SENATE RULES COMMITTEE AB 1248

Office of Senate Floor Analyses

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THIRD READING

Bill No: AB 1248

Author: Eduardo Garcia (D)

Amended: 8/30/19 in Senate

Vote: 21

SENATE GOVERNANCE & FIN. COMMITTEE: 5-0, 6/19/19

AYES: McGuire, Beall, Hurtado, Nielsen, Wiener

NO VOTE RECORDED: Moorlach, Hertzberg

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/30/19

AYES: Portantino, Bates, Bradford, Durazo, Hill, Jones, Wieckowski

ASSEMBLY FLOOR: 77-0, 5/22/19 (Consent) - See last page for vote

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SUBJECT: Capital Investment Incentive Program: local governments: property tax abatement

SOURCE: Author

DIGEST: This bill allows cities and counties to offer Capital Investment Incentive Program incentives to small and mid-size manufacturers and specified production facilities.

ANALYSIS:

Existing law:

1) Creates the Capital Investment Incentive Program (CIIP), which allows counties and cities to pay a capital investment incentive amount for 15 years to a proponent of a qualified manufacturing facility (QMF) making an initial investment that exceeds $150 million.

2) Requires manufacturing facility proponents to file a request to the city or county, which must be approved by majority vote of the city or county governing body to receive CIIP payments.

3) Provides that, if the city or county approves the request, the proponent receives a payment equal to the amount of property taxes paid and 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.

4) Requires a proponent receiving CIIP payments to pay a community service fee 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.

5) Allows a city or special district to 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.

6) Requires that the city or county submit annual reports on the incentives it approves to the Governor's Office of Business and Economic Development (GO-Biz), which GO-Biz compiles into a report it submits to the Legislature.

7) Limits CIIP to manufacturing facilities engaged in commercial production, the perfection of the manufacturing process, or the perfection of a product intended to be manufactured, that also meets the following criteria:

   a) Have an initial investment in real and personal property over $150 million, certified GO-Biz;

   b) Be located within the county or city offering the capital incentive program; and,

   c) Be operated by a business within specified North American Industrial Classification System (NAICS) codes, which includes firms engaged in various types of manufacturing, research and development, recovery of minerals from geothermal resources, and components related to electricity production.

This bill:

1) Expands 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.

2) Defines "qualified targeting manufacturing facility" as a proposed manufacturing or production facility that meets the following criteria:

   a) 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.

   b) The facility is located within the jurisdiction to which the request for payment of capital investment incentive amounts is made.

   c) The facility is operated by a business entity with manufacturing as its principal business activity code, as reported on its tax return, or is operated by a business entity that meets the NAICS code for motion picture and video production.

   d) The proponent is currently engaged in commercial production, the perfection of the manufacturing process, or the perfection of a product intended to be manufactured.

3) Defines "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.

4) Prohibits 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.

5) Requires 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:

   a) Programs or projects established or funded in part by the community services agreement.

b) 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.

Background

The Legislature originally approved the program to help Placer County officials attract an Intel plant, but they never used the law (SB 566, Thompson, 1997). Legislators expanded the definition of a qualified manufacturing facility to include CalEnergy Company's plan to extract minerals from geothermal brine, which did not launch (SB 133, Kelley, Chapter 24, Statutes of 1999). In 2009, the Legislature further expanded the program to include other manufacturers that produce of electricity using solar, wind, biomass, hydropower, or geothermal resources; shifted the responsibility to certify the investment to the Business, Transportation and Housing Agency; and sunset the program on January 1, 2017 (AB 904, V.M Perez, Chapter 486, Statutes of 2009). In 2012, the Legislature expanded the program (SB 1006, Committee on Budget and Fiscal Review) to entice Samsung Semiconductor to expand its manufacturing facility in San Jose; however, the facility was constructed without the incentive agreement being executed, with the company instead applying for and receiving California Competes tax credits. SB 1006 repealed all of its changes on June 30, 2013.

In 2014, the Legislature again reauthorized the program, expanded the NAICS codes to include additional manufacturers, and lowered the threshold to trigger incentive payments from $150 million in value to $25 million. The bill was part of a package of incentives to attract production of the United States Air Force's new long-range bomber to California (AB 2389 (Fox, Chapter 116, Statutes of 2014) and SB 718 (Roth, Chapter 189, Statutes of 2014). The specific programmatic changes sunset on January 1, 2016, thereby defaulting to the threshold investment amounts and minimum value thresholds to those originally set by the Legislature in 1997. Both bills set the program to sunset entirely on January 1, 2018. However, in 2017, the Legislature extended the program from January 1, 2018, to January 1, 2019, at the request of Imperial County and ES Minerals, a firm seeking to extract lithium from a location near the Salton Sea (AB 755, E. Garcia, Chapter 709, Statutes of 2017). Last year, the Legislature extended the program once again from January 1, 2019, to January 1, 2024 (AB 1900, Brough, Chapter 382, Statutes of 2018).

Comments

1) *Purpose of the bill.* According to the author, "California's manufacturing investments have not kept pace with the rest of the country, capturing a mere

4.5% of capital funding nationwide. Existing incentives, like the CIIP, have not been able to overcome this trend because they are focused on competing for very large manufacturing investment. In the decades since the CIIP was enacted, the engine for job creation and economic expansion in the manufacturing industry has shifted to small and medium investments. Between 2015 and 2017, manufacturers investing between $5 and $55 million in new or existing facilities outpaced the total number of jobs created by projects the CIIP was intended to attract. [This bill] will provide local governments a tool to incentivize the redevelopment and rehabilitation of abandoned or distressed facilities in their communities by attracting investment from small and mid-size manufacturers."

2) *Right way*? AB 1248 expands CIIP to smaller manufacturers, which allows cities and counties to refund property taxes received solely by that jurisdiction to specified firms, under the assumption that the net economic benefits to that city or county exceed the amounts refunded. While the state foregoes almost $60 billion annually in tax expenditures, some for economic development purposes, is it good public policy for local agencies as well?

3) *How does this work*? If a city council or county board of supervisors approves the proponent's request, he or she pays their property tax as they would normally under current law. The local agency approving the request then sends a payment equal to the amount of the share of the property tax they received on the value of the facility that exceeds $5 million for QMF, less the community service fee. Under AB 1248, a firm that constructs a facility valued at $10 million, pays $100,000 in tax at a 1% rate. If the local agency approving the request receives a 15% share of the allocated property tax for that property in that specific tax rate area, the payment is $6,000 ($10 million - $5 million = $4 million x 1% rate x the 15% share), less the $1,500 (25%) service fee, for a net payment of $4,500 annually for up to 10 years. The Legislature may wish to consider whether AB 1248 will sufficiently impact manufacturers' decisions regarding where to locate their facilities.

4) *This just in*. Up to this point, no local agency has provided a facility with a CIIP incentive. Proponents of expanding the program argue that the initial investment threshold for QMFs is set too high to be effective, but also argue that growth in the manufacturing industry is concentrated between $5 and $55 million in initial investments. AB 1248 also adds motion picture and video production facilities to the list of facilities that can qualify for the QMF incentive. The Legislature may wish to consider holding off on the expansion of the program to manufacturing facilities with smaller initial investments, as

well as motion picture and video production facilities that are not manufacturing facilities and may be temporary facilities, until a local agency takes advantage of the existing program and submits information to GO-Biz to evaluate.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- Ongoing costs to 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)

SUPPORT: (Verified 8/30/19)

California Association for Local Economic Development
California Manufacturers and Technology Association

OPPOSITION: (Verified 8/30/19)

None received

ASSEMBLY FLOOR: 77-0, 5/22/19
AYES: Aguiar-Curry, Arambula, Bauer-Kahan, Berman, Bigelow, Bloom, Boerner Horvath, Bonta, Brough, Burke, Calderon, Carrillo, Cervantes, Chau, Chen, Chiu, Choi, Chu, Cooper, Cunningham, Dahle, Daly, Diep, Eggman, Flora, Fong, Frazier, Friedman, Gabriel, Gallagher, Cristina Garcia, Gipson, Gloria, Gonzalez, Gray, Grayson, Holden, Irwin, Jones-Sawyer, Kalra, Kamlager-Dove, Kiley, Lackey, Levine, Limón, Low, Maienschein, Mathis, Mayes, McCarty, Medina, Melendez, Muratsuchi, Nazarian, Obernolte, O'Donnell, Patterson, Petrie-Norris, Quirk, Quirk-Silva, Ramos, Reyes, Luz Rivas, Robert Rivas, Rodriguez, Blanca Rubio, Salas, Santiago, Smith, Mark Stone, Ting, Voepel, Waldron, Weber, Wicks, Wood, Rendon

NO VOTE RECORDED: Cooley, Eduardo Garcia, Mullin

Prepared by: Jonathan Peterson / GOV. & F. / (916) 651-4119
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