



GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

STATE OF CALIFORNIA • OFFICE OF GOVERNOR GAVIN NEWSOM

Capital Investment Incentive Program

Pursuant to California Government Code Section 51298(e)(3)

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Program Overview

Enacted in 1997 and extended in 2018, Government Code Section 51298-51298.5 established the Capital Investment Incentive Program (CIIP) to provide local government agencies with opportunities to attract large manufacturing facilities to invest in their communities and to encourage industries, such as high technology, aerospace, automotive, biotechnology, software, environmental sources, and others, to locate and invest in those facilities in California.¹ The CIIP enables local governments to offer a partial property tax abatement for qualified manufacturing facilities for assessed property values in excess of \$150 million.²

Procedurally, once a local government agency codifies a CIIP by resolution or local ordinance, the program authorizes a local government agency to rebate a *capital investment incentive amount* (as defined by statute) to a manufacturer Proponent that is equal to the local government agency's ad valorem property taxes owed on the manufacturing property in excess of the first \$150 million assessment for up to 15 years.³

The incentive may only be offered after the Proponent and the local government agency enter into a community services agreement. The community services agreement requires the Proponent to commit to certain obligations, including a job creation plan specifying the number of jobs to be created by the facility with compensation ranges greater than the state average weekly wage; payment of an annual community services fee equal to 25 percent of the capital investment incentive amount, not to exceed \$2 million per year; and other provisions.

If a Proponent fails to meet these requirements, the local government agency is entitled to repayment of any amounts paid.

Only specified types of manufacturing facilities qualify for the CIIP, as listed below.

- Manufacturing as described in Codes 3321 to 3399 of the 2012 North American Industry Classification System (NAICS) Manual (e.g., manufacturing of architectural and structural metals, semiconductors, aircraft components, medical equipment).
- Research and Development in Biotechnology, NAICS Code 541711.
- Research and Development in the Physical, Engineering and Life Sciences, NAICS Code 541712.
- A business engaged in the recovery of minerals from geothermal resources, including the proportional amount of a geothermal electric generating plant that

¹ Includes a county, city and county, or city.

² Special districts – excluding school districts and community college districts – may elect to participate in the partial property tax abatement incentive.

³ A Proponent is the party or parties named in the CIIP application to the local government agency where the qualified manufacturing facility is to be constructed.

- is integral to the recovery process by providing electricity for it.⁴
- A business engaged in the manufacturing of parts or components related to the production of electricity using solar, wind, biomass, hydropower, or geothermal resources on or after July 1, 2010.⁵
 - A business engaged in the manufacturing of fuels, electric parts, or components used in the field of clean transportation or the production of alternative fuel vehicles or electric vehicles.⁶

This report covers program activity through June 30, 2021. The law requires that any local government agency that elects to establish a CIIP must notify the Governor's Office of Business and Economic Development (GO-Biz) of its election to do so, no later than June 30th of the fiscal year in which the election was made.⁷

Since the program was extended through 2024 through Assembly Bill 1900 (Brough, Chapter 382, Statutes of 2018), GO-Biz has engaged with various communities regarding CIIP agreement formation for specific companies and strategic initiatives, such as Lithium Valley, zero emission vehicle manufacturing, and aerospace and defense manufacturing.

While none of these engagements have led to the formation of a CIIP, GO-Biz continues to provide technical assistance and support on execution of the program.

⁴ Added to CIIP law through adoption of Senate Bill 133 (Kelley, 1999).

⁵ Added to CIIP law through adoption of Assembly Bill 904 (V.M. Perez, 2009).

⁶ Added to CIIP law through adoption of Assembly Bill 726 (Garcia, 2021).

⁷ Government Code Section 51298(e).

2021 Legislative Update

Governor Newsom signed Assembly Bill 726 (E. Garcia, Chapter 121, Statutes of 2021) which amended the CIIP law. AB 726 expanded the qualified manufacturing facilities eligible for the incentive to include businesses engaged in the manufacturing of fuels, electric parts, or components used in the field of clean transportation or the production of alternative fuel vehicles or electric vehicles. In addition, the existing law had authorized a county, city, city and county, or special district to participate in the property tax rebate incentive. AB 726 also explicitly excluded school districts or community college districts from the eligible local government agencies that may participate in the CIIP.

Local Capital Investment Incentive Programs

The governing body of a county, city and county, or city may establish a CIIP by adopting an ordinance or resolution. The following is a list of CIIPs that have been established in California and reported to GO-Biz:

City of Palmdale

On July 2, 2014, the Palmdale City Council adopted Resolution CC 2014-094 to establish a CIIP.

County of Los Angeles

On June 30, 2015, the County of Los Angeles Board of Supervisors adopted Resolution 15-2999 to establish a CIIP.

City of Long Beach

On September 1, 2015, the Long Beach City Council adopted Resolution-15-0104 to establish a CIIP.

Community Service Agreements

The following provides the community service agreements that have been established and reported to GO-Biz but did not result in capital investment incentive payments:

City of Palmdale and Lockheed Martin Corporation

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 invest approximately \$385,000,000 in new facilities and equipment at its Palmdale Location should it secure the Department of Defense contract to manufacture the Advanced Strategic Aircraft Program. This investment would add 1,100 direct high-skilled and high-paying jobs.

Under this agreement, the total Palmdale capital investment incentive payment to Lockheed Martin will be an estimated \$740,000 over the 15-year agreement. In return, Lockheed Martin would pay the Community Service Fee paid to 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.

County of Los Angeles and Lockheed Martin Corporation

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 invest approximately \$385,000,000 in new facilities and equipment at its Palmdale Location should it secure the Department of Defense contract to manufacture the Advanced Strategic Aircraft Program. This investment would add 1,100 direct high-skilled and high-paying jobs.

Under this agreement, the County of Los Angeles payment to Lockheed Martin would be \$3,089,977 and the Community Service Fee paid to the County will be \$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.

County of Los Angeles and Weber Metals, Inc.

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 invest approximately \$295,000,000 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 add 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 County of Los Angeles payment to Weber Metals will be \$1,045,825 and the community service fee paid to the County will be \$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. Currently, Weber Metals head count is short of the job creation targets stipulated in the job creation plan. Weber Metals anticipates the recovery of the industry demand will slowly increase and take more than one year to reach the job creation targets in the agreement between Weber Metals and the County of Los Angeles. As a result, the County of Los Angeles has not initiated the capital investment incentive payment.

City of Long Beach and Weber Metals, Inc.

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 invest approximately \$295,000,000 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 add 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 will be \$790,000 and the community service fee paid to Long Beach will be \$265,000 over the 15-years of the agreement.

As referenced in the CIIP status update between the County of Los Angeles and Weber Metals, Weber Metals has not met the job creation targets stipulated in Weber Metals' job creation plan. Therefore, the city has not initiated the capital investment incentive payment.