



**Request for City Council Committee Action
From the Department of Community Planning & Economic Development**

Date: September 28, 2004

To: Council Member Lisa Goodman, Community Development Cmte

Prepared by: Kent Robbins, Workforce Coordinator- Phone-612-673-5187

Presenter in Committee: Kent Robbins, Workforce Coordinator- Phone-612-673-5187

Approved by: Mike Christenson, Director, Strategic Partnerships _____

Subject: Amendment of Hillcrest Development Business Subsidy Agreement

RECOMMENDATION: The Executive Director recommends that the City Council amend the Hillcrest Development Business Subsidy Agreement to change the effective date of agreement to March 1, 2002 and extend the times for meeting Agreement goals by one year.

Previous Directives: The City Council adopted the City's Living Wage Policy in 1997, and substantially amended and restated it on February 2, 2001 to comply with Business Subsidy Act which the Minnesota Legislature enacted in 1999 and amended in 2000

Financial Impact (Check those that apply)

- No financial impact - or - Action is within current department budget.
(If checked, go directly to next box)
- Action requires an appropriation increase to the Capital Budget
- Action requires an appropriation increase to the Operating Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain):
- Request provided to the Budget Office when provided to the Committee Coordinator

Community Impact (Summarize below)

Ward: Second

Neighborhood Notification: NA

City Goals: NA

Comprehensive Plan: NA

Zoning Code: Na

Living Wage/Job Linkage: Implementation of City's Living Wage Policy and State Business Subsidy Act.

Background/Supporting Information

Hillcrest Development executed a Business Subsidy Agreement with the MCDA on December 17, 2001. The terms of this Agreement stated that the MCDA would grant Hillcrest a business subsidy for improvements to a redevelopment project located at 900 Sixth Avenue Southeast. The subsidy consists of \$1,520,000 in pay-as-you-go tax increment financing generated by the new redevelopment tax increment financing district. (the 900 Sixth Avenue Southeast TIF District) The subsidy was needed because of a gap in the redevelopment project's financing. The public purpose for the subsidy was the creation and retention of jobs and enhancement of economic diversity.

As part of the Agreement, Hillcrest agreed to retain 82 full-time jobs at or above the "living wage" located on the property in an area defined as the Thymes space. Hillcrest also agreed to create 15 new jobs at or above the "living wage" within the first two years after the effective date. (Defined in the Agreement as the closing date of December 17, 2001) They further agreed to create an additional 15 living wage jobs within four years after the effective date.

The Agreement stipulates that if Hillcrest does not meet the above job creation and retention goals, the principal of the Tax Increment Financing note will be reduced by \$13,571 for each job not retained or created.

Hillcrest leased the majority of vacant space in the building to The Thymes Limited company. Thymes is a designer, manufacturer and distributor of bath, body and home care products.

Thymes reported 84 full time living wage jobs on February 16, 2004. Although they had retained 82 living wage jobs stipulated in the Agreement, their measurable job creation goal of 15 jobs was not met. Thymes states in a letter dated February 16, 2004:

"As you are undoubtedly aware, the economy has created a very difficult business environment for many companies and unfortunately, we are not immune from this. Over the past three years(2000-2003) our sales growth has averaged just under 4% annually, compared to 20% each year from 1997-2000. This economy has taken its toll on our customers, vendors and employees and has proven very challenging. In response we deferred many of the growth opportunities we have been evaluation and have sought to protect our core business."

In response to Thymes decision to postpone expansion plans, Hillcrest Development has successfully leased portions of the unused renovated Thymes space to other tenants. Hillcrest is currently attempting to get job hiring data from these additional tenants.

Section 116J.994, Subd. 6. of the State Business Subsidy statute provides that the grantor, (MCDA/CPED) after a public hearing, may extend for up to one year the period for meeting wage and job goals stipulated in the Business Subsidy Agreement.

Staff has informed Hillcrest of this provision and they have requested the one year extension.

Staff is also requesting a change in the effective date of the Agreement. Although staff had initially chosen the subsidy closing date as the effective date of the Agreement, the statute allows the effective date to toll as late as the earlier of (i) when the improvements were finished or (ii) when the Thymes took occupancy. The renovation to allow Thymes to occupy and utilize space in 900 Sixth Avenue Southeast did not occur until the last two weeks of February 2002. Therefore, the effective date of the Agreement should be changed from December 17, 2001 to March 1, 2002.

Staff recommends this extension and also recommends changing the effective date in the Agreement to March 1, 2002.