

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

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

**DexCom, Inc.  
Application No. 21-SM029**

**Tuesday, March 16, 2021**

Prepared By: *Matthew Jumps, Program Analyst*

**SUMMARY**

**Applicant** – DexCom, Inc.

**Location** – San Diego, San Diego County

**Industry** – Medical Device Manufacturing

**Project** – Expansion and Upgrade of Existing Medical Device Manufacturing Facility  
(Advanced Manufacturing)

<b>Value of Qualified Property</b>	<b>Estimated Sales and Use Tax Exclusion (“STE”) Amount<sup>2</sup></b>
\$69,450,000	\$5,903,250

<b>Estimated Net Benefit<sup>3</sup></b>	<b>Dollar Value</b>	<b>Points Earned</b>
Estimated Fiscal Benefits	\$20,125,937	3,409
Estimated Environmental Benefits	N/A	50
Additional Benefits	N/A	125
<b>Total</b>	<b>\$20,125,937</b>	<b>3,584</b>
<b>Estimated Quantifiable Net Benefit</b>	<b>\$14,222,687</b>	

**Staff Recommendation** – Approval

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

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

<sup>3</sup> 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).)

## **THE APPLICANT**

DexCom, Inc. (the “Applicant”), is a Delaware corporation that formed in 1999 and is headquartered in San Diego. The Applicant is a publicly traded on the Nasdaq under the symbol DXCM, and manufactures continuous glucose monitoring systems for people with diabetes.

The corporate officers of the Applicant are:

Kevin R. Sayer - President, Chief Executive Officer & Chairman

Quentin S. Blackford, Chief Operating Officer & Chief Financial Officer

Rick Doubleday, Chief Commercial Officer

Andrew K. Balo, EVP, Regulatory Strategy, Clinical Affairs and Strategic Partnership  
Development

Don Abbey, EVP, Quality and Regulatory Affairs

Jake Leach, EVP, Chief Technology Officer

Barry Regan, EVP, Operations

Patrick Murphy, EVP, Chief Legal Officer

Steven R. Pacelli, EVP, Strategy & Corporate Development

Sadie Stern, Chief Human Resources Officer

Jereme Sylvain, SVP, Finance and Chief Accounting Officer

Shelly Selvaraj, SVP, Information Technology

## **THE PROJECT**

The Applicant is requesting an STE award to expand and upgrade its existing medical device manufacturing facility located in San Diego (the “Project”). To meet global demand for medical products addressing the monitoring needs of those with diabetes, the Applicant is planning to scale production of its continuous glucose monitoring systems. The Applicant is planning to build out additional space at its facility to support the expansion and upgrade of manufacturing lines, research and design, and quality assurance property.

The Applicant explains its products replace the traditional finger-prick glucose meters with a highly innovative sensor under the skin that checks the glucose levels in interstitial fluid and sends the readings to a transmitter that then sends them to a display device or receiver, including compatible devices such as iPhones and Android products. According to the Applicant, the Project will utilize high-precision tools and science and information technology to produce its products. For example, the Applicant states its internally developed software is incorporated to allow users to store and track blood glucose readings in a user-friendly interface and review the data over time to identify potential patterns. Additionally, the Applicant explains advanced tools and automated visual equipment are used to produce a sensor needle and wire that must enter and be placed under the patient’s skin, which has a maximum tolerance of plus or minus 0.008 inches.

The Applicant also has an environmental sustainability plan that seeks to reduce the environmental impact of its operations and products through the conservation of resources used

in production and reduction of waste, emissions, and effluents. The Applicant states the Project is anticipated to result in a 30% reduction in the solid waste produced relative to the Applicant's previous manufacturing process by reducing packaging waste for the Project's products and by replacing disposable trays with reusable trays for the work-in-progress transportation of its products.

**ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Equipment, Machinery & Related Property	\$30,350,000
Laboratory Devices & Instruments	\$2,225,000
Logistics, Transport, Storage & Packaging	\$3,500,000
Quality Control/Testing Equipment & Related Property	\$3,775,000
Information Technology, Networking, Computers & Related Property	\$5,225,000
Design, Engineering, Research & Development Property	\$10,000,000
Facility Buildout, Upgrades & Infrastructure Improvements	\$14,375,000
<b>Total</b>	<b><u>\$69,450,000</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 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 additional manufacturing lines and upgrade of existing equipment will begin in the first quarter of 2021, and the build-out of the facility should near completion in 2023. The Applicant anticipates continuing to purchase equipment upgrades throughout the term of the award.

**STATUS OF PERMITS/OTHER REQUIRED APPROVALS**

According to the Applicant, building, installation, and operational permits will be required from the City of San Diego. The Applicant states that all necessary permits have been or will be timely secured for the Project.

## **PROJECT EVALUATION**

### **PROJECT BENEFITS**

The Project received a Total Score of 3,584 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 50 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (3,409 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 \$20,125,937, resulting in a Fiscal Benefits score of 3,409.
- B. **Environmental Benefits (50 points)**. The Project earned an Environmental Benefits Score of 50. 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 seeks to reduce the environmental impact of its operations and products through the conservation of resources used in production and reduction of waste, emissions, and effluents.
  2. **Solid Waste (30 of 30 points)**. The Applicant anticipates the Project will result in a 30% reduction in the solid waste produced relative to the Applicant's previous manufacturing process by reducing packaging waste for the Project's products and by replacing disposable trays with reusable trays for the work-in-progress transportation of its products.
- C. **Additional Benefits (125 points)**. Applicants may earn additional points for their Total Score. The Applicant received 125 additional points.
  1. **Production Jobs (75 of 75 points)**. The Applicant anticipates the Project will support a total of 2,797 production-related jobs at its Facility. CAEATFA estimates that approximately 123.16 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 75 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 0.17 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 7.9%.<sup>4</sup> When compared to the statewide average annual unemployment rate of 9.1%, the Project location earned the Applicant zero 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 the advancement of its medical products.
5. **Benefits and Fringe Benefits (25 of 25 Points).** The Applicant states it provides medical, health, dental, vision, bonuses, retirement contributions, dependent care and 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,<sup>5</sup> the Applicant has paid CAEATFA an Application Fee of \$10,000, and will pay CAEATFA an Administrative Fee of up to \$277,800.

## **RECOMMENDATION**

Staff recommends the approval of Resolution No. 21-SM029 for DexCom, Inc.’s purchase of qualifying tangible personal property in an amount not to exceed \$69,450,000, anticipated to result in an approximate STE value of \$5,903,250.

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<sup>4</sup> Unemployment rates are based on data available in October 2020.

<sup>5</sup> California Code of Regulations Title 4, Division 13, Section 10036.

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

**March 16, 2021**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **DexCom, 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 \$69,450,000 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

**Agenda Item – 4.G.29**  
**Resolution No. 21-SM029**  
**Application No. 21-SM029**

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.