



Legislation Details (With Text)

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Title: Actions pertaining to Economic Incentive Agreement with ULTA, Inc., a Delaware Corporation

1. Adopt an Environmental Finding of No Possibility of Significant Effect Environmental Assessment No. EA-16-036.

2. Approve the attached Economic Incentive Agreement with ULTA, Inc. a Delaware Corporation for the creation of up to 1,200 jobs at a Business Activity Center(s), including but not limited to an e-commerce distribution/fulfillment center to be located in Fresno.

Sponsors: Office of Mayor & City Manager

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Attachments: 1. Attachment A - Environmental Assessment No EA-16-036.pdf, 2. Attachment B - City of Fresno Incentive Agreement_Ulta_11-14-2016 docx.pdf, 3. Attachment C - Revenue Analysis for Project Cheetah.pdf, 4. Supplement - 11-17-16.pdf, 5. Supplement for File ID16-1363.pdf

Date	Ver.	Action By	Action	Result
11/17/2016	1	City Council	approved	Pass

REPORT TO THE CITY COUNCIL

November 17, 2016

FROM: BRUCE RUDD
City Manager

BY: LARRY WESTERLUND
Director of Economic Development

SUBJECT

Actions pertaining to Economic Incentive Agreement with ULTA, Inc., a Delaware Corporation

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2. Approve the attached Economic Incentive Agreement with ULTA, Inc. a Delaware Corporation for the creation of up to 1,200 jobs at a Business Activity Center(s), including but not limited to an e-commerce distribution/fulfillment center to be located in Fresno.

RECOMMENDATION

The Administration recommends that the Council approve the attached Environmental Finding of No Possibility of Significant Effect Environmental Assessment No. EA-16-036 related to the Economic Incentive Agreement between the City and ULTA, Inc. (ULTA) and approve the attached Economic Incentive Agreement. 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 1,200 jobs at a Distribution/Internet Fulfillment Center (i.e. Business Activity Center/s) to be located in Fresno.

EXECUTIVE SUMMARY

Ulta Salon, Cosmetics and Fragrance, Inc., founded 25 years ago, is the largest beauty retailer in the United States and the premier destination for beauty products. ULTA is a publicly traded company listed on the NASDAQ stock-exchange with a market capitalization of over \$14 billion. They are a member of the Fortune 1000 with revenues of nearly \$4 billion a year and employ over 18,000 team members. The company needs to expand its e-commerce capacity to the Western United States and California, in particular. Ulta Salon, Cosmetics and Fragrance, Inc. is the parent company for ULTA, Inc. that handles their distribution and e-commerce fulfillment needs.

In September 2016, the City of Fresno was contacted by consultants working on behalf of the company indicating their West Coast facilities search had been narrowed to three cities. Currently, a site in the Fresno Industrial Triangle at East Avenue and Central Avenue has been selected by the company as the preferred site for the new facility and now will be the subject of their full due diligence. The Economic Development Team has led a coordinated effort involving all of the relevant departments in the City of Fresno, the property owners and the development team to get Fresno to the point of being designated the preferred site for this major investment.

ULTA 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 ULTA facility would be over a \$110 million investment in an approximately 670,000 square foot e-commerce fulfillment center on 38 acres. The company estimates that their initial workforce would consist of 642 full time employees with up to 700 part time employees at peak times of the year. The company contemplates a second phase of the project that could include an additional 196,000 square feet to the facility and the hiring of additional employees.

The company conservatively projects retail sales of \$66,000,000 in the first year at the Fresno site and expects e-commerce sales to continue to grow each year starting with 20% growth in year 2019, 15% in year 2020, and 10% in year 2021 and then 5% thereafter. In the last two years, ULTA reported Internet sales growth at 40-70%.

Ulta Inc., the legal entity which handles Distribution Centers and e-commerce, does not currently do business in California. They just recently registered with the California Secretary of State in October and this facility would be their first and only presence in the State. As a result, Senate Bill 533 does not apply, as it does not affect entities that are new to the State. The project will not pull sales out of any other California city.

The Administration and ULTA now ask the Council to approve a sales and property tax sharing agreement based on job-creation performance at the Center to incentivize the company in locating up to 642 full-time jobs and up to 700 part-time jobs in Fresno. The incentive agreement would not

exceed \$18 million over a thirty year term and would be based entirely on the number of jobs created at the Fresno site.

BACKGROUND

ULTA, Inc. is the largest beauty retailer in the United States, operating 926 stores across 48 states and the District of Columbia. The company offers more than 20,000 products from over 500 beauty brands across all categories and price points. ULTA offers full-service salons in every store. ULTA intends, over the long-term, to grow their store base to approximately 1200 Ulta stores. They also intend to establish themselves as the leading online beauty resource by providing their customers with a rich online customer experience that works in conjunct with their stores.

As of a recent 10-K report, they operate three distribution facilities located in Romeoville, Illinois, Phoenix, Arizona and Chambersburg, Pennsylvania.

As mentioned above, the City has worked with the Company, their consultant and the development team from ProLogis (the international 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 the facility, subject to approval of state tax credits (scheduled for approval on November 17 at the CalCompetes board meeting), the City's approval of this incentive agreement, possible participation by the County of Fresno, and the approval of the Enhanced Economic Development rate for this project by PG&E.

The facility would include \$110 million in investment in an approximately 670,000 square foot building. The workforce would include up to 642 new full-time employees over several years, with the addition of up to 700 part-time, seasonal jobs.

Additionally, it is contemplated that ULTA could expand its facility in the coming years. The agreement anticipates the expansion and would offer a similar property tax sharing incentive to ULTA should they move forward with the facility expansion.

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:

E-Commerce Fulfillment/Distribution Center based on Ulta's anticipated employment of up to 642 full time employees at \$15,000 per job:

1. Per the Economic Expansion Act, the City would rebate sales tax, use tax and property tax over a period of time not to exceed thirty (30) years or up to \$18,000,000 whichever comes first. The amount of \$18,000,000 is calculated at 1200 full time company positions at \$15,000 per job. As the attached analysis of sales, use, and property taxes indicates, the average amount of annual rebate is projected to be approximately \$514,000 per year.
2. The City Sales Tax and Use Tax Rebate on purchases would be 75% of the sales tax and

use tax revenue received from the construction, equipping and operations of the facility for the first ten (10) years of the incentive program.

3. The City Sales Tax on sales would be 75% of the sales tax revenue received from the operations of the facility for the first five (5) years; 50% for the following ten (10) years; and 25% for the remaining 15 years of the incentive program.
4. The City would rebate Incremental City Property Taxes on the property and investment made by the Company from on or after the execution date of this agreement through January 1, following the 5th full year following the receipt of the Certificate of Occupancy, at 75% of the incremental property tax and if the Company expanded as contemplated 50% incremental city property tax rebate for the following five (5) years following the investment for the expansion.

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 is attached.

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 25-year period. They concluded that, overall, the City will receive approximately \$42,000,000 in net benefits over the 25-year period from additional local tax revenue alone. Additionally, they concluded that the initial 642 jobs will result in an additional 136 indirect and induced jobs over the next twenty-five years. This analysis does not take into consideration the economic impact of the annual payroll associated with the 642 direct and 187 indirect jobs associated with the first phase of activity. The payroll associated with 642 direct, full-time jobs is estimated to be \$28,286,825 annually.

In addition to the forgoing Economic Impact Report, and as part of the City's due diligence, the City Controller and the Director of Economic Development have reviewed ULTA's Third Quarter 2016 Earnings Report with consolidated financial statements to complete the due diligence required by the Better Business Act and the Economic Expansion Act. Under the Economic Expansion Act, this project is considered exempt from the requirement of the Better Business Act because the company is valued at more than \$1 billion dollars.

ENVIRONMENTAL FINDINGS

Pursuant to Section 15061 (b)(3) of the California Environmental Quality Act (CEQA) Guidelines, CEQA applies only to projects, which have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the activity is not subject to CEQA. The entrance into the Economic Incentive Agreement with the City of Fresno for this Project does not involve new significant environmental effects and thus, staff has determined that a no possibility of significant effect is appropriate.

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 sales and property tax increment 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 an overall net benefit to the City of approximately \$33.5 million over a thirty year period, not including an estimated \$28,286,825 annual payroll, which will be a welcome infusion of jobs and annual wages for our regional economy.

Attachment: Attachment A - Adopt an Environmental Finding of No Possibility of Significant Effect
Environmental Assessment No. EA-16-036.

Attachment B - Economic Incentive Agreement

Attachment C - City Controller 30-year Fiscal Analysis Spreadsheet