

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

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

Space Systems/Loral LLC.
Application No. 15-SM017

Tuesday, November 17, 2015

Prepared By: *James Shimp, Analyst*

SUMMARY

Applicant – Space Systems/Loral LLC

Location – Palo Alto, Santa Clara

Industry – Aerospace

Project – Co-location and Retrofit of Existing Manufacturing Infrastructure (Advanced Manufacturing)

Value of Qualified Property – \$5,586,000

Estimated Sales and Use Tax Exclusion Amount² – \$470,341

Application Score –

Fiscal Benefits Points:	1,728
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	1,758
<u>Additional Benefits Points:</u>	<u>55</u>
Total Score:	1,813

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 8.42%.

THE APPLICANT

Space Systems/Loral LLC (“SSL” or the “Applicant”), a Delaware corporation established in 1961, is a wholly owned subsidiary of MacDonald Dettwiler and Associates, a publicly traded company on the Canadian exchange. SSL is a manufacturer of space communications satellites and satellite ground control equipment for customers such as Intelsat, Echostar, DirecTV, JCSat and Google (through its subsidiary, Skybox).

The major shareholders (10.0% or greater) of Space Systems/Loral LLC are:

MacDonald Dettwiler and Associates

The corporate officers of Space Systems/Loral LLC are:

Daniel E. Friedmann, Chairman
John C. Celli, President
Anil Wirasekara, Executive Vice President
David M. Bernstein, Senior Vice President of Program Management
Paul N. Estey, Senior Vice President of Engineering and Operations
Michael Santoro, Senior Vice President and CFO
William McCombe, Senior Vice President of Finance & Legal
Richard Currier, Senior Vice President of Business Development
Mohammad Manki, Secretary
Michelle D. Kley, Assistant Secretary

THE PROJECT

The Applicant plans to co-locate and retrofit its parts inventory, machine shop and other manufacturing groups at a leased building in San Jose, CA (the “Project). As part of the retrofit, SSL will be purchasing automated Vertical Lift Machines (VLM) for storage, retrieval, and conveyance of materials and parts used in the manufacturing process. The project will also install a new temperature and climate controlled stockroom for ongoing storage and maintenance of parts and materials.

The Applicant represents that the new conveyor system will reduce the stockroom footprint by 50%, thus allowing quicker and more automated retrieval of materials. The system will employ shuttle-lifts that perform material detection, precision optical measuring equipment to adjust storage spacing, light curtains that prevent operator injury, and “put-to-light” technology which issues commands directly to operators via light pointers. The Applicant represents that this state

of the art equipment will increase parts retrieval accuracy, allowing full order consolidation in three minutes, five times faster than the industry standard.

In addition to saving time and space, the Applicant states that the new VLM system will reduce energy use by 13%. This savings will be coupled with high efficiency LED lighting, which is estimated to save an additional 22% over current energy usage.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Vertical Lift Machines	\$2,498,000
Temperature and Humidity Controlled Environmental Room	<u>3,088,000</u>
Total	<u>\$5,586,000</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and detailing 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

Design work for the new space has commenced. Tenant improvements are scheduled to take place from November 2015 through December 2016. The Vertical Storage system and Climate Control are projected to be in service in June 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$5,586,000. The Project received a Total Score of 1,813 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 30 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,728 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 \$812,787 resulting in a Fiscal Benefits score of 1,728 points for the Project.

B. Environmental Benefits (30 points). The Project will result in an Environmental Benefits Score of 30. The Applicant received points in the following categories:

1. **Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 35% reduction in energy consumption relative to the industry standard manufacturing process.

C. Additional Benefits (55 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 55 additional points.

1. **Permanent Jobs (55 of 75 points).** The Applicant's Project will support a total of 330 permanent jobs at its Facility. CAEATFA estimates that approximately three of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 55 points for the Project.

2. **Construction Jobs (0 of 75 points).** The Applicant's Project will support a total of 24 construction jobs at its Facility. CAEATFA estimates that none of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The building permitting process is currently underway and will be completed by the end of 2015.

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,³ the Applicant has paid CAEATFA an Application Fee of \$2,793 and will pay CAEATFA an Administrative Fee up to \$22,344.

³ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM017 for Space System/Loral LLC's purchase of Qualified Property in an amount not to exceed \$5,586,000 anticipated to result in an approximate sales and use tax exclusion value of \$470,341.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH SPACE SYSTEMS/LORAL LLC**

November 17, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Space Systems/Loral LLC** (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 \$5,586,000 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.A.1
Resolution No. 15-SM017
Application No. 15-SM017

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.