

# Mayor and Council Communication

DATE: 04/25/23

M&C FILE NUMBER: M&C 23-0345

LOG NAME: 17SINCLAIREDDPA

## **SUBJECT**

(CD 9 / Future CD 9) Authorize Execution of an Economic Development Program Agreement with Sinclair Holdings, Inc. or an Affiliate for the Establishment of a Corporate R&D and Technology Center in Downtown Fort Worth and Associated Investments and Activities in Research and Development

## **RECOMMENDATION:**

It is recommended that the City Council authorize the City Manager to execute an Economic Development Program Agreement with Sinclair Holdings, Inc. or an affiliate for the establishment of a corporate R&D and technology center in downtown Fort Worth and for associated investments and activities in research and development.

## **DISCUSSION:**

Sinclair Digital Services, Inc. (Company), is a venture-backed smart buildings technology company based in downtown Fort Worth. Emerging out of an adaptive re-use project involving the redevelopment of the historic Sinclair Building redev as an Autograph hotel, the Company was founded to focus on broader commercial applications and MEP design support that leverage the low-voltage, power-over-ethernet technologies that were integrated into the construction and operation of the hotel. While the Company has since focused on building market share by applying existing technologies and applications to new projects in the hospitality industry, a broader interest in pursuing the development of new technologies and applications have prompted the Company to consider opportunities to increase its Research and Development (R&D) activity and to expand Company's its operations in Fort Worth.

Company is therefore proposing the establishment and operation of a new corporate R&D and technology center in downtown Fort Worth, including a new R&D lab, technology demonstration room, product mock-up room, and Energy Storage Systems ("ESS") demonstration site (Project). The Project will be located at 515 Houston Street or other property located in downtown Fort Worth as authorized by the City Manager or designated staff (Subject Property). The Project would lead to an estimated \$20 million in equipment/software installations and \$850,000 in facilities improvements. The Project is expected to create 63 new positions over an initial five-year period, with average annual wages of at least \$100,000. Overall, the Company is expecting to spend approximately \$87 million in total R&D costs over ten years, with minimum annual R&D costs of \$4 million.

In order to facilitate the project and promote greater R&D activity within the City, the City proposes to provide up to 15 annual Economic Development Program grants to the Company or an affiliate or assignee, as authorized by Chapter 380, Texas Local Government Code (each a Grant). The proposed project and Grants are eligible under criteria and guidelines contained in Section 7.1 of the City's Economic Development Policy (Resolution No. 5724-03-2023, as amended), which specifically applies to R&D projects. The Grant funds will be built into the City's long-term financial forecast for the general fund with a maximum aggregate Grant award of \$10,000,000.00. The grants will be based on a percentage of the Company's qualified costs in R&D during a 10-year performance period and will be tied to the satisfaction of other project and investment requirements, as follows:

### **Company Investment:**

To support the Project, the Company and City staff propose to enter into an Economic Development Program Agreement (EDPA) utilizing the City's R&D Credit program (Agreement). As part of the proposed Agreement, the Company would commit to completing the Project by December 31, 2024 and to certain project minimums, including minimum annual R&D expenditures of \$4 million for a ten-year period (\$40 million total), \$850,000 in initial facilities improvements (with 15% of Hard and Soft construction costs going to certified BEF companies), the hiring of at least 55 new jobs within first five years of the term (with employment milestones in Year 1 and Year 3), minimum average salaries of \$100,000, and the development of a community engagement plan for collaboration with the City on BEF contractor training opportunities focused on the use of and installation of advanced smart building technologies.

Company must comply with all of the following requirements with respect to the Subject Property:

- Establish official corporate R&D and technology center in downtown Fort Worth by 12/31/2024 (Completion Deadline);
- As part of the Project and by no later than the Completion Deadline, Company will deliver a capital investment of at least \$850,000.00 in tenant improvements or other real property improvements to the Subject Property;

### **Utilization of Business Equity Firms (Real Property Improvements):**

Company must expend or cause to be expended 15% of all construction costs for tenant improvements, upgrades and modifications to the building and the property comprising the Subject Property with Business Equity Firms 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 Grant eligibility will be reduced by 10%.

**Minimum Qualified R&D Expenditures:**

Company must expend or cause to be expended at least \$4,000,000.00 annually in qualified R&D costs in the each operational year during the 10-year performance period.

**Employment and Wage Commitments:**

Company must, by no later than the end of the first operating year, employ a minimum of 19 full-time individuals earning an average annual salary of at least \$100,000.00. The minimum number of individuals to be employed will be increased to 40 by the end of the third operating year and 55 by the end of the fifth operating year, all at a minimum annual salary of \$100,000.00. If Company does not achieve the employment commitment the penalty will range from a default of the agreement to a reduction of Grant payments.

**City Commitments:**

In return, the City would provide grants to the Company or assignee(s) that are based on up to 35% of eligible annual R&D costs by the Company (Grants), capped at \$10 million total (subject to Company performance, total R&D expenditures, and available property tax increment produced by the Company or an assignee). Based on program requirements guiding the payment of Grants under the R&D Credit program, full payment of the Grants up to the \$10 million cap would require new incremental property value resulting in an approximately \$3.33 million in net new tax revenues to the City after payment of the Grants.

The City will pay up to 15 annual Grants to the Company for a total amount not to exceed \$10,000,000.00 (Program Cap). The amount of each annual Grant will be governed by a combination of the following:

- 25% of Company's qualified costs/expenses (as term is defined under Internal Revenue Code Section 41 - Research and Experimentation Tax Credit) relating to ongoing research and development activities that take place at the Subject Property over a consecutive 5-year period beginning with the first operating year minus the value of any Grants paid by City to Company or an assignee; and
- ad valorem tax revenues attributable to the Subject Property, such property will include any taxable real or business personal property located on the Subject Site or, if Company assigns all or any portion of the Grants to a third party, taxable real property or properties located in the corporate limits of the City and owned by the assignee(s).

At no time will any Grant exceed 75% of the incremental real and business personal property ad valorem tax revenues attributable to the Subject Property that are received in the preceding calendar year

**Assignments:**

Company will have the right to assign the Grants, either in whole or in part, to one or more third-party owners of real property in the City. For purposes of calculating assigned Grants, the Subject Property will be the real property or properties in the City that are owned by the assignee, instead of the Subject Property on which Company is conducting the project operations. Assignment agreements may be executed by the City Manager or that person's designee.

Grant assignments will be subject to the following restrictions:

- The City will only pay Grants for 15 consecutive years, beginning in the year in which the first Grant payment is made. For example, if an assignment is made after 2 annual Grants have already been paid under the Agreement, the assignee will only be entitled to a maximum of 13 annual Grants;
- No property that is already tied to an existing City incentive agreement may be included as the Subject Property;
- No property that is zoned Residential by the City will be permitted to be included as part of an assignee's Subject Property except where such zoning may be changed to facilitate new development (e.g., residential property that is subsequently rezoned for commercial). Properties that are zoned mixed-use (including any part of a form-based code) or properties that are zoned Planned Development may be included as part of an assignee's Subject Property;
- In an event of an assignment, the amount of qualified R&D costs used in the calculation of Grant payments will be reduced by 5%, with the resulting amount of the Grant reduction to be dedicated for use by the City in the administration of its economic development programs or for other purposes relating to the promotion of R&D activity within the City;
- In the event an assignee advances funds to the Company within the first 24 months following execution of this Agreement, the assignee may, subject to terms expressed in this Agreement, have the right to receive Grants in an amount up to 75% of its annual incremental real and business personal property ad valorem tax received by the City in an amount equal to the lesser of the amount advanced or 15% of the Program Cap for a period of up to 10 years; and
- The aggregate cap on all annual Grants paid by the City, regardless of the number of assignments and the parties to whom the Grants are paid, will not exceed \$10,000,000.00.

This project is located in COUNCIL DISTRICT 9 (FUTURE COUNCIL DISTRICT 9)

**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.

**Submitted for City Manager's Office by:** William Johnson 5806

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Expedited