STAFF RECOMMENDATION CONCERNING CIDFAC'S PROPOSED REVISION OF THE INDUSTRIAL DEVELOPMENT BOND (IDB) POINT SYSTEM UNDER CDLAC'S PROCEDURES
Staff Recommendation
February 25, 2009

STAFF SUMMARY – CIDFAC
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ISSUE

The California Industrial Development Financing Act of 1980 (the Act) authorized the creation of local industrial development authorities and, for the first time in California, the issuance of IDBs. The Act established CIDFAC as the approval agency for all IDBs issued in the state and requires CIDFAC, in approving IDBs, to find that financed projects produce public benefits. A point system to measure the public benefits of individual IDB projects is consistent with the requirements of the Act, which reads in part:

"It is the purpose of this...[Act]…to provide industry with an alternative method of financing in acquiring, constructing, or rehabilitating facilities in accordance with the criteria set forth…all to the <u>mutual benefit of the people of the state</u> and to protect their health, welfare, and safety…Applications for projects or companies not in accordance with the reasonable priorities and criteria which an authority may establish need not be accepted and further processed by an authority…Upon acceptance of any application and request of a company, the [authority] board shall determine whether it is likely that the undertaking of the project by the authority will be a <u>substantial factor in the accrual of one or more of the public benefits</u> from the use of the facilities as proposed in the application…and whether the project is otherwise in accord with the purposes and requirements of this title… At any time following adoption of the resolution of intention, the [authority] board shall request that the commission [i.e., CIDFAC] make the determinations authorized by this section… The commission shall review the submission and shall, by express findings on the basis of the submission, determine compliance with the following criteria…<u>Public benefits</u>, determined in accordance with the policy stated in…[the Act] from the use of the facilities likely will substantially exceed any public detriment from issuance of bonds in the estimated principal amount proposed in the application." [Emphasis added][1]

The current California Debt Limit Allocation Committee (CDLAC) point system for evaluating the public benefits of individual IDB projects was put into place in early 2000. CIDFAC staff believes some metrics now used for awarding points, and some of the point categories, do not reflect (1) the true state of manufacturing in California today and (2) the contributions that manufacturing makes, and should be encouraged to make, to California's economy and environmental quality. CIDFAC staff believes there is value in maintaining a point system for evaluating IDB projects. Such a system provides a means of (1) organizing and highlighting in a consistent manner the information regarding each project's public benefits and (2) measuring the

[1] Government Code Sections 91502, 91530, and 91531

comparable public benefits of each project when demand for IDB tax-exempt allocation exceeds the amount available.

Therefore, in keeping with CIDFAC's Strategic Plan (approved by the Commission at its September 2008 meeting), CIDFAC staff proposes to revise the current CDLAC point system for IDBs to: (1) make it more user-friendly for issuers, practitioners and borrowers; (2) provide greater recognition to manufacturers' contributions to California's workers, economy and environment; and (3) encourage manufacturers to do their part to help the state meet the goals of the California Global Warming Solutions Act of 2006 (AB 32).

SUMMARY OF STAFF PROPOSAL

The revision process has included outreach efforts. CIDFAC staff sought comments from IDB issuers, practitioners and other interested parties. On August 21, 2008, staff posted proposed revisions to the point system on CIDFAC's website with a request for written comments by September 30, 2008. Additionally, staff emailed the proposed revisions to all parties on the CIDFAC mailing list and noticed a public workshop on the proposed revisions for October 22, 2008. CIDFAC and CDLAC staff conducted a joint, two-hour workshop on October 22, which permitted in-person and phone-in participation. The workshop provided a forum for questions and for delivering verbal comments on the proposed revisions. It also offered an opportunity for CIDFAC staff to solicit additional written comments by close of business October 27, 2008.

Based on comments received and findings from follow-up research and inquiry, CIDFAC staff amended the August 21 proposed revisions. The amended staff proposal was posted on CIDFAC's and CDLAC's websites and emailed to each agency's mailing lists on January 22, 2009. Written comments were requested by 5 p.m. on February 5, 2009. Staff considered submitted comments, along with findings from further research, when drafting the final proposed revisions before the Commission today.

The proposed changes:

- Revise existing point categories, add new point categories, and increase total available points from 85 to 147.

- Maintain the primacy of job creation and retention by preserving their relative weight while increasing the total points available.

- Simplify how manufacturers obtain points for providing health care benefits.

- For the first time, award points to companies that contribute to their employees' retirement plans.

- Reward manufacturers who participate in job training programs to help employees improve their skills.

- Award points to manufacturers who provide additional economic benefits to California by exporting their products.

- Reward manufacturers who build certified green facilities, use renewable energy or produce certified green products.

UPDATED IDB ALLOCATION POINT SYSTEM

(1) JOBS (45 points maximum): Staff proposes to create a new JOBS category, designate JOB CREATION and JOB RETENTION as separate subcategories, eliminate the "jobs-per-bond" method of awarding points for job creation and job retention, and increase the maximum number of points from 25 to 45.

Discussion:

The Act emphasizes that job creation and retention are expected outcomes of the state's IDB program. Therefore a 'jobs' point category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature hereby finds that it is necessary and essential that the state, in cooperation with the federal government, use all practical means and measures to promote and enhance economic development and increase opportunities for useful employment…The Legislature further finds that the alternative method of financing provided in this title will benefit economically distressed areas of the state and localities which are making diligent efforts to maintain and provide services to existing companies and to prevent the loss of existing jobs…The Legislature further finds and determines that industry within this state needs and requires new methods to finance the capital outlays required to acquire, construct, or rehabilitate facilities which will increase employment opportunities… The Legislature declares that the criteria to be utilized to determine whether this method of financing may be made available shall include…Whether employment benefits arising out of the use of the facilities may ensue by securing or increasing…the number of employees of the company and any other direct users of the facilities…[emphasis added]**".** [2]

Given the priority placed by the Act on employment development, CIDFAC staff believes it is important to preserve the relative weight of job-related points in the proposed system. In the current system, job creation/retention (25 points maximum) comprises 30 percent of the total points available. To maintain that weight, staff proposes to increase the maximum points for job-creation/retention from 25 to 45.

[2] Government Code Sections 91501 and 91502.1

The dismal data on unemployment in the current economic downturn provide dramatic evidence of the need to maintain an emphasis on job creation and retention in evaluating IDB projects. According to a recent article in the *Sacramento Bee*, "[s]taggered by layoffs, store closings and other troubles, California's job market suffered through one of its worst months in history in December, pushing unemployment to 9.3 percent. Some 78,200 jobs disappeared statewide, the Employment Development Department said Friday, as the recession swamped practically every sector of the economy: retailing, construction, manufacturing and more. It was the third biggest monthly job loss since the end of World War II, and the largest since the dot-com collapse wiped out 85,100 jobs in July 2001. Statewide unemployment jumped nine-tenths of a point, the largest one-month leap in at least 33 years, said chief economist Howard Roth of the California Department of Finance. At 9.3 percent, unemployment is the highest it's been since 1994 … The report showed misery spreading up and down the state, with unemployment hitting 22.6 percent in Imperial County and 14 percent in Siskiyou. Double-digit unemployment has returned to Fresno, Merced and other portions of the Central Valley."[3]

Due to relatively high wages compared to employment in many other industries, manufacturing employment in particular will be an important component of the State's and the nation's recovery from these tough economic times. An October 2006 report by The Manufacturing Institute and the National Association of Manufacturers states that manufacturing wages and benefits are approximately 25 percent higher than non-manufacturing jobs.[4]

Staff believes the current "jobs-per-bond-amount" formula for awarding points fails to adequately recognize significant employment benefits produced by many IDB projects. The Ramar International Corp. project approved in 2008 provides a good example of the current system's shortcoming. The Ramar project added 67 employees to a workforce of 137, a 51 percent increase. Yet, the project received no points for job creation because it did not cross the minimum threshold under the bond-amount formula. Several other significant job-producing projects reviewed by CIDFAC in 2008 encountered the same obstacle.

To correct the problem, staff proposes a scale based on the percentage increase in the manufacturer's workforce. Aside from ensuring manufacturers who substantially increase their workforce receive recognition; this approach also would level the playing field between projects in lower-cost and higher-cost areas of the state. For example, an IDB project planned for the

[3] Kasler, Dale. "State suffers third biggest monthly job loss since end WWII." Sacramento Bee. January 24, 2009.

[4] The Manufacturing Institute. The Facts About Modern Manufacturing. 7th Edition. October 2006.

City of Los Angeles would likely face higher land costs and therefore require more tax-exempt bond funds than a similar IDB project planned for the City of Fresno. Under the "jobs-per-bond-amount" award system, even if the Los Angeles project would create the same number of jobs as the Fresno project, it may receive fewer points because it requires more bond funds. The alternative approach also provides more equality among manufacturers. Those with higher equipment and facility costs simply due to the nature of their product lines and the regulatory scheme under which they operate are not penalized for requesting a greater amount of tax-exempt allocation than manufacturers with lower equipment and facility costs.

Staff reviewed job creation data for 45 IDBs issued from 2005 through 2008 and found that the lowest percentage increase over existing employees was 7.1 percent and the highest percentage increase over existing employees was 807.7 percent. Such extremes resulted in an average increase over existing employees of 94.1 percent. However, of the 45 IDB transactions, 17 had increases over existing employees of up to 30 percent, and 11 had increases over existing employees of between 31 percent and 50 percent.

<u>Proposed Point Subcategories</u>:

- **JOB CREATION: Based on the Borrower and/or User's representation that they will make their best efforts to increase the number of direct, full-time employees at the Project site within two years of Project completion (35 points maximum):**

  - **10 percent to 20 percent increase (10 points)**
  - **21 percent to 30 percent increase (20 points)**
  - **31 percent or more increase (35 points)**

- **JOB RETENTION: Staff proposes that the criterion for awarding points remains the retention of the manufacturer's current workforce in the face of economic pressures to (1) move out of California or (2) cease operations. Staff proposes that the standard of proof continue to include written confirmation from the appropriate local governmental entity that the company was contemplating moving or closing within two years of its application for tax-exempt IDB financing, and that the ongoing operations of the company within the local jurisdiction is important to the local economy and employment. However, as an alternative for meeting the standard of proof, staff proposes to accept written evidence from the Borrower and/or User that the company, within two years prior to the submission of an application for tax-exempt IDB financing, engaged a "site selector" to find possible relocation sites outside of California. (10 points)**

(2) HEALTH, DENTAL & VISION BENEFITS, and RETIREMENT ACCOUNT BENEFITS (20 points maximum): Staff proposes to add company contributions to workers' retirement accounts (e.g., a 401K account or pension account), increase the number of total points awarded in this category from 5 to 20, and increase the health care contribution levels by 10 percent.

The modest increase in the health care contribution levels reflects the fact that, since the current contribution levels were established in 2000, the cost of employer-provided health plans has increased.[5] Staff reviewed health benefits contribution levels reported by Borrowers and/or Users from 2005 through 2008 and found that the per-month employer contribution levels ranged from $117 to $962. Contributions averaged $334 in 2005, $240 in 2006, $494 in 2007 and $388 in 2008. Of the 36 Borrowers and/or Users which provided employer health care, 21 reported employer contributions in excess of $300 per month per covered employee, 10 reported employer contributions in excess of $200 but less than $300 per month per covered employee, and five reported employer contributions of less than $200 per month per covered employee.

Staff proposes to continue to require the same proof of health, dental, vision and, now, retirement benefits. Specifically, that standard of proof requires applicants to complete the benefits worksheet in the CDLAC application and to provide invoices or other official accounting documents as evidence of the company's contribution levels. CIDFAC and CDLAC staff will work together to make the benefits worksheet more user- friendly.

For this category, staff also proposes to eliminate the child care benefits option. Staff reviewed all IDB projects approved back to calendar year 2005 and found that no points were awarded to any project for child care benefits. Further, current CIDFAC staff never has received an application where child care benefits have been documented.

Discussion:

The Act recognizes that the value of jobs is based largely on the level of compensation offered by employers in the form of both wages and benefits. Therefore, in addition to a points category based on Average Hourly Wage, a health care and retirement benefits point category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature hereby finds that it is necessary and essential that the state … use all practical means and measures to promote and enhance economic development and increase opportunities for useful employment …The Legislature declares that the criteria to be utilized to determine whether this method of financing may be made available shall include … compensation for that employment, the value of which may be expressed in terms of aggregate direct employment earnings [emphasis added]**."** [6]

[5] The California Medical Association reports on its website that "[n]ot only are fewer employers offering coverage, but many employees are finding even employer-offered coverage unaffordable. From 2001 to 2003 alone, the cost of job-based insurance rose by 80 percent for the average worker." (See "The Health Care Landscape in California" at www.cma.org.) The California HealthCare Foundation's 2008 California Employer Benefits Survey shows that premiums for health care plans increased by 8.3% in 2008 alone. The survey shows premiums have more than doubled since 2002. (Go to www.chcf.org.) Finally, CalPERS' January 2009 "Facts at a Glance: Health" shows that the state's contribution for state worker health plans has increased by approximately 13% since 2007. (Go to www.calpers.ca.gov.)

[6] See Government Code Sections 91501 and 91502.2. Note that, with respect to "compensation for employment," the statute states that earnings may be used to express the value of the compensation. Staff believes that, in addition

The objective of increasing the total number of points in this category is to provide greater recognition of the public benefits bestowed when employers offer their workers' health care coverage and contribute to their workers' retirement incomes. With respect to health care coverage, the benefits accrued are not only those associated with healthy workers and families but also those associated with lessening taxpayers' burden to pay health care costs for the uninsured.[7]
In December 2008, the California HealthCare Foundation released the following statistics for California:

"Over the past 20 years, the percentage of uninsured Californians under age 65 has continued to rise as employer-sponsored health insurance has declined. Between 1987 and 2007, employer-sponsored coverage declined almost 8%. Although Medicaid and individually purchased coverage partially offset that decline, more than 20% of Californians remain uninsured. The problem, though national, is more prominent in California, which has a lower percentage of individuals with employer-sponsored coverage and a higher proportion of uninsured. And because of California's large population, the number of people without insurance – 6.6 million – is the highest of any state. Some findings from this year's snapshot include:

- **Workers at private sector businesses of all sizes are experiencing an increased likelihood of being uninsured, although it is most pronounced in businesses with fewer than ten employees.**
- **More than a third of the uninsured have family incomes of more than $50,000 per year.**
- **Twenty-seven percent of families with incomes between $25,000 and $50,000 are uninsured.**
- **Seventy percent of uninsured children are in families where the head of the household has a year round, full-time job.**
- **Nearly 60% of the state's uninsured are Latino."**[8]

The proposed "Retirement" subcategory aims to recognize employers who contribute to their workers' retirement security.

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to wages, benefits also should be considered as a component of compensation and of "useful employment" for purposes of the IDB point system.

[7] According to a February 3, 2005 Congressional Research Service report titled "Health Insurance: A Primer" by Bernadette Fernandez, "[w]hile health insurance coverage is not necessary to obtain health care, it is a vital mechanism for accessing services in an environment of increasingly expensive health care…Health insurance is considered important also because of the well-documented, far-reaching consequences of uninsurance. For instance, uninsured persons are more likely to forgo needed health care than people with health coverage. This includes forgoing services for preventable or chronic conditions which often leads to worse health outcomes…The negative consequences of uninsurance extends beyond the persons directly involved…many uninsured persons forgo preventive health care and end up developing more serious conditions requiring complex, expensive medical services… In cases where patients are unable to cover the costs associated with receiving health services, the facilities that provided those services must take it as a financial loss…Those losses can be staggering…Ultimately, though, the costs for caring for the uninsured are 'passed down to all taxpayers and consumers of health care in the form of higher taxes and higher prices for services and insurance'…"

[8] See www.chcf.org/topics/healthinsurance.

The three-legged stool of retirement income – Social Security, employer-sponsored retirement plans and personal savings – has become wobbly due to the uncertainty surrounding Social Security benefits and the effect of market conditions on personal savings and retirement investments. Staff believes that the public benefits provided by employer contributions to workers' retirement nest eggs, namely helping workers maintain a reasonable standard of living in retirement and thereby contributing to California's economy, support the creation of this benefits subcategory.[9] Both the American Association for Retired Persons and the U.S. Department of Labor stress on their websites the critical importance of employers' matching contributions to retirement plans.[10]

A recent report by the Congressional Research Service stresses the importance of retirement savings:

"The uncertain future of Social Security and the declining prevalence of defined-benefit pensions that provide a guaranteed lifelong income have put much of the responsibility for preparing for retirement directly on workers. The low rate of personal savings in the United States and the lack of any retirement savings accounts among millions of American households indicate there is a need for greater awareness among the public about the importance of setting aside funds to prepare for life after they have stopped working. Most workers in the United States will need to begin saving more of their income if they wish to maintain a standard of living comparable to that which they enjoyed while working. The alternatives would be to work longer or to greatly reduce their standard of living in retirement." [11]

<u>Proposed Point Subcategories</u>:

- **HEALTH, DENTAL AND VISION: The Borrower and/or User must provide specific documentation to show it contributes toward the cost of employee and dependent medical, dental and vision benefits. The Borrower/User must confirm that it will offer such benefits to employees hired in accordance with representations made with respect to the JOB CREATION category. The average health care contribution is computed by dividing the Borrower's total monthly aggregate contribution toward the provision of these benefits by the total number of participating workers employed by the Borrower.**

    - **The Borrower and/or User contributes an average of $330 or more per month toward the cost of the medical, dental and vision benefits for each participating employee and dependents of the employee. (15 points)**

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[9] For further discussion on the three-legged stool, see Congressional Research Services' January 29, 2007 report for Congress titled "Retirement Savings: How Much Will Workers Have When They Retire?" by Patrick Purcell and Debra B. Whitman.

[10] See www.aarp.org/money/retirement/articles/retirement_accounts_at_work.html and www.dol.gov/ebsa/publications .

[11] Patrick Purcell. <u>Retirement Savings and Household Wealth: Trends from 2001 to 2004</u>. Congressional Research Service, May 22, 2006.

- ➢ **The Borrower and/or User contributes an average of $220 to $329 per month toward the cost of the medical, dental, and vision benefits for each participating employee and dependents of the employee. (10 points)**

- ➢ **The Borrower and/or User contributes an average of $110 to $219 per month, toward the cost of the medical, dental, and vision benefits for each participating employee and dependents of the employee. (5 points)**

- **RETIREMENT: The Borrower and/or User must provide specific documentation showing it contributes to an employer-sponsored defined benefits retirement plan, an employer-sponsored defined contribution plan, or other retirement savings account for each participating employee. Additionally, the Borrower and/or User must confirm that it will offer such benefits to employees hired in accordance with representations made with respect to the JOB CREATION category. (5 points)**

(3) AVERAGE HOURLY WAGE (10 points maximum): Staff proposes to change the criteria for awarding points in this category to include consideration of wages of existing employees as well as employees who will be hired in accordance with representations made under the Job Creation category. Staff also proposes to increase the overall number of points in this category from 5 to 10 (see details below). Finally, since the state Employment Development Department (EDD) no longer provides manufacturing wage data, staff proposes to use the production wage data available on the federal Bureau of Labor Statistics website (see <http://www.bls.gov/>).

Discussion:

As discussed above, the Act emphasizes IDB projects' employment benefits, including wages. Therefore, staff believes the continued use of an Average Hourly Wage category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature hereby finds that it is necessary and essential that the state, in cooperation with the federal government, use all practical means and measures to promote and enhance economic development and increase opportunities for useful employment… The Legislature further finds and determines that industry within this state needs and requires new methods to finance the capital outlays required to acquire, construct, or rehabilitate facilities which will increase employment opportunities or otherwise contribute to economic development, and the alternate method of financing provided in this division is in the public interest and serves a public purpose and will promote the health, welfare, and safety of the citizens of the State of California… The Legislature declares that the criteria to be utilized to determine whether this method of financing may be made available shall include… [w]hether employment benefits arising out of the use of the facilities may ensue by securing or increasing (A) the number of employees of the company and any other direct users of the facilities or (B) compensation for that employment, the value of which may be expressed in terms of aggregate direct employment earnings [emphasis added].**"**[12]

[12] Government Code Sections 91501 and 91502.1

Good wages are important for workers, their families and the economy. Staff believes these benefits justify the proposed increase in total points available in this category. Particularly while the state and nation are experiencing a severe economic slump, and workers are not spending due to layoffs, fear of layoffs, wage cuts and declining values in retirement accounts, the public benefits associated with above-average wages are accentuated. A February 5, 2009 *Associated Press* article shows the damaging economic impacts when consumers restricting their spending. Insufficient wages exacerbate that harm:

"Shoppers are worried about slumping home prices, tight credit and shrinking retirement accounts. But the biggest concern is job security and income - and that may only be reinforced by data Thursday showing that new claims for unemployment benefits jumped to their highest level in more than 26 years. The unemployment rate - now at 7.2 percent - is expected to jump to 7.5 percent, a 17-year peak, in January when the government releases new figures Friday. In this environment, stores are slashing prices to try to pull in shoppers. Already many chains, including Ann Taylor Stores and Banana Republic, are discounting spring merchandise… And with shoppers retrenching, retailers and suppliers are looking for ways to cut costs. Macy's Inc., Bon-Ton Stores and apparel maker Liz Claiborne Inc. are among those that have announced layoffs in recent days."[13]

Proposed Point Category:

- **AVERAGE HOURLY WAGE: The Borrower and/or User must certify that the average hourly wage of existing employees, and employees who will be hired in accordance with representations made under the Job Creation category, when compared to the average hourly general manufacturing wage for the Metropolitan Statistical Area in which the project is located ("Job Wage"), based on the Bureau of Labor Statistics Series Code, as obtained from the Bureau of Labor Statistics website no more than 30 days prior to the application deadline, is:**

  - **One hundred twenty-five percent (125 percent) or more of the Job Wage. (10 points)**

  - **One hundred fifteen percent (115 percent) to one hundred twenty-four percent (124 percent) of the Job Wage. (6 points)**

  - **One hundred five percent (105 percent) to one hundred fourteen percent (114 percent) of the Job Wage. (3 points)**

(4) COMMUNITY ECONOMIC NEED (25 points maximum): Staff proposes to continue awarding points in this category using current criteria.

[13] Anne D'Innocenzio. "Stores see January sales fall; Wal-Mart posts rise." Associated Press, February 5, 2009.

Discussion:

The Act stresses the expectation that the State's IDB program will benefit communities with substantial economic needs. Therefore, this point category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature further finds the alternative method of financing provided in this title will benefit economically distressed communities with concentrated unemployment by employing a labor force from those communities and areas where persons are displaced due to industrial failures. The Legislature further finds that the alternative method of financing provided in this title will benefit economically distressed areas of the state and localities which are making diligent efforts to maintain and provide services to existing companies and to prevent the loss of existing jobs...The Legislature further finds that the alternative method of financing provided in this title will benefit those projects which would employ persons living within an economically distressed area…To the extent that the public benefits finding under paragraph (1) of subdivision (b) of this section is based on employment benefits…the following considerations, as alternatives to each other, may in accordance with the submission, additionally be considered in making such finding … The location of the facilities in or conveniently accessible to a portion of the work force residing within an economically distressed area of the state or an area of the state affected by industrial depression or decline [emphasis added]**."[14]**

Existing Point Subcategories:

- **UNEMPLOYMENT RATE OF THE AREA IN WHICH PROJECT SITE IS LOCATED (10 points maximum): Based on data from the Employment Development Department, the average unemployment rate for the preceding calendar year of the county sub-area in which the Small-Issue Industrial Development Bond Project is located will be divided by the statewide unemployment rate for the preceding calendar year and multiplied by 100. The following points will be awarded:**

    - **Project located in an area with an unemployment rate that is one hundred seventy-five percent (175%) or more of the statewide average. (10 points)**

    - **Project located in an area with an unemployment rate that is one hundred twenty-five percent (125%) or more, but less than one hundred seventy-five percent (175%), of the statewide average. (5 points)**

- **PROJECT AREA POVERTY RATE (5 points maximum): Based on the most recent data from the U.S. Census Bureau, the estimated poverty rate of each federal census tract within a one-mile radius area of the project site, the poverty rate of the census tract(s) will be divided by the statewide poverty rate and multiplied by 100. The following points will be awarded (if there is more than one tract, the poverty rates will be averaged):**

[14] Government Code Sections 91501 and 91531

- **Project located in an area in which the poverty rate is over one hundred twenty-five percent (125%) of the statewide poverty rate. (5 points)**

- **Project located in an area in which the poverty rate is over one hundred ten percent (110%) but not more than one hundred twenty-five percent (125%) of the statewide poverty rate. (3 points)**

- **PROJECT LOCATED IN A SPECIAL DESIGNATION AREA. (5 points)**

- **FAMILY MEDIAN INCOME: Project located in an area with a median family income of less than eighty percent (80%) of the statewide average based on the most recent census data available for cities or Census Designated Places. (If no city or Census Designated Place level data is available, or if the Applicant chooses to identify a project benefit area that is smaller than a city or Census Designated Place, such as census tract or tracts, smaller areas will be used.) (5 points)**

Note: When a project is located in an area for which there is no available economic data, to determine points under Sections 20.II.A.1 and 20.II.A.4, the Applicant may submit alternate information to establish the project's consistency with the intent of the aforementioned point categories. For example, an Applicant may submit unemployment and/or median family income data for a neighboring area that is a sub-area, a city, or a Census Designated Place that is in close proximity to the proposed project. The Executive Director shall have the authority to determine whether the alternate information meets intent of the point category for which such information has been submitted.

(5) WORKFORCE and ECONOMIC DEVELOPMENT (15 points maximum)**:** Staff proposes to create a new WORKFORCE and ECONOMIC DEVELOPMENT category. The proposal (1) responds to the need voiced in literature, the media, government conferences and economic development forums to ensure California's workforce is adequately trained and prepared for existing manufacturing jobs as well as jobs in the new economy, including the green sector; and (2) represents an effort to more fully recognize manufacturers' contributions to California's economy. The new category will incorporate the existing Welfare-to-Work category as a subcategory and add new subcategories for Workforce Training and Exports Outside of California.

<u>Discussion</u>:

The Act recognizes that employer participation in employment programs and worker training programs provides public benefits. Therefore, the creation of a Workforce Training point subcategory is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"To the extent that the public benefits finding…is based on employment benefits…the following considerations, as alternatives to each other, may in accordance with the submission, additionally be considered in making such finding…(1) The willingness of the company to provide for the screening for employment of (i) individuals affected by industrial relocations or abandonments, (ii) new entrants or reentrants to the work force, (iii) unemployed or partially unemployed individuals

who are registered for work at a public employment office or other approved place…or (iv) <u>individuals participating in job training or placement programs directly calculated to increase employability or improve the employment of these individuals</u> [emphasis added]**."**[15]

Staff believes the creation of a Workforce Training subcategory is well-timed, as the availability of skilled workers is a prominent concern for manufacturers nationwide. According to the National Association of Manufacturers (NAM), "[O]ne of the biggest challenges in U.S. manufacturing today is the broadening skills gap which is taking an increasingly negative toll on America's ability to compete in the global economy. This problem will worsen as the Baby Boomers retire from an increasingly high-tech workplace with no skilled employees in the pipeline to replace them…Nearly half (46 percent) of small and medium manufacturers report that 'finding qualified employees' is one of the most serious problems facing their company…Nearly three out of four manufacturers surveyed believe that a high performance workforce is the most important driver of future business success."[16]

The California Manufacturers and Technology Association (CMTA) also asserts that "…California businesses are now experiencing and foresee future critical shortages in technically-skilled workers."[17] In its public policy principles for education, CMTA states, "California must be committed to creating and maintaining a literate, skilled and trained workforce" and that "[m]aximum flexibility in workplace skills and training is needed to meet future economic changes."[18]

Staff believes that the economic benefits that accrue to the state and its regions from the export of manufactured goods justifies creating an Exports Outside California subcategory. According to a 2002 report by the Milken Institute, "[I]t is erroneous to view manufacturing as obsolete. It, too, is an important driver for growth in our diverse economy … The driving forces of California's economy are industries that produce goods and services <u>for sale outside the state</u>. Manufacturing is California's most <u>export-intensive</u> activity. The income and employment that manufacturing generates circulates, <u>multiplies</u> and ripples throughout California's regions …in-state employment opportunities rise when California manufacturers succeed in producing goods for foreign markets [emphasis added]."[19] The February 2008 online version of *Facts About California Manufacturing* reported that California manufacturers in 2005 exported $105 billion of the $117 billion, or 89%, of the state's exported goods.

<u>Proposed Points Subcategory</u>:

- **WELFARE TO WORK: Staff proposes to continue awarding points in this subcategory using current criteria. (5 points)**

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[15] Government Code Section 91531
[16] This text was copied from NAM's website (www.NAM.org).
[17] This text was copied from CMTA's website (www.cmta.net).
[18] Ibid.
[19] DeVol, Ross C., Armen Bedroussian, Rob Koepp, and Perry Wong. <u>Manufacturing Matters: California's Performance and Prospects.</u> Milken Institute. August 2002. (The report uses the electronics manufacturing sector as an example of how the employment multiplier works. The electronics manufacturing industry has a multiplier of 3.3, meaning that for each job created in electronics, another 2.3 jobs are created in other sectors.)

- **WORKFORCE TRAINING: Several programs operated by the state's Employment Training Panel (ETP) help businesses train or re-train workers. In addition, programs operated at the local level on behalf of the state (e.g., Workforce Investment Act programs through the EDD and the Apprenticeship Program through the California Department of Industrial Relations) offer employers access to specific types of training by certified training entities. Finally, community colleges, universities, adult schools, Regional Occupational Programs, and private training agencies approved by the Bureau for Private Postsecondary and Vocational Education offer workforce training programs. Staff proposes to award points to IDB projects when the Borrower and/or User participates in one or more of the programs listed above. To qualify for points in this category, the Borrower and/or User must provide copies of official documentation of its current or pending participation in one of the above programs. Such documentation shall include: (1) a copy of an executed contract between the Borrower and/or User and the provider; or (2) a formal letter from the provider addressed to the Borrower and/or User acknowledging the Borrower and/or User's current or pending participation in the program. (5 points)**
- **EXPORTS OUTSIDE CALIFORNIA: To qualify for points in this subcategory, an officer or owner of the Borrower and/or User must certify in writing that it exports, or in the case of the construction of a new manufacturing facility at a new Project site, anticipates it will export, as part of its business plan:**

  - **Up to 20 percent of its products manufactured at the Project site. (2 points)**
  - **Up to 30 percent of its products manufactured at the Project site. (3 points)**
  - **More than 30 of its products manufactured at the Project site. (5 points)**

(6) ENVIRONMENTAL STEWARDSHIP (27 points maximum): Staff proposes a new ENVIRONMENTAL STEWARDSHIP category. Under the proposal, the current LAND USE, ENERGY EFFICIENCY and PUBLIC TRANSPORTATION categories will become subcategories. CIDFAC staff proposes to rename the ENERGY EFFICIENCY subcategory ENERGY EFFICIENCY/RENEWABLE ENERGY. In this expanded subcategory, points will be awarded for building certified green facilities, bringing existing facilities up to certified green status, implementing energy efficiency measures and installing renewable energy equipment to power the manufacturing process.

Staff also proposes a new subcategory to award points to manufacturers of certified green products.

In addition, CIDFAC staff believes the TRANSPORTATION subcategory can be improved by clarifying the criteria for awarding points to projects that are in proximity to public transit. Also under TRANSPORTATION, staff proposes awarding points to employers who subsidize public transportation for its employees. Finally, staff proposes changes in the points available under the existing categories.

Discussion:

The Act anticipates that projects financed with IDBs will be consistent with the state's environmental and resource conservation laws, and that projects' benefits in those areas be considered when evaluating IDB applications. Therefore, staff believes that an Environmental Stewardship point category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature declares that it is the policy of this state, consistent with environmental, resource conservation, and other policies, to facilitate for and on behalf of private enterprise the acquisition of property, either suitable for or evidencing an obligation through the issuance of revenue bonds by authorities…and that this additional method of financing when made available … serves a public purpose and will promote the prosperity, health, safety, and welfare of the citizens of the State of California … The Legislature declares that the criteria to be utilized to determine whether this method of financing may be made available shall include …Whether energy, mineral or natural or cultivated resource conservation benefits arising out of the use of the facilities may ensue by the reduction of waste, improvement of recovery or intensification of utilization of resources that otherwise would be less intensively utilized, or wasted, or not recovered, the value of which may be expressed in terms of the price and amount of the energy, minerals, or other resources saved or recovered, or the price and amount of equivalent energy, minerals, or other resources which would be utilized were the resources not utilized as intensively [emphasis added]**."**[20]

California's success in implementing its groundbreaking climate change strategies, and addressing other environmental concerns, depends on efforts by individuals, governments and business. Manufacturers are a crucial component of this joint endeavor. A 2007 advisory published by Deloitte Development LLC titled, "Creating the 'Wholly Sustainable Enterprise'," addresses the economic forces driving companies to "go green" and produce "green" products. The advisory reads, in part:

"Sustainability is rapidly emerging as a critical element of business strategy, driven by a convergence of factors – increasing regulation, changing customer expectations, competitor and technology advances, value chain partner requirements, brand equity protection, and global risk management…Companies must undertake sustainability-driven transformation efforts in order to improve financial, environmental and social performance. Sustainability, approached the right way, can be a significant driver of enterprise value and must generate economic value in order to evolve from an environmental specialty to a mainstream growth engine …"[21]

Further, a 2007 *Industry Week* article titled, "Green Manufacturing: An Inconvenient Reality," reads:

"… [T]he noose around manufacturers' necks to produce environmentally friendly products gets tighter and tighter. Need evidence? Consider this: In 2004 the business sector shouldered 65% of environmental regulatory costs, with manufacturers paying an average of $4,850 per employee, according to a 2005 U.S. Small Business Administration report … One way manufacturers can soften the regulatory blow, say industry experts, is by being more proactive in developing products

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[20] Government Code Section 91502.1

[21] Creating the "Wholly Sustainable Enterprise": Driving Shareholder Value Through Enterprise Sustainability. Deloitte Development LLC. 2007.

with minimal environmental impact … Part of this beat-them-to-the-punch approach includes embracing green technology as a marketing advantage.” [22]

Finally, a February 2008 paper by the Economic Policy Institute reads, in part:

“Not only is manufacturing important for jobs and production, but a vital manufacturing sector is also essential to meeting national challenges, including reducing greenhouse gas emissions and the nation’s reliance on imported energy. Renewable forms of energy, such as wind and solar, rely on manufactured components more so than extractable energy such as oil. A vibrant manufacturing sector will be needed to supply the new materials that will be in demand by a low-carbon economy.”[23]

Staff believes CIDFAC’s IDB program can help the state’s green economy flourish by rewarding manufacturers who use alternative energy sources to power their plants, produce certified environmentally sensitive products and build LEED-certified facilities.

<u>Existing and Proposed Points Subcategories</u>:

- **<u>LAND USE</u>: Projects that involve the reuse of (a) vacant or abandoned buildings or (b) vacant or abandoned land with developed infrastructure, excluding land where the immediate prior use was agricultural, open space or other similar use. (3 points)**

- **<u>PUBLIC TRANSPORTATION:</u> Projects that are located within a ¼-mile of a regular route stop within a Public Transit Corridor and where the Borrower and/or User provides written evidence of offering public transit subsidies for employees at the Project site. (4 points)**

  Projects that are located within ¼-mile of a regular route stop within a Public Transit Corridor or, in areas where there is no public transportation system, the Borrower and/or User has an adopted transportation system management plan. (3 points)

- **<u>ENERGY EFFICIENCY/RENEWABLE ENERGY:</u>**

  - **Points will be awarded to projects for which bond proceeds will be used to construct U.S. Green Building Council (USGBC) LEED-certified facilities, or to make improvements to existing facilities that will qualify it for a LEED-**

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[22] Katz, Jonathan. “Green Manufacturing: An Inconvenient Reality,” Industry Week, May 1, 2007. (In January, Industry Week reported that speakers for an April 2008 Sustainable Manufacturing Summit in Chicago include “sustainability experts” from such large corporations as GE, Dell, HP, Phillips, Honeywell, Subaru, Johnson Controls, Kimberly-Clark, Cadbury Schweppes, Sharp, Caterpillar, Frito Lay, GM, General Mills, and Duke Energy. The article states that, “[w]ith sessions focusing on climate-friendly product development, operational response, sustainable supply chains, and waste management, the Sustainable Manufacturing Summit covers carbon reduction at every stage of the manufacturing process.” This shows that “green manufacturing” as an economic objective is accepted by the mainstream manufacturing sector.)

[23] Robert E. Scott. <u>The Importance of manufacturing: Key to recovery in the States and the Nation</u>. Economic Policy Institute, February 13, 2008.

certification. The Borrower and/or User must provide either (1) official documentation of its registration and application (including evidence of payment of the registration and application fees) with the USGBC to obtain LEED certification, and provide evidence of progress in obtaining LEED design credits in cases where the project involves the construction of a new facility or improvements to an existing facility and construction or improvements have not begun or are not complete at the time of application for IDB financing, (2) official documentation of receipt of either the Silver, Gold or Platinum LEED Certification in cases where construction or improvements and the certification process are completed, or (3) official documentation of the receipt, within two years prior to the submission of the application for IDB financing, of either the Silver, Gold or Platinum LEED Certification under LEED's Existing Building: Operations & Maintenance (EBOM) program. (5 Points)

- **Projects that utilize designs, materials or techniques to reduce energy use by at least fifteen (15 percent) compared to the following benchmarks: (1) for building construction or rehabilitation, the most recent California Energy Commission Energy Efficiency Standards for Residential and Non-Residential Buildings; and (2) for equipment to be purchased and installed, the current per energy unit output of equipment currently in use by the Borrower and/or User. Documentation must include a utility company letter confirming the projected energy savings, or a written certification of projected energy savings from an energy efficiency consultant. (5 points)**

- **Projects that involve the installation and use of renewable energy (as defined under California Public Resources Code section 26003) equipment to power the production process. The Borrower and/or User must provide written documentation from its utility company which specifies the installation or planned installation of the renewable energy equipment. (5 points)[24]**

- **MANUFACTURER OF CERTIFIED ENVIRONMENTALLY PREFERABLE PRODUCTS: Points will be awarded to projects which produce or will produce environmentally preferable products, in accordance with California Public Contract Code section 12400 et seq. Qualifying products must have two or more environmentally preferable attributes, as certified by: (1) an American National Standards Institute (ANSI) Accredited Product Certification Body; (2) a widely-**

[24] Public Resources Code 26003 (i) (1): "Renewable energy" means any device or technology that conserves or produces heat, processes heat, space heating, water heating, steam, space cooling, refrigeration, mechanical energy, electricity, or energy in any form convertible to these uses, that does not expend or use conventional energy fuels, and that uses any of the following electrical generation technologies:
(A) Biomass.
(B) Solar thermal.
(C) Photovoltaic.
(D) Wind.
(E) Geothermal.

recognized and reputable organization accredited as a certifier by an ANSI Accredited Product Certification Body; (3) a standards developing organization recognized by the International Standards Organization (ISO); (4) a widely-recognized and reputable organization accredited as a certifier by an ISO-recognized standards developing organization; and/or (5) an official governmental certification organization. In all cases, the certification of the environmentally preferable products must be made by a third-party certifier which fits into one or more of the above five categories. The Borrower and/or User must provide the current, official documentation of the certification, and must provide the percentage of the project's overall output that is comprised of the certified products. In addition, the Borrower and/or User shall certify in writing that any environmental attribute claims they make concerning their products and services are consistent with the Federal Trade Commission's Guidelines for the Use of Environmental Marketing Terms (5 points)[25]

(7) LEVERAGE (5 points maximum): Using the current scale, CIDFAC staff proposes to continue to award points to IDB projects for which the borrower will supplement tax-exempt IDB financing for a project with taxable IDBs, a taxable loan and/or private funds or equity.

<u>Discussion:</u>

The Act does not distinguish between taxable and tax-exempt IDBs. It anticipates projects may require financing from other sources, and it requires that applicants supply information on the sources of funds covering all projects costs, in addition to those costs covered by IDBs. The Act also recognizes the economic benefits that accrue through the issuance of IDBs as an alternative source of financing for manufacturing projects and the economic benefits when manufacturers spend taxable or private funds on project costs. Therefore, staff believes the continued use of the Leverage points category is consistent with the Act and CIDFAC's statutory authority. The Act reads, in part:

"The Legislature further finds and determines that industry within this state needs and requires <u>new methods to finance the capital outlays</u> required to acquire, construct, or rehabilitate facilities which will <u>increase employment opportunities or otherwise contribute to economic development</u>, and the alternate method of financing provided…is in the public interest and serves a public purpose and will promote the health, welfare, and safety of the citizens of the State of California… Authorities shall have all powers necessary or appropriate for carrying out the purposes of this title including, without limitation, the following powers…To borrow money and issue its bonds for the purpose of <u>paying all or any part of the costs of a project</u>, and for any other authorized purpose... Companies may apply for financing…by filing with an authority an application therefore which includes all of the following…Such <u>financial</u>, legal, and other information as is required by an authority…An estimate of the amount of bonds proposed to be issued, of <u>the sources of amounts otherwise required for the project</u>, and <u>an itemization of the estimated cost and any other expenses</u> which aggregate not less than the estimated amount of bonds [emphasis added]**."**[26]

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[25] ANSI is the American National Standards Institute which facilitates the development of American National Standards by accrediting Standards Developing Organizations for a wide variety of products, manufacturing and industrial processes, and distribution processes for goods, services, and energy. ANSI is the only U.S.-based organization that approves standards as American National Standards, and it is the U.S. member in the International Organization for Standardization (ISO), the world's largest developer and publisher of international standards.

[26] Government Code Sections 91501, 91527, and 91529

Existing Point Category:

- **LEVERAGE: Points will be awarded to projects for which taxable debt, a taxable loan and/or private funds or equity will supplement the use of tax-exempt bond financing. The Borrower and/or User must provide overall project costs and certify that one or more of these other sources of financing will be used for project expenses:**

    - **Greater than twenty percent (20 percent) of total project costs will be paid from one or more of these other sources of financing. (5 points)**

    - **Greater than ten percent (10 percent) and up to twenty percent (20 percent) of total project costs will be paid from one or more of these other sources of financing. (3 points)**

TIMELINE FOR THE APPROVAL AND IMPLEMENTATION OF A REVISED IDB POINT SYSTEM

CIDFAC staff's goal is to implement a revised point system for use during the 2009 allocation year. To accomplish this goal, staff has developed the following schedule for the revision process:

- CIDFAC staff will present a proposed revision to the CDLAC point system for IDBs at its February 25, 2009 board meeting. Staff will recommend that the Commission approve submission of the proposed revision to CDLAC for its review and approval.

- Upon favorable action by CIDFAC, staff anticipates CDLAC will announce a 30-day comment period on the proposed changes at a subsequent Committee meeting. Staff also anticipates that, following the 30-day comment period, CDLAC staff will present a revised IDB point system to the Committee for its approval. Upon CDLAC approval of a revised point system, CIDFAC staff anticipates the new point system, along with a revised IDB application that reflects the new point system, will be effective no less than 30-days prior to the next CIDFAC deadline for applications following CDLAC's approval.

- Dates may change as needed to accommodate the revision process. Any schedule changes will be announced in advance.

STAFF RECOMMENDATION

Staff recommends the Commission direct staff to submit the proposed revisions to the CDLAC point system for IDBs to CDLAC for its consideration. Staff also recommends that the Commission direct staff to work with CDLAC staff to amend CIDFAC's proposed revisions based on comments received or new information that comes to light as a result of CDLAC's public comment and approval process.