

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

***Consideration of The Monadnock Company’s Request to Approve a Time Extension for the
Three Year Term of the Master Regulatory Agreement¹***

**The Monadnock Company
Application No. 15-SM007**

Tuesday, May 15, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – The Monadnock Company

Location – City of Industry, Los Angeles County

Industry – Specialty Aerospace Fastener Manufacturing

Project – Relocation and Expansion of Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$6,475,000

Estimated Sales and Use Tax Exclusion Amount² – \$545,195

Amount of Time Requested –

- Six months, until December 15, 2018, for the Term of the Master Regulatory Agreement (three years, six months from the date of initial CAEATFA Board approval)

REQUEST

In June 2015, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for The Monadnock Company (“Monadnock” or the “Applicant”) for the purchase of \$6,475,000 of Qualified Property to relocate to a new facility in the City of Industry to develop a new larger specialty aerospace fastener manufacturing facility that the Applicant represents will utilize advanced materials and more automation capabilities compared to current industry standard (the “Project”). The Master Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board approval to utilize the 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).

Agenda Item – 4.B.3

As of January 31, 2018, Monadnock has purchased \$3,711,361 of Qualified Property (57% of the total Qualified Property approved). Monadnock is requesting to extend the Agreement initial term by six months (until December 15, 2018) to accommodate delays related to its financing.

Monadnock represents the process to gain access to internal capital provided by its parent company, LISI Aerospace, is lengthy and requires an annual review from several departments, as well as discussions with consultants and investors. According to the Applicant, approximately 8% of LISI Aerospace's overall annual capital is allocated to internal projects but is subject to change if projections are not met. The Applicant states that although the Project was approved to be funded by LISI Aerospace, the capital is released incrementally and is contingent upon LISI Aerospace's capital gains, the Project's progress and effort to obtain the latest technologies while keeping costs low, and whether there are other projects with higher priority. Additionally, the Applicant states that board meetings are periodically held to discuss the Project at length before signing and releasing the requested capital. According to the Applicant, these timeframes were not adequately considered prior to its Application submission.

The Applicant represents it has instituted several administrative measures to help ensure timely funding approval, including defining all remaining projects with completion timelines, making internal stakeholders aware of the need to adhere to this schedule, and creating routing procedures for funding approval to avoid delays. The Applicant states it is confident that it will meet the committed dates with these new measures.

About the Applicant

The Monadnock Company, a Delaware corporation established in 1987, is a wholly owned subsidiary of Hi-Shear Corporation and under the umbrella of Lisi Aerospace, a worldwide manufacturer of aerospace fasteners and structural components. Monadnock produces specialty aerospace fasteners, including flange spacers, clipnuts, washers, lining fasteners, for customers such as Boeing, Airbus, Bombardier, Clip Bond Adept Fasteners, and Wesco Aircraft.

Project Description

The Applicant is relocating to a new location in the City of Industry to develop a new larger specialty aerospace fastener manufacturing facility that the Applicant represents will utilize advanced materials and more automation capabilities compared to current industry standard (the "Project").

According to the Applicant, the Project will use advanced materials such as high performance molding polymers and company-developed composite components, which serve as lighter, stronger, and more durable alternatives to metals. For example, the Applicant represents it will use Torlon PAI, a polymer that performs well at extreme temperatures and stress, and is not prone to corrosion, making it ideal for aerospace applications.

The Project will also shift the Applicant's manufacturing to a more automated process, replacing several production stages that are typically performed manually within the industry in order to increase efficiency. The Project will employ new CNC machinery, robotic arms with sensors to

detect and assemble products, as well as optical measuring equipment to inspect the finished product. Additionally, the Applicant represents that company-developed specialized tooling is anticipated to reduce machining time by over 40%, and many of the new equipment will operate at 300 to 400 parts per minute, which according to the Applicant is 20 times more efficient than the rate achieved by methods typically used in the industry today.

The Project is anticipated to result in a sustainable manufacturing system that reduces energy consumption, water use, and hazardous waste. For example, the Project will completely eliminate the use of all solvents and will capture and recycle water, anticipated to result in a 12% reduction in water use.

Agreement Term Extension Request

The Monadnock Company has requested that the Agreement initial term be extended from June 16, 2018 to December 15, 2018 to accommodate financial delays for its Project. The Applicant represented that the process for capital access in the corporation has many levels and is time consuming. Monadnock states it had not considered the extensive financial process in its timeline upon applying for an STE award. According to the Applicant, the approval process is also prolonged because it must wait for a board meeting to be held before the release of capital. The Applicant represents it has instituted a project timeline and internal procedures to avoid future funding delays, and is confident it will be able to complete the purchases by December 15, 2018.

Staff Evaluation

The Monadnock Company has indicated that although the Project experienced setbacks as a result of financial delays, it has taken measures to ensure the Project will be completed by the requested date of December 15, 2018. The Applicant states it has made internal stakeholders, including capital requestors and management approvers aware of the need to adhere to this schedule. Monadnock has assured Staff that it has implemented a new follow-up procedure within the business to avoid delays in signing for capital approval. According to the Applicant, a precise schedule has been formulated for obtaining its Qualified Property and has provided staff with a timeline specifying when its Qualified Property will be acquired. Based on this information, Staff believes 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.

RECOMMENDATION

Staff recommends the Board approve The Monadnock Company's request to extend the initial term of the Agreement by six months to December 15, 2018 as it is in the public interest and advances the purpose of the program.

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

Attachments

Attachment A: The Monadnock Company's letter requesting waiver (July 26, 2017)

Attachment B: The Monadnock Company's staff summary at the time of approval

**RESOLUTION APPROVING A TIME EXTENSION FOR
THE MONADNOCK COMPANY’S INITIAL TERM FOR
THE MASTER REGULATORY AGREEMENT**

MAY 15, 2017

WHEREAS, on June 16, 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 \$6,475,000 of Qualified Property for **The Monadnock Company** (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 six months to December 15, 2018; 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 December 15, 2018.

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

Attachment A: The Monadnock Company's Letter Requesting Waiver (March 20, 2018)



THE MONADNOCK COMPANY
16728 E. Gale Avenue
City of Industry, CA 91745
Tel: (626) 964-6581
Fax: (626) 965-5481

LINK SOLUTIONS FOR INDUSTRY

March 20, 2018

David Palsha and Moua Xee
California Alternative Energy &
Advanced Transportation
Financing Authority
915 Capitol Mall
Sacramento, CA 95814

Re: Sales and Use tax Exclusion Program – Three-Year Purchase Requirement
Compliance for The Monadnock Company

Dear Ms. Xee;

Please be advised that The Monadnock Company will not be able to meet the purchase requirement by June 16, 2018 of the CAEATFA Board approved under the Sales & Use Tax Exclusion Program and therefore requests a waiver for a time extension per the program's regulations. The approval process for new capital in the corporation goes through many departments and is lengthy. At times the approval process must also wait until a board meeting is held for capital discussion and signing. These timeframes were not adequately considered in previous submissions.

In order to meet the projected times for the remaining projects (per STE EXTENSION REQUEST), we have/will:

- All remaining projects are well defined.
- Created a completion timeline for each project.
- Made internal stakeholders (Capital requestors & Management approvers) aware of the need to adhere to this schedule.
- Create a routing signature list when approval goes outside of the Plant for sign-off. Will have the appropriate Monadnock Manager follow-up up the next approver when outside to avoid delays in signing.

We feel the remaining projects are already well enough defined and by enacting the above measures we strongly feel we can meet the committed dates. The Monadnock Company requests an extension per our attached documentation until December 15, 2018.

Best Regards,

A handwritten signature in black ink, appearing to read "Josef Jochim", written over a horizontal line.

Josef Jochim
Director of Operations
Josef.Jochim@lisi-aerospace.com

Attachment B: The Monadnock Company’s Staff Summary at the Time of Approval

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁵

**The Monadnock Company
Application No.15-SM007**

Tuesday, June 16, 2015

Prepared By: *Ashley Bonnett*

SUMMARY

Applicant – The Monadnock Company

Location – City of Industry, Los Angeles County

Industry – Specialty Aerospace Fastener Manufacturing

Project – Relocation and Expansion of Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$6,475,000

Estimated Sales and Use Tax Exclusion Amount⁶ – \$545,195

Application Score –

Fiscal Benefits Points:	3,388
<u>Environmental Benefits Points:</u>	<u>70</u>
Net Benefits Score:	3,458

<u>Additional Benefits Points:</u>	<u>129</u>
Total Score:	3,587

Staff Recommendation – Approval

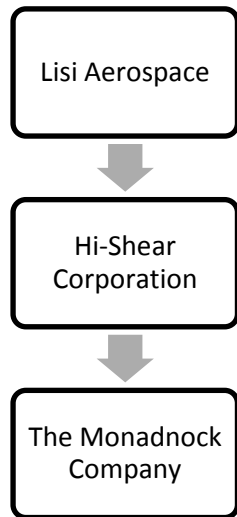
⁵ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

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THE APPLICANT

The Monadnock Company (“Monadnock” or the “Applicant”), a Delaware corporation established in 1987, is a wholly owned subsidiary of Hi-Shear Corporation and under the umbrella of Lisi Aerospace, a worldwide manufacturer of aerospace fasteners and structural components. Monadnock produces specialty aerospace fasteners, including flange spacers, clipnuts, washers, lining fasteners, for customers such as Boeing, Airbus, Bombardier, Clip Bond Adept Fasteners, and Wesco Aircraft.

The chain of ownership of The Monadnock Company is as follows:



The corporate officers of The Monadnock Company are:

- Christian Darville, CEO
- Mark Lindbloom, CFO

THE PROJECT

The Applicant is relocating to a new location in the City of Industry to develop a new larger specialty aerospace fastener manufacturing facility that the Applicant represents will utilize advanced materials and more automation capabilities compared to current industry standard (the “Project”).

According to the Applicant, the Project will use advanced materials such as high performance molding polymers and company-developed composite components, which serve as lighter, stronger, and more durable alternatives to metals. For example, the Applicant represents it will use Torlon PAI, a polymer that performs well at extreme temperatures and stress, and is not prone to corrosion, making it ideal for aerospace applications.

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product. Additionally, the Applicant represents that company-developed specialized tooling is anticipated to reduce machining time by over 40%, and many of the new equipment will operate at 300 to 400 parts per minute, which according to the Applicant is 20 times more efficient than the rate achieved by methods typically used in the industry today.

The Project is anticipated to result in a sustainable manufacturing system that reduces energy consumption, water use, and hazardous waste. For example, the Project will completely eliminate the use of all solvents and will capture and recycle water, anticipated to result in a 12% reduction in water use.



Figure 1: The Project facility located in the City of Industry.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Auto Assembly Line	\$ 450,000
Nutplate Spring Precision Grinder	225,000
Inspection Measurement Equipment	75,000
CNC Machinery	1,827,000
Flange Driller Machine	175,000
Cold Header Machine	500,000
Torque Tester	200,000
Paint Line	250,000
Four-Slide Machine	300,000
Degreasing Equipment	123,000
Aluminum Heat Treating Furnace	327,000

Agenda Item – 4.B.3

Tooling Replacements	450,000
Plastic Injection Machine	500,000
Flange Auto Stamper	500,000
Deburr Machine	125,000
Application Extender	150,000
New Tooling Plastic Die	250,000
Automated Inspection Equipment	250,000
Total	<u>\$ 6,475,000</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 construction began in September 2014 and is anticipated to be complete at the end of June 2015. Equipment installation is expected to take place in stages from the end of 2015 through 2017, after which production is anticipated to commence.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$6,475,000. The Project received a Total Score of 3,587 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 70 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (3,388 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 \$1,847,167 resulting in a Fiscal Benefits score of 3,388 points for the Project.
- B. Environmental Benefits (70 points).** The Project will result in an Environmental Benefits Score of 70. 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 will track solid waste, hazardous waste, energy consumption, and water use.

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 (12 of 30 points)**. The Applicant’s manufacturing process will result in a 12% reduction in water use relative to the industry standard manufacturing process.
4. **Hazardous Waste (26 of 30 points)**. The Applicant’s manufacturing process will result in a 26% reduction in hazardous waste produced relative to the industry standard manufacturing process.

C. **Additional Benefits (129 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 129 additional points.

1. **Permanent Jobs (60 of 75 points)**. The Applicant’s Project will support a total of 259 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’s Project will support a total of 40 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 35 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 aerospace fastener manufacturing.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that all construction-related permits and a use permit have been obtained.

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,⁷ the Applicant has paid CAEATFA an Application Fee of \$3,237.50 and will pay CAEATFA an Administrative Fee of up to \$25,900.

RECOMMENDATION

Staff recommends approval of Resolution No. 15-SM007 for The Monadnock Company's purchase of Qualified Property in an amount not to exceed \$6,475,000 anticipated to result in an approximate sales and use tax exclusion value of \$545,195.

⁷ California Code of Regulations Title 4, Division 13, Section 10036