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Economic Development Proposal

Hanger Orthopedics Group

January 21, 2010

Late Backup

Economic Development Proposal

- The purpose of today's briefing is to present the following:
  - A background of the economic development proposal and timelines for City Council meetings
  - An overview of Hanger Orthopedics Group
  - A review of the economic development matrix criteria and score
  - A summary of the WebLOCI fiscal impact analysis
  - A compilation of the overall benefits from this economic development proposal
  - A review of the proposed economic development agreement

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Economic Development Process

An outline of the City's enhanced process and timeline for economic development proposals

- Information on the economic development proposal, including the proposed economic development agreement, will be posted to the EGRSO website: www.ci.austin.tx.us/redevelopment

- The public will have an opportunity to comment on the economic development proposal as follows:
  - By submitting an online comment through the EGRSO website.
  - At the first City Council meeting where EGRSO staff will provide a briefing on the economic development proposal.
  - At the second City Council meeting where a public hearing will be scheduled for the economic development proposal.

Background

What is being considered and when?

- A proposed economic development agreement between the City of Austin and Hanger Orthopedics Group to relocate its corporate headquarters, create jobs, and make investments in Austin.
- The economic development proposal is being presented over two City Council meetings:
  - January 21, 2010 – At a specially called City Council meeting, EGRSO will provide a briefing on the economic development proposal to the City Council and the public.
  - January 28, 2010 – The economic development proposal will be placed on the City Council regular meeting agenda as a public hearing item and action item.

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Hanger Orthopedics Group

Company overview

- The leading U.S. provider of orthotic and prosthetic (O&P) products whose aim is to help amputees and individuals with disabilities improve their quality of life.
- Founded in 1861, publicly traded, and is currently headquartered in Bethesda, Maryland.
- Company basics:
- Operates a network of 671 patient care centers across the country.
- Comprised of four wholly-owned subsidiaries that serve different segments of the O&P industry:
  - Hanger Prosthetics and Orthotics: Core business of the company
  - Southern Prosthetic Supply: Distributor of O&P products
  - Innovative Neurotronics: Specializes in the development and commercialization of devices
  - Linkia: Specialty healthcare company for O&P management and care

Economic Development Proposal

What criteria and analysis were used?

- Economic Development Matrix as approved by City Council
  - The matrix is a scoring tool that assesses firms using the following five categories of criteria:
    - Overall economic and fiscal impact
    - Linkages to the local economy
    - Infrastructure impact
    - Character of jobs and labor force practices
    - Quality of life and cultural vitality
- WebLOCI fiscal impact analysis as approved by City Council
  - WebLOCI is a tool that over 300 chambers of commerce and local governments use to determine the fiscal impact of an economic development project.
  - Developed in 1999 by the Georgia Institute of Technology

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Economic Development Matrix *

What is the score for this project?

- Hanger scored 85 out of 100
- The score is reflective of the following:
  - Hanger is in the life sciences/ medical devices industry, a targeted and growing industry for Austin.
  - Hanger is the U.S. leading provider in orthotics and prosthetics with innovative devices developed through its research efforts.
  - Hanger seeks to partner with the University of Texas on treatments utilizing the latest biomedical engineering breakthroughs.
  - Hanger offers above average wages, health insurance benefits, and job training for its employees.

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WebLOCI Fiscal Impact Analysis

The financial benefits and costs of this project

- The fiscal impact analysis represents only direct benefits and costs as a result of the project and jobs created.
- Total direct benefits over a 10-year period = $5.97 million
- Total direct costs over a 10-year period = $5.10 million *
- Total net benefit ($5.97 million - $5.10 million) = $870,000 (rounded)

* This cost figure is net cost which includes a performance-based economic development grant of $500,000.

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Overall Benefits

Why is this economic development proposal recommended for approval?

- Corporate headquarters relocation of a life sciences/medical devices targeted industry company
- 133 jobs created in Austin, and potentially up to 250 jobs
- 19 existing jobs retained at Innovative Neurotronics Austin location.
- $6.74 million company investment in leasehold improvements, machinery, equipment, furniture, and fixtures
- Positive financial benefit to the City according to WebLOCI
- A Texas Enterprise Fund economic development grant of $1.5 million will be awarded to Hanger on the condition the City of Austin provides an economic development grant
- Employees of Hanger are offered health insurance benefits, job training, career paths, above-average wages, and other benefits
- Hanger will locate in the Desired Development Zone and adhere to the City's water quality regulations

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Economic Development Agreement

What are the contractual obligations?

Hanger Orthopedics Group – Performance Obligations

- Relocate corporate headquarters to Austin.
- Invest $6.74 million in leasehold improvements, machinery, equipment, furniture and fixtures.
- Create and maintain 133 jobs for years 1-5.
- Create and maintain a minimum of 250 jobs for years 6-10 in order to continue the agreement.
- Retain current 19 jobs at Innovative Neurotronics Austin location.
- Work with local minority chambers of commerce to expand pool of diverse candidates in employment recruitment efforts.
- Develop a supplier diversity policy.
- Comply with the standards and principles of the City's ordinance for minority-owned and women-owned business enterprises ("M/WBE Program Ordinance") in the design and construction of its headquarters facilities. This includes soliciting participation in the design and construction of leasehold improvements.
- Comply with all City Code regulations, including applicable water quality regulations.

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Economic Development Agreement

What are the contractual obligations?

City of Austin – Performance Obligations

- Years 1-10: Provide performance-based economic development grants of $50,000 annually, for a total of $500,000.
- The City is not obligated to make a grant payment for any year in which the City has determined that Hanger has failed to fulfill an obligation or condition applicable to Hanger.

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+ Next Steps

- Today - The public has the opportunity to comment following this briefing.
- January 25th - Online public comments will be transmitted to City Council.
- January 28th - A public hearing will be conducted followed by a City Council vote.

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