

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Pacesetter, Inc.
Application No. 21-SM027**

Tuesday, March 16, 2021

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Pacesetter, Inc.

Location – Sylmar, Los Angeles County

Industry – Medical Device Manufacturing

Project – Update and Expansion of Existing Cardiovascular Medical Device Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount²
\$34,950,000	\$2,970,750

Estimated Net Benefit³	Dollar Value	Points Earned⁴
Estimated Fiscal Benefits	\$2,656,610	894
Estimated Environmental Benefits	N/A	51
Additional Benefits	N/A	163
Total	\$2,656,610	1,109
Estimated Quantifiable Net Benefit	-\$314,140	

Staff Recommendation – Approval

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

² This amount is calculated based on the average statewide sales tax rate of 8.5%.

³ Applications that earn a Total Score of at least 1,000 points and an Environmental Benefits Score of over 20 points may be recommended for approval. (California Code of Regulations Title 4, Division 13, Section 10033(c)(6).)

⁴ Dollar values and point values in the staff summary may not add up correctly due to rounding in the Application worksheet.

THE APPLICANT

Pacesetter, Inc. (the “Applicant”), is a Delaware corporation that formed in 1994. The Applicant is wholly-owned by Abbott Laboratories, which is publicly traded on the New York Stock Exchange under the ticker symbol ABT. The Applicant designs, manufacturers, and distributes medical devices to treat patients with heart arrhythmia conditions.

The corporate officers of the Applicant are:
Miles White, Executive Chairman of the Board
Robert Ford, CEO
Hubert Allen, EVP, General Counsel & Secretary
Robert Funck, EVP, Finance & CFO
Lisa Earnhardt, EVP, Medical Devices

THE PROJECT

Pacesetter, Inc., is requesting an STE award to upgrade and expand its existing cardiovascular medical device manufacturing facility located in Sylmar (the “Project”). According to the Applicant, the Project will include the upgrade of its production, research, design, and quality control equipment, as well as the renovation of its over 400,000 square-foot facility to improve its design and production space.

The Applicant states it uses high performance tools and advanced materials to ensure its devices, namely pacemakers, can operate properly within the human body for years. Additionally, the Applicant explains it is continually innovating by manufacturing smaller and smaller products, which requires an extremely high degree of precision. To that end, the Applicant states the Project will use hermetic laser sealing techniques to produce impenetrable devices, and quality control testing to ensure devices are leak-free.

The Applicant also has an Environmental Sustainability Plan that seeks to reduce the Applicant’s environmental impact. In an effort to reduce energy consumption, the Applicant explains the Project will include the installation of higher-energy-efficient chiller systems, voltage optimizers, and high-efficiency LED light fixtures with motion sensors. The Applicant states that the Project will also include reuse and recycling programs to reduce solid waste and minimize the impact of waste from its packaging and manufacturing process.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Equipment, Machinery & Related Property	\$11,125,000
Laboratory Devices & Instruments	\$2,225,000
Logistics, Storage Systems & Related Property	\$2,000,000

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Quality Control/Testing Equipment & Related Property	\$3,250,000
Computers & IT Property	\$750,000
Design, Engineering, Research & Development Property	\$2,850,000
Buildout of Facilities, Upgrades & Real Property Improvements	\$12,750,000
Total	<u>\$34,950,000</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 Regulatory Agreement, a finalized Project equipment list will be prepared detailing the value of the Project equipment actually acquired, and the estimated 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, those costs may vary after closing due to increased costs, as well as common design and equipment modifications during construction, differences in equipment due to future changes in statute or regulation, or for other reasons.

TIMELINE

According to the Applicant, the upgrade of its manufacturing equipment and build-out of its facility will commence in the second quarter of 2021 and continue over the term of the award.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, it has secured or will timely secure all necessary building, installation, and operational permits from Sylmar and Los Angeles County.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 1,109 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 51 points, which exceeds the 20-point threshold.

- A. Fiscal Benefits (894 points).** The net present value of the total fiscal benefits over the lifetime of the Qualified Property is derived from the Applicant's sales and use taxes, personal income taxes paid by the firm's employees, firm taxes on profits, property taxes, and other indirect fiscal benefits of the Applicant. The total fiscal benefits amount to \$2,656,610, resulting in a Fiscal Benefits score of 894.
- B. Environmental Benefits (51 points).** The Project earned an Environmental Benefits Score of 51. 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 aims to better manage water use, reduce carbon emissions through expanding renewable energy use, and reduce solid waste through reuse and recycling programs.
2. **Energy Consumption (21 of 30 points)**. The Applicant anticipates the Project will result in a 21% reduction in energy consumption compared to the Applicant's previous manufacturing process through the replacement of less efficient lighting with high-efficiency LED light fixtures and motion sensors.
3. **Solid Waste (10 of 30 points)**. The Applicant anticipates the Project will result in a 10% reduction in the solid waste produced relative to the Applicant's previous manufacturing process through the use of higher efficiency waste compactors (e.g. packaging materials from raw goods), as well as the implementation of higher efficiency organic waste programs.

C. **Additional Benefits (163 points)**. Applicants may earn additional points for their Total Score. The Applicant received 163 additional points.

1. **Production Jobs (60 of 75 points)**. The Applicant anticipates the Project will support a total of 1,045 production-related jobs at its Facility. CAEATFA estimates that approximately 29.84 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 60 points.
2. **Construction Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of 18 construction jobs at its Facility. CAEATFA estimates that approximately 0.5 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 (28 of 50 points)**. The Applicant's Project is located in Los Angeles County, which has an average annual unemployment rate of 11.6%.⁵ When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant 28 points.
4. **Research and Development Facilities (25 of 25 points)**. The Applicant has verified that it has a facility located in California that performs research and development functions related to cardiovascular medical device manufacturing.

⁵ Unemployment rates are based on data available in October 2020.

5. **Workforce Partnerships (25 of 25 points)**. The Applicant has partnerships with California universities, including USC, UC Berkeley, Stanford, and Cal Poly, for the purpose of assisting in the training of potential future workers.

6. **Benefits and Fringe Benefits (25 of 25 Points)**. The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, dependent care & assistance reimbursement, education reimbursement, employee discounts, and paid leave to its employees, earning the Applicant 25 points.

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,⁶ the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$139,800.

RECOMMENDATION

Staff recommends the approval of Resolution No. 21-SM027 for Pacesetter, Inc.’s purchase of qualifying tangible personal property in an amount not to exceed \$34,950,000, anticipated to result in an approximate STE value of \$2,970,750.

⁶ California Code of Regulations Title 4, Division 13, Section 10036.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH PACESETTER, INC.**

March 16, 2021

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Pacesetter, Inc.** (the “Applicant”), for financial assistance under the Sales and Use Tax Exclusion Program, as established in Public Resources Code Section 26011.8; and

WHEREAS, the Applicant qualifies as a Participating Party under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8; and

WHEREAS, the Applicant’s qualifying tangible personal property meets the requirements of a Project under Public Resources Code Section 26011.8 and Revenue and Taxation Code Section 6010.8 (the “Project”); and

WHEREAS, after the Authority approves an Application, the Authority enters into a Regulatory Agreement, as described in Authority Regulations Section 10030(a), with the Applicant for the Project; and

WHEREAS, the Applicant has estimated the Project has an estimated cost not to exceed \$34,950,000 over a period of three years; and

WHEREAS, the Applicant asserts 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 Project pursuant to Revenue and Taxation Code Section 6010.8; and

WHEREAS, the approval of the terms of the Regulatory Agreement and authority for the Executive Director or Chair of the Authority to execute the necessary documents to effectuate the Regulatory Agreement is now sought;

NOW, THEREFORE, BE IT RESOLVED by the California Alternative Energy and Advanced Transportation Financing Authority, as follows:

Section 1. The Regulatory Agreement includes a Project within the meaning of Public Resources Code Section 26003(a)(8)(B).

Section 2. The 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 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 Authorized Signatories deem appropriate, provided that the amount of the

qualifying tangible personal property to be purchased for the Project may not be increased above the amount approved by the Authority.

Section 5. The proposed form of the Regulatory Agreement between the Applicant and the Authority, as filed with the Authority prior to this public meeting, is hereby approved. For, on behalf and in the name of the Authority, the Authorized Signatories are hereby authorized and directed to execute, acknowledge, and deliver to the Applicant the Regulatory Agreement in substantially the form filed with or approved by the Authority.

The Regulatory Agreement may contain insertions, deletions or changes as the Authorized Signatories executing the Regulatory Agreement may require or approve, including particular information inserted in substantial conformance with the staff summary and in the Application to the Authority. The approval of the Regulatory Agreement will be conclusively evidenced by the execution and delivery of the final Regulatory Agreement.

The Authority understands and agrees that, pursuant to the terms of the Regulatory Agreement, the obligations of the Applicant, under some circumstances, may 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 to consummate the Regulatory Agreement and otherwise effectuate the purposes of this Resolution.

Section 7. The Applicant shall ensure that all of the qualifying tangible personal property acquired as part of the Project that is listed in the semi-annual reports provided to the Authority pursuant to the Regulatory Agreement will be installed, maintained and operated in compliance with all applicable local, state and federal laws.

Section 8. The Regulatory Agreement shall only apply to qualifying tangible personal property acquired as part of the Project that the Applicant certifies will be installed, maintained and operated at facilities physically located within the State of California.

Section 9. Neither the adoption by the Authority of this Resolution for the Applicant nor the Regulatory Agreement may be referred to in any application before any governmental agency as evidence of the feasibility, practicality or suitability of the Project and may not be referred to 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 is not executed within thirty (30) days of the date of this Resolution. The Executive Director may extend the thirty (30) days if necessary.