

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

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

**AMRO Fabricating Corporation
Application No. 17-SM054**

Tuesday, August 15, 2017

Prepared By: *Melanie Holman, Analyst*

SUMMARY

Applicant – AMRO Fabricating Corporation

Location – South El Monte, Los Angeles County

Industry – Aerospace Engineering

Project – Expansion of Existing Aerospace Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$5,120,000

Estimated Sales and Use Tax Exclusion Amount² – \$431,104

Application Score –

Fiscal Benefits Points:	1,419
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	1,529

<u>Additional Benefits Points:</u>	<u>174</u>
Total Score:	1,703

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

AMRO Fabricating Corporation (“AMRO” or the “Applicant”) has been in business for 40 years, beginning as a metal fabricator. Currently, they are producing the majority of the primary structure for next generation deep space exploration systems such as Orion and the Space Launch System (“SLS”), as well as programs for the Department of Defense and commercial aerospace customers.

The major shareholders (10.0% or greater) of AMRO Fabricating Corporation are:

- Aquilina C. Hutton (26.595%)
- Steven M. Riley (26.590%)
- Michael E. Riley (13.917%)
- Laura A. Kinto (13.917%)
- John E. Hammond (10.002%)

The corporate officers of AMRO Fabricating Corporation are:

- John E. Hammond, President
- Michael E. Riley, CEO
- Aquilina C. Hutton, Director
- Steven M. Riley, Director

THE PROJECT

AMRO is requesting a sales and use tax exclusion to upgrade and expand their existing facility in South El Monte to produce various tanks, skirts, and panels for several space programs and military applications (the “Project”). These programs will include NASA’s deep space exploration rocket – the Space Launch System, spacecraft that will take American astronauts into deep space – Orion, Blue Origin’s New Glenn Rocket which will be used for commercial space flight, Orbital ATK’s Next Generation Launcher, as well as blast shields for the United States military.

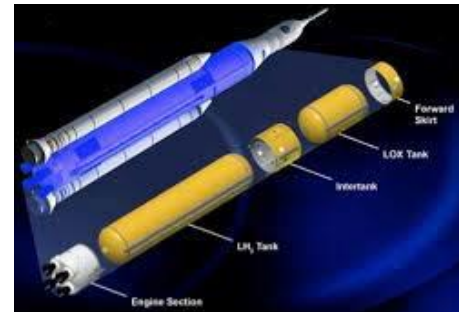


Figure 1 – NASA’s Space Launch System



Figure 2 –Orion Spacecraft

In order to manufacture components that meet the stringent quality requirements of both space travel and the United States military, AMRO represents the Project will include highly sophisticated equipment and technology that will put them in a higher classification of aerospace and defense contractors. The Project’s upgrades will include laser measuring to increase accuracy and allow the measurement of features of each part, even if they are located closer than the thickness of a single sheet of paper, according to AMRO. Additionally, AMRO represents the Project will utilize 4th generation high speed milling machine centers and large batch ovens to increase efficiency through easier process flow and decreased operating time. The Applicant also intends to install electric tugs in their facility for the transportation of parts, eliminating the need for carbon emitting fork lifts.

The Applicant represents the Project will also utilize a more sustainable manufacturing process compared to the industry standard. For example, AMRO estimates the Project will result in a 50% decrease in energy consumption due to the energy efficiency of the proposed equipment. The Applicant represents that this efficiency results from large batches processed with a faster run time using high efficiency oven blower motors and high speed machining. AMRO also estimates the Project will result in reductions in water use, solid and hazardous waste generation, and the emission of air pollutants at their facility.



Figure 3 – Blue Origin’s New Glenn Rocket

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

High Speed Milling Machines	\$4,200,000
Large Capacity Heat Age Oven	350,000
Overhead Crane System and Electric Handling Equipment	250,000
CAD Systems	120,000
Metrology Equipment	<u>200,000</u>
Total	<u>\$5,120,000</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 Applicant represents that progress on the project has already been made with initial changes to facility layouts and the relocation of existing equipment expected to be complete in early October 2017. After this phase is complete, AMRO represents that they will begin making the necessary changes to its existing buildings to accommodate the new equipment with an estimated completion in

February 2018. The Applicant represents that equipment purchases will be initiated in 2017 with the entire Project expected to be complete by July 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$5,120,000 and the total net benefits are valued at \$180,743 for the Project. The Project received a Total Score of 1,703 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 110 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (1,419 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 \$611,847 resulting in a Fiscal Benefits score of 1,419 points for the Project.
- B. **Environmental Benefits (110 points)**. The Project will result in an Environmental Benefits Score of 110 points. 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 it represents will track energy consumption, water usage, recycled metals, and hazardous materials.
 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 50% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (10 of 30 points)**. The Applicant represents that its manufacturing process will result in a 10% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (10 of 30 points)**. The Applicant represents that its manufacturing process will result in a 10% reduction in solid waste produced relative to the industry standard manufacturing process.
 5. **Hazardous Waste (15 of 30 points)**. The Applicant represents that its manufacturing process will result in a 15% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 6. **Air Pollutants (25 of 30 points)**. The Applicant represents that its manufacturing process will result in a 25% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. **Additional Benefits (174 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 174 additional points.

1. **Permanent Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 80 permanent jobs at its Facility. CAEATFA estimates that approximately six 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 (30 of 75 points)**. The Applicant represents that the Project will support a total of 12 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 30 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 was 7.5% in 2014, the dataset used in the application. This results 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 the production of aerospace and military grade components.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with the University of Southern California Advanced Manufacturing program for the purpose of training the workers at the Facility and for the purposes of assisting in the training of potential future workers.
6. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the Advanced Manufacturing Partnership for Southern California as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

AMRO represents that permits for the foundation and electrical work will be procured six months in advance. The Applicant further represents that permitting delays are not anticipated as the AMRO facility is pre-existing.

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 \$2,560 and will pay CAEATFA an Administrative Fee up to \$20,480.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM054 for AMRO Fabricating Corporation's purchase of Qualified Property in an amount not to exceed \$5,120,000 anticipated to result in an approximate sales and use tax exclusion value of \$431,104.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH AMRO FABRICATING CORPORATION**

August 15, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **AMRO Fabricating 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 \$5,120,000 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.