

**INDIAN RIVER COUNTY, FLORIDA**  
**M E M O R A N D U M**

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TO: Jason E. Brown; County Administrator

THROUGH: Phillip J. Matson, AICP; Community Development Director

FROM: Bill Schutt, AICP; Chief, Long Range Planning

DATE: March 17, 2021

RE: Consideration of Diamond Drinks of Florida, Inc's Request For an Economic Development Ad Valorem Tax Exemption (Tax Abatement) [Legislative]

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It is requested that the following information be given formal consideration by the Board of County Commissioners (BCC) at its Special Call meeting of March 30, 2021.

**DESCRIPTION AND CONDITIONS**

On November 2, 2010, the voters of Indian River County approved a tax abatement referendum, and the tax abatement ordinance (Chapter 1100 of the Indian River County Code) then went into effect for a ten-year period. On November 3, 2020 the voters of Indian River County voted in favor of continuing such authority for another ten years. The ordinance, along with state statutes, establishes tax abatement requirements, sets tax abatement limitations, and governs the County's tax abatement process (see attachment #1).

Recently, Diamond Drinks of Florida, Inc., applied for a County tax abatement to locate its operations within the County (see attachment #2). This request is being expedited for both Economic Development Council (EDC) and Board of County Commissioners (BCC) consideration so the Company can expeditiously secure the incentive to locate and begin operations in a previous fruit packing house and purchase new tangible personal property for its operation. Since the company will locate in an existing building and there are no planned expansions of the building, they are not eligible for abatement of taxes on real property. This is the reason section VI of the tax abatement has no real property improvements listed. The company is however, eligible for a tax abatement on new tangible personal property as listed in section V of the tax abatement application.

As indicated in its tax abatement application, Diamond Drinks of Florida, Inc. proposes to locate at 7355 9<sup>th</sup> Street SW, Vero Beach FL 32968 (a former citrus packing house).

As of this time, Diamond Drinks of Florida, Inc. has purchased the property and is ramping up employment for operation of the facility. Since the Property Appraisers Office (PAO) assesses property on or around January 1 of every year, any approved tax abatements could start with calendar year 2022 (tax bill issue date: November 2022).

- **Tax Abatement Application Review**

In accordance with the provisions of the tax abatement ordinance, planning staff coordinated with the County Attorney's Office, the Property Appraisers Office (PAO), and the Indian River County Chamber of Commerce to process/review the Diamond Drinks of Florida, Inc. tax abatement application. Specifically, the County Attorney's Office completed an expedited due diligence review of the company and in conjunction with planning staff prepared a proposed ordinance and tax abatement agreement; the Chamber of Commerce completed an Economic Impact Analysis report (see attachment 6); and the PAO prepared an estimate of revenue that would be lost to the County for the current fiscal year if the tax abatement were granted (see attachment 7).

The County's Economic Development Council (EDC) reviewed the application at their March 16, 2021 regular meeting. Although a quorum was not present, the consensus of the EDC members present was to recommend that the Board of County Commissioners approve the requested tax abatement.

The BCC is now to review and make a decision on the Diamond Drinks of Florida, Inc. tax abatement application and proposed ordinance and agreement; taking into consideration the Chamber of Commerce and PAO reports, the EDC recommendation, staff's analysis contained in this agenda item, and other factors the BCC may consider.

### **ANALYSIS**

As structured, the County's tax abatement ordinance authorizes the BCC, at its sole discretion, to grant qualifying businesses an exemption from certain ad valorem taxes (property taxes) for a period of up to 10 years. Under the ordinance, the BCC may exempt (abate) up to 100% of the assessed value of new real property improvements and newly installed tangible personal property for purposes of assessing "County taxes". Consistent with the tax abatement ordinance, the "County taxes" that will be abated for the Diamond Drinks of Florida, Inc. project are those taxes associated with the General Fund, the Municipal Services Taxing Unit (MSTU), and the Emergency Services District Fund. No other taxes, such as School District taxes or taxes levied for the payment of bonds, are affected by tax abatement. For the 2020/2021 budget year, the combined amount of the 3 "County taxes" referenced above comprises approximately 47.8% of the property tax bill for the subject properties within unincorporated county.

- **Qualifying for Tax Abatement**

Consistent with state statutes, the County's tax abatement program is an economic development incentive available for business expansion projects and new business projects that qualify under the terms of the tax abatement ordinance. In this case, the proposed Diamond Drinks of Florida, Inc. is a new manufacturer in the County that will manufacture plastic bottles and fruit flavored juices. The company will employ fifty (50) people. Per the tax abatement ordinance, a new manufacturing business that employs at least ten (10) or more new full-time employees is eligible to apply to the program. Since Diamond Drinks of Florida, Inc. proposes to hire fifty (50) employees, its facility qualifies for tax abatement consideration under the terms of the tax abatement ordinance (see page 3 of attachment #1).

- **Scoring the Diamond Drinks of Florida, Inc. Tax Abatement Application**

According to the tax abatement application submitted by Diamond Drinks of Florida, Inc., the proposed facility will:

- Generate 50 permanent, full-time jobs, to be hired gradually over a three year period ending in the middle of 2023
  - Estimated annual payroll of new full-time jobs: \$1,712,000.
  - Estimated average annual wage of \$34,240 (excluding benefits such as health insurance and 401k contributions).
- Include capital investment in the site consisting of an estimated \$1,615,000\* in tangible personal property (e.g. industrial equipment).
  - Estimated total capital investment: \$1,615,000\*.

\*Estimates provided by Diamond Drinks of Florida, Inc. Actual assessment values when completed may be more or less depending upon market conditions.

- Meet adopted economic development policy:
  - As a “Manufacturing” use, the facility qualifies as a Target Industry under Policy 2.5 (see attachment #3).

The positive economic development impacts and benefits of the Diamond Drinks of Florida, Inc. facility are described in a report provided by the Chamber of Commerce (see attachment #5). Those characteristics provide the basis to evaluate and score the tax abatement application in accordance with the scoring guidelines adopted by the BCC (see attachment #4).

Under the scoring guidelines, a project scores more points for a higher number of jobs, higher average wages, higher local capital investment, and for having special economic development attributes. For projects that score higher point totals, the guidelines establish higher tax abatement levels and longer tax abatement timeframes (tax years). In this case, staff has scored the Diamond Drinks of Florida, Inc. application as follows:

1.	Number of new full-time jobs created (50 manufacturing jobs).....	30 points
2.	Level of average annual wages (\$34,240/year or 74.9% of county average).....	10 points
3.	Level of local capital investment (\$1,615,000).....	20 points
4.	Special economic development attributes (meeting Policy 2.5).....	20 points
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	Total Application Score	80 points

Based upon a total score of 80 points, the Diamond Drinks of Florida, Inc. application qualifies for the second tax abatement scoring category (out of 3 categories). The qualification points for that category are between 61 and 80 points. That category provides for a 8 year tax abatement with the following schedule:

Year 1.....100%	Year 5.....60%
Year 2.....100%	Year 6.....40%
Year 3.....90%	Year 7.....20%
Year 4.....80%	Year 8.....10%

A Tangible Personal Property taxes abated scenario for the Diamond Drinks of Florida, Inc. facility, based on applicant’s estimates and based on certain assumptions stated below, is as follows:

Year	Tangible Personal Property Taxes Abated GF, MSTU, ES Dist. At 7.0512 Mills	Tangible Personal Property Taxes Paid GF, MSTU, ES Dist. At 7.0512 Mills	Tangible Personal Property Taxes Paid Schools, Bonds, Other At 8.1642 Mills
Year 1	\$11,388	\$0	\$12,451
Year 2	\$10,249	\$0	\$11,205
Year 3	\$8,302	\$922	\$10,085
Year 4	\$6,641	\$1,660	\$9,076
Year 5	\$4,483	\$2,989	\$8,169
Year 6	\$2,690	\$4,035	\$7,352
Year 7	\$1,210	\$4,842	\$6,617
Year 8	\$399	\$3,587	\$4,358
	<b>\$45,361 (abated)</b>	<b>\$18,035 (paid)</b>	<b>\$69,312 (paid)</b>

*Assumptions:*

- (a) *The tax abatement is for new tangible personal property. The business will occupy an existing building and there are no planned building expansions, therefore the tax abatement does not apply to real property.*
- (b) *No additional tangible personal property improvements are made during the abatement period.*
- (c) *The 2020/2021 millage rates for the General Fund (3.5475 mills), MSTU (1.1506 mills), and Emergency Services District (2.3531 mills) tax funds are applied each year during the tax abatement period for a total of 7.0512 mills and the rate for other property taxes remains at 7.7093 mills (rate for 2020/2021) each year during the tax abatement period.*
- (d) *The initial assessed value of tangible personal property in Year 1 of the abatement period is \$1,615,000.*
- (e) *Depreciation of the initial assessed value of tangible personal property is applied at a rate of 10% of the previous year’s assessed value, with a floor at 35% of initial assessed value for year 8, 9, and 10.*

- (f) *The 2<sup>nd</sup> category of tax abatement award (out of 3 possible categories) is applied during the tax abatement period.*

*Property taxes abated scenario expressed in current dollars:*

- Initial Assessed value (Year 1): \$1,615,000*
- Millage rate (3 affected tax funds) totals: 7.0512 mills*
- Depreciation applied to tangible personal property as described above*
- 2<sup>nd</sup> abatement award category (out of 3 categories) with an 8-year schedule is applied*

This scenario provides a rough estimate of the maximum potential tax abatement amount. The actual assessed value for any given year during the abatement period will be determined by the PAO on or around January 1<sup>st</sup> of the given year.

- **Timing**

According to the Diamond Drinks of Florida, Inc. tax abatement application and recent correspondence with company representatives, the property has been acquired and the first ten employees will be hired by the beginning of April. Based on the company's hiring and operations plans, the facility will first be assessed for tax purposes on or about January 1, 2022 for the 2022 tax year. Therefore, the application proposes that the tax abatement (Year 1) begin in 2022.

- **Limitations & Safeguards**

As previously described in this report, the tax abatement ordinance limits the tax abatement to new tangible personal property associated with certain types of qualified businesses (real property improvements would also be included if a new building or new building expansion). Also, the tax abatement applies to a limited number of tax funds for a maximum of 10 years. In addition, the tax abatement ordinance requires tax abatement grantees to enter into a tax exemption (abatement) agreement with the county, meet all exemption (abatement) requirements on a continuing basis, file an annual compliance report with the county, and immediately advise the county of any failure of the business to meet exemption (abatement) requirements. Under the tax abatement ordinance, the BCC is authorized to revoke or revise the exemption if the BCC determines that the business no longer meets the exemption requirements or that the application or any annual report contains a materially false statement that would have affected granting or continuing the exemption (see page 6 of attachment #1). Those limitations and safeguards apply to the Diamond Drinks of Florida, Inc. application.

- **Ordinance & Agreement**

In order to approve the subject tax abatement application, the County must adopt an ordinance specifically for the Diamond Drinks of Florida, Inc. abatement and approve an agreement with Diamond Drinks of Florida, Inc. The County Attorneys Office has prepared an ordinance and an agreement (see attachments 8 and 9). As proposed, the ordinance provides findings and establishes up to a 8 year abatement beginning in 2022. Consistent with the County's tax abatement ordinance, the proposed agreement requires Diamond Drinks of Florida, Inc. to provide an annual status report to confirm compliance with tax abatement requirements and commitments as referenced in the "Limitations &

Safeguards” section above. If Diamond Drinks of Florida, Inc.’s performance would cause it to fall out of the 2<sup>nd</sup> tier tax abatement scoring category, the agreement allows the company to request the BCC consider a tax abatement reduction through an ordinance amendment.

## **CONCLUSION**

Based on the analysis conducted, staff and the EDC have determined that the proposed Diamond Drinks of Florida, Inc. facility qualifies for the County’s tax abatement program. In addition, staff’s analysis indicates that the Diamond Drinks of Florida, Inc. tax abatement application scores in the 2<sup>nd</sup> award category (out of 3 categories) under the county’s tax abatement scoring guidelines. Based on those guidelines, the proposed Diamond Drinks of Florida, Inc. facility qualifies for a 8 year tax abatement beginning in 2022. If an 8 year property tax abatement is granted as recommended, the maximum potential total tangible personal property tax abatement over the 8 year period in current dollars is roughly estimated to be \$45,361. For the same 8-year period, the maximum potential total tangible personal property taxes paid in current dollars is roughly estimated to be \$69,312 for schools, bonds, and other districts and \$18,035 for the general fund, MSTU, and emergency services fund.

## **RECOMMENDATION**

Staff and the Economic Development Council (by consensus) recommend that the Board of County Commissioners approve the tax abatement application and:

1. Find that the Diamond Drinks of Florida, Inc. facility qualifies as a “New Business” under the tax abatement ordinance; and
2. Find that the application scores in the 2<sup>nd</sup> tax abatement award category (out of 3 categories) under the adopted scoring guidelines; and
3. Grant a tax abatement using the schedule for up to the 2<sup>nd</sup> highest award category, with up to the 8 year abatement period to begin in 2022 (a lower award category may be applied if company’s performance results in it meeting lower average wage and/or lower # of provided jobs); and
4. Approve the attached ordinance granting an economic development ad valorem tax exemption to Diamond Drinks of Florida, Inc.; and
5. Authorize the chairman to execute the Economic Development Tax Exemption Agreement for Diamond Drinks of Florida, Inc.

## **ATTACHMENTS**

1. Indian River County Tax Abatement Ordinance
2. Diamond Drinks of Florida, Inc. Tax Abatement Application (Confidential Information Withheld)
3. Economic Development Policy 2.5
4. Tax Abatement Scoring Guidelines

5. Preliminary Tax Abatement Scoring and Estimated Tax Abatement Amounts
6. Chamber of Commerce Report
7. Property Appraisers Office Report
8. Ordinance for Diamond Drinks of Florida, Inc. Exemption (Abatement)
9. Agreement with Diamond Drinks of Florida, Inc.