

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

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

**Hadco Metal Trading Co., LLC
Application No. 20-SM026**

Tuesday, March 17, 2020

Prepared By: *Ashley Emery, Program Manager*

SUMMARY

Applicant – Hadco Metal Trading Co., LLC

Location – Bakersfield, Kern County

Industry – Metal Products Manufacturing

Project – New Metal Products Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$9,400,000

Estimated Sales and Use Tax Exclusion Amount² – \$785,840

Competitive Criteria Score – 95

Application Score –

Fiscal Benefits Points:	1,105
<u>Environmental Benefits Points:</u>	<u>30</u>
Net Benefits Score:	1,135

<u>Additional Benefits Points:</u>	<u>115</u>
Total Score:	1,250

Staff Recommendation – Approval

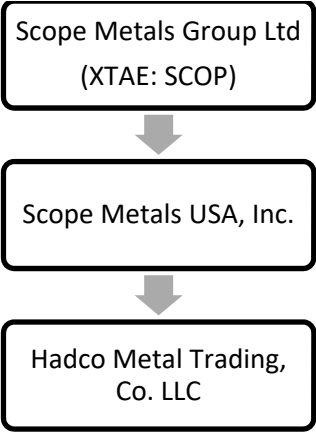
¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

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

THE APPLICANT

Hadco Metal Trading Co., LLC (“Hadco” or the “Applicant”) is a Delaware limited liability company that formed in 2006. Hadco is a metal service center of aluminum, stainless steel, steel, magnesium and related alloy products. Its products include sheets, coils, plates, rods, tubes, pipes, and extruded shapes. Hadco’s customers come from a wide variety of industries, including aerospace, defense, architecture, construction, medical, energy, agriculture, pharmaceutical, and telecommunications.

The ownership of Hadco Metal Trading Co. LLC is as follows:



The corporate officers of Scope Metals Group Ltd are:
Shmuel Shiloh, Chairman of the Board
Gil Haver, Chief Executive Officer
Ilan Toledano, Chief Financial Officer
Stanley Frisch, General Counsel and Corporate Secretary

THE PROJECT

Hadco is requesting a sales and use tax exclusion to build a new metal products manufacturing facility located in Bakersfield (the “Project”). According to the Applicant, the Project will include over 250,000 square-feet in facility space, and will enable the Applicant to better serve its west coast customers.

The Applicant explains the Project will utilize advanced, high-precision saw machines that enable an operator to input exact specifications into the operating system, such as dimensions, quantities, and material type, and then automatically produce the products. The machines can make cuts between 0.004 to 3.94 inches with speeds of up to 492.13 feet per minute. Additionally, the machines minimize stop time necessary for routine maintenance, such as oil and filter changes. The Applicant also states the equipment consumes less energy, and when coupled with the increased speed and efficiency in production, is anticipated to reduce energy consumption by approximately 28%.

According to the Applicant, the Project is anticipated to triple its California inventory, and to allow for precise management of inventory levels and shorten processing times, the Project will implement a customized automated storage system that the Applicant states will facilitate

optimal movement of materials from the saw machines to the storage racks. The Applicant explains the system allows for the highest storage density for the footprint.

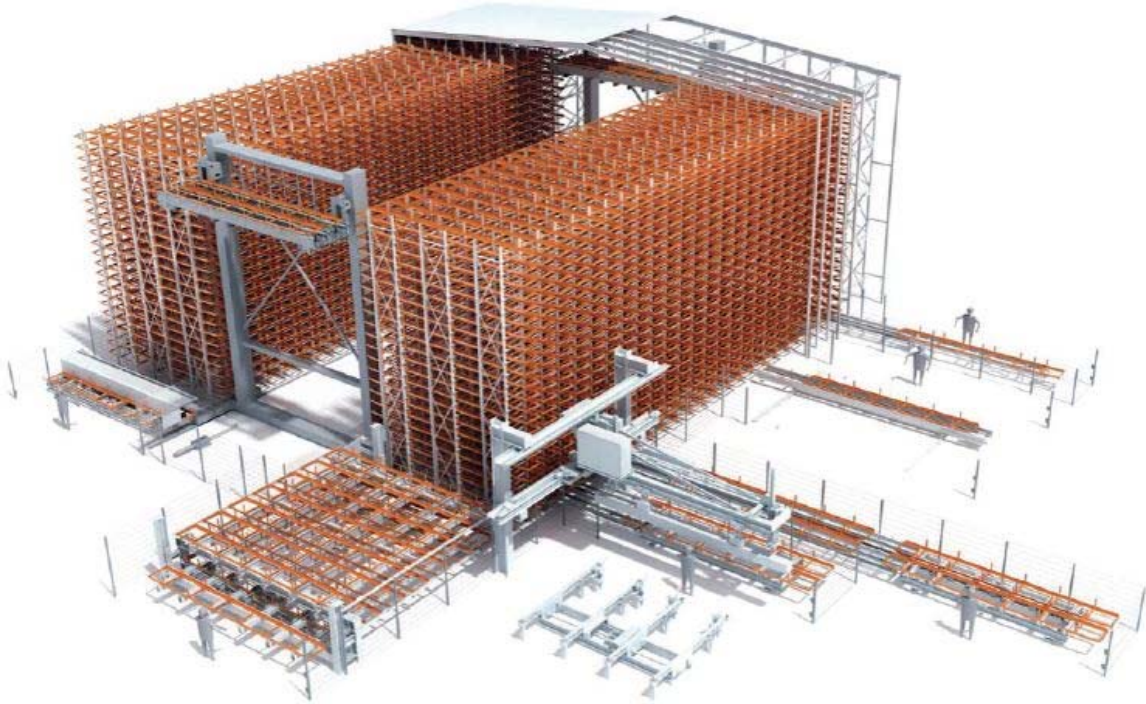


Figure 1: Hadco’s Automated Storage System

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Equipment, Machinery & Related Property	\$5,400,000
Storage Systems, Logistics, and Related Property	1,600,000
Testing Equipment, Quality Control & Related Property	200,000
Computers and IT Property	700,000
Upgrades and Real Property/Facility Improvements	<u>1,500,000</u>
Total	<u>\$9,400,000</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 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 has begun construction on the Project, and anticipates completing the Project and beginning production in Q2 of 2020.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 95 Competitive Criteria points as follows:

1. **Environmental Benefits (0 points)**. The Applicant's Project did not earn any Total Pollution Benefits points (i.e. did not have environmental benefits that could be monetized and scored pursuant to the Program's regulations³), therefore no points are awarded.
2. **Unemployment (50 of 50 points)**. The Applicant's Project is located in Kern County, which has an average annual unemployment rate of 7.8 %. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 50 points.
3. **Job Creation (45 of 75 points)**. The Applicant represents that the Project will support a total of 52 production-related jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
4. **California Headquarters (0 points)**. The Applicant does not have a California Corporate Headquarters, therefore zero points are awarded.
5. **Natural Disaster Relief (0 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in the state of emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

³ California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,250 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 (1,105 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 \$868,564, resulting in a Fiscal Benefits score of 1,105 points for the Project.

- B. **Environmental Benefits (30 points)**. The Project earned an Environmental Benefits Score of 30. The Applicant received points in the following categories:
 - 1. **Energy Consumption (30 of 30 points)**. The Applicant represents that the Project will result in a 48% reduction in energy consumption compared to the Applicant’s previous manufacturing process through the use of roof-top solar and more advanced and efficient sawing equipment.

- C. **Additional Benefits (115 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 115 additional points.
 - 1. **Production Jobs (45 of 75 points)**. The Applicant represents that the Project will support a total of 52 production-related jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 45 points.
 - 2. **Construction Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 12 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 STE. Based on the amount of STE per estimated number of jobs created, the Applicant earned 20 points.
 - 3. **Unemployment (50 of 50 points)**. The Applicant’s Project is located in Kern County, which has an average annual unemployment rate of 7.8 %. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of 50 points.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it has received all necessary permits, including building, installation, and operational permits.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$4,700 and will pay CAEATFA an Administrative Fee of up to \$37,600.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM026 for Hadco Metal Trading Co., LLC's purchase of Qualified Property in an amount not to exceed \$9,400,000, anticipated to result in an approximate sales and use tax exclusion value of \$785,840.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH HADCO METAL TRADING CO., LLC**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Hadco Metal Trading Co., 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 \$9,400,000 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.F.12
Resolution No. 20-SM026
Application No. 20-SM026

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.