

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

*Request to Approve Project for Sales and Use Tax Exclusion (STE)<sup>1</sup>*

**Entekra, LLC  
Application No. 19-SM031**

**Tuesday, June 18, 2019**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Entekra, LLC

**Location** – Modesto, Stanislaus County

**Industry** – Production of Pre-Engineered Structural Shells for Residential Buildings

**Project** – New Facility for the Production of Pre-Engineered Structural Shells for Residential Buildings (Advanced Manufacturing)

**Value of Qualified Property** – \$20,750,000

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$1,734,700

**Application Score** –

Fiscal Benefits Points:	7,686
<u>Environmental Benefits Points:</u>	<u>30</u>
<b>Net Benefits Score:</b>	<b>7,716</b>

<u>Additional Benefits Points:</u>	<u>185</u>
<b>Total Score:</b>	<b>7,901</b>

**Staff Recommendation** – Approval

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<sup>1</sup> All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

**THE APPLICANT**

Entekra, LLC (“Entekra” or the “Applicant”), a wholly owned subsidiary of Entekra Holdings LLC, is a California limited liability company organized in May 2018 for the purpose of producing customized, structural shells that will be used in the development of residential buildings. According to Entekra, its founder has had success utilizing pre-engineered structural shells in Europe and anticipates similar results for the Northern California region.

The major shareholders (10.0% or greater) of Entekra Holdings LLC are:  
Louisiana Pacific Corporation  
Kutaca Burtar Holdings Inc.

The corporate officers of Entekra LLC are:  
Gerry McCaughey, Chief Executive Officer  
Bran Keogh, Chief Operations Officer  
Michael Treanor, Chief Financial Officer

**THE PROJECT**

Entekra is requesting a sales and use tax exclusion to build a new facility in Modesto that will manufacture over 3,000 pre-engineered structural shells annually for new residential buildings (the “Project”). The principal structural components that will be produced are floor panels, internal and external wall panels, and stairs. According to the Applicant, the industry standard of stick-built construction, also known as wood frame construction, is expensive, laborious, and is prone to deterioration as a result of natural occurrences; whereas, Entekra’s structural shells can be assembled in four to five days and are weather-tight. Entekra will be utilizing advanced materials that are more durable, such as wood composite materials and spray and rigid insulation (such phenolic foam or wood fiber).

Entekra represents its structural shells are of a higher quality than stick-built structural shells. Additionally, Entekra’s structural shells reduce cycle time, make the overall construction process more efficient, and are expected to reduce the overall cost of a completed home. Entekra states it will source approximately 95% of its supplies from Northern California vendors which reduces production costs and overall waste. To assist in producing the structural shells, Entekra represents it will acquire framing stations, advanced lumber processing equipment, and utilize computer-controlled technology. Its technology includes 3D printing, and advanced CAD and 3D modeling that will be integrated into Entekra’s planning and design stages to help create customized products for its clients. According the Applicant, the new machinery will reduce approximately 30% or more of lumber waste when compared to traditional wood frame construction methods where materials are hand cut at the jobsite and prone to human error. Finally, the Applicant represents it will be serving customers regionally, which will result in less transportation costs and air pollutants.



*Figure 1: Entekra’s Production Cycle*

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Exterior Wall Framing Lines	\$ 7,126,612
Floor Framing Line	874,234
Component Saws	499,154
Equipment for Lumber Processing Center	1,300,000
Equipment for Component Center	100,000
Dust Extraction System	400,000
Compressed Air System	400,000
Crane Equipment	400,000
Electrical Equipment	450,000
Material Handling Equipment	1,450,000
Workspace for Engineering and Manufacturing Support	750,000
Construction Materials and Facility Fixtures	7,000,000
<b>Total</b>	<b><u>\$20,750,000</u></b>

*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 Applicant, it is currently in the construction phase and expects the installation of Qualified Property to begin by the end of July 2019. The facility is expected to be operational by the end of the 2019.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The Project received a Total Score of 7,901 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 30 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (7,686 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 \$13,333,306, resulting in a Fiscal Benefits score of 7,686 points for the Project.
- B. **Environmental Benefits (30 points)**. The Project will result in an Environmental Benefits Score of 30. The Applicant received points in the following categories:
  1. **Solid Waste (30 of 30 points)**. The Applicant represents that the Project will result in a 30 percent reduction in solid waste produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (185 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 185 additional points.
  1. **Production Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 218 production-related jobs at its Facility. CAEATFA estimates that approximately 14 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 55 points for the Project
  2. **Construction Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 50 construction 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 Construction Jobs Score of 30 points for the Project.

3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Stanislaus County which has an average annual unemployment rate of 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.
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 the production process of manufacturing pre-engineered structural shells that is the subject of this Application.
5. **Workforce Partnerships (25 points)**. The Applicant has a partnership with Modesto Junior College and VOLT training center (which is part of Stanislaus County Office of Education) for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.

## **STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

The Applicant represents it will obtain an environmental air permit, occupancy permit, and electrical structural packages for equipment installation in June 2019, and operation permits with the city of Modesto in December 2019.

## **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,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$83,000.

## **RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM031 for Entekra, LLC’s purchase of Qualified Property in an amount not to exceed \$20,750,000, anticipated to result in an approximate sales and use tax exclusion value of \$1,734,700.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

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

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Entekra, 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 \$20,750,000 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.17**  
**Resolution No. 19-SM031**  
**Application No. 19-SM031**

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.