

## **CITY OF SALINAS**

### **ECONOMIC DEVELOPMENT INCENTIVE AND INVESTMENT POLICY (EDIIP)**

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**GOAL:** To provide the City Council a set of guidelines to assist in the consideration of awarding an economic development incentive/inducement to assist in the retention of an existing business, to encourage the expansion of local businesses and the attraction of targeted businesses, which provide enhanced levels of revenues to the City and/or create job opportunities, resulting in the diversification of the local economy. Additionally, this policy recognizes the community-wide benefit of certain projects; hereafter called Community Benefit Projects as defined below, which demonstrate such a significant impact on the health and well-being of residents as to offset the cost of the economic development incentive, and establishes the ability for the Council to approvedirect payment through its discretionary funding sources and/or a deferral agreement consistent with the requirements under State law. In either circumstance the Permit Fees associated with a Community Benefit Project will require payment no later than the issuance of a Certificate of Occupancy.

**INCENTIVES DEFINED:** This policy guideline considers, but is not limited to, the use of the following types of incentives/inducements: a.) Sharing of sales tax and/or transient occupancy taxes generated and identified specifically to a project; b.) Reduction/abatement of the City of Salinas portion of property taxes; c.) Direct payment of City of Salinas non-impact fees, (i.e. building permit fees, plan check fees) through a discretionary funding source; d.) Monetary allowance for either jobs retained or created; and e.) Deferral of Development Impact Fees. Incentives provided are subject to applicable State law including provisions related to gift of public funds and prevailing wage.

**POLICIES:** In certain instances the City may consider approving an incentive/inducement to either retain or attract a business. The use of any incentive/inducement should only be considered when the City Council is satisfied that the retention and/or attraction of a business would result in a significant, positive fiscal impact on the Salinas local economy. This policy places an emphasis on the retention and expansion of existing businesses and attracting new businesses that either contribute to the generation of additional sales tax revenues or provides meaningful employment opportunities that promote economic sustainability. Additionally, the EDIIP provides the ability for the Council to allocate funding through the budgetary process for associated development fees or to approve a deferral agreement for Community Benefit Projects. A deferral agreement must specify payment terms through an independent action by the Council for each project. As stated above, the provision of incentives may trigger additional requirements under State law.

The following general provisions shall be considered prior to offering incentives/inducements:

1. A high priority shall be placed on businesses, which complement or provide a competitive advantage to the existing agricultural industry activities located within the Salinas Valley.
2. The business or project will provide a substantial positive economic impact on the community, i.e.; the employment impact provided through either job retention or creation

or the net increase in sales tax revenues, in the long-term, will offset the short-term costs offered by an incentive.

3. An incentive should not continue for more than a ten (10) year period.
4. A highly desired outcome, where possible, is the business retention, expansion and/or attraction action results in positive diversification of the local economy.
5. The dollar value of the incentive offered shall not exceed the cost of the project considered nor shall the incentive value be more than that project could reasonably expect to return in benefits within a ten (10) year period.
6. Specific performance criteria for each project will be established. Performance items may include minimum sales tax revenues generated or the number of new employment positions at an average wage rate or other measurable criteria as determined by the council.
7. Generally, retail development should satisfy either filling a gap in existing retail capacity, or providing a higher level of service/goods/products than presently available, or providing similar services/products in an area not currently being served. The Buxton Report, or an updated version thereof, is a reference for new retail businesses, which when added to the community, will offset "retail leakage".
8. Retail development projects considered should generate sales tax revenues normally associated with a community or regional shopping center; exceptions may be made at the discretion of the City Council. For a retail center project the minimum new retail sales qualifying for the City's sales tax should be at least \$10,000,000 per annum, unless otherwise directed by the council.
9. The City may provide an incentive of no more than \$35,000 per qualifying new employment position. The new job positions should provide a minimum hourly wage rate of 150% of the state minimum wage. Additionally, the employer should provide medical and health benefits normally associated with the industry.
10. As part of the overall strategy to encourage increased tourism and visitation within the City of Salinas both renovated and newly constructed lodging facilities that qualify for charging a Temporary Occupancy Tax (TOT) with at least one hundred (100) rooms and/or suites capacity may qualify for a sharing of the revenues generated at each location.
11. Property tax reduction should be limited to five (5) years.
12. To encourage investment resulting in new construction, significant tenant improvements or other real property activities which result in increased employment opportunities an Impact Fee Deferral Program has been established.

13. Each action is separate and independent from all other actions associated with the approval of and/or awarding of an incentive/inducement.
14. Award of funding related to a Revolving Loan Fund will be addressed separately from consideration of other incentives.
15. Except for a Community Benefit Project, each and every consideration for the award of an incentive shall require an economic impact analysis, prepared by a third party selected by the agreement of the requester and the City, and shall be compensated in full by the requester.
16. Final approval for the award of an incentive, if any, rests solely in the complete discretion of the City Council.
17. A Community Benefit Project shall be defined as a project that: : 1) is a City public facility, or 2) qualifies as a public facility under HUD and involves at least \$5 million in new construction or major rehabilitation, or 3) affordable housing projects with at least 20 low-income units and receive City assistance through HUD grants, other discretionary funding, or land disposition... To be eligible for an incentive, a Community Benefit Project must also demonstrate that the value of the services provided are greater than the cost of the economic incentive.

#### **REVIEW, PROCESSING AND APPLICANT REQUIREMENTS FOR ECONOMIC DEVELOPMENT INVESTMENT PROPOSALS:**

The following review, processing and applicant requirements are to be adhered to for all applications:

- A. Assignment of monitoring of all EDIIP agreements to the Community Development Department (CDD) Director and a member of the Finance staff, selected by the Finance Director, to review financial documents as stated in the Economic Development Incentive agreement, and review with the Finance Committee on a periodic basis (timing of review as determined by the Finance Committee);
- B. Require all non-national retail and all emerging or startup type businesses provide information regarding ownership structure, including financial investors and decision making authority, with copies of all Board of Director meeting agendas and subsequent minutes of the meetings provided to the CDD Director;
- C. All applicants must show financial capability, including personal guarantees or other guarantees, or other security in advance of the Council's approval of any agreement, for projects that require new investment greater than \$50,000.00, to complete the project as defined in the agreement;

- D. Provision for a "clawback" clause will be included in all agreements that are non-retail sales tax sharing and/or TOT sharing (a clawback provision identifies how any financial support provided by the City can be recaptured if performance criteria are not satisfied);
- E. Any direct financial contribution from the City, such as CDBG funding will only occur after agreement criteria has been met (criteria as defined in the agreement);
- F. Whenever a third party instrument, such as a grant from other sources is considered as part of the agreement, it must be accompanied by an independent qualified third party review, paid entirely by the applicant, that verifies and confirms the validity of the source of funds and good standing of the applicant and availability of funding as forecasted by the applicant; and
- G. All incentive agreements will require a recommendation for approval by the Finance Committee following discussion during at least two (2) Finance Committee meetings, which will be forwarded to the full City Council for final action. City Council may authorize the City Manager to enter into an agreement on behalf of the City and to work with the City Attorney to determine the appropriate legal form and the Director of Finance to establish the appropriate accounting mechanism to track and monitor the agreement.