

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

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

**Intuitive Surgical, Inc. and its Subsidiary, Intuitive Surgical Operations, Inc.  
Application No. 23-SM028**

**Tuesday, July 18, 2023**

Prepared By: *Katrina Walters-White, Program Analyst*

**SUMMARY**

**Applicant** – Intuitive Surgical, Inc. and its Subsidiary, Intuitive Surgical Operations, Inc.

**Location** – Sunnyvale, Santa Clara County

**Industry** – Advanced Robotic Surgical Systems and Tools Manufacturing

**Project** – Upgrade and Expansion of Existing Advanced Robotic Surgical Systems and  
Instruments and Accessories Manufacturing Facilities (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount <sup>2</sup>
\$23,400,000	\$1,956,240

Estimated Net Benefit <sup>3</sup>	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$13,617,963	6,961
Estimated Environmental Benefits	N/A	60
Additional Benefits	N/A	150
<b>Total</b>	<b>\$13,617,963</b>	<b>7,171</b>
<b>Estimated Quantifiable Net Benefit</b>	<b>\$11,661,723</b>	

**Competitive Criteria Score** – 90

**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 8.36%.

<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**

Intuitive Surgical, Inc. and its subsidiary, Intuitive Surgical Operations, Inc. (collectively the “Applicant”) are both Delaware corporations that formed in 1995 and 2009, respectively. The Applicant is located in Sunnyvale at its centralized global headquarters and publicly traded on the NASDAQ Stock Exchange under the ticker symbol ISRG. The Applicant develops, manufactures, and markets robotic systems, instruments, and accessories that are made to perform minimally invasive surgery.

On February 19, 2019, the CAEATFA Board granted the Applicant a sales and use tax exclusion (“STE”) award for the purchase of up to \$96,875,430 in Qualified Property for an estimated STE value of \$8,098,786 to upgrade and expand its existing design and manufacturing facility located in Sunnyvale. As of December 2022, the Applicant has reported approximately \$53,717,887 in Qualified Property purchases (55% of the total Qualified Property amount approved).

On March 17, 2020, the CAEATFA Board granted the Applicant a second STE award for the purchase of up to \$82,500,000 in Qualified Property for an estimated STE value of \$6,897,000 to further upgrade and expand its existing design and manufacturing facilities in Sunnyvale. As December 2022, the Applicant has reported \$44,066,440 in Qualified Property purchases (53% of the total Qualified Property amount approved).

The corporate officers of the Applicant are:

David J. Rosa, EVP & Chief Commercial Officer  
Gary S. Guthart, Ph.D., CEO & Member of Board of Directors  
Kara Andersen Reiter, Senior VP, Litigation, Privacy and Employment Law  
Marshall L. Mohr, Executive VP, Global Business Services  
Myriam J. Curet, M.D., EVP & Chief Medical Officer  
Henry Charlton, EVP & Chief Commercial Officer  
Jaime E. Samath, CFO  
Robert J. DeSantis, EVP & Chief Product Officer

## **THE PROJECT**

The Applicant is requesting an STE award to upgrade and expand its existing advanced robotic surgical systems and tools manufacturing facilities located in Sunnyvale (the “Project”). The Project will support the Applicant’s advanced R&D, production, quality control and assembly facilities. The Applicant’s products include its *da Vinci* surgical systems, *da Vinci* instruments and accessories, and Ion Endoluminal System.

According to the Applicant, its production team operates highly precise tools that utilize algorithms within microprocessors to carefully build and customize its devices to spec. For example, highly sensitive assembly tools are used by technicians that measure and track the exact amount of torque used at every moment of product assembly and will immediately notify the technician if the incorrect amount of torque is applied. The Applicant also gathers and analyzes robot kinematic data from actual surgeries to improve its products. Through R&D, the

Applicant is able to offer customers more affordable robotic surgical systems that are customizable but universal, and the systems can grow with the customers through upgrades. The Applicant states the Project will result in 25% less solid waste after incorporating a proprietary recycling program and divert 45% of toxic metals from landfills compared to previous years.

### **ANTICIPATED COSTS OF QUALIFIED PROPERTY**

The anticipated Qualified Property purchases are listed below:

Manufacturing/Production Machinery, Equipment & Materials	\$5,250,000
Facility Buildout, Upgrades & Infrastructure Improvements	\$8,800,000
Logistics, Transport, Storage Systems & Related Property	\$500,000
Computers, Information Technology & Related Property	\$1,250,000
Design, Engineering, Research and Development Property	\$4,750,000
Tooling Equipment & Materials	\$300,000
Production/Design Tools, Spare & Repair Parts	\$300,000
Quality Control, Testing & Prototyping	\$1,500,000
Lab Instruments & Devices	\$750,000
<b>Total</b>	<b><u>\$23,400,000</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, renovation and expansion of its facilities are currently under way. The renovation and build out of facility systems, instruments and accessories will continue through 2025. The upgrade of Project space, research, design, testing and prototyping equipment will be upgraded continuously, starting in Q2 of 2023 with completion occurring over the next two years.

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

Per the Applicant, all necessary building, installation and operational permits have been timely secured and are in good standing with the City of Sunnyvale and County of Santa Clara for all of the property owned and leased for this Project.

**COMPETITIVE CRITERIA SCORE**

The Applicant received 90 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 (0 of 50 points).** The Applicant's Project is located in Santa Clara County, which has an average annual unemployment rate of 2.5%.<sup>4</sup> When compared to the statewide average annual unemployment rate of 4.3%, the Project location earned the Applicant zero points.
3. **Job Creation (75 of 75 points).** The Applicant anticipates the Project will support a total of 3,374 production-related jobs at its Facilities. CAEATFA estimates that approximately 39.46 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.
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.

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<sup>4</sup> Unemployment rates are based on data available in December 2021.

## **PROJECT EVALUATION**

### **PROJECT BENEFITS**

The Project received a Total Score of 7,171 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 60 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (6,961 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 \$13,617,963 resulting in a Fiscal Benefits score of 6,961.
- B. **Environmental Benefits (60 points).** The Project earned an Environmental Benefits Score of 60. The Applicant received points in the following categories:
  - 1. **Environmental Sustainability Plan (5 of 5 points).** The Applicant has an environmental sustainability plan that will install technology that creates renewable energy, and reduce air pollutants and solid waste.
  - 2. **Solid Waste (25 of 30 points).** The Applicant anticipates the Project will result in a 25% reduction in solid waste relative to the Applicant's previous manufacturing process. This is achieved by implementing a recycling program that recycles more solid waste, a majority of which is packaging materials.
  - 3. **Hazardous Waste (30 of 30 points).** The Applicant anticipates the Project will result in a 45% reduction in the hazardous waste produced relative to the Applicant's previous manufacturing process. This is achieved by implementing a recycling process that diverts approximately 40-50% of toxic metals (e.g., aluminum, brass, copper, steel, etc.) from landfills.
- C. **Additional Benefits (150 points).** Applicants may earn additional points for their Total Score. The Applicant received 150 additional points.
  - 1. **Production Jobs (75 of 75 points).** The Applicant anticipates the Project will support a total of 3,374 production-related jobs at its Facility. CAEATFA estimates that approximately 39.46 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 .20 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 Santa Clara County, which has an average annual unemployment rate of 2.5%. When compared to the statewide average annual unemployment rate of 4.3%, 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 production of advanced robotic surgical systems and tools.
5. **Workforce Partnerships (25 of 25 points).** The Applicant has a partnership with California universities such as Santa Clara University, San Jose State, UCSD, UCLA, and Stanford 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, and vision benefits, bonuses, retirement contributions, and transportation subsidies to its employees, earning the Applicant 25 points.

### **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 STE Program 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 \$93,600.

### **RECOMMENDATION**

Staff recommends the approval of Resolution No. 23-SM028-01 for Intuitive Surgical, Inc. and its subsidiary, Intuitive Surgical Operations, Inc.'s purchase of qualifying tangible personal property in an amount not to exceed \$23,400,000 anticipated to result in an approximate STE value of \$1,956,240.

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

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A  
REGULATORY AGREEMENT WITH INTUITIVE SURGICAL, INC. AND  
ITS SUBSIDIARY, INTUITIVE SURGICAL OPERATIONS, INC.**

**July 18, 2023**

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Intuitive Surgical, Inc. and its subsidiary, Intuitive Surgical Operations, 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 \$23,400,000 over a period of three years (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 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.