
SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair
2019 - 2020 Regular Session

AB 1248 (Eduardo Garcia) - Capital Investment Incentive Program: local governments: property tax abatement

Version: June 24, 2019

Urgency: No

Hearing Date: July 8, 2019

Policy Vote: GOV. & F. 5 - 0

Mandate: No

Consultant: Mark McKenzie

Bill Summary: AB 1248 would expand the Capital Investment Incentive Program (CIIP) by authorizing cities and counties to offer property tax abatements for up to 10 years to smaller manufacturers who make an investment of over \$5 million in a proposed manufacturing facility, as specified.

Fiscal Impact:

- Ongoing costs to the Governor's Office of Business and Economic Development (Go-Biz) of at least \$150,000 annually through 2023 in staff time to coordinate with cities, counties, and project proponents, provide technical assistance, review and approve applications for certification, compile specified information submitted by cities and counties, and report to the Legislature. Depending on the demand for the expanded program, Go-Biz administrative costs could be higher. (General Fund)
- No state costs related to the expansion of city and county property tax abatements, since local agencies that voluntarily participate in the CIIP are only entitled to offer their share of the property tax revenues, and the bill explicitly excludes participation by a school district or community college district. (Local funds)

Background: Existing law authorizes cities and counties to establish a CIIP, through an ordinance or resolution approved by a majority of its governing body, that provides for the payment of a "capital investment incentive amount" for 15 years to a proponent of a qualified manufacturing facility making an initial investment that exceeds \$150 million. The proponent must apply to the city or county by filing a request, which must be approved by majority vote of the city or county's governing body for payments to commence. If approved, a proponent receives a payment equal to the amount of property taxes received by that city or county that exceeds \$150 million of the facility's value - other agencies' shares of tax revenues from that property are not affected unless they opt-in, as specified below. In return for this property tax rebate, the proponent must then pay a community service fee to the city or county equal to 25% of the capital incentive amount, up to \$2 million a year. The proponent must also sign a community services agreement that spells out the fee, payment conditions, a job creation plan that requires employer-sponsored health care and payment of an average wage not less than the state average, and provisions to recapture the incentive payments if the proponent fails to run the facility as agreed. Additionally, a city or special district may pay the county or city an amount equal to the amount of property tax revenue that the local government receives from the facility's property taxes paid on the facility's value over \$150 million.

To qualify for this tax rebate program, a qualified manufacturing facility must be engaged in commercial production, the perfection of the manufacturing process, or the perfection of a product intended to be manufactured. The proponent of the facility must also be located in the city or county offering the CIIP, have an initial investment of over \$150 million in real and personal property, as certified by Go-Biz, and be operated by a business within specified industries (as identified by their North American Industrial Classification codes).

The CIIP was initially established in statute in 1997 to help Placer County officials attract an Intel facility, but the authority was never exercised. The program has been expanded and revised multiple times over the years, but no capital investment incentive payments have been made to date. According to the most recent Go-Biz report on the program in 2017, however, several cities and the County of Los Angeles have approved resolutions and entered into agreements with certain project proponents. Currently, the City of Long Beach and the County of Los Angeles have entered into 15-year agreements with Weber Metals, Inc. under the CIIP, but the facility is currently under construction and no payments have yet been made. Recently, the City of Riverside and City of El Centro have both adopted CIIP resolutions, and the City of Huntington Beach is considering adopting one, according to GO-Biz. However, no specific project has yet been identified for these jurisdictions. The CIIP statutes become inoperative on January 1, 2024

Proposed Law: AB 1248 would expand the CIIP to allow cities and counties to offer a capital investment incentive amount for 10 years, beginning in 2020-21, to the proponent of a proposed “qualified targeted manufacturing facility” that makes an initial investment of over \$5 million in that facility. Specifically, this bill would:

- Define “qualified targeted manufacturing facility” as a proposed manufacturing facility that meets the following criteria:
 - The proponent’s initial investment in that facility in real and personal property, as specified, exceeds \$5 million, as certified by Go-Biz following the submittal of a written certification application by the proponent.
 - The facility is located within the jurisdiction to which the request for payment of capital investment incentive amounts is made.
 - The facility is operated by a business entity with manufacturing as its principal business activity code, as reported on its tax return.
 - The proponent is currently engaged in commercial production, the perfection of the manufacturing process, or the perfection of a product intended to be manufactured.
- Define “capital investment incentive amount,” as it pertains to a qualified targeted manufacturing facility, as an amount up to or equal to the amount of property tax allocated to the participating local entity from the taxation of that portion of the total assessed value of that property that is in excess of \$5 million.
- Explicitly prohibit a school district or community college district from paying its share of property tax to a city or county that approves payment of a capital investment incentive amount.
- Require a city or county that has approved payment of a capital investment incentive amount for either a qualified manufacturing facility (existing program) or a qualified

targeted manufacturing facility (expanded program) to report the following additional information to Go-Biz:

- Programs or projects established or funded in part by the community services agreement.
- Economic activity generated in the area where the facility is located, including changes in median income, the number of businesses, and the volume or value of exported goods.

Staff Comments: The current restrictions on the CIIP to very large investments of over \$150 million by manufacturers in specified industries has limited participation in the program to date. This bill would significantly expand access to small and medium-sized manufacturers investing over \$5 million in new or existing facilities operated by a business entity with manufacturing as its principal business activity code, as self-reported on its personal income tax or corporate tax return. These changes to the qualifying criteria are likely to drive a significant increase in businesses and local government utilization of the program. Go-Biz indicates that it would incur costs of at least \$150,000 annually, beginning in 2020-21, for additional staff to provide technical assistance to project proponents, coordinate with cities and counties, and review and certify that project investments approved by local jurisdictions meet the criteria of a qualified targeted manufacturing facility. The bill would also require cities and counties to submit additional information to Go-Biz related to the CIIP, which must be included in biennial reports to the Legislature. Staff notes that the program is scheduled to sunset on January 1, 2024, so the bill provides 3-1/2 years for cities and counties to enter into agreements with manufacturers to provide property tax abatements for small and medium manufacturers.

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