

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

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

**Lockheed Martin Corporation  
Application No. 20-SM015**

**Tuesday, March 17, 2020**

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

**SUMMARY**

**Applicant** – Lockheed Martin Corporation

**Location** – Palmdale, Los Angeles County

**Industry** – Aerospace Manufacturing

**Project** – Upgrade and Expansion of Existing Aerospace Manufacturing Facility (Advanced Manufacturing)

**Value of Qualified Property** – \$119,617,224

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$10,000,000

**Competitive Criteria Score** – 64 points

**Application Score<sup>3</sup>** –

Fiscal Benefits Points:	2,046
<u>Environmental Benefits Points:</u>	<u>149</u>
<b>Net Benefits Score:</b>	<b>2,195</b>
 <u>Additional Benefits Points:</u>	 <u>139</u>
<b>Total Score:</b>	<b>2,335</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%.

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

## **THE APPLICANT**

Lockheed Martin Corporation (“Lockheed” or the “Applicant”) is a Maryland corporation that formed in 1994. Lockheed is an aerospace manufacturing company with its company headquarters in Bethesda, Maryland. The Applicant is a publicly traded company under the symbol LMT.

On September 16, 2014, the CAEATFA Board granted Lockheed an STE award for the purchase of up to \$345,296,354 in Qualified Property for an estimated STE value of \$29,073,953 to expand its aerospace manufacturing facility in anticipation of a contract for the U.S. Air Force request for proposal for an advanced strategic aircraft program. Lockheed did not win the contract for ASAP, and therefore did not purchase any Qualified Property for the project.

The major shareholders (10.0% or greater) of Lockheed Martin Corporation are:  
State Street Corporation and State Street (15.7%)

The corporate officers of Lockheed Martin Corporation are:  
Marilyn Hewson, Chairman, President & CEO  
Kenneth Possenriede, EVP and Chief Financial Officer  
Richard Ambrose, EVP  
Michele Evans, EVP  
Scott Greene, EVP  
Frank St. John, EVP  
Maryanne Lavan, SVP, General Counsel and Corporate Secretary  
John Mollard, VP and Treasurer  
Brian Colan, VP, Controller and Chief Accounting Officer

## **THE PROJECT**

Lockheed Martin is requesting a sales and use tax exclusion to upgrade and expand its existing aerospace manufacturing facility located in Palmdale, California (the “Project”). The Applicant states that new DoD projects are emerging in the areas of Next Generation Air Dominance, Next Generation Unmanned Aircraft Systems and Hypersonic Systems requiring additional investment on the part of the Applicant in order to service these emerging needs. According to the Applicant, the Department of Defense (“DoD”) awarded Lockheed Martin contracts in 2018 and 2019. Specific details are subject to U.S. Government security restrictions and cannot be disclosed in this Application.

The Project will focus on two areas: (1) expanding its advanced material systems to move from laboratory and small-scale production to full-scale production, and (2) upgrading and expanding its manufacturing facilities and equipment. The Applicant states that the advanced manufacturing processes and equipment resulting from its planned capital investments will be state-of-the-art,

represent the most efficient manufacturing approach currently available. The Applicant explains the Project will utilize advanced material systems related to applications in composite structures, hypersonic platforms, as well as vehicle signature management using modern production equipment to increase efficiency. The Project will also include the use of automation through robotics, automated guided vehicles, and digital metrology systems. To improve accuracy and speed of production, the Applicant states it uses visualization technologies, including projection systems and augmented reality, as well as simulation technologies. In addition, the modular nature of the proposed production environment will significantly reduce the building footprint that would otherwise be required.

### **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Autos & Light Trucks	\$ 400,000
Infrastructure Improvements	7,631,016
Engineering Equipment	20,581,594
Manufacturing Equipment	91,004,614
<b>Total</b>	<b><u>\$119,617,224</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 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 already began construction and anticipates completing the Project by the end of 2022.

### **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 64 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 regulations<sup>4</sup>), 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 (55 of 75 points).** The Applicant represents that the Project will support a total of 2,764 production-related jobs at its Facility. CAEATFA estimates that approximately 78 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 55 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.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The Project received a Total Score of 2,335 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 149 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,046 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 \$20,464,377, resulting in a Fiscal Benefits score of 2,046 points for the Project.
- B. **Environmental Benefits (149 points).** The Project earned an Environmental Benefits Score of 149. The Applicant received points in the following categories:

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<sup>4</sup> California Code of Regulations Title 4, Division 13, Section 10033(c)(4)

1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant will implement an environmental sustainability plan for its Project that it represents will reinforce its commitment to sustainability and environmental stewardship. The Applicant states that new buildings costing over \$5,000,000 are required to achieve LEED Silver certification resulting in buildings that use fewer resources, reduce waste and negative environmental impacts, and decrease life cycle costs. The Applicant's "Go Green Program" plans to reduce carbon emissions by 70% by 2030 and energy per occupant and waste per occupant by 14% and 11% respectively by 2025.
2. **Energy Consumption (14 of 30 points).** The Applicant represents that the Project will result in a 14% reduction in energy consumption compared to the Applicant's previous manufacturing process. Reductions expected to come from lower use of electricity and natural gas per dollar of output from the use of a more efficient manufacturing approach, such as more energy efficient machinery and automation.
3. **Water Use (15 of 30 points).** The Applicant represents that the Project will result in a 15% reduction in water use relative to the Applicant's previous manufacturing process. The Applicant states that its investment in state of the art manufacturing processes and equipment represent the most efficient manufacturing approach currently available, which the Applicant anticipates will reduce water use per dollar of output.
4. **Solid Waste (25 of 30 points).** The Applicant represents that the Project will result in a 25% reduction in solid waste produced relative to the Applicant's previous manufacturing process. The Applicant states that its investment in state of the art manufacturing processes and equipment represent the most efficient manufacturing approach currently available, which the Applicant anticipates will reduce solid waste per dollar of output.
5. **Hazardous Waste (25 of 30 points).** The Applicant represents that the Project will result in a 25% reduction in hazardous waste produced relative to the Applicant's previous manufacturing process. The Applicant states that its investment in state of the art manufacturing processes and equipment represent the most efficient manufacturing approach currently available, which the Applicant anticipates will reduce hazardous waste per dollar of output.
6. **Air Pollutants (25 of 30 points).** The Applicant represents that the Project will result in a 25% reduction in air pollutants produced relative to the Applicant's previous manufacturing process. The Applicant states that its investment in state of the art manufacturing processes and equipment represent the most efficient manufacturing approach currently available, which the Applicant anticipates will reduce air pollution per dollar of output.

7. **Other Pollutants (25 of 30 points).** The Applicant represents that the Project will result in a 25% reduction in other pollutants produced relative to the Applicant's previous manufacturing process. The Applicant states that its investment in state of the art manufacturing processes and equipment represent the most efficient manufacturing approach currently available, which the Applicant anticipates will reduce other pollutants per dollar of output.

**C. Additional Benefits (139 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 139 additional points.

1. **Production Jobs (55 of 75 points).** The Applicant represents that the Project will support a total of 2,764 production-related jobs at its Facility. CAEATFA estimates that approximately 78 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 55 points.
2. **Construction Jobs (0 of 75 points).** The Applicant represents that the Project will support a total of 66 construction jobs at its Facility. CAEATFA estimates that approximately two 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 zero points.
3. **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.
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 manufacturing that is the subject of this Application.
5. **Workforce Partnerships (25 points).** The Applicant has partnerships with the Science Olympiad, First Robotics, Salute to Youth, Engineers in the Classroom, project Lead the Way, Biomimicry Institute, Stemposium, STREAM Kids, Science Technology Advance Resource Inc., and many others that encourage students to further their education in science and engineering. Lockheed also has a high school internship program that makes it possible for high school juniors and seniors to earn credit for working at Lockheed Martin 10 hours a week in a wide variety of disciplines.

6. **Industry Cluster (25 points).** The industry associated with this Application has been identified by the Los Angeles County Economic Development Corporation as an industry cluster of the region of the Project's location.

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

The Applicant states that Grading Permits were received in October of 2019, Foundation Permits were received in December of 2019, and remaining permit submittal is expected by April of 2020 with issuance expected May of 2020.

## **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>5</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

## **RECOMMENDATION**

Statute limits CAEATFA to granting up to \$100 million in sales and use tax exclusion each calendar year. Program Regulation Section 10032(a)(7)(A) provides that when the amount requested in the final Application considered under the competitive criteria process exceeds the STE available in the calendar year, the Authority shall award the remaining STE request using STE from the following calendar year. After the January 2020 Board meeting, CAEATFA has approximately \$79,643,995 in STE (or \$952,679,360.60 in Qualified Property) left to award in 2020, which is sufficient to fully award the other complete Applications received by the December 20, 2019 deadline from the 2020 allocation. Assuming all of those Applicants are approved, approximately \$4,177,761 in STE (or \$49,973,220.60 in Qualified Property) remains in the 2020 calendar year, and Lockheed Martin Corporation's Project is for \$119,617,224 in Qualified Property for an estimated sale and use tax exclusion value of \$10,000,000.

Therefore Staff recommends approval of Resolution No. 20-SM015 for Lockheed Martin Corporation's purchase of Qualified Property in an amount not to exceed \$49,973,220.60, effective immediately, anticipated to result in an approximate sales and use tax exclusion value of \$4,177,761, and effective January 1, 2021, for the purchase of up to \$69,644,003.40 in

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<sup>5</sup> California Code of Regulations Title 4, Division 13, Section 10036

**Agenda Item - 4.F.18**  
**Resolution No. 20-SM015**  
**Application No. 20-SM015**

Qualified Property, anticipated to result in an approximate sales and use tax exclusion value of \$5,822,239.



**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH LOCKHEED MARTIN CORPORATION**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Lockheed Martin Corporation** (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 \$119,617,224 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.

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 for up to \$49,973,220.60 in Project equipment purchases and effective on January 1, 2021 for up to an additional \$69,644,003.40 in Project equipment purchase, resulting in a total of \$ 119,617,224 in Project equipment purchase, 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.