



## MEMORANDUM

TO: Mayor and City Commissioners

FROM: Joan K. Goodrich, Economic Development Director

THROUGH: Neal de Jesus, Interim City Manager

DATE: April 5, 2017

CC: Caryn Gardner-Young, Assistant City Manager

SUBJECT: **AGENDA ITEM 17-381 - Regular Commission Meeting of April 18, 2017**  
**Qualified Target Industry Tax Refund Local Match - "Project Butler"**

### **ITEM BEFORE COMMISSION**

Approval of Qualified Target Industry Tax Refund (QTI) Local Match for "Project Butler" in an amount not to exceed \$58,800 (paid out in six annual installments and only remitted if the jobs are created as verified by the State of Florida) for a Palm Beach County early stage technology company seeking to grow their corporate administration of their national customer base and offshore activities. Project Butler is entitled to be made confidential pursuant to section 288.075 Florida Statutes. The Local Match contribution is a requirement by the State of Florida for the company to be eligible for the QTI incentive program.

### **PROJECT BUTLER OVERVIEW**

Project Butler is an existing early stage technology company developing software and hardware solutions for integrated building management systems and automation for residential and commercial applications including highly secured internet protocols. The company's business activities also include the corporate administration of a national customer base and offshore activities.

Project Butler is ready to launch their software and hardware solutions to the national and international markets. The company has been located in West Palm Beach as a start-up company employing 10, operating out of small temporary space while developing their products and services. The company is now in need of more space to establish their headquarters, manufacturing, and support.

They have identified 9,000 square feet of office space on Congress Avenue in Delray Beach along with other sites in Dallas, TX, San Francisco, CA, Atlanta, GA, Boston, MA or New York, NY.

If Project Butler chooses to expand in Delray Beach and Palm Beach County, it would:

- Create 42 new jobs with an average wage of \$101,316 (at least 200% of the Palm Beach County average wage - \$50,658)
- Relocate 10 existing jobs
- Make a total capital investment of \$2,325,000 in capital investment over 5 years

- Generate a positive economic impact of more than \$17 million as projected by the Business Development Board of Palm Beach County.<sup>1</sup>

### **INCENTIVE REQUESTED**

The company is seeking the following incentives from the State of Florida and the City of Delray Beach:

**Total Incentive Estimate: \$294,000**

**Sub-Total State Portion (80%) - \$235,200**

**Sub-Total Local-Delray Beach Match (20%) – \$58,800**

The QTI incentive is calculated is as follows:

$$\begin{aligned} &\$3,000 \text{ base per job} + \$2,000 \text{ 200\% average wage bonus} + \$2,000 \text{ High Impact Sector bonus} \\ &\quad \times 42 \text{ new jobs} = \$294,000 \end{aligned}$$

It is noted that Project Butler is being deemed a qualified target industry business and one that is also within a designated high impact sector as defined by the State of Florida's QTI program because of the NAICS code affirmed by the company on it's application. Additionally, Project Butler is eligible for the QTI Local Match by the City of Delray Beach because they are:

- Submitting an application before making a decision to expand
- Creating at least 10 net new full-time jobs (per their application)
- Paying an average annual wage of at least 115% of Palm Beach County avg. wage - \$50,658. Project Butler is actually estimating to pay at least 200% of the county avg. wage.

The QTI application process requires the City of Delray Beach to adopt a resolution recommending that the project be approved as a qualified target industry business within a designated high impact sector and specifying that the commitment of local financial support necessary for the target industry business exists.

### **BENEFITS AND RETURN ON INVESTMENT**

The additional anticipated benefits of Project Butler on the City of Delray Beach includes: 1) diversification of the tax base; 2) diversification of the economic base; 3) attraction of a headquarters operation to an emerging economic development corridor; and 4) contribution to the City's growing reputation as an entrepreneurial community.

Return on investment (ROI) for Project Butler, if calculated on capital investment only (conservative), is \$39.45 for every \$1 invested by the City of Delray Beach. If calculated on Direct Total Economic Impact (county-wide impact), the City's ROI would be \$290.76 for every \$1 invested.

### **LOCAL INCENTIVE AUTHORITY**

On April 3, 2012, the City Commission approved Resolution No. 21-12, creating the Delray Beach Economic Development Fund. The purpose of the 'fund' was to support citywide economic opportunities (i.e., financial incentives) to attract and/or retain jobs as well as to increase the City's

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<sup>1</sup> As estimated by the Business Development Board of Palm Beach County Economic Impact Projections for Project Butler – see attached.

tax base. The 'fund' is implemented through annual budget allocations for economic development projects the City Commission approves by resolution.

In addition, the City Commission took action on December 11, 2012 approving Resolution No. 62-12 approving Delray Beach's Incentive Policy and Programs including the Job Creation Incentive (JCI) Program which allows for the City's participation for up to the 20% local match in the State of Florida's QTI program (see attached program guidelines).

#### **ICI GRANT AWARD LIMIT RECOMMENDATION**

In Delray Beach's Job Creation Incentive (JCI) Program Guidelines, base awards per job ranges from \$250 to \$1,000 per job created with a minimum and maximum amount award of \$10,000 - \$50,000 per applicant. Incentive guidelines provide for a higher level of investment on the recommendation of the City Manager and the Economic Development Director. Based on the benefits and return on investment stated earlier, it is recommended that the JCI Grant Award Limit be waived for Project Butler to allow for the full 20% Local Match requirement of the QTI incentive in the amount not to exceed \$58,800.

#### **FISCAL- BUDGET NOTES**

If approved, the City's total incentive obligation in the amount not to exceed \$58,800 will be paid out in six annual installments from General Funds (see below QTI payout and City budget allocation schedule) and only after the State of Florida certifies and notifies the City that Project Butler has met the job creation criteria as a part of the Qualified Target Industry Tax Refund Agreement Project Butler will execute with the State of Florida Department of Economic Opportunity. It is further noted that the City's payments will be made directly to the State of Florida - and not to the company - because it is the State of Florida who has the lead oversight and payment responsibility for this particular State incentive tool.

<b>QTI Payout Schedule</b>							
Job Creation Time Period	2017	2018	2019	2020	2021	2022	TOTAL PAYOUT
Number of Jobs Created by End of Year	16	13	13				42
Percentage of Total Jobs	38%	31%	31%	0%	0%	0%	100%
QTI Award for Percentage of Jobs Created	\$ 112,000	\$ 91,000	\$ 91,000	\$ -	\$ -	\$ -	\$ 294,000
25% (max per program - paid following year)	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000			
25% (max per program - paid following year)		\$ 22,750	\$ 22,750	\$ 22,750	\$ 22,750		
25% (max per program - paid following year)			\$ 22,750	\$ 22,750	\$ 22,750	\$ 22,750	
Payout Year (Year Following Job Creation)	2018	2019	2020	2021	2022	2023	
State Payout	\$ 22,400	\$ 40,600	\$ 58,800	\$ 58,800	\$ 36,400	\$ 18,200	\$ 235,200
City Payout	\$ 5,600	\$ 10,150	\$ 14,700	\$ 14,700	\$ 9,100	\$ 4,550	\$ 58,800
<b>TOTAL PAYOUT</b>	<b>\$ 28,000</b>	<b>\$ 50,750</b>	<b>\$ 73,500</b>	<b>\$ 73,500</b>	<b>\$ 45,500</b>	<b>\$ 22,750</b>	<b>\$ 294,000</b>

#### **Anticipated City of Delray Beach Budget Allocation Schedule**

FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	Total
\$5,600	\$10,150	\$14,700	\$14,700	\$9,100	\$4,550	\$58,800

#### **RECOMMENDATION**

Approve Resolution No. 33-17 to encourage the relocation of 10 high-wage jobs and the creation of 42 new high-wage jobs by Project Butler, an early stage technology company seeking to relocate their corporate administration (headquarters) of a national customer base and offshore activities to Delray Beach.

## Business Development Board

### Economic Impact Projections for Project Butler

	Direct	Indirect	Induced	Total
<b>Output</b>	\$17,097,157	\$3,699,707	\$3,020,505	\$23,817,369
<b>Jobs</b>	42.0	22.1	23.2	87.3
<b>Wages</b>	\$4,281,913	\$1,176,908	\$886,536	\$6,345,357
<b>Taxes</b>	\$407,157	\$138,330	\$157,521	\$703,009

#### Avg Wage as % of County Average

	200%	143%
<b>Company Avg Wage</b>	\$101,316	\$72,685
<b>County Avg Wage</b>	\$50,658	\$50,658

Total Economic Impact is an estimated combined effect of a company and the ancillary industries impacted. Direct, indirect, and induced economic effects based on the variables of output, income and employment were examined using IMPLAN Pro Version 3 and 2012 County IMPLAN data from IMPLAN Group LLC.

Wages based on Florida Agency for Workforce Innovation, 2012 ES-202 program, average county wage of \$49,123 as stated by EFL incentive guidelines.

Taxes estimated are sales, excise, property taxes, fees, licenses and other taxes paid by businesses as derived from U.S. Bureau of Economic Analysis Gross State Product data.