2R and large deposition equipment, metrology systems, and pilot production, leading to full commercial production of its anodes and energy products in the future.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing and Production Equipment & Machinery	\$36,000,000
Metrology, Testing and Quality Control Equipment & Related Property	\$17,500,000
Research & Development, Design, Engineering Property	\$12,500,000
Buildout/Construction of Facilities and Related Upgrades/Improvements	<u>\$20,000,000</u>
Total	<u>\$86,000,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff’s report are estimated costs. At the termination of the 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

The Applicant states it will be making major equipment purchases in Q4 of 2023/Q1 of 2024. The buildout and improvements of the facilities will occur through Q4 of 2025, including but not limited to, additional renovations to its growing pilot product manufacturing lines related to its energy storage activities and R&D areas used by the Applicant’s engineers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has secured all of the necessary building, installation, and operation permits, and is in good standing with the cities of Santa Clara and Sunnyvale for all of the property operated by the Applicant for the Project.

COMPETITIVE CRITERIA SCORE

The Applicant received 220 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Application has a Project that produces an Advanced Transportation Technology, and, therefore, 100 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 2.5%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (30 of 75 points)**. The Applicant anticipates the Project will support a total of 77 production-related jobs at its Facilities. CAEATFA estimates that approximately 11.96 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 30 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 Facilities 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.
7. **Emerging Strategic Industry (75 of 75 points)**. The Project’s industry, lithium anodes for EV battery production, is in an Emerging Strategic Industry, and, therefore, 75 points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,225 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 500 points, which exceeds the 20-point threshold.

⁵ Unemployment rates are based on data available in October 2022.

- A. Fiscal Benefits (578 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 \$4,156,457, resulting in a Fiscal Benefits score of 578.
- B. Environmental Benefits (500 points).** The Project is anticipated to result in \$3,594,759 of total pollution benefits over the life of the Project. The Project earned an Environmental Benefits Score of 500. These benefits derive from the production of lithium anodes for EV batteries.
- C. Additional Benefits (147 points).** Applicants may earn additional points for their Total Score. The Applicant received 147 additional points.
- 1. Production Jobs (30 of 75 points).** The Applicant anticipates the Project will support a total of 77 production-related jobs at its Facilities. CAEATFA estimates that approximately 11.96 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 30 points.
 - 2. Construction Jobs (0 of 75 points).** The Applicant anticipates the Project will support a total of 25 construction jobs at its Facilities. CAEATFA estimates that approximately 3.87 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 Santa Clara County, which has an average annual unemployment rate of 2.5%. When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
 - 4. Non-CA Environmental Benefits (2 of 40 points).** The Applicant’s total value of out-of-state non-greenhouse gas emissions pollution benefits are valued at \$21,578.22 resulting in a Non-CA Environmental Benefits Score of two points for the Project.
 - 5. 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 production of lithium anodes for EV batteries.
 - 6. Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with all major public and private CA universities (University of California, and CA State systems, Stanford, Caltech, and etc.) for the purpose of training

the workers at the Facilities assisting in the training of potential future workers.

7. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, bonuses, retirement contributions, profit sharing, dependent care & assistance reimbursement, education reimbursement, transportation subsidies, gym subsidies, and paid leave to its employees, earning the Applicant 25 points.
8. **Emerging Strategic Industry (40 of 40 points)**. The Project’s industry, lithium anodes for EV battery production, is in an Emerging Strategic Industry, earning the Applicant 40 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 STE Program regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$344,000.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM034-01 for Applied Materials, Inc.’s purchase of qualifying tangible personal property in an amount not to exceed \$86,000,000 anticipated to result in an approximate STE value of \$7,189,600.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH APPLIED MATERIALS, INC.**

July 18, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Applied Materials, Inc.** (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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$86,000,000 over a period of three (3) 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

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.