

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Rocket Lab USA, Inc.
Application No. 21-SM011**

Tuesday, March 16, 2021

Prepared By: *Xee Moua, Program Analyst*

SUMMARY

Applicant – Rocket Lab USA, Inc.

Location – Long Beach, Los Angeles County

Industry – Aerospace Manufacturing

Project – New Small Satellite and Reaction Wheel Manufacturing Facility
(Advanced Manufacturing)

| Value of Qualified Property | Estimated Sales and Use Tax Exclusion (“STE”) Amount ² |
|-----------------------------|---|
| \$6,443,921 | \$547,733 |

| Estimated Net Benefit ³ | Dollar Value | Points Earned ⁴ |
|---|--------------------|----------------------------|
| Estimated Fiscal Benefits | \$2,213,498 | 4,041 |
| Estimated Environmental Benefits | N/A | 30 |
| Additional Benefits | N/A | 148 |
| Total | \$2,213,498 | 4,220 |
| Estimated Quantifiable Net Benefit | \$1,665,765 | |

Competitive Criteria Score – 88

Staff Recommendation – Approval

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

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Rocket Lab USA, Inc. (the “Applicant”), is a Delaware corporation that formed in 2013. The Applicant’s first development was a small space-launch vehicle called Electron, and the Applicant is currently investing to develop its own satellite bus platform called Photon. The Applicant has also recently acquired Sinclair Interplanetary, a supplier for reaction wheel assembly and star trackers.

The Applicant received an income tax credit under the California Competes Tax Credit Program⁵ administered by the Governor’s Office of Business and Economic Development on November 12, 2019.

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

Khosla Ventures (28.4%)
Bessemer Ventures (20.1%)
Peter Beck (14.19%)
Future Fund Investment (10.4%)

The corporate officers of the Applicant are:

Peter Beck, Founder and Chief Executive Officer
Adam Spice, Chief Financial Officer
Shaun O’Donnell, Chief Operating Officer

THE PROJECT

Rocket Lab USA, Inc., is requesting an STE award to build a new small-satellite and reaction wheel manufacturing facility located in Long Beach (the “Project”). According to the Applicant, satellite component production, such as reaction wheel assembly, has historically been a niche market, and is generally a hands-on process with lead times beyond nine months. Due to the growing demand of the market, the Applicant states it intends on deploying a process that will allow it to mass-produce satellite components. The Applicant states it will be able to produce an average of nine satellites and 2,600 reaction wheels per year with the requested Qualified Property.

The Applicant states the Project will integrate business models, such as lean manufacturing and 5S workplace principles, to increase productivity while driving costs down. For example, because reaction wheel design and assembly were previously completed by third-party firms located outside the United States, the Applicant often faced scheduling risks and incurred additional costs. The Applicant represents the Project will enable it to produce the mechanical framework of its reaction wheels in-house. Moreover, the Applicant states it will control costs by utilizing 3-D printing to produce satellite subcomponents, such as its rocket propulsion systems, and reduce toxic substances, such as lead, from production by removing tin whiskers at the subcomponent level of its fabrication process.

⁵ California Code of Regulations, Title 10, Chapter 13, Article 1 (commencing with Section 8000).

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

| | |
|--------------------------------|---------------------------|
| Manufacturing Equipment | \$4,009,821 |
| Testing Equipment | \$1,806,998 |
| Inspection Tools and Equipment | \$14,112 |
| Analytical Equipment | \$612,990 |
| Total | <u>\$6,443,921</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, the construction of the Project has started as of January 2021 and it expects the Qualified Property to be installed and facility upgrades to be completed by December 2021.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Rocket Lab USA, Inc., represents all permits related to general contracting and facility improvements will be secured by the end of March 2021.

COMPETITIVE CRITERIA SCORE

In the event that the Applications received by CAEATFA requesting \$2 million or less in STE by the deadline for a particular Board meeting represent STE in excess of the \$20 million set-aside for that calendar year, the Applications submitted for that particular Board meeting will be reviewed and presented to the CAEATFA Board for approval in the order in which they are ranked based on Competitive Criteria.

The Applicant received 88 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points).** The Applicant's Project did not earn any environmental benefits points, as calculated pursuant to the method for calculating points for environmental benefits for Advanced Transportation, Alternative Source,

and Recycled Resource Extraction Applications in Section 10033(c)(4). Therefore, no points are awarded.

2. **Unemployment (28 of 50 points)**. The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%.⁶ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.
3. **Job Creation (45 of 75 points)**. The Applicant anticipates the Project will support a total of 53 production-related jobs at its Facility. CAEATFA estimates that approximately 3.32 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 (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 4,220 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 (4,041 points)**. The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales and use taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$2,213,498, resulting in a Fiscal Benefits score of 4,041.

⁶ Unemployment rates are based on data available in October 2020.

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 (25 of 30 points).** The Applicant anticipates the Project will result in a 25% reduction in energy consumption compared to the industry standard manufacturing process by incorporating additive manufacturing and multifunctional and multitasking equipment.
2. **Other Pollutants (5 of 30 points).** The Applicant anticipates the Project will result in a 5% reduction in other pollutants produced relative to the Applicant's previous manufacturing process by changing its fabrication process to a lead-free process.

C. Additional Benefits (148 points). Applicants may earn additional points for their Total Score. The Applicant received 148 additional points.

1. **Production Jobs (45 of 75 points).** The Applicant anticipates the Project will support a total of 53 production-related jobs at its Facility. CAEATFA estimates that approximately 3.32 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 (0 of 75 points).** The Applicant anticipates the Project will support a total of two construction jobs at its Facility. CAEATFA estimates that approximately 0.13 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 (28 of 50 points).** The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%.⁷ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.
4. **Research and Development Facilities (25 of 25 points).** The Applicant has verified that it has a facility located in California that performs research and development functions related to aerospace manufacturing.
5. **Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by the Los Angeles Economic Development Corporation as an industry cluster of the region of the Project's location.
6. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions,

⁷ Unemployment rates are based on data available in October 2020.

gym subsidies, employee discounts, and paid leave to its employees, earning the Applicant 25 points.

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,⁸ the Applicant has paid CAEATFA an Application Fee of \$3,221.96, and will pay CAEATFA an Administrative Fee of up to \$25,775.68.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM011 for Rocket Lab USA, Inc.'s purchase of qualifying tangible personal property in an amount not to exceed \$6,443,921, anticipated to result in an approximate STE value of \$547,733.

⁸ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH ROCKET LAB USA, INC.**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Rocket Lab USA, Inc.** (the “Applicant”), for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10030(a), with the Applicant for the Project; and

WHEREAS, the Applicant has estimated the Project has an estimated cost not to exceed \$6,443,921 over a period of three years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 or Chair of the Authority (the “Authorized Signatories”) are hereby authorized for and on behalf of the Authority to approve any changes to

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the Project as the Authorized Signatories deem appropriate, provided that the amount of the qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.