

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Lam Research Corporation
Application No. 21-SM012**

Tuesday, March 16, 2021

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Lam Research Corporation

Location – Fremont and Livermore, Alameda County

Industry – Semiconductor Fabrication Equipment Manufacturing

Project – Upgrade and Expansion of Existing Semiconductor Fabrication Equipment
Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$22,900,000	\$1,946,500

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$6,790,103	3,488
Estimated Environmental Benefits	N/A	50
Additional Benefits	N/A	110
Total	\$6,790,103	3,648
Estimated Quantifiable Net Benefit	\$4,843,603	

Competitive Criteria Score – 75

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).)

THE APPLICANT

Lam Research Corporation (the “Applicant”) is a Delaware corporation that formed in 1980 and is publicly traded under the symbol LRCX. The Applicant manufactures equipment used to produce semiconductor chips by some of the largest chip manufacturers in the world.

On March 17, 2020, the CAEATFA Board granted the Applicant an STE award for the purchase of up to \$119,617,224 in Qualified Property for an estimated STE value of \$10,000,000 to upgrade and expand its existing semiconductor fabrication equipment manufacturing facilities located in Fremont and Livermore. As of December 31, 2020, the Applicant has purchased \$61,904,261.80 in Qualified Property (52% of the total Qualified Property amount approved).

The corporate officers of the Applicant are:

Tim Archer, President & Chief Executive Officer
Doug Bettinger, EVP & Chief Financial Officer
Gary Bultman, SVP Corporate Development
Audrey Charles, SVP Strategic Planning and Marketing
Tina Correia, CVP Investor Relations & Finance
Ava Hahn, SVP, Chief Legal Officer
Mary Hassett, Chief Human Resources Officer
Richard Gottscho, EVP & Chief Technology Officer
Rob Hawthorne, Chief Information Officer
Patrick Lord, EVP Customer Support Business Group and Global Operations
Stacey MacNeil, Chief Communications Officer
Scott Meikle, SVP Global Customer Operations
Karsten Theess, CVP Business Operations & Transformation
Vahid Vahedi, SVP and General Manager Etch Business Unit
Sesha Varadarajan, SVP and General Manager Deposition Business Unit

THE PROJECT

Lam Research Corporation is requesting an STE award to upgrade and expand its existing semiconductor fabrication equipment manufacturing facilities located in Fremont and Livermore (the “Project”).

The Applicant plans to upgrade its existing production, research, design, quality control, and prototyping equipment and build out an additional 15,000 to 20,000 square feet of manufacturing space. The Applicant explains that its manufacturing process uses high-precision tools and methods to ensure its products can produce microchips with features smaller than 1/1,000 the size of a grain of sand, including digital modeling to enable first-time right products and advanced robotics that can transport and maneuver heavy loads. The Applicant states it is able to plumb multiple gases directly into its system rather than just one at a time, reducing the time spent transporting the gases and the amount of piping needed. The Applicant explains the Project seeks to further reduce the duration of its gas changes by installing an additional advanced

switching panel. The Applicant also states the Project will include a pump dilution Dinitrogen reduction system that can reuse existing process gas that would otherwise go to waste.

The Applicant also has an environmental sustainability performance plan that sets environmental goals, including specific reductions of the Applicant’s greenhouse gas intensity. To that end, the Applicant explains the Project will include the implementation of a water reclamation system to reduce water consumption by 40-50% at its Facilities.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Equipment, Machinery & Related Property	\$5,325,000
Laboratory Devices, Testing Equipment & Instruments	\$4,375,000
Logistics, Storage Systems & Related Property	\$850,000
Quality Control & Related Property	\$1,450,000
Computers, IT & Robotics Property	\$1,100,000
Design, Engineering, Research & Development Property	\$3,500,000
Buildout of Facilities, Upgrades & Real Property Improvements	\$6,300,000
Total	<u>\$22,900,000</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 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 upgrade of existing equipment will begin in the second quarter of 2021, the implementation of the water conservation project will be substantially completed by the fourth quarter of 2021, and the build-out of its Facilities will be substantially completed by the third quarter of 2024.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all necessary building, installation, and operational permits for the Project have been secured or will be obtained in a timely manner prior to the completion of the Project, and the Facilities are in good standing with the Cities of Fremont and Livermore.

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 75 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 (0 of 50 points)**. The Applicant’s Project is located in Alameda County, which has an average annual unemployment rate of 7.5%.⁴ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero points.
3. **Job Creation (60 of 75 points)**. The Applicant anticipates the Project will support a total of 2,889 production-related jobs at its Facilities. CAEATFA estimates that approximately 24.26 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 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 Facilities 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.

⁴ Unemployment rates are based on data available in October 2020.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 3,648 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (3,488 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 \$6,790,103, resulting in a Fiscal Benefits score of 3,488.

- B. **Environmental Benefits (50 points)**. The Project earned an Environmental Benefits Score of 50. 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 seeks to reduce its greenhouse gas intensity, including by reducing energy use and utilizing renewable energy sources.

 2. **Water Use (30 of 30 points)**. The Applicant anticipates the Project will result in a 45% reduction in water use relative to the Applicant’s previous manufacturing process by repurposing water at its Facilities via a fluoride wastewater reclamation system.

- C. **Additional Benefits (110 points)**. Applicants may earn additional points for their Total Score. The Applicant received 110 additional points.
 1. **Production Jobs (60 of 75 points)**. The Applicant anticipates the Project will support a total of 2,889 production-related jobs at its Facilities. CAEATFA estimates that approximately 24.26 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.

 2. **Construction Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of 20 construction jobs at its Facilities. CAEATFA estimates that approximately 0.17 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 (0 of 50 points).** The Applicant’s Project is located in Alameda County, which has an average annual unemployment rate of 7.5%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero 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 semiconductor fabrication equipment.
5. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, dependent care and assistance reimbursement, transportation subsidies, education reimbursement, 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,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$91,600.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM012 for Lam Research Corporation’s purchase of qualifying tangible personal property in an amount not to exceed \$22,900,000, anticipated to result in an approximate STE value of \$1,946,500.

⁵ Unemployment rates are based on data available in October 2020.

⁶ California Code of Regulations Title 4, Division 13, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH LAM RESEARCH CORPORATION**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Lam Research Corporation** (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 \$22,900,000 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 the Project as the Authorized Signatories deem appropriate, provided that the amount of the

Agenda Item – 4.G.12
Resolution No. 21-SM012
Application No. 21-SM012

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.