Date of Hearing: March 24, 2021

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT
Cecilia Aguiar-Curry, Chair
AB 726 (Eduardo Garcia) – As Introduced February 16, 2021

SUBJECT: Capital investment incentive program: qualified manufacturing facility.

SUMMARY: Specifies that a business engaged in the manufacturing of fuels, electrical parts, or components used in the field of clean transportation or the production of alternative fuel vehicles or electric vehicles is a qualified manufacturing facility (QMF) for the purposes of the Capital Investment Incentive program (CIIP).

EXISTING LAW:

1) Specifies that all property is subject to property tax, unless explicitly exempted by the California Constitution or federal law.

2) Authorizes counties or cities to establish a CIIP, with the following components:

   a) Requires a county or city that creates a CIIP to pay a "capital investment incentive amount" to the proponent of a QMF for up to 15 consecutive years, as specified;

   b) Defines the criteria that a QMF must meet, including (among other specifications) that the proponent's initial investment in the facility exceeds $150 million, the facility is located within the jurisdiction of the county or city that will pay the incentive amount, the facility will be operated by specified types of businesses, and the proponent will be engaged in specified activities;

   c) Limits the incentive amount paid to the proponent for a relevant fiscal year to an amount up to or equal to the amount of ad valorem property tax revenue allocated to the participating county or city from the total assessed value of the facility's real or personal property in excess of $150 million;

   d) Requires a proponent whose request for payment of the incentive amount is approved to enter into a community services agreement with the county or city, and requires the agreement to contain specified provisions, including a "community services fee," a job creation plan, and protections for the local government if the proponent fails to meet its obligations under the agreement;

   e) Provides that the incentive amount paid to the proponent, as specified above, is contingent upon the proponent's payment of the fee, as specified;

   f) Calculates the proponent's fee as an amount equal to 25% of the proponent's incentive amount for each fiscal year, and caps the fee to a maximum of $2 million in any fiscal year;

   g) Requires each county or city that elects to create a CIIP to notify the Governor's Office of Business and Economic Development (GO-Biz) each fiscal year, as specified; and,

h) Requires GO-Biz to compile the information submitted by counties and cities and submit a report to the Legislature no later than October 1 every two years, as specified.

3) Repeals the authority of counties and cities to create a CIIP on January 1, 2024, but specifies that a CIIP established before this date may remain in effect for the full term of that program.

FISCAL EFFECT: None.

COMMENTS:

1) **Bill Summary and Author's Statement.** This bill specifies that a business engaged in the manufacturing of fuels, electrical parts, or components used in the field of clean transportation or the production of alternative fuel vehicles or electric vehicles is a QMF for the purposes of the CIIP. This bill is sponsored by the author.

   According to the author, "The Imperial County, recently coined as The Lithium Valley due to its significant amount of underground lithium deposits, has a unique opportunity to attract battery manufacturers as a result of this natural resource as well as an opportunity to develop other renewable and clean transportation projects. In the past, the County has additionally looked to the CIIP program to attract a significant number of jobs to the region in a county with the highest unemployment rate in the nation. However, currently the CIIP does not incentivize the investment of these clean transportation projects. In order to expand on possible investments into local regions of California and to help meet our clean transportation and air quality goals, the CIIP program needs to include incentives for the manufacturing of fuels, electrical parts, or components in the field of clean transportation or the production of alternative fuel vehicles or electric vehicles."

2) **Background**. SB 566 (Thompson), Chapter 616, Statutes of 1997, enacted the CIIP, and SB 133 (Kelley), Chapter 24, Statutes of 1999, expanded the program to provide local governments with an opportunity to attract large manufacturing facilities to invest in their communities and to encourage industries, such as high technology, energy, environmental, and others to locate and invest in California. CIIP authorizes a local government to offer partial property tax abatement for QMFs for assessed property taxes in excess of $150 million. The program allows a local government to rebate a 'capital investment incentive amount' to a manufacturer proponent that is equal to the taxes owed on the manufacturing property in excess of the first $150 million assessment for up to 15 years.

   The incentive may only be offered if the proponent enters into an agreement that requires the proponent to meet certain criteria, such as job creation numbers, wages paid at least to the state average weekly wage, and local fees. If a proponent fails to meet these requirements, the local government is entitled to repayment of any amounts paid.

   In 1999, Imperial County and CalEnergy Operating Corporation attempted to utilize the program for zinc extraction from the Salton Sea, but a collapse in the zinc market caused the project, and thus the program, to cease. The abated property taxes were returned to the County, as provided under the Community Service Agreement between CalEnergy and the County. In its November 2019 report on the CIIP, GO-Biz reported that the cities of Palmdale and Long Beach and the County of Los Angeles established programs for their jurisdictions but none had issued any payments and only one proponent, Weber Metals Inc., appeared to be proceeding with its project.

In 2018, AB 1900 (Brough), Chapter 382, Statutes of 2018, extended the sunset of the CIIP until January 1, 2024. When AB 1900 was heard by this committee, it modified the CIIP in several ways. It extended the program for 10 years, expanded it to include large-scale retail-trade related facilities, and temporarily reduced the required initial investment amount from $150 million to $25 million. It also temporarily increased the property taxes cities and counties could rebate to the facility over $25 million of assessed value by lowering the threshold from $150 million. This Committee amended AB 1900 to remove all of its provisions, except for the sunset extension.

3) **How does the CIIP 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 $150 million, less the community service fee. For example, a firm that constructs a facility valued at $200 million pays $2 million 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 $750,000 ($200 million - $150 million = $50 million x 1% rate x the 15% share), less the $187,500 (25%) community service fee, for a net payment of $562,000 back to the proponent.

4) **Arguments in Support.** None on file.

5) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

None on file.

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