

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

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

**UTCRAAS, LLC
Application No. 18-SM035**

Tuesday, December 18, 2018

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – UTCRAAS, LLC

Location – Bakersfield, Kern County

Industry – Rail Transportation Manufacturing

Project – New Electric Light Rail Vehicle Component and Unit Manufacturing Facility
(Advanced Manufacturing)

Value of Qualified Property – \$3,174,400

Estimated Sales and Use Tax Exclusion Amount² – \$265,380

Application Score –

Fiscal Benefits Points:	2,259
<u>Environmental Benefits Points:</u>	<u>65</u>
Net Benefits Score:	2,324

<u>Additional Benefits Points:</u>	<u>110</u>
Total Score:	2,434

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

UTCRAAS, LLC (“UTCRAAS” or the “Applicant”) is a Delaware limited liability company, with an existing facility in Morton, Pennsylvania. For 40 years, UTCRAAS has participated in building major locomotives, passenger cars, and light rail vehicles. Some of UTCRAAS’ major clients include Alstom, CRRC Rail (China Rail), Hitachi, and Siemens. UTCRAAS also works closely with transit entities such as Amtrak, Caltrans, and LA and San Diego Transit.

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

- Frank R. Ursone (50%)
- Steven J. Persson (50%)

The corporate officers of UTCRAAS are:

- Frank R. Ursone, Chief Executive Officer and President
- Steven J. Persson, Chairman

THE PROJECT



Figure 1: Truck Assembly

UTCRAAS is requesting a sales and use tax exclusion to build a new, 15,000 square foot facility in Bakersfield for the production of electric light rail vehicle components and units (the “Project”). According to the Applicant, the Project will be its first California facility with plans of producing and refurbishing complete truck assemblies, wheel assemblies built with or without gearboxes, and traction motors. UTCRAAS’ process starts with forged blank components such as wheels, axles, and gearboxes. UTCRAAS will then design and manufacture the various parts to extend their service and maintenance cycles prior to unit assembly. For example, UTCRAAS represents it will design and engineer brake discs made of ductile iron to create a product that last four times longer than the average competitor.

The Applicant states that its process is environmentally unique in that it will install modern dust, paint particle, and fume collectors to prevent contaminants from entering the environment, thereby reducing air pollutants by 30% compared to its previous practice. In addition, UTCRAS represents it will incorporate Computer Numerical Control (“CNC”) machines that will eliminate manual mechanical operations, thus reducing work cycles and decreasing energy consumption. For example, UTCRAS represents that three-dimensional cutting controlled by the CNC machines can be accomplished with a single set of prompts compared to older practices of controlling operations with levers, buttons, and wheels. Finally, the Applicant states that the use of additive manufacturing will cut time and cost related to the prototyping of its products.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Parts Assembly and Machining Equipment	\$1,803,600
Storage and Lifting Equipment	614,200
Inspection, Quality Control & Testing Equipment	304,600
Installation Equipment	243,500
Material Handling Equipment	<u>208,500</u>
Total	<u>\$3,174,400</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

According to the UTCRAS, a facility site has been selected as of April 2018. The Applicant represents it is currently undergoing facility improvements, which is expected to be complete by the beginning of December 2018. Office and shop preparation will be completed by the end of December 2018 with plans to be operational at the beginning of 2019, according to UTCRAS.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 2,434 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 65 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,259 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 \$599,624, resulting in a Fiscal Benefits score of 2,259 points for the Project.
- B. **Environmental Benefits (65 points)**. The Project will result in an Environmental Benefits Score of 65. 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 result in less energy consumption and prevent production contaminants from entering the environment.
 2. **Energy Consumption (15 of 30 points)**. The Applicant represents that the Project will result in a 15 percent reduction in energy consumption compared to the Applicant’s previous manufacturing process.
 3. **Air Pollutants (30 of 30 points)**. The Applicant represents that the Project will result in a 30 percent reduction in air pollutants relative to the Applicant’s previous manufacturing process.
- C. **Additional Benefits (110 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 110 additional points.
1. **Production Jobs (60 of 75 points)**. The Applicant represents that the Project will support a total of 41 production-related jobs at its Facility. CAEATFA estimates that approximately three 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 (0 of 75 points)**. The Applicant represents that the Project will not support any construction jobs at its Facility. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Kern County which has an average annual unemployment rate of 9.8%. This is above 110% of the statewide average annual unemployment rate which was 5.1% in 2017, the dataset used in the application. This results in an Unemployment Score of 50 points for this Project.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents it has secured a crane permit and expects construction and operational permits to be obtained by December 20, 2018.

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 \$1,587.20 and will pay CAEATFA an Administrative Fee of \$15,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM035 for UTCRAS, LLC’s purchase of Qualified Property in an amount not to exceed \$3,174,400, anticipated to result in an approximate sales and use tax exclusion value of \$265,380.

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

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

December 18, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **UTCRAS, 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 \$3,174,400 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-SM035
Application No. 18-SM035

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.