

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

Request to Approve Project for a Sales and Use Tax Exclusion¹

**Infinera Corporation
Application No. 24-SM026**

Tuesday, July 16, 2024

Prepared By: *Jeannie Yu, Program Analyst*

SUMMARY

Applicant – Infinera Corporation

Location – Sunnyvale, Santa Clara County; San Jose, Santa Clara County

Industry – Semiconductor Manufacturing

Project – Expansion and Upgrade of an Existing Photonic Integrated Circuits Manufacturing Facility (Advanced Manufacturing)

Value of Qualified Property	Estimated Sales and Use Tax Exclusion (“STE”) Amount ²
\$23,600,000	\$1,991,840

Estimated Net Benefit ³	Dollar Value	Points Earned
Estimated Fiscal Benefits	\$4,749,201	2,384
Estimated Environmental Benefits	N/A	40
Additional Benefits	N/A	110
Total	\$4,749,201	2,534
Estimated Quantifiable Net Benefit	\$2,757,361	

Competitive Criteria Score – 75

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 8.44%.

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).)

THE APPLICANT

Infinera Corporation (the “Applicant”) is a Delaware corporation that formed in December 2000 and originally operated under the name “Zepton Networks.” The Applicant is a publicly traded company (NASDAQ: INFN) governed by a Board of Directors incorporated in the State of Delaware and its principal executive offices are located in San Jose. The Applicant is an optical semiconductor manufacturer and global supplier of optical networking solutions comprised of networking equipment, software, and services. As an optical networking specialist, the Applicant’s solutions are differentiated by its deep experience and expertise in optical compound semiconductor manufacturing, testing, and packaging. The Applicant serves over 1,000 customers across 45 countries and employs over 3,000 employees globally.

The corporate officers of the Applicant are:

David W. Heard, CEO & Director

David F. Welch, Ph.D, Founder, Chief
Innovation Officer & Director

Nancy L. Erba, CFO

Brett Hooper, Chief Human Resources
Officer

Regan MacPherson, Chief Legal Officer &
Corporate Secretary

THE PROJECT

The Applicant is requesting a sales and use tax exclusion (“STE”) award to expand and upgrade its existing optical semiconductor manufacturing facilities located in Sunnyvale and San Jose (the “Project”). According to the Applicant, unlike silicon semiconductors, the Applicant manufactures indium phosphide-based photonic integrated circuits (PIC) technology for use in high-capacity optical networking applications spanning subsea, long haul, metro, data center interconnect, and intra-data center connectivity. The Applicant’s PICs integrate multiple optical functions into a single chip, enabling more compact and efficient optical systems. The Applicant explains that PICs are critical to telecommunication and are essentially the “brains” at each end of the fiber optic cables that relay information between users at the speed of light. The Applicant plans on building a new fabrication facility equipped with modernized manufacturing equipment and advanced manufacturing processes to maximize the production levels of its PICs. The Applicant will also be adding state-of-the-art clean rooms to host their epitaxy, wafer fab, dicing and PIC assembly operations, as well as PIC test and burn-in.

The Applicant states it will be utilizing a process known as epitaxy in the early stages of the manufacturing process. During epitaxy, layers of crystals are grown on each wafer to produce a crystalline film known as an epitaxial film or epitaxial layer. The epitaxial film is later partially removed through plasma and wet etching technology in preparation for the subsequent stages of the manufacturing process. Throughout the epitaxy process, the Applicant will be utilizing x-ray diffraction tools, atomic/electron microscopes, and other advanced scanning metrology devices to carefully examine each layer to ensure they are all within the required ranges of thickness,

purity, and uniformity. During final assembly, highly precise tools are used to ensure quality. For example, gold wiring thinner than a human hair is connected to the many elements on the PIC to the carrier and package via thermosonic bonding. Extreme precision is used so that none of the wires ever touch (see Figure 1).

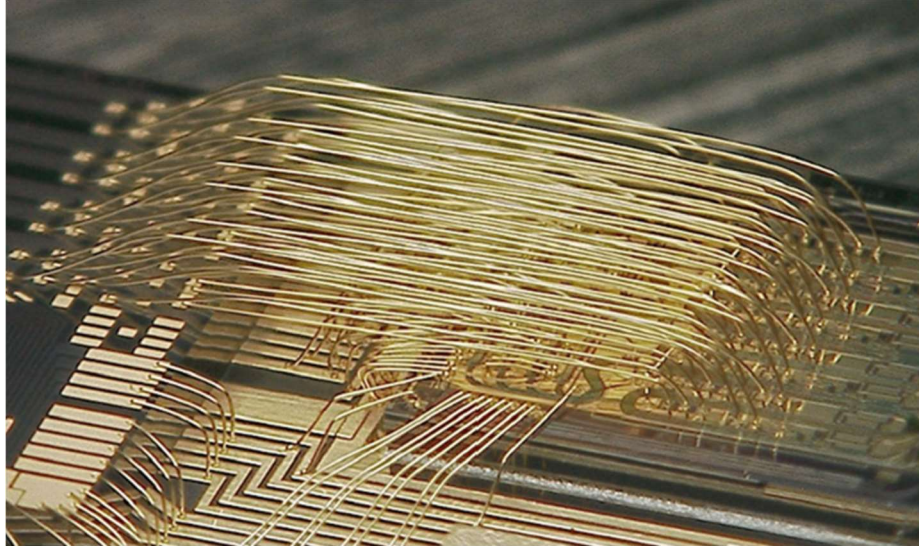


Figure 1: High-Density Gold Wired-Bonded PIC Under Microscope

ANTICIPATED COSTS OF QUALIFIED PROPERTY

The anticipated Qualified Property purchases are listed below:

Manufacturing & Production Equipment, Machinery & Related Property	\$7,000,000
Metrology, Testing and Quality Control Equipment & Related Property	\$3,000,000
Lab Devices & Scientific Instruments	\$1,500,000
Research & Development, Design & Engineering Property	\$3,000,000
Buildout/Construction of Facilities	\$6,350,000
Logistics, Storage Systems & Related Property	\$2,000,000
IT & Computer Property	\$750,000
Total	<u>\$23,600,000</u>

Note: The Qualified Property purchases reported in the Application and shown here in staff's report are estimated costs. In accordance with 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 plans on building out its manufacturing facilities in 2025 by modernizing its product manufacturing line and add additional R&D infrastructure. The Applicant also plans on purchasing additional design and manufacture equipment during the second half of 2024 in anticipation that the new fabrication system will be put into service in the summer of 2026.

STATUS OF PERMITS/OTHER REQUIRED APPROVALS

According to the Applicant, all necessary building, installation, and operational permits have been secured from the cities of San Jose and Sunnyvale. Additional permits will be secured for the Project in 2025.

COMPETITIVE CRITERIA SCORE

The Applicant received 75 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's primary Facility is located in Santa Clara County, which has an average annual unemployment rate of 3.3%.⁴ When compared to the statewide average annual unemployment rate of 4.6%, the Project location earned the Applicant zero points.
3. **Job Creation (60 of 75 points).** The Applicant anticipates the Project will support a total of 374 production-related jobs at its Facilities. CAEATFA estimates that approximately 22.05 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.
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 Facilities 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.

⁴ Unemployment rates are based on data available in December 2023.

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 2,534 points, which exceeds the required 1,000-point threshold, and a total Environmental Benefits Score of 40 points, which exceeds the 20-point threshold.

- A. **Fiscal Benefits (2,384 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 \$4,749,201, resulting in a Fiscal Benefits score of 2,384.
- B. **Environmental Benefits (40 points).** The Project earned an Environmental Benefits Score of 40. The Applicant received points in the following categories:
 1. **Environmental Sustainability Plan (5 of 5 points).** The Applicant has an environmental sustainability plan that reduces energy consumption and improves product sustainability, conservation, recycling, and reuse of resources.
 2. **Energy Consumption (5 of 30 points).** The Applicant anticipates the Project will result in a 5% reduction in energy consumption compared to the previous manufacturing process by sourcing 100% of its power from carbon-free energy, or energy that does not emit carbon emissions such as solar, wind, geothermal energy from Silicon Valley Clean Energy.
 3. **Solid Waste (30 of 30 points).** The Applicant anticipates the Project will result in a 50% reduction in solid waste produced relative to the Applicant's previous manufacturing process by using reclaimed wafers that were previously discarded after testing occurs.
- C. **Additional Benefits (110 points).** Applicants may earn additional points for their Total Score. The Applicant received 110 additional points.

1. **Production Jobs (60 of 75 points).** The Applicant anticipates the Project will support a total of 374 production-related jobs at its Facilities. CAEATFA estimates that approximately 22.05 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 15 construction jobs at its Facilities. CAEATFA estimates that approximately 0.88 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 3.3%. When compared to the statewide average annual unemployment rate of 4.6%, 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 semiconductors.
5. **Benefits and Fringe Benefits (25 of 25 points).** The Applicant states it provides medical, health, dental and vision benefits, bonuses, retirement contributions, dependent care & assistance reimbursement, transportation subsidies, education reimbursement, gym subsidies and paid leave 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,⁵ the Applicant has paid CAEATFA an Application Fee of \$10,000 and will pay CAEATFA an Administrative Fee of up to \$94,400.

⁵ California Code of Regulations Title 4, Division 13, Section 10036

RECOMMENDATION

Staff recommends the approval of Resolution No. 24-SM026-01 for Infinera Corporation's purchase of qualifying tangible personal property in an amount not to exceed \$23,600,000, anticipated to result in an approximate STE value of \$1,991,840.

**RESOLUTION APPROVING AND AUTHORIZING EXECUTION OF A
REGULATORY AGREEMENT WITH INFINERA CORPORATION**

July 16, 2024

WHEREAS, the California Alternative Energy and Advanced Transportation Financing Authority (the “Authority”) has received the Application of **Infinera Corporation** (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 \$23,600,000 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

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.