

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Terray Therapeutics, Inc.
Application No. 22-SM051**

Tuesday, June 21, 2022

Prepared By: *Matthew Jumps, Program Analyst*

SUMMARY

Applicant – Terray Therapeutics, Inc.

Location – Monrovia, Los Angeles County

Industry – Biopharmaceutical Manufacturing

Project – New Biopharmaceutical Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$16,417,363	\$1,395,476

Estimated Net Benefit ³	Dollar Value	Points Earned ⁴
Estimated Fiscal Benefits	\$8,137,460	5,831
Estimated Environmental Benefits	N/A	30
Additional Benefits	N/A	118
Total	\$8,137,460	5,980
Estimated Quantifiable Net Benefit	\$6,741,984	

Competitive Criteria Score – 83

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

Terray Therapeutics, Inc. (the “Applicant”), is a Delaware corporation that formed in 2018. The Applicant is a venture-backed pharmaceutical discovery and development company for small molecule therapeutics. The Applicant has its current headquarters in Pasadena.

The major shareholders (10.0% or greater) of the Applicant are:

- Two Sigma Ventures III, LP (13.5%)
- DPG Fund I, LLC (13.4%)

The corporate officers of the Applicant are:

- Jacob Berlin, CEO
- Eli Berlin, CFO

THE PROJECT

Terray Therapeutics, Inc. is requesting an STE award to build a new biopharmaceutical manufacturing facility located in Monrovia (the “Project”). The Applicant states that it uses a proprietary patented microarray technology that uses silicon microchips to discover and develop small molecule therapeutics. The Applicant intends to bring to market its small molecule therapeutics for a number of diseases, including, but not limited to, psoriasis, rheumatoid arthritis, alopecia, vitiligo, B-cell lymphoma, atopic dermatitis, and multiple sclerosis. According to the Applicant, its drug discovery process uses proprietary precision flow-cells and micro sample holders made using the latest techniques in computational fluid dynamics and additive manufacturing to provide high speed micrometer scale imaging. The Applicant claims that this process allows it to screen 32 million measurements in five minutes on each system, which the Applicant states is more chemicals in a shorter time than the industry standard. Currently, the Applicant is operating five systems and will be scaling up to 20 systems, which will allow the Applicant to generate several billion measurements a day. The Applicant expects its processes to be significantly more energy efficient than traditional methods of pharmaceutical discovery that require large amounts of energy to store chemicals.

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Tenant Improvements	\$111,500
Libraries Equipment	\$5,913,796
Liquid Handler	\$761,504
Decoding Equipment	\$951,795
Screening Equipment	\$132,000
Chemistry Equipment	\$3,631,142
Biology Equipment	\$2,203,994
Protein Synthesis Tools	\$500,000
Cytometer	\$489,000
Stacker	\$425,000
Plate Sealer	\$313,480
3D Printer	\$123,000

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Rotovapor Evaporator	\$110,400
Misc. Lab Equipment (Computes, Stirrer, Chiller, Chromatography, etc.)	\$750,752
Total	<u>\$16,417,363</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

The Applicant states that it is currently negotiating a lease for a new headquarters in Monrovia that will provide roughly 49,000 square feet of existing laboratory space for the Project. The Applicant anticipates moving into the Monrovia location beginning in the third quarter of 2022 and complete the move by the first quarter of 2023.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, the Project will require operational permits, which the Applicant will secure subsequent to executing a lease for the new facility in Monrovia.

COMPETITIVE CRITERIA SCORE

The Applicant received 83 Competitive Criteria points as follows:

- 1. Environmental Benefits (0 of 100 points).** The Application does not have a Recycled Resource Extraction Project or Project that produces an Advanced Transportation Technology or an Alternative Source product, component, or system. Therefore, no points are awarded.
- 2. Unemployment (33 of 50 points).** The Applicant's Project's primary Facility is located in Los Angeles County, which has an average annual unemployment rate of 10.5%.⁵ When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 33 points.
- 3. Job Creation (35 of 75 points).** The Applicant anticipates the Project will support a total of 100 production-related jobs at its Facility. CAEATFA estimates that approximately 4.91 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 35 points.

⁵ Unemployment rates are based on data available in December 2021.

4. **California Headquarters (15 of 15 points)**. The Applicant has a California Corporate Headquarters, and, therefore, 15 points are awarded.
5. **Natural Disaster Relief (0 of 50 points)**. The Project is not to rebuild or relocate the Applicant's Facility due to a fire, flood, storm, or earthquake identified in a state of emergency proclaimed by the Governor within two years of the time of application, and, therefore, zero points are awarded.
6. **Eligibility for Manufacturing and Research and Development Equipment Exemption (0 of 50 points)**. The Applicant is eligible to use one or more of the exemptions established pursuant to Section 6377.1 of the Revenue and Taxation Code, and, therefore, zero points are awarded.
7. **Emerging Strategic Industry (0 of 75 points)**. The Project's industry is not in an Emerging Strategic Industry, and, therefore, zero points are awarded.

PROJECT EVALUATION

PROJECT BENEFITS

The Project received a Total Score of 5,980 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 (5,831 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 \$8,137,460, resulting in a Fiscal Benefits score of 5,831.
- B. **Environmental Benefits (30 points)**. The Project earned an Environmental Benefits Score of 30. The Applicant received points in the following categories:
 1. **Energy Consumption (30 of 30 points)**. The Applicant anticipates the Project will result in a 50% reduction in energy consumption compared to the industry standard manufacturing process. The Applicant states that its approach to the affinity binding portion of discovery in pharmaceutical research is more energy efficient than the industry standard, which involves sizeable storage of chemical compounds.
- C. **Additional Benefits (118 points)**. Applicants may earn additional points for their Total Score. The Applicant received 118 additional points.
 1. **Production Jobs (35 of 75 points)**. The Applicant anticipates the Project will support a total of 100 production-related jobs at its Facility. CAEATFA

estimates that approximately 4.91 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 35 points.

2. **Construction Jobs (0 of 75 points)**. The Applicant anticipates the Project will support a total of 8 construction jobs at its Facility. CAEATFA estimates that approximately 0.36 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 (33 of 50 points)**. The Applicant’s Project is located in Los Angeles County, which has an average annual unemployment rate of 10.5%. When compared to the statewide average annual unemployment rate of 7.89%, the Project location earned the Applicant 33 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 biopharmaceutical manufacturing.
5. **Benefits and Fringe Benefits (25 of 25 points)**. The Applicant states it provides medical, health, dental, vision, retirement contributions, dependent care and assistance reimbursement, education reimbursement, and paid leave benefits 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 \$8,485.66 and will pay CAEATFA an Administrative Fee of up to \$65,669.45.

RECOMMENDATION

Staff recommends the approval of Resolution No. 22-SM051-01 for Terray Therapeutics, Inc.’s purchase of qualifying tangible personal property in an amount not to exceed \$16,417,363 anticipated to result in an approximate STE value of \$1,395,476.

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

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

June 21, 2022

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Terray Therapeutics, 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 10035(a), with the Applicant for the Project; and

WHEREAS, the Applicant has stated the Project has an estimated cost not to exceed \$16,417,363 over a period of three (3) 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

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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.