

DATE ISSUED: October 3, 2001

REPORT NO.: 01-202

ATTENTION: Honorable Mayor and City Council
Docket of October 8, 2001

SUBJECT: Proposed Financial Incentive Agreement for IDEC Pharmaceuticals

REFERENCE: City Council Policy 900-12

SUMMARY

Issue: Should the City Council authorize a General Fund reimbursement of Housing Impact Fees (“HIF”) to be paid by IDEC Pharmaceuticals Corporation, with reimbursement being conditional on the City receiving an equal or greater amount of new General Fund revenue from the project, to encourage the company to retain its headquarters/R&D operations and facilities within the City?

Manager's Recommendation Authorize the Manager to execute an Agreement which provides for a General Fund reimbursement of Housing Impact Fees (“HIF”) to be paid by IDEC Pharmaceuticals Corporation, with reimbursement being conditional on the City receiving an equal or greater amount of new General Fund revenue from the project, to encourage the company to retain its headquarters/R&D operations and facilities within the City.

Other Recommendations None

Fiscal Impact: The proposed reimbursement would not have a net cost to the General Fund. The proposed HIF reimbursement (not to exceed \$614,000) will be more than offset by new General Fund tax revenue generated by the development project. It is estimated that approximately \$16 million in new General Fund tax revenue will be generated during the 35-year useful life of the facilities contemplated by IDEC (see Attachment # 1). In addition to these new General Fund tax revenues, the project will also generate almost \$4 million in impact fee revenue for improvements to the University Community and to fund low-income housing projects city-wide.

BACKGROUND

In 1995, IDEC Pharmaceuticals Corporation approached the City requesting assistance in its efforts to locate a new manufacturing facility within the City. IDEC had reached capacity at the Torreyana plant and had begun the planning/site selection process for a second plant, which given the complicated design, construction, and validation process, had to begin well in advance of full production operations. City staff had been working with corporate officers and engineers at IDEC since that time to ensure that the City could provide a location and a package of financial incentives which would be competitive with what other jurisdictions were offering and which would sufficiently lower the project costs to expedite the development.

In 2000, IDEC purchased 60 acres of industrial land in the City of Oceanside for construction of the new drug manufacturing plant. IDEC also purchased an option for an additional 30 acres of industrial land immediately adjacent to the 60 acre lot assembly. This purchase occurred despite the City's offer of an unprecedented package of financial incentives designed to encourage IDEC to purchase a similarly-sized lot assembly in the Otay Mesa community. The Oceanside incentive package exceeded San Diego's offer because it included a commitment to fund construction of an industrial brine line, that would save IDEC millions of dollars in sewerage costs.

In July of 2001, IDEC entered into an escrow agreement with the San Diego Partnership to purchase the entire 30 acre Nobel Research Park in the UTC section of the La Jolla community. IDEC is contemplating retaining its headquarters and R&D functions in San Diego where most of its employees currently live. Although IDEC has decided to construct its new manufacturing plant in Oceanside, the retention of their corporate headquarters and research facilities in the City will provide significant positive fiscal and economic impacts for our economy.

By retaining IDEC's corporate headquarters the City further validates its reputation as the premier location in southern California for biotechnology research and development. With one approved drug on the market ("Rituxan") and another nearing approval ("Zevalin" – see Attachment #2), 493 employees, and a market capitalization of \$8.9 billion, IDEC is widely recognized as a leader among California's biotechnology firms. As Dura Pharmaceuticals, Agouron Pharmaceuticals, and Mycogen Corporation have all been acquired by large multinational corporations, IDEC now stands alone among successful, homegrown biotechs which are still headquartered in San Diego.

DISCUSSION

Project Description

IDEC currently leases and occupies three buildings in La Jolla. Given IDEC's need for new and larger facilities, the company does not intend to renew these leases and will instead construct replacement buildings over the next few years in either San Diego or Oceanside. At full build-out, IDEC will have expended an additional \$300 million for land, buildings, and equipment. Approximately \$80 million of this amount would be for site improvements, infrastructure, new

building construction, and new equipment for Phase I of the project which would total approximately 250,000 s.f. At full build-out, IDEC could construct a campus of buildings totaling 766,000 s.f. where it would employ over 2,000 new administrative and research employees. These new jobs would be in addition to the 400 jobs that would be retained in the City if the new headquarters/R&D complex is constructed and occupied at the Nobel Research Park.

The primary business advantages for IDEC associated with expanding in the City include (1) the quality and stability of the workforce, and (2) the close proximity of the headquarters and R&D facilities to other biotechnology firms with whom partnership opportunities exist. Partially offsetting these business advantages is the fact that San Diego is, from a tax and fee standpoint, a relatively expensive operating environment. While the investment strategy of IDEC will be primarily determined by market forces, other jurisdictions are aggressively competing for high-tech capital investments, and the company must prudently consider its cost/site options within other jurisdictions.

Major Provisions of the Financial Incentive Agreement

The Business & Industry Incentive Program

In 1993, the City Council adopted the *Business and Industry Incentive Program (CP 900-12)* providing a variety of financial and non-financial incentives to attract, retain, and promote the expansion of private-sector commercial and industrial projects contributing to the fiscal and economic health of the City. During the last eight years, the City's Economic Development Division has assisted over 300 firms, which has resulted in the creation of thousands of new jobs and the generation of millions of dollars in new General Fund tax revenues.

In September of 1999, the City Council approved a package of financial incentives to induce Novartis AG, the world's largest bio-tech firm, to purchase land from the Scripps Research Institute and construct a 7-building 230,000 s.f. R&D campus in La Jolla. The Resolution authorizing this action also directed staff 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 which may make large capital investments in the City, and in which the City stands to realize substantial net financial gains."

In May of 2001, the City Council amended and updated the Business and Industry Incentive Program (Council Policy 900-12), which included a new section 2(a) providing for such reimbursements contingent upon staff recommendation and City Council approval. The amended Council Policy also places increased emphasis on supporting businesses which create middle income job opportunities and make capital investments that, in turn, help the City address other public needs. For example, increased City revenues tied to increased capital investment in the City could finance needed public infrastructure improvements which support "smart growth" strategies. In addition to generating over \$16 million in new tax revenue for the City, the subject site is located within the La Jolla Village area, adjacent to La Jolla Crossroads, a high-density multifamily project now under construction. Advancing the simultaneous construction of a new

office/R&D project adjacent to a new multi-family residential project substantially contributes to the fulfillment of the “City of Villages” program, and represents a “smart growth” land use planning effort.

Housing Impact Fee Reimbursement

The HIF reimbursement incentive involves a General Fund reimbursement of Housing Impact Fees to be paid by IDEC once the company demonstrates that the City has received an equal or greater amount of new tax revenue from its project. The City of San Diego is the only major city in southern California to impose a housing impact fee to address affordable housing needs. In an effort to be competitive with other jurisdictions competing for IDEC’s investment, staff is recommending the use of this incentive. As illustrated in Attachment #1, the proposed construction of IDEC’s new headquarters/R&D complex at Nobel Research Park will generate new tax revenue to the City (property tax, sales tax, and use tax) that substantially exceeds the amount of the proposed Housing Impact Fee reimbursement. General Fund reimbursement of the HIF would take place only after IDEC has paid the Fee and demonstrated that the City has received an equivalent amount of new tax revenue from the project, thereby ensuring that there will be no net cost to the General Fund.

The proposed HIF reimbursement, when combined with other incentives authorized by CP 900-12, addresses most of IDEC’s requests for assistance. If approved, a comprehensive financial incentive agreement between IDEC and the City will cover all of the aforementioned incentives.

The financial incentive agreement will also require IDEC to (1) allocate additional sales/use taxes to the City and (2) utilize reclaimed water in the cooling towers associated with the new office buildings and research labs. In addition to the financial incentives described in more detail below, the City would commit to providing permit assistance, expedited review for all permits, and an exemption from mandatory water conservation measures which could be implemented during a future drought or “water warning.”

The Business Cooperation Program

In 1996, the City Council passed the *Business Cooperation Program (BCP)* in order to simultaneously lower the cost of doing business in San Diego and prevent the City’s loss of millions of dollars in Sales and Use tax revenue, which is frequently misallocated to other jurisdictions. This program recaptures otherwise lost sales/use tax revenue for the City and shares it (through rebates), with business taxpayers who are willing to partner with the City in this program. The BCP enabling legislation, City Council Resolution R-288034 provides for staff-authorized tax credits and rebates to firms which allocate all of their sales/use tax to the City of San Diego.

The Guaranteed Water For Industry Program

In 1998 the City Council unanimously passed the *Guaranteed Water for Industry Program*, an interdepartmental effort developed and jointly administered by the Water Department and the Community & Economic Development Department. This program provides a special exemption (for manufacturing & R&D firms) from any future mandatory potable water restrictions imposed on businesses during a drought (Awater warning”). This Program was designed specifically to meet the water assurance needs of IDEC and similar high-tech firms which are dependent on a steady high-volume water supply.

CONCLUSION

The proposed assistance program is consistent with City Council Policy 900-12, the City’s associated Economic Development Strategy, and the other economic development programs discussed above. If the HIF reimbursement is approved by the City Council, a comprehensive agreement will ensure that the City receives other tax revenues that are substantially greater than the incentives provided. The retention of IDEC will create and retain high-quality jobs and foster new investment in San Diego’s biotechnology cluster. IDEC’s proposed headquarters/R&D complex will result in several favorable fiscal and economic impacts. These favorable impacts include increased employment, investment, and indirect General Fund tax revenue (generated in part by other sectors and industries outside of biotechnology, and in other locations throughout the City due to company and employee purchases of goods and services – see Attachments #3 and #4). In addition to the favorable economic impacts, retaining IDEC’s corporate headquarters and R&D facilities validates and strengthens the City’s reputation as the premier southern California location for biotechnology research and development.

ALTERNATIVES

- 1.) Do not authorize the assistance program;
- 2.) Authorize fewer financial incentives or authorize the same incentives with different terms.

Approved:
Bruce Herring
Deputy City Manager

Submitted:
Hank Cunningham
Director, Community & Economic Development Dept.
236-6550

HERRING/CUNNINGHAM/JK/RHG

Note: The attachments are not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachments: 1. Fiscal Impact Report – Direct Tax Revenues and Development Fees
2. IDEC News Clippings – Expected FDA approval of 2nd new drug
3. Economic Impact Report – Summarized Findings

4. Fiscal Impact Report – Indirect Tax Revenues