

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

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

**Boehringer Ingelheim Fremont, Inc.
Application No. 17-SM043**

May 16, 2017

Prepared By: *Ellen Hildebrand, Analyst*

SUMMARY

Applicant – Boehringer Ingelheim Fremont, Inc.

Location – Fremont, Alameda

Industry – Biopharmaceutical

Project – Biopharmaceutical Manufacturing Facility Expansion (Advanced Manufacturing)

Value of Qualified Property – \$214,040,484

Estimated Sales and Use Tax Exclusion Amount² – \$18,022,209

Application Score³ –

Fiscal Benefits Points:	3,262
<u>Environmental Benefits Points:</u>	<u>140</u>
Net Benefits Score:	3,402
<u>Additional Benefits Points:</u>	<u>95</u>
Total Score:	3,497

Staff Recommendation – Approval

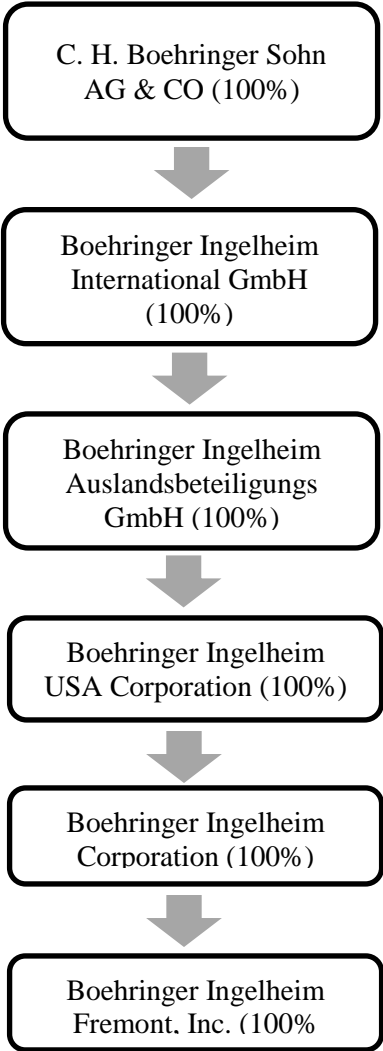
¹ All capitalized terms not defined in this document are defined in the Program’s statute and regulations.

² This amount is calculated based on the average statewide sales tax rate of 8.42%.

THE APPLICANT

Boehringer Ingelheim Fremont, Inc., (“Boehringer”, the “Applicant”, or the “Company”) is a Delaware Corporation incorporated in 2011. The Company is a subsidiary of C.H. Boehringer Sohn AG & CO, a leading biopharmaceutical contract manufacturer with worldwide operations.

The ownership structure of Boehringer is as follows:



The corporate officers of Boehringer are:

- Jens Vogel, President and Chief Executive Officer
- Christian Orth, Senior Vice President and Chief Financial Officer
- Desiree Ralls-Morrison, Senior Vice President, General Counsel and Secretary
- Paula Wittmayer, Assistant Secretary
- Kyung Lee, Assistant Treasurer

THE PROJECT

The Applicant is requesting a sales and use tax exclusion to expand their biopharmaceutical manufacturing facility in Fremont (the “Project”). Boehringer currently has two 12,000L bioreactors, and will add a third 12,000L bioreactor and a 3,000L Media feed tank through the expansion. This will allow the Company to increase commercial manufacturing. The Project

will produce both biologics (genetically engineered proteins derived from genes) and biosimilars (a biologic medical product that is nearly identical to an FDA-approved biologic). The Applicant represents that this type of biotechnology is achieved by the manipulation of gene expression in an organism such that it expresses large amounts of a recombinant gene. This includes the transcription of the recombinant DNA to messenger RNA (mRNA), the translation of mRNA into polypeptide chains, which are ultimately folded into functional proteins and may be targeted to specific subcellular or extracellular locations. The products produced at the Boehringer facility will be used in other pharmaceutical products to treat cancer. However, Boehringer does not know which specific biologics and biosimilars will be produced at the facility at this time, because the facility will be producing products that are used by other biopharmaceutical manufacturers in their final products. Several different biologics and biosimilars are expected to be produced by the facility, and the majority have already been approved by the Food and Drug Administration.

The Project will utilize state-of-the-art equipment due to the complexity of biologic manufacturing. Cells are grown for a specified amount of time, and transferred to a large container to undergo fermentation. Then, media is added to help the cells grow in a specific manner. Once this step is complete, the cells secrete the desired protein or antibody. During this process, the cells go through multiple purification steps using filters and resins to remove impurities such as viruses, cell debris, and other minerals and undesirable elements. At the end of the purification process, the product is suitable for human use. The manufacturing process steps will be controlled by a validated Distributed Control System and Laboratory Information Management System and are monitored and evaluated on a routine basis using statistical analysis and trending software. In addition, the Applicant's electronic systems are capable of keeping electronic manufacturing batch records, which guarantees that the complete history of each batch is easily accessible and comprehensive.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Physical Project Structure & Demolition	\$ 3,743,353
Process Equipment and Materials & Spare Parts	10,297,131
Cell Culture Media	70,000,000
Resins for Purification	70,000,000
Tangential Flow Filters	20,000,000
Excipients and Other Chemicals	20,000,000
Other Materials for Manufacturing	<u>20,000,000</u>
Total	<u>\$214,040,484</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

Boehringer expects to make significant Qualified Property purchases in the second half of 2017 and first half of 2018. The Project is expected to be complete and operational in summer 2018.

PROJECT EVALUATION

NET BENEFITS

The total cost of the Qualified Property purchases is anticipated to be \$214,040,484 and the total net benefits are valued at \$40,764,795 for the Project. The Project received a Total Score of 3,497 points, which exceeds the required 1,000 point threshold and a total Environmental Benefits Score of 140 points, which exceeds the 20 point threshold.

- A. **Fiscal Benefits (3,262 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 \$58,787,003 resulting in a Fiscal Benefits score of 3,262 points for the Project.

- B. **Environmental Benefits (140 points)**. The Project will result in an Environmental Benefits Score of 140 points. The Applicant received points in the following categories:
 1. **Environmental Sustainability Plan (20 of 20 points)**. The Applicant will implement an environmental sustainability plan for its Project that it represents will result in tracking of air emissions, water use, energy use, solid waste, and hazardous waste.

 2. **Energy Consumption (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 35% reduction in energy consumption relative to the industry standard manufacturing process.

 3. **Water Use (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 30% reduction in water use relative to the industry standard manufacturing process.

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

5. **Air Pollutants (30 of 30 points)**. The Applicant represents that its manufacturing process will result in a 30% reduction in air pollutants produced relative to the industry standard manufacturing process.

C. **Additional Benefits (70 points)**. Applicants may earn additional points for their Total Score. The applicant submitted information and received 95 additional points.

1. **Permanent Jobs (20 of 75 points)**. The Applicant represents that the Project will support a total of 717 permanent jobs at its Facility. CAEATFA estimates that approximately 13 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 20 points for the Project.
2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 30 construction jobs at its Facility. CAEATFA estimates that approximately one of these jobs will be attributable to a marginal increase in jobs created due to the approved STE. Zero points were awarded because the marginal increase in jobs does not meet the required threshold.
3. **Research and Development Facilities (25 points)**. The Applicant has verified that it has a facility located in Fremont, California that performs research and development functions related to biopharmaceutical manufacturing process.
4. **Industry Cluster (25 points)**. The industry associated with this Application has been identified by the State of California's Employment Development Department as an industry cluster of the region of the Project's location.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

Boehringer's expansion will require building and fire permits, which have not been submitted at this stage of the planning process. The Applicant represents that they will submit a construction permit to the City of Fremont in early July.

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 \$350,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 17-SM043 for Boehringer Ingelheim Fremont, Inc.'s purchase of Qualified Property in an amount not to exceed \$214,040,484 anticipated to result in an approximate sales and use tax exclusion value of \$18,022,209.

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

RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER REGULATORY AGREEMENT WITH BOEHRINGER INGELHEIM FREMONT, INC.

May 16, 2017

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Boehringer Ingelheim Fremont, 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 \$214,040,484 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. 17-SM043
Application No. 17-SM043

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.