

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

***Request to Approve a Time Extension for the
Initial Term of the Regulatory Agreement¹***

**WET
Application No. 18-SM018**

Tuesday, June 15, 2021

Prepared By: *Stefani Carruth, Program Analyst*

SUMMARY

Applicant – WET

Location – Sun Valley, Los Angeles County

Industry – Water Feature Design and Manufacturing

Project – Expansion of Water Feature Manufacturing Facility (Advanced Manufacturing)

Total Amount Qualified Property Approved– \$4,927,301

Estimated Sales and Use Tax Exclusion Amount at Approval² – \$411,922

Amount of Time Requested –

- One year and six months, until December 19, 2022, for the Initial Term of the Regulatory Agreement (four years and six months from the date of initial CAEATFA Board approval)

Staff Recommendation – Approval

¹ All capitalized terms not defined in this document are defined in the Sales and Use Tax Exclusion Program's statutes and regulations.

² This amount is calculated based on the average statewide sales tax rate at the time of initial approval, which was 8.36%.

REQUEST

On June 19, 2018, the CAEATFA Board approved a sales and use tax exclusion (“STE”) for WET (the “Applicant”) for the purchase of up to \$4,927,301 in Qualified Property to expand its existing water feature design and manufacturing facility located in Sun Valley (the “Project”). The Regulatory Agreement (“Agreement”) initial term provided the Applicant with three years from the date of Board approval to utilize its STE award. The CAEATFA Board can extend the initial term of the Agreement upon a finding that an extension is in the public interest and advances the purposes of the STE Program.

As of April 15, 2021, WET has used the STE to purchase \$2,760,151 of Qualified Property (56% of the total Qualified Property approved). The Applicant is requesting to extend the Agreement initial term by one year and six months to accommodate several delays due to the COVID-19 pandemic.

The Applicant states that the primary reason it has experienced significant operational setbacks is due to the statewide shutdowns related to the COVID-19 pandemic. According to the Applicant, a large portion of its existing projects were placed on hold and new contracts declined significantly, which resulted in a substantial decrease in financial resources and an inability to procure the remaining Qualified Property. The Applicant states the reduction in cash flow also forced it to lay off a large portion of its workforce.

In addition, the Applicant states that it has experienced significant shipping delays both to and from its manufacturing partners and clients around the world. One of its largest suppliers is in China, and it has been challenging to receive necessary items from that supplier. Other delays include an inability to source necessary items in order to complete projects and ship them to existing clients in a timely manner.

According to the Applicant, as of January 2021, its level of new contracts has rebounded to a more normal pace and the projects placed on hold during 2020 have begun to move forward. The Applicant states it currently has projects in its pipeline that are on track to move forward between 2022 and 2024. Those projects will require that the Applicant purchase additional Qualified Property to fulfill the Applicant’s commitments.

THE APPLICANT

The Applicant, a California corporation, has been in business for over 34 years. The Applicant designs, engineers, and manufactures underwater devices for water features, including nozzles, power distribution systems, and robotic parts that typically last between five and 10 years.

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

Mark Fuller (100%)

The corporate officers of WET are:

Mark Fuller, Chief Executive Officer

THE PROJECT

The Applicant requested a sales and use tax exclusion to expand its existing water feature design and manufacturing facility located in Sun Valley. The Applicant represents that its products require advanced technology and engineering to manufacture, and that it intends to purchase high-precision tools, such as laser cutters, 3D printers, injection molding machines, and robotic welding machines. These tools and machines require a highly skilled workforce and reduce waste, energy consumption, and overhead transportation costs, according to the Applicant. WET has designed water features for locations worldwide, including the Burj al Arab in Dubai and the Bellagio in Las Vegas, using component parts engineered and manufactured by the Applicant.

AGREEMENT INITIAL TERM EXTENSION REQUEST

The Applicant has requested that the initial term of the Agreement be extended from June 19, 2021, to December 19, 2022, in order to accommodate several delays due to the COVID-19 pandemic.

Staff Evaluation

The Applicant states the COVID-19 pandemic and subsequent statewide shutdowns of businesses severely impacted its operations, ability to move forward on existing projects, and potential to secure new projects. Staff notes that while these impacts left the Applicant in a challenging financial position that led to employee layoffs, this was a temporary occurrence. The Applicant states, since January 2021, it has been able to rebound quite well, even securing a more normal number of new contracts and moving forward with previously delayed projects. According to the Applicant, the recent increase in projects and contracts has allowed it to rehire a portion of its workforce and continue with team member recruitment. The Applicant states it is confident its financial situation will continue to improve, and with products and project commitments due between 2022 and 2024, procuring the remaining Qualified Property purchases will be critical to fulfilling those commitments.

Based on this information, Staff believes extending the initial term of the Agreement will allow for the Project to be completed, and is, therefore, in the public interest and advances the purposes of the STE Program.

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 STE Program Regulations,³ the Applicant has paid an additional fee of \$2,000 because extending the initial term qualifies as a modification to the Applicant's Agreement.

RECOMMENDATION

Staff recommends that the Board approve WET's request to extend the initial term of the Agreement by one year and six months to December 19, 2022, as it is in the public interest and advances the purposes of the STE Program.

Attachments

Attachment A: WET's letter requesting waiver (April 15, 2021)

Attachment B: WET's staff summary at the time of approval

³ California Code of Regulations Title 4, Division 13, Section 10036(c)(1)(B)

**RESOLUTION APPROVING A TIME EXTENSION FOR
WET'S INITIAL TERM FOR
THE REGULATORY AGREEMENT**

Tuesday, June 15, 2021

WHEREAS, on June 19, 2018, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”), a public instrumentality of the State of California, approved a Sales Tax Exclusion (“STE”) in the amount of \$4,927,301 of Qualified Property for **WET** (the “Applicant”); and

WHEREAS, within three (3) years of approval by the Authority, the Applicant must make all Qualified Property purchases (STE Program regulations Section 10035(b)(1)); and

WHEREAS, upon a finding that it is in the public interest and advances the purposes of the Program, the Authority may waive the requirement that all purchases of Qualified Property be made within three (3) years of Application approval (STE Program regulations Section 10035(b)(1)(B)); and

WHEREAS, the Applicant has requested a waiver of the requirement to purchase all of the Qualified Property within three (3) years, due to unexpected delays in the Project timeline, extending the term by one (1) year and six (6) months to December 19, 2022; and

WHEREAS, granting the waiver will allow the Project to proceed and the state to receive the anticipated environmental and economic benefits that justified the initial approval of the Project in accordance with the law, thereby advancing both the public interest and the purposes of the Program.

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

Section 1. The Authority finds that it is in the public interest and advances the purposes of the Program to extend the initial term of the Agreement to December 19, 2022.

Section 2. This resolution shall take effect immediately upon its passage.

Attachment A: WET's Letter Requesting Waiver (April 15, 2021)



April 15, 2021

To whom it may concern:

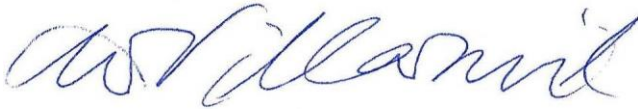
We would like to request an extension of the Sales and Use Tax Exclusion program our company has enjoyed. Please consider the following:

- If possible, we need until December 2022 to procure all of our planned Qualified Property. This specific amount of time is needed due to the scarcity of our funding.
- We are deeply affected by the pandemic and therefore need this extra time. We have not been able to purchase everything that is on our list of Qualified Equipment due to financial and resource issues caused by the pandemic. Majority of our projects were put on pause due to Covid. This resulted in reduced cashflow and significantly reduced work causing us to lay off staff. We plan to continue to aggressively pursue more and more clients and we are also launching an extension of our core business that serve the consumer product space. This will require more engineering and manufacturing and implementing new ways to do advance manufacturing. This will significantly expand our existing business model. Since the lockdown started to ease up, we hired more people back and we are now continuing to aggressively pursue hiring more staff members so we can fulfill our commitments to our clients.
- Based on our business model and the backlog of projects we currently have, we are confident that we could meet the timeline. From March 2020 when the Covid shutdowns occurred, we signed very few new contracts because our potential clients were putting their projects on hold. Since January of 2021, the activity of signing contracts for new work has increased to a more normal pace. These new projects will be kicked off between now and the end of the year, go through a period of project product design phases, resulting in requiring us to produce goods we committed to the clients for the period of 2022 through 2024 which will necessitate us buying new equipment throughout 2022 up to the requested timeline for this extension.
- The amount of Qualified Property we have purchased to date is \$2,760,151.
- The original scope of the project has not changed much, however, we are constantly innovating. As such, there are new ways to implement smart manufacturing that we are constantly exploring to improve our processes.

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- We are committed to providing a safe and nurturing environment for our staff and we have plans we would like to deploy that support our vision . This includes getting more tools and equipment that are conducive to automation and advanced manufacturing.

Sincerely yours,

A handwritten signature in blue ink, appearing to read 'M. Villamil', written in a cursive style.

Maria Villamil

WET

Attachment B: WET’s Staff Summary at the Time of Approval

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

Request to Approve Project for Sales and Use Tax Exclusion (STE)⁴

**WET
Application No. 18-SM018**

Tuesday, June 19, 2018

Prepared By: *Melanie Holman, Program Analyst*

SUMMARY

Applicant – WET

Location – Sun Valley, Los Angeles County

Industry – Water Feature Design and Manufacturing

Project – Expansion of Water Feature Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$4,927,301

Estimated Sales and Use Tax Exclusion Amount⁵ – \$411,922

Application Score –

Fiscal Benefits Points:	2,120
<u>Environmental Benefits Points:</u>	<u>135</u>
Net Benefits Score:	2,255

<u>Additional Benefits Points:</u>	<u>155</u>
Total Score:	2,410

Staff Recommendation – Approval

⁴ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

⁵ This amount is calculated based on the average statewide sales tax rate of 8.36%.

THE APPLICANT

WET (“WET” or the “Applicant”), a California corporation, has been in business for over 34 years. WET designs, engineers, and manufactures underwater devices for water features including nozzles, power distribution systems, and robotic parts that typically last between five to ten years.

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The corporate officers of WET are:

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THE PROJECT

WET is requesting a sales and use tax exclusion to expand its existing water feature design and manufacture facility located in Sun Valley (the “Project”). The Applicant represents that its products require advanced technology and engineering to manufacture, and that it intends to purchase high-precision tools such as laser cutters, 3D printers, injection molding machines, and robotic welding machines. These tools and machines require a highly-skilled workforce and reduce waste, energy consumption, and overhead transportation costs, according to the Applicant. WET has designed water features for locations worldwide including the Burj al Arab in Dubai and the Bellagio in Las Vegas using component parts engineered and manufactured by the Applicant itself.

Figure 1: The Fountains of the Bellagio, Las Vegas



ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Moldex 3D	\$ 84,400
Makino F5 Vertical Machining Center	244,250
PVA Delta	56,095
Nordson potting machine	49,955
Arburg Injection Molding machine	709,631
Haas DS-30Y	214,320
Haas ST-35Y	182,000
Mazak Integrex	950,000
Triform Hydroforming 25-10-12	1,295,000
Rittal Automated backplane wiring system	700,000
Atlas UV test chamber	30,000
Omax waterjet cutter	40,000
Seica Pilot V8 Flying probe tester	350,000
Ansys software	21,650
Total	<u>\$4,927,301</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 detailing 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

Facilities are currently under construction to accommodate the new machinery. The Applicant estimates project completion around October 2018.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 2,410 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 135 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (2,120 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 \$873,330 resulting in a Fiscal Benefits score of 2,120 points for the Project.
- B. **Environmental Benefits (135 points).** The Project will result in an Environmental Benefits Score of 135 points. The Applicant received points in the following categories:
1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant has an environmental sustainability plan for its Project that it represents will result in decreased energy and water use over time.
 2. **Energy Consumption (15 of 30 points).** The Applicant represents that its manufacturing process will result in a 15% reduction in energy consumption relative to the industry standard manufacturing process.
 3. **Water Use (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 40% reduction in water use relative to the industry standard manufacturing process.
 4. **Solid Waste (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 40% reduction in solid waste produced relative to the industry standard manufacturing process.
 5. **Hazardous Waste (20 of 30 points).** The Applicant represents that its manufacturing process will result in a 20% reduction in hazardous waste produced relative to the industry standard manufacturing process.
 6. **Air Pollutants (20 of 30 points).** The Applicant represents that its manufacturing process will result in a 20% reduction in air pollutants produced relative to the industry standard manufacturing process.
 7. **Other Pollutants (0 of 30 points).** The Applicant represents that its manufacturing process will result in a 0% reduction in other pollutants produced relative to the industry standard manufacturing process.
- C. **Additional Benefits (155 points).** Applicants may earn additional points for their Total Score. The Applicant submitted information and received 155 additional points.
1. **Permanent Jobs (60 of 75 points).** The Applicant represents that the Project will support a total of 250 permanent jobs at its Facility. CAEATFA estimates that approximately four of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Permanent Jobs Score of 60 points for the Project.

2. **Construction Jobs (20 of 75 points).** The Applicant represents that the Project will support a total of 30 construction jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE resulting in a Construction Jobs Score of 20 points for the Project.
3. **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 the fields of optics, physics, chemistry, and micro-electronics.
4. **Workforce Partnerships (25 points).** The Applicant has a partnership with the State of California's Employment Training Panel for the purpose of providing onsite and offsite training and certification for WET employees.
5. **Industry Cluster (25 points).** The metal-working industry associated with this Application has been identified by the Los Angeles County Economic Development Corporation as an industry cluster in the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant represents that all necessary permits have been obtained.

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 \$2,463.65 and will pay CAEATFA an Administrative Fee of up to \$19,709.20.

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

RECOMMENDATION

Staff recommends approval of Resolution No. 18-SM018 for WET's purchase of Qualified Property in an amount not to exceed \$4,927,301 anticipated to result in an approximate sales and use tax exclusion value of \$411,922.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH WET**

June 19, 2018

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **WET** (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 \$4,927,301 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

Agenda Item – 4.C.4
Resolution No. 18-SM018-01

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.