

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

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

**Edwards Lifesciences LLC  
Application No. 19-SM029**

**Tuesday, June 18, 2019**

Prepared By: *Xee Moua, Program Analyst*

**SUMMARY**

**Applicant** – Edwards Lifesciences LLC

**Location** – Irvine, Orange County

**Industry** – Cardiovascular Technology Manufacturing

**Project** – Upgrade and Expansion of Existing Cardiovascular Technology Manufacturing Facility (Advanced Manufacturing)

**Value of Qualified Property** – \$239,234,449

**Estimated Sales and Use Tax Exclusion Amount<sup>2</sup>** – \$20,000,000

**Application Score** –

Fiscal Benefits Points:	1,049
<u>Environmental Benefits Points:</u>	<u>30</u>
<b>Net Benefits Score:</b>	<b>1,079</b>

<u>Additional Benefits Points:</u>	<u>80</u>
<b>Total Score:</b>	<b>1,159</b>

**Staff Recommendation** – Approval

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

<sup>2</sup> This amount is calculated based on the average statewide sales tax rate of 8.36%.

**THE APPLICANT**

Edwards Lifesciences LLC (“Edwards” or the “Applicant”) is a Delaware limited liability company established in February 2000 and headquartered in Irvine. The Applicant is publicly traded under the symbol EW and partners with the world’s leading clinicians and researchers to design, manufacture, market and sell nonsurgical and minimally invasive products and technologies to treat cardiovascular disease.

The corporate officers of Edwards are:  
Michael Mussallem, Chief Executive Officer  
Scott Ullem, Chief Financial Officer  
Todd Brinton, Chief Scientific Officer  
Donald Bobo, Vice President, Strategy & Development  
Aimee Weisner, Vice President, General Counsel

**THE PROJECT**

Edwards is requesting a sales and use tax exclusion to upgrade and expand its existing cardiovascular technology design and manufacturing facility located in Irvine (the “Project”). Edwards states it will produce a broad range of technologies for the treatment of cardiovascular diseases. These primarily consist of transcatheter heart valves (“THV”), surgical heart valves, and hemodynamic (blood flow) monitoring systems and related devices. The human heart has four valves: tricuspid, pulmonary, mitral and aortic. Edwards states it is currently engaging in the research and design of transcatheter heart valve replacement and technologies to treat mitral and tricuspid valve related diseases in addition to its aortic valve products.

The Applicant represents that its THV and surgical heart valve products are made using an advanced biomaterial derived from bovine (cattle) pericardial tissue called RESILIA. According to Edwards, this form of tissue provides improved qualities and extends life expectancy for patients when compared to standard mechanical valves. As part of the quality and control process, Edwards states it will utilize high-speed machine vision systems and high-resolution and 3D imaging microscopes to inspect its valves before certifying that they are safe for use. Edwards will also utilize automated and programmed robotics that have the capability to perform a number of tasks such as installing and removing screws and electromechanical polishing of fine metals. Edwards’ prototyping process will consist of laser cutting and 3D printing devices that make prototypes with parts that are smaller than 20 microns (.00078 inches). According to Edwards, the 3D printers are expected to represent more than two-thirds of its machining efforts, replacing traditional CNC machining. Moreover, Edwards will be installing high efficiency LED lights and solar panels to help reduce its energy consumption by 10%.



*Figure 1: Transcatheter Heart Valve*

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Machinery, Equipment and Materials	\$ 65,596,949
Facility Buildout, Upgrades and Infrastructure Improvements	71,850,000
Design, Engineer, and Research & Development Property	45,505,000
Tooling Equipment and Materials	3,592,500
Logistics, Transport, Storage Systems and Related Property	14,370,000
Lab Instruments and Devices	5,987,500
Quality Control, Testing, Prototyping and Related Property	20,357,500
Computers, Information Technology and Related Property	<u>11,975,000</u>
<b>Total</b>	<b><u>\$239,234,449</u></b>

*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 Applicant states it plans to upgrade existing production, research, design, testing, and prototyping equipment over the next three years starting in Q2 of 2019. The Applicant also states that it will have two buildout phases for the Project; the first phase will be to construct 200,000

to 250,000 square feet of Project space by Q3 2020, and the second phase will be to construct an additional 225,000 to 275,000 square feet, commencing in Q4 2020.

## **PROJECT EVALUATION**

### **NET BENEFITS**

The Project received a Total Score of 1,159 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 (1,049 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 \$20,979,059, resulting in a Fiscal Benefits score of 1,049 points for the Project.
  
- B. **Environmental Benefits (30 points)**. The Project will result in an Environmental Benefits Score of 30. The Applicant received points in the following categories:
  - 1. **Energy Consumption (10 of 30 points)**. The Applicant represents that the Project will result in a 10 percent reduction in energy consumption compared to the Applicant’s previous manufacturing process.
  
  - 2. **Solid Waste (5 of 30 points)**. The Applicant represents that the Project will result in a five percent reduction in solid waste produced relative to the Applicant’s previous manufacturing process.
  
  - 3. **Hazardous Waste (6 of 30 points)**. The Applicant represents that the Project will result in a six percent reduction in hazardous waste produced relative to the Applicant’s previous manufacturing process.
  
  - 4. **Air Pollutants (9 of 30 points)**. The Applicant represents that the Project will result in a nine percent reduction in air pollutants produced relative to the Applicant’s previous manufacturing process.
  
- C. **Additional Benefits (80 points)**. Applicants may earn additional points for their Total Score. The Applicant submitted information and received 80 additional points.
  - 1. **Production Jobs (30 of 75 points)**. The Applicant represents that the Project will support a total of 974 production-related jobs at its Facility. CAEATFA estimates that approximately 44 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 30 points for the Project.

2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 90 construction jobs at its Facility. CAEATFA estimates that approximately four 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 California that performs research and development functions related to the cardiovascular technologies production process that is the subject of this Application.
4. **Workforce Partnerships (25 points)**. The Applicant has a partnership with some of the top schools in the U.S. such as Cal Tech, Stanford, Harvard, MIT, Duke, Cal, USC, UCLA, UCSD, and UCI for the purpose of training the workers at the Facility and/or for the purposes of assisting in the training of potential future workers.

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

According to the Applicant, all permits needed for the Project such as building, installation, and operational permits have been approved and are in good standing with the City of Irvine.

## **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 CAEATFA Regulations,<sup>3</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$350,000.

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<sup>3</sup> California Code of Regulations Title 4, Division 13, Section 10036

**RECOMMENDATION**

Staff recommends approval of Resolution No. 19-SM029 for Edwards Lifesciences LLC's purchase of Qualified Property in an amount not to exceed \$239,234,449, anticipated to result in an approximate sales and use tax exclusion value of \$20,000,000.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER  
REGULATORY AGREEMENT WITH EDWARDS LIFESCIENCES LLC**

June 18, 2019

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Edwards Lifesciences LLC** (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 \$239,234,449 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.15**  
**Resolution No. 19-SM029**  
**Application No. 19-SM029**

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.