Economic Development Incentives Presentation

Incentives & Finance Opportunities

This document was prepared at the request of Kimberly Parker, Nevada County Economic Development Program Manager as a first step to identifying potential solutions for the Economic Development Action Plan items 5.1 and 5.2. The discussion is a high level overview of incentives that could be pursued by the county and existing financing programs available to businesses and nonprofits. Not all incentives would need to be funded by the County as the State of California offers accessible programs that can be accessed by local governments or independent business owners. A list of these programs is provided in the Resources section below. Other programs exist, however this document provides information on the most popular and accessible within the region.

INCENTIVES: *Action Plan 5.1- Create an incentive fund to induce business expansion or relocation commitments with specific and measurable obligations on the recipient.*

Overview:

Incentive funds are typically used to stimulate growth and attract new businesses to local jurisdictions. Ideally, they are deployed to encourage businesses to invest, hire, build or otherwise expand operations, generating incremental economic activity that will result in additional tax revenues for a community. A summary of benefits and challenges related to local government sponsored incentives can be found below followed by strategies for certain types of incentives:

Provides increased visibilty to communities trying to attract businesses.	Potentially creates an uneven playing field for businesses.
Potential for significant cost savings for businesses.	Requires administrative effort and support.
Can be used to target development to specific areas or industries.	Can be politically divisive if incentives are narrowly targeted or not available to everyone.
Local government can deploy incentives to promote certain social, environmental or economic objectives.	Effectiveness varies depending on specific circumstances, context, beneficiaries and goverance.

Strategies for Incentives:

A core strategy is to first identify a mix of potential non-cash offerings within the law and valued by current and prospective businesses, including fee reductions, tax breaks, streamlined permit processing, subsidized loans, financial protections, and/or improvements in infrastructure. Incentives must be designed to encourage business owners, homeowners or individuals to make a specified investment with an expectation of long term savings, increased revenues or reduction in taxes. Discretionary incentives consist of either tax or economic benefits and can be established by law, by the policy of a public body, or by negotiation among transaction participants. For example, a local government and a business might negotiate a temporary reduction in property tax if the business undertakes an activity that the government wants, such as hiring more local residents or remediating a traffic problem.

(Examples of working programs from other jurisdictions are provided below).

Types of Incentive Funds

1. **Tax Incentives.** Tax incentives—also called “tax benefits”—are reductions in tax that the government makes in order to encourage spending on certain items or activities. Tax incentives are often cited as a great way to encourage economic development. An example of a business tax incentive is a government giving a major company tax breaks in exchange for them building an office or plant in their city or county. This type of tax

incentive stimulates the economy in that area by empowering the company to provide jobs, as well as make goods or services available for purchase.

2. **Financial Incentives**. A financial incentive is a broader term that encompasses any monetary benefit given to a consumer, employer, corporation, or organization in order to incentivize them to do something they might not otherwise do such as clean up a blighted work site or create streetscape improvements.

3. **Subsidies**. Subsidies are government incentive programs that provide set amounts of money to businesses in order to help them grow. An widely known example is agricultural subsidies where the federal government gives farmers billions of dollars both to farm more of certain products and to reduce their outputs in times of surplus. Other types of government subsidies used at the local level include: broadband connections, export businesses, environmental, housing, and health care.

4. **Tax rebates.** Tax rebates are incentives to take certain actions, like investing in solar energy, for example. In the case of renewable energy tax rebates, a state or local government offers a certain amount of money to consumers to purchase more environmentally-friendly methods to generate electricity. For instance, a city might offer any homeowner who pays to install solar panels on their roof a check for $1,000.

Resources:

The Governor's Office of Business and Economic Development ("GO-Biz") serves as California's single point of contact for business, economic development, and job creation efforts. GO-Biz offers a range of services to business owners including: attraction, retention and expansion services, site selection, permit streamlining, small business assistance, international trade development, and assistance.

SOURCE:

https://calosba.ca.gov/wp-content/uploads/CA_BusinessInvestmentGuide_2024.pdf

Economic Development Incentive examples:

The following illustrates economic development incentives made available to private sector businesses, non profits or other recipients:

- Industrial Development Bond financing, provides tax-exempt financing up to $10 million for qualified manufacturing and processing companies for the construction or acquisition of facilities and equipment is available through the California IBank. Projects must meet certain public benefit criteria established by the IRS, such as creation or retention of jobs.

- Statewide Community Infrastructure Financing (SCIP), is a tax-exempt bond that funds county-imposed development impact fees for public infrastructure in private developments. The bonds are issued by the California Statewide Communities

Development Authority (CSCDA), which is a Joint Powers Authority sponsored by the League of California Cities and the California State Association of Counties (CSAC) - of which Nevada County is an active member. SCIP is designed to lessen the administrative burden on jurisdictions. It is administered by CSCDA consultants who prepare the tax roll, disclosure reports, and handle delinquencies. The only administrative burden for the County would be to provide CSCDA with information regarding the proposed development. Eligible development fees include any fees paid to the county to mitigate the impact of development and that will ultimately be used to pay for the costs of public infrastructure. Initiating participation in SCIP is fairly simple and does not require voter approval. The program requires the County to appoint a key contact from staff and for the Board of Supervisors to pass two SCIP resolutions. After that, the CSCDA financing team will work with the county's contact to handle individual funding requests. The fiscal impact is minimal because the program does not require incremental staff and the developer's mitigation fees are paid upfront through the State's tax-exempt bond fund and repaid overtime by the developer directly to CSCDA who imposes an assessment lien on the benefited property until it is repaid. Mitigation fees can also be reimbursed to the developer. Locally, SCIP is used by the City of Grass Valley, Placer County, Truckee Donner PUD and El Dorado County

- Federal or state new markets income tax credit program incentivizes community development and economic growth through the use of tax credits that attract private investment to distressed communities and qualified low-income communities. New market tax credit programs are complicated and do require an experienced and normally well capitalized developer to navigate the programs.
- Ad Valorem tax exemptions may be available for certain types of property taxes based on the assessed value for homeowners, veterans, non-profits, public schools, etc. The exemptions do not apply to special assessments, direct levies, abatement charges or Mello-Roos bonds because these are not based on the assessed value of the property.
- Tax Increment Financing is a public financing method that allocates all or a portion of new future property or sales taxes generated by projects to fund community improvement projects. The set up and administration of tax increment financing programs can be complicated.
- The California Employment Training Panel provides funding to employers to assist in upgrading the skills of workers through training that leads to good paying, long-term jobs. The program is administered by the state through intermediary agencies and comes with a host of parameters regarding the types of jobs, level of pay and benefit structure required.
- Refundable or non-refundable Work Opportunity Tax Credits are available for job creation or retention, or capital investment, by private employers.

- Enterprise or development zones, exempting all or a portion of certain taxes otherwise imposed on property or business activity within the zone from state or local taxes.
- State and local loans and grants for the rehabilitation of environmentally impacted sites (brownfields sites) are funded by the Dept of Toxic Substances Control.
- The Rural Renewable Energy Network will be starting in Nevada County through Sierra Business Council which provides incentives for capital investment in renewable energy and energy efficiency projects. This incentive program is funded through rate payer dollars and will begin in the first quarter of 2025.

CONSIDERATIONS:

Economic development incentives vary in purpose and type. For instance, a utility incentive designed to foster economic development in a local community has differing and distinctive characteristics and goals from an ad-valorem property tax incentive used to encourage the redevelopment of blighted areas in that community.

A local community may offer economic development incentives as a defensive measure to maintain parity with adjacent communities. However, any incentive should support existing plans, strategies and economic priorities that will drive growth or improve prosperity. The composition of a local community's economic base and capacity should be a factor in the adoption of incentive programs. In terms of equity, a local government (or state) may offer attractive incentive packages to an under-represented business class as a way to diversify its economy. Similarly, a local community can orient its incentive policies toward particular businesses in an effort to counterbalance its reliance on one business sector (e.g. high tech or manufacturing). For Nevada County, incentives offered by the state can be promoted by the Office of Economic Development but any adoption of locally sponsored incentive programs must be carefully considered in the context of the General Plan, Board of Supervisor priorities, other Specific Plans and the political climate.

A key consideration for the county with respect to economic development incentives is whether an incentive program will be viewed as favorable to one group. Great strides should be taken to educate the community in advance regarding the potential for economic impact across sectors, populations and communities to ensure broad equity. Most incentives will directly benefit the recipient while indirectly promoting the growth of related businesses and overall prosperity and this should be a core expectation of any publicly funded economic development program.

Examples of High Functioning Incentive Programs:

Ex. 1 One North Carolina Fund Small Business Program:

The One North Carolina Small Business Program helps fund North Carolina businesses in capital-intensive, high-risk industries in science, technology, engineering and math. It is designed to leverage specific federal grants. If a company applies for or wins a Phase I federal Small Business Innovation Research or Small Business Technology Transfer grant (SBIR/STTR), the money can go further with matching dollars from the One NC Small Business Program.

https://edpnc.com/incentives/one-north-carolina-fund-small-business-program/

Ex. 2 Commercial Corridor Facade Improvement Program:

While facade improvement projects are typically housed with the Community Development Department, some type of incentive might be offered by the County.

The CCFIP will provide financial assistance in the form of a grant to commercial property owners to significantly improve the appearance of the entire façade of their property that is visible from the street.

https://www.longbeach.gov/lbcd/hn/ccfip/

Ex. 3: Butte County Incentives & Financing:

https://www.buttecounty.net/210/Incentives-and-Financing See Butte County website for their Incentives and Financing options

Finance: *Action Plan 5.2 Explore landing or creating a Community Development Financial Institution (CDFI) to support business startups and scaling.*

Overview

Finance programs for businesses, nonprofits, local governments and special districts are offered by a multitude of organizations including banks, credit unions, nonprofit lenders, financial intermediaries, philanthropic organizations and state and federal agencies. Typically, the programs are offered as loans although in some cases, grants are available for specific demographics, industries or projects. The following is an overview of the most commonly available financing programs for businesses and nonprofits.

Strategies for Financing:

Community Development Finance Institution (CDFI)

While noted as a potential in the action plan, Nevada County is not eligible to apply for a CDFI certification. However the County can develop relationships with existing CDFIs providing economic development services in Northern California and virtual CDFIs licensed to operate in the State.

Background:

Congress established the CDFI Fund within the U.S. Department of Treasury in 1994 to promote community development in economically distressed urban and rural communities by investing in and growing CDFIs across the country. In addition to overseeing CDFI certification, the CDFI Fund administers a range of innovative programs designed to strengthen the ability of CDFIs to provide financial products and services in underserved communities.

According to the Community Development Financial Development Institutions Fund [1]there were 110 certified CDFIs headquartered in California as of February 13, 2023, including 14 CDFI banks, 27 credit unions, 67 loan funds, and 2 venture capital funds. Each one is mission based with the goal to provide fair, responsible financing to [rural, urban, Native, and other communities](#) that mainstream finance doesn't traditionally reach. While they share a common vision of expanding economic opportunity for all, each has a different business model and legal structure.

CDFIs significantly leverage CDFI Fund resources in communities and with people left out of the economic mainstream, generating $12 in private capital for every dollar in CDFI grants. High rates of unemployment and small business failures are largely concentrated in the communities CDFIs serve.

The following CDFIs operate predominately in Northern California and the Sierra Foothills Region and SBC is happy to make introductions to Nevada Co Economic Development stakeholders to begin discussions about increased coverage in the region:

Lending Type of "Business":
- Bankers Small Business CDC, San Diego
- California Capital Small Business Financial Development Corporation, Sacramento
- Main Street Launch, Oakland
- North Edge (formerly AEDC), Eureka
- TMC Community Capital, Oakland

Lending Type of "Microenterprise":
- Accessity, San Diego
- Accion Opportunity Fund, San Jose
- Opening Doors, Inc., Sacramento
- Working Solutions CDFI, San Francisco

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[1] SOURCE: https://cdfi.org/wp-content/uploads/2022/02/California.pdf

Considerations:

As noted, Nevada County is not eligible to apply for a CDFI certification. CDFI certification has the following eligibility requirements:

To be eligible for CDFI Certification, an organization must meet the following criteria:

• Have a primary mission of promoting community development
• Provide both financial and educational services
• Serve and maintain accountability to one or more defined target markets
• Maintain accountability to a defined market
• Be a legal, non-governmental entity at the time of application (with the exception of Tribal governmental entities)

In a telephone conversation with a known CDFI in California who is certified to assist small businesses in Nevada County and who is willing to pursue increased support for Nevada County businesses, it was ascertained that 15% of their loans come from referring CDFIs. CDFIs are required to maintain a portfolio serving 60% LMI (low to moderate income) borrowers. It was also mentioned that only 10% of their budget is earned income with the remaining 90% coming from philanthropic support.

We believe that the Region is sufficiently supported by the lending community of Banks, CDFIs, Credit Unions and Venture Capital. CDFIs are trusted partners to the public and private sectors, which can invest in CDFIs to drive capital and create impact in Nevada County. This could be an investment area that Nevada County might want to pursue and SBC can facilitate this.

Nevada County could partner with any CDFI in our region and/or service area to monetarily support them with the designation that the funds had to be deployed to Nevada County, leveraging their expertise and making deployment of funds more efficient and cost-effective. An inventory could be taken to determine capital needs by the County's small businesses to assess what type of volume is projected. The SBC and the Sierra SBDC can facilitate introductions to CDFIs and access to capital amongst the small business community.

Small Business Loans (SBA Loan Guarantees and Microloans)

The Small Business Administration provides several programs to support small business development including loan guarantees and microloans (loans less than $50,000 for "unbankable" businesses) - primarily funded through established banks and other intermediaries. Total lending year to date in Nevada County by bank is as follows per a report from the Sacramento District Office.

Nevada County	14	$10,114,000
California Statewide Certified Development	1	$514,000
Celtic Bank Corporation	1	$2,380,000
Colony Bank	1	$150,000
Greater Sacramento Certified Development Co	1	$156,000
Live Oak Banking Company	1	$1,100,000
Newtek Bank, National Association	2	$375,000
Plumas Bank	2	$1,850,000
Readycap Lending, LLC	4	$1,110,000
U.S. Bank, National Association	1	$2,479,000

SBA Microloans

The SBA microloan program provides small business loans of up to $50,000 to help small businesses and certain non-profits for start up and expansion. SBA Microloans are typically funded through a non-profit community-based intermediary lender and often have a lower underwriting threshold. Microloans are also paired with technical assistance to increase the chances of a new business owner's success and ability to transition to a traditional lender. They are designed for new small businesses or historically marginalized populations with minimal or no credit history. However, SBA microloans generally require some type of collateral and a personal guarantee of the business owner.

Nevada County (and in fact, most of rural Northern California) is minimally served by this program with only two potential lenders; CDC Small Business Finance, Opening Doors. Sierra Business Council has explored becoming an intermediary to host this catalytic loan program.

Community Development Block Grants (CDBG)

The California Department of Housing and Community Development (HUD) releases a Notice of Funding Availability (NOFA) annually. The allocation in 2024 is for approximately $34 million in federal funds for the Community Development Block Grant (CDBG) program. Funding for this NOFA is available to the state from the U.S. Department of Housing and Urban Development, as part of the Code of Federal Regulation (CFR) Part 570 Subpart I "State Community Development Block Grant Program." These regulations require the state to make funds available to the state's non-entitlement Units of General Local Government, which includes counties. The objectives of the CDBG program are to develop viable communities by the provision of decent affordable housing, a suitable living environment, and to expand economic opportunities, principally for the benefit of Low- and Moderate-Income (LMI) persons, families, households, and neighborhoods.

Eligible projects for CDBG vary from year to year depending on economic need. In general eligible projects must benefit low-income communities and can include: housing, public infrastructure such as water, wastewater and utilities, community facilities, planning and technical assistance for public works.

HUD also offers the Enterprise Program for Small Business which provides grants or loans to businesses for working capital, land acquisition, equipment purchase, inventory purchase, debt restructuring, and other direct assistance. Microenterprise funds may provide credit, general support (e.g., childcare, transportation), or technical assistance for disadvantaged persons developing microenterprises.

Considerations:

CDBG grants and loans are notoriously difficult to administer. They typically require a cash match and are targeted to a very limited disadvantaged or low-income population. CDBG grants are monitored regularly by the State and require diligence in reporting and compliance. In Nevada County, Nevada City and Truckee have pursued CDBG funding in past years. HCD offerings for funding are robust and a full calendar of opportunities are available here: https://www.hcd.ca.gov/grants-and-funding/nofa-calendar

USDA Business & Industry (B&I) Loans

USDA B&I loans help businesses located in rural areas to improve, develop or finance business, industry and employment and to improve the economic and environmental climate in rural communities. B&I loans can be offered to start, expand or acquire a business that will provide employment, improve the economic or environmental climate; promote the conservation of water; or reduce reliance on non-renewable energy resources. Applicant businesses must be located in an eligible area as designated by the USDA which is targeted to low-income, economically disadvantaged or disaster prone areas. In order to qualify, the majority of revenue from the business must be derived from owner-user business (as opposed to corporate entities). The loans are funded by intermediary lenders. In addition, the USDA funds rural business government backed loans in areas with less than 50,000 people. Loans can be funded in amounts of $100k-$350k. Proceeds can be used for commercial real estate purchase and improvement, machinery and equipment, plant improvements and working capital.

Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) grants

The Federal and State Technology (FAST) Partnership Program provides funding to organizations to execute state/regional programs that increase the number of SBIR/STTR proposals leading to an increase in the number of SBIR/STTR awards from women, socially/economically disadvantaged individuals, and small businesses in underrepresented areas - typically rural regions. $9MM has been awarded to organizations to support the FAST FUND and California's share goes to CalPoly Humboldt Sponsored Programs Foundation. These grants are known to be laborious to administer and are not recommended for small organizations or businesses that lack capacity.

Community Investment Fund:

Community Investment Funds are relatively new tools established by non profits, local governments or other intermediaries.

An example in California includes the Sonoma County Community Investment Fund. The Sonoma County Board of Supervisors established the Community Investment Fund Program in 1986 utilizing two-thirds of the Transient Occupancy Tax (Hotel/Motel Tax or Bed Tax) funds. The Transient Occupancy Tax (TOT) is currently charged at a rate of 12% for accommodations at lodging and camping facilities in the unincorporated areas of the county. The County developed a Community Investment Fund Policy that directs $500,000 annually to be allocated to events, organizations and Supervisorial District priorities - divided equally among all five districts.

The Community Investment Fund Program utilizes a portion of the TOT to encourage tourism, economic development, community engagement, and community services through a variety of grant award and funding avenues. The Program provides various grants to community non-profits for local events that will support businesses or enhance culture, and organizations that provide a benefit to the community. Additionally, the program provides grants to address impacts on safety due to tourism. The Program also provides funding to the Regional Parks Department, Economic Development Department, the Policy, Grants, & Special Projects Division, and a number of other county department activities. A listing of 2023/24 grant recipients can be found here.

Another example of a Community Investment Fund is a revolving loan fund that is typically set up by a non-profit or intermediary lender. One of the first successful projects is the Rhode Island Community Investment Cooperative, a public-benefit corporation in the state of Rhode Island acting with the values and structure of a cooperative. The Cooperative was set up by Local Return, a nonprofit organization dedicated to building community wealth through ownership and investment. Local Return accepts investments from accredited and non-accredited investors in amounts as low as $500. Ultimately, the fund seeks to invest in community wealth building through its impact themes of economic mobility, climate related business opportunities, advancing food systems and disadvantaged populations. Investment types include loans or equity in amounts ranging from $15,000 to $500,000 for real estate projects Loans, equity, and equity-like investments of $15,000 for small business working capital up to 500,000 for real estate projects or related ventures that create or preserve local ownership and neighborhood benefit.

A related but much smaller fund is SBC's Resilience Fund, created during Covid under SEC Rule 506c that allows accredited investors to support local businesses with low cost capital. The fund aggregates investments and donations that are redeployed through low interest microloans. The capital aggregated from public and private sources was placed into a revolving loan fund and SBC provided the accounting, underwriting and administrative services to manage and deploy the fund to eligible businesses within days. Businesses also received free technical assistance through the SBDC to improve business operations.

Considerations:

Community Investment Funds are a fantastic way to create local impact with local capital from public, private and philanthropic sources. They do take considerable resources to raise the funds, manage, promote, underwrite, administer and ensure compliance.

Recommendations:

Based on the available options to pursue, the following programs are recommended to pursue as priority because the offer the greatest impact with the least amount of financial investment or capacity:

First Priority - Most Accessible with Minimal Investment

1. Partner with an existing CDFI to expand service in Nevada County
2. Expand SBA microenterprise lending into Nevada County by engaging with existing lenders in the region.
3. SCIP program to benefit developers and mitigate impact of upfront fees.
4. Rural REN program beginning in January 2025. No fiscal impact to the county but necessitates support of program with property owners where permitting is required.

Second Priority - Investigate and Analyze Required Effort and Investment

1. Community Loan Fund. Consider partnering with SBC to initiate a specific fund for Nevada County. May require an initial upfront investment from the county with potential to match.
2. Tax Increment Financing (TIF) - explore potential and community appetite for creating a TIF district to build funding for small business support or housing development.