



## Legislation Text

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### Agenda Information Sheet

**DEPARTMENT:** Development Services/Economic Development

**CM/ ACM:** Jon Fortune

**Date:** September 20, 2016

#### **SUBJECT**

Consider adoption of an ordinance establishing an Economic Development Program under Chapter 380 of the Local Government Code for making grants of public money to promote economic development and to stimulate business activity in the city of Denton; approving an economic development program grant agreement with Sally Beauty Supply, LLC, setting forth the various conditions precedent to Sally Beauty Supply, LLC receiving the program grant; providing for a severability clause; and providing an effective date.

#### **BACKGROUND**

Sally Beauty moved its corporate headquarters from New Orleans to Denton in 1982. At that time, the company had 119 stores in the United States. Today, Sally Beauty Holdings is a leading international specialty retailer and distributor of professional beauty supplies, with more than 5,000 company stores and ten distribution centers world-wide and with revenues of \$3.8 billion dollars annually. Sally Beauty is one of Denton's top 10 private employers, with close to 1,000 full-time employees based in Denton; the company also manages 27,000 employees worldwide. The company is involved in the Denton community, supporting the American Heart Association's Go Red for Women, Giving HOPE, Inc., the Denton Community Food Center, and the Denton Chamber of Commerce's Women in Commerce Committee. Sally Beauty also is a founding member of UNT's Global Digital Retailing Research Center.

In 2003, Sally Beauty received a Chapter 380 Program Grant for its international headquarters facility at 3001 Colorado Boulevard. The agreement rebated 40% of the property taxes paid on new valuation created by the construction and equipping of the new facility for a ten-year period. The final tax year of that agreement was 2014. Sally Beauty received a total tax rebate of \$662,730 under that agreement; the return on investment to the City was 198% and 450 jobs were created or retained.

In December 2015, Sally Beauty requested an incentive for an interior remodel of its 3900 Morse Street property to accommodate more employees. They are currently at capacity at their Colorado Boulevard headquarters building and will be transferring 200 employees from that location to the remodeled Morse Street facility, as well as adding 80 new positions that will be housed at Morse Street. The types of positions at Morse Street will include accounting and finance, customer service, credit and collections, ecommerce, and web content. The base salary range for the positons is from \$27,000 to \$150,000.

The project is a complete remodel of the interior office portion of the Morse Street building. The scope of the project includes: new windows; flooring; walls; celling; interior LED lighting; dining area and breakrooms;

data and phone cabling, lobby; HVAC unit and ducting system; roof repairs; electrical upgrades; bathroom updates; parking lot improvements; and landscaping. The estimated total cost of the project is \$7.5 million.

The City of Denton's 2016 Policy for Tax Abatement and Incentives allows for the granting of incentives to "retain existing businesses which propose to improve or redevelop property within the City limits" and to encourage "the expansion/redevelopment of existing businesses that create new or additional professional jobs."

Economic Development, working in conjunction with the City's Legal Department, negotiated a grant agreement with Sally Beauty for a three-year, 50% rebate grant of City ad valorem tax revenue attributable to the improvements at 3900 Morse Street resulting in an increase of assessed value. The agreement includes the condition that the combined assessed valuation of the 3900 Morse Street and the 3001 Colorado Boulevard facilities is at least \$22 million, as determined by the Denton Central Appraisal District. If the assessed value is less, there will be no grant payment during that year. Sally Beauty is required to submit a Certificate of Compliance form to Economic Development annually attesting to and supplying documentation of its investment at the Morse Street property and confirming the minimum \$22 million valuation. Economic Development will verify the information provided by Sally Beauty with the Denton Central Appraisal District and ensure that they have paid their taxes before grant payments are made.

#### **PRIOR ACTION/REVIEW (Council, Boards, Commissions)**

March 9, 2016 - The Economic Development Partnership Board recommended approval of a three-year, 50% rebate grant of City ad valorem tax revenue attributable to the improvements at 3900 Morse Street resulting in an increase of assessed value (8-0).

#### **FISCAL INFORMATION**

If funded, Sally Beauty will invest \$4.4 million in building improvements and \$2.6 million in equipment. Site and other improvements are estimated at half a million for a total investment of \$7.5 million. During the three-year term, the City would rebate 50% of property tax revenues on the building/improvements and equipment to Sally Beauty, for an estimated total incentive of \$72,714 (\$24,238 per year).

##### **Sally Beauty Valuation Estimate for Morse Property**

Project	Current Eligible Valuation	Estimated Increase in Valuation	Estimated New Valuation*	Annual Tax Revenue from Increased Valuation	Total Tax Revenue Estimate
Land (R139812, R82161, R82152)	\$1,281,815	\$0	\$1,281,815	\$0	\$8,841
Improvements (R139812)	\$4,020,437	\$4,428,000	\$8,448,437	\$30,542	\$58,273
BPP (900732)	\$2,877,907	\$2,600,000	\$5,477,907	\$17,934	\$37,784
<b>Total Valuation</b>	<b>\$8,180,159</b>	<b>\$7,028,000</b>	<b>\$15,208,159</b>	<b>\$48,476</b>	<b>\$104,898</b>

*\*denotes that the value increase is expected to be less since a significant portion of the improvements are to the interior of the building*

<b>Eligible Annual Tax Revenue</b>	<b>\$48,476</b>
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#### **ECONOMIC IMPACT**

The estimated labor ripple effects were calculated using Jobs EQ software, which provides the indirect and induced jobs generated from the project. Based on the 80 direct jobs that will be created by the renovation, 4 indirect and 21 induced jobs will be generated. The table, definitions and examples are included below.

### **Annual Labor Impact on Office Administration**

	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total Ripple Effects</b>
Employment	80	4	21	105
Multipliers	1.00	0.05	0.26	1.31

*Source: Jobs EQ  
2016 2<sup>nd</sup> Quarter*

- **The direct impact** is the number of jobs directly created by the project. (If a firm with 100 employees moves to a region, the direct employment impact is 100 jobs.)
- **Indirect impact** relates to the jobs generated by regional companies supplying goods and services to the new or newly expanded industry. (A new construction firm may buy lumber from local suppliers, for example.)
- **Induced Impact** is related to the jobs created when new employees from the new or expanded firm spend their wages at local establishments. (A new manufacturing plant may increase sales at a nearby restaurant, which in turn leads the business to hire more employees.)

The estimated sales tax impact is included in the tables that follow. The total annual sales tax impact is estimated to be \$66,690 for the term and \$222,300 over a ten-year period. The sales tax impact formula was created by the University of North Texas' (UNT) Center for Economic Development Research (CEDR).

## Annual Sales Tax Impact

Description	Impact
Employees	105
Average Wage	\$61,905
Annual Payroll	\$6,500,000
<b>Annual Impact</b>	<b>\$22,230</b>

Sales Tax Formula

*Annual payroll x 19% = Discretionary Income*

*Disc. Inc. x 60% = Amount of DI spent in community*

*Community DI x 1.5% = Sales tax generated in community*

*Sales tax generated x 2 (multiplier) = sales tax impact*

## Sales Tax Impact at Term (3-10 years)

Period	Impact
Impact by term (3 years)	\$66,690
Impact (10 years)	\$222,300

The estimated net benefits of the project over a ten-year period are presented in the table below.

## Net Benefits over 10 Years

Description	Amount
Property Taxes Generated	\$412,046
Sales Taxes Generated	\$222,300
Property and Sales Taxes	\$634,346
Incentive	\$72,714
Net Benefits	\$561,632

## STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

**Related Key Focus Area:** Economic Development

**Related Goal:** 3.4 Encourage development, redevelopment, recruitment, and retention

**EXHIBITS**

Exhibit 1 - Sally Beauty Holdings Incentive Application

Exhibit 2 - Ordinance and Economic Development Program Grant Agreement with Sally Beauty Supply LLC

Exhibit 3 - Presentation

Respectfully submitted:

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