

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

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

**Virgin Orbit, LLC
Application No. 20-SM012**

Tuesday, March 17, 2020

Prepared By: *Matthew Newman, Blue Sky Consulting Group, on Behalf of CAEATFA, with
Ashley Emery, Program Manager*

SUMMARY

Applicant – Virgin Orbit, LLC

Location – Long Beach, Los Angeles County

Industry – Aerospace Manufacturing

Project – Upgrade of Existing Aerospace Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$18,001,109

Estimated Sales and Use Tax Exclusion Amount² – \$1,504,893

Competitive Criteria Score – 84

Application Score³ –

Fiscal Benefits Points:	3,523
<u>Environmental Benefits Points:</u>	<u>37</u>
Net Benefits Score:	3,559
 <u>Additional Benefits Points:</u>	 <u>144</u>
Total Score:	3,704

Staff Recommendation – Approval

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

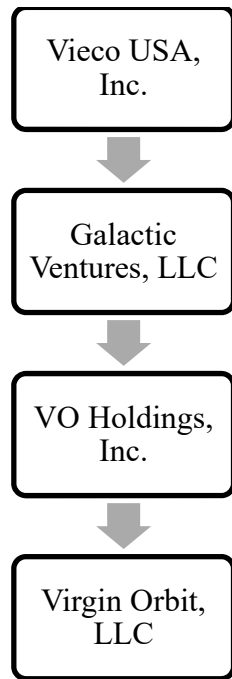
² This amount is calculated based on the average statewide sales tax rate of 8.36%.

³ Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Virgin Orbit, LLC (“Virgin Orbit” or the “Applicant”) is a Delaware limited liability company that formed in 2016. The company is headquartered in Long Beach, California and produces the LauncherOne rocket to provide launch services for small satellites for customers, such as NASA. Virgin Orbit’s propulsion testing is performed near Mojave Air and Space Port in Mojave, California.

The ownership structure of Virgin Orbit, LLC is as follows:



The company officers of Virgin Orbit, LLC are:

Dan Hart, President & Treasurer
Brita O’Rear, Chief Financial Officer
Derrick Boston, Chief Administrative Officer,
General Counsel, & Secretary

THE PROJECT

Virgin Orbit is requesting a sales and use tax exclusion to upgrade its existing aerospace manufacturing facility located in Long Beach, California (the “Project”). Virgin Orbit’s primary manufacturing activities consist of the production of the LauncherOne rocket. The Company is unique in its development and usage of a proprietary Air Launch system, utilizing a 747-400 aircraft to launch the LauncherOne rocket as opposed to the typical Ground Launch system utilized by its competitors.

According to the Applicant, the LauncherOne rocket is manufactured using advanced manufacturing techniques. For example, the LauncherOne engine components are manufactured using processes which allow for both additive manufacturing (3D printing) and subtractive manufacturing (machining) within a single piece of equipment. The Applicant explains that metal additive parts for aerospace applications generally require some form of post-print

finishing that requires these parts to be removed from the printer and installed in a second machine in order to perform machining operations. By making both of these processes possible in a single piece of equipment, Virgin Orbit states it is able to rapidly reduce fabrication time and hold much higher tolerances. In addition, the LauncherOne structure is primarily manufactured using lightweight, rigid composite material. According to the Applicant, the manufacturing process is expected to reduce the use of materials and accompanying solid waste and lower energy consumption.



Figure 1: LauncherOne Rocket

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Additive Manufacturing (3D printers)	\$ 4,578,960
Advanced composite manufacturing equipment	5,036,099
Quality assurance efficiency improvement equipment	2,386,050
Test site upgrades	6,000,000
Total	<u>\$18,001,109</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 purchasing Qualified Property, and anticipates Qualified Property will be placed in service by the end 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 84 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 regulations⁴), therefore no points are awarded.
2. **Unemployment (9 of 50 points)**. The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 4.4%. 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 9 points.
3. **Job Creation (60 of 75 points)**. The Applicant represents that the Project will support a total of 705 production-related jobs at its Facility. CAEATFA estimates that approximately 16 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 60 points.
4. **California Headquarters (15 points)**. The Applicant has a California Corporate Headquarters, therefore 15 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.

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

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 3,704 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 37 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (3,523 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 \$5,301,512, resulting in a Fiscal Benefits score of 3,523 points for the Project.
- B. Environmental Benefits (37 points).** The Project earned an Environmental Benefits Score of 37. 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 it represents will incorporate sustainability into its core operations to protect and preserve the environment. Virgin Orbit states that it monitors monthly solid waste disposal trends, and reviews monthly reports from its waste disposal partner on these trends. Virgin Orbit also participates in programs of the South Coast Air Quality Management District. In addition, the Applicant states that it will adopt the following policies and practices:

 - 1. Conserve energy, water and natural resources.
 - 2. Commit to purchasing environmentally preferable products.
 - 3. Reduce, Reuse and Recycle.
 - 4. Promote environmental education, outreach and awareness to its staff and the greater community.
 - 2. Energy Consumption (8 of 30 points).** The Applicant represents that the Project will result in an 8% reduction in energy consumption compared to the industry standard manufacturing process, primarily through the use of additive manufacturing processes.
 - 3. Solid Waste (9 of 30 points).** The Applicant represents that the Project will result in a 9% reduction in solid waste produced relative to the industry standard manufacturing process, primarily through the use of additive manufacturing processes.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states that it either has already obtained, or will obtain ahead of property installation, the necessary building, electrical, mechanical, and plumbing permits for the Qualified Property.

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,⁵ the Applicant has paid CAEATFA an Application Fee of \$9,000.55 and will pay CAEATFA an Administrative Fee of up to \$72,004.44.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM012 for Virgin Orbit LLC's purchase of Qualified Property in an amount not to exceed \$18,001,109, anticipated to result in an approximate sales and use tax exclusion value of \$1,504,893.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

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

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of Virgin Orbit, 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 \$18,001,109 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.13
Resolution No. 20 –SM012
Application No. 20 –SM012

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.