SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

ITEM
3.15
(ID # 6908)

MEETING DATE:
Tuesday, May 22, 2018

FROM : ECONOMIC DEVELOPMENT AGENCY (EDA) AND TRANSPORTATION AND LAND MANAGEMENT AGENCY :

SUBJECT: ECONOMIC DEVELOPMENT AGENCY (EDA) AND TRANSPORTATION AND LAND MANAGEMENT AGENCY: Riverside County Business Incentive Program; All Districts. [$0]

RECOMMENDED MOTION: That the Board of Supervisors:

1. Find that the establishment of a business incentive program does not fall within the definition of a project under the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15378 (b)(4);

2. Receive and file the attached reports and recommendations for the Riverside County Business Incentive Program; and

3. Approve and authorize the County Executive Officer, Assistant County Executive Officer/ECD, and the Assistant County Executive Officer/TLMA, and/or their designees, to take all necessary steps to further refine and implement the Business Incentive Program, subject to approval by the County Chief Financial Officer and County Counsel.

ACTION: Policy

Robert Field, Assistant County Executive Officer/ECD 5/14/2018 Juan C. Perez, Director of Transportation & Land Management 5/17/2018

MINUTES OF THE BOARD OF SUPERVISORS

On motion of Supervisor Perez, seconded by Supervisor Jeffries and duly carried by unanimous vote, IT WAS ORDERED that the above matter is approved as recommended.

Ayes:	Jeffries, Tavaglione, Washington, Perez and Ashley
Nays:	None
Absent:	None
Date:	May 22, 2018
xc:	EDA, Transp.

Kecia Harper-Ihem
Clerk of the Board
By: Deputy

SUBMITTAL TO THE BOARD OF SUPERVISORS COUNTY OF RIVERSIDE, STATE OF CALIFORNIA

FINANCIAL DATA	Current Fiscal Year:	Next Fiscal Year:	Total Cost:	Ongoing Cost
COST	$ 0	$ 0	$ 0	$ 0
NET COUNTY COST	$ 0	$ 0	$ 0	$ 0
SOURCE OF FUNDS: N/A			Budget Adjustment:	No
			For Fiscal Year:	17/18

C.E.O. RECOMMENDATION: [CEO use]

BACKGROUND:

Summary

On January 23, 2018, the Riverside County Board of Supervisors (Board) directed the County Executive Officer, Chief Operating Officer, Assistant County Executive Officer/ECD, and the Assistant County Executive Officer/TLMA (collectively, County Team) to evaluate a series of conceptual business incentives that could assist business attraction and retention efforts in unincorporated communities. The County Team reviewed and evaluated the incentive framework and is recommending that the Board adopt a comprehensive Business Incentive Program consisting of several programs. Below is a summary of each proposed program and the attached Summary contains more detailed information.

Should these programs move forward, staff will prepare an application and evaluation process whereby potentially eligible businesses can be evaluated on a case by case basis and recommendations be brought back to the Board for individual project approvals. Marketing and promotion of these and other programs will be accomplished via a new website developed by the Economic Development Agency and via a new Riverside County Business Resource Guide.

1. **Creation of a partial sales tax sharing agreement**. This incentive may be used two different ways. Option A would be to use a sales tax sharing agreement in Board identified areas that would set aside a portion of the future sales tax increment to offset infrastructure costs, particularly in communities that lack the basic infrastructure needed to support local retail opportunities. Option B would be a sales tax sharing Agreement with private retailer which demonstrate a high level of public benefit through net sales tax generation, creation of local jobs, and/or provision of needed services in underserved communities.

2. **Creation of a partial Transient Occupancy Tax (TOT) Revenue sharing agreement.** Currently the TOT in unincorporated areas is 10% of gross rent. The TOT that is generated in the Wine Country community plan area is dedicated to repayment of sewer project costs and to facilitate new winery development. In other unincorporated areas where the TOT is not already committed, the County could establish a program to share a portion of the additional TOT revenues to reinvest in infrastructure.

3. **Expansion of the Industrial Development Bond program**. This program's parameters are governed by Federal and State government, however, the County could expand the marketing and promotion of the program via marketing materials, seminars, and website and social media promotion.

4. **Capital Investment Incentive Program**
   The Capital Investment Incentive Program (CIIP) allows companies that meet certain criteria to receive a rebate of a portion of their property tax. The CIIP provides property tax abatement for up to 15 consecutive years for large capital investment made by qualified manufacturing facilities (must exceed $150 million). The County can participate by making an annual payment of 75 percent of the property taxes generated by the new investment. On February 27, 2018 the Board established the CIIP and directed staff to create more detailed implementation policies. Hence, this program may be implemented as part of the Business Incentives Program.

5. **Development Impact Fee Deferral Program**
   The Development Impact Deferral Fee Program could incentivize businesses by reducing their start-up costs of development. This program would only apply to development fees solely under County control, such as DIF fees under Ordinance 659 and Road and Bridge Benefit District fees.

6. **Enhanced Infrastructure Financing Districts/Community Reinvestment Act Districts**
   The California State Legislature created these two financing programs, which are designed to provide local jurisdictions with mechanisms to access tax increment funds for infrastructure, community development and affordable housing. Review of these programs has determined they will be beneficial for a limited number of projects in very specifically defined areas.

Given that these programs should be limited to projects that provide a very significant public benefit, staff is recommending that they require a 4/5th vote of the Board of Supervisors for approval when being applied to a specific project, rather than a broader area of benefit. For specific projects it should be noted that in some cases the usage of a business incentive may trigger a requirement that prevailing wages be paid. The specific facts of each case would be evaluated on a case by case basis to determine whether or not prevailing wages would be triggered.

Certain business incentives (value of $100,000 or greater) provided through the Business Incentive Program may be deemed economic development subsidies which are subject to the notice, public hearing and reporting requirements set forth in California Government Code Section 53083.

The establishment of the proposed Business Incentive Program was reviewed and determined not to fall within the definition of a project under the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15378 (b)(4). The CIIP program relates to establishing a funding mechanism, i.e., capital investment incentive amounts, to attract facilities to invest in the County, which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. Projects, once identified, will be required to comply with CEQA and other applicable environmental regulations.

Impact on Residents and Businesses
The Business Incentive Program will assist in the attraction and retention of businesses to the County of Riverside by offering incentives that stimulate job creation, capital investment, and taxable sales.

Additional Fiscal Information
N/A

Contract History and Price Reasonableness
N/A

ATTACHMENTS:

- Incentive programs reports and recommendations summary

RF:HM:CH:LT:RM

PARTIAL RETAIL TAX SHARING AGREEMENT

Description of Program:

A partial tax sharing agreement is generally an arrangement entered into to share or rebate a portion of a retailers' generated retail sales tax. This is used as an economic development tool to incentivize the start of a new business that will provide significant public benefits. A form of sales tax sharing arrangement that could be considered (Option A) to stimulate economic development is the setting aside of a portion of new sales tax generated in an area to help offset the cost of providing infrastructure, and thereby lowering the cost of development overall. The County has done this in two instances in recent memory – in November 2013 in the Cabazon Community Revitalization Act, and September 2014 for the Wine Country. In these cases, the County would use the funds for the construction of public infrastructure as a County-led project or in conjunction with a utility service provider (such as water or sewer).

Another form of a sales tax sharing arrangement which is used by some jurisdictions, referred to as Option B in this analysis, involves the local agency providing a direct reimbursement of a portion of the sales tax generated for a set period of time to a specific business. The reimbursement can be general in nature or targeted for a specific use, such as reimbursement of public infrastructure costs.

Policy Considerations:

The County of Riverside receives a very low proportion of our overall revenues from sales tax as compared to property tax, especially in comparison with our local cities. Major commercial centers that generate significant sales tax tend to be located in Cities that have higher population density and are often more centrally located to freeways and major transportation hubs. Given this, the potential increase of sharing of sales tax should be carefully vetted and considered to ascertain that there would be a significant overall net benefit to the County from such an arrangement.

Option A – The Board may want to consider identifying additional areas that would be subject to setting aside a portion of the future sales tax increment to offset infrastructure costs, particularly in communities that lack the basic infrastructure needed to support local retail opportunities.

Option B – Sales Tax Sharing Agreement with private retailer. Businesses to be considered under this program should demonstrate a high level of public benefit through net sales tax generation, creation of local jobs, and/or provision of needed services in underserved communities.

Recommended Action:

That the County consider the use of partial retail tax-sharing arrangements on a case-by-case basis that meet the following general criteria:

Option A:

1. Consideration be given for establishing additional areas where a portion of the sales tax can be set aside to specifically offset the cost of providing public infrastructure (Infrastructure may include but is not limited to road improvements, water supply, and sewer connections).
2. This option would be most applicable in areas that have the potential for multiple businesses (such as a business corridor or tourism hub)
3. Consider an appropriate longer term (such as 10 years) for the sales tax sharing to be in affect

Option B:

1. Projects that generate a high level of sales tax, such as Ecommerce or regional retail centers; and/or can be considered individually for specific sharing of sales tax.
2. Projects that generate a significant number of local permanent jobs, and/or
3. Projects that provide a highly needed service component to an underserved community
4. Projects to be carefully vetted by the Executive Office, EDA, and TLMA staff and a recommendation provided to the Board of Supervisors
5. Requires approval by a 4/5's vote from the Board of Supervisors
6. The period of time whereby a portion of the sales tax would be shared is limited and short term, such as a 5-year maximum

Lead County Department:

Executive Office in conjunction with the Economic Development Agency and the Transportation & Land Management Agency

Action Items:

In order for a specific project (Option B) to be considered for eligibility the following are to be prepared:

1. Project application stating the anticipated economic benefit and permanent job creation
2. County to prepare an independent Financial Assessment
3. Review and analysis by County staff, with a recommendation made to the Board of Supervisors

Anticipated Outcomes:

Adoption of this program will provide with the County with a significant economic development tool that is used by other local agencies to attract major tax generators.

PARTIAL TRANSIENT OCCUPANCY TAX SHARING ARRANGEMENTS

Description of Program:

A partial transient occupancy tax sharing arrangement is a mechanism to reinvest a portion of a business's generated Transient Occupancy Tax (T.O.T.), which applies to hotels and other hospitality businesses. This is generally done by using a portion of the T.O.T. to reinvest in offsetting the cost of infrastructure in the local community where the project is located. Generally, the local agency takes the lead in constructing the needed infrastructure that is needed to support the expansion of the hospitality uses, and reimburses itself from the T.O.T. sharing arrangement.

Policy Considerations:

Transient Occupancy Tax sharing agreements are meant to expand overall hospitality uses in a specific area by enhancing overall infrastructure that all projects in the area will benefit from, and that in certain cases are the limiting factor (such as lack of sewer) that prohibits the expansion of those uses. It usually works by establishing a baseline of T.O.T. generated in a certain geographic area and then designating a portion or all of the incremental growth from that point forward, for a specified period of time, as available to reinvest back into infrastructure projects.

The County has made use of T.O.T. sales tax sharing on one recent occasion, in the Temecula Valley Wine Country. The growth in T.O.T. over a baseline year is being used to re-pay a financial contribution that the County made to the Eastern Municipal Water District for their installation of a backbone sewer collection system.

Recommended Action:

That the County consider the use of transient occupancy tax sharing arrangements on a case-by-case basis as follows:

1. The Board of Supervisors consider establishing additional areas that may experience an increase in the hospitality industry for use of T.O.T. sharing arrangements
2. Any T.O.T. sharing be limited to the increment generated by business expansion by setting a baseline year, and does not re-direct existing T.O.T. that already contributes to County revenues
3. The T.O.T. sharing be specifically identified to fund infrastructure improvements that benefit the hospitality industry and local community in the area
4. At such time as a T.O.T. Sharing Arrangement is created, a specific targeted maximum financial amount or period of time be established in order to cap the contribution

Lead County Department:

Executive Office in conjunction with the Economic Development Agency and the Transportation & Land Management Agency

Action Items:

1. Staff to analyze and identify potential additional areas for the establishment of a T.O.T. sharing arrangements and recommend to the Board of Supervisors
2. Recommendation would include specific infrastructure uses that would benefit the hospitality industry and community at large. This may include consultation with local utility providers
3. A baseline assessment of current T.O.T. prepared as applicable
4. A recommended maximum amount of future T.O.T. or time period for determining the amount to be generated be recommended to the Board of Supervisor

Anticipated Outcomes:

The establishment of a Transient Occupancy Tax sharing arrangement would be a tool to increase the number of hospitality businesses in the unincorporated area. It would provide a mechanism for long-term growth in T.O.T. that accrues to general County revenues, as well as expand the creation of jobs in the hospitality industry.

INDUSTRIAL DEVELOPMENT BOND TAX-EXEMPT FINANCING

Description of Program:

Industrial Development Bonds (IDBs) are tax-exempt securities issued by cities, counties, and joint powers authorities (JPAs), to provide small- to medium-sized manufacturers money for land purchases, building construction, facility expansion, new production equipment acquisition, and solar and energy conservation retrofits. Benefits of IDB financing include below market interest rates, long-term financing, and it is available statewide without limitations to specific areas or communities. Overall, IDB financing reduces total financing costs so more capital can be invested back into the organization's operations.

Lead County Department:

Economic Development Agency

Recommended Action:

Implement the following Action Items:

Action Items:

1. Marketing of program to cities, chambers of commerce, manufacturing associations, and other groups.
2. Partner with Statewide Joint Powers Authorities that Riverside County is a member of to market the program. Those include the California Enterprise Development Authority, California Municipal Finance Authority, California Statewide Communities Development Authority, and the California Public Finance Authority
3. Conduct workshops and seminars throughout the county regarding IDB financing.

Anticipated Outcomes:

Increased utilization of the financing available through partner agencies by manufacturers.

CAPITAL INVESTMENT INCENTIVE PROGRAM

Description of Program:

The State of California has an established program that allows cities and counties a way to attract large scale manufacturers considering locating or expanding in their communities. The Capital Investment Incentive Program (CIIP), allows manufacturing companies that meet certain criteria to be eligible to receive a rebate of a portion of their property tax. The eligible companies must be in the manufacturing sector.

The CIIP provides property tax abatement for up to 15 consecutive years for large capital investment by qualified manufacturing facilities (must exceed $150 million). The County can participate by making an annual payment of 75 percent of the property taxes generated by the new investment.

The CIIP establishes a property tax base that must be achieved before any subsidy can be considered. The property tax base established is the sum of the existing property tax base, plus the ad valorem value of the next $150 million in investment. The CIIP provides for sharing of property tax above the base at 75 percent to the property owner and 25 percent community service payment to the County over a period of 15 years. If a potential project lies in a former Redevelopment project area, Redevelopment Dissolution Law dictates that the amount of property taxes collected by the County from the site is limited to the amount of property tax revenues after all enforceable obligations of the former redevelopment agency are paid.

Lead County Department:

Economic Development Agency

Recommended Action:

On a case by case basis and as needed, implement the following Action Items below:

Action Items:

The CIIP program will be offered on a case by case basis to large manufacturing operations that meet the established criteria. In order to be considered for eligibility the manufacturer must provide the following to the County.

1. Submission of a letter to the County Economic Development Agency requesting the CIIP incentive and the desire to enter into a Community Services Agreement.
2. Provide a job creation plan detailing hiring projections, salary and benefit levels, and timing of hiring.
3. Provide a detailed description of the capital investment being contemplated.

4. Execute a Community Services Agreement with the County that includes recapture provisions in case the facility is not operated in accordance with the job creation and investment plan.

Anticipated Outcomes:

Incentive to be utilized during attraction efforts for qualified manufacturers.

DEVELOPMENT IMPACT FEE DEFERRAL PROGRAM

Description of Program:

The Development Impact Fee Deferral Program would provide an economic stimulus by deferring payment of development impact fees, thereby reducing the start-up costs of certain developments in the unincorporated area. The County requires the payment of various types of mitigation fees to offset development impacts and fund construction of transportation infrastructure or acquisition of land for open space. These fees are required prior to the issuance of a building permit or certificate of occupancy for a project, and can constitute a significant cost at project start-up.

Policy Considerations:

Development Impacts Fees can generally be categorized into Regional Fees (which apply to participating Cities as well as the Unincorporated area) or County- specific Fees (only in the Unincorporated area) Regional fees are set and administered by regional bodies, in which the County is a participating member agency, such as the Western Riverside Council of Governments (WRCOG) – Transportation Uniform Mitigation Fee (TUMF); the Regional Conservation Authority (RCA) – Multispecies Habitat Conservation (MSHCP) fee; the Riverside County Habitat Conservation Agency (RCHA) Stephen's Kangaroo Rat fee; or the Coachella Valley Association of Governments (CVAG) – Eastern County MSHCP and TUMF fees.

County-specific fees includes a Development Impact Fee (DIF) that goes towards the funding of other facilities needed to support development such as roads, traffic signals, fire stations, criminal justice facilities, libraries, and regional parks and trails. In certain high-growth areas, the County has also established Road and Bridge Benefit Districts (RBBD's) to fund additional specific transportation infrastructure; and the Flood Control District has Area Drainage Plan (ADP) fees to fund flood control facility construction and flood plain preservation in accordance with a flood control master plan.

It should be noted that development impact fees are separate and apart from other fees that the County collects which are associated with the cost of processing development applications.

A fee deferral program would focus on the County-specifics Fees (such as DIF, RBBD, and ADP) that are collected and administered by the County. The expansion of such a policy to include other regional fees would require approval by the regional bodies that establish and administer said fees.

A fee deferral program should include a security mechanism (such as a lien agreement) whereby the County has the legal ability to enforce the collection of fees that are deferred, since fees are now paid either prior to building permit issuance or prior to certificate of occupancy .

The program should also specify a limited time period for the payback of the deferred amount in annual installments, so that it can be reasonably tracked and monitored for compliance and provide for receipt of payment within an expected time period where the fees are available for County use.

Fee deferral programs can include an interest component (such as prime rate, or prime-plus-2%) to acknowledge the time value of money being deferred. Oftentimes, development impact fees are structured into the private sector loans that are obtained to finance the overall development of the property, so this program would be most beneficial to assist business projects that may otherwise be limited in obtaining sufficient private sector funding to pay the development impact fees.

Recommended Action:

That the County consider the use of a development impact fee deferral on a case-by-case basis meeting the following general criteria:

1. Projects that generate a significant number of local permanent jobs; and/or
2. Projects that provide a highly needed service component to an underserved community
3. Program would apply to County-specific fees only (DIF, RBBD, possibly Flood ADP)
4. Projects to be carefully vetted by TLMA and EDA staff and a recommendation provided to the Board of Supervisors
5. Requires approval by a 4/5's vote from the Board of Supervisors
6. The period of time whereby the fee deferral would be in place is limited and short term, such as a 5-year maximum
7. Deferral mechanism to include an interest component
8. A security mechanism to be established, such as lien agreement and/or covenant that goes with the land, giving the County the legal ability to recover unpaid fees

Lead County Department:

Transportation & Land Management Agency in conjunction with the Economic Development Agency

Action Items:

In order to be considered for eligibility the following are to be prepared:

1. Project application stating the anticipated economic benefit and permanent job creation
2. County to prepare an independent Financial Assessment
3. Review and analysis by County staff, with a recommendation made to the Board of Supervisors

Anticipated Outcomes:

Adoption of this program would provide the County with another tool to facilitate economic development by reducing development start-up costs.

ENHANCED FINANCING INFRASTRUCTURE FINANCING DISTRICTS/COMMUNITY REINVESTMENT ACT DISTRICTS

Description of Program:

The California State Legislature has created two financing programs designed to provide local jurisdictions with mechanisms to access tax increment funds for infrastructure, community development and affordable housing. These programs include Enhanced Infrastructure Financing Districts (EIFD's, SB 628), Community Revitalization Authorities (CRIA, AB 2) and the retooled version of Infrastructure Financing Districts now known as Infrastructure and Revitalization Financing Districts (AB 229).

It should be noted that these tools will not result in any new revenue for the County. They will simply expand the usefulness of infrastructure financing districts and provide a significantly scaled down version of former redevelopment agencies.

Review of these programs has determined they will be beneficial for a limited number of projects in very specifically defined areas. This limited scope should not deter the County from examining eligible project areas and infrastructure and housing needs within these underserved communities. This examination will serve multiple purposes including: determining county-wide infrastructure investment priorities; establishing an affordable housing development plan in the unincorporated areas with an emphasis on transit oriented development, workforce housing and senior housing; and earmarking neighborhoods of concentrated poverty for cross-sector community development activities. This information will facilitate a more strategic approach to County's development projects and will also further the objectives of the Riverside County Economic Development Plan: 5 in 5.

Lead County Department:

Economic Development Agency

Recommended Action:

Identify specific projects in unincorporated communities that would qualify for these financing programs and begin process of implementation.

Anticipated Outcomes:

In limited cases, these financing tools would allow for much needed infrastructure to be constructed to stimulate and support economic development.