

Date of Hearing: April 10, 2024

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 2922 (Garcia) – As Introduced February 15, 2024

SUBJECT: Economic development: capital investment incentive programs.

SUMMARY: Reestablishes the authorization for the Capital Investment Incentive Program (CIIP). Specifically, **this bill:**

- 1) Reestablishes the CIIP until January 1, 2035.
- 2) Specifies that the Governor’s Office of Business and Economic Development (GO-BIZ) shall compile specified information submitted by each county, city and county, and city and submit a report to the Legislature containing this information no later than October 1, every two years commencing October 1, 2026.
- 3) Makes other technical and clarifying changes.

EXISTING LAW:

- 1) Specifies that all property is subject to property tax, unless explicitly exempted by the California Constitution or federal law (California Constitution, Article XIII).
- 2) Authorizes counties or cities to establish a CIIP, with the following components [Government Code (GC) § 51298]:
 - a) Requires a county or city that creates a CIIP to pay a “capital investment incentive amount” to the proponent of a Qualified Manufacturing Facility (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 GO-Biz each fiscal year, as specified.
 - 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 (GC § 51298.5).

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **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. The 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.

- 2) **CIIP Agreements.** 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. According to GO-BIZ in its December 2021 and December 2023 reports, the following CIIP agreements have been reported since 2015:
- a) On June 22, 2015, the Palmdale City Council voted to execute a community services agreement with Lockheed Martin Corporation. Under this 15-year agreement, Lockheed Martin would have invested approximately \$385 million in new facilities and equipment at its Palmdale Location if it secured a specific Department of Defense contract. This investment would have added 1,100 direct high-skilled and high-paying jobs. Under this agreement, the total Palmdale capital investment incentive payment to Lockheed Martin

would have been an estimated \$740,000 over the 15-year agreement. In return, Lockheed Martin would have paid the Community Service Fee to the City by supporting a number of programs, including Salute to Youth, STAR, Engineers in the Classroom Program and Reading Across America. As a general precondition to the agreement, Lockheed Martin was required to secure the Department of Defense contract; however, as the contract was awarded to a different bidder, the City never made a capital investment incentive payment.

- b) On June 30, 2015, the County of Los Angeles Board of Supervisors voted to execute a community services agreement with Lockheed Martin Corporation. Under this 15-year agreement, Lockheed Martin would have invested approximately \$385 million in new facilities and equipment at its Palmdale Location if it secured a specific Department of Defense contract. This investment would have added 1,100 direct high-skilled and high-paying jobs. Under this agreement, the County of Los Angeles payment to Lockheed Martin would have been \$3,089,977 and the Community Service Fee paid to the County would have been \$1,029,922 over the 15-years of the agreement. As a general precondition to the agreement, Lockheed Martin was to secure the Department of Defense contract. The contract was awarded to a different bidder; therefore, the County has not made a capital investment incentive payment.
- c) On August 18, 2015, the County of Los Angeles Board of Supervisors voted to execute a community services agreement with Weber Metals, Inc. Under this 15-year agreement, Weber Metals would have invested approximately \$295 million in new facilities and equipment, including the installation of 60,000 hydraulic forging presses to manufacture aircraft parts at its Long Beach location. This investment would have added 70 direct high-skilled and high-paying jobs, such as engineering, production, and business support. Under this agreement, the County of Los Angeles payment to Weber Metals would have been \$1,045,825 and the community service fee paid to the County would have been \$348,607 over the 15-years of the agreement. According to Los Angeles County staff, Weber Metals had to downsize its workforce starting in 2020 as a result of the qualifications delays of the Boeing 737 MAX, a significant client base for Weber Metals. Furthermore, decreased airline industry product demand, resulting from COVID-19, significantly impacted Weber Metals' job creation plan. Weber Metals anticipates the recovery of the industry demand will slowly increase.
- d) On September 1, 2015, the Long Beach City Council voted to execute a community services agreement with Weber Metals, Inc. Under this 15- year agreement, Weber Metals would have invested approximately \$295 million in new facilities and equipment, including the installation of 60,000 hydraulic forging press to manufacture aircraft parts at its Long Beach location. This investment would have added 70 direct high-skilled and high paying jobs, such as engineering (i.e., design, mechanical, electrical software, flight test, environmental and manufacturing), production (i.e., planning, tooling, fabrication, quality, and final assembly) and business support. Under this agreement, the City of Long Beach payment to Weber Metals would have been \$790,000 and the community service fee paid to Long Beach would have been \$265,000 over the 15-years of the agreement.

The City of Long Beach is currently working with Weber Metals to determine if the company met their target investment and job creation numbers agreement, and would therefore qualify for an Investment Incentive amount. The City and Weber Metals are

collaborating to ensure that the appropriate reimbursement amount is determined and received by Weber Metals.

- e) On May 20th, 2023, the Marina City Council voted unanimously to adopt Resolution No. 2023-50 to create a CIIP and executed a community services agreement with Joby Aviation, Inc. Under the 15-year agreement and the creation of a proposed Enhanced Infrastructure Finance District, Joby would invest at least \$150 million in real and personal property. The agreement also stipulates commitment from local education partners to develop curriculum and workforce orientation programs that would establish the area as a hub for the emerging advanced air mobility sector. To date, no approval of a CIIP incentive was implemented by the adoption of the resolution, but discussions with Joby Aviation are ongoing.
- f) On June 27th, 2023, the Monterey County Board of Supervisors unanimously adopted Resolution No: 23-234 to establish a CIIP and authorize the county to negotiate a Community Services Agreement with Joby Aviation Inc. This program was created and negotiated in anticipation of Joby Aviation's proposed development exceeding \$150 million. To date, no approval of a CIIP incentive was implemented by the adoption of the resolution, but discussions with Joby Aviation are ongoing.

The Imperial County Board of Supervisors, during their regular meeting Tuesday, February 7, 2023, unanimously approved and adopted the County of Imperial Lithium Incentives Program. This program seeks to increase economic investments into Imperial County, including participation in the CIIP. It is not clear if Imperial County has entered into any agreements related to the CIIP.

- 3) **How does the CIIP Work?** If a city council or county board of supervisors approves the proponent's request, property tax is paid as it normally would be 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 company 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 \$75,000 (\$200 million - \$150 million = \$50 million x 1% rate x the 15% share), less the \$18,750 (25%) community service fee, for a net payment of \$56,250 back to the proponent annually for up to 15 years.
- 4) **Bill Summary and Author's Statement.** This bill reestablishes the CIIP until January 1, 2035 and makes related technical changes. This bill is sponsored by Imperial County.

According to the author, "Assemblymember Garcia has consistently supported the Capital Investment Incentive Program (CIIP) since taking office in 2014. CIIP remains a priority for Asm. Garcia due to its crucial role in assisting cities and counties with economic development. This incentive has successfully attracted major corporations and industries to underserved areas across California. CIIP has spurred investment from high-tech, aerospace, automotive, biotechnology, software, and environmental industries into the communities where they operate. These corporations can generate thousands of jobs, which are essential for the economic growth and regional development of cities and counties. Additionally, this legislation is particularly important as California is currently experiencing a decline in

manufacturing activity and an exodus of manufacturers, although there is enormous potential with the large amount of critical minerals, including lithium within the geothermal brine reserves in Lithium Valley. The capital incentives provided by CIIP incentivize businesses and encourage specific companies and strategic initiatives to remain in and continue investing in California.”

- 5) **Author Amendments.** The author has requested the Committee accept amendments to add an urgency clause and make other minor, technical changes.
- 6) **Previous Legislation.** AB 1900 (Brough), Chapter 382, Statutes of 2018, extended the sunset of the CIIP until January 1, 2024.

AB 726 (Garcia), Chapter 121, Statutes of 2021, allowed cities and counties to offer CIIP incentives to businesses 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.

- 7) **Arguments in Support.** According to Imperial County, sponsor of this bill, “Enacted in 1997 and extended in 2018, CIIP provides local government agencies with opportunities to attract large manufacturing facilities to invest in their communities. This program encourages industries, such as high technology, aerospace, automotive, biotechnology, software, environmental sources, and others, to locate and invest in their facilities in California.

“The most recent extension of the CIIP expired on January 1, 2024. Extension of the CIIP will give cities and counties the chance to build local community support for creating or retaining a business that commits to creating good paying jobs and other community benefits – in addition to the additional corporate and personal income tax collections. This local driven program allows cities and counties the opportunity to partner with manufacturing facilities to invest long term in their communities by offering partial property tax abatements. Extending this program would be particularly rewarding for California, which has suffered an exodus of manufacturers. A recent study by the Hoover Institution stated, ‘California lost a total of 352 headquarters in the period January 1, 2018, through December 31, 2021, and departures are accelerating as more relocation plans move to implementation.’

“The reauthorization of this program would be a significant tool as the County continues working on the LVIP [Lithium Valley Economic Opportunity Investment Plan]. The Overall goal of the LVIP is to secure private economic investment into the Imperial Valley Region in the form of lithium and rare mineral extraction, processing and manufacturing/packaging for end-user application, and renewable energy generation and storage in the form of geothermal, solar, wind, and energy storage.”

- 8) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Imperial County [SPONSOR]
California Manufacturers & Technology Association
League of California Cities

Opposition

None on file

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