

COUNTY OF SACRAMENTO
CALIFORNIA

51

APPROVED
BOARD OF SUPERVISORS

For the Agenda of:
December 4, 2007
10:45 AM

DEC 04 2007
By *Gandy H. Turner*
Clerk of the Board

To: Board of Supervisors

From: Department Of Economic Development and Intergovernmental Affairs

Subject: Proposed Changes To County's Economic Development Incentive Policy

Contact: Robert B. Leonard, Interim Director 874-7876

Overview

This item requests the Board's approval to add a utility tax rebate to the existing incentives available under the County's Economic Development Incentive Policy. The new incentive will allow the sharing of electrical utility tax revenue with high value projects in the unincorporated areas of Sacramento County. The incentive is an additional tool for the Board's use in the attraction of new businesses and the retention/expansion of existing ones. This incentive would be restricted to new and existing businesses that generate in excess of \$75,000 in annual electrical utility tax revenues to the County.

The purpose and goal of this program is to ultimately attract new business to Sacramento County which will increase County employment, diversify the economy, and increase County revenues, including that derived from the 2.5 percent utility tax.

Recommendations

1. Approve proposed changes to the County's Economic Development Incentive Policy that will allow the County to assist new and existing businesses generating in excess of \$75,000 in annual electrical utility tax revenues to the County with significant capital investments in permanent, non-portable improvements.
2. Authorize the Director of the Department of Economic Development and Intergovernmental Affairs to negotiate incentive agreements with new and existing businesses generating in excess of \$75,000 in annual electrical utility tax revenues to the County and to present them to the Board for approval.

Measures/Evaluations

The best evaluation of the success of this modification to the County's Economic Development Incentive Policy will be the attraction, retention and/or expansion of large, quality businesses in Sacramento County, an increase in electrical utility and property taxes, the creation of substantial numbers of high value and secondary jobs and the attraction of other catalyst employers.

Fiscal Impact

This proposed performance based incentive only applies to increases in electrical utility tax revenues and will not adversely impact existing electrical utility tax collections or the General Fund. In addition, the qualifying investment criteria should result in increased revenues including property and sales taxes, and indirect benefits to the economy from increased employment and investment.

BACKGROUND:

It is important to the prosperity of Sacramento County that we attract, expand and retain businesses that have substantial positive impacts on our economy and quality of life. The competition among cities, counties, states and countries for these employers is fierce.

Given the competitive environment to attract employers, the Board approved a countywide economic development incentive policy in 1994 that targeted businesses that constructed or expanded facilities resulting in significant capital investment and the creation of 50 or more full-time, high value jobs. The policy authorizes on a case-by-case basis incentives that can include a mix of the following: the rebate of unsecured property taxes for a fixed number of years; tax-exempt financing (through industrial bonds and other programs); facilitated permit processing; tax increment financing and other applicable incentives if appropriate. Additional details on the package of incentives offered are outlined in Attachment 1.

The economic development incentive policy has not been updated for a number of years. Staff is in the process of examining the policy to determine where adjustments are needed. The policy and proposed adjustments will be reviewed with the Board in the near future. Staff is recommending one adjustment, as described below, in advance of the comprehensive review.

DISCUSSION:

To change Sacramento County's competitive position, staff has identified an additional incentive that has the potential to both retain and increase revenues to the General Fund. This new incentive will rebate a portion of electrical utility tax revenues for high value projects in the unincorporated areas of Sacramento County. The incentive is an additional tool for the Board's use in the attraction of new businesses and the retention/expansion of existing ones. This incentive would be restricted to new and existing businesses that generate in excess of \$75,000 in annual electrical utility tax revenues to the County.

The incentive would be used to assist businesses with financing the cost of significant capital investment in permanent, non-portable improvements. Examples of these improvements could include building improvements, power substations, road and rail upgrades, etc. The incentive will operate on a pay-for-performance basis. If performance targets are met, then agreed upon capital investments could be reimbursed. The reimbursement amount would depend on the electrical utility tax revenue received by the County. The reimbursement could continue as long as performance targets are met and substantial capital investment is made.

The modification to the County's Economic Development Incentive Policy recommends defining users that generate in excess of \$75,000 as eligible for the incentive. The \$75,000 figure was developed to address new commercial/industrial (non-institutional) users generating significant electrical utility tax revenues and provide incentives to offset significant capital investment. The \$75,000 threshold would be adjusted upward periodically to take into consideration increases in electrical utility rates.

Our research indicates that the \$75,000 threshold would apply to less than 1% of commercial/industrial users in the unincorporated portion of Sacramento County. It is anticipated that a limited number of end users would meet the annual revenue generation threshold as recommended.

For the few existing users already generating in excess of \$75,000 in electrical utility tax revenues, staff recommends establishing a baseline equal to the prior year's actual revenues. For example, if the County received \$100,000 annually from an existing user, the baseline would be established at \$100,000. Annual receipts in excess of the baseline would be eligible for rebates for qualifying and agreed upon capital investments.

MEASURES/EVALUATIONS

The success of the new component of the incentive program can be measured by the private capital investment from qualified projects, the creation of jobs, the generation of utility tax, unsecured property tax, property tax and the attraction of support businesses.

FISCAL IMPACT:

For Fiscal Year 2006-07 the County collected \$15.8 million in revenue from the Utility User Tax including electric, gas, telephone, sewer and cable. The revenue from the electric utility tax portion of the collections are approximately \$5.6 million. As proposed, the rebate would not negatively impact revenue in that established criteria would apply to new or expanding operations. Therefore, the proposed rebate would not be applicable without significant private investment occurring for a new or established facility and a minimum of \$75,000 annually in electric utility tax revenue generated from the location.

The proposed incentive will not adversely impact existing electrical utility tax collections and the General Fund in that a base revenue collection of \$75,000 annually has been established as one of the criteria in order to qualify for the incentive. For those few existing users already

generating in excess of \$75,000, the baseline would be equal to their prior year's actual utility tax collection. In addition, staff anticipates increases in other revenues to County including property and sales taxes, and indirect benefits to the economy from increased employment and investment.

Respectfully submitted,

APPROVED:

ROBERT B. LEONARD, Interim Director
Department of Economic Development
and Intergovernmental Affairs

TERRY SCHUTTEN
County Executive

Attachment:

Attachment 1 Economic Development Incentive Package Details

Attachment 1 - Economic Development Incentive Package Details

The County's Economic Development Incentive Policy or Business Incentive Program currently provides a "package" of incentives for new or existing businesses in the unincorporated area of Sacramento County. Incentives are used if they result in the construction of new facilities or other capital investment which results in long-term commitment to the area.

Eligibility Requirements

Eligible businesses are new businesses which construct or expand facilities resulting in the creation of at least 50 full-time jobs with an average annual salary in excess of \$25,000. Any company with 50 or more existing employees that meets the \$25,000 annual requirement which rehabilitates its existing facilities in the unincorporated area of Sacramento would also be eligible for an incentive package.

Program Summary

The package is provided on a case-by-case basis through a mixture of incentive options such as:

- Rebate of unsecured property Tax for a fixed number of years
- Tax exempt financing (industrial development bonds & other programs)
- Accelerated & individualized permit processing
- Tax increment financing
- Employment & training services
- Construction of off-site improvements
- Use of redevelopment dollars where appropriate
- Capital costs for pretreatment investments
- Fee rebates or fee deferrals for certain capital impact fees associated with new construction which creates permanent jobs. Fee deferrals would be "interest free" for targeted companies.