

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

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

**Orbital ATK, Inc.
Application No. 15-SM011**

Tuesday, August 18, 2015

Prepared By: *James Shimp*

SUMMARY

Applicant – Orbital ATK, Inc.

Location – Northridge, Los Angeles County

Industry – Defense and Aerospace

Project – Expansion of Aerospace Manufacturing Facility and Consolidation From Out of State Facilities (Advanced Manufacturing)

Value of Qualified Property – \$16,275,154

Estimated Sales and Use Tax Exclusion Amount² – \$1,370,368

Application Score –

Fiscal Benefits Points:	2,662
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	2,692
<u>Additional Benefits Points:</u>	<u>129</u>
Total Score:	2,821

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

Orbital ATK, Inc. (“Orbital” or the “Applicant”) is a Delaware Corporation formed by the merger of Orbital Sciences, Inc. (“Orbital Sciences”) and Alliant Techsystems, Inc. (“Alliant Techsystems”). Both companies had long histories in the defense and aerospace industries prior to the merger and, now that they are combined, are putting that experience toward advanced ballistics manufacturing at their existing Northridge facility.

Orbital ATK, Inc. is a publicly traded company (NYSE: OA) with no major shareholders in excess of 10%

The corporate officers of Orbital ATK, Inc. are:

David W. Thompson, President and Chief Executive Officer
Blake E. Larson, Chief Operating Officer
Garrett E. Pierce, Chief Financial Officer
Frank L. Culbertson, Jr., Executive Vice President and President, Space Systems Group
Antonio L. Elias, Executive Vice President and Chief Technical Officer
Ronald J. Grabe, Executive Vice President and President, Flight Systems Group
Michael A. Kahn, Executive Vice President and President, Defense Systems Group
Thomas E. McCabe, Senior Vice President, General Counsel and Secretary
Christine A. Wolf, Senior Vice President, Human Resources

THE PROJECT

Orbital ATK, Inc. is seeking a Sales and Use Tax Exclusion in order to expand manufacturing operations for advanced ballistics technologies at its facility in Northridge (the “Project”). Currently, the Northridge facility manufactures a limited array of missile components. As part of the proposed Project, these manufacturing programs would be retained in California. Additionally, due to consolidation from the merger of Orbital Sciences and Alliant Techsystems, the Applicant plans to bring new missile, munitions, and classified defense programs to the Northridge facility. Upgrades to the facility under the Project would accommodate the equipment necessary for these programs, and add equipment for design, manufacture, assembly, and testing of missile technology. Additionally, the Project is estimated to provide energy savings of 10%.

Manufacturing of modern ballistics technology requires sophisticated equipment, processes, and materials. As the Applicant points out, at supersonic speeds even the slightest vibration or

misalignment can have devastating effects. As such, machining and assembly for the proposed Project will be done on state-of-the-art computer controlled equipment with exacting specifications. Diverse technological fields, such as composites, additives, nanotechnology, microelectronics, and integrated computational materials engineering will also be utilized in a holistic approach to improving safety and performance, and advancing beyond current industry standards. Examples of these technological areas include fiber-impregnated plastic resins that offer strength and weight savings and 3D printers used in prototype design.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

West Annex Refit	\$58,705
North Annex Refit	67,629
Elevator Refurbishment	62,341
Multiline Production Facilitation	126,479
Ancillary Services retrofit	75,000
Thermotron Oven (Station One)	75,000
Thermotron Oven (Station Two)	75,000
Thermotron Oven (Station Three)	75,000
Guidance Section Test Station (Station One)	250,000
Guidance Section Test Station (Station Two)	250,000
Guidance Section Test Station (Station Three)	250,000
Thermotron Oven (Station Four)	75,000
Thermotron Oven (Station Five)	75,000
Thermotron Oven (Station Six)	75,000
Dynamic Solution Motion Table (Station One)	500,000
Dynamic Solution Motion Table (Station Two)	500,000
Anechoic Chamber/Fixture/Motion Simulation (Station One)	1,500,000
Anechoic Chamber/Fixture/Motion Simulation (Station Two)	1,500,000
Anechoic Chamber/Fixture/Motion Simulation (Station Three)	1,500,000
Various facility improvements	2,120,000
Replacement Workstations	1,000,000
Parking Lot Resurfacing and Improvement	750,000
Security Systems Upgrades	400,000
Power and Utilities Upgrades	350,000
Chamber 6 Completion	420,000
A2 Signal Processor	300,000
Chamber 2 Completion	150,000
“Ridgecrest” structural upgrades	35,000
Offices Refurbishment	10,000
Program Tooling	<u>3,650,000</u>
Total	<u>\$16,275,154</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

Manufacturing and upgrades at the Northridge facility are currently underway. Consolidation from other out-of-state facilities is slated to begin in the third quarter of 2015, with the programs fully relocated and operational within a year.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$16,275,154. The Project received a Total Score of 2,821 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 (2,662 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's anticipated 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 \$3,648,303 resulting in a Fiscal Benefits score of 2,662 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. Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that will reduce the energy use and waste production of the manufacturing process by encouraging environmental stewardship through compensatory components of employee pay.
 - 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.
- 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 (55 of 75 points)**. The Applicant's Project will support a total of 310 permanent jobs at its Facility. CAEATFA estimates that approximately ten 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 ten 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.
4. **Research and Development Facilities (25 points)**. The Applicant has verified that it has facilities located in California that perform research and development functions related to defense and aerospace technologies.
5. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by the Los Angeles County Economic Development Corporation (LAEDC) as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

In June of 2015 the Applicant began discussions with the Los Angeles County Economic Development Agency (LAEDC) and the California Governor's Office related to securing an expedited permitting agreement for construction and equipment installation.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$8,137.58 and will pay CAEATFA an Administrative Fee up to \$65,101.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM011 for Orbital ATK, Inc.'s purchase of Qualified Property in an amount not to exceed \$16,275,154 anticipated to result in an approximate sales and use tax exclusion value of \$1,370,368.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE ORBITAL ATK, INC.**

August 18, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Orbital ATK, 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 \$16,275,154 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-SM011
Application No. 15-SM011

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.