

Date of Hearing: August 30, 2024

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 2922 (Garcia) – As Amended August 23, 2024

SUBJECT: Economic development: capital investment incentive programs.

SUMMARY: Reinstates the Capital Investment Incentive Program (CIIP) until January 1, 2035, and expands the program to cover lower initial investment amounts if a project proponent meets additional job creation requirements. Specifically, **this bill:**

- 1) Reestablishes the CIIP until January 1, 2035.
- 2) Authorizes the CIIP to offer incentives to proponents of a qualified manufacturing facility (QMF) with an assessed value that exceeds \$25 million if the job creation plan with respect to the relevant QMF contains the following:
 - a) The plan shall specify the number of jobs to be created by that facility, and the types of jobs and compensation ranges to be created thereby, and may include commitments for all of the following:
 - i) The total dollar amount of the proponent's compensation to workers.
 - ii) The hourly wage rate for each job classification.
 - iii) The value and type of fringe benefits for each job classification.
 - b) The plan shall include commitments by the proponent to provide both of the following:
 - i) A hiring preference for local residents, community area residents, or disadvantaged workers.
 - ii) A targeted hiring program, including all of the following:
 - (1) Meaningful outreach and recruitment activities to individuals facing barriers to employment or displaced workers.
 - (2) Hiring practices developed to provide fair access to and support the hiring of individuals facing barriers to employment.
 - (3) Directly support skill and career development for individuals facing barriers to employment. This may include collaboration with community groups and public entities.
- 3) 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.
- 4) Makes other technical, clarifying, and conforming changes.

5) Contains an urgency clause.

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 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 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: According to the Senate Appropriations Committee, pursuant to Senate Rule 28.8, negligible state costs.

COMMENTS:

- 1) **Bill Summary.** This bill reestablishes the CIIP until January 1, 2035. This bill also authorizes the CIIP to offer incentives to proponents of a QMF with an assessed value that exceeds \$25 million if the job creation plan includes additional job creation requirements. Imperial County is the sponsor of this bill.
- 2) **Author Statement.** 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.”
- 3) **Background.** The Legislature originally approved the CIIP to help local officials attract an Intel plant, but they never used the law [SB 566 (Thompson), Chapter 616, Statutes of 1997]. Legislators expanded the definition of a QMF to include CalEnergy Company’s plan to extract minerals from geothermal brine [SB 133 (Kelley), Chapter 24, Statutes of 1999]. In 2009, the Legislature further expanded the program to include other manufacturers that produce 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, (Perez), Chapter 486, Statutes of 2009]. In 2012, the Legislature expanded the program [SB 1006, (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2012] 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 North American Industry Classification System (NAICS) codes to include additional manufacturers, shifted the program responsibilities to GO-Biz, 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 entire program to sunset on January 1, 2018.

However, in 2017, the Legislature extended the program to January 1, 2019 [AB 755 (Garcia), Chapter 709, Statutes of 2017]. The Legislature extended the program once again

from to January 1, 2024 [AB 1900 (Brough), Chapter 382, Statutes of 2018]. AB 726 (Garcia), Chapter 121, Statutes of 2021, expanded on this section of law to permit cities and counties to offer CIIP incentives to businesses engaged in the manufacturing of fuels, electrical parts, or components used in clean transportation or the production of alternative fuel or electric vehicles.

Additionally, in 2019, AB 1248 (Garcia) would have expanded the CIIP to allow cities and counties to offer a capital investment incentive amount for 10 years to the proponent of a proposed “qualified targeted manufacturing facility” that makes an initial investment of over \$5 million in that facility. This bill was intended to target small and mid-sized manufacturers. However, it was subsequently amended significantly to address a different issue area.

- 4) **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.

- 5) **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.
- 6) **Arguments in Support.** According to California Association for Local Economic Development, "This measure proposes to extend the sunset on the existing Capital Investment Incentive (CIP) Program by 10 years, while offering a new incentive option for qualified manufacturers which invest more than \$25 million in a community and hire local workers, including those facing various employment challenges. CALED believes the \$25 million threshold will be a real gamechanger in the use of this program. Our members have been long been interested in the CIP program, but the minimum investment threshold of \$150 million has proved to be a major hurdle. We believe that establishing a \$25 million threshold option will expand the use of this incentive to grow local manufacturing jobs that hire local workers."
- 7) **Arguments in Opposition.** None on file.

REGISTERED SUPPORT / OPPOSITION:

Support

Imperial County [SPONSOR]
 California Association for Local Economic Development
 California Manufacturers and Technology Association
 California State Association of Counties
 City of Norwalk
 Energy Source
 Greater Coachella Valley Chamber of Commerce
 Imperial Regional Alliance
 Imperial Valley Economic Development Corporation
 Imperial Valley Regional Chamber of Commerce
 League of California Cities
 Southwest California Legislative Council

Opposition

None on file

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