

CITY OF AUSTIN

ECONOMIC DEVELOPMENT DEPARTMENT

PROPOSED ECONOMIC DEVELOPMENT AGREEMENT



BRIEFING TO COUNCIL – APRIL 6, 2017

AUSTIN'S PROSPERITY ENGINE

The City of Austin's Economic Development Department (EDD) develops and leads innovative programs that increase the prosperity of all Austinites, our businesses, and our diverse communities.



Economic Development Proposal

Briefing purpose:

- Target opportunities for economic development
- Sector and company overview
- WebLOCI fiscal impact analysis
- Economic development matrix score
- Anticipated benefits and expectations
- Next steps and timeline

Opportunities for Economic Development

- Council has leveraged State and Federal programs to deliver private investment, job creation and resulting tax revenues to Austin:
 - Texas Enterprise Zone Program
 - HUD Section 108 Loan Guarantee Program
 - Texas Production Incentives
 - Texas Media Production Development Zone
- Proposal for leveraging the State of Texas Enterprise fund to secure a private expansion project that is focused on investment and job creation in a new and emerging industry
- Investment decisions guided by selection of target markets designated by the City of Austin and through participation in Opportunity Austin



Background: Bio and Life Sciences

- This sector currently makes up a small share of Austin's \$100 billion economy, representing approximately 206 establishments, 6,052 jobs and more than \$1 billion in value to the Austin region
- Research and development activity in the region provides 3,400 jobs and represents \$380 million impact
- Composed of five industries contributing to an estimated \$100 million to Austin's gross regional product
- This sector offers opportunities for people with less than a four-year degree, and even for workers relying predominantly on on-the-job training. These types of jobs pay between \$13 and 24 per hour
- Bio and life sciences is targeted as a sector for economic and workforce development efforts aimed at creating well-paying jobs across the spectrum of low-skill, middle-skill and high-skill segments of the market



Source: Civic Analytics, *Economic Impact of Life Sciences*, 2014

Background: Merck & Co.

- Since 1891, Merck has helped to find new ways to treat and prevent illness — from the discovery of vitamin B1, to the first measles vaccine, to cold remedies, antacids, and treatments for high cholesterol
- With over 125 years of experience, Merck is an innovative, global healthcare leader that is committed to improving health and well-being around the world with core product categories that include diabetes, cancer, vaccines, hospital acute care, and animal health
- Today, Merck is headquartered in Kenilworth, New Jersey, and the company currently has more than 68,000 employees worldwide
- Merck's transformative technologies continue to challenge the healthcare ecosystem to provide care in the most efficient and cost effective manner to enable well-being of the patients they serve

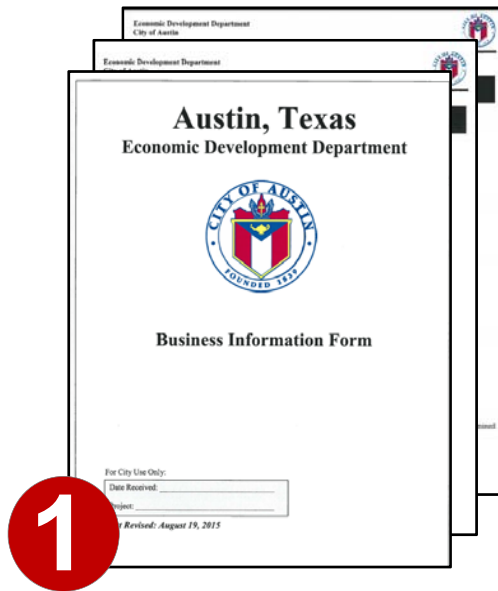


Background: Merck & Co.

- Merck embarked on a strategy that required the company to restructure itself to be better positioned to serve their clients and patients through healthcare services
- Merck is looking to establish a new healthcare technology hub to deliver solutions and services to their clients and patients.
- This segment provides services and solutions that focus on engagement, health analytics and clinical services to improve the value of care delivered to patients
 - Eradicate human papilloma virus and cervical cancer in Austin
 - Use of data from East Austin to increase availability and affordability of health services
- In looking at Austin as a potential location for the fourth hub, the Dell Medical School within the Innovation Zone is of strong interest to all parties as this project could anchor significant future success

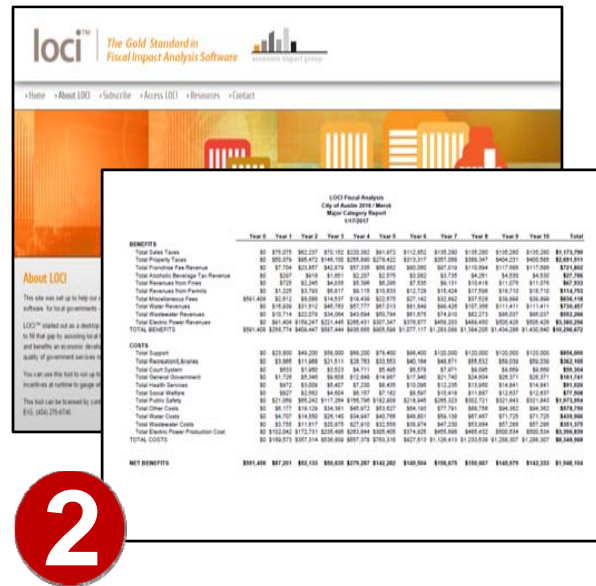


Economic Development Criteria and Analysis



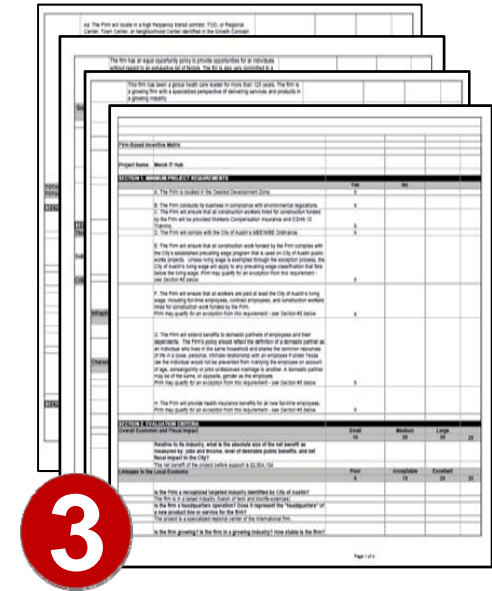
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Business information form



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WebLOCI fiscal impact analysis



3

Council approved firm-based matrix



Economic Development Matrix

The Merck & Co. IT Hub scored 95 out of 100 points.

Aside from meeting Minimum Criteria the score is reflective of the following:

- Project is in a Opportunity Austin 3.0 and City of Austin Target Market that could catalyze the Innovation District, seed a new cluster and bring additional firms to Austin
- The project anticipates creating total of 600 jobs and provides a very strong environment for training and programming associated with proactive outreach and employee engagement
- The project creates significant contracting opportunities for local firms as it proposes to invest \$20 million in construction, \$8 million in business personal property, an estimated \$2 million in annual expenditures for local services, and an estimated \$500,000 in local purchases
- The project meets all four criteria for an Extraordinary Economic Impact and criteria for three bonus considerations

Economic Development Matrix

Community Values and Local Participation

- Committed to Global Diversity and Inclusion in all aspects of business operations, from employee recruitment to supplier diversity
- Company provides very strong employee development and retention efforts including executive leadership training, peer coaching, and Employee Business Resource Groups
- Company offers flexible work arrangements available to all employees that includes telework, remote work, flextime and compressed workweeks
- Global Volunteerism Policy provides up to 40 hours of paid time off annually to employees to engaging in volunteer activities that support non-profits
- Company supports national and local charitable efforts while also providing a 1:1 matching program in support of non-profits



Economic Development Impact Analysis

The financial benefits and costs of this project resulting in a return on investment for the City of Austin.

- The fiscal impact analysis represents only direct benefits and costs as a result of the investment and jobs created.
- Total direct benefits over a 10-year period = \$10.2 million
- Total costs over a 10-year period = \$8.3 million*
- The recommended economic development grant is equal to \$200 per job over 10 years.
- Total net benefit (\$10.2M - \$8.3M) = \$1.9 million
- City investment of \$856,000 could secure a \$6 million investment from the State of Texas

* This cost figure is net cost which includes a performance-based economic development grant of \$856,000. All figures above are rounded.

Economic Development Impact Analysis

Strong Connection to Local Opportunities

- Merck has already met with a high number of community stakeholders:
 - Healthcare: Dell Medical, Seton, People's Community Clinic
 - Education: UT, Huston-Tillotson, St. Edward's, Austin Community College
 - Workforce: Workforce Solutions, Capital Idea, Skillpoint, Goodwill, Re-entry
 - Community: Minority Chambers, Austin Interfaith, Girl Start, SXSW
- Merck is seen as a key player in the Innovation District's mission to transform the ways our community *gets healthy and stays healthy*
- Tech Innovation Summits engage local vendors, suppliers, healthcare partners, universities and business community to foster conversation around special topics
- Concerted effort for workforce and entrepreneurial development
 - Focus on STEM initiatives to meet diversity needs of company
 - Engaging entrepreneurs and small business adjacent to Innovation District

Performance-Based Agreement

Merck's contractual obligations for 10 year agreement

- Invest \$28.7 million in properties
- Create 600 new full-time jobs with an average annual wage of \$84,586
- Provide health insurance coverage to its employees and extend benefits to spouses, domestic partners and their dependents
- Efforts to recruit employees locally will utilize local non-profits to expand its pool of diverse candidates during the hiring process
- Comply with the City's ordinance for minority-owned and women-owned business enterprises ("M/WBE Program Ordinance") and abide by a supplier diversity policy
- Locate in a high frequency transit corridor, TOD, or Regional Center, Town Center or Neighborhood Center in the Imagine Austin plan and/or locate within ½ mile of a rail or bus stop that is accessible by safe pedestrian and bicycle routes
- Develop a program to encourage alternative modes of transportation through carpooling, flextime work schedules, or subsidizing transit costs for employees
- Ensure the permanent office location is USGBC LEED Silver Certified

Performance-Based Agreement

City of Austin's contractual obligations for 10 year agreement:

- Provide a 10 year performance-based economic development grant, payable on an annual basis
- Provide annual payment following annual compliance review of contract
- The total estimated value of this grant is capped at \$856,000 over the duration of the agreement
- The City is not obligated to make a grant payment for any year in which the City has determined that Merck has not fulfilled an obligation or condition applicable to the Company

Next Steps

Economic Development Agreement with Merck

- **March 31st** –All information on potential agreement made public and opened online portal for public comment.
www.austintexas.gov/ed
- **Today** – Set the public hearing for the April 13, 2017 City Council meeting so that the public may comment on the proposed Economic Development agreement between the City of Austin and Merck
- **April 12th** – Public comments will be transmitted to City Council
- **April 13th** –A public hearing will be conducted which will be followed by Council Action on the proposed Economic Development Agreement

A dark blue, semi-transparent overlay of a city skyline, likely Austin, Texas, featuring several tall skyscrapers and a bridge in the foreground. The image is used as a background for the title text.

David Colligan
Global Business Expansion
City of Austin
Economic Development Department

