

RESOLUTION NUMBER R- 292237 (R-2000-350)

ADOPTED ON SEP 27 1999

WHEREAS, Novartis AG, one of the world's largest biotechnology firms, is currently considering funding the operations of two research institutes which would develop and manufacture new products and related technology [the Novartis Institutes]; and

WHEREAS, the Novartis Institutes have currently signed a 10-year lease to occupy a research laboratory in La Jolla and will need to expand operations into new custom-designed facilities; and

WHEREAS, the growth and expansion of the Novartis Institutes and other entities related to Novartis AG will substantially enhance the strength and viability of the "biotechnology cluster" in San Diego, thereby increasing the attractiveness of the City as a location for developing and marketing products based on high technology; and

WHEREAS, if Novartis AG pursues its aggressive investment strategy, phased in over five (5) years, building new manufacturing space and making substantial investments in new equipment to meet the requirements of the new technology, these new investments should result in the creation of almost 400 new jobs, including 192 manufacturing jobs, almost \$10,000,000 in tax revenue to the City, and benefits to the local economy through hundreds of millions of dollars of payroll expenditures and increased local purchases of goods and services; and

WHEREAS, the City Council has adopted Council Policy 900-12, which provides for flexible economic development incentives, and standards for their use, to attract and retain key San Diego industries; and

WHEREAS, the City Manager of The City of San Diego has reported to the City Council

on economic development incentives that had been proposed to Company by City. These incentives included, expedited permit processing, a recommendation to rebate the City's portion of the tax imposed on tangible personal property used in the manufacturing process, rebates or credits on use taxes allocated to the City, and reduced water and sewer capacity charges, (City Manager Report No. 99-178); and

WHEREAS, in 1993, the State of California adopted AB 1823, effective January 1, 1994, which amended the California Revenue and Taxation Code by adding Section 5108. This law authorizes cities and counties to rebate their portion of personal property taxes imposed on manufacturing equipment for a five year period from the date the equipment is placed into service if the property on which the taxes are proposed to be rebated is directly involved in manufacturing and the use of the property will lead to the creation of new full time manufacturing positions; and.

WHEREAS, on SEP 27 1999, 1999, the City Council made the findings as required by California Revenue and Taxation Code Section 5108, and authorized the City Manager to negotiate and execute an Agreement with Company to rebate to Company for a period of five (5) years that portion of the taxes which The City of San Diego receives on the personal property tax imposed on manufacturing equipment which Company purchased during the years 2000, 2001, 2002, 2003, and 2004 (City Council Resolution R- 292237(R-2000-350)). Each of five (5), overlapping five-year periods, will commence in 2000, 2001, 2002, 2003, and 2004 respectively, terminating the rebate period for 2004 purchases in 2009. (For the purposes of this Agreement, "year" shall mean "fiscal year"; and

WHEREAS, Company has considered its expansion options and, for numerous reasons including the economic development incentives offered by City, County, and other local

agencies, Company is primarily interested in expanding into The City of San Diego; NOW,
THEREFORE,

BE IT RESOLVED, by the Council of The City of San Diego, that the Council finds, in its sole discretion, that:

1. The attraction of further investment from Novartis AG would result in the retention and creation of quality jobs, tax revenue, and other economic benefits and is in the best interests of The City of San Diego.

2. Novartis AG proposes to invest substantial amounts for the purchase and use of manufacturing equipment used in conjunction with the expansion of research and development operations within the jurisdiction of The City of San Diego.

3. The manufacturing equipment which the Novartis Institutes propose to purchase and use will be directly involved in the manufacturing process in the State of California, and not in a preliminary or subsequent activity, or one incidental to manufacturing.

4. The manufacturing equipment which the Novartis Institutes propose to purchase and use will lead to the retention of over one hundred-five (105) existing jobs, the creation of an expected two hundred seventy-five (275) additional jobs, of which 192 are to full-time manufacturing jobs, that both retained jobs and new jobs are at salary levels of at least ten dollars (\$10) per hour, and that these jobs will continue in existence for at least a continuous five-year period.

BE IT FURTHER RESOLVED, that the City Manager is authorized to negotiate and execute an Agreement with the Novartis Institutes, a copy of which is on file in the office of the City Clerk as Document No. RR - 292237, to:

1. Rebate to the Company for a period of five years that portion of taxes which the

City receives on the personal property imposed on manufacturing equipment which the Company places into service during the City's fiscal years 2000, 2001, 2002, 2003, and 2004;

2. Provide the rebates or credits authorized through Council Resolution 288034 for participation in the Business Cooperation Program;

3. Reduce by \$1,000 per equivalent dwelling unit (EDU) the normal charges of \$2,500/EDU for water and sewer capacity pursuant to Council Resolution R 96-1480; and

4. Reimburse Company's costs for payment of the Housing Impact Fees from General Fund tax revenues generated by the project. Such Agreement shall be subject to the Council's annual review and approval during the adoption of the City's budget. The Agreement shall contain the following provisions:

(a) The maximum amount of the rebate of taxes paid on tangible personal property, over the entire nine-year rebate period, shall not exceed \$200,000, irrespective of the amount of investments made by Company in tangible personal manufacturing property;

(b) The Company shall provide a means of assuring that the maximum number of jobs or positions possible shall be made available to San Diego area residents, such as entering into a Work Source Hiring Agreement with the San Diego Workforce Partnership, or recruiting through local universities. The Company shall provide a means of assuring that the jobs or positions shall meet the requirements of City Council Policy 900-12 and California Revenue and Taxation Code Section 5108 regarding the quality of the jobs. Finally the Company shall provide a means of assuring that the number of new employees constitutes an increase in the total number of employees as defined in Section 621 of the Unemployment Insurance Code, employed by the Company in the State of California.

(c) The Company shall participate in the Business Cooperation Program by

self-assessing California use taxes, and shall properly report and allocate, and/or cause to be properly reported and allocated, such sales and use taxes to The City of San Diego as the situs of the transaction. Such taxes will equal or exceed the amount of the personal property tax to be rebated pursuant to any Agreement with Company.

BE IT FURTHER RESOLVED, that the City Auditor and Comptroller is authorized, upon the direction of the Financial Management Director, to (a) appropriate property tax revenues paid by Company for manufacturing property and to appropriate expenditures to rebate the property taxes paid; (b) appropriate use tax revenues paid by Company and to appropriate expenditures to rebate or credit taxes paid pursuant to the Business Cooperation Program; and (c) appropriate sales, use, and property taxes paid by Company and to appropriate expenditures to reimburse Housing Impact Fees paid.


BE IT FURTHER RESOLVED, that the Council of The City of San Diego directs City Staff, acting by and through the City Manager, to take all actions necessary to implement this Agreement following its execution by City and Company.

BE IT FURTHER RESOLVED, that the Council of The City of San Diego directs the City Manager to return to Council with an amendment to Council Policy 900-12 which specifically provides for future reimbursements of Housing Impact Fees for other businesses

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which may make large capital investments in the City, and in which the City stands to realize substantial net financial gains.

APPROVED: CASEY GWINN, City Attorney

By 

Prescilla Dugard
Deputy City Attorney

PD:cdk
09/20/99
Or.Dept:Econ.Dev.Svcs.
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