

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

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

**Lockheed Martin Corporation
Application No. 14-SM013**

Tuesday, September 16, 2014

Prepared By: *Alejandro Ruiz*

SUMMARY

Applicant – Lockheed Martin Corporation

Location – Palmdale, Los Angeles County and Helendale, San Bernardino County

Industry – Aerospace Manufacturing

Project – Advanced Strategic Aircraft Program Manufacturing Line (Advanced Manufacturing)

Value of Qualified Property – \$345,296,354

Estimated Sales and Use Tax Exclusion Amount² – \$29,073,953

Application Score –

Fiscal Benefits Points:	1,309
<u>Environmental Benefits Points:</u>	<u>48</u>
Net Benefits Score:	1,357

<u>Additional Benefits Points:</u>	<u>136</u>
Total Score:	1,493

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

Lockheed Martin Corporation (“Lockheed” or the “Applicant”) was incorporated in 1994 in the state of Maryland. Lockheed is an American global aerospace, defense, security and advanced technology company.

Lockheed is a publicly traded company under the stock symbol LMT.

The major shareholders (10.0% or greater) of Lockheed Martin Corporation are:

The corporate officers of Lockheed Martin are:

- Marillyn A. Hewson, President & Chief Executive Officer
- Bruce L. Tanner, Executive Vice President & Chief Financial Officer
- Richard F. Ambrose, Executive Vice President, Space Systems
- Sondra L. Barbour, Executive Vice President, Information Systems & Global Solutions
- Dale P. Bennett, Executive Vice President, Mission Systems & Training
- Orlando P. Carvalho, Executive Vice President, Aeronautics
- Patrick M. Dewar, Executive Vice President, Lockheed Martin International
- Richard H. Edwards, Executive Vice President, Missiles & Fire Control

THE PROJECT

The United States Air Force has issued a request for proposal for an advanced strategic aircraft program (“ASAP”). ASAP is a classified program and specific details are subject to United States Government security restrictions, therefore specific program details are not available.

If Lockheed’s team³ is successful in winning the contract for ASAP, Lockheed will renovate and build facilities that will utilize advanced materials and automated and robotic systems in the manufacture of aircraft for ASAP (the “Project”). Specifically, Lockheed will be using a type of advanced materials known as unitized structures. A unitized structure is one in which the traditional primary part and any supporting structures are fabricated as a single unit. This can

³ Lockheed is bidding on the ASAP request for proposal as a prime-subcontractor and will join a prime-contractor in the production of aircraft for ASAP.

result in a structure that is lighter weight and more efficient. Lockheed will also take advantage of advances in Computer Numerical Control (“CNC”) programming and CNC machining to reduce span time and assembly costs. The Applicant represents that many of these materials and processes that will be used throughout the Project are not used in comparative industry practices.

The Project will also result in reductions of water and energy use through the replacement of existing manufacturing line equipment with new equipment that will enable the advanced processes described above. Moreover, Lockheed has a comprehensive sustainability plan, “Go Green 2020,” that aims to reduce carbon emissions by 35%, facility energy emissions by 25%, water use by 25% and landfill waste by 35% relative to its 2010 baseline. According to Lockheed, the sustainability plan has already resulted in significant savings across all of the targeted reduction categories.

If successful in winning the ASAP contract, Lockheed would also be eligible to receive up to \$420 million worth of tax credits over fifteen years under Revenue and Taxation Code Section 23636 due to Assembly Bill 2389 (Fox, 2014), which was further amended by Senate Bill 718 (Roth, 2014). The law was recently enacted to provide the awardee of ASAP, or any major first tier subcontractor to the awardee, with an incentive to perform ASAP work in California.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Test Equipment	
Flight Test Equipment	\$ 10,144,000
Materials Development Equipment	793,000
Quality Assurance (non-destructive inspection) Equipment	31,741,896
Systems Development Equipment	109,218,105
Information Technology	
Hardware	57,092,000
Software	15,263,000
Maintenance of existing equipment	13,906,000
Machinery and Equipment	
Infrastructure Improvements	17,909,000
Technology Operations Equipment	13,911,800
Product Operations Equipment Expansion	51,777,754
Product Operations Equipment Replacement	1,389,000
High-Tech Equipment	
Upgrade of Existing Equipment	759,000
Systems Development Equipment	1,375,000
Production Support Equipment	16,724,399
Quality Assurance (non-destructive inspection) Equipment	89,200
Other Equipment	
Material Handling	1,460,000
Office Equipment	554,000

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Tools, Mold Dies and Jogs	318,000
Autoclave	306,200
Supplies and Perishable Tools	545,000
Telecommunications Equipment	20,000
Total	<u>\$345,296,354</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

The Applicant plans to submit its proposal as a major first tier subcontractor for ASAP by the end of September 2014. Award of the prime contract, and the Applicant's subcontract if its team is selected, is anticipated in early 2015. The Applicant would immediately begin construction after receiving the contract. The Applicant anticipates manufacturing processes will commence in 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$345,296,354 and the total net benefits are valued at \$8,979,185 for the Project. The Project received a Total Score of 1,493 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 48 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,309 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 \$38,053,138 resulting in a Fiscal Benefits score of 1,309 points for the Project.

- B. Environmental Benefits (48 points).** The Project will result in an Environmental Benefits Score of 48 points. The Applicant received points in the following categories:
 - 1. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability for its Project that will result in

reductions of carbon emissions, facility energy emissions, water use and landfill waste.

2. **Energy Consumption (12 of 30 points)**. The Applicant’s manufacturing process will result in a 12% reduction in energy consumption relative to the industry standard manufacturing process.
3. **Water Use (16 of 30 points)**. The Applicant’s manufacturing process will result in a 16% reduction in water use relative to the industry standard manufacturing process.

C. **Additional Benefits (136 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 136 additional points.

1. **Permanent Jobs (35 of 75 points)**. The Applicant’s Project will support a total of 1,022 permanent jobs at its Facility. CAEATFA estimates that approximately 77 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 35 points for the Project.
2. **Construction Jobs (0 of 75 points)**. The Applicant’s Project will support a total of 191 construction jobs at its Facility. CAEATFA estimates that approximately 14 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.
3. **Unemployment (11 of 50 points)**. The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 10%. This is above 110% of the statewide average annual unemployment rate which is currently 8.8% resulting in an Unemployment Score of 11 points for this Project.
4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to aerospace manufacturing.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Antelope Valley College for the purpose of pre-employment training for aircraft assemblers.
6. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by the Center for Applicant Competitive Technologies, El Camino College as an industry cluster in the region of the Project’s location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant will need to collect various construction and building permits from a number of local governmental entities, such as the City of Palmdale, Los Angeles County, San Bernardino County Building and Safety and the Antelope Valley Air Quality Management District. Upon submission of the construction documents, the Applicant anticipates the Authorities Having Jurisdiction will need to complete their plan reviews and permit issuances within four weeks of the Applicant receiving the ASAP contract. The Helendale facility will have to go through a CEQA process, which would likely result in a mitigated negative declaration issued by the county of San Bernardino.

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.

FINDING OF PUBLIC INTEREST

Due to the long term nature of the ASAP, the Applicant is requesting that the requirement that all purchases of Qualified Property be made within three years of approval be waived.⁴ The Applicant represents that they will be making substantial acquisitions of Qualified Property over a period of six years. Based on the information presented, staff believes that waiving the three year purchase requirement of the initial term is in the public interest and advances the purposes of the Program.

CAEATFA FEES

In accordance with CAEATFA Regulations,⁵ the Applicant has paid CAEATFA an Application Fee of \$15,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 14-SM013 for Lockheed Martin Corporation’s purchase of Qualified Property in an amount not to exceed \$345,296,354 anticipated to result in an approximate sales and use tax exclusion value of \$29,073,953.

Staff also recommends that pursuant section 10034(b)(1)(A) of the California Code of Regulations, the three-year purchase requirement of the initial term be waived to provide Lockheed with a six-year initial term in which it can acquire Qualified Property.

⁴ California Code of Regulations Title 4, Division 13, Section 10034(b)(1)

⁵ California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH THE LOCKHEED MARTIN CORPORATION

September 16, 2014

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Lockheed Martin Corporation** (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 \$345,296,354 over a period of six years; and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10034(b)(1)(A));

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

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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.

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. The Authority finds that it is in the public interest and advances the purposes of the Program to waive the requirement that all purchases of Qualified Property be made within three years of Application approval and instead require that all purchases of Qualified Property be made within six years of Application approval.

Section 11. 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.