

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

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

**Aranda Tooling, Inc.
Application No. 17-SM042**

Tuesday, June 20, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Aranda Tooling, Inc.

Location – Chino, San Bernardino County

Industry – Tooling and Metal Stamping

Project – New Tooling and Metal Stamping Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$10,035,231

Estimated Sales and Use Tax Exclusion Amount² – \$844,966

Application Score –

Fiscal Benefits Points:	7,820
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	7,850

<u>Additional Benefits Points:</u>	<u>131</u>
Total Score:	7,981

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

Aranda Tooling, Inc. (“Aranda,” the “Applicant,” or the “Company”) is a family held California Corporation formed by Pedro and Martha Aranda in 1975. The company is engaged in the business of tooling, metal stamping, laser cutting, and metal fabrication, with a focus on the auto, aerospace, and safety device industries. The company has recently experienced significant growth due to the rise in demand for electric vehicle parts as a result of the growth of California electric vehicle manufacturers.

The major shareholders (10.0% or greater) of Aranda Tooling, Inc. are:

- Pedro Aranda (25%)
- Martha Aranda (25%)
- Daniel Aranda (20%)
- Carlos Aranda (20%)
- Gerrard Connolly (10%)

The corporate officers of Aranda Tooling, Inc. are:

- Pedro Aranda, President & CEO
- Martha Aranda, Secretary
- Daniel Aranda, Vice President of Engineering
- Carlos Aranda, Vice President of Logistics
- Gerrard Connolly, General Manager
- Lorraine Collyer, Interim Chief Financial Officer

THE PROJECT

Aranda is requesting a sales and use tax exclusion for the purchase of metal stamping and assembly equipment for a new 248,000 square foot manufacturing facility in Chino, California (the “Project”). The expansion is directly related to providing parts to Tesla Motors for the production of the Model 3 electric vehicle. If Aranda had not committed to manufacture these parts, the parts would need to be purchased outside of the State of California, which would lead to higher shipping costs and related environmental impacts. Aranda’s advanced manufacturing process includes robotic welders for increased capacity, efficiency, and product quality. The Applicant represents that the new equipment will reduce energy consumption by 35% compared to their current process.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Presses and Feed Lines	\$ 5,201,110
Control Units	120,822
Tool Carts and Spot Welders	1,089,848
Robotic Arms	407,100
Pallet Jacks	60,000
Electric, Crane System, and Other Manufacturing Equipment	3,156,351
Total	<u><u>\$10,035,231</u></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 majority of equipment was ordered in early 2017, and the Applicant plans to begin production in July.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$10,035,231 and the total net benefits are valued at \$5,762,427 for the Project. The Project received a Total Score of 7,981 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 (7,820 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 \$6,607,393 resulting in a Fiscal Benefits score of 7,820 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 category:
 - 1. Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 35% reduction in energy consumption relative to the industry standard manufacturing process.
- C. Additional Benefits (131 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 131 additional points.
 - 1. Permanent Jobs (60 of 75 points).** The Applicant represents that the Project will support a total of 140 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 represents that the Project will support a total of 40 construction jobs at its Facility. CAEATFA estimates that approximately two 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 (11 of 50 points)**. The Applicant's Project is located in San Bernardino County which has an average annual unemployment rate of 8.8%. 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. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Norco College for the purpose of assisting in the training of potential future workers.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that they do not anticipate experiencing permitting issues, and plan to begin production in July 2017.

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 \$5,018 and will pay CAEATFA an Administrative Fee of up to \$40,141.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM042 for Aranda Tooling, Inc.'s purchase of Qualified Property in an amount not to exceed \$10,035,231 anticipated to result in an approximate sales and use tax exclusion value of \$844,966.

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

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

June 20, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Aranda Tooling, 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 \$10,035,231 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.