

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

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

**The Gill Corporation and its Subsidiary, Castle Industries
Application No. 16-SM002**

Tuesday, February 16, 2016

Prepared By: *Nina Kapoor, Analyst*

SUMMARY

Applicant – The Gill Corporation and its Subsidiary, Castle Industries

Location – El Monte, Los Angeles County and Ontario, San Bernardino County

Industry – Aerospace (Advanced Manufacturing)

Project – Construction of a New Manufacturing Facility and Upgrade of an Existing Facility

Value of Qualified Property – \$8,472,000

Estimated Sales and Use Tax Exclusion Amount² – \$713,342

Application Score –

Fiscal Benefits Points:	3,325
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	3,355
<u>Additional Benefits Points:</u>	<u>129</u>
Total Score:	3,484

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 Gill Corporation (“Gill”) and its subsidiary, Castle Industries (“Castle”) are requesting a sales and use tax exclusion together as the Gill Corporation and its Subsidiary, Castle Industries (the “Applicant”). Gill, established in 1945, is a privately-held company headquartered in El Monte that produces build-to-order parts for commercial and military aircraft. The company manufactures composite products for use in aircraft interiors including floor panels, honeycomb, and cargo liner for sale to aircraft manufacturers, airlines and repair facilities. Castle, located in Ontario, is a wholly-owned subsidiary of Gill that manufactures metallic sub-assemblies for use in those composite products.

The major shareholders (10.0% or greater) of The Gill Corporation are:
Stephen E. Gill 46%
Philip C. Gill 46%

The corporate officers of The Gill Corporation are:
Stephen Gill, Chairman and CEO
Gabe Esparza, Chief Operating Officer
Irv Freund, V.P. Marketing & Business Development
William Heinze, V.P. Chief Financial Officer
Gabriel Esparza, V.P. Human Resources
Donald Clark, Secretary

THE PROJECT

The Applicant is requesting a sales and use tax exclusion in order to build a new 140,000 square foot manufacturing facility for Gill in El Monte and to upgrade an existing Castle manufacturing facility in Ontario (collectively, the “Project”).

The Project will enable the Applicant to manufacture composite products for use in aircraft interiors using advanced, high-performance cutting and milling tools designed to increase production and lower cost. The Ontario facility will be upgraded with cutting-edge equipment that will enable the machining of advanced high-temperature titanium alloys using a three-dimensional modeling process and high-performance machining tools to create titanium intercostals and fittings. The El Monte facility will then use the fittings and intercostals produced in Ontario as component parts to manufacture floor panels. The El Monte facility will add a woven prepreg machine to increase the production of floor panels by increasing production of the outer layer of the panel known as the skin. The new facility in El Monte will additionally house Gill’s honeycomb machining operation which will be relocated from Maryland.

The Applicant’s manufacturing process will result in a 35% overall reduction in energy consumption relative to the industry standard manufacturing process. This is achieved by utilizing a state-of-the-art woven prepreg machine which uses 50% less natural gas than the current industry standard for this equipment.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Vertical Storage Equipment	\$ 145,000
Six-axis Machining Center – Fanuc Robot	136,000
Refrigerated Shipping Container	300,000
Honeycomb Saw	250,000
Five-Axis Computer Numerical Control Machine	560,000
Three-Axis Computer Numerical Control Machine	500,000
Water Jet Machine	300,000
Air Compressors, Vacuum Pumps and Dust Collector	310,000
Woven Prepreg Machine	3,100,000
Panel Saw and Booth	220,000
Software Systems for Product Design and Engineering	200,000
Four Vertical Machining Centers	602,000
Two Horizontal Machining Centers	1,175,000
Flexible Pallet Container	387,000
Schultz Control Units	104,000
Penetrant Line for Discontinuity Detection	130,000
Broach Machine	53,000
Total	<u>\$8,472,000</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 estimated date of building completion for the El Monte facility is the end of the first quarter of 2016. Equipment purchases and facility modifications will commence once the building is completed. Estimated completion of the Ontario upgrade is the second quarter of 2016.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$8,472,000. The Project received a Total Score of 3,484 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 (3,325 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 \$2,371,545 resulting in a Fiscal Benefits score of 3,325 points for the Project.
- B. Environmental Benefits (30 points).** The Project will result in an Environmental Benefits Score of 30 points. The Applicant received points in the following category:

 - Energy Consumption (30 of 30 points).** The Applicant’s manufacturing process will result in a 35% 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 (75 of 75 points).** The Applicant’s Project will support a total of 598 permanent jobs at its Facility. CAEATFA estimates that approximately 35 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 75 points for the Project.
 - 2. Construction Jobs (20 of 75 points).** The Applicant’s Project will support a total of 10 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 20 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%. This is above 110% of the statewide average annual unemployment rate which is currently 8.8% 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 a facility located in California that performs research and development functions related to high performance composite products, machined and formed metal parts and aircraft assemblies for commercial and military applications.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, Gill is working with a developer on the new facility in El Monte who has already obtained all of the necessary permits and approvals. No additional permits and approvals are necessary for the Ontario upgrade.

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,¹ the Applicant has paid CAEATFA an Application Fee of \$4,236 and will pay CAEATFA an Administrative Fee of \$33,888.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM002 for the Gill Corporation and its Subsidiary, Castle Industries' purchase of Qualified Property in an amount not to exceed \$8,472,000 anticipated to result in an approximate sales and use tax exclusion value of \$713,342.

¹ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THE GILL CORPORATION AND ITS
SUBSIDIARY, CASTLE INDUSTRIES**

February 16, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **The Gill Corporation and its Subsidiary, Castle Industries** (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 \$8,472,000 over a period of 3 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

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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 Subsidiary 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.