

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Pratt & Whitney, a Division of RTX Corporation
Application No. 23-SM036**

Tuesday, September 19, 2023

Prepared By: *Jeannie Yu, Program Analyst*

SUMMARY

Applicant – Pratt & Whitney, a division of RTX Corporation

Location – Carlsbad, San Diego County

Industry – Jet Engine Parts Manufacturing

Project – Expansion of Existing Jet Engine Parts Manufacturing Facility (Advanced Transportation)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$40,462,000	\$3,382,623

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$3,579,486	1,058
Estimated Environmental Benefits	\$2,869,924	848
Additional Benefits	N/A	105
Total	\$6,449,410	2,012
Estimated Quantifiable Net Benefit	\$3,066,787	

Competitive Criteria Score – 130

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 8.36%.

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

Pratt & Whitney, a division of RTX Corporation (the “Applicant”), provides technology, products and services to aerospace industries worldwide. Formed in 1934, RTX Corporation (formerly known as Raytheon Technologies Corporation) is a Delaware corporation that is publicly traded on the New York Stock Exchange under the ticker symbol RTX.

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, for \$2.25 million.

The corporate officers of RTX Corporation are:

Gregory J. Hayes, Chairman, President, & CEO

Neil G. Mitchill, Jr., Executive VP & CFO

Amy L. Johnson, Corporate VP, Controller

Kevin G. DaSilva, Corporate VP, Treasurer

Ramsaran Maharajh, Jr., Executive VP and General Counsel

Dantaya M. Williams, Executive VP & Chief Human Resources Officer

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to build a new jet engine parts manufacturing facility located in Carlsbad (the “Project”). According to the Applicant, the new 60,000 square-foot facility opened in 2021, and is an integrated engineering, development and low-rate production facility solely dedicated to ceramic matrix composites (“CMCs”) for aerospace applications. According to the Applicant, CMC is a class of material made of ceramic fibers embedded within a ceramic matrix. CMC materials are lightweight and can be used to create engine parts that can be two-thirds lighter than traditional metallic parts. The Applicant also states the temperature capability of CMC parts is several hundred degrees higher than industry standard parts. Overall, CMCs can reduce emissions and carbon footprint by allowing aero engines to run hotter in harsh environments, offering heat-resistant capabilities that can enhance engine performance, durability, and fuel efficiency.

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:

Machining Center	\$1,300,000
Chemical Vapor Infiltration Furnaces	\$28,000,000
Ceramic Coating Booth	\$2,300,000
Construction Materials/Fixtures	\$5,000,000
Scanning Electron Microscope	\$483,000
Drying Ovens	\$408,000
Blue-Light Automation	\$329,000
Mechanical Test Frames	\$1,300,000
Autoclave	\$413,000
Plasma Cleaner	\$413,000
Part Washer	\$159,000
Reverse Osmosis System	\$44,000
Digital Image Correlation	\$241,000
Acoustic Emission System	\$72,000
Total	<u>\$40,462,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. In accordance with 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 facility opened in July 2021 and is currently partially operational. The Applicant states two additional phases of construction have been planned. The temporary certificate of occupancy for phase 5 of the Project was granted in May 2023 by the City of Carlsbad, and the last phase is due to be completed in early 2025.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states the facility currently holds an active air permit, but an additional air permit will be needed to fully operate certain pieces of manufacturing equipment. The Applicant is expecting receipt of the additional air permit by October 2023. The Applicant also plans on filing a process safety management registration with the California Accidental Release Prevention Program.

COMPETITIVE CRITERIA SCORE

The Applicant received 130 Competitive Criteria points as follows:

1. **Environmental Benefits (100 of 100 points)**. The Applicant has a Project that produces an Advanced Transportation Technology, and, therefore, 100 points are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant's Project is located in San Diego County, which has an average annual unemployment rate of 3.5%.⁶ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (30 of 75 points)**. The Applicant anticipates the Project will support a total of 89 production-related jobs at its Facility. CAEATFA estimates that approximately 7.27 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 30 points.
4. **California Headquarters (0 of 15 points)**. The Applicant does not have a California Corporate Headquarters, and, therefore, zero 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.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project's industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 2,012 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 848 points, which exceeds the 20-point threshold.

⁶ Unemployment rates are based on data available in October 2022.

- A. **Fiscal Benefits (1,058 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 \$3,579,486, resulting in a Fiscal Benefits score of 1,058.
- B. **Environmental Benefits (848 points).** The Project is anticipated to result in \$2,869,924 of total pollution benefits over the life of the Project, resulting in an Environmental Benefits Score of 848 points. These benefits derive from the use of ceramic matrix composite technology for aircraft engines, which helps to reduce fuel consumption.
- C. **Additional Benefits (105 points).** Applicants may earn additional points for their Total Score. The Applicant received 105 additional points.
1. **Production Jobs (30 of 75 points).** The Applicant anticipates the Project will support a total of 89 production-related jobs at its Facility. CAEATFA estimates that approximately 7.27 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 30 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 0.16 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 San Diego County, which has an average annual unemployment rate of 3.5%. When compared to the statewide average annual unemployment rate of 4.3%, 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 manufacturing, testing, and engineering development on ceramic matrix composites for aircraft engines.
 5. **Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with UC Santa Barbara for the purpose of assisting in the training of potential future workers.
 6. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental and vision benefits, bonuses, retirement contributions, education reimbursement, employee discounts and paid leave to its employees, earning the Applicant 25 points.

LEGAL QUESTIONNAIRE

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. The Executive Director, in consultation with legal counsel, has determined that the legal issues disclosed do not affect the financial viability or legal integrity of the Applicant.

CAEATFA FEES

In accordance with CAEATFA regulations,⁷ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$161,848.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM036-01 for Pratt & Whitney, a division of RTX Corporation's purchase of qualifying tangible personal property in an amount not to exceed \$40,462,000 anticipated to result in an approximate STE value of \$3,382,623.

⁷ California Code of Regulations Title 4, Division 13, Section 10036

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH PRATT & WHITNEY, A DIVISION OF RTX
CORPORATION**

September 19, 2023

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Pratt & Whitney, a division of RTX 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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$40,462,000 over a period of three (3) 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.