City of Orange Economic Development (AB 562) Participation Agreement between City of Orange and Providence Procurement Company, LLC, a Washington limited liability company

The City of Orange ("City"), to maintain sustainable economic development and community vitality, is implementing the economic development plan outlined in the City of Orange General Plan ("General Plan"). The City and Providence Procurement Company, LLC, a Washington Limited Liability Company ("PPC") propose to enter into a Participation Agreement ("Agreement"). The Agreement requires the Owner to maintain operations in the City and the City will provide revenue sharing with Owner.

The loss of redevelopment has left the City of Orange, as well as all cities statewide, with a loss of local resources to encourage economic development and maintain local services. The California Legislature and Governor Brown made the decision to terminate redevelopment and removed the single largest economic tool available to local agencies. Following the decision to terminate redevelopment Statewide, the Governor and Legislature recognized the necessity of cities, counties and the State to encourage employment, retain jobs and companies in California.

Assembly Bill ("AB 562"), which added Section 53083 to the Government Code, requires public input prior to approving an "Economic Development Subsidy" by requiring, among other things:

1. A public hearing and a report prior to approving the Economic Development Subsidy;
2. A report regarding the Economic Development Subsidy within the term of the Economic Development Subsidy; and
3. Where an Economic Development Subsidy has a term of more than 10 years, an additional public hearing at the conclusion of the Economic Development Subsidy.

This report includes the information required by AB 562 and the fiscal analysis necessary to determine the projected revenue generated to the City as part of the economic development plan referenced in the General Plan for business retention through a Participation Agreement. The

City established an estimated "Revenue Tax Base" of sales tax collected by the City from the Owner. After the Revenue Tax Base was determined, projections of additional revenue generation from sales tax collections directly attributable to the Owner were generated. The Revenue Tax Base and the projected increased revenues from the Owner represents new resources, as well as a retention, of general funds revenue to the City. An amount equivalent to a portion of the sales tax revenue collected will be shared with the Owner to avoid significant fiscal impacts to City revenues and community services.

Economic development strategies require demonstration that the proposed business retention will result in community-wide benefits, which is evidenced by the retention of revenues that will be used to provide municipal services. The City Council may choose to approve the Agreement in order to retain and expand jobs, maintain a local business, assist the Owner to gain competitiveness within the healthcare industry and incentivize the Owner to consider and complete upgrades and improvements. This report identifies the financial data necessary to allow the City Council to determine the value of entering into the proposed Agreement.

AB 562 Reporting Requirements

On and after January 1, 2014, each local agency shall, before approving any Economic Development Subsidy within its jurisdiction, provide all of the following information in written form available to the public, and through its Internet Website, if applicable:

1. The name and address of all corporations or any other business entities, except for sole proprietorships, that are the beneficiary of the Economic Development Subsidy, if applicable.

    The Economic Development Subsidy paid under the Agreement by City will be paid to PPC.

    Providence Procurement Company, 1100 W. Stewart Drive, Orange, CA 92868

    Providence Procurement Company is a new entity created to support procurement for Providence hospitals and will be based at St. Joseph Hospital in Orange. St. Joseph Hospital is one of 51 hospitals within Providence, the third largest not-for-profit health system in the United States. As a Providence ministry, St. Joseph Hospital's rich tradition of serving the health care needs of the community flow from its core values of Compassion, Dignity, Justice, Excellence and Integrity.

    St. Joseph Hospital has become the one of the largest and busiest hospitals in Orange County, providing high-quality, excellent care through the integration of best practices, a focus on leading-edge research, investment in the latest medical technology and responsiveness to community needs.

    Healthcare Industry
    With global health care spending expected to rise at a CAGR of 5 percent in 2019-23, it will likely present many opportunities for the sector. While there will be uncertainties, stakeholders can navigate them by factoring in historic and current drivers of change when

strategizing for 2020 and beyond. Among these drivers are a growing and aging population, rising prevalence of chronic diseases, infrastructure investments, technological advancements, evolving care models, higher labor costs amidst workforce shortages, and the expansion of health care systems in developing markets. Health care systems need to work toward a future in which the collective focus shifts away from treatment, to prevention and early intervention.[1]

2. The start and end dates and schedule, if applicable, for the Economic Development subsidy.

   The Agreement, if approved, is anticipated to commence on January 1, 2021 and continue for a period of twenty years.

   Sales tax sharing that will be done on a quarterly basis throughout the 20-year term of the Agreement.

   Sales Tax Generation

   The Bradley Burns Uniform Local Sales and Use Tax ("Bradley Burns") applies to the sales of tangible personal property in which a percentage of California's sales and use tax rate is distributed back to the jurisdiction where sales were generated to support local general funds. For many jurisdictions, including the City, this amount is one percent (1%). Sales tax is payable to the City from the State Board of Equalization. The calculations in this report indicate only the estimated amount of sales tax to be received by the City through the distribution formula used by the State Board of Equalization. The Owner proposes to maintain and enhance existing business operations in the City. The City and the Owner mutually agreed that a Sales Tax Threshold as a performance condition would be set at $100,000 per quarter (defined as a "Compliance Period" in the Agreement).

3. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

   General Plan Based Economic Development Plan Implementation and Business Retention

   The Economic Development Element of the City's General Plan outlines goals and policies that promote sustainable, market-driven economic growth and activity without compromising the City's identity, heritage or the quality of life of those who live, work and play in the City. The Economic Development Element outlines strategies that allow the City to attract new business, as well as promote retention and expansion of existing businesses. To strengthen the City's economic profile the City has provided an economic development plan under the Economic Development Element.

   Pursuant to AB 562, the two types of payments to be made under the proposed Agreement fall within the defined term "Economic Development Subsidy". This means an expenditure of public funds or loss of revenue to a local agency in the amount of one

[1] https://www2.deloitte.com/us/en/pages/life-sciences-and-health-care/articles/global-health-care-sector-outlook.html

> hundred thousand dollars ($100,000) or more, for the purpose of stimulating economic development within the jurisdiction of a local agency, including, but not limited to, bonds, grants, loans, loan guarantees, enterprise zone or empowerment zone incentives, fee waivers, land price subsidies, matching funds, tax abatements, tax exemptions, and tax credits. "Economic Development Subsidy" does not include expenditures of public funds by, or loss of revenue to, the local agency for the purpose of providing housing affordable to persons and families of low or moderate income, as defined in Section 50093 of the Health and Safety Code.

The City is being proactive in retaining the Owner as a major employer and creating an incentive to centralize purchasing functions in Orange. The potential relocation of the Owner and total loss of revenue would negatively affect City finances and cause significant impact to local services.

The Agreement provides for a sales tax sharing structure that offers the Owner a percentage of the sales tax revenue generated by the Owner of 49% percent per "Compliance Period". Each "Compliance Period" is a 3-month quarter in each calendar year during the 20-year term of the Agreement. The City would retain 100% of the sales tax revenue and pay PPC "Payments" based on amounts derived from the sales tax sharing structure.

Upon satisfaction in each Compliance Period of the "Performance Requirements" (the "Performance Requirements" are set forth in the proposed Agreement), the City shall have the obligation to make "Payments" to PPC for the sales tax sharing. PPC's portion of the sales tax sharing shall be forty-nine percent (49%).

It is estimated that the Agreement will provide the Owner with approximately $11.3 million in "Payments" and the City would receive a "net" amount of $11.8 million from sales tax revenues over the entire 20-year term of the Agreement (see *Table 1: Projected Revenues and Disbursements* on the following page).

Table 1: Projected Revenues and Disbursements

Year	Est. Annual Sales Tax Revenue (3% growth per year)	Disbursement to PPC	City's Share
2021	$1,800,000	$882,000	$918,000
2022	$1,854,000	$908,460	$945,540
2023	$1,909,620	$935,714	$973,906
2024	$1,966,909	$963,785	$1,003,123
2025	$2,025,916	$992,699	$1,033,217
2026	$2,086,693	$1,022,480	$1,064,214
2027	$2,149,294	$1,053,154	$1,096,140
2028	$2,213,773	$1,084,749	$1,129,024
2029	$2,280,186	$1,117,291	$1,162,895
2030	$2,348,592	$1,150,810	$1,197,782
2031	$2,419,049	$1,185,334	$1,233,715
2032	$2,491,621	$1,220,894	$1,270,727
2033	$2,566,370	$1,257,521	$1,308,848
2034	$2,643,361	$1,295,247	$1,348,114
2035	$2,722,662	$1,334,104	$1,388,557
2036	$2,804,341	$1,374,127	$1,430,214
2037	$2,888,472	$1,415,351	$1,473,121
2038	$2,975,126	$1,457,812	$1,517,314
2039	$3,064,380	$1,501,546	$1,562,834
2040	$3,156,311	$1,546,592	$1,609,719
Total	**$23,054,032**	**$11,296,476**	**$11,757,556**

4. A statement of the public purposes for the economic development subsidy.

Public Purpose
The proposed Agreement is consistent with the City's economic goals and objectives and is in the best interest of the general public.

Economic goals and objectives include the following:

- Encourage mixed-use developments in strategic locations along and near major arterial corridors;
- Continue to promote a diverse range of land uses that will sustain a strong economic tax base for the community;
- Create a communication strategy to highlight economic development achievements and opportunities;
- Conduct economic development workshops for the business community, including brokers, developers and community members;

- Support continued growth of commercial, institutional, and industrial businesses that contribute both high-wage employment opportunities and point-of-sales revenues; and
- Provide policies that guide City decision makers through the budget process.

Retaining the Owner's business operations in the City would address the need and desire to maintain revenue streams such as property and sales tax in the City. Additionally, the Owner's continued presence in the City would assist in maintaining relative balance in the local economy through indirect retail sales and employment from other local businesses that are supported by the Owner's location in the City. Retention of the Owner will also result in maintaining occupied property square footage thus minimizing the risk of blight and dilapidation.

The general welfare and material well-being of the residents of the City depend in large measure upon the facilities, goods, and services that businesses make available to the public and the City's residents, which, in turn, generate tax revenues to the City to help pay for necessary services to the City's residents and such retail services. The continued operation and possible expansion of existing commercial and industrial businesses within the City will continue to attract both local and regional shoppers; likely continue to generate increased sales tax revenues to the City; continue to promote job creation opportunities in the City; continue to encourage property upgrades and enhancements in the City's commercial and industrial areas; and could continue to enhance the quality of facilities, goods and services available to the public and the City's residents. As such, the City wishes to induce and encourage the continued operation and possible expansion of existing service, commercial and industrial businesses within the City, thereby assisting the City in achieving its goals related to the development of said businesses and maintaining existing and creating new sources of sales tax revenue for the City's general fund that supports the public services that the City provides to its residents and to said businesses.

The City recognizes that retention of the on-going operations of PPC in Orange will continue to contribute to the economic vitality of the City, continue to provide jobs in the City, continue to expand the City's tax base and otherwise improve economic and physical conditions in the City.

Owner Purpose
The Agreement assists Owner by allowing it to remain competitive in its industry. Healthcare has been affected in the last decade by increased regulation at the federal level that encourages industry consolidation to reduce costs. The Owner Participation Agreement will allow PCC to streamline purchasing for Providence to reduce costs and realize administrative savings.

5. Projected tax revenue to the local agency as a result of the economic development subsidy.

   Based upon the proposed Agreement, it is estimated that the City will retain $11.8 million over the entire 20-year term of the new Agreement.

6. Estimated number of jobs created by the economic development subsidy, broken down by full-time, part-time, and temporary positions.

During the term of the Agreement, the Owner and their "Affiliates", collectively, must employ, or cause to be employed, not fewer than one hundred fifty (150) full-time employees. The Owner and their "Affiliates", collectively, may employ less than one hundred fifty (150) full-time employees with the written consent of the City Manager. As such, it shall be deemed reasonable for less than one hundred fifty (150) full-time employees to be employed when economic conditions beyond the control of the Owner or any of its "Affiliates" prevent such a level of employment.

Summary

The Owner and the City have agreed that the Owner's operation in Orange is beneficial for both parties. The City has proposed that the Owner agree to an Agreement to remain in Orange for twenty years. The Owner and the City have mutually agreed to the terms of the proposed Agreement to provide the Owner a more competitive advantage in an industry that is consolidating. The Agreement is an "Economic Development Subsidy" that is consistent with the City's economic development plan. The Agreement provides for a sales tax sharing structure that offers the Owner 49% of the sales tax revenue generated by the Owner per Compliance Period. The proposed Agreement will be for twenty years and the estimated amount of the total subsidy or expenditure of public funds for the tax sharing would be $11.3 million over a twenty-year period.

Based upon review of the Agreement, the structure is consistent with the City's economic goals and implementation strategy and is in the best interest of the public. The Agreement and projections indicate the City will receive approximately $23 million in sales tax revenue during the twenty years of the Agreement. The risk of the Owner relocating its business operation outside of the City would result in an annual loss of over $1.8 million in sales tax revenue.

The Agreement serves a valid public purpose through the expansion of economic development opportunities for businesses in the City, continuing to expand the City's employment base, and continuing to generate sales tax revenue that the City utilizes to fund general governmental services for its businesses and residents.

Recommendation

Retention of Owner in the City will contribute to the economic vitality of the City, provide jobs within the City, expand the City's tax base, and improve economic and physical conditions in the City. Loss or relocation of Owner out of the City will negatively affect City revenues, which will reduce City services. As such, it is recommended that the Agreement be approved.