

Attached is Add-On Agenda Item #27

**Status Report on Business Recruitment Package for
Project Lake**

This item will be taken up under County Administrator's Time.

Meeting of Thursday, February 26, 2009

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CITY OF TALLAHASSEE

CITY COMMISSION AGENDA ITEM

ACTION REQUESTED ON:	February 25, 2009
SUBJECT/TITLE:	Business Recruitment Project
TARGET ISSUE:	Economic Development

STATEMENT OF ISSUE

City staff has been working with the Economic Development Council (EDC) on a business recruitment project that features a medical device manufacturer. The targeted business has identified Tallahassee as one of four locations that they are considering for locating a manufacturing site. Their proposal calls for an operation that would bring a total of 250 new jobs over a five-year period with an average salary of \$45,000 per year. The business would require a 70,000 square-foot facility with the capacity to expand to 125,000 square-feet.

Our strategy for accommodating this project was to form a partnership modeled after the successful Danfoss Turbocor project. We have worked with staff from Leon County, Innovation Park and a private developer to fashion a partnership to construct a building to house the manufacturing operation. The partners would contribute funds and land for the new facility and would enjoy ownership of the building proportional to their investment. The building would be leased to the targeted business and the lease revenue would be distributed to the partners based on their ownership interest. The total value of this joint proposal is \$8,157,500, which includes: \$6,000,000 for the building construction, \$1,500,000 for the value of the land and \$657,500 in cash incentives. The proposed sources of these funds are: \$2,828,750 from the City, \$2,828,750 from the County, \$2,000,000 from Innovation Park (includes \$1,500,000 value of land) and \$500,000 from Sperry and Associates. Based on the feedback we have recently received from the site selection consultant, this proposal is being considered; however several of the other candidate communities have submitted proposals, which involve a higher level of cash incentives. At this time we are not recommending any higher level of City financial participation. In all of our contacts we (as well as the other public entities in the partnership) have stated that this was a tentative package that was subject to review and approval by the City Commission.

RECOMMENDED ACTION

Approve Option 1: Review and comment on the proposed business recruitment package for attracting a medical device manufacturer to Tallahassee.

FISCAL IMPACT

No formal action is requested. The proposed recruitment package would require a cash contribution of \$2,828,750 from the City. These funds would be drawn from approximately \$2,500,000 in Sunshine State Bond proceeds and \$350,000 in Capital Project funds that are earmarked for Southside Economic Development. Potential funding sources were provided by the Budget Office and Treasurer-Clerk's Office.

Thomas H. Lewis, Director
Economic and Community Development

Anita Favors Thompson
City Manager

SUPPLEMENTAL MATERIAL/ISSUE ANALYSIS

HISTORY/FACTS & ISSUES

In early February the EDC hosted a site visit for a medical device manufacturer that was evaluating several communities as potential sites to locate a manufacturing facility. The business requested that their identity remain confidential and the EDC has designated this recruitment effort as Project Lake. The subject company is currently headquartered in the Midwest and is looking to open a 75,000 square-foot manufacturing facility to expand their capacity. The business has indicated that they plan to hire 148 employees in the first three years and expand to a total of 250 employees within five years. The average annual salary they will pay is \$45,000, and full time employees will receive a benefits package that is valued at approximately 19% of the average salary. The company expects to invest approximately \$20,000,000 in machinery and equipment over the first five years of operation.

The EDC has estimated that the total local annual economic impact of this project, when the full complement of 250 employees has been met, is \$54 million. This analysis also indicates that the project would create a total of 441 jobs (both direct and indirect).

Approximately one week ago the subject business contacted the EDC and informed them that Tallahassee had been short listed as one of four sites they were considering for their new facility. At that time we were advised that we should put together a proposal to outline how we would meet the company's facility needs and any incentives we were prepared to offer. During the site visit the company had toured several existing buildings that were available for lease. For a variety of reasons the company had determined that these existing buildings did not meet their particular needs. Therefore, the strategy that we pursued was to seek a partnership arrangement similar to that which had been used to construct a building for the Danfoss Turbocor recruitment effort. Like the Danfoss project, part of our success would be determined by our ability to construct the facility within a very short time period. To that end, the EDC contacted Sperry and Associates who had performed a similar task for the Danfoss Project. During the discussions with Sperry and Associates, they indicated that they would consider becoming an equity partner in the project. Four potential partners were identified: Leon County, Innovation Park, Sperry and Associates and the City.

Innovation Park has a development site that could accommodate the facility. The estimated cost for the facility is \$6,000,000. Using this partnership arrangement we structured a project proposal in which the partners would contribute funds and land for the building construction and enjoy an ownership interest in the building commensurate with their contribution. As with the Danfoss project, we sought to keep the majority of the funding support tied to the building so as to limit our overall risk.

The EDC worked with the State to identify other programs and incentives that could be accessed to complement our proposal. During the discussions with the site selection consultant it became apparent that we would need to consider some level of cash incentive in our proposal to be competitive with the other finalist cities. To that end a final project proposal was developed that required a local contribution of approximately \$8,157,500. This amount does not reflect the total value of the Tallahassee proposal, as it does not include the value of contributions from the State

and the value of existing City and County programs, such as the required local contribution for several of the State incentive programs and utility discounts the company would qualify for. This amount does reflect the estimated costs to construct the building for the manufacturing operation and provide \$657,500 in cash incentives. The proposed sources of these funds are: \$2,828,750 from the City, \$2,828,750 from the County, \$2,000,000 from Innovation Park (includes \$1,500,000 value of land) and \$500,000 from Sperry and Associates.

The proposal requires a 20-year lease commitment from the company for the building. The proposed lease structure provides a below market rate lease; however, the lease generates sufficient funds to repay the partners for their cash contributions within the first twelve years of operation. The partners would share in the proceeds based on their contributions to the project. Given the current financial challenges the City is facing, the proposal was created based on identified sources of revenue that would not require commitments from sources such as the "deficiencies fund". We did identify some residual funds from an earlier bond issue that could be accessed, provided there was a revenue stream to support the debt payments. We also identified some funds in the Capital Program that were available for economic development on the Southside of the City. While all the specific terms regarding the use of these funds have not been finalized, it does appear that these resources could be used with a minimal impact on the operating budget.

Because of the timing demands of this project, this proposal was developed in a very short time period. The dynamic nature of the discussions have required staff to move quickly to be responsive to the company inquiries. All communications with the consultant have been qualified with the understanding that all agreement terms and conditions are subject to formal approval by the appropriate elected bodies.

Based on a conference call with the site selection consultant yesterday, our proposal is being considered; however, several of the other candidate communities have submitted proposals which involve a higher level of cash incentives. At this time we are not recommending any higher level of City financial participation.

We are requesting that the City Commission review and comment on the proposal structure that we have developed. We are not requesting formal approval, as there are still additional details concerning the sources of the City funds and the partnership agreement that have not been finalized. If Tallahassee were selected as the final location, then we would develop a formal agreement document for the City Commissions consideration.

CHARITABLE CONTRIBUTIONS

NA

OPTIONS

Option 1: Review and comment on the proposed business recruitment package for attracting a medical device manufacturer to Tallahassee