

Location Notebook

Tesla's "Gigafactory" - Reno's Game Changer

With the announcement that Tesla picked Reno for its highly publicized \$5 billion "gigafactory," the area took a giant step toward civic leaders' goal of remaking its economy and image. To win the project, the state offered a rich — and what will be a highly scrutinized — incentive package. Will the bold gamble pay off?

by Dennis Cuneo, Managing Partner , Fisher & Phillips (Q3 2014)

Two years ago, Micki Maynard, the former Detroit Bureau Chief of The New York Times, wrote an article in The Atlantic headlined "Reno Just Wants To Be Normal." She noted that in its past iterations, Reno has been identified as a haven for silver miners, divorce-seekers, and gamblers — and that civic leaders were trying to remake its economy and image, to capitalize on its proximity to California's high-tech industry and the natural beauty of the nearby Sierras and Lake Tahoe.

On September 4, Reno took a giant step toward that goal when Nevada Governor Brian Sandoval announced that Tesla had picked the Reno area for its \$5 billion "gigafactory," which will produce advanced batteries for Tesla vehicles. The Tesla battery plant was a highly prized project, with five states named as finalists for the project. Governors Rick Perry of Texas and Jerry Brown of California made highly publicized personal pitches for the plant, and for good reason. The economic impacts are substantial: 6,500 direct jobs, an estimated 16,000 spin-off jobs, and a \$100 billion economic impact over 20 years — which will add a 20 percent boost to Reno's economy, according to the Governor's Office for Economic Development. "Game changer" is an overused phrase, but aptly describes the impact of this project on the Reno community and the state as a whole.

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A Plan to Diversify the Nevada Economy

Two years ago, Governor Sandoval issued a new strategic plan for economic development, focused on diversifying Nevada's economy. The website for the Nevada Governor's Office of Economic Development is aptly titled "diversifynevada.com." The Economic Development Agency of Western Nevada (EDAWN) undertook a similar initiative at the regional level. Technology companies such as Apple and Microsoft have set up operations in Reno, and a downtown street nicknamed "Start-up Row" now hosts more than 20 high-tech start-ups. The announcement by Tesla is the capstone of this diversification effort and will likely have wide ranging impacts that go beyond its immediate economic benefits. By securing this project, Reno has burnished its image and is now a player in the economic development big leagues.

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As a relative newcomer to the area, I can attest that Reno has evolved into a city that attracts well-educated, sophisticated residents. Board members and former CEOs of several Fortune 500 companies now call Reno home. The downtown has undergone a major renovation. Bike lanes crisscross the city. The Truckee River Whitewater Park is located in the heart of the downtown. To be sure, gaming is still an important part of the Reno scene — but it no longer monopolizes the economy. In fact, one of the largest employers in Reno is the University of Nevada, and innovative schools, such as the Academy of Arts, Careers and Technology, are putting a laser focus on preparing students for high-tech careers. The city has a growing arts scene, and hosts a number of festivals and new restaurants. One of those festivals, Burning Man, is held in a desert setting close to Reno. It attracts a number of technocrats from Silicon Valley. In local parlance, we call them “Burners,” and Elon Musk is among them.

Winning the Tesla Project

To win the Tesla project, the state offered the richest incentive package in its history — estimated at \$1.25 billion, which drew criticism from the conservative Nevada Policy Research Institute and the liberal Progressive Leadership Alliance at the local level, and Richard Florida and Good Jobs First at the national level. Nevertheless, the Nevada legislature unanimously approved the incentive package in a two-day special session. When compared to the packages offered by other states for mega-projects, the per-job incentives are at the lower end of the scale.

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Nevada, which lacks the resources of the larger states that competed for the project, did not offer a substantial amount of up-front cash. The net value of San Antonio’s incentive offer was actually higher than Nevada’s, and included significant up-front incentives, as reported in San Antonio Express-News on Sept. 10th. The Nevada package consisted mostly of performance-based tax abatements and credits that reduce the state’s risk if projections about the project turn out to be too optimistic. Tesla is required to invest \$3.5 billion in the state before any of the tax abatements kick in, and has agreed to donate \$37 million to Nevada schools over the next five years.

At the announcement, Tesla’s CEO Elon Musk cited speed of permitting and the agility of the state and local officials as the primary reasons for selecting Nevada. The proximity of Reno to Tesla’s vehicle plant in Northern California and Nevada’s renewable energy portfolio also factored into the decision, as well as the nearby Lake Tahoe area which is familiar to many of Tesla’s executives.

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A week prior to the Tesla announcement, Ashima Devices, a manufacturer of unmanned aerial devices (drones), announced it was moving its headquarters from Pasadena to Reno, and is expected to create 400 jobs in the Reno area. When the drone project was announced, the Reno Gazette Journal commented that it could be a “tipping point” for the Reno economy and “the start of something big.” A week later, with its announcement of the world’s largest and most advanced battery plant, Tesla put a big exclamation point on that comment.

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To be sure, the Tesla project is not without its risks. Tesla is a relative newcomer to the auto industry, and will build the first-of-its-kind factory in the world. Starting up a factory of this size, with new technology, is a daunting task. Tesla's CEO has proven his skeptics wrong in the past, and Tesla's current market cap of \$35 billion speaks to the confidence of its investors.

There's an old Latin proverb — *audentes fortuna iuvat* — fortune favors the bold. In my opinion, the Tesla project is a bold gamble by the state of Nevada and Reno — but one worth taking.

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