

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

***Consideration of Weber Metals Inc.’s Request to Approve a Time Extension for the Three
Year Term of the Master Regulatory Agreement¹***

**Weber Metals, Inc.
Application No. 15-SM003**

Tuesday, May 15, 2018

Prepared By: *Xee Moua, Analyst*

SUMMARY

Applicant – Weber Metals, Inc.

Location – Paramount, Los Angeles County

Industry – Aluminum and Titanium Forging

Project – New Hydraulic-Forging Press (Advanced Manufacturing)

Value of Qualified Property – \$167,661,606

Estimated Sales and Use Tax Exclusion Amount² – \$14,117,107

Amount of Time Requested –

- One year, until May 19, 2019, for the Term of the Master Regulatory Agreement (four years from the date of initial CAEATFA Board approval)

REQUEST

In May 2015, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for Weber Metals, Inc. (“Weber” or the “Applicant”) for the purchase of \$167,661,606 of Qualified Property to expand its facility to house a 60,000 ton hydraulic-forging press used to produce large components for aerospace applications (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board Approval to utilize its STE award. The initial term of the Agreement can be extended by the Board upon a finding that an extension is in the public interest and advances the purposes of the Program.³

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%.

³ The provision of the regulations allowing CAEATFA to waive the requirement that all purchases of Qualified Property be made within three years of Application approval is in Regulation Section 10035(b)(1)(A).

As of December 31, 2017, Weber Metals, Inc. has used the STE to purchase \$88,881,883 of Qualified Property (53% of the total Qualified Property approved). Weber is requesting to extend the Agreement initial term by one year to accommodate Project delays caused by fabrication failures.

Weber represents that upon entering the final phase of the Project, the customized casting intended to occupy the top of the hydraulic-forging press faced fabrication issues and had to be remanufactured in Korea. As of mid-March 2018, the casting was received and the Applicant was able to completely assemble the press. Furthermore, although all contracts relating to the equipment and construction of the Project have been executed, the terms of the contracts do not allow for transactions of such materials or service before testing is finalized. Weber has represented that the testing phase will continue through the first quarter of 2019 and the concluding payment will take place the second quarter of 2019. Weber believes that a one year extension will be adequate time to complete the Project.

About the Applicant

Weber Metals, Inc. (“Weber” or the “Applicant”) was incorporated in 1962 in the state of California, and operates a 22 acre aluminum and titanium forging facility that spans both Paramount and Long Beach. The Applicant manufactures open-die and closed-die forged parts for aerospace and electronics companies, such as Boeing, United Technologies, Spirit Aerosystems, and Gulfstream. Past work-products include the bulkheads in the Boeing 767, solid rocket boosters in the NASA Space Shuttle, components of the Boeing 767 Dreamliner, SR-71 Blackbird, the U-2, and the F-117 Nighthawk, as well as the cab frame of the Sikorsky UH-60 Blackhawk helicopter.

Weber received two tax credits under the California Competes Tax Credit Program; the first on June 19, 2014 and the second on June 18, 2015, both for \$1,000,000.

Project Description

The Applicant is expanding its current facility by constructing a new 115,000 square-foot building to house a new 60,000 ton hydraulic-forging press, which the Applicant represents will be the largest privately financed forge press in the world, enabling the Applicant to produce larger components for aerospace applications and double the facility’s production capacity (the “Project”).

The Project will forge advanced materials, including newly developed European aerospace alloys, experimental alloys, and various “super-alloys” to produce large component parts for aerospace applications. The Applicant represents that the Project will utilize innovative technology and processes to significantly enhance product performance and longevity, reduce weight, and increase vehicle fuel efficiency.

The Project will also utilize a sustainable manufacturing system that will reduce energy consumption, water use, solid waste, and air pollution. For example, the Applicant represents

that the design of the hydraulic system enables more efficient operation, reducing cycle time, and also allows the operator to use lower tonnage and lower power, which is expected to reduce energy consumption by 12%. Additionally, the Project will reduce the number of cycles during which a part must soak in furnaces and will also make use of the latest furnace technology, which is anticipated to reduce air pollutants by 15%.

Agreement Term Extension Request

Weber has requested that the initial term of the Agreement be extended from May 19, 2018 to May 19, 2019 to accommodate fabrication failures that affected the Project's initial timeline.

Staff Evaluation

Weber has indicated that although their Project experienced technical delays, the issue was resolved mid-March 2018. According to Weber, there should not be any additional major delays that will hinder the final assembly or construction of the facility. Weber has installed the necessary equipment and proceeded with equipment testing, which is expected to conclude in the first quarter of 2019. Based on this information, staff believes that extending the term of the Agreement will allow for the Project to be completed, and is therefore in the public interest and advances the purpose of the program.

Fees

In accordance with CAEATFA Regulations,⁴ the Applicant will pay an Additional Administrative Fee of \$500 because extending the initial term requires a modification to the Applicant's Master Regulatory Agreement.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

RECOMMENDATION

Staff recommends that the Board approve Weber Metals, Inc.'s request to extend the initial term of the Agreement by one year to May 19, 2019 as it is in the public interest and advances the purpose of the Program.

Attachments

Attachment A: Weber Metals, Inc.'s letter requesting waiver (February 12, 2018)
Attachment B: Weber Metals, Inc.'s staff summary at the time of approval

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

**RESOLUTION APPROVING A TIME EXTENSION FOR
WEBER METALS, INC.’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

May 15, 2018

WHEREAS, on May 19, 2015 the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$167,661,606 of Qualified Property for **Weber Metals, Inc.** (the “Applicant”); and

WHEREAS, within three years of the approval by the Authority, the Applicant must make all purchases of the total amount of Qualified Property listed in the approval resolution (Regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three years of Application approval (Regulations Section 10035(b)(1)(A)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three years, due to unexpected delays in the Project timeline, extending the term by one year to May 19, 2019; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

NOW THEREFORE BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Authority to extend the initial term of the Agreement to May 19, 2019.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: Weber Metals, Inc.'s Letter Requesting Waiver (February 12, 2018)



ALUMINUM AND TITANIUM FORGINGS

www.webermetals.com

16706 GARFIELD AVENUE, PARAMOUNT, CALIFORNIA 90723-0318

TELEPHONE: (562) 602-0260

FAX: (562) 602-0468

February 12, 2018

California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)
915 Capitol Mall
Sacramento, CA 95814

Dear CAEATFA,

Thank you for supporting our expansion project, which is entering its final phase. Due to delays encountered, Weber Metals, Inc. would like to request an extension of 1 year to the Master Regulatory Agreement with CAEATFA dated June 18, 2015.

The delays encountered were caused by fabrication failures on the large castings which comprise the top portion of the new 60,000 forging press being installed. Their castings had to be remanufactured in Korea and have caused a substantial delay in the project schedule. As of this week, we have received and installed the final part of this press and as such we do not anticipate any additional major delays in the final assembly and construction of the facility.

Please note that substantially all contracts for equipment and construction of this facility have already been executed. However, the contractual terms for several of the equipment manufacturers dictate that formal title transfer and payment occur after sufficient testing is conducted. We anticipate that this will be completed by the first quarter of 2019 with final payments being made to these vendors in the second quarter of 2019. We currently expect that an extension to our agreement of one year will provide an adequate timeframe to complete the project, make the final payments to all vendors and handle any unforeseen challenges.

Thank you for your consideration.

Sincerely,

A handwritten signature in blue ink, appearing to read 'PRD', is written over a horizontal line.

Paul R. Dennis

CFO – Weber Metals, Inc.

A handwritten signature in black ink, appearing to read 'J. Creed', is written over a horizontal line.

J. Rick Creed

Chairman, CEO – Weber Metals, Inc.

Attachment B: Weber Metals, Inc.’s Staff Summary at the Time of Approval

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Resolution No. 15-SM003
Application No. 15-SM003

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

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

**Weber Metals, Inc.
Application No. 15-SM003**

Tuesday, May 19, 2015

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – Weber Metals, Inc.

Location – Paramount, Los Angeles County

Industry – Aluminum and Titanium Forging

Project – New Hydraulic-Forging Press (Advanced Manufacturing)

Value of Qualified Property – \$167,661,606

Estimated Sales and Use Tax Exclusion Amount² – \$14,117,107



Application Score –

Fiscal Benefits Points:	2,483	
<u>Environmental Benefits Points:</u>	<u>62</u>	
Net Benefits Score:	2,545	

<u>Additional Benefits Points:</u>	<u>119</u>
Total Score:	2,664



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

Weber Metals, Inc. (“Weber” or the “Applicant”) was incorporated in 1962 in the state of California, and operates a 22 acre aluminum and titanium forging facility that spans both Paramount and Long Beach. The Applicant manufactures open-die and closed-die forged parts for aerospace and electronics companies, such as Boeing, United Technologies, Spirit Aerosystems, and Gulfstream. Past work-products include the bulkheads in the Boeing 767, solid rocket boosters in the NASA Space Shuttle, components of the Boeing 767 Dreamliner, SR-71 Blackbird, the U-2, and the F-117 Nighthawk, as well as the cab frame of the Sikorsky UH-60 Blackhawk helicopter.

The major shareholders (10.0% or greater) of Weber are:

Otto Fuchs Metallwerke (100%)

The corporate officers of Weber are:

J. Rick Creed, CEO and President
Paul Dennis, CFO and VP
John Chierichetti, VP of Manufacturing
Darin Teevans, Director of Engineering
Al McCormack, VP of Sales
Abi Dehbozorgi, VP of Quality

THE PROJECT

The Applicant is proposing to expand its current facility by constructing a new 115,000 square-foot building to house a new 60,000 ton hydraulic-forging press, which the Applicant represents will be the largest privately financed forge press in the world, enabling the Applicant to produce larger components for aerospace applications and double the facility’s production capacity (the “Project”).

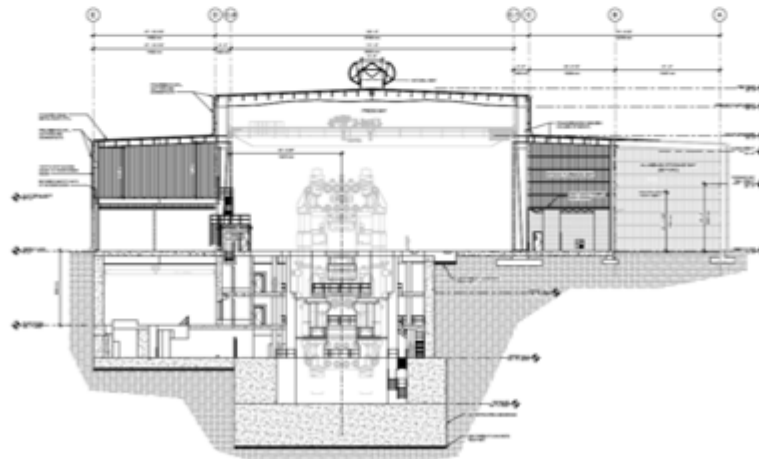
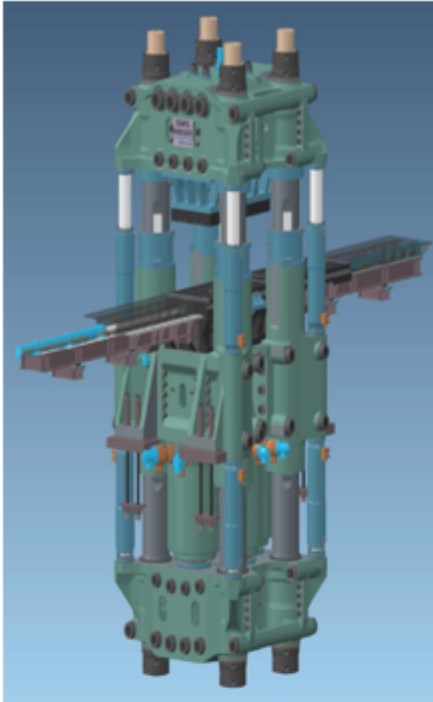


Figure 1. Building cross-section showing the hydraulic press and related equipment.

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The Project will forge advanced materials, including newly developed European aerospace alloys, experimental alloys, and various “super-alloys” to produce large component parts for aerospace applications. The Applicant represents that the Project will utilize innovative technology and processes to significantly enhance product performance and longevity, reduce weight, and increase vehicle fuel efficiency.

The Project will also utilize a sustainable manufacturing system that will reduce energy consumption, water use, solid waste, and air pollution. For example, the Applicant represents that the design of the hydraulic system enables more efficient operation, reducing cycle time, and also allows the operator to use lower tonnage and lower power, which is expected to reduce energy consumption by 12%. Additionally, the Project will reduce the number of cycles during which a part must soak in furnaces and will also make use of the latest furnace technology, which is anticipated to reduce air pollutants by 15%.

Figure 2. Weber's new 60,000-ton hydraulic forging press will maintain a profile approximately 35 feet tall, with 60 feet underground.

In June 2014, the Applicant received a tax credit award from the Governor’s Office of Business and Economic Development California Competes Tax Credit program.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Equipment Foundation	\$ 27,807,726
Cranes	2,787,250
Large Press	93,033,040
Die Furnaces	3,886,680
Titanium Furnaces	5,951,700
Aluminum Furnaces	2,060,620
Freezers	507,500
Die Cleaning	493,200
Manipulators	5,025,777
Up and Downstream Equipment (turbine disk reduction, etching, cooling, handling, tanks, furnaces, machining, rigs, metallographic equipment)	18,473,080

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Standard Commodity Equipment (lifts, fork lifts)	150,000
Utility Equipment	7,235,033
Fire Protection Equipment	250,000
Total	<u>\$167,661,606</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. Variances 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 the site selection decision was initially made in the first half of 2014, but that its parent company, Otto Fuchs Metallwerke, reopened the site selection process in January 2015 after learning of a growing aerospace hub in the Southeast United States. In order to maintain the original intent of building the Project in Paramount, the Applicant represents it has been actively pursuing California incentives, and that the outcome of this application will weigh into whether the Project is located in California.

If the Applicant chooses to build the Project in Paramount, the Applicant anticipates beginning site preparation in July 2015 and installing equipment about a year thereafter. Production is expected to begin by Q4 of 2017.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$167,661,606. The Project received a Total Score of 2,664 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 62 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (2,483 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 \$35,048,735 resulting in a Fiscal Benefits score of 2,483 points for the Project.

B. Environmental Benefits (62 points). The Project will result in an Environmental Benefits Score of 62. 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 will track monthly and annual water consumption, energy consumption, solid and hazardous waste generation and air pollution emissions at its facility. The Applicant also participates in the US Department of Energy's "Better Plants" Program, which commits the Applicant to reducing energy intensity of its manufacturing operations by at least 2.5% each year.
2. **Energy Consumption (12 of 30 points).** The Applicant's manufacturing process will result in a 12% reduction in energy consumption relative to the industry standard manufacturing process.
3. **Water Use (10 of 30 points).** The Applicant's manufacturing process will result in a 10% reduction in water use relative to the industry standard manufacturing process.
4. **Solid Waste (5 of 30 points).** The Applicant's manufacturing process will result in a 5% reduction in solid waste produced relative to the industry standard manufacturing process.
5. **Air Pollutants (15 of 30 points).** The Applicant's manufacturing process will result in a 15% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. Additional Benefits (119 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 119 additional points.

1. **Permanent Jobs (0 of 75 points).** The Applicant's Project will support a total of 92 permanent jobs at its Facility. CAEATFA estimates that approximately 9 of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
2. **Construction Jobs (20 of 75 points).** The Applicant's Project will support a total of 100 construction jobs at its Facility. CAEATFA estimates that approximately 10 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 (9 of 50 points).** The Applicant's Project is located in Los Angeles County which has an average annual unemployment rate of 8.2%. This is above 110% of the statewide average annual unemployment rate which

is currently 7.5% resulting in an Unemployment Score of 9 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 forging.
5. **Workforce Partnerships (25 points)**. The Applicant has partnerships with several colleges and universities, including El Camino College and WyoTech Trade School, 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 (40 points)**. The industry associated with this Application has been identified by the County of Los Angeles as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant anticipates completing the CEQA process in June 2015, having permits from Southern California Air Quality Management District for equipment installation in June 2015 and equipment operation in June 2017, and obtaining all necessary local building and construction permits by June 2015.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA Regulations,³ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM003 for Weber Metals, Inc.'s purchase of Qualified Property in an amount not to exceed \$167,661,606 anticipated to result in an approximate sales and use tax exclusion value of \$14,117,107.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH WEBER METALS, INC.**

May 19, 2015

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Weber Metals, 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 \$167,661,606 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.