

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

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

**The Monadnock Company
Application No.15-SM007**

Tuesday, June 16, 2015

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – The Monadnock Company

Location – City of Industry, Los Angeles County

Industry – Specialty Aerospace Fastener Manufacturing

Project – Relocation and Expansion of Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$6,475,000

Estimated Sales and Use Tax Exclusion Amount² – \$545,195

Application Score –

Fiscal Benefits Points:	3,388
<u>Environmental Benefits Points:</u>	<u>70</u>
Net Benefits Score:	3,458

<u>Additional Benefits Points:</u>	<u>129</u>
Total Score:	3,587

Staff Recommendation – Approval

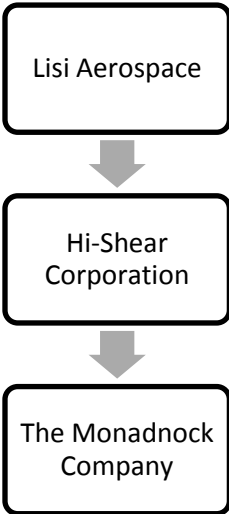
¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

The Monadnock Company (“Monadnock” or the “Applicant”), a Delaware corporation established in 1987, is a wholly owned subsidiary of Hi-Shear Corporation and under the umbrella of Lisi Aerospace, a worldwide manufacturer of aerospace fasteners and structural components. Monadnock produces specialty aerospace fasteners, including flange spacers, clipnuts, washers, lining fasteners, for customers such as Boeing, Airbus, Bombardier, Clip Bond Adept Fasteners, and Wesco Aircraft.

The chain of ownership of The Monadnock Company is as follows:



The corporate officers of The Monadnock Company are:

- Christian Darville, CEO
- Mark Lindbloom, CFO

THE PROJECT

The Applicant is relocating to a new location in the City of Industry to develop a new larger specialty aerospace fastener manufacturing facility that the Applicant represents will utilize advanced materials and more automation capabilities compared to current industry standard (the “Project”).

According to the Applicant, the Project will use advanced materials such as high performance molding polymers and company-developed composite components, which serve as lighter, stronger, and more durable alternatives to metals. For example, the Applicant represents it will use Torlon PAI, a polymer that performs well at extreme temperatures and stress, and is not prone to corrosion, making it ideal for aerospace applications.

The Project will also shift the Applicant’s manufacturing to a more automated process, replacing several production stages that are typically performed manually within the industry in order to increase efficiency. The Project will employ new CNC machinery, robotic arms with sensors to

detect and assemble products, as well as optical measuring equipment to inspect the finished product. Additionally, the Applicant represents that company-developed specialized tooling is anticipated to reduce machining time by over 40%, and many of the new equipment will operate at 300 to 400 parts per minute, which according to the Applicant is 20 times more efficient than the rate achieved by methods typically used in the industry today.

The Project is anticipated to result in a sustainable manufacturing system that reduces energy consumption, water use, and hazardous waste. For example, the Project will completely eliminate the use of all solvents and will capture and recycle water, anticipated to result in a 12% reduction in water use.



Figure 1: The Project facility located in the City of Industry.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Auto Assembly Line	\$ 450,000
Nutplate Spring Precision Grinder	225,000
Inspection Measurement Equipment	75,000
CNC Machinery	1,827,000
Flange Driller Machine	175,000
Cold Header Machine	500,000
Torque Tester	200,000
Paint Line	250,000

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Four-Slide Machine	300,000
Degreasing Equipment	123,000
Aluminum Heat Treating Furnace	327,000
Tooling Replacements	450,000
Plastic Injection Machine	500,000
Flange Auto Stamper	500,000
Deburr Machine	125,000
Application Extender	150,000
New Tooling Plastic Die	250,000
Automated Inspection Equipment	<u>250,000</u>
Total	<u>\$ 6,475,000</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

The Applicant represents construction began in September 2014 and is anticipated to be complete at the end of June 2015. Equipment installation is expected to take place in stages from the end of 2015 through 2017, after which production is anticipated to commence.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,475,000. The Project received a Total Score of 3,587 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 70 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,388 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 \$1,847,167 resulting in a Fiscal Benefits score of 3,388 points for the Project.
- B. Environmental Benefits (70 points).** The Project will result in an Environmental Benefits Score of 70. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that will track solid waste, hazardous waste, energy consumption, and water use.
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 (12 of 30 points)**. The Applicant’s manufacturing process will result in a 12% reduction in water use relative to the industry standard manufacturing process.
4. **Hazardous Waste (26 of 30 points)**. The Applicant’s manufacturing process will result in a 26% reduction in hazardous waste produced relative to the industry standard manufacturing process.

C. Additional Benefits (129 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 129 additional points.

1. **Permanent Jobs (60 of 75 points)**. The Applicant’s Project will support a total of 259 permanent jobs at its Facility. CAEATFA estimates that approximately nine 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 60 points for the Project.
2. **Construction Jobs (35 of 75 points)**. The Applicant’s Project will support a total of 40 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 resulting in a Construction Jobs Score of 35 points for the Project.
3. **Unemployment (9 of 50 points)**. The Applicant’s Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which is currently 7.5% resulting in an Unemployment Score of 9 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 fastener manufacturing.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that all construction-related permits and a use permit have been obtained.

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 \$3,237.50 and will pay CAEATFA an Administrative Fee of up to \$25,900.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM007 for The Monadnock Company's purchase of Qualified Property in an amount not to exceed \$6,475,000 anticipated to result in an approximate sales and use tax exclusion value of \$545,195.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE MONADNOCK COMPANY**

June 16, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **The Monadnock Company** (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 \$6,475,000 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.

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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.