

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

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

**GKN Aerospace Chem-tronics, Inc.
Application No. 15-SM005**

April 21, 2015

Prepared By: *James Shimp*

SUMMARY

Applicant – GKN Aerospace Chem-tronics, Inc.

Location – Santa Ana, Orange County

Industry –Aerospace Engineering

Project – Expansion and Retrofit of Existing Manufacturing Facilities (Advanced Manufacturing)

Value of Qualified Property – \$64,376,454

Estimated Sales and Use Tax Exclusion Amount² – \$5,420,497

Application Score –

Fiscal Benefits Points:	1,202
<u>Environmental Benefits Points:</u>	<u>40</u>
Net Benefits Score:	1,242
<u>Additional Benefits Points:</u>	<u>120</u>
Total Score:	1,362

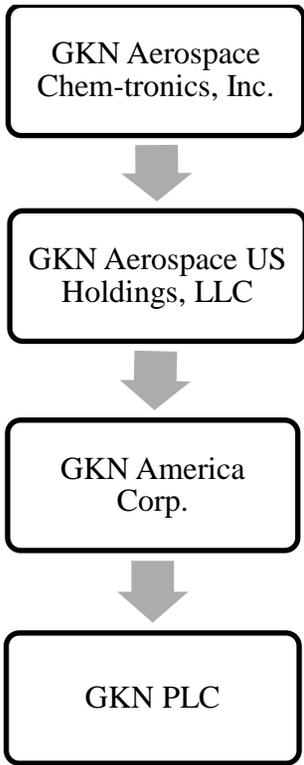
Staff Recommendation – Approval

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

GKN Aerospace Chem-tronics Inc. (“GKN” or the “Applicant”) is a Delaware Corporation and wholly owned subsidiary of GKN Aerospace US Holdings LLC, which is a wholly owned subsidiary of GKN America Corp., which is a wholly owned subsidiary of GKN PLC, which is a publicly traded company. The Applicant has operated a manufacturing facility in Santa Ana since the early 1960s, fabricating honeycomb structures and assemblies for commercial and military aircraft markets.

The chain of ownership for GKN Aerospace Chem-tronics, Inc. is as follows:



The corporate officers of GKN Aerospace Chem-tronics Inc. are:

- Darren Levack, President
- Stacey Clapp, Vice President
- Barbara Gustafson, Assistant Secretary
- Robert Young, Vice President Finance
- John O'Donnell, Vice President, General Counsel & Secretary
- Hugo Perez, Treasurer
- Paul Westman, Vice President - Taxation

THE PROJECT

The Applicant is currently engaged in upgrading and expanding their existing facility in order to transition to the long term production of a Titanium Inner Wall (TIW) structure (the “Project”). The TIW will be used in the new General Electric Leading Edge Aviation Propulsion (LEAP) engine for The Boeing Company’s 737 MAX aircraft.

The Applicant’s TIW design requires the use of an advanced material, Beta 21S titanium alloy. This material was chosen for its ability to withstand high temperatures and corrosive atmosphere during operation in the aircraft engine. Combined with the Applicant’s proprietary honeycomb structural design, the TIW will allow the engine to run at much higher temperatures than its predecessor. The result, according to the Applicant, is an overall increase in performance and fuel efficiency.

Preparation for the TIW project has required custom tools and processes developed by GKN to produce the detailed parts needed for final assembly.

Figure 1. Titanium Inner Wall being developed for the General Electric LEAP engine.



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Computer Numerical Control Milling Machine	\$54,700
Drying System	\$1,160,800
Form, Clean, Inspect, Cut & Rack Ribbon (Continuous Line)	\$1,494,100
Furnaces	\$18,892,827
Fusion Weld Machine	\$136,755
Laser	\$399,700
Panel Fabrication Machine with Laser Etch (Continuous Line)	\$12,436,438
Pickle Tank	\$497,700
Robots (Milling, Drilling, Welding, Wire Brush, Buffing)	\$1,632,361
Shear	\$102,000
Shear/Fusion welder/re-coil	\$412,500
Stake Weld Positioner	\$303,250

Agenda Item – 4.A.1
Resolution No. 15-SM005
Application No. 15-SM005

Wire Brush	\$7,000
Wire Electrical Discharge Machine	\$6,768,011
X-ray	\$5,033,073
I.D. Equipment	\$76,700
Facilities - IT and Software	\$1,269,112
Clean Deburring/Condition, Clean, Re-coil (Timesaver)	\$674,200
Face Sheet Perforation - Continuous Line	\$3,088,850
Resistance Weld Equipment	\$45,000
Robots (Material Handling)	\$214,030
Robot Track Units	\$1,142,492
Electron Beam Welder	\$1,500,000
Automated die Storage	\$648,000
Florescent Penetrant Inspection Booth	\$366,000
Integrated Weld Cells	\$2,160,211
Automated Deburring Machine	\$52,000
Shear Strip Groove Depth Inspection System	\$52,000
Lift Assist - Multiple Locations	\$410,400
Automated Guided Vehicle/Forklift	\$832,000
Rough Trim OH Conveyor	\$152,000
Rough Trim Enclosure	\$99,504
Stitch welder	\$10,940
End of Arm Tooling for Spot Welding Bladders and Pull Tabs	\$100,000
Automated Material Handling	<u>\$2,151,800</u>
Total	<u>\$64,376,454</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

Upgrades to the facility's infrastructure began in 2013 and are anticipated to continue until early 2016.

The Applicant plans to begin production in 2018 and reach full production by the end of that year.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$64,376,454. The Project received a Total Score of 1,362 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 40 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,202 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 \$6,514,337 resulting in a Fiscal Benefits score of 1,202 points for the Project.

- B. **Environmental Benefits (40 points)**. The Project will result in an Environmental Benefits Score of 40. 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 the reduction of water and energy consumption.

 2. **Energy Consumption (10 of 30 points)**. The Applicant's manufacturing process will result in a 10% reduction in energy consumption relative to the industry standard manufacturing process.

 3. **Water Use (10 of 30 points)**. The Applicant's manufacturing process will result in a 10% reduction in water use relative to the industry standard manufacturing process.

- C. **Additional Benefits (120 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 120 additional points.
 1. **Permanent Jobs (30 of 75 points)**. The Applicant's Project will support a total of 221 permanent jobs at its Facility. CAEATFA estimates that approximately 13 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 30 points for the Project.

 2. **Construction Jobs (0 of 75 points)**. The Applicant's Project will support a total of ten construction jobs at its Facility. CAEATFA estimates that approximately one 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. **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 the aerospace manufacturing and advanced materials.
4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with the El Camino Community College for the purposes of assisting in the training of potential future workers.
5. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by the California Community Colleges Chancellor's Office as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Construction permits for the facility have been issued and construction is underway. The Applicant is currently working with Southern California Edison to get permits to install the upgraded electrical system. This is anticipated to be complete late early in the second quarter of 2015. Machinery installation permits will be obtained approximately one month prior to each major installation, starting in the first quarter of 2016.

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 \$10,000 and will pay CAEATFA an Administrative Fee up to \$257,506.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM005 for GKN Aerospace Chem-tronic Inc's purchase of Qualified Property in an amount not to exceed \$64,376,454 anticipated to result in an approximate sales and use tax exclusion value of \$5,420,497.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH GKN AEROSPACE CHEM-TRONICS, INC.

April 21, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **GKN Aerospace Chem-tronics, Inc** (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 \$64,376,454 over a period of ten 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-SM005
Application No. 15-SM005

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.