

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

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

**Gilead Sciences, Inc.
Application No. 16-SM037**

December 13, 2016

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Gilead Sciences, Inc.

Location – La Verne, Los Angeles County

Industry – Industrial Biotechnology

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

Value of Qualified Property – \$51,645,674

Estimated Sales and Use Tax Exclusion Amount² – \$4,348,566

Application Score –

Fiscal Benefits Points:	899
<u>Environmental Benefits Points:</u>	<u>25</u>
Net Benefits Score:	924
<u>Additional Benefits Points:</u>	<u>169</u>
Total Score:	1,093

Staff Recommendation – Approval

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

Gilead Sciences, Inc. (“Gilead” or “the Applicant”) is a Delaware corporation founded in Foster City, California in 1987. Gilead is a research based biopharmaceutical company that discovers, develops, and commercializes innovative medicines in areas of unmet medical need. Their portfolio of products and pipeline of investigational drugs includes treatments for HIV/AIDS, liver diseases, cancer and inflammation, and serious respiratory and cardiovascular conditions. Due to their ongoing growth, Gilead is looking to expand their workforce and facilities over the next five years.

Gilead Sciences, Inc. has no major shareholders (10.0% or greater).

The corporate officers of Gilead Sciences Inc. are:

John C. Martin, CEO
John F. Milligan, President
Norbert W. Bischofberger, EVP
Robin L. Washington, CFO
Gregg H. Alton, EVP
Paul R. Carter, EVP

THE PROJECT

The Applicant is requesting a sales and use tax exclusion to build a 250,000 square-foot state-of-the-art pharmaceutical manufacturing campus in La Verne (the “Project”). The facility will produce AmBisome, an antifungal antibiotic. AmBisome is used to treat patients with serious fungal conditions that have resisted more traditional treatment, such as cryptococcal meningitis and mucormycosis. The active ingredient, Amphotericin B, acts by binding to the sterol component of the cell membrane of susceptible fungi, killing the cell. Because of the composition of AmBisome, the manufacturing process must be extremely precise to maintain control over its chemical functionality.

The Applicant represents that the facility has been designed with sustainable manufacturing technologies in mind. It will reclaim the water discharge from its generators and the external vial washer and use it in the chiller make up water. Other sustainable features of the facility include the use of natural lighting where possible, a roof design that allows solar panels to be installed in the future, and heat recovery chillers to transfer heat to the building hot water system. These and other energy-saving technologies will contribute to the efficiency of the facility and its “demand response” capability which allows for peak load shaving based on utility company requests.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Solid Dose Packaging Line	\$ 10,950,000
Vial Secondary Packaging Line	4,332,067
Warehouse Miscellaneous Equipment	180,000
Downflow Booth	90,000
Refrigerator/Freezer	250,000
Loading Dock Equipment	180,000
Autoclaves	1,324,848
Vaporized Hydrogen Peroxide Pass Through Biodecontamination Equipment	932,516
Dryers and Fume Hoods	1,288,725
Temperature Control Units	1,087,830
Homogenizer	350,000
Water For Injection Point of Use Coolers	91,187
Tanks and Vessels	314,437
Hydration System & Parts Washers	1,536,694
Laminar Air Flow Hood	78,000
Lyos	13,280,903
Laminar Air Flow Ceilings	927,591
Environmental Monitoring System	1,368,000
Quality Control Visual Inspection System and Vials	376,659
Filler Train	6,845,334
Process Chiller	79,200
Miscellaneous Production Equipment	1,229,450
DDP Stopper Chute	58,516
Purified/RO Water Generation System	657,866
Water For Injection Generation System	1,095,431
Pure Steam Generation	571,892
Chloroform and Methanol Bulk Storage Vessels	240,000
Solvent Emissions Reduction System	1,097,528
Process Waste Water Neutralization System	100,000
Sterility Test Isolator and Walk In Incubators	731,000
Total	<u>\$51,645,674</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

Construction of the facility is substantially complete and all Qualified Property has been purchased. Commercial manufacturing is slated to begin in late 2017 and 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$51,645,674 and the total net benefits are valued at ~~-\$440,179~~ for the Project. Although the cumulative fiscal and environmental benefits fall short of the estimated Sales and Use Tax Exclusion amount, resulting in a negative net benefit, the Project has additional employment, research and development, and industry cluster benefits. These benefits are not quantifiable in fiscal terms, but increase the Total Score above the qualifying threshold.³ The Project received a Total Score of 1,093 points, which exceeds the required 1,000 point threshold, and a total Environmental Benefits Score of 25 points, which exceeds the 20 point threshold.

- A. Fiscal Benefits (899 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 \$3,908,387 resulting in a Fiscal Benefits score of 899 points for the Project.

- B. Environmental Benefits (25 points).** The Project will result in an Environmental Benefits Score of 25. 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 using a building management system to monitor and track the building’s mechanical and electrical equipment including ventilation, lighting, and power systems. Data output from this system will be used to track actual environmental impact against planned efficiency and sustainability standards.

 - 2. Energy Consumption (5 of 30 points).** The Applicant represents that its manufacturing process will result in a five percent reduction in energy consumption relative to the industry standard manufacturing process.

- C. Additional Benefits (169 points).** Applicants may earn additional points for their Total Score. The applicant submitted information and received 169 additional points.
 - 1. Permanent Jobs (40 of 75 points).** The Applicant represents that the Project will support a total of 246 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 40 points for the Project.

³ California Code of Regulations Title 4, Division 13, Section 10033(c)(6)

2. **Construction Jobs (55 of 75 points)**. The Applicant represents that the Project will support a total of 500 construction jobs at its Facility. CAEATFA estimates that approximately 32 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 55 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 8.2%. This is above 110% of the statewide average annual unemployment rate which was 7.5% in 2014, the dataset used in the application. This results 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 on-site that performs research and development functions related to the production process.
5. **Industry Cluster (40 points)**. The industry associated with this Application has been identified by the City of Los Angeles Workforce Investment Board as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Gilead has obtained the vast majority of the required permits for the Project, and is in the process of acquiring South Coast Air Quality Management District and equipment anchorage permits.

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,⁴ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$206,583.

RECOMMENDATION

Staff recommends approval of Resolution No. 16-SM037 for Gilead Sciences, Inc.'s purchase of Qualified Property in an amount not to exceed \$51,645,674 anticipated to result in an approximate sales and use tax exclusion value of \$4,348,566.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH GILEAD SCIENCES, INC.**

December 13, 2016

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Gilead Sciences, Inc.** (the “Applicant”), for financial assistance in the form of a master regulatory agreement (the “Agreement”) regarding tangible personal property utilized to process Recycled Feedstock, 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 \$51,645,674 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.

Agenda Item – 4.A.2
Resolution No. 16-SM037
Application No. 16-SM037

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.