Date of Hearing: April 17, 2012

ASSEMBLY COMMITTEE ON JOBS, ECONOMIC DEVELOPMENT AND THE ECONOMY
V. Manuel Pérez, Chair
AB 1530 (Huffman and Olsen) – As Amended: March 29, 2012

SUBJECT: Clean Manufacturing and Job Creation Incentive Act of 2012

SUMMARY: Enacts the Clean Manufacturing and Job Creation Incentive Act of 2012, which establishes a process for local governments to designate clean manufacturing zones. Within these zones no qualified personal property is taxed and local governments have the option of providing other incentives. Specifically, this bill:

1) Makes various findings and declarations relating to the California economy, in general, and the role of high-tech manufacturing within the economy, more specifically. Among other findings and declarations, the bill also states that one of the major obstacles identified by businesses in opening new facilities in California are delays related to acquiring the necessary state and local licenses, permits and other regulatory approvals.

2) Authorizes a local legislative body to establish, by ordinance or resolution, a clean manufacturing zone for the purpose of providing incentives to manufacturing businesses to locate within the jurisdiction. Local legislative bodies include a city, county, or city and county.

3) Defines a "clean manufacturing zone" as an area of a city or county that is designated by its legislative body as a clean manufacturing zone and is suitable for commercial and industrial use.

4) Exempts from taxation, beginning on July 1, 2013, all qualified personal property used within a clean manufacturing zone.

5) Defines "manufacturing" as the activity of converting or conditioning property by changing the form, composition, quality, or character of the property for sale at retail or use in manufacturing of a product to be sold at retail. Manufacturing includes any improvements to tangible personal property that results in a greater service life or greater functionality than that of the original property.

6) Defines "qualified personal property" as property that is purchased on or after January 1, 2013, for use in a clean manufacturing zone. Qualified personal property includes, but is not limited to, equipment or devices used or required to operate, control, regulate, or maintain machinery and equipment, including, without limitation, computers, data processing equipment, and computer software, together with all repair and replacement parts with a useful life of one or more years, whether purchased separately or in conjunction with the machinery or equipment.

EXISTING LAW:

1) Authorizes the establishment of 41 enterprise zones and eight Local Agency Military Base Realignment Areas for the purpose of stimulating economic development in historically underserved communities. Business located in designated communities have the option of accessing certain state tax benefits, including a tax credit for hiring employees that live in the zone or employees that face specified barriers to employment and a sales tax exemption for capital equipment.

2) Authorizes cities and counties to pay a qualified manufacturing facility a "capital investment incentive amount," which is essentially a property tax rebate on the amount of the assessed value of the facility in excess of $150 million for up to 15 years, if the governing body of the city or county elects to establish a Capital Investment Incentive in its jurisdiction. To qualify for this incentive, the manufacturer must establish a job creation plan; pay an annual "community services fee" of up to $2 million; and sign an agreement to repay the property tax rebate if certain conditions are not met.

3) Subjects all property in the state to taxation. There are, however, specific exemptions including, but not limited to: property owned by nonprofit corporations, possessory interests in property acquired by certain state financing authorities, property owned by specified private higher education entities, and business inventories.

FISCAL EFFECT: Unknown

COMMENTS:

1) Author's purpose: According to the author, "Manufacturing is a cornerstone in California's economy, providing high-wage jobs for skilled employees and generating significant tax revenues for the state and for local jurisdictions. Numerous reports and surveys have identified delays in acquiring and approving permits as a major deterrent to new and expanding manufacturing businesses choosing to locate in California. California must compete with other states to attract high-skill, high-wage manufacturing businesses and jobs, and to retain manufacturing jobs and facilities as companies grow and expand, which in turn can stimulate and support new businesses and jobs in a range of sectors. AB 1530 creates incentives for new manufacturing businesses to locate in California and for existing businesses to remain here and expand."

   The bill is not limited to specific types of manufacturing, and does not circumvent or shortcut the permitting and review process. What it does is allow local jurisdictions to designate an appropriate space as a Clean Manufacturing Zone, secure the permits and approvals in advance, and then attract manufacturing businesses with the promise of pre-approved permits and the added incentive of a property tax exemption on new equipment. AB 1530 will stimulate growth in our manufacturing industry, without compromising California's high environmental, public health, and safety standards."

2) Policy question on local government equity: Manufacturing plays an important role within the California economy, supporting high wage jobs and small businesses within the expanded supply chain and exports of California products. These activities serve as a foundation for local and state tax revenues.

AB 1530 proposes to offer incentives to fast-track permitting and exempt manufacturers from business equipment taxes, in perpetuity. These incentives are designed to attract more firms and serve to increase the ability of these manufacturers to expeditiously set up shop resulting in stronger local communities, the creation of new jobs and, ultimately, an increase in local and state revenues.

In the short run, however, these potential long-term gains are achieved through diverting local property taxes. Concerns have been raised that this diversion is not appropriate without some provision for consultation and possibly consent by the affected taxing entities. To the extent that schools are affected, the state General Fund may need to back-fill.

In addressing this concern, the committee may wish to consider both sides of the coin. On one side, giving each taxing entity a say regarding whether their share of property taxes will be committed to the zone seems fair and provides for equitable treatment. On the other side, if all the affected taxing entities opt-out of the tax exclusion program, there will not likely be sufficient moneys to attract manufacturers.

3) Manufacturing report: According to a June 2010 report by the Milken Institute, "Manufacturing 2.0: A More Prosperous California," the challenges in the manufacturing industry serve as an early warning of the challenges facing the state's economy as a whole. The report finds that while manufacturing still drives the state's economy, California's competitive position is losing ground to other states and nations based on its regulatory climate, tax burden and reputation as a difficult and costly place to do business.

One of the report's key findings is that California is losing a larger share of manufacturing employment at a faster rate than other states. In addressing these challenges, the report recommends the state develop a new cooperative relationship that undertakes the following:

- Streamlining regulatory procedures for manufacturers and increasing transparency and accountability in the regulatory process;
- Enhancing public incentives through better planning, coordination across government agencies and partnering with the public sector;
- Launching an industry-led campaign to encourage Californians to pursue careers in manufacturing;
- Creating a state-wide network of training, research and business incubation to assist entrepreneurs to start manufacturing businesses; and
- Creating a public-private initiative to conduct research, develop new technologies and commercialize more efficient and environmentally sustainable manufacturing practices.

Site Selection Magazine, a trade paper for the business development community, reports that from 2007 to 2009, California had the slowest growth in manufacturing capacity among the nation's 25 most populous states. While the national average of new manufacturing sites was 28.7 new facilities during this time period, California gained only 3.7.

AB 1530 proposes a framework for addressing these recommendations and provides local governments with a new tool for attracting manufacturing. The bill, however, is silent about what types of incentives local governments can provide, excluding the exemption on business property taxes. Amendments, described later in the analysis, propose that each local government, as a condition of establishing a clean manufacturing zone, designate a permit streamlining ombudsman and specify the other types of incentives being offered.

4) Manufacturing incentives in other states: California communities are in competition to attract and retain manufacturers. Many states have developed economic development programs that target manufacturing generally, while others focus on sub-industry and sub-subindustry sections such as energy generation, information technology, biotechnology and food processing. As an example, the U.S. Department of Energy has taken a closer look at state incentives related to attracting renewable energy production and manufacturing and reports that 24 states have tax credits, 28 states authorize property assessed clean energy (PACE) programs, and 38 states offer property tax-based incentives.

   The programs listed below include four nationally recognized state initiatives.

   a) *Michigan SmartZones*: Michigan's 15 SmartZones include technology business accelerators and incubators that provide the critical entrepreneurial and commercialization support services essential to growing start-up ventures. The program consists of collaborations among universities, industry, research organizations, government and other local institutions and resulted in regionally based high-tech zones which target growth in a specific economic sector that fits the geographic region's strengths and needs, creating clusters of high-skilled, high-paying jobs. According to the Michigan Economic Development Corporation's website, the Michigan SmartZone network is the framework around which the state's entrepreneurial and innovation ecosystem has blossomed.

   b) *Ohio Business Gateway*: This program is a web-based filing and payment system that allows business taxpayers to file and pay various state level taxes to different state agencies electronically at one web site for free. The program is designed to provide a "One-Stop Shop" for businesses to comply with a variety of state agency tax and reporting requirements, including sales tax, employer withholding, worker's compensation, unemployment compensation and unclaimed funds.

   c) *Arizona Clean Technology Property Tax Reduction and Tax Credit*: The goal of the program (enacted in 2009) is to encourage business investment that will produce high quality employment opportunities and enhance Arizona's position as a center for production and use of renewable energy products. The program offers two benefits: up to a 10% refundable income tax credit and up to a 75% reduction on property taxes for 10 years, for companies that are primarily engaged in manufacturing or have headquarters for producing systems and components that are used or useful in manufacturing renewable energy equipment. To be eligible for these benefits, companies must meet and maintain certain requirements including pay wages above the state's annual median wage, pay certain health care costs and make annual investments in equipment.

   d) *Missouri TechLaunch*: The Missouri Technology Corporation (MTC) is a public-private partnership created by the Missouri Legislature to "promote entrepreneurship and foster the growth of new and emerging high-tech companies." One MTC initiative is the Missouri TechLaunch which offers pre-seed funding to start-ups for intellectual property development and evaluation, including in-depth market analysis, competitive analysis, proof of concept, and prototype design and development. Individual awards cannot exceed $100,000 and may be in the form of equity or convertible debt.

AB 1530 proposes the development of manufacturing incentive zones, which will help fast track approvals (described under proposed amendments) and provide for a business equipment tax exemption.

5) Governor's Office of Business and Economic Development: In April 2010, the Governor's Office of Economic Development was established to provide a One-Stop-Shop for serving the needs of businesses and economic developers. While initially established through Executive Order S-01-10, the office was later codified and renamed as the Governor's Office of Business and Economic Development (GO-Biz), in AB 29, Chapter 475, Statues of 2010. Since its inception, GO-Biz has served over 3,000 businesses, 95% of which are small.

   Among other programs, GO-Biz provides permit assistance for new and expanding businesses, as well as administering the Innovation Hub (iHUB) program in partnership with the statewide network of Small Business Development Centers. There are currently 12 regional iHUBs located throughout the state. The iHUB program is designed to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters. Key assets and partners of the initiative include technology incubators, research parks, universities, federal laboratories, economic development organizations, business groups, and venture capitalists.

   GO-Biz is also sponsoring a permit streamlining pilot project, which will offer a One-Stop-Shop for state and local permits. The pilot, launched in partnership with the City and County of San Francisco, will allow a business owner to login to a single Web site (24x7) and apply for and pay all necessary city, county and state permits.

6) The California economy and manufacturing: California is one of the largest and most diversified economies in the world with a state gross domestic product (GDP) of nearly $1.9 trillion in 2010. Historically, the state's significance in the global marketplace resulted from a variety of factors, including: its strategic west coast location that provides direct access to the growing markets in Asia; its economically diverse regional economies; its large, ethnically diverse population, representing both a ready workforce and significant consumer base; its access to a wide variety of venture and other private capital; its broad base of small- and medium-sized businesses; and its culture of innovation and entrepreneurship, particularly in the area of high technology. If California were a country, its 2010 GDP would place it 9th in the world.

   Manufacturing is one of the state's top five private industry sectors, responsible for employing 1.24 million workers (8.9%) and contributing over $206.2 billion to the state's $1.9 trillion GDP. Manufacturing employment is sometimes referred to as the gold standard because it pays high wages (usually with benefits), supports the state's access to the broader global market and provides a key link in the extended network of small- and medium-sized businesses that participate in the production, distribution and retail supply chain. Further, the Milken Institute estimates that every job created in manufacturing supports 2.5 jobs in other sectors. In some industry sectors, such as the electronic computer manufacturing, the multiplier effect is 16 to one.

Manufacturing in California, however, even prior to the current economic recession, faced many challenges maintaining global and domestic competitiveness, including accessing a skilled workforce to support the changing needs of manufacturing and goods movement and maintaining cost-effective productivity in the face of lower safety and wage standards in emerging foreign markets. The California Manufacturers and Technology Association estimates that California lost 613,000 manufacturing jobs from its peak in January 2001 to September 2011. While part of this reduction reflects the loss of high-tech jobs in 2001 and 2002 and the current recession, the industry as a whole is suffering. California's loss of manufacturing jobs is not unusual among Western states. It is, however, more severe with California's loss reported to be -34% between 2001 to 2010, as compared to Arizona (-30%), Nevada (-12%), Oregon (-29%) and Texas (-21%).

7) Amendments: Committee staff understands the following amendments are proposed to be offered in committee:

a) Authorize a city, county, or city and county to serve as the initial permit applicant for the use of a manufacturing facility. This application and permit would then be eligible for transfer to the final user of the manufacturing space.

b) Require, as a condition of zone designation, that the city, county, or city and county have a designated staff person (ombudsperson) to facilitate local, regional and state permit approvals for manufacturing facilities in the zone.

c) Make the qualified property tax exclusion optional for jurisdictions and limit the exemption to jurisdiction's own portion of the property tax assessment.

d) Require the Governor's Office of Business and Economic Development to assist the local manufacturing ombudsperson in facilitating state and regional permits.

e) Require state permitting agencies to prioritize permit approvals from clean manufacturing zones.

f) Require jurisdictions to annual report to the state Controller on the amount of property taxes exempted, the property and sales tax generated by facilities within the zone, and the number of jobs created.

g) Require, as a condition of receiving any benefits, that the manufacturer advertise employment opportunities at the local One-Stop Career Center. This does not limit the manufacturer from advertising in other locations.

h) Modify the number of the added code section to avoid a conflict with SB 949, which proposes to add the same chapter and section numbers.

i) Add co-authors: Senator Vargas and Assembly Members Wieckowski, Nestande, Solorio, Chesbro, and Fletcher.

j) Sunset the program on January 1, 2020.

8) Related legislation: Below is a list of related bills from the current and previous sessions.

a) *AB 231 (V. Manuel Pérez and Alejo) Enterprise Zone Reforms*: This bill makes a number of key changes to the enterprise zone program to make it more accountable and effective in reducing poverty and strengthening the economies of lower income communities. Among other reforms, the bill increases the value of the hire credit for manufacturing jobs from 150% of minimum wage to 202%. Status: The bill was retained with the Assembly Committee on Jobs, Economic Development and the Economy, January 2012. The compromise will be included in AB 1411 (V. Manuel Pérez and Alejo).

b) *AB 894 (V. Manuel Pérez) California Manufacturing Act of 2011*: This bill would have authorized the establishment of the California Manufacturing Competitiveness Act of 2011 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Status: The bill was vetoed by the Governor in October 2011.

c) *AB 904 (V. Manuel Pérez) Capital Investment Incentive*: This bill expands the definition of a qualified manufacturing facility eligible for local capital investment incentive payments to include a facility operated by 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. Under this program, manufacturers that make capital investments of over $150 million are eligible for a specified property tax rebate. Status: The bill was signed by the Governor, Chapter 486, Statutes of 2009.

d) *AB 2437 (V. Manuel Pérez) California Manufacturing Competitiveness Act of 2010*: This bill would have authorized the establishment of the California Manufacturing Competitiveness Act of 2011 for the purpose of supporting the retooling and expansion of California's manufacturing facilities, enhancing the state's logistics network, and retaining and creating jobs. Status: The bill was vetoed by the Governor in October 2010.

9) Double referral: The Assembly Committee on Rules voted to refer this measure to JEDE and the Assembly Committee on Revenue and Taxation. Should this measure be approved at the April 17, 2012 hearing, the bill will be referred to the second policy committee for additional policy consideration.

REGISTERED SUPPORT / OPPOSITION:

Support

None Received

Opposition

None Received

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