

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

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

**Thermal Technology, LLC
Application No. 18-SM005**

Tuesday, March 20, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – Thermal Technology, LLC

Location – Santa Rosa, Sonoma County

Industry – Additive Manufacturing

Project – New Additive Manufacturing Feedstock Material Production Plant (Advanced Manufacturing)

Value of Qualified Property – \$8,726,448

Estimated Sales and Use Tax Exclusion Amount² – \$729,531

Application Score –

Fiscal Benefits Points:	1,096
<u>Environmental Benefits Points:</u>	<u>110</u>
Net Benefits Score:	1,206
<u>Additional Benefits Points:</u>	<u>75</u>
Total Score:	1,281

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 8.36%.

THE APPLICANT

Thermal Technology, LLC (“TT” or the “Applicant”), a Delaware limited liability company, had operated for over 71 years as a manufacturer of customized high-temperature furnaces before becoming privatized in 2015. The Applicant has grown its business beyond furnaces with new additive manufacturing powder production. TT has been operating in Santa Rosa for over 28 years.

The major shareholders (10.0% or greater) of Thermal Technology, LLC are:
INTECO Holding USA, LLC (80%)
David Hansinger (10%)
Jason Ting (10%)

The Board Members of Thermal Technology, LLC are:
David Hansinger, CEO and Board Member
Jason Ting, CTO and Board Member
Harald Holzgruber, INTECO CEO and Board Member

THE PROJECT

Thermal Technology, LLC is requesting a sales and use tax exclusion to build a new dedicated metal additive manufacturing, or 3D printing, powder production facility in Santa Rosa, California (the “Project”). The Applicant’s new plant will produce aerospace and medical grade powder materials that can be used in additive manufacturing industries. TT represents that it has engineers on its team with a combined total of over 40 years of experience in additive manufacturing, an industry rarity. TT also represents that its production process will utilize a production logic control developed by its parent company INTECO, which automates and administers the production operations for quality control purposes. The Applicant represents that its production methods will allow for a 40% decrease in solid waste generation due to the ability to recycle 50-60% of the metal additive manufacturing feedstock, thus keeping this material out of landfills and incinerators. Additionally, the Applicant has stated that the process will decrease air pollutants by 90% due to a specially designed cyclone that has a high rate of particulate capture efficiency.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Vacuum Induction Powder Production System	\$ 4,614,718
Plant Infrastructure Assets	763,000
Office Furniture	50,000
Material Processing Equipment	425,080
Quality Control Laboratory	414,250
Post Production Processing Equipment	<u>2,459,400</u>
Total	<u>\$8,726,448</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 is in the process of finalizing a site agreement for its new warehouse and production facility. The warehouse itself is pre-existing and will require infrastructure changes. Purchases of Qualified Property have been identified and are projected to begin at the end of May 2018. Production is currently scheduled to begin in January 2019.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,281 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 (1,096 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 \$799,519 resulting in a Fiscal Benefits score of 1,096 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 result in the capture of 95% of gas emissions.
 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. **Solid Waste (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 40% reduction in solid waste produced relative to the industry standard manufacturing process.

4. **Air Pollutants (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 90% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. **Additional Benefits (75 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 75 additional points.

1. **Permanent Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 15 permanent 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 Permanent Jobs Score of 30 points for the Project.
2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of six 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. **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 additive manufacturing powders.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that it will be applying for an Air permit pending finalization of the project location, anticipated to be sometime between quarter four of 2018 and quarter two of 2019. The Applicant has been pre-approved to operate the facility by the Sonoma County Permit and Resource Management Department.

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 \$4,363.22 and will pay CAEATFA an Administrative Fee up to \$34,905.79.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM005 for Thermal Technology, LLC's purchase of Qualified Property in an amount not to exceed \$8,726,448 anticipated to result in an approximate sales and use tax exclusion value of \$729,531.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH THERMAL TECHNOLOGY, LLC**

March 20, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Thermal Technology, LLC** (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 \$8,726,448 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. 18-SM005
Application No. 18-SM005

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.