

REPORT TO THE CITY COUNCIL

December 15, 2016

FROM: BRUCE RUDD
City Manager

BY: LARRY WESTERLUND, Director
Economic Development Department

SUBJECT

..Title

Actions pertaining to an Economic Incentive Agreement with Golden State FC LLC, a Delaware limited liability corporation:

1. Adopt an Addendum to the Mitigated Negative Declaration prepared for Environmental Assessment No. TPM-2012-06 in accordance with Section 15164 of the California Environmental Quality Act (CEQA) Guidelines.
2. Approve the attached Economic Incentive Agreement with Golden State FC LLC, for the initial creation of approximately 2,000 jobs at a Business Activity Center(s), including, but not limited to, a fulfillment center(s) to be located in Fresno.
3. Authorize the City Manager to negotiate and sign the final Economic Incentive Agreement with Golden State FC LLC, consistent with the material terms approved by Council.

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RECOMMENDATIONS

The Administration recommends that the Council approve the attached addendum to the Mitigated Negative Declaration prepared for Environmental Assessment No. TPM-2012-06, approve the attached Economic Incentive Agreement and authorize the City Manager to negotiate and sign the final Economic Incentive Agreement consistent with the material terms approved by Council. Per the City's Economic Expansion Act adopted in March 2016, this project is eligible for a revenue sharing incentive agreement. The agreement will provide performance-based financial incentives, via the creation of up to approximately 2,000 jobs initially at an Internet Fulfillment Center (i.e. Business Activity Center(s)) to be located in Fresno with the potential future expansion of up to an additional several thousand more jobs.

EXECUTIVE SUMMARY

Golden State, founded in 2011, is the owner and operator of e-commerce fulfillment centers in California. In Fresno, they would build and operate a next generation state-of-the-art robotics facility that would employ approximately 2,000 employees initially. Golden State is a wholly owned subsidiary of the largest e-commerce retailer in the United States. The retailer is publicly listed and traded on the NASDAQ stock-exchange with a market capitalization of over \$279 billion. As such the company is exempt from the due diligence requirements of the Better Business Act.

In September 2016, the City of Fresno was contacted by the development team, working on behalf of the company, to evaluate and build their facility in Fresno. Currently, a site in the Fresno Industrial Triangle at Orange Avenue and Central Avenue has been selected by the company as the preferred site for development of a new facility and now is the subject of their full due diligence review. The Economic Development Team has led a coordinated effort involving all of the relevant departments in the City of Fresno, the property owners and their development team to achieve Fresno as the designated preferred site for this major investment.

Golden State FC LLC has requested that an incentive agreement be approved so that they can move forward on their analysis of this location and ultimately make a final decision on the location.

The proposed facility would be well over a \$100 million investment in the building, robotics and picking equipment in an approximately 855,000 square foot e-commerce fulfillment center. The company estimates that their initial workforce would consist of 2,000 full time employees with a significant number of part time employees at peak times of the year. The company contemplates potential additional phases or facilities that could include up to an additional 3,000 employees in the future.

Under the current business structure and limitations the company does not collect retail sales tax in a manner that allows it to be used for tax sharing purposes. Thus, the incentive agreement does not have a sales tax sharing component. The incentive agreement shares city property tax increment with a 90% rebate to the company for 30 years and city use tax on company purchases with a 100% rebate for 30 years.

The Administration and company now ask the Council to approve a property tax increment and use tax on purchases sharing agreement based on job-creation performance at the Business Center to incentivize the company in locating approximately 2,000 full-time jobs in Fresno. The incentive agreement contemplates additional expansion of the current project and potentially additional facilities and would not exceed \$30 million over a thirty-year term based entirely on the number of jobs created in Fresno.

BACKGROUND

As mentioned above, the City has worked with the company, their development team from Seefried Industrial Properties, a national leader in industrial facilities development, to conduct the company's preliminary due diligence on the site. As mentioned above, the Fresno site has been selected as the preferred site for consideration of this facility, subject to approval of their full diligence process and timeline requirements. The City's approval of this incentive agreement is a key step in the selection process.

The facility would include well over a \$100 million investment in an approximately 850,000 square foot building. The workforce would be approximately 2,000 full-time employees with the addition of significant numbers of seasonal jobs.

Additionally, it is considered that the company might expand this facility in the coming years or build new additional facilities in the future. The agreement anticipates the expansion and would offer the property tax increment and use tax on purchases sharing incentive as set forth in this agreement, should they move forward with the facility expansions.

The Administration has negotiated a Job Creation/Performance-Based Economic Incentive Agreement. To incentivize more full-time, company hired direct jobs, the agreement provides a graduated level of incentive amount per employee based upon their employment status. As follows:

- \$15,000 per direct, full-time employee
- \$10,000 per full-time, contract employee
- \$5,000 per contract, full-time equivalent position comprised of multiple, part-time contract positions

The structure of the deal points are as follows:

1. Per the Economic Expansion Act, the City would rebate use tax on the company's purchases and property tax increment over a period of time not to exceed thirty (30) years or up to \$30,000,000 or 5000 employees whichever comes first. The amount of \$30,000,000 is calculated at 2000 full time company employees at \$15,000 per job. As the attached analysis use tax and property taxes indicate, the average amount of annual rebate is projected to be approximately \$511,000 per year.
2. The City Use Tax Rebate on purchases would be 100% of the use tax revenue received from the construction, equipping and operations of the facility for thirty years (30) years of the incentive program.
3. The City would rebate Incremental City Property Taxes on the property and equipment investment made by the Company from the execution date of this agreement for the thirty (30) years at 90% of the incremental property tax.

The Economic Development Department engaged an outside firm, Impact DataSource, to analyze the public investment in this project, and the potential return on that public investment. A copy of their report and full analysis will be provided.

Impact DataSource reviewed the amount of the tax sharing to be returned to the project and estimated the minimum impact the project would have in the local economy. The firm also estimated the costs and benefits for local taxing agencies over a 30-year period. They concluded that, overall, the project will generate approximately \$2,864,824,918 in salaries to be paid for direct, indirect and induced workers over the 30-year period. Additionally, they concluded that the initial 2,000 jobs will result in an additional 425 indirect and induced jobs over the next thirty years.

ENVIRONMENTAL FINDINGS

This agreement incentivizes only job creation within the incorporated boundaries of the City of Fresno and is not site specific. The company could locate anywhere within the City of Fresno so properly zoned. In so much as the company is considering a specific site in the City of Fresno at Orange and Central Avenue, the planning department has conducted an initial study and proposes to adopt an Addendum to a Mitigated Negative Declaration adopted for Environmental Assessment No. TPM-2012-06. The environmental analysis contained in the Initial Study and this Addendum to the Mitigated Negative Declaration tiers off of Master Environmental Impact Report SCH No. 2012111015 prepared for the Fresno General Plan ("MEIR"). A copy of the MEIR and the Mitigated Negative Declaration may be reviewed in the City of Fresno, Development and Resource Management Department. The proposed project has been determined to be a subsequent project that is fully within the scope of the MEIR for the Fresno General Plan and the aforementioned Mitigated Negative Declaration. No further assessment of the project is required.

LOCAL PREFERENCE

Local preference was not considered because this is not a competitive bid.

FISCAL IMPACT

The Agreement is based upon a “Job Creation/Performance Based” strategy through rebating property tax increment and use tax on company purchases the City would not otherwise be realizing without this development. The Agreement does not attach any sort of liability to the General Fund or any other City account. It is estimated that this project will provide a gross overall benefit to the City of approximately \$19,249,095 million over a thirty (30) year period, not including an estimated \$2,864,824,918 annual payroll, which will be a welcome infusion of jobs and annual wages for our regional economy.

Attachments:

- Attachment A – Addendum to the Mitigated Negative Declaration prepared for Environmental Assessment No. TPM-2012-06 in accordance with Section 15164 of the California Environmental Quality Act (CEQA) Guidelines.
- Attachment B – Economic Incentive Agreement
- Attachment C – City Controller 30-year Fiscal Analysis Spreadsheet
- Attachment D – A Report of the Economic Impact of Project Cougar in Fresno, CA