



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED: April 2, 2014 REPORT NO: 14-032  
ATTENTION: Economic Development & Intergovernmental Relations Committee  
SUBJECT: Economic Development Agreement – Ballast Point Brewing Co.  
REFERENCE: Council Policy 900-12 “Business & Industry Incentive Program”

REQUESTED ACTION: Forward the Economic Development Agreement to the City Council for approval

STAFF RECOMMENDATION: Forward the Economic Development Agreement to the City Council for approval

SUMMARY:

**Background**

San Diego’s economic base is principally comprised of four economic engines or base sectors which generate wealth for the City and the surrounding metropolitan area by exporting goods and services, or by reducing imports through local production. These economic base sectors are the military, tourism, manufacturing, and international trade. Manufacturing is the largest of these base sectors when measured in terms of its overall contribution to Gross Regional Product (GRP) at \$15.1 billion, and is the second only to Tourism in terms of employment at 122,000. San Diego’s manufacturing sector is dominated by high-technology industries such as aerospace, ship-building, biotechnology, electronics, telecommunications. Food and beverage producers have always had a small but significant role in the local economy beginning with the tuna canning industry in the early 1900’s. More recently, the beer manufacturing industry has seen explosive growth due to the growing consumer preference for “craft beer” produced in microbreweries.

Although San Diego’s beer manufacturing industry dates back to the defunct Aztec Brewery of Barrio Logan and Mission Brewery in the Midway community, the City’s modern microbreweries began with the establishment of the Karl Strauss brew-pub on Columbia Street in downtown in 1989. In 1995 three important events set the stage for the future growth of the industry. Alesmith Brewing Company opened a small brewery in the Miramar industrial area, Ballast Point Brewing Co. opened Home Brew Mart, a retail home brewing equipment and supply store with a small on-site brewery in a commercial area of Linda Vista, and White Labs, a manufacturer of brewers and vintners yeast opened a small production plant in the Miramar

industrial area. Over the course of the next 19 years, Alesmith went on to win more Gold, Silver and Bronze medals in international beer competitions than any other San Diego brewing company, Ballast Point became the City's largest beer manufacturing company, and White Labs has become the nation's pre-eminent yeast supplier to the industry.

In the mean time, San Diego's home brewers and commercial-scale brewers had gradually built up internal collaborative support networks, buying and selling equipment to each other, sharing production techniques and building brand loyalty among an ever-larger customer base. Escondido-based Stone Brewing built a distributorship which helped local brewers to penetrate markets which had been exclusively dominated by the major manufacturers such as Anheuser-Busch, Miller, and Coors, as well as more established "craft" brewers such as Sierra Nevada, Boston, and Widmer Brothers.

San Diego now has 19 brewpubs and 22 breweries, with three more breweries currently under construction, more than any other city in California. Several of these are significant industrial-scale breweries with bottling and canning capabilities making it possible to sell beer at wholesale in dozens of states and foreign countries.

The manufacturing of beer creates middle-wage job opportunities which do not require college degrees, meaning that jobs created in this industry are likely to be made available to local residents rather than imported labor. Beer manufacturing has a job multiplier factor of 5.7:1, one of the highest of all industries. Thus each direct job creates 4.7 additional jobs in the service sectors, such as wholesale, retail, the trades, finance, insurance, real estate, etc. Additionally, beer manufacturers in California are able to sell product at retail in breweries, brewpubs, and tasting stores, thus generating sales tax revenue for local jurisdictions. San Diego's brewers produce extremely high quality beers in a great many styles, which also substantially contributes to the Tourism Sector much like vintners do in northern California counties such as Napa and Sonoma. This attraction of visitors increases the sale of room nights at hotels, which in turn creates more jobs and additional sources of tax revenue. A recent study prepared by the National University System Institute for Policy Research (NUSIPR) concluded that the San Diego County "craft beer" industry as a whole generates a \$300 million annual economic impact to the region. For all of these reasons, beer manufacturers are highly sought after by cities throughout the United States.

By 2012 Ballast Point had completely maxed out the capacity of its 23,000 square foot main production brewery in Scripps Miramar Ranch. The company began a search for a factory building in the 70-100,000 square foot range, large enough to greatly increase production capacity but also large enough to provide for a 10-15,000 square foot full service restaurant, tasting room, and gift shop, plus office space to increase its sales force. The adjacent Koch Membranes factory was eventually ruled out due to the length of time needed to remediate this brownfield site. In 2013, Ballast Point was outbid by two retailers for two vacant factories sites in the Miramar industrial area, and a fourth vacant factory building in Rancho Bernardo was also under consideration until the owner suddenly cancelled lease negotiations after several months. During this time city staff brought forth and the City Council approved the "Microbrewery Ordinance" which amended the Municipal Code to allow beer manufacturers to build and operate large full service restaurants within breweries, as accessory uses.

In mid 2013 Ballast Point began discussions with the City of Poway and a developer to build the new brewery on a vacant industrial parcel in that City. At this time Ballast Point and the City became aware that Van Can Company (formerly a subsidiary of Van Camp Seaford Co.) was planning to close its 106,000 square foot food can manufacturing plant in Miramar. The Van Can factory was considered the less desirable option for Ballast Point due to its age and cost of retrofit, lack of commercial visibility, and timing of its availability. A brewery in the 100,000+ square foot range would be among the ten largest in the entire State of California. At this point the City stepped in and offered to provide a comprehensive incentive package to make the Van Can factory site into a better alternative than a build-to-suit site in the City of Poway.

## **Discussion**

### **Industry Concentration in Mira Mesa**

The Sorrento Mesa and Miramar industrial areas have become an attractive location for microbreweries due to a number of factors. Factory and other business closures during the recession have resulted in downward pressure on lease rates and the availability of suitable industrial structures. Anchored by Alesmith Brewing Company and yeast manufacturer White Labs, several new breweries have started up or relocated to this area during the previous two years including Green Flash Brewing, Rough Draft Brewing, and Saint Archer Brewing, operating 5-45,000 square foot breweries. The central location offers excellent customer access and visibility for retail sales, fairly reasonable lease rates, a more flexible regulatory environment, and the possibility of “beer tours” due to close proximity of existing and future breweries. It became clear to City staff that attracting more and larger breweries to this area could accelerate the growth of this industry and maximize the public benefits associated with the creation of new jobs and tax revenue.

### **The City’s offer of assistance**

On April 23, 2013 the City offered a package of financial incentives and non-monetary assistance to Ballast Point. This “offer sheet” is shown on Attachment 1 to this report. The item of potentially greatest value is the offer to reimburse Ballast Point’s City fee costs using tax revenue to be paid by Ballast Point and generated as a result of converting the soon-to-be-vacant Van Can factory into a large-scale brewery and restaurant.

### **Council Policy 900-12 “The Business & Industry Incentive Program”**

Council Policy 900-12 was enacted in 1993, towards the end of a national recession which was exacerbated locally due to the collapse of the Savings & Loan industry and massive defense cuts. This new program was based on several of the recommendations of the City’s Economic Development Task Force of 1992. The policy provides for the provision of direct financial and other assistance to businesses which are both willing and able to provide extraordinary public benefits such as the creation of base sector jobs, tax revenues, or urban revitalization. In 2001, the City Council approved amendments to Council Policy 900-12 in connection with the simultaneous adoption of the Community & Economic Development Strategy 2002-2004. Among other things, the amended Council Policy 900-12 affirmed and provided greater specificity for the approval of fee reimbursements for business projects.

This provision is found in section B(2)(a) of the current policy and reads:

“The City Council must approve any one or more of the following incentives:

Reimbursing all or a portion of City permit processing fees, Development Impact Fees, Facilities Benefit Assessments, Housing Impact Fees, Water/Sewer Capacity fees, fees collected pursuant to Developer Reimbursement Agreements, and/or costs of public improvements that are a required condition of the development, from future revenues to the City generated directly from the project after the City’s receipt thereof.”

This provision has been utilized and implemented twice since 1993, first in 1998 for a proposed 6-building 230,000 R&D industrial complex built by Novartis, and again in 2001 for a corporate headquarters/R&D industrial complex built by IDEC Pharmaceuticals. Both projects are located in the University Community. Novartis received a full reimbursement of its Housing Impact Fees (HIF’s) totaling \$172,000. IDEC Pharmaceuticals was awarded a potential reimbursement of Housing Impact Fees totaling \$614,000, however the company defaulted on the terms of the Agreement and no reimbursement was ultimately provided. That industrial complex was abandoned by Biogen-IDEC Corp. in 2011 and is now leased by Illumina, Inc. another biotech company.

The proposed Economic Development Agreement with Ballast Point Brewing Co.

The proposed Economic Development Agreement (EDA) with Ballast Point Brewing & Spirits would require the City to reimburse the Company for all City development-related fees associated with the retrofit and improvement of the former Van Can factory at 9045 Carroll Way so long as such fees are incurred prior to June 30, 2014. Thus far Ballast Point has paid to the City approximately \$156,600 broken out as follows:

<b>Fee Type</b>	<b>Fund</b>	<b>Amount</b>
Facilities Benefit Assessment	Mira Mesa PFFP Fund	\$70,773
Plan Check, Inspection and other cost-recovery fees	DSD Enterprise Fund	\$85,827
<b>Total City Fee Costs</b>		<b>\$156,600</b>

The City expects to receive tax revenues from Ballast Point in connection with this project from the following sources, and the proposed EDA would require the City to reimburse Ballast Point’s fee costs using future tax revenues as the funding sources, based on the Reimbursement Credit Formula’s specified in the proposed Agreement:

<b>Taxation</b>	<b>Activity/Source</b>	<b>Reimbursement Credit Formula</b>
Property Tax (secured real property)	Increased assessed valuation of real property based upon improvements	100%
Property Tax (unsecured personal property)	Purchase and use of taxable fixtures, furnishings, and equipment (FF&E)	100%
Use Tax	Purchase and use of taxable fixtures, furnishings, and equipment (FF&E)	100%
Sales Tax	Retail sales of beer, prepared food, and other merchandise to consumers from outside the City of San Diego (estimated at 50% of total sales)	50%

The brewery is expected to commence production at the beginning of FY2015 (July of 2014), but tax revenues will likely not be received by the City until the mid part of FY2015. These revenues will mostly result from use tax on equipment placed into service at the very end of FY2014. Completion of the restaurant will most likely occur in the latter part of Calendar year 2014 such that the bulk of the revenue and subsequent reimbursement activity will most likely occur in FY2016 when the entire facility is fully operational. Sufficient Business Cooperation Program funds are budgeted for FY2015 in the Citywide account, however it may be necessary to budget an additional \$50-100,000 for FY2016 to fund additional reimbursements. Assuming average net tax revenue generation of \$50,000 annually, the City expects to complete its obligations under the terms of the EDA within three calendar years, after which the City will begin receiving net gains of this amount or more annually thereafter.

Brewery Project and Projected Public Benefits

Based in part on incentives offered to Ballast Point, the company has leased the Van Can factory, received building permits from the City, paid the applicable impact and plan review fees, and commenced construction. The brewery will ultimately have the capacity to produce 300-400,000 barrels annually and will include a 14,000 square foot full service restaurant, 3,000 square foot outdoor patio, a tasting room, and gift shop. The project is projected to create at least 100 additional new jobs and at least \$50,000 annually in tax revenue to the City less the amount of fee reimbursements paid to Ballast Point. At 124,667 square feet, the Ballast Point brewery will be the largest brewery in San Diego County and 6<sup>th</sup> largest in California.

EQUAL OPPORTUNITY CONTRACTING INFORMATION:

This action is subject to the City’s Equal Opportunity Contracting (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

FISCAL CONSIDERATIONS:

Fiscal impacts of the proposed Council Action are entirely revenue positive. In order to obtain the investment, the City would forego any net tax revenue gains until all of Ballast Point’s City fee costs are reimbursed. This is expected to take approximately three years. After that time, the

City expects to receive approximately \$50,000 annually in net new tax revenues which would likely not be received unless the Van Can factory was re-used by a business generating an equal or greater amount of tax revenue. The City has been receiving only approximately \$15,000 annually in property tax revenue, no sales tax revenue, and very minimal amounts of use tax revenue annually.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

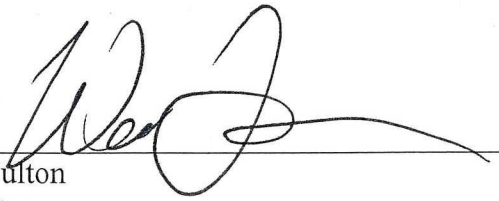
None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Not applicable – Confidential municipality-taxpayer negotiations


KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Not applicable



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Bill Fulton  
Director  
Planning, Neighborhoods & Economic Dev.



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Scott Chadwick  
Chief Operating Officer

- Attachments(s):
1. Offer Sheet to Ballast Point Brewing Co.
  2. Proposed Economic Development Agreement
  3. California's Largest Breweries
  4. Project Site Information