Agenda Item – 4.A.1
Resolution No. 15-SM008
Application No. 15-SM008

CALIFORNIA ALTERNATIVE ENERGY AND
ADVANCED TRANSPORTATION FINANCING AUTHORITY

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

Hi Shear Corporation
Application No. 15-SM008

Tuesday, July 21, 2015

Prepared By: *James Shimp*

SUMMARY

Applicant – Hi Shear Corporation

Location – Torrance, Los Angeles County

Industry – Specialty Aerospace Fastener Manufacturing

Project – Upgrading of Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – $39,385,000

Estimated Sales and Use Tax Exclusion Amount[2] **–** $3,316,217

Application Score –

Fiscal Benefits Points:	1,035
Environmental Benefits Points:	40
Net Benefits Score:	**1,075**
Additional Benefits Points:	69
Total Score:	**1,144**

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

Hi Shear Corporation ("Hi Shear" or the "Applicant"), a Delaware corporation established in 1973, is a wholly owned subsidiary of Lisi Aerospace, a worldwide manufacturer of aerospace fasteners and structural components. Lisi Aerospace represents the aeronautics division of its parent company, Lisi Group, a publicly traded company on the Paris Stock Exchange. Hi Shear produces specialty aerospace fasteners for customers such as Boeing, Airbus, Bombardier, and Embraer.

The chain of ownership of Hi Shear Corporation is as follows:

The corporate officers of Hi Shear Corporation are:

Christian Darville, CEO
Mark Lindbloom, CFO

The Monadnock Company, a subsidiary of Hi Shear Corporation, was approved by the CAEATFA Board for a Sales and Use Tax Exclusion on June 16, 2015. The Project included $6,475,000 in Qualified Property, for the purposes of relocating its facility and upgrading machinery. The Monadnock Company also manufactures specialty aerospace fasteners, and uses much of the same technology represented in the Hi Shear Project.

THE PROJECT

The Applicant is requesting a Sales and Use Tax Exclusion in order to upgrade infrastructure and equipment at their Torrance facility (the "Project"). Investment is being made in highly sophisticated technology, including a new plating line, high speed headers (used for forging), and grinders. The new equipment will employ Single Minute Exchange of Die (SMED) programs to reduce set up time, Total Productive Maintenance (TPM) programs to improve machine behavior, and Computer Numerically Controlled apparatuses to improve precision and quality. Additionally, the Project will take advantage of microelectronic sensors and extensive robotics. These technologies will be deployed to machine various advanced materials, such as titanium and aluminum alloys, into fasteners that will used throughout the aerospace industry.

Facility upgrades are part of a company-wide initiative to adopt lean manufacturing practices. This initiative, known as the Lisi Excellence Achievement Plan (LEAP), is aimed at increased efficiency and improved employee training. The LEAP program was initially piloted in a small section of the Hi Shear facility, where Collars (threaded fasteners) are manufactured. New equipment and infrastructure were installed and over 5,000 hours of training for employees undertaken. According to the Applicant, the investment resulted in a 30% increase in production, while simultaneously decreasing the footprint taken up by machinery. Hi Shear intends to utilize this newly freed space to install additional equipment.

With the success of the pilot program, the Applicant now intends to use their STE award to expand LEAP to larger areas of the facility. If approved, the Project is anticipated to result in a sustainable manufacturing system that reduces energy consumption and water use. For example, the Project has already installed a new wastewater treatment plant which recycles plating process rinse water. This upgrade has lowered the site water use 45% relative to usage recorded by the Applicant in 2013.

Figure 1: The newly installed plating line

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Facility Structural Improvements according to Lisi Excellence Achievement Program (LEAP)	$ 1,200,000
Supporting Equipment – Central oil filtration system	400,000
Lighting/plumbing/electrical	400,000
High Speed Headers	4,300,000
Computer Numerical Control (CNC) Grinders	5,000,000
Oil Mist Collectors	250,000
Fillet Roller	375,000
Software for Lab Tester	40,000
Salt Spray Test Chamber Large Capacity	45,000
Torque Test Unit	50,000
Davenport Multi-Spindle Machine	1,500,000
Toolings and Support Parts	15,300,000
Inspection and Precision Equipment	1,000,000
New Furnace	1,000,000
Nut Former	2,200,000
Hardware and Software New and Upgrade	375,000
Spare parts for maintaining existing 1,298 pieces of equipment	5,850,000
	$ 39,385,000

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 were started in 2013 with the collar factory pilot. In 2014, refitting of the nut factory followed, and is now 50% complete. Facility upgrades will continue in the pin factory over the next three years, with an estimated completion date for the Project slated for 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be $39,385,000. The Project received a Total Score of 1,144 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 (1,035 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 $3,432,623 resulting in a Fiscal Benefits score of 1,035 points for the Project.

B. Environmental Benefits (40 points). The Project will result in an Environmental Benefits Score of 40 points. The Applicant received points in the following categories:

1. **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.

2. **Water Use (30 of 30 points).** The Applicant's manufacturing process will result in a 57% reduction in water use relative to the industry standard manufacturing process.

C. Additional Benefits (69 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 69 additional points.

1. **Permanent Jobs (60 of 75 points).** The Applicant's Project will support a total of 1,109 permanent jobs at its Facility. CAEATFA estimates that approximately 43 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 (0 of 75 points).** The Applicant's Project will support a total of eight 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.

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 approximately 110% of the statewide average annual unemployment

rate which is currently 7.5% resulting in an Unemployment Score of nine points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they will begin pulling construction and equipment installation permits in August 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 $10,000 and will pay CAEATFA an Administrative Fee up to $157,540.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM008 for Hi Shear Corporation's purchase of Qualified Property in an amount not to exceed $39,385,000 anticipated to result in an approximate sales and use tax exclusion value of $3,316,217.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH HI SHEAR CORPORATION

July 21, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority" or "CAEATFA") has received the Application of **Hi Shear 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 $39,385,000 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.

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.