

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

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

**Applied Materials, Inc.  
Application No. 21-SM013**

**Tuesday, March 16, 2021**

Prepared By: *Matthew Jumps, Program Analyst*

**SUMMARY**

**Applicant** – Applied Materials, Inc.

**Location** – Santa Clara and Sunnyvale, Santa Clara County

**Industry** – Semiconductor and Related Industries Fabrication Equipment Manufacturing

**Project** – Upgrade and Expansion of Semiconductor and Related Industries Fabrication  
Equipment Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount <sup>2</sup>
\$23,225,000	\$1,974,125

Estimated Net Benefit <sup>3</sup>	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$6,657,625	3,372
Estimated Environmental Benefits	N/A	50
Additional Benefits	N/A	135
<b>Total</b>	<b>\$6,657,625</b>	<b>3,557</b>
<b>Estimated Quantifiable Net Benefit</b>	<b>\$4,683,500</b>	

**Competitive Criteria Score** – 75

**Staff Recommendation** – Approval

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

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

<sup>3</sup> 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**

Applied Materials, Inc. (the “Applicant”), is a Delaware corporation that formed in 1967 and is publicly traded on the Nasdaq stock exchange under the ticker symbol AMAT. According to the Applicant, over the decades, the company has transformed from a small start-up to a leader in materials engineering solutions that are used to produce virtually every advanced display and new microchip on the planet. The Applicant manufactures production equipment, related parts, support, and software to the display, semiconductor, and related industries. Its customers include manufacturers of liquid crystal diode (“LCD”) and organic light-emitting diode (“OLED”) displays, semiconductor chips, and other electronic devices.

On March 17, 2020, the CAEATFA Board granted the Applicant an STE award for the purchase of up to \$118,692,224 in Qualified Property for an estimated STE value of \$9,922,670 to upgrade and expand its existing display and semiconductor fabrication equipment manufacturing facilities in Santa Clara and Sunnyvale. As of June 30, 2020, the Applicant has reported \$58,273,419.76 in Qualified Property purchases (49% of the total Qualified Property amount approved).

The corporate officers of the Applicant are:

Gary E. Dickerson, President & CEO

Dan Durn, Senior Vice President & CFO

Gino Addiego, Ph.D., Senior Vice President-Engineering, Operations & Quality

Steve Ghanayem, Senior Vice President-New Markets & Alliances

Thomas F. Larkins, Senior Vice President-General Counsel

Omkaram Nalamasu, Ph.D., Senior Vice President & CTO

## **THE PROJECT**

Applied Materials, Inc., is requesting an STE award to upgrade and expand its existing display and semiconductor fabrication equipment manufacturing facilities located in Santa Clara and Sunnyvale (the “Project”). The Applicant explains the Project will include upgrades to its research and development, design, manufacturing, and testing equipment, along with the build-out of its facilities and expansion of its design and manufacturing systems.

The Applicant states that the focus of the Project will be on the design and manufacturing of tools used in the production processes for displays (including LCDs and OLEDs) and semiconductors. The Applicant explains that it has been working to develop innovative micro-LED display manufacturing technology that will outperform similar displays on the market with higher brightness, contrast, and resolution while also lowering power consumption. According to the Applicant, the Project will include the equipment necessary to bring this technology through the development stage to the growing small-personal-display market.

The Project also aims to reduce the solid waste generated from internal processes and packaging, including replacing wooden crates with lighter corrugated Kraft cover for the transportation of its

products. The Applicant states that the new packaging designs will result in less solid waste generated and a reduction in fuel consumption and greenhouse gas emissions due to the lighter load carried during transportation.

## **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Manufacturing and Production Equipment	\$7,150,000
Metrology, Testing, and Quality Control Equipment	\$9,825,000
Lab Devices and Scientific Instruments	\$2,100,000
Research and Development, Design, and Engineering Property	\$2,500,000
Upgrades and Improvements to Real Property	\$1,650,000
<b>Total</b>	<b><u>\$23,225,000</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 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, building, installation, and operational permits will be required from the cities of Santa Clara and Sunnyvale. The Applicant states that all necessary permits have been or will be timely secured for the Project.

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

According to the Applicant, the build-out and improvements to its facilities are planned throughout 2021; the upgrade of its existing research and development, manufacturing, and testing systems will begin in the first quarter of 2021; and the purchase of additional design and manufacturing equipment is planned to begin in the second quarter of 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 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 Santa Clara County, which has an average annual unemployment rate of 6.0%.<sup>4</sup> 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 3,579 production-related jobs at its Facility. CAEATFA estimates that approximately 21.67 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 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 3,557 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20-point threshold.

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<sup>4</sup> Unemployment rates are based on data available in October 2020.

- A. **Fiscal Benefits (3,372 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 \$6,657,625, resulting in a Fiscal Benefits score of 3,372.
- 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 it states seeks to maximize energy efficiency, reduce greenhouse gas emissions, reduce waste, and conserve natural resources.
  2. **Solid Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 30% reduction in the solid waste produced relative to the Applicant's previous manufacturing process by utilizing a new crate design made with a corrugated Kraft cover to replace heavier wood crates for transporting its products.
- C. **Additional Benefits (135 points)**. Applicants may earn additional points for their Total Score. The Applicant received 135 additional points.
1. **Production Jobs (60 of 75 points)**. The Applicant anticipates the Project will support a total of 3,579 production-related jobs at its Facility. CAEATFA estimates that approximately 21.67 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 Facility. CAEATFA estimates that approximately 0.12 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 Santa Clara County, which has an average annual unemployment rate of 6.0%.<sup>5</sup> 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

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<sup>5</sup> Unemployment rates are based on data available in October 2020.

development functions related to display and semiconductor fabrication equipment manufacturing.

5. **Workforce Partnerships (25 of 25 points).** The Applicant has a new college graduate program that works with career centers to recruit, hire, and train new graduates from various schools, including Stanford, UC Berkley, UCLA, UCSD, San Jose State, Santa Clara University, Ivy League schools, and other universities.
6. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, education reimbursement, 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,<sup>6</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$92,900.

## **RECOMMENDATION**

Staff recommends the approval of Resolution No. 21-SM013 for Applied Materials, Inc.'s purchase of qualifying tangible personal property in an amount not to exceed \$23,225,000, anticipated to result in an approximate STE value of \$1,974,125.

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<sup>6</sup> California Code of Regulations Title 4, Division 13, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A  
REGULATORY AGREEMENT WITH APPLIED MATERIALS, INC.**

**March 16, 2021**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Applied Materials, 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 \$23,225,000 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

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.