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Title: ***BILL NO. B-40 - (Intro. 10/13/2016) (For adoption) - Council Approval of First Amendment to the Development Agreement between the City of Fresno, a municipal corporation, and Betts Company, a California corporation, recorded with the Fresno County Recorder dated April 28, 2008, including incentives; and, authorizing the City Manager to sign the First Amendment to the Development Agreement.

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REPORT TO THE CITY COUNCIL

October 20, 2016

FROM: BRUCE RUDD, City Manager

BY: LARRY WESTERLUND, Director
Economic Development

SUBJECT

***BILL NO. B-40 - (Intro. 10/13/2016) (For adoption) - Council Approval of First Amendment to the Development Agreement between the City of Fresno, a municipal corporation, and Betts Company, a California corporation, recorded with the Fresno County Recorder dated April 28, 2008, including incentives; and, authorizing the City Manager to sign the First Amendment to the Development Agreement.

RECOMMENDATION

The Administration recommends that Council accept for introduction the attached ordinance that extends the Development Agreement between the City of Fresno (“City”) and the Betts Company (“Betts”), for ten years from the date of the Amendment to retain the company headquarters and job base in southeast Fresno.

EXECUTIVE SUMMARY

On November 27, 2007, the Fresno City Council approved a financial based development agreement between Betts and the City wherein the City agreed to provide financial assistance to Betts to relocate their headquarters from the San Francisco Bay Area to southeast Fresno, in addition to, expanding their local manufacturing facility with a $10 million investment, retaining 90 jobs, creating an additional 75 jobs and remain in Fresno through the duration of the agreement. The ten-year performance based financial incentives agreement included sharing property tax growth, sales tax growth, business tax abeyance, payment for related off-site improvements and plan-check rebates.

Over the last eight years, Betts has substantially complied with all of the development agreement requirements. However, with the unexpected onset of the Great Recession starting in 2008, Betts property tax and sales tax values fell precipitously. As a result, the anticipated performance based incentives failed to materialize. Betts has thus far received less than 20% of the projected incentives in the first eight years of the ten-year agreement. As a result, Betts asked the City to consider extending the agreement. After extensive discussion, the Administration has negotiated an extension of the agreement. In exchange for extending the current property and sales tax incentives, Betts has agreed to maintain its headquarters in Fresno and retain its work force for the next ten years. As proposed, the agreement will extend the Development Agreement through December 31, 2026. This extension is on a net gain basis and has no negative impact on the General Fund. The incentives are only payable based upon growth of property and sales tax generated by Betts business activities over the next ten years.

BACKGROUND

Betts is a 160+ year old California-based and family-owned manufacturer, who has operated a manufacturing facility in Fresno for the last 30 years. Betts, as part of the economic development agreement with the City, moved its headquarters and executives from the Bay Area to Fresno eight years ago. The company operates ten locations in California, Oregon, Arizona and Ohio. Six of the locations in California are truck parts and service locations. The company operates manufacturing facilities in Ohio and California.

Betts Company is made up of three divisions: Betts Spring Manufacturing, Betts Truck Parts & Service and Betts HD. Betts Spring Manufacturing is a leading maker of leaf, wire and industrial hot wound coil springs. Their springs are used in cars, trucks, trailers, rail cars and a host of other applications. Betts Truck Parts and Service offers state-of-the-art technology truck services to owner-operators, as well as, local, regional and national fleets. Betts HD manufactures bar type hangers, spring loaded hangers, mud flaps and a full line of truck fenders.

In 2006, Betts was looking to move their headquarters from the San Francisco Bay Area. As part of their search, they evaluated several sites outside of the State of California, as well as, Fresno. In an effort to assist Betts in locating their headquarters, retaining their current facility and expanding their operations in Fresno, the City negotiated the current Development Agreement in 2007. The original 2007 Development Agreement set forth obligations and duties of both Betts and the City. The obligations are as follows:

City obligations:

1. Reimburse Betts up to $50,000 in development fees.
2. Reimburse Betts up to $42,000 in cost for off-site improvements.
3. Share sales tax in the amount of 50% of the City’s portion of increased sales tax for 10

years.

4. Abate business tax for five years.
5. Reimburse 70% of property tax increased increment for 10 years.

All of the City's obligations under the agreement have been completed and all ongoing obligations are up to date. The only ongoing obligations under the current Development Agreement are the sales tax sharing and property tax incentive. Both incentives have two more years to run on the agreement.

Betts obligations:

1. Keep the Betts manufacturing facility and operations in Fresno.
2. Move Betts corporate headquarters to Fresno.
3. Retain the 75 jobs at that time located in Fresno.
4. Create 90 additional new jobs in Fresno.
5. Make at least $10 million investment in the Fresno facility.
6. Legally restructure sales tax point of sales through Fresno.
7. Build a new 120,000 square foot manufacturing facility.

Since the execution of the original Development Agreement, Betts has relocated their corporate headquarters to Fresno as planned. Additionally, they have retained and expanded their original Fresno operation from $9.1 million in revenues and 75 employees in 2008, to approximately $13.44 million in revenues and 165 employees in 2015. They have also made Fresno based capital investment of over $18 million, almost twice their required commitment of $10 million. Finally, Betts has also completed development of approximately 110,000 square feet of gross buildable area and constructed all required on- and off-site improvements.

The total estimated value of the City incentives offered to induce the investment in the retention and expansion of Betts in Fresno over the ten years came to $1,497,653. The primary incentive payments came from shared sales tax and property tax.

In 2008, the nation and the world fell into the Great Recession. The housing bubble and the bond market collapse devastated the national, state and local economies. Property values and sales tax fell drastically in the United States, California and Fresno. The lingering effects of the Great Recession have resulted in a slow and long recover for both property tax and sales tax. As a result, the property tax and sales tax incentive, until recently, failed to materialize. From the original amount estimated in the Development Agreement, and through no fault of their own, Betts in the eight years of the agreement has taken in less than 20% of the total projected incentives.

Given the foregoing, the Administration believes that it is fair, right and to the benefit of the City to extend the Development Agreement ten years from the execution of the Amendment. In return for extending the sales tax and property tax provisions, the City receives assurances that Betts will retain their headquarters, workforce and manufacturing facility in Fresno at least until 2027. In return, it is estimated that, if Betts is able to continue to grow at a 2% growth rate per quarter per year and a 2% growth of assessed property value per year, they will receive in the form of sales tax and property sharing a total of $816,331 over the extension. Betts and the City understand that the foregoing is just an estimate and is contingent on Betts continued growth rate, property valuation and other factors. It is not in any way a guarantee and could very well not fully materialize.

As part of the City's due diligence, the Director of Economic Development has twice toured the company's Fresno headquarters and manufacturing facility. The City Controller and his finance team have reviewed the company's annual sales tax as reported by the State Franchise Tax Board and the property assessment values as reported by the County Assessor for at least the last eight years. Betts has provided data on their staffing levels, capital investment amounts and revenue growth. Staff believes the requirements of the Better Business Act have been fulfilled with staff investigation and disclosed company information.

ENVIRONMENTAL FINDINGS

Amendment of the Development Agreement is not a "project" for purposes of CEQA pursuant to Section 15348(b)(4), which exempts government fiscal activities from the definition of project.

LOCAL PREFERENCE

Local preference was not considered because this is not a competitive bid.

FISCAL IMPACT

The First Amendment to the Development Agreement is based upon a "Net Gain" strategy through rebating sales and property tax increment the City would not otherwise realize without this development. The agreement does not attach any sort of liability to the General Fund or any other City account.

Attachments:

Attachment A - Ordinance
Exhibit A - First Amendment to the Development Agreement
Attachment B - Original Development dated April 28, 2008.
Attachment C - City Controller's Analysis and Estimated Project of Incentive Value for Property and Sales Tax from 2017 to 2026