

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

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

**GB CNC Services, LLC
Application No. 18-SM010**

Tuesday, May 15, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – GB CNC Services, LLC

Location – Fountain Valley, Orange County

Industry – Turned Part Manufacturing

Project – Upgrade of Existing Turned Part Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$7,680,000

Estimated Sales and Use Tax Exclusion Amount² – \$642,048

Application Score –

Fiscal Benefits Points:	1,813
<u>Environmental Benefits Points:</u>	<u>50</u>
Net Benefits Score:	1,863

<u>Additional Benefits Points:</u>	<u>90</u>
Total Score:	1,953

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

GB CNC Services, LLC (“GB CNC” or the “Applicant”), a Delaware corporation, was incorporated in 2017, but the company has been manufacturing and designing parts for the aerospace and automotive industries for 17 years.

The major shareholders (10.0% or greater) of GB CNC Services, LLC are:
WST US Holding, Inc., 57.5%
GB CNC Services, Inc., 35%

The major shareholders (10.0% or greater) of WST US Holding, Inc. are:
WST Praezisionstechnik GmbH, 100%

The major shareholders (10.0% or greater) of GB CNC Services, Inc. are:
Gustav Bonse, 100%

The corporate officers of GB CNC Services, LLC are:

Gustav Bonse, Chief Operating Officer
Alexander Beck, President of WST US Holding, Inc.

THE PROJECT

GB CNC Services, LLC is requesting a sales and use tax exclusion to upgrade its existing aerospace and automotive turned parts manufacturing facility located in Fountain Valley (the “Project”). GB CNC represents that its manufacturing process is highly efficient due to the fact that turning, milling, drilling, rolling, and knurling operations can be carried out simultaneously on one specialized machine. The Applicant represents that this degree of automation will make the manufacturing process more reliable, as far as quality, due to the decrease in steps needed to achieve production. According to GB CNC, its facility will also require less energy than traditional operations as each part is manufactured on one machine. GB CNC estimates there will be an energy savings of 75% due to this consolidation of processes. The Applicant also represents that the equipment it intends to purchase will require a skilled workforce in order to be used correctly and efficiently. Highly-skilled operators will operate up to four machines simultaneously that require precision and expertise, according to the Applicant. GB CNC represents that it will be processing challenging materials on its machines including Inconel, a nickel alloy used in extreme environments.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

CNC Machines	\$6,280,000
Mitutoyo Coordinate Measuring Machine	150,000
Parts Cleaning Machine	250,000

Agenda Item – 4.A.2
Resolution No. 18-SM010
Application No. 18-SM010

Tooling and Measuring Equipment	<u>1,000,000</u>
Total	<u>\$7,680,000</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

GB CNC represents that it currently has a fully operational facility with the necessary square footage to install the new equipment. The Applicant represents that it expects to begin making purchases in June 2018, and anticipate completing the Project in 2020.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,953 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (1,813 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 \$1,164,200 resulting in a Fiscal Benefits score of 1,813 points for the Project.

- B. Environmental Benefits (50 points).** The Project will result in an Environmental Benefits Score of 50 points. 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 measure energy and water usage and solid waste generation and will be used to evaluate ways to limit the facility's environmental footprint over time.

 - 2. Energy Consumption (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 75% reduction in energy consumption relative to the industry standard manufacturing process.

C. **Additional Benefits (90 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 90 additional points.

1. **Permanent Jobs (40 of 75 points)**. The Applicant represents that the Project will support a total of 37 permanent 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 Permanent Jobs Score of 40 points for the Project.
2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support zero construction jobs at its Facility. Zero points were awarded because there will be no marginal increase in jobs.
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 production of aerospace and automobile industry parts.
4. **Industry Cluster (25 points)**. The Applicant's location in Southern California has been identified by the United State Department of Commerce as a Federal Manufacturing Community.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that no permits will be required in order to complete the expansion of its plant. GB CNC represents that it currently has a fully operational facility with the necessary square footage to install the new equipment.

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 \$3,840 and will pay CAEATFA an Administrative Fee of up to \$30,720.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM010 for GB CNC Services, LLC's purchase of Qualified Property in an amount not to exceed \$7,680,000 anticipated to result in an approximate sales and use tax exclusion value of \$642,048.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH GB CNC SERVICES, LLC**

May 15, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **GB CNC Services, 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 \$7,680,000 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.

Agenda Item – 4.A.2
Resolution No. 18-SM010
Application No. 18-SM010

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.