

Mayor and Council Communication

DATE: 08/22/23

M&C FILE NUMBER: M&C 23-0689

LOG NAME: 17MCMaster-CARREDPA

SUBJECT

(CD 10) Authorize Execution of an Economic Development Program Agreement with McMaster-Carr Supply Company, or an Affiliate, for the Construction and Operation of a New Regional Headquarters and Distribution Center

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize the execution of an Economic Development Program Agreement with McMaster-Carr Supply Company, or an affiliate for the construction and operation of a new regional headquarters and distribution center; and
2. Authorize a one-time exception to the Economic Development Program Policy (adopted by City Council pursuant to Resolution 5722-03-2023) to allow for taxable inventory to be counted as business personal property to the extent allowed by the applicable appraisal district.

DISCUSSION:

McMaster-Carr Supply Company (Company), is an e-commerce distribution company that supplies specialized equipment, hardware, tools, etc. to industrial and institutional customers. The company primarily focuses on delivery of equipment and maintenance services necessary to ensure uptime, especially for critical functions and operations. Products are typically high-value equipment and ordinarily subject to inventory taxes as business personal property. Company has conducted a competitive site selection process for the location of a proposed sixth regional headquarters and distribution facility focused on the southwestern United States (Project). The proposed southwest regional headquarters will be added to existing regional headquarters for the company that are located in Atlanta, Chicago, Cleveland, Los Angeles, and New Jersey. Following the site selection process, Company has identified a 117-acre site located at 4894-4896 Litsey Road (Project Site) that it proposes for the Project.

Company proposes to invest approximate \$180,000,000.00 in real property improvements plus an additional \$180,000,000.00 in business personal property (BPP) and to operate the proposed Project Site as its regional headquarters.

Company Investment:

To support the Project, Company and City staff propose to enter into an Economic Development Program Agreement (Agreement). As part of the proposed Agreement, Company will commit to completing the Project in accordance with the following minimums:

- Minimum \$180,000,000.00 in construction costs supporting real property improvements at the Project Site by December 31, 2028.
- Minimum \$180,000,000.00 assessed value for BPP located at the Project Site by January 1, 2029
 - Company must maintain BPP of at least \$100,000,000.00 in assessed value for the duration of the Agreement

Utilization of Business Equity Firms (Real Property Improvements):

Company must expend or cause to be expended 15% of all construction costs (hard and soft) for the Project as defined in Chapter 20, Article X of the City Code. Failure to meet this commitment will not constitute a default, but the value of the grant will be reduced by 10%.

Employment Commitments

As part of the proposed Agreement, Company will commit to the following minimums:

- Minimum 150 full-time jobs at the Project Site by December 31 of the first operating year
- Minimum 250 full-time jobs at the Project Site by December 31 of the sixth operating year
- The average annual salary for all of the full-time jobs set forth above must be a minimum of \$85,000.00

City Commitments:

In return for development of the Project, the City will provide up to ten (10) annual grants equal to up to 85% (BPP Rate) of the maintenance and operations portion of new incremental City ad valorem taxes on BPP plus up to 50% (sales tax rate) of the new incremental City 1% sales tax revenues (collectively, Grants) for a total amount not to exceed \$18,000,000.00 (Program Cap). For purposes of calculating the Grants, BPP will include the value of taxes paid to the City for taxable inventory to the extent allowed by the applicable appraisal district which constitutes a one-time exception to the Economic Development Program Policy (adopted by City Council pursuant to Resolution 5722-03-2023) which excludes taxable inventory in the definition of BPP. In each year of the Agreement, the maximum annual Grant that will be given to the Company will be capped at \$2,000,000.00 (Annual Cap).

Failure by Company to complete the Project in a timely manner will be a default of the Agreement, leading to a forfeiture of any Grants to be paid by the City.

The maximum Rate in any given year of the Agreement will be in accordance with the following table:

Developer Commitment	Max EDPA Grant	
	BPP Rate	Sales Tax Rate
Base Commitment: Real Property Improvements Investment >= \$180 M by 12/31/2028, Business Personal Property Investment >= \$180 M	50%	25%
15% BEF Commitment	10%	10%
Average Annual Salary >= \$85,000	15%	10%
Overall Employment >= 150 full-time jobs for first operating year through the fifth operating year, 250 full-time jobs for the sixth through the tenth operating year	10%	5%
TOTAL	85%	50%

This Agreement will have no material effect on the Fiscal Year 2023 Budget and an estimated \$56,796,775.00 in new incremental property and sales tax revenue will be used to fund grants projected to equal a total of \$18,000,000.00, resulting in the collection of \$38,796,775.00 in net new incremental property tax revenue over the ten-year period following project completion.

This project is located in COUNCIL DISTRICT 10.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that approval of this agreement will have no material effect on the Fiscal Year 2023 Budget. While no current year impact is anticipated from this action, any effect on expenditures and revenues will be budgeted in future Fiscal Years and will be included in the long-term financial forecast.

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Expedited