

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

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

**Tandem Diabetes Care, Inc.
Application No. 20-SM010**

Tuesday, March 17, 2020

Prepared By: *Ashley Emery, Program Manager*

SUMMARY

Applicant – Tandem Diabetes Care, Inc.

Location – San Diego, San Diego County

Industry – Insulin Pumps and Related Products Manufacturing

Project – Upgrade and Expansion of Existing Insulin Pumps and Related Products Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property – \$60,000,000

Estimated Sales and Use Tax Exclusion Amount² – \$5,016,000

Competitive Criteria Score – 70

Application Score –

Fiscal Benefits Points:	1,150
<u>Environmental Benefits Points:</u>	<u>35</u>
Net Benefits Score:	1,185

<u>Additional Benefits Points:</u>	<u>80</u>
Total Score:	1,265

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 8.36%.

THE APPLICANT

Tandem Diabetes Care, Inc. (“Tandem” or the “Applicant”) is a Delaware corporation that formed in 2006 and is publicly traded under the symbol TNDM. Tandem manufactures insulin pumps and related products for those with insulin-dependent diabetes. According to Tandem, the company combines innovative technologies with an unrivaled focus on the customer experience.

The Applicant explains that pump therapy is an alternative to insulin shots, utilizing insulin pumps, which are computerized devices that simulate how the pancreas works by delivering small, steady, and continuous basal insulin to the body throughout the day. In November 2011, Tandem received FDA clearance for the first-ever touchscreen insulin pump called the t:slim Pump. Since then, it has focused on the t:slim system and complementary product offerings, including infusion sets, cartridges, and accessories.

The corporate officers of Tandem Diabetes Care, Inc. are:

Kim Blickenstaff, Executive Chairman of Board of Directors
John Sheridan, President & Chief Executive Officer
David Berger, EVP & Chief Legal & Compliance Officer
Leigh Vosseller, EVP & Chief Financial Officer
Susan Morrison, EVP Chief Administrative Officer
Brian Hansen, EVP & Chief Commercial Officer

THE PROJECT

Tandem is requesting a sales and use tax exclusion to upgrade and expand its existing insulin pump and related products manufacturing facility located in San Diego (the “Project”). The Applicant explains the Project will entail an approximately 90,000 to 100,000 square-foot build-out and an upgrade of its existing production, research, design, quality control, and prototyping equipment.

According to the Applicant, the Project will enhance productivity and overall efficiencies by incorporating significant amounts of automation in its production lines. For example, Tandem anticipates the average production time per insulin cartridge on the Applicant’s cartridge manufacturing lines will be reduced by approximately 30% to 40% compared to historical averages. The Project will also utilize an improved counting and packaging system that will automatically count, bag, and seal cartridges operating on a just-in-time basis. Tandem anticipates the just-in-time system will increase efficiencies and reduce solid waste related to packaging materials. The Project is also anticipated to reduce solid waste by employing a static flow of production, meaning the product remains stationary while the production equipment moves around it, which will reduce the amount of printed circuit board assembly replacement parts consumed during the manufacturing process.

Additionally, the Applicant states the company chose to focus on customer experience, concentrating on behavioral sciences and hiring a high-performing workforce, many who live with diabetes. Tandem explains it designs its business and products on a consumer-focused platform. For example, its pumps are up to 38% smaller than other insulin pumps, are water-resistant up to 3 feet for 30 minutes, use an easy-to-read touchscreen and Bluetooth technology, and have a rechargeable battery via micro-USB.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Machinery, Equipment & Materials	\$25,175,000
Facility Buildout, Upgrades & Infrastructure Improvements	14,000,000
Design, Engineering, Research & Development Property	9,750,000
Logistics, Transport, Storage & Packaging	3,775,000
Lab Instruments & Devices	500,000
Quality Control, Testing, Prototyping & Related Property	3,000,000
Computers, Information Technology, Networking & Related Property	<u>3,800,000</u>
Total	<u>\$60,000,000</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 master regulatory agreement a finalized project equipment list will be prepared detailing the value of the Project equipment acquired and 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 has already begun construction on the Project and anticipates the first phase to be complete and placed in service by June of 2020, and the remainder to finish in Q3 of 2021. The Applicant anticipates purchasing Qualified Property throughout the three-year term of the award.

COMPETITIVE CRITERIA SCORE

In the event that CAEATFA receives Applications in excess of the statutory \$100 million cap for that calendar year, the order in which the Applications shall be considered in the same month will be ranked based on five Competitive Criteria.

The Applicant received 70 Competitive Criteria points as follows:

1. **Environmental Benefits (0 points)**. The Applicant’s Project did not earn any Total Pollution Benefits points (i.e. did not have environmental benefits that could be monetized and scored pursuant to the Program’s regulations³), therefore no points are awarded.
2. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in San Diego County, which has an average annual unemployment rate of 3.2 %. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.
3. **Job Creation (55 of 75 points)**. The Applicant represents that the Project will support a total of 658 production-related jobs at its Facility. CAEATFA estimates that approximately 33 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 55 points.
4. **California Headquarters (15 points)**. The Applicant has a California Corporate Headquarters, therefore 15 points are awarded.
5. **Natural Disaster Relief (0 points)**. The Project is not to rebuild or relocate the Applicant’s Facility due to a fire, flood, storm, or earthquake identified in the state of emergency proclamation made by the California State Governor within two years of the time of application, therefore zero points are awarded.

PROJECT EVALUATION

NET BENEFITS

The Project received a Total Score of 1,265 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 35 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (1,150 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 \$5,767,662, resulting in a Fiscal Benefits score of 1,150 points for the Project.

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

- B. Environmental Benefits (35 points).** The Project earned an Environmental Benefits Score of 35. The Applicant received points in the following categories:
1. **Energy Consumption (15 of 30 points)**. The Applicant represents that the Project will result in a 15% reduction in energy consumption compared to the Applicant’s previous manufacturing process through the use of high-efficiency LED lighting.
 2. **Solid Waste (20 of 30 points)**. The Applicant represents that the Project will result in a 20% reduction in solid waste produced relative to the Applicant’s previous manufacturing process/industry standard manufacturing process. The Applicant anticipates these savings through a reduction in spare parts by converting to a static cartridge production line and reduced packaging materials by switching to just-in-time packaging for its cartridges.
- 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 (55 of 75 points)**. The Applicant represents that the Project will support a total of 658 production-related jobs at its Facility. CAEATFA estimates that approximately 33 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 55 points.
 2. **Construction Jobs (0 of 75 points)**. The Applicant represents that the Project will support a total of 18 construction jobs at its Facility. CAEATFA estimates that approximately 1 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 zero points.
 3. **Unemployment (0 of 50 points)**. The Applicant’s Project is located in San Diego County, which has an average annual unemployment rate of 3.2%. When compared to the statewide average annual unemployment rate, which was 4.1% in 2019, the dataset used in the Application, the Project location earned the Applicant an Unemployment Score of zero points.
 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 the production of insulin pumps and related parts.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

The Applicant states it has secured all necessary building, installation and operational 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 \$240,000.

RECOMMENDATION

Staff recommends approval of Resolution No. 20-SM010 for Tandem Diabetes Care, Inc.'s purchase of Qualified Property in an amount not to exceed \$60,000,000, anticipated to result in an approximate sales and use tax exclusion value of \$5,016,000.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A MASTER
REGULATORY AGREEMENT WITH TANDEM DIABETES CARE, INC.**

March 17, 2020

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority” or “CAEATFA”) has received the Application of **Tandem Diabetes Care, 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 \$60,000,000 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.

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Application No. 20-SM010

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.