

DATE: April 17, 2012
STAFF: Mike Beckstead
Josh Birks

AGENDA ITEM SUMMARY
FORT COLLINS CITY COUNCIL

26

SUBJECT

Second Reading of Ordinance No. 028, 2012, Appropriating General Fund Reserves for the Purpose of Rebating Use Tax to Hewlett Packard Company in Support of the Building Six Annex Expansion in Accordance with Resolution 2010-029.

EXECUTIVE SUMMARY

This Ordinance appropriates \$241,193 of General Revenue Funds for a Use Tax rebate approved by City Council on May 18, 2010 by Resolution 2010-029. The Resolution approved an agreement between the City and Hewlett Packard Company to provide Business Investment Assistance for the Building 6 Annex Expansion. The additional operations created approximately 100 jobs with an annual average wage of \$90,000. The City's assistance included both a one time use tax rebate and a personal property tax rebate on lab equipment for a total value of \$1.6 million. This Ordinance, adopted on First Reading on April 3, 2012 by a 6-0 vote (Poppaw withdrawn) appropriates \$241,193 in use tax rebate, which is substantially less than the maximum rebate approved of \$600,000.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on Second Reading.

ATTACHMENTS

1. Copy of First Reading Agenda Item Summary - April 3, 2012
(w/o attachments)

DATE: April 3, 2012
STAFF: Mike Beckstead
 Josh Birks

AGENDA ITEM SUMMARY
 FORT COLLINS CITY COUNCIL

11

SUBJECT

First Reading of Ordinance No. 028, 2012, Appropriating General Fund Reserves for the Purpose of Rebating Use Tax to Hewlett Packard Company in Support of the Building Six Annex Expansion in Accordance with Resolution 2010-029.

EXECUTIVE SUMMARY

This Ordinance appropriates \$241,193 of General Revenue Funds for a Use Tax rebate approved by City Council on May 18, 2010 (Resolution 2010-029; Vote: 4-1; Nays: Ohlson; Abstain: Poppaw; Absent: Kottwitz). The Resolution approved an agreement between the City and Hewlett Packard Company to provide Business Investment Assistance for the Building 6 Annex Expansion. The additional operations created approximately 100 jobs with an annual average wage of \$90,000. The City's assistance included both a one time use tax rebate and a personal property tax rebate on lab equipment for a total value of \$1.6 million. This Ordinance appropriates \$241,193 in use tax rebate, which is substantially less than the maximum rebate approved of \$600,000.

BACKGROUND / DISCUSSION

On May 18, 2010, City Council adopted a resolution approving a Business Investment Agreement ("Agreement") between the City and Hewlett Packard Company ("HP") for the Building 6 Annex Expansion. HP expanded operations at the Harmony Road facility, including construction of an Engineering Focused Lab by retrofitting 40,000 square feet of the Building 6 Annex. The additional operations created over 100 jobs with an annual average wages of \$90,000. The expansion included two phases totaling \$64.4 million in construction and equipment investment.

The Agreement includes two performance based investments: (1) a one-time Use Tax rebate on the lab equipment purchased at installation; and (2) a Personal Property Tax rebate on the same lab equipment for ten years. Both investments relate to revenues the City would not otherwise collect if the expansion did not occur. The total investment package has a value of \$1.6 million over ten years. During the same time period the City will receive \$2.0 million in revenues net of the investments made through the agreement.

HP has completed the expansion and submitted an application for Use Tax rebate under the terms of the Agreement. The Agreement authorized a Maximum Use Tax Reimbursement of \$600,000. After thorough review by the City's Sales Tax department, the application requests \$241,193 in Use Tax rebate.

FINANCIAL / ECONOMIC IMPACTS

The Ordinance will have the following impacts on the City of Fort Collins finances:

- \$241,193 of General Fund Reserves will be appropriated for the purpose of remitting a Use Tax rebate to HP. The Use Tax was received in a prior year and is now held in reserves.
- The Sales Tax Department has validated that HP remitted at least \$241,193 of Use Tax through the purchase of eligible equipment as indicated in the Agreement.

Martin Shields, Associate Professor of Economics and Regional Economist at Colorado State University prepared an Economic Impact Analysis (EIA) of HP's planned expansion. The following summarizes that analysis:

Construction Benefits/Impacts

- **Direct Employment and Income** – Based on a \$34.4 million budget for retrofit, the proposed expansion will directly support approximately 336 construction jobs during the construction phase earning an average wage of \$52,300 (Source: IMPLAN, CSU Regional Economist).
- **Spin-off Employment and Income** – The construction jobs will support approximately 207 spin-off jobs during the construction phase earning an average wage of \$35,600 (Source: IMPLAN, CSU Regional Economist).
- **Total Employment** – The project will support a total of 543 direct and spin-off jobs during construction, with an average annual compensation of \$45,900 (Source: IMPLAN, CSU Regional Economist).
- **Construction Use Tax** – Based on an investment of \$34.4 million in retrofit, the City will receive approximately \$620,000 in construction use tax. The calculation assumes 60 percent of the investment is in materials and 40 percent in labor. (Source: Insight Fiscal Impact Model; CSU Regional Economist)

Operations Benefits/Impacts

- **Direct Employment and Income** – Per HP, 100 positions will be created after the retrofit of Building 6, earning an average wage of \$90,000. Total payroll including benefits is approximately \$12.6 million (based on an assumption of 40 percent of gross pay in benefits).
- **Spin-off Employment and Income** – Based on the anticipated job growth supported by the expansion of Research and Laboratory space at HP, the 100 direct jobs will support an additional 124 spin-off positions in Larimer County with an average wage of approximately \$32,900 (Source: IMPLAN, CSU Regional Economist).
- **Total Employment** – The proposed expansion will support a total of 224 direct and spin-off jobs (Source: IMPLAN, CSU Regional Economist).
- **On-going Real Property Taxes** – Based on a \$24 million investment in Building 6, it is likely the Real Property Taxes will increase after completion. This increase in value could generate an additional \$88,000 annually in property tax revenue to the City or \$880,000 over ten years.
- **On-going Use Tax** – Assuming HP replaces 50 percent of the \$30 million investment in equipment over the next ten years, this could result in an additional \$450,000 in equipment use tax revenue.

ENVIRONMENTAL IMPACTS

The HP retrofit will impact the environment in the following ways:

- An existing building on the HP Harmony Campus will be retrofit for a productive use allowing 100 new jobs to be added to the community without consuming additional raw land. The stated goal of the facility is to develop an Engineering Focused Laboratory with a “sustainable data center” and provide additional energy efficiency improvements.
- HP has and remains a strong ClimateWise partner. Energy Efficiency projects to-date have included lighting upgrades, chiller plant expansion and upgrade, air handling unit upgrades, a building tune-up, and ice thermal storage. The total power savings equals 6.2 million Kilowatt Hours annually and a reduction in demand of 1,641 kilowatts.
- Annual water consumption will increase by 8.0 million gallons as a result of cooling operations. A great deal of this water will not enter the waste water system due to evaporative loss.
- Annual electricity consumption will increase by 10.67 megawatts.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on First Reading.

PUBLIC OUTREACH

Negotiations of the planned HP expansion and related Business Investment Agreement were conducted confidentially.

ATTACHMENTS

1. Area Context Map – Identifies the HP Harmony Road Facility
2. Site Map – Identifies HP Harmony Road Facility – Building 6 Annex
3. Hewlett Packard’s Building 6 Retrofit Economic Impact Analysis, Prepared for the City of Fort Collins by Martin Shields, Associate Professor of Economics and Michael Marturana, Research Economist, Colorado State University
4. Resolution 2010-029

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ORDINANCE NO. 028, 2012
OF THE COUNCIL OF THE CITY OF FORT COLLINS
APPROPRIATING GENERAL FUND RESERVES FOR THE PURPOSE OF
REBATING USE TAX TO HEWLETT PACKARD COMPANY IN
SUPPORT OF THE BUILDING SIX ANNEX EXPANSION
IN ACCORDANCE WITH RESOLUTION 2010-029

WHEREAS, on May 18, 2010, City Council approved Resolution 2010-029 approving a Business Investment Agreement (“Agreement”) between the City and Hewlett Packard Company (“HP”) for the Building 6 Annex Expansion project (the “Project”); and

WHEREAS, the Project includes retrofitting an HP building located on the Harmony Road facility to include a 40,000 square foot expansion and lab equipment investment for an Engineering Focused Lab facility; and

WHEREAS, the total construction and equipment investment for the Project will total approximately \$64.4 million and create over 100 high-paying, primary jobs that will provide significant economic benefit to the community at large; and

WHEREAS, the City’s Economic Development Department has concluded that the Project will generate an increase in tax revenue for the City, over and above the rebate amount as stated in the Agreement, in approximately the following amounts: (i) \$450,000 in additional Use Tax over the next ten years, (ii) \$150,000 in new annual Personal Property Tax in the first ten years and \$250,000 in new Property Tax in subsequent years, and (iii) \$88,000 in new annual Real Property Tax revenues; and

WHEREAS, in accord with the terms of the Agreement, HP has completed the Project and has submitted an application for a one-time Use Tax rebate in the amount of \$241,193 for the investment of \$30 million in lab equipment; and

WHEREAS, Article V, Section 9, of the City Charter permits the City Council to appropriate by ordinance at any time during the fiscal year such funds for expenditure as may be available from reserves accumulated in prior years, notwithstanding that such reserves were not previously appropriated; and

WHEREAS, Article V, Section 9 of the City Charter permits the City Council to make supplemental appropriations by ordinance at any time during the fiscal year, provided that the total amount of such appropriations, in combination with all previous appropriations for that fiscal year, does not exceed the current estimate of actual and anticipated revenues to be received during the fiscal year.

NOW, THEREFORE, BE IT ORDAINED BY THE COUNCIL OF THE CITY OF FORT

COLLINS as follows:

Section 1. That the City Council hereby finds that providing financial assistance to HP, upon the terms and conditions of the Agreement, is in the best interests of the City and serves the important public purposes of increasing employment within the City, stabilizing and improving the long-term tax base of the City, and promoting economic development within the City.

Section 2. That there is hereby appropriated for expenditure from reserves in the General Fund the sum of TWO HUNDRED FORTY ONE THOUSAND AND ONE HUNDRED NINETY THREE DOLLARS (\$241,193) for the purpose of rebating Use Tax to Hewlett Packard Company in support of the Building Six Annex Expansion project.

Introduced, considered favorably on first reading, and ordered published this 3rd day of April, A.D. 2012, and to be presented for final passage on the 17th day of April, A.D. 2012.

Mayor

ATTEST:

Interim City Clerk

Passed and adopted on final reading on the 17th day of April, A.D. 2012.

Mayor

ATTEST:

Interim City Clerk