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**Title:** Approve the Economic Incentive Agreement with The Gap Inc., a Delaware Corporation, to incentivize the relocation of their e-commerce fulfillment operation from out-of-state to Fresno to create at least 500 new jobs and to retain their current 351 distribution employees at their Pacific Distribution Center in the City of Fresno.

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**REPORT TO THE CITY COUNCIL**

**April 5, 2018**

**FROM:** WILMA QUAN-SCHECTER, City Manager  
Office of the Mayor & City Manager

**BY:** LARRY WESTERLUND, Director  
Economic Development

**SUBJECT**

Approve the Economic Incentive Agreement with The Gap Inc., a Delaware Corporation, to incentivize the relocation of their e-commerce fulfillment operation from out-of-state to Fresno to create at least 500 new jobs and to retain their current 351 distribution employees at their Pacific Distribution Center in the City of Fresno.

**RECOMMENDATION**

The Administration recommends Council approve the 30-year Economic Incentive Agreement between the City and The Gap, Inc. (Gap) to bring their e-commerce fulfillment operation from out-of-state, thereby ensuring the sustainability of their current distribution center in Fresno. Per the City's Economic Expansion Act adopted in March 2016, this project is eligible for a revenue sharing incentive agreement for the purpose of job creation. The agreement provides performance-based job -creation incentives for the creation of at least 500 net new jobs, and potentially hundreds more part-time and/or seasonal employees during peak business periods, at an e-commerce operation to be

located in available space within their current facility. In addition to creating more than 500 new jobs at the new fulfillment center, the move will also ensure continued sustainability of their 351 employees currently employed at their Fresno facility.

## **EXECUTIVE SUMMARY**

Gap is restructuring its corporate logistic and supply chain processes. As a result, the company would like to move its e-commerce fulfillment center operation to be co-located with its store distribution facilities. As part of the realignment, the company desires to move its e-commerce fulfillment center currently located out-of-state to its Pacific Distribution Center located in Fresno.

In September 2017, the City of Fresno was contacted by consultants working on behalf of the company inquiring about the possibility of moving the fulfillment operation to Fresno. Gap has requested an incentive agreement be approved to assist in their relocation of the fulfillment center.

In moving their fulfillment operation to Fresno, Gap has indicated they will add at least 515 full time employees over the next three years, as well as several hundred part-time and seasonable employees. Additionally, they will invest at least \$80 million in material handling equipment at the facility. The fulfillment center will be housed in one of the buildings at their Pacific Distribution Center here in Fresno.

The Administration has negotiated an incentive agreement that provides \$15,000 for each new employee hired at the new fulfillment center. Under the agreement, the City is only paying the incentive for new jobs created as part of the fulfillment center operations. To receive the incentive the company must create at least 500 new jobs. The incentive is paid from the new net sales tax on merchandise sold in California generated from facility's operation. As negotiated, the City will receive the first \$1,000,000 in new sales and property tax for the first seven years of the agreement and then drop to \$500,000 thereafter, prior to rebating any incentive funds back to company.

The agreement is for thirty (30) years and is only paid based upon the number of jobs created and filled.

## **BACKGROUND**

The Gap, Inc, was founded over 45 years ago and has been publicly traded since 1973. The company located its Pacific Distribution Center in Fresno in 1999 and expanded in 2001. They built two buildings of about one million square feet each. They currently employ 351 full time and part-time employees. This distribution center supplies Gap, Old Navy and Banana Republic products to stores in California and other western states. At the time the company located the distribution center in Fresno, the company entered into a development agreement with the City. The company has met all its legal obligations related to that agreement.

The company currently operates its E-commerce fulfillment center for the west coast from out-of-state. As a result, orders that are shipped to California from that facility are not currently considered fulfilled within California for sales and use tax purposes. Once opened, this new Fresno E-commerce center would be the primary online order receipt and fulfillment facility for the company's California customers, as well as other western states, and thus sales and use tax would originate here.

The proposed E-Commerce Project includes an investment of over \$80 million.

This Economic Incentive Agreement will be job creation and performance based and incentives will be calculated based upon the annual attributable revenue from property and sales/use taxes after subtraction of the “threshold revenue”. In years one through seven, the first one million dollars (\$1,000,000) in attributable revenue in each agreement year will be retained by the City as threshold revenue until seven million dollars (\$7,000,000) of cumulative threshold revenue has been collected. Once the initial seven million (\$7,000,000) in threshold revenue has been satisfied, the annual threshold to be excluded from the incentive calculation will be reduced to five hundred thousand (\$500,000) annually for the remainder of the 30-year agreement.

The agreement requires the company to maintain a minimum of 500 employees in the new e-commerce fulfillment center and is projected to be worth approximately \$8,000,000 based upon current anticipated staffing. The agreement is written to incentivize the hiring of more fulltime workers; but, in any event, is capped at \$10,000,000.

The company conservatively projects retail sales of \$250,000,000 in the first year and expects E-commerce sales to continue to grow each year of the agreement.

Per the Economic Expansion Act, the incentives would not displace any current revenues, but rather ensure incentives are exclusively funded through incremental revenues that would not have accrued to the City but for the Project. This agreement only pays the incentive out of the City’s share of sales tax as a result of the company’s decision to locate these jobs in Fresno over a period of time not to exceed the earlier of thirty years, or the period required to generate incentives commensurate with the actual job creation; but not, in any case, to exceed \$10,000,000.

In summary, and as provided by Government Codes Section 53083, the beneficiary of the economic development subsidy is The Gap, Inc., located at 2 Folsom Street, San Francisco, CA, 94105. The subsidy will begin on the effective date of the agreement and the end will be no later than 30 years from the commencement of operations. Provided Gap meets the eligibility requirements within this agreement, the subsidy will be paid annually. As described previously, the subsidy is calculated based upon the number and type of jobs created and maintained by Gap as more specifically described in the attached agreement. The total amount of expenditure of public funds as a result of the economic development subsidy will not exceed \$10 million.

The purpose of the subsidy is to ensure the creation of more than 500 permanent and several hundred seasonal jobs in the City. The City has determined that Gap’s expansion in Fresno will create new jobs, generate substantial revenue for the City, assist in revitalizing the City which suffered a loss of jobs and businesses during the economic recession of the 2008-2011, and will result in community and public improvements that might not otherwise be available to the community for many years.

Further, expanding Gap operations in the City has the additional public purpose of fostering a business and civic environment that may attract additional businesses and investment in the community due to the availability of the increased public and private services and economic activity resulting from the Project.

## **ENVIRONMENTAL FINDINGS**

In accordance with Section 15061(b)(3) of the CEQA Guidelines, the project has been determined to be exempt from CEQA under the general rule that CEQA only applies to projects which have the potential for causing a significant effect on the environment. Here, it can be seen with certainty that there is no possibility that entering into an Economic Incentive Agreement may have a significant adverse effect on the environment. Therefore, the agreement is not subject to CEQA

## **LOCAL PREFERENCE**

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

## **BETTER BUSINESS ACT**

The Agreement, although providing more than \$1,000,000 in economic incentive monies, is exempt from the Better Business Act (the "Act", adopted May 21, 2009, and amended September 26, 2013, November 20, 2014, and January 14, 2016) as it meets the exemption contained in Section 2 of the Act, because: 1) GAP has a market capitalization in excess of \$1 billion; 2) the City is not guaranteeing payment or providing subsidy in excess of direct income the City would receive as increased tax revenues a result of the proposed incentive; 3) there are exigent circumstances that limit the feasibility of conducting full due diligence, as the City is competing with other municipalities for the fulfillment center; and 4) the City Attorney has provided the opinion that the legal risk of approving the Agreement is very low.

## **FISCAL IMPACT**

The Agreement is based upon "Job Creation/Performance Based" net gain strategy through sales tax increment that City would not otherwise be realizing without this new job location and expansion decision.

It is estimated that this project will provide an overall net benefit to the City in excess of \$58 million and \$82 million to Fresno County over the thirty year term. It is also estimated that this project will bring \$715 million in payroll paid to the new employees over the course of the agreement.

Attachments: Attachment A - (Environmental Finding)  
Attachment B - (Economic Incentive Agreement)  
Attachment C - (Economic Impact Report from IMPACT DataSource)