Agenda Item – 4.A.2
Resolution No. 16-SM003
Application No. 16-SM003

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

Request to Approve Project for Sales and Use Tax Exclusion (STE)[1]

Kite Pharma, Inc.
Application No. 16-SM003

Tuesday, January 19, 2016

Prepared By: *Nina Kapoor, Analyst*

SUMMARY

Applicant – Kite Pharma, Inc.

Location – El Segundo, Los Angeles County

Industry – Biopharmaceutical

Project – Construction of a New Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – $13,763,050

Estimated Sales and Use Tax Exclusion Amount[2] – $1,158,849

Application Score –

Fiscal Benefits Points:	4,654
Environmental Benefits Points:	50
Net Benefits Score:	**4,704**
Additional Benefits Points:	189
Total Score:	**4,893**

Staff Recommendation – Approval

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[1] All capitalized terms not defined in this document are defined in the Program's statute and regulations.
[2] This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Kite Pharma, Inc. ("Kite" or "the Applicant"), a Delaware corporation established in 2009, is a clinical-stage biopharmaceutical company based in Santa Monica, California. Kite is focused on the development and commercialization of cancer immunotherapy products.

The major shareholders (10.0% or greater) of Kite Pharma are:
Arie Belldegrun
Capital Research Global Investors

The corporate officers of Kite Pharma Inc. are:
Arie Belldegrun Chairman, President & CEO
Cynthia Butitta, COO & CFO
David Chang, EVP, R&D and CMO
Helen Kim, EVP, Business Development
Margo Roberts, CSO
Jeffrey Wiezorek, SVP, Clinical Development

THE PROJECT

The Applicant is requesting a sales and use tax exclusion in order to build-out a 44,000 square-foot commercial manufacturing facility in El Segundo for the development and manufacture of KTE-C19 for the treatment of certain types of lymphoma (the "Project"). According to the Applicant, KTE-C19 will be the very first product of its kind to begin commercial manufacturing. KTE-C19 has been granted orphan designation, meaning that it is promising for the treatment of rare diseases, by the United States Food and Drug Administration ("FDA"). The Project will utilize advanced science, engineering and information technologies to create a streamlined and novel process that will minimize viral and other contamination and assist in the elimination of processing inconsistencies.

The Applicant represents that KTE-C19 is an entirely new process that marks a substantive advancement in the treatment of cancer beyond the current industry standard, which is chemotherapy. Chemotherapy is a category of treatment that uses chemical substances to destroy cells that grow and divide quickly, such as cancer cells. However one drawback of chemotherapy is that it can also harm healthy cells that grow and divide quickly, such as those that cause hair to grow. Kite has developed an alternative to traditional chemotherapy that utilizes a patient's own immune system to eradicate cancer cells exclusively using "engineered autologous cell therapy," which the Applicant has since trademarked under the name "eACT." eACT involves the collection of a patient's white blood cells, isolation and genetic engineering of the T-cells, and administration back into the patient where the T-cells can specifically recognize and destroy cancer cells.

The process will utilize bio-hoods to regulate airflow to protect the product from particulate and aerosol hazards and a state-of-the-art automated microbial detection system to ensure patient safety by ensuring that the final product is free from certain biological contaminates. Kite will also use a highly advanced centrifuge to separate cells based on cell density in order to concentrate the desired cells for administration to the patient. The equipment described here and

all other equipment utilized in the Project will be linked to one centralized management and information technology system that will monitor air temperature, purification, equipment status and other important systems in order to allow for ongoing monitoring and operation of the system.

The Applicant represents this Project will ultimately lead to a fifty percent reduction in hazardous waste compared to industry standard, which is currently chemotherapy. The Applicant states that chemotherapy relies on hazardous waste in the form of cytotoxic chemicals that cause the destruction of healthy cells. Cytotoxic chemicals require special handling to enhance occupational safety due to the risk of exposure and can potentially contaminate drinking water supplies. Kite represents its process will use no cytotoxic materials in the manufacture of KTE-19.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Cryopreservation Systems	$ 48,600
Reach-in Refrigerator	118,100
Bio Hoods	243,600
Monitor	8,000
Access Control System	225,000
Autoclave	200,000
Automated Microbial Detection System	825,000
Balance	30,800
Benchtop Freezers	24,000
Biosafety Cabinets	676,200
Building Management System and Information Technology System	1,800,000
Cell Count Equipment	716,400
Centrifuge	99,000
CO_2 Incubator Stacks	19,500
Computers	149,000
Cryogenic Freezer	113,400
Benchtop Analyzer	896,000
Futura Lab Freezer	82,500
Incubators	637,000
Maintenance and Instrumentation Equipment	300,000
Microcentrifuge	40,000
Microscopes	623,000
Real-Time Polymerase Chain Reaction Detection System	130,000
Plate readers	92,000
Printers	45,200
Production Area Furniture	500,000
Refrigerator	154,450

Refrigerated Centrifuge		22,000
Sepax Automated Cell Processing System		4,235,000
Tube Welder		624,800
Vitek Automated Microbial Identification System		80,000
Waterbath		4,500
	Total	**$13,763,050**

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

The facility is currently undergoing renovations. Machinery and equipment orders will begin in the first quarter of 2016 as will the Applicant's occupancy of the facility. Commercial production of KTE-C19 is expected to commence between 2016 and 2020 after the FDA confirms that the facility is in compliance with the Good Manufacturing Practice Regulations.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be $13,763,050. The Project received a Total Score of 4,893 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 50 points, which exceeds the 20 point threshold.

A. Fiscal Benefits (4,654 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 $5,393,473 resulting in a Fiscal Benefits score of 4,654 points for the Project.

B. Environmental Benefits (50 points). The Project will result in an Environmental Benefits Score of 50. The Applicant received points in the following categories:

1. **Environmental Sustainability Plan (20 of 20 points).** The Applicant represents that they will implement an environmental sustainability plan for the Project by hiring a facility engineer whose responsibilities will include tracking water, energy, waste, and emissions including identifying,

recommending, and implementing techniques to improve environmental sustainability.

2. **Hazardous Waste (30 of 30 points).** The Applicant represents that its manufacturing process will result in a 50% reduction in hazardous waste produced relative to the industry standard manufacturing process.

C. Additional Benefits (189 points). Applicants may earn additional points for their Total Score. The applicant submitted information and received 189 additional points.

1. **Permanent Jobs (60 of 75 points).** The Applicant's Project will support a total of 275 permanent jobs at its Facility. CAEATFA estimates that approximately 16 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 (30 of 75 points).** The Applicant's Project will support a total of 30 construction jobs at its Facility. CAEATFA estimates that approximately two 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 30 points for the Project.

3. **Unemployment (9 of 50 points).** The Applicant's Project is located in Los Angeles County which has an average annual unemployment rate of 8%. This is above 110% of the statewide average annual unemployment rate which is currently 8.8% resulting in an Unemployment Score of nine points for this Project.

4. **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 eACT. Kite plans to continually develop eACT products to apply to different types of cancer.

5. **Workforce Partnerships (25 points).** The Applicant has partnerships with the University of California, San Diego and the University of California, Los Angeles for the purpose of assisting in the training of potential future workers. Kite needs to fill a significant number of technical positions in the coming years and plans to align with educational institutions to ensure an adequate pool of qualified applicants.

6. **Industry Cluster (40 points).** The industry associated with this Application, the biomedical industry, has been identified by the Los Angeles Regional Economic Development Corporation as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Building, mechanical electrical, plumbing, demolition, fire alarm and fire suppression permits for the site have all been secured. Additionally, Kite is scheduled to receive a temporary certificate of occupancy in January 2016 with a final permit sign off in February. FDA inspection and licensing is also required for the Project prior to production to verify that the facility meets the requirements of the Good Manufacturing Practice Regulations.

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,[3] the Applicant has paid CAEATFA an Application Fee of $6,881.53 and will pay CAEATFA an Administrative Fee of up to $55,052.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM003 for Kite Pharma, Inc.'s purchase of Qualified Property in an amount not to exceed $13,763,050 anticipated to result in an approximate sales and use tax exclusion value of $1,158,849.

[3] California Code of Regulations Title 4, Division 13, Section 10036

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH KITE PHARMA, INC.

January 19, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the "Authority" or "CAEATFA") has received the Application of **Kite Pharma, Inc.** (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 $13,763,050 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 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.