

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Applied Materials, Inc.
Application No. 23-SM033**

Tuesday, July 18, 2023

Prepared By: *Katrina Walters-White, Program Analyst*

SUMMARY

Applicant – Applied Materials, Inc.

Location – Santa Clara, Santa Clara County

Industry –Semiconductor and Related Industries Fabrication Equipment Manufacturing

Project –Upgrade and Expansion of Existing Semiconductor and Related Industries Fabrication Equipment Manufacturing Facilities (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$23,750,000	\$1,985,500

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$8,580,466	4,322
Estimated Environmental Benefits	N/A	60
Additional Benefits	N/A	150
Total	\$8,580,466	4,532
Estimated Quantifiable Net Benefit	\$6,594,966	

Competitive Criteria Score – 90

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).)

THE APPLICANT

Founded in 1967 and headquartered in Santa Clara, Applied Materials, Inc. (the “Applicant”) is a Delaware corporation and publicly traded on the NASDAQ stock exchange under the ticker symbol AMAT. The Applicant manufactures production equipment, related parts, support, and software to the semiconductor, display and related industries. Its customers include manufacturers of semiconductor chips, liquid crystal displays (“LCD”) and organic light-emitting diode (“OLED”) displays, and other electronic devices.

On March 17, 2020, the CAEATFA Board granted the Applicant a sales and use tax exclusion (“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 its existing display and semiconductor fabrication equipment manufacturing facilities in Santa Clara and Sunnyvale. As of June 2022, the Applicant has reported \$118,692,147 in Qualified Property purchases (approximately 100% of the total Qualified Property amount approved) and completed this project.

On March 16, 2021, the Applicant was granted a second STE award by the CAEATFA Board to purchase equipment of up to \$23,225,000 in Qualified Property for an estimated STE value of \$1,974,125 to further upgrade and expand its existing display and semiconductor fabrication equipment manufacturing facilities in Santa Clara and Sunnyvale. As of December 2022, the Applicant has reported \$21,997,626 in Qualified Property purchases (95% of the total Qualified Property amount approved).

The Applicant received an income tax credit under the California Competes Tax Credit Program⁴ administered by the Governor’s Office of Business and Economic Development. The Applicant signed an agreement for the income tax credit in April of 2022.

The corporate officers of the Applicant are:

- Gary E. Dickerson, President & CEO
- Prabu Gopalaraja, SVP, Semiconductor Products Group
- Brice Hill, SVP, CFO & Enterprise Enablement Group
- Terri Little, SVP, Chief Legal Officer, & Corporate Secretary
- Omkaram Nalamasu, Ph.D., SVP, CTO & President, Applied Ventures, LLC
- Brian Shieh, Ph.D. GVP, Display and Flexible Technology

THE PROJECT

The Applicant is requesting an STE award to upgrade and expand its existing semiconductor and related industries fabrication equipment manufacturing facilities located in Santa Clara and Sunnyvale (the “Project”). According to the Applicant, its business consists of two primary product categories: display and semi tools and spares/accessories. The display tools are used to produce LCDs, OLEDs, and other adjacent display technologies for TVs, monitors, laptops, tablets, smart phones and other consumer-oriented devices. The semi tools are used in the

⁴ California Code of Regulations, Title 10, Chapter 13, Article 1 (commencing with Section 8000).

production of semiconductors, chips, and integrated circuits. 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. The Project will include the equipment necessary to bring this technology through the development stage to the growing personal-display and AR/VR market.

According to the Applicant, the process of producing advanced displays and semiconductor chips has multiple steps that require very precise chemical processes and employ complex tools. The chemical processes use expensive and dangerous gases and chemicals, and for this reason, advanced metrology and detectors are integrated to help ensure safety and accurate usage of the gases, coupled with highly sophisticated software and process control. The Applicant states that, for example, it also uses form measuring systems during its metrology process to efficiently assess complex shapes. The probes used in the measuring systems brings sensitivity and accuracy to the process while analysis software interprets measurement results in a timely manner to help operations run faster. Furthermore, the Project aims to reduce 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 & Machinery	\$6,250,000
Metrology, Testing and Quality Control Equipment & Related Property	\$4,000,000
Lab Devices & Scientific Instruments	\$3,250,000
Research & Development, Design, Engineering Property	\$4,000,000
Construction of Facilities & Upgrades and Improvements to Real Property	\$6,250,000
Total	<u>\$23,750,000</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

The Applicant plans to begin the expansion and update of its facilities throughout 2024. The Applicant states it will accelerate upgrading and scaling up its existing R&D, design, manufacturing/production, and testing equipment and related systems beginning in the second half of 2023 through investments in additional emerging technology areas.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Per the Applicant, all necessary building, installation and operational permits have been timely secured and are in good standing with the City of Sunnyvale and County of Santa Clara.

COMPETITIVE CRITERIA SCORE

The Applicant received 90 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 (0 of 50 points)**. The Applicant's Project is located in Santa Clara County, which has an average annual unemployment rate of 2.5%.⁵ When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (75 of 75 points)**. The Applicant anticipates the Project will support a total of 3,764 production-related jobs at its Facility. CAEATFA estimates that approximately 42.15 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 75 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

⁵ Unemployment rates are based on data available in October 2022.

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 4,532 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 60 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (4,322 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 \$8,580,466, resulting in a Fiscal Benefits score of 4,322.

- B. **Environmental Benefits (60 points)**.

The Project earned an Environmental Benefits Score of 60. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (5 of 5 points)**. The Applicant has an environmental sustainability plan that it will reduce energy consumption, air pollutants, and waste, and conserve natural resources.
 2. **Solid Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 33% reduction in solid waste produced relative to the Applicant's previous manufacturing process by reducing the thickness of its plastic packaging.
 3. **Hazardous Waste (25 of 30 points)**. The Applicant anticipates the Project will result in a 25% reduction in the hazardous waste produced relative to the Applicant's previous manufacturing process by eliminating phosphates used in the pre-treatment of metal surfaces.
- C. **Additional Benefits (150 points)**. Applicants may earn additional points for their Total Score. The Applicant received 150 additional points.
 1. **Production Jobs (75 of 75 points)**. The Applicant anticipates the Project will support a total of 3,764 production-related jobs at its Facility. CAEATFA estimates that approximately 42.15 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 75 points.

2. **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 display and semiconductor fabrication equipment manufacturing.
3. **Workforce Partnerships (25 of 25 points)**. The Applicant has a partnership with all major public and private CA Universities (University of California, and CA State systems, Stanford, Caltech, and etc.) for the purpose of training the workers at the Facility and assisting in the training of potential future workers.
4. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, and vision benefits, bonuses, retirement contributions, profit sharing, dependent care & assistance reimbursements, transportation subsidies, gym subsidies, 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 STE Program regulations,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$95,000.

RECOMMENDATION

Staff recommends the approval of Resolution No. 23-SM033-01 for Applied Materials, Inc's purchase of qualifying tangible personal property in an amount not to exceed \$23,750,000 anticipated to result in an approximate STE value of \$1,985,500.

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

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

July 18, 2023

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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$23,750,000 over a period of three years (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.