

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

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

**Northrop Grumman Systems Corporation  
Application No. 23-SM010**

**Tuesday, December 12, 2023**

Prepared By: *Jeannie Yu, Program Analyst*

**SUMMARY**

**Applicant** – Northrop Grumman Systems Corporation

**Location** – Palmdale, Los Angeles County; Manhattan Beach, Los Angeles County; Redondo Beach, Los Angeles County; Northridge, Los Angeles County; Sunnyvale, Santa Clara County; Woodland Hills, Los Angeles County

**Industry** – Aerospace Manufacturing

**Project** – Update and Expansion of Existing Aerospace Manufacturing Facilities (Advanced Manufacturing)

	Recommended for Approval <sup>2</sup>	Total Request
Value of Qualified Property	\$47,184,041.92	\$193,094,835
Estimated Sales and Use Tax Exclusion (“STE”) Amount <sup>3</sup>	\$3,944,586	\$16,142,728
<b>Estimated Net Benefit<sup>4</sup></b>		
Estimated Fiscal Benefits	\$4,624,364	\$18,924,637
Estimated Environmental Benefits	N/A	N/A
Additional Benefits	N/A	N/A
Total	\$4,624,364	\$18,924,637
Estimated Quantifiable Net Benefit	\$679,778	\$2,781,810

	Points Earned
Estimated Fiscal Benefits	1,172
Estimated Environmental Benefits	30
Additional Benefits	164
<b>Total</b>	<b>1,366</b>

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

<sup>2</sup> Benefits are prorated to reflect the amount of Qualified Property and STE amount being recommended.

<sup>3</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

<sup>4</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).)

**Competitive Criteria Score – 64**

**Staff Recommendation** – Approval of an award for the purchase of up to \$47,184,041.92 in Qualified Property anticipated to result in an approximate sales and use tax exclusion of \$3,944,586, pursuant to the annual statutory cap provision in Program regulation section 10032(a)(7)(A).

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*(Report continues on following page)*

**THE APPLICANT**

Northrop Grumman Systems Corporation (the “Applicant”) is a Delaware corporation that formed in 1985 and is wholly owned by Northrop Grumman Corporation, a publicly traded company on the New York Stock Exchange under the ticker symbol NOC. The Applicant is headquartered in Falls Church, VA and provides innovative systems, products, and solutions in autonomous systems, cyber, C4ISR (command, control, communications and computers, intelligence, surveillance, reconnaissance), space, strike, and logistics and modernization to customers worldwide. The Applicant has more than 20 locations in the state of California and conducts most of its business with the U.S. Government, principally the Department of Defense and intelligence community. The Applicant also conducts business with foreign, state and local governments, as well as commercial customers.

On April 16, 2019, the CAEATFA Board granted the Applicant an STE award for the purchase of up to \$211,964,787 in Qualified Property for an estimated STE value of \$17,720,256 to upgrade and expand its existing aerospace manufacturing facility located in Palmdale. As of June 2021, the Applicant has purchased 100% of the Qualified Property amount approved and completed the project.

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

Northrop Grumman Corporation (100%)

The corporate officers of the Applicant are:

Kathy Warden, Chairman, CEO & President  
Mark A. Caylor, Vice President  
Mary Petryszyn, Vice President  
Matthew F. Bromberg, Vice President  
Jennifer C. McGarey, Secretary  
Thomas H. Jones, Vice President  
Thomas L. Wilson, Vice President  
Patrick M Valenti, Vice President

**THE PROJECT**

The Applicant is requesting an STE award to upgrade and expand its existing aerospace manufacturing facilities located in Los Angeles and Santa Clara counties (the “Project”). According to the Applicant, one of the manufacturing locations, the Aircraft Integration Center of Excellence in Palmdale (“Palmdale COE”) is a world-class facility that provides assembly, integration, testing and long-term maintenance capabilities for some of the world’s most advanced aircraft, such as the B-2 Spirit, F-35 Lightning II, RQ-4 Global Hawk, MQ-4C Triton, and other classified technologies. The Applicant states recent program awards require its facilities to be updated with new machinery and equipment, as well as building infrastructure and building improvements. Specifically, the Applicant will improve its aeronautics systems, space systems, defense systems, and mission systems sectors.

The Applicant plans to renovate and build facilities that will utilize advanced materials and automated and robotic systems to produce lighter and more efficient classified aircraft, airframes, and aircraft components for its Palmdale Aircraft Programs. Other purchased equipment will be

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used in component manufacturing, environmental testing, and machining utilized in the development and production of satellites and payloads. The Applicant states its facilities will utilize advanced composite materials to result in a structure that is lighter in weight and more efficient. The Applicant also states it will take advantage of advances in programming, machining, and technology to reduce span time and assembly costs. Advanced technology includes the usage of automated inspection, automated guided vehicles, automated paint and coatings, and automated drilling stations and equipment to reduce both span time and labor costs. In 2018, the Applicant announced the beginning of a pilot program that will enable the use of local recycled water for three cooling towers. By doing so, the Applicant is projected to save up to 16 million gallons of drinking water per year at its Space Park manufacturing facility in Redondo Beach. Moreover, the placement of newer advanced equipment can also result in an overall reduction of water and energy use at its facilities.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Test Articles	\$25,400,000
Production Equipment	\$14,418,200
Program Production	\$92,000,000
Engineering Electronics Machinery & Equipment	\$12,000,000
Payload Testing Equipment	\$7,000,000
EM Testbed	\$9,000,000
TVAC Chamber Upgrade	\$15,000,000
HVAC System Upgrades	\$450,000
WOSA Development Lab	\$2,100,000
Cubicle Reconfiguration	\$750,000
Security Facility Upgrades	\$500,000
Test Equipment	\$2,800,000
Test Stations	\$1,100,000
Production Test Chambers	\$360,000
Production Capacity Optimization	\$100,000
Horizontal Boring Mill	\$1,453,975
Magnetic Particle Testing	\$45,000
EB Welder	\$2,000,000
Building Improvements	\$100,000
Space Rate Table #1	\$180,000
Laser Balance Station	\$496,200
Jig Grinder	\$1,830,004
Clean Room	\$4,011,456
<b>Total</b>	<b><u>\$193,094,835</u></b>

*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**

The Applicant states it has already begun making equipment purchases, and all qualified advanced manufacturing property is expected to be placed in service by the end of 2024.

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

According to the Applicant, all required permits have been obtained.

## **COMPETITIVE CRITERIA SCORE**

The Applicant received 64 Competitive Criteria points as follows:

1. **Environmental Benefits (0 of 100 points).** The Application does not have a Recycled Resource Extraction Project or Project that produces an Advanced Transportation Technology or an Alternative Source product, component, or system. Therefore, no points are awarded.
2. **Unemployment (19 of 50 points).** The Applicant's Project's primary Facility is located in Los Angeles County, which has an average annual unemployment rate of 5.1%.<sup>5</sup> When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 19 points.
3. **Job Creation (45 of 75 points).** The Applicant anticipates the Project will support a total of 6,209 production-related jobs at its Facilities. CAEATFA estimates that approximately 101.41 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Due to the amount of Qualified Property being recommended, the prorated total number of production-related jobs is 1,517 and CAEATFA estimates that approximately 24 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 (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 Facilities due to a fire, flood, storm, or earthquake identified in a state of

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<sup>5</sup> Unemployment rates are based on data available in October 2022.

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 1,381 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 (1,187 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 \$19,161,174 resulting in a Fiscal Benefits score of 1,187.
- B. **Environmental Benefits (30 points)**<sup>6</sup>. The Project earned an Environmental Benefits Score of 30. The Applicant received points in the following categories:
  1. **Environmental Sustainability Plan (5 of 5 points)**. The Applicant has an environmental sustainability plan that aims to reduce greenhouse gas emissions by 50%.
  2. **Water Use (8 of 30 points)**. The Applicant anticipates the Project will result in an 8% reduction in water use relative to the Applicant's previous manufacturing process by pursuing additional infrastructure and system upgrade projects that will reduce the overall water intensity.
  3. **Solid Waste (16 of 30 points)**. The Applicant anticipates the Project will result in a 16% reduction in solid waste produced relative to the Applicant's previous manufacturing process by identifying new recycling streams including organic waste recycling and working with vendors to improve recyclable material pickups.

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<sup>6</sup> Point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

**C. Additional Benefits (164 points).** Applicants may earn additional points for their Total Score. The Applicant received 164 additional points.

- 1. Production Jobs (45 of 75 points).** The Applicant anticipates the Project will support a total of 6,209 production-related jobs at its Facilities. CAEATFA estimates that approximately 101.41 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Due to the amount of Qualified Property being recommended, the prorated total number of production-related jobs is 1,517 and CAEATFA estimates that approximately 24 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 442 construction jobs at its Facilities. CAEATFA estimates that approximately 7.22 of these jobs will be attributable to a marginal increase in jobs created due to the STE. Due to the amount of Qualified Property being recommended, the prorated total number of construction jobs is 108, and CAEATFA estimates that approximately two of jobs will be attributable to marginal increase in the 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 (19 of 50 points).** The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 5.1%. When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant 19 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 defense products.
- 5. Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with Antelope Valley College for the purpose of training potential future workers.
- 6. Industry Cluster (25 of 25 points).** The industry associated with this Application has been identified by SoCal Aerospace Council as an industry cluster of the region of the Project's location.
- 7. Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental & vision benefits, bonuses, pension plans, retirement contributions, profit sharing, dependent care & assistance reimbursement, transportation subsidies, education reimbursement, gym subsidies, 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 STE Program regulations,<sup>7</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$188,736.17.

## **RECOMMENDATION**

Statute limits CAEATFA to awarding up to \$115 million in sales and use tax exclusion in years 2022-2024, of which \$15 million is designated for lithium extraction projects and \$100 million is for lithium and all other eligible projects. Program regulation Section 10032(a)(7)(A) provides that when the amount requested in the final Application considered exceeds the \$100 million in STE available in the calendar year, the Authority shall award the remaining STE request using STE from the following calendar year, up to \$2 million in STE.<sup>8</sup> Assuming all other Applications brought before the Board for consideration are approved, \$23,260,596.94 in Qualified Property (or \$1,944,586 in STE) remains in the 2023 calendar year, and the Applicant's request is for \$193,094,835 in Qualified Property for an estimated STE value of \$16,142,728.

Therefore, Staff recommends the approval of Resolution No. 23-SM010-01 for Northrop Grumman Systems Corporation's purchase of qualifying tangible personal property in an amount not to exceed \$23,260,596.94, effective immediately, anticipated to result in an approximate STE value of \$1,944,586, and effective January 1, 2024, for the purchase of up to \$23,923,444.98 in qualifying tangible personal property, anticipated to result in an approximate STE value of \$2 million.

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<sup>7</sup> California Code of Regulations Title 4, Division 13, Section 10036

<sup>8</sup> Program regulation excludes the lithium extraction project pool of \$15 million in STE.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A  
REGULATORY AGREEMENT WITH NORTHROP GRUMMAN SYSTEMS  
CORPORATION**

**December 12, 2023**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Northrop Grumman Systems 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 \$47,184,041.92 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

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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 for up to \$23,260,596.94 in qualifying tangible personal property, and effective on January 1, 2024, for up to an additional \$23,923,444.98 in qualifying tangible personal property 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.