

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Schlosser Forge Company, dba Arconic Fastener Systems and Rings Rancho Cucamonga  
Application No. 17-SM051**

**Tuesday, June 20, 2017**

Prepared By: *Ashley Bonnett, Analyst*

**SUMMARY**

**Applicant** – Schlosser Forge Company, dba Arconic Fastener Systems and Rings Rancho Cucamonga

**Location** – Rancho Cucamonga, San Bernardino County

**Industry** – Aero Engine Ring Forging

**Project** – New Hydraulic Forging Press (Advanced Manufacturing)

**Value of Qualified Property** – \$53,568,357

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$4,510,456

**Application Score –**

Fiscal Benefits Points:	1,005
<u>Environmental Benefits Points:</u>	<u>35</u>
<b>Net Benefits Score:</b>	<b>1,040</b>
<u>Additional Benefits Points:</u>	<u>116</u>
<b>Total Score:</b>	<b>1,156</b>

**Staff Recommendation** – Approval

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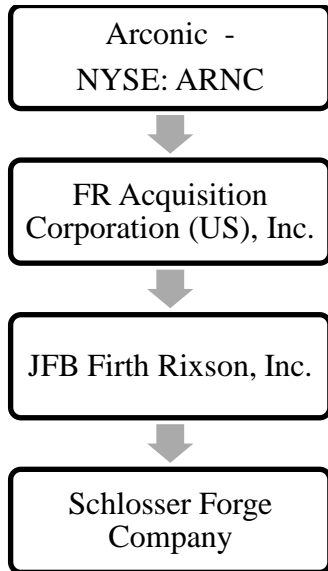
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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.  
<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.42%.

**THE APPLICANT**

Schlosser Forge Company dba Arconic Fastening Systems and Rings Rancho Cucamonga (“Schlosser Forge” or the “Applicant”) is a California corporation that originally formed in 1970 and has been operating for 47 years. Schlosser Forge manufactures large aero engine rings at its facility in Rancho Cucamonga. According to the Applicant, aero engine rings are the structures which enclose the fan, combustion and turbine sections of an aircraft engine. The rings provide the supporting structure for the previously mentioned engine sections, and are responsible for the containment of those sections in the event of an engine component failure. Additionally, the ring provides the support for the engine as attached to the wing or aircraft airframe. The Applicant represents its rings are supplied to all major aero engine manufacturers, including General Electric, Pratt and Whitney, Rolls Royce, and CFM International.

The chain of ownership for Schlosser Forge Company is as follows:



The corporate officers of Schlosser Forge Company are:

- Vitaliy Rusakov, President
- Carol Pawlos, Vice President
- Craig Brown, Vice President
- Marcus Lokier, Vice President
- Martin Ryan, Vice President
- Olivier Grunberg, Vice President
- Peter Hong, Vice President and Treasurer
- Scott Zahorchak, Vice President
- W. Myron, Vice President
- Paul Hayes, Assistant Treasurer
- Kimberly A. Gregorio, Secretary
- Diane Thumma, Assistant Secretary

**THE PROJECT**

Schlosser Forge plans to install a 10,000 ton hydraulic press and new pre-forge heating furnaces in a new 22,000 square foot facility located in Rancho Cucamonga (the “Project”). According to the applicant, demand for efficiency and sustainability has driven airlines to require design improvements in aero engines, which in turn, as required greater complexity in the ring forging component. The Project is anticipated to help Schlosser Forge efficiently meet this demand for greater complexity.

According to the Applicant, the aero engine rings are produced by cutting raw materials and processing the pieces through several heating and forging cycles to expand, lengthen, and shape the pieces. Complex ring designs generally necessitate additional heating and forging cycles,

requiring more time and resources. The Applicant represents the Project’s large press will allow seamless rolled rings to be manufactured in fewer forging operations, reducing manufacturing cost, energy consumption and environmental impact. Additionally, the Project will also incorporate the latest control software that monitors outputs and has the ability to flag real-time quality alerts if the press output drifts from target, which will reduce rework and scrap.

The Applicant represents the Project will also utilize advanced materials, such as nickel super alloys, titanium, aluminum, as well as proprietary alloys developed by the Applicant. These alloys increase combustion efficiency, through higher operating temperatures in the engine and reduce weight to provide weight saving to the aircraft engine.

### **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Press, Tools, Saddle Cart	\$12,600,000
Hydraulic System	5,230,000
Furnaces	4,600,000
Handling Equipment	1,500,000
Building & Construction	16,688,357
Utilities / Cooling and Sump System	6,900,000
Controls	750,000
Commissioning & Installation	<u>5,300,000</u>
<b>Total</b>	<b><u>\$53,568,357</u></b>

*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 anticipates beginning facility infrastructure improvements, such as electrical and piping, in October 2017, and foundation excavation and construction in January 2018. Equipment installation and construction is estimated to take place starting May 2018 with final performance testing in April 2019, after which the Project may begin production.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The total cost of the Qualified Property purchases is anticipated to be \$53,568,357 and the total net benefits are valued at \$20,359 for the Project. The Project received a Total Score of 1,156 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 35 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,005 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 \$4,530,814 resulting in a Fiscal Benefits score of 1,005 points for the Project.
  
- B. **Environmental Benefits (35 points)**. The Project will result in an Environmental Benefits Score of 35. 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 it represents will track environmental metrics for water usage, hazardous waste generation, and air emissions including greenhouse gases, with annual goals established to improve performance and reduce impact.
  2. **Energy Consumption (8 of 30 points)**. The Applicant represents that its manufacturing process will result in an 8% reduction in energy consumption relative to the industry standard manufacturing process.
  3. **Air Pollutants (8 of 30 points)**. The Applicant represents that its manufacturing process will result in an 8% reduction in air pollutants produced relative to the industry standard manufacturing process.
  
- C. **Additional Benefits (116 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 116 additional points.
  1. **Permanent Jobs (35 of 75 points)**. The Applicant represents that the Project will support a total of 183 permanent jobs at its Facility. CAEATFA estimates that approximately 12 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 35 points for the Project.
  2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 80 construction jobs at its Facility. CAEATFA estimates that approximately five 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 (11 of 50 points)**. The Applicant's Project is located in San Bernardino County which has an average annual unemployment rate of 8.4 %. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results in an Unemployment Score of 11 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 new titanium alloys and aero engine ring forging.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with California Polytechnic State University and Lawrence Livermore National Laboratory for the purpose of assisting in the training of potential future workers.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

According to the Applicant, construction permits and formal approval by the City of Rancho Cucamonga Planning and Building Department are anticipated by November 2017. The Applicant has also submitted a permit application to the SCAQMD in coordination with the City of Rancho Cucamonga Planning and Building Department project approval.

## **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$214,273.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RECOMMENDATION**

Staff recommends approval of Resolution No. 17- SM051 for Schlosser Forge Company dba Arconic Fastener Systems and Rings Rancho Cucamonga’s purchase of Qualified Property in an amount not to exceed \$53,568,357 anticipated to result in an approximate sales and use tax exclusion value of \$4,510,456.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH SCHLOSSER FORGE COMPANY DBA  
ARCONIC FASTENER SYSTEMS AND RINGS RANCHO CUCAMONGA**

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Schlusser Forge Company dba Arconic Fastener Systems and Rings Rancho Cucamonga** (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 \$53,568,357 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

**Agenda Item – 4.A.11**  
**Resolution No. 17-SM051**  
**Application No. 17-SM051**

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.