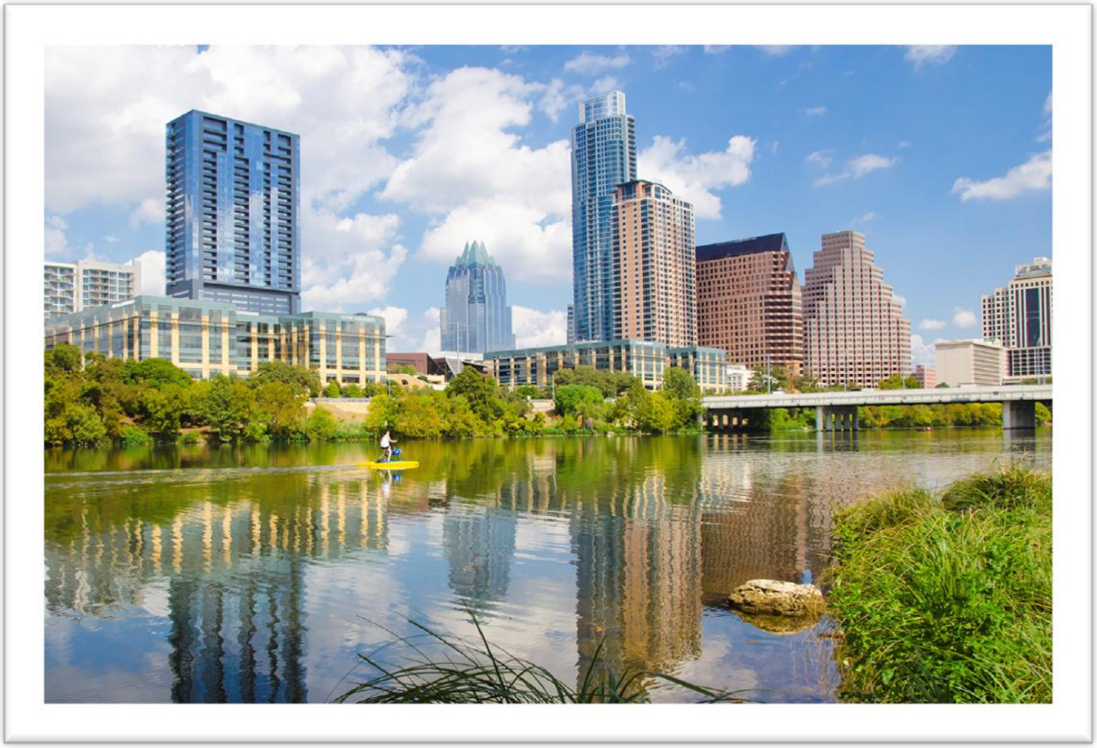

2013 Report and Recommendations on the City of Austin Economic Development Policy

August 30, 2013

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Executive Summary

On May 24, 2012, the Austin City Council created the Council Special Committee on Economic Incentives. The Special Committee was formed to compile findings and report on issues including wage floors, worker safety and training, domestic partner benefits, demonstration of need for an incentive, employee health care benefits, and consideration of hard to hire employees, provision of community space, small business incentives, and fee waivers.

The Special Committee met several times from June 29, 2012 through November 27, 2012. All meetings were posted in accordance with the Open Meetings Act, and the meeting agendas and information presented during the meetings have been posted to a City website created especially for this purpose. On November 27, 2012, the Special Committee approved five motions to propose amendments to the City's Economic Development Policy to the City Council for consideration. Additionally, the Special Committee, by motion, directed the Economic Growth and Redevelopment Services Office (EGRSO) to create an exception process for two of the Special Committee's new, proposed minimum core requirements and to perform other tasks within the realm of administering the City's economic development program.

EGRSO has completed the work requested by the Special Committee, which includes a recommendation for an exception process for two of the Special Committee's proposed minimum core requirements. The summary of this work can be found in Exhibit B, Section 3, Subsection B. EGRSO has also completed its review of best practices research for local hiring requirements both at the baseline and as a bonus. A summary of the best practices research is found in Exhibit E.

EGRSO is proposing an alternate modification to the City's Economic Development Policy (Exhibit C) that blends elements of the Special Committee recommendation with recommendations the EGRSO staff provided to the Special Committee on November 27, 2012.

The EGRSO proposal includes the following:

- Modifications to the Special Committee's two proposed minimum core requirements
- Modifications to the exception process criteria as proposed by the Special Committee
- A cash matching program for companies that invest in a local education/workforce development program or STEM program (Science, Technology, Engineering, and Math)
- A bonus system to retain successful Austin companies that have created significant employment opportunities
- A bonus system to encourage companies to locate closer to the Downtown core

In summary, this report covers a broad range of topics discussed by the Special Committee and stakeholders, including:

- Construction worker minimum pay rates
- Prevailing wage rates
- Local hiring
- Collateral pools and loan guarantee programs
- Owner-controlled insurance programs

This report will be distributed to the City Council, the general public, and to stakeholders who have participated not only in the Special Committee meetings but also the recent EGRSO stakeholder meetings to discuss construction worker minimum pay rates.

Current Economic Development Policy and Program

The City's current economic development policy dates back to the 2002-03 Mayor's Task Force on the Economy. The Task Force developed several recommendations that eventually led to the creation of the City's Economic Development Policy and Program. On June 12, 2003, the Austin City Council, as authorized by Chapter 380 of the Texas Local Government Code, adopted Resolution No. 030612-15 to formally establish an Economic Development Policy and Program in order to promote and foster economic development in the City. EGRSO was created to implement the policy and administer the economic development program.

The Economic Development Policy and Program are intended to be comprehensive in nature and to be of assistance to large and small businesses. Central to the policy was the City Council adoption of the Firm-Based Incentive Matrix on October 28, 2004 that is used to evaluate a company and its project for consideration of economic incentives. The scoring matrix incorporates both minimum criteria and other pertinent areas from which companies are assessed. At a minimum, companies are required to be located in the Desired Development Zone and to comply with environmental regulations in order to be considered for economic incentives. If a company meets both minimum criteria, then EGRSO staff scores the company's business practices and project in the following areas: overall economic and fiscal impact, linkages to the local economy, infrastructure impact, character of jobs and labor force practices, and quality of life and cultural vitality. Depending on the score, the company is then eligible for a varying level of incentives for its project.

The work of the Special Committee is centered on core criteria required of companies in order to receive incentives and the development of an exception process to recognize certain business practices of the company. The next section of this report enumerates the Special Committee proposed amendments that would apply to the Firm-Based Incentive Matrix. At the end of the report are three different forms of the Firm-Based Incentive Matrix representing the following:

- Exhibit A – The current policy Firm-Based Incentive Matrix
- Exhibit B – Proposed amendments from the Special Committee
- Exhibit C – Proposed amendments from EGRSO that blend the Special Committee recommendations with proposals from EGRSO

Proposed Changes to the City's Economic Development Policy as Approved by Motions of the Special Committee

On November 27, 2012, the Special Committee approved five (5) motions to propose amendments to the City's Economic Development Policy and six (6) other motions directing staff in other areas of administering the City's economic development program. The motions are as follows:

Motions to amend the City's Economic Development Policy

1. Shift the economic development policy from an abatement system to a rebate system that is tied to documentation and achievement of targeted goals identified in the economic incentive package.
2. Require that prevailing wages be paid to construction workers.
3. Use the City's Living Wage of $11/hour as a Core Value. A Core Value is meant to be a minimum requirement that becomes part of the evaluation to determine whether or not an economic development agreement proposal is appropriate for Council consideration.
    a. Apply the living wage minimum hourly rate to all jobs, including full time employees, contract employees and contract construction employees.
    b. Create an exception process, with a recommendation from staff as to how to structure this process, which would allow a company, in certain circumstances, to ask for an exception that would be heard at the same time as the final vote for an incentive package.
4. Include domestic partner benefits and health insurance benefits as a Core Value. Utilize the same exception process created in 3.b. above.
5. Change the Threshold for Extraordinary Economic Impact within the Firm-Based Matrix to include the items listed below. Direction was given to staff to blend this motion with a staff recommendation and to bring the finished product back to Council for consideration.
    a. Paying base wages of $11/hour
    b. Meeting or exceeding minority-owned and women-owned (MBE/WBE) goals identified in the Chapter 380 agreement
    c. Creating 10% of jobs that benefit the economically disadvantaged population
    d. Developing a program for recruiting of ex-offenders
    e. Providing domestic partner benefits
    f. Filling 25% of new jobs by City of Austin residents
    g. Paying at least the industry average for new full-time jobs created
    h. Locating in a targeted redevelopment area
    i. Locating within ½ mile of public transit
    j. Obtaining LEED certification silver or above
    k. Creating a WebLOCI net benefit of at least $5,000,000

Motions directing EGRSO to continue other economic development tasks

6. Establish a stakeholder process to consider strategies for mitigating potential impacts from Motion #3 above to subcontractors and attempt to solve the prompt pay issues associated with subcontracting, including the possible requirement to establish a collateral pool.
7. Provide a briefing annually to City Council to discuss targeted industries and how staff goes about determining which industries should be targeted from one year to the next.
8. Make available a series of evaluations made as a function of the firm-based evaluation criteria matrix so that scoring rationale can be seen.
9. Research and provide to Council options as to how hiring of individuals from the City of Austin can be scaled at both the baseline and as a bonus. Further direction was given to seek best practices from other municipalities.
10. Assess the number of local hires by incentivized companies.
11. Make economic development agreement information more accessible.

EGRSO Responses to Motions Approved by the Special Committee

This section contains the EGRSO responses to the aforementioned motions approved by the Special Committee. As indicated previously, the Special Committee's work and proposed amendments to the City's Economic Development Policy are primarily centered on core requirements within the Firm-Based Incentive Matrix.

Motion #1: Shift the economic development policy from an abatement system to a rebate system that is tied to documentation and achievement of targeted goals identified in the economic incentive package

The current system of economic incentives is entirely performance-based. City Council Resolution No. 030612-15, which created the City's current Economic Development Policy, discourages up-front City expenditures for economic development incentives. This policy is implemented through the use of performance-based economic incentive agreements, which require that a company demonstrate, on an annual basis, that it has met all contractual obligations before property taxes are rebated or economic grants are provided. Embedded within this performance-based process is an annual compliance review conducted by EGRSO that is verified by an independent third-party, which is another component of the City's Economic Development Policy adopted by City Council. If EGRSO determines that a company has not complied with its contractual obligations for a given year, then incentives are not paid for that applicable year. All agreements, compliance reviews, independent third-party reviews, and payments to incentivized companies are posted on the EGRSO website.

Motion #2: Require that prevailing wages be paid to construction workers

This proposed amendment would add a new minimum core requirement to the Firm-Based Incentive Matrix that must be achieved by the company in order to be considered for economic incentives. If a company does not agree to pay prevailing wages to construction workers, then it could not be considered for economic incentives. This recommendation of the Special Committee is provided for in Exhibit B.

EGRSO Recommendation: Require Either Prevailing Wage or Living Wage, But Not Both, be Paid to Construction Workers

Further in this report under Motion #6, there is a summary of stakeholder concerns regarding the impacts associated with requiring prevailing wage rates and an $11 per hour construction worker wage floor. EGRSO convened stakeholder meetings as requested by the Special Committee to consider strategies to mitigate impacts associated with a wage floor. From those meetings, stakeholders recommended against establishing a wage floor for construction workers. Stakeholders agreed that Davis-Bacon prevailing wage rates should be used if City Council ultimately establishes a construction worker wage floor. The reasoning for the stakeholders' recommendation is further elaborated within the Motion #6 discussion later in this report.

EGRSO recommends project case studies be performed to confirm information for or against establishing an $11 per hour construction worker wage floor minimum. Data on issues such as compression of wage rates, monitoring and recordkeeping, and labor cost increases can be gathered through such case studies. However, in order to develop case studies, EGRSO recommends that Chapter 380 incentivized companies be required to pay either prevailing wage or a minimum $11 per hour construction worker wage floor, but not both. Providing two options would allow companies an opportunity to ascertain costs and benefits for implementing either option and then to draw their own conclusion for which to choose. In keeping with the Special Committee, there would not be an exception process for this new requirement. And, through the Contract Management Department, which would monitor and report on compliance for this requirement, EGRSO can develop case study information for a future revisit of this requirement.

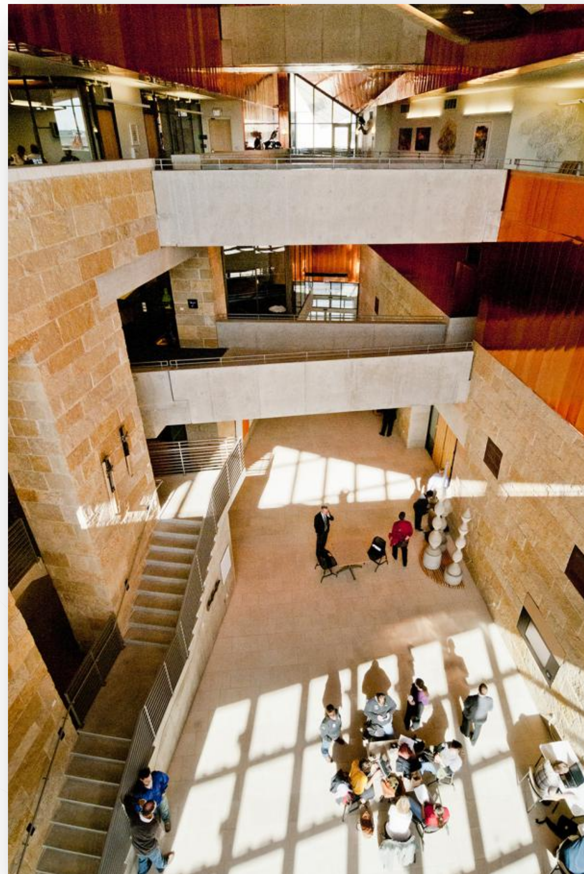
Motions #3 and #4: Proposed amendments to the Firm-Based Incentive Matrix minimum criteria

Motions #3, and #4 also contain proposed amendments that would set new minimum core requirements that must be achieved by the company in order for economic incentives to be considered. The proposed new minimum core requirements include:

- Using the City's Living Wage of $11/hour minimum as a core value by requiring companies to pay full-time employees, contract employees, and contract construction employees to pay this minimum hourly rate; and
- Including domestic partner benefits and health insurance benefits as a core value.

The distinction between these motions and motion #2 is that the Special Committee requested an EGRSO recommendation for creating an exception process for the two proposed minimum core requirements described above. As requested, EGRSO has developed a proposed exception process. The proposed exception process is contained in Exhibit B, Section 3, Subsection B and includes provisions whereby one or both of the two proposed minimum core requirements may be waived.

Motion #5: Change the Threshold for Extraordinary Economic Impact within the Firm-Based Matrix to include other items



The Threshold for Extraordinary Economic Impact has been used within the Firm-Based Incentive Matrix as a means for providing additional economic incentives for significant economic development projects. Currently, if a company meets one of the four criteria within this section of the matrix, then the company is eligible for an economic incentive of up to 100% of the property tax generated by the project (see Exhibit A, Section 3 and Section 4). Current threshold criteria include these four items:

- The firm is in a targeted industry;
- The firm is involved in leading edge technology;
- State economic development funds are available for the firm; or
- The firm will generate 500 jobs or more.

The threshold criteria allow flexibility for various economic incentive options to be considered for projects that have an extraordinary economic impact. The flexibility allows Austin to remain competitive for highly sought after projects. Examples of prior significant economic development projects include Samsung and Apple. In both cases, the Austin City Council approved 100% property tax rebates for a prescribed number of initial years.

EGRSO Recommendation: Maintain Flexibility for Extraordinary Economic Impact Projects

EGRSO recommends the four original threshold criteria remain in place as “Subsection A” of the “Section 3: Threshold for Extraordinary Economic Impact” portion of the Firm-Based Incentive Matrix. EGRSO recommends that a separate “Subsection B” be developed for the exception process to the new criteria proposed by the Special Committee. By segregating the Subsection A extraordinary economic impact criteria from the Subsection B exception process criteria, the original intent of flexibility is maintained.

Special Committee Recommendation: Add to the Extraordinary Impact Criteria

The Special Committee recommended the following 11 items as criteria, which EGRSO incorporated into an exception process contained in Exhibit B, Section 3, Subsection B:

- Paying base wages of $11/hour
- Meeting or exceeding minority-owned and women-owned (MBE/WBE) goals identified in the Chapter 380 agreement
- Creating 10% of jobs that benefit the economically disadvantaged population
- Developing a program for recruiting of ex-offenders
- Providing domestic partner benefits
- Filling 25% of new jobs by City of Austin residents
- Paying at least the industry average for new full-time jobs created
- Locating in a targeted redevelopment area
- Locating within ½ mile of public transit
- Obtaining LEED certification silver or above
- Creating a WebLOCI net benefit of at least $5,000,000

With regard to Exhibit B (the Special Committee recommendation), EGRSO recommends the following exception process:

- If at least four (4) thresholds in Subsection B are met, then either the $11/hour core requirement or the health insurance core requirement can be waived.
- If at least six (6) thresholds in Subsection B are met, then both the $11/hour core requirement and the health insurance core requirement can be waived.

EGRSO Recommendation: Define Economically Disadvantage Population

For clarification purposes, EGRSO recommends “economically disadvantaged population” be defined as a person whom meets one of the following descriptions:

- Is unemployed for at least three months before obtaining employment with the company;
- Has a household income of less than 80% of the area median income;
- Resides in a census tract with a rate of unemployment in excess of 150% of the Austin-MSA unemployment rate; or
- Faces or has overcome at least one of the following barriers to employment:
    - Being homeless
    - Being a custodial single parent
    - Receiving public assistance
    - Lacking a GED or high school diploma
    - Participation in a vocational English as a second language program
    - Having a criminal record or other involvement in the criminal justice system
    - Has a physical or mental disability

EGRSO Recommendation: Modify the Criteria Proposed by the Special Committee

The EGRSO proposal contained in Exhibit C differs from the Special Committee recommendation by reducing and modifying the Subsection B exception process criteria to nine (9) items as follows:

- Paying base wages of $11/hour to full time employees and contract employees
- Creating 10% of jobs that benefit the economically disadvantaged population by year three of the agreement
- Developing a program for recruiting of ex-offenders
- Providing domestic partner benefits
- Locating in a high frequency transit corridor or targeted redevelopment area, including transit-oriented developments
- Selecting a location that is within 1 mile of public transit that has a safe pedestrian or bicycle route to the transit
- Developing a program to encourage employees to use alternative transportation modes through such practices as Transportation Demand Management which includes car pooling, flex time work schedules, and subsidizing transit costs for employees
- Committing to pursue LEED certification silver or above
- Creating a WebLOCI net benefit of at least $5,000,000

The exception process for the EGRSO proposal (Exhibit C) of Subsection B would be as follows:

- If at least three (3) thresholds in Subsection B are met, then either the $11/hour core requirement or the health insurance core requirement can be waived.
- If at least four (4) thresholds in Subsection B are met, then both the $11/hour core requirement and the health insurance core requirement can be waived.

Description of Eliminated Criteria

The Special Committee proposed criterion, “Meeting or exceeding Minority-owned and women-owned (MBE/WBE) goals identified in the Chapter 380 agreement”, is already a requirement of Chapter 380 agreements and therefore should not be allowed as an exception for meeting new core requirements.

EGRSO proposes eliminating the Special Committee proposed criterion, “Filling 25% of new jobs by City of Austin residents”, and instead recommends two proposals that will increase local hiring opportunities. The proposals are as follows:

- A cash matching program for companies that invest in a local education/workforce development program or STEM program
- A bonus system that focuses on a company’s location

More information on the above proposals is contained under the Motion #9 and #10 discussion.

EGRSO proposes eliminating the Special Committee proposed criterion, “Paying at least the industry average for new full-time jobs created”. Occupational wage averages change from location to location across the U.S. and on an annual basis. Monitoring of this will be time-intensive and costly for both the company and the City, akin to the City’s current process for monitoring prevailing wage rates. The Firm-Based Incentive Matrix contains criteria regarding industry wage averages that are used to score companies in this regard. The two current criteria are as follows: “What is the average wage paid?” and “How does it compare to the local or national industry average?” It is to a company’s benefit to pay good wages because the disposable income of employees is a factor that leads to the net fiscal benefit analysis as computed by WebLOCI.

EGRSO Recommendation: Bonus System to Retain Successful Austin Companies

Recently, the City Council approved an agreement with National Instruments to invest over $80 million in new office facilities and create 1,000 new jobs that pay an average wage of $75,913. This was the second time in recent history that a locally grown company received economic incentives. Austin competed with Penang, Malaysia for National Instruments’ business investment and job creation. EGRSO recommends a Homegrown Success Bonus system be added to the Firm-Based Incentive Matrix that provides an additional economic incentive for successful major employers. Companies located in the Austin region for 10 or more years that employ more than 500 full-time workers would be eligible for this bonus. The Homegrown Success Bonus recommendation can be found in Exhibit C, Section 4.

Motion #6: Establish a stakeholder process to consider strategies for mitigating potential impacts from Motion #3 to subcontractors and attempt to solve the prompt pay issues associated with subcontracting, including the possible requirement to establish a collateral pool

Motion #3 of the Special Committee proposes the establishment of an $11.00 per hour wage floor for all full time employees, contract employees, and contract construction employees. At the November 27, 2012 Special Committee meeting, members of the minority contractors associations raised concerns about the impact that an $11.00 per hour wage floor for contract construction employees would have upon small construction businesses that may subcontract on the affected projects. In response, the Special Committee directed EGRSO to conduct a stakeholder process to consider strategies for mitigating potential impacts from a wage floor.

Stakeholder Process and Participants

On March 26, 2013, EGRSO initiated the stakeholder process to identify the potential impact on local contractors and to develop proposals for mitigating the negative impacts. Stakeholder meetings were held April 3, 2013 and May 1, 2013 at City Hall.

Participating community stakeholders included:

- David Ford, Associated Builders & Contractors Association
- Frank Fuentes, US Hispanic Contractors Association de Austin
- Juan Oyervides, US Hispanic Contractors Association de Austin
- J. Edward Lowenberg, Chair, Small Business & MBEWBE Advisory Committee
- Paul Saldana, Minority Trade Association Alliance
- Michele Yule, Austin Contractors & Engineers Association
- Dave Porter, Greater Austin Chamber of Commerce
- Jeremy Martin, Greater Austin Chamber of Commerce
- Tina Cannon, Austin Gay & Lesbian Chamber of Commerce
- Andy Martinez, Greater Austin Hispanic Chamber of Commerce
- Antonia Warren, Greater Austin Hispanic Chamber of Commerce
- Natalie Cofield, Capital City African American Chamber of Commerce

In addition to EGRSO, representatives from other City departments attended the meetings, including:

- Contract Management Department: Rosie Truelove and Rolando Fernandez
- Human Resources Department: Tommy Tucker, Leslie Milvo, Carol Vance
- Law Department: Jacqueline Cullom
- Budget Office: Jamie Atkinson
- Small and Minority Business Resources Department: Veronica Lara and Debra Dibble

Impacts Identified by Stakeholders

The stakeholders identified the following impacts expected of an $11.00 per hour wage floor for contract construction employees:

1. A wage increase for lower-skilled workers will cause the more highly skilled workers to demand a proportionate increase in pay for their services. This will result in significantly higher wage costs at all skill levels, not just workers currently making less than $11.00 per hour.
2. Payroll taxes, workers compensation insurance and fringe benefit costs are based on a percentage of wages paid, so an increase in wages will cause a proportionate increase in payroll-related costs.
3. The certified payroll required to verify wage floor compliance will cause significantly higher administrative and accounting costs.
4. Smaller companies are less able to absorb the up-front costs of higher wages and will have to seek higher-risk, more expensive financing. Smaller companies will have to submit higher bids to cover the increased costs, resulting in less competitive bids for economic incentive construction jobs.
5. Small companies that cannot qualify for interim financing to cover the higher project costs until completion will not be able to compete for economic incentive related jobs.

Stakeholder Recommendation: Do Not Implement a Wage Floor

The stakeholders unanimously concluded that the $11.00 per hour wage floor for contract construction employees would negatively impact the competitiveness and economic viability of small construction businesses, and several members voiced concerns about the policy's impact on Austin's competitiveness in recruiting corporate locations and expansions. After discussing various alternatives, the stakeholders made the following recommendations, in order of preference:

1. Do not implement the $11.00 per hour wage floor policy.
2. If a wage floor policy is to be implemented, apply the Davis-Bacon prevailing wage scale maintained by the U.S. Department of Labor which establishes a prevailing wage for each construction employee category.
3. If the $11.00 per hour wage floor is implemented:
   a. Establish a City-funded loan guarantee program to enable local contractors to secure private financing. Under this program, the City would identify funding for a collateral pool that would guarantee repayment of contractors' loans to private lenders.

b. Offer additional incentives to encourage Chapter 380 recipients to contract with companies that pay construction workers a minimum $11 per hour. This arrangement would be voluntary and would encourage Chapter 380 recipients to accept higher construction bids in exchange for lower tax costs.

MBE/WBE Small Business Procurement Program Advisory Committee Recommendation: Implement the Prevailing Wage Scale for Construction Workers and Not the Living Wage

On June 4, 2013, the MBE/WBE Small Business Procurement Program Advisory Committee approved a resolution recommending City Council consider the following:

- The City should not implement the proposed $11.00 per hour minimum wage requirement for Chapter 380 agreements; and
- The City should implement the Davis-Bacon prevailing wage scale established by the Department of Labor as the wage requirement for Chapter 380 agreements, rather than the proposed $11.00 per hour minimum

EGRSO Recommendation: Require Either Prevailing Wage or Living Wage, But Not Both

EGRSO recommends that companies receiving incentives under the Chapter 380 program be required to pay either prevailing wage or a minimum $11 per hour construction worker wage floor, but not both. Prevailing wages, if selected by the company, should conform to the Davis-Bacon prevailing wage scale. Information EGRSO has received regarding the impact of prevailing wage and living wage requirement is conflicting and lacks a confirmed analysis. Through case studies using this requirement, EGRSO and the Contract Management Department will perform such an analysis by monitoring and reporting on the impact associated with implementing each requirement. This information can be used for future discussion of these requirements.

Providing two options would allow companies an opportunity to ascertain costs and benefits for implementing either option and then to draw their own conclusion for which to choose. In keeping with the Special Committee recommendation, there would not be an exception process for this new requirement.

EGRSO Recommendation: Do Not Implement a Collateral Pool Program or Loan Guarantee Program

A collateral program would require the City of Austin to identify and make a cash deposit into a lending bank that would be used to collateralize a small construction business loan. For example, a business loan of $1 million that is 50% collateralized would require the City to make a cash deposit of $500,000. In the event the business defaulted on the collateralized loan, the lender would have the right to withdrawal as much of the City cash deposit as needed to cover any unpaid principal balance.

A loan guarantee program operates in the same manner as a collateral program but the City is not required to make a cash deposit with a lending bank. However, because of the obligation that is established through a loan guarantee, the City, as a matter of financial practice, should set aside the cash equivalent of the outstanding loan guarantee as an unreserved asset of the City that could not be obligated for any other purpose for the outstanding balance of the loan. For example, if the City guaranteed 50% of a $1 million loan, then the City should set aside $500,000 cash as an unreserved asset for the duration of the loan. In the event the business defaulted on the guaranteed loan, the City would be contractually obligated to pay the lending bank the remaining unpaid principal balance up to the amount of the loan guarantee.

The City can establish either a collateral pool program or a loan guarantee program if a public purpose is identified. However, the primary challenge for setting up either program is the identification of cash or assets to establish a collateral pool or to fund a loan guarantee program. Another challenge is the lack of City resources to engage in the required credit analysis to assess a borrower’s request for collateral or a loan guarantee. Similar to the credit analysis and financial soundness standards that lending banks use, the City would need to engage in the same type of analysis and develop standards that provide the City with a reasonable assurance that a borrower will repay a loan that is collateralized or guaranteed by the City.

Additionally, the City's existing approval processes do not facilitate the expediency for collateralization or loan guarantee transactions. In each case, the transaction requires credit analysis, department approval, negotiation of terms, management approval, and final City Council approval. Lending banks and community lenders engage and complete these transactions at a faster pace, which allows small construction businesses to bid and get started on their particular project in the time required.

Regarding the use of a collateral pool, the stakeholders' committee did not specify a source of funding. However, two of the stakeholders expressed an opinion that funding could be provided by savings resulting from the City's rolling owner-controlled insurance program (ROCIP). ROCIP is funded by the proceeds of voter-approved bonds issued for City Capital Improvement Program (CIP) projects. A recent legal opinion from the City's bond counsel states that bond proceeds can only be issued for the purpose for which it was issued, and this opinion is in agreement with prior Legal Department and Budget Office opinions received in 1994 and 2009. Therefore, a collateral pool for private projects using ROCIP funding is not viable.

EGRSO recommends against establishing either a collateral pool or a loan guarantee as a City program. EGRSO's recommendation results from the following:

- Lack of a readily available significant funding source or assets that can be used for either type of program;
- No available resources to engage in the credit analyses required for reviewing loan applications of this volume; and
- Lack of an expedient process to engage in transactions at a fast pace for small construction businesses to bid on projects.

EGRSO Recommendation: Do Not Implement an Owner Controlled Insurance Program

The stakeholder's committee discussed a concept that would require incentive recipients to establish an owner-controlled insurance program (OCIP) for their project. An OCIP is a centrally procured and managed insurance and risk control program implemented for a single construction project or a series of construction projects. Rather than each contractor providing its own insurance and passing this cost to the project owner through the construction contract, the project owner purchases certain lines of insurance (such as general liability, excess liability, and workers compensation) to cover most of the contractors on a job site. OCIP's are often used by the public sector to achieve cost savings for multi-million, long-term capital improvement projects. Project owners achieve cost savings through reducing duplicative costs for insurance and through negotiating clout achieved by combining multiple insurance programs into one. Sophisticated project owners who engage in multiple construction contracts and are equipped to engage in the insurance procurement, risk control, claims management, loss prevention, and daily management of OCIP's will use this tool to achieve costs savings.

The stakeholder's committee did not approve this recommendation. As well, EGRSO does not recommend mandating a company to implement an OCIP as a condition of economic incentive. Companies who are keenly aware of the benefits of OCIP's and positioned to engage in managing such a program should implement an OCIP without a mandate.

Motion #7: Provide a briefing annually to City Council to discuss targeted industries and how staff goes about determining which industries should be targeted from one year to the next

On January 17 of this year, both EGRSO and the Greater Austin Chamber of Commerce presented this information publicly during the Austin City Council meeting. This practice will continue annually.

Motion #8: Make available a series of evaluations made as a function of the firm-based evaluation criteria matrix so that scoring rationale can be seen

A spreadsheet has been developed that provides this information and is attached as Exhibit D to this report. The spreadsheet will be placed on the EGRSO website.

Motions #9 and #10: Research and provide to Council options as to how hiring of individuals from the City of Austin can be achieved and assess the number of local hires by incentivized companies

The Special Committee discussions for these two motions centered on whether a local hiring requirement should be mandated as a requirement for obtaining an economic development incentive. Through Motions #9 and #10, the Special Committee instructed EGRSO to do the following:

- Research and provide to Council options as to how hiring of individuals from the City of Austin can be scaled at both the baseline and as a bonus. Further direction was given to seek best practices from other municipalities; and
- Assess the number of local hires by incentivized companies.

EGRSO surveyed 11 companies with active economic development agreements and received nine responses. On average, the labor force of these nine companies is comprised of 61% Austin residents. The percentage of Austin residents employed by these nine companies ranged from 49% to 96%. Seven of the nine responding companies reported that more than 60% of their labor force is comprised of Austin residents. The company with the highest local hiring percentage, 96%, is located in Downtown Austin.

EGRSO conducted further research on local hiring, including best practices from other municipalities, with the assistance of the International Economic Development Council (IEDC), which is the world's largest economic development association. The research is provided as Exhibit E to this report. The findings do not support a residency mandate. The current 61% average of local residents hired by companies is higher than any threshold requirement or goal for local hiring programs identified in the best practices research.

A residency requirement presents challenges in several forms. Specifically, companies can be put into a situation of making hiring decisions based on residency rather than goals for diversity and/or talent. With regard to diversity, a local hiring requirement could present legal challenges to companies for adhering to Equal Opportunity laws. Additionally, Austin is experiencing a trend of gentrification that has resulted in minorities moving to adjacent cities and unincorporated areas of Travis County to seek affordable housing. Unfortunately, this flight from Austin to seek affordable housing is not translating to personal financial gains from suburban living. Rather, a recent article by the Austin American-Statesman (Poverty Takes Root in Austin's Suburbs – May 20, 2013) shows that Austin's suburban poor population has surged 143% from 2000 to 2011 totaling 103,248 and resulting in Austin having the second highest ranking percentage growth of suburban poverty in the country. These former Austinites would be disadvantaged for seeking employment with a company that has a mandated local hiring requirement.

The increases in suburban poverty are documented through case studies and research performed by Elizabeth Kneebone and Alan Berube as published in their book, *Confronting Suburban Poverty in America*. Both Kneebone and Berube are fellows of the Brookings Institute Metropolitan Policy Program. Data from their research, including the data cited by the American-Statesman article above can be found on their website: confrontingsuburbanpoverty.org.

EGRSO Recommendation: Use a Bonus System to Reward Business Locations that Foster Local Hiring

EGRSO recommends a bonus system that focuses on the company's location rather than a mandate for local hiring. The bonus system would provide an additional economic incentive for those companies locating in close proximity to the Downtown core. The bonus system is shown in Exhibit C and provides varying incentives for 5-mile radius and 7-mile radius surrounding the Downtown core. As depicted in Exhibit F, eight (8) current incentivized agreements are located more than seven (7) miles from the Downtown core.

EGRSO Recommendation: Use Existing Chamber Contracts to Increase Local Hiring

Additionally, at the next opportunity for contract scope changes, EGRSO will require that its chamber of commerce partners establish job portals within their websites for the purpose of posting job openings for companies that receive economic incentives. Chamber of commerce partners would be required to market the job portals, track the number of annual job postings, number of website visits, and/or other metrics that demonstrate that the job portal is used by local job seekers.

EGRSO Recommendation: Cash Matching Program to Bolster Local Talent Supply

EGRSO proposes a cash matching program for companies that invest in a local education/workforce development program or STEM program. The outcome would be that the combined investment would bolster local programs that educate and train the local workforce for new jobs and encourage youth to seek degree programs related to STEM careers. The company would contract directly with a local program. Then, as part of the annual performance-based economic incentive, the City would rebate one-half the cost up to $25,000 per year.

Local STEM programs and workforce development programs develop a local pipeline of talent and increase the likelihood for local residents being hired without the use of mandates or quotas. The recent economic incentives agreement with National Instruments provides an example of how this requirement would work. Within the agreement, National Instruments committed to continuing its local STEM outreach program efforts at existing or expanded levels, including providing services to 1,000 students each year. By engaging in these efforts, National Instruments makes investments in its future workforce and the City of Austin stands to gain increases to its educated populace.

There is a growing national discussion on the importance of STEM education programs that lead students to choosing STEM-related careers. Included in this discussion is an understanding that more jobs and higher-paying jobs include a STEM component, minorities and females are underrepresented in STEM careers, and the country's economic competitiveness could suffer by ignoring the need to increase the number of STEM-qualified workers.

A recent Brookings Institute report titled, “The Hidden STEM Economy,” identified the following:

- STEM-related jobs are no longer limited to white-collar workers, but rather are available in significant quantities to the blue-collar worker as well.
- Half of the country’s 26 million STEM jobs do not require a four-year degree. Instead, millions of STEM jobs can be obtained through less expensive means such as attending technical high schools and community colleges.
- STEM jobs pay more than non-STEM jobs. In Austin, a STEM job that requires an associate’s degree or less pays $52,562 per year as compared to $32,615 for a non-STEM job.
- Blue-collar STEM jobs can lower income inequality in regions.
- More attention needs to be paid in elementary and high schools about the opportunities afforded through STEM jobs. Greater focus needs to be paid to showing students career paths that lead to STEM jobs.
- The Austin region has a small percentage of blue-collar STEM jobs and ranks 68th out of the top 100 U.S. metropolitan areas.

In February 2013, U.S. News, STEMConnector, and the University of Phoenix convened a roundtable of key stakeholders to exchange best practices to develop and retain a STEM workforce, generate greater employer awareness of STEM talent development, and advance public policy to solve the STEM workforce challenge. The roundtable report titled, “Growing a STEM Workforce: Strategies to Meet Industry Talent Needs,” included the following societal findings:

- Women and minorities comprise 70% of college students, yet earn only 45% of STEM degrees.
- Blacks and Latinos make up about 28% of the U.S. population, but represent only 7% of the U.S. STEM workforce.
- There is a lack of awareness of educational pathways and career opportunities for those drawn to STEM, due to a dearth of mentors and role models (particularly for women and minorities).

For the above reasons, EGRSO is making efforts to increase awareness and participation in local STEM programs, with a particular focus for reaching out to minority and female students. EGRSO will engage stakeholders, including local chambers of commerce, to discuss the findings from the above reports and begin identifying how to utilize existing partnerships and contracts to advance Austin’s competitive position for blue-collar and white-collar STEM jobs and how to increase minority and female student participation in STEM programs.

Motion #11: Make economic development agreement information more accessible

EGRSO has modified the economic development agreement information posted to its website in order to make the information more clear and accessible. Recently, the City of Austin received a perfect score of 100 for its online transparency of economic development incentives according to a May 2013 report published by Good Jobs First titled, "*Show Us the Local Subsidies*." The Washington, DC-based non-profit research center for economic development accountability evaluated the country's 25 most populous cities and 25 most populous counties to determine best online disclosure practices of local governments. The following excerpt is taken from page 25 of the *"Show Us the Local Subsidies"* report: "Austin's website contains both an easy to read list of subsidy recipients and compliance documents for those recipients. It includes recipient names and current levels of payment on the initial page. Recipient compliance agreements list the total approved subsidy and the term over which the subsidy is to be disbursed. They also list total job requirements and job creation compliance levels to date. Facility addresses are not listed in any of the compliance, audit, or original subsidy ordinance. Disclosure information is easily located and organized in a comprehensive manner. We award extra points for multiple years worth of subsidy information and reporting of additional outcomes such as actual capital investment and wage levels in the compliance documents."

Conclusion

In summary, the recommendations contained in this report are drawn from discussions with various stakeholders and research of best practices. Austin's practice of utilizing economic development incentives to bolster the local economy, create quality jobs that pay good wages with valuable benefits that in turn reduce public subsidies, generate contracting opportunities for minorities and women-owned businesses, and grow Austin's target industries is continued and enhanced through these recommendations.

Requirements to pay either a prevailing wage or $11 per hour, contributing to local workforce development programs, and a bonus system to increase local hiring through company location are evolutions of the City's economic development policy that will further Austin's commitment to judicious use of economic development incentives. The department extends a thank you to all stakeholders who participated in the Special Committee meetings and the recent meetings regarding minimum wage floor. EGRSO looks forward to discussing these recommendations in a future Austin City Council meeting. The professional staff has provided recommendations on the critical areas of (1) City of Austin core value requirements to receive economic incentives; (2) an exception process for certain proposed core value requirements; (3) a bonus system to recognize successful Austin companies; (4) a bonus system to reward business locations closer to the urban core; (5) using existing Chamber contracts to promote job openings locally; (6) using a cash matching program to invest in local education/workforce development program or STEM program; and (7) respecting the demands of recruitment efforts. The City's efforts for using performance-based agreements to create jobs and make significant local investments will be enhanced through the recommendations proposed by EGRSO.

Listing of Exhibits

Exhibit A – Current Policy Firm-Based Incentive Matrix

Exhibit B – Council Special Committee Recommendation

Exhibit C – EGRSO Recommendation

Exhibit D – Recent Evaluations of Incentivized Companies

Exhibit E – Best Practices and Models for Incentivized Local Hiring

Exhibit F – Map Depicting 5-Mile and 7-Mile Radii from Downtown Core

Exhibit A
Current Policy Firm-Based Incentive Matrix

Firm-Based Incentive Matrix					
Project Name:					
SECTION 1. MINIMUM PROJECT REQUIREMENTS					
	The Firm is located in the Desired Development Zone.				
	The Firm conducts its business in compliance with environmental regulations.				
SECTION 2. EVALUATION CRITERIA		**AVAILABLE POINTS**			**TOTAL**
Overall Economic and Fiscal Impact		**Small**	**Medium**	**Large**	
		10	**20**	**30**	
	Relative to its industry, what is the absolute size of the net benefit as measured by: jobs and income, level of desirable public benefits, and net fiscal impact to the City?				
Linkages to the Local Economy		**Poor**	**Acceptable**	**Excellent**	
		0	**15**	**25**	
	Is the firm a recognized targeted industry identified by City of Austin?				
	Is the firm a headquarters operation? Does it represent the "headquarters" of a new product line or service for the firm?				
	Is the firm growing? Is the firm in a growing industry? How stable is the firm?				
	Does the project make use of an especially underutilized asset such as certain segments of the labor force or current office space?				
	Will the project create significant contracting opportunities for local firms including small and disadvantaged businesses?				
	Does the project fill a hole in the Austin economic base?				
	Does the project have the potential to either seed a new cluster or bring additional firms to Austin?				
	Will the firm directly compete for resources with existing firms?				
Infrastructure Impact		**Disproportionate**	**Proportionate**	**Low Impact**	
		0	**5**	**10**	
	Will the firm make a disproportionate demand on the community's infrastructure?				

Character of Jobs/Labor Force Practices		Unacceptable	Acceptable	Excellent	
		0	15	25	
	Will the bulk of new hires be local or imported?				
	What is the average wage paid? How does it compare to the local or national industry average?				
	What is the median wage paid? How are job categories and wages distributed within the overall structure?				
	What training is provided? Opportunities for advancement? Are there funds for additional education?				
	Does the firm actively promote diversity in hiring and promotion?				
Quality of Life/Cultural Vitality		**Unacceptable**	**Acceptable**	**Excellent**	
		0	**5**	**10**	
	Does the firm have a proactive cultural outreach program?				
	Does the firm actively encourage employee volunteer/charitable efforts?				
SECTION 3. THRESHOLD FOR EXTRAORDINARY ECONOMIC IMPACT					
Threshold for Extraordinary Economic Impact (only one required)		**Yes**		**No**	
	* The firm is in a targeted industry.				
	* The firm is involved in leading edge technology.				
	* State economic development funds are available for the firm.				
	* The firm will generate 500 jobs or more.				
TOTAL POSSIBLE POINTS					**100**
TOTAL SCORE					
SECTION 4. SALES TAX AND PROPERTY TAX REBATES					

Investment Threshold Levels

Total combined investments shall not exceed 50% of the present value of the total estimated tax liability over 10 years and investments shall not exceed 80% of the total estimated tax liability in any single year.

Less than 60 points = No additional consideration.

60 to 79 points = Eligible for up to 30% of the present value of sales and property tax for 10 years.

80 points or more = Eligible for up to 50% of the present value of sales and property tax for 10 years.

A firm that meets the threshold for extraordinary economic impact may qualify for an investment of 100% of the present value of the total estimated tax liability over 10 years.

Exhibit B
Council Special Committee Recommendation

Firm-Based Incentive Matrix					
Project Name:					
SECTION 1. MINIMUM PROJECT REQUIREMENTS					
	A. The Firm is located in the Desired Development Zone.				
	B. The Firm conducts its business in compliance with environmental regulations.				
	C. The Firm will pay prevailing wages to contract construction employees.				
	D. The Firm will pay all workers at least $11/hour, including full-time employees, contract employees, and contract construction employees. *Firm may qualify for an exception from this requirement - see Section #3 below.*				
	E. The Firm will provide health insurance benefits for all new full-time employees, including domestic partners. *Firm may qualify for an exemption from this requirement - see Section #3 below.*				
SECTION 2. EVALUATION CRITERIA		**AVAILABLE POINTS**			**TOTAL**
Overall Economic and Fiscal Impact		**Small**	**Medium**	**Large**	
		10	**20**	**30**	
	Relative to its industry, what is the absolute size of the net benefit as measured by: jobs and income, level of desirable public benefits, and net fiscal impact to the City?				
Linkages to the Local Economy		**Poor**	**Acceptable**	**Excellent**	
		0	**15**	**25**	
	Is the Firm a recognized targeted industry identified by City of Austin?				
	Is the firm a headquarters operation? Does it represent the "headquarters" of a new product line or service for the firm?				
	Is the firm growing? Is the firm in a growing industry? How stable is the firm?				
	Does the project make use of an especially underutilized asset such as certain segments of the labor force or current office space?				
	Will the project create significant contracting opportunities for local firms including small and disadvantaged businesses?				
	Does the project fill a hole in the Austin economic base?				
	Does the project have the potential to either seed a new cluster or bring additional firms to Austin?				
	Will the firm directly compete for resources with existing firms?				

Infrastructure Impact		Disproportionate	Proportionate	Low Impact	
		0	5	10	
	Will the firm make a disproportionate demand on the community's infrastructure?				
Character of Jobs/Labor Force Practices		**Unacceptable**	**Acceptable**	**Excellent**	
		0	**15**	**25**	
	Will the bulk of new hires be local or imported?				
	What is the average wage paid? How does it compare to the local or national industry average?				
	What is the median wage paid? How are job categories and wages distributed within the overall structure?				
	What training is provided? Opportunities for advancement? Are there funds for additional education?				
	Does the firm actively promote diversity in hiring and promotion?				
Quality of Life/Cultural Vitality		**Unacceptable**	**Acceptable**	**Excellent**	
		0	**5**	**10**	
	Does the firm have a proactive cultural outreach program?				
	Does the firm actively encourage employee volunteer/charitable efforts?				

SECTION 3. THRESHOLD FOR EXTRAORDINARY ECONOMIC IMPACT AND EXCEPTION PROCESS FOR SECTION 1					
Threshold for Extraordinary Economic Impact		**Yes**		**No**	
Subsection A:	1. The firm is in a targeted industry.				
	2. The firm is involved in leading edge technology.				
	3. State economic development funds are available for the firm.				
	4. The firm will generate 500 jobs or more.				
Threshold for Exception Process for Section #1D and #1E		**Yes**		**No**	
Subsection B:	1. The firm will pay base wages of $11 per hour for new, full-time jobs created by the project.				
	2. The firm will meet or exceed MBE/WBE goals identified in the Chapter 380 agreement.				
	3. 10% of the new full-time jobs created by the project will be filled by economically disadvantaged workers.				
	4. The firm will develop a program for recruiting ex-offenders.				
	5. The firm will provide domestic partner benefits.				
	6. The firm will fill at least 25% of new, full-time jobs with City of Austin residents.				
	7. The firm will pay at least the industry average for all new, full-time jobs created.				
	8. The firm will locate in a targeted redevelopment area.				
	9. The firm will locate within 1/2 mile of public transit.				
	10. The firm will commit to obtaining LEED certification silver or above for the project.				
	11. The project has a WebLOCI-estimated net benefit of $5 million or more.				
	Section #1A, #1B, and #1C Minimum Requirements cannot be waived. At least four of the above thresholds from Section #3B must be met in order to waive Minimum Requirements Section #1D OR #1E (see Section 1). At least six of the above must be met in order to waive BOTH Minimum Requirements Section #1D AND #1E.				
TOTAL POSSIBLE POINTS					**100**
TOTAL SCORE					

SECTION 4. PROPERTY TAX REBATES AND JOBS-BASED GRANTS					
	A firm can receive either a property tax rebate OR a jobs-based grant. The point range below describes the maximum level to be provided. All incentives are performance-based and are not paid up front.				
	General Fund Impact: Property tax rebates will not be provided which result in a Web-LOCI computed net loss for the General Fund. Property tax rebates are for property taxes generated by the Project and will not exceed 100% in any year.				
	Total Points Scored:	**Property Tax Rebate**		**Jobs-Based Grant**	
	Less than 60 points	No Consideration		No Consideration	
	60 to 79 points	Up to 30%		Up to $100/job	
	80 points or more	Up to 50%		Up to $150/job	
	EXTRAORDINARY ECONOMIC IMPACT: A firm that scores at least 60 points AND meets at least one threshold from Section #3A above.	Up to 100%		Up to an Additional $50/job	

Exhibit C
EGRSO Recommendation

Firm-Based Incentive Matrix					
Project Name:					
SECTION 1. MINIMUM PROJECT REQUIREMENT					
	A. The Firm is located in the Desired Development Zone.				
	B. The Firm conducts its business in compliance with environmental regulations.				
	C. The Firm will pay prevailing wages OR $11/hour minimum to contract construction employees.				
	D. The Firm will pay $11/hour for all new, full-time employees and contract employees. *Firm may qualify for an exception from this requirement - see Section #3 below.*				
	E. The Firm will provide health insurance benefits for all new full-time employees, including domestic partners. *Firm may qualify for an exception from this requirement - see Section #3 below.* *This is not required for film, television, and commercial projects for which applicable unions make this insurance available.*				
SECTION 2. EVALUATION CRITERIA		**AVAILABLE POINTS**			**TOTAL**
Overall Economic and Fiscal Impact		**Small**	**Medium**	**Large**	
		10	**20**	**30**	
	Relative to its industry, what is the absolute size of the net benefit as measured by: jobs and income, level of desirable public benefits, and net fiscal impact to the City?				
Linkages to the Local Economy		**Poor**	**Acceptable**	**Excellent**	
		0	**15**	**25**	
	Is the Firm a recognized targeted industry identified by City of Austin?				
	Is the firm a headquarters operation? Does it represent the "headquarters" of a new product line or service for the firm?				
	Is the firm growing? Is the firm in a growing industry? How stable is the firm?				
	Does the project make use of an especially underutilized asset such as certain segments of the labor force or current office space?				
	Will the project create significant contracting opportunities for local firms including small and disadvantaged businesses?				
	Does the project fill a hole in the Austin economic base?				

	Does the project have the potential to either seed a new cluster or bring additional firms to Austin?				
	Will the firm directly compete for resources with existing firms?				
Infrastructure Impact		**Disproportionate**	**Proportionate**	**Low Impact**	
		0	**5**	**10**	
	Will the firm make a disproportionate demand on the community's infrastructure?				
Character of Jobs/Labor Force Practices		**Unacceptable**	**Acceptable**	**Excellent**	
		0	**15**	**25**	
	Will the bulk of new hires be local or imported?				
	What is the average wage paid? How does it compare to the local or national industry average?				
	What is the median wage paid? How are job categories and wages distributed within the overall structure?				
	What training is provided? Opportunities for advancement? Are there funds for additional education?				
	Does the firm actively promote diversity in hiring and promotion?				
Quality of Life/Cultural Vitality		**Unacceptable**	**Acceptable**	**Excellent**	
		0	**5**	**10**	
	Does the firm have a proactive cultural outreach program?				
	Does the firm actively encourage employee volunteer/charitable efforts?				

SECTION 3. THRESHOLD FOR EXTRAORDINARY ECONOMIC IMPACT AND EXCEPTION PROCESS FOR SECTION 1					
Threshold for Extraordinary Economic Impact		**Yes**		**No**	
Subsection A:	1. The firm is in a targeted industry.				
	2. The firm is involved in leading edge technology.				
	3. State economic development funds are available for the firm.				
	4. The firm will generate 500 jobs or more.				
Threshold for Exception Process for Section #1D and #1E		**Yes**		**No**	
Subsection B:	1. The firm will pay base wages of $11 per hour for new, full-time employees and contract employees.				
	2. 10% of the new full-time jobs created by the project will be filled by economically disadvantaged workers by the end of year three of the agreement.				
	3. The firm will develop a program for recruiting ex-offenders.				
	4. The firm will provide domestic partner benefits.				
	5. The firm will locate in a high frequency transit corridor or targeted redevelopment area, including TOD's.				
	6. The firm location is less than 1 mile from transit and has a safe pedestrian or bicycle route to the transit				
	7. The firm will develop a program to encourage employees to use alternative transportation modes through such practices as Transportation Demand Management which includes car pooling, flex time work schedules, and subsidizing transit costs for employees.				
	8. The firm will commit to pursuing LEED certification silver or above for the project.				
	9. The project has a WebLOCI-estimated net benefit of $5 million or more.				
	Section #1A, #1B, and #1C Minimum Requirements cannot be waived. At least three of the above thresholds from Section #3B must be met in order to waive Minimum Requirement Section #1D OR #1E (see Section 1). At least four of the above must be met in order to waive BOTH Minimum Requirements Section #1D AND #1E.				
TOTAL POSSIBLE POINTS					**100**
TOTAL SCORE					

SECTION 4. PROPERTY TAX REBATES AND JOBS-BASED GRANTS		
A firm can receive either a property tax rebate OR a jobs-based grant. The point range below describes the maximum level to be provided. All incentives are performance-based and are not paid up front.		
General Fund Impact: Property tax rebates will not be provided which result in a Web-LOCI computed net loss for the General Fund. Property tax rebates are for property taxes generated by the Project and will not exceed 100% in any year.		
Total Points Scored:	**Property Tax Rebate**	**Jobs-Based Grant**
Less than 60 points	No Consideration	No Consideration
60 to 79 points	Up to 30%	Up to $100/job
80 points or more	Up to 50%	Up to $150/job
EXTRAORDINARY ECONOMIC IMPACT: A firm that scores at least 60 points AND meets at least one threshold from Section #3A above.	Up to 90%	Up to an Additional $50/job
HOMEGROWN SUCCESS BONUS: A firm that has been located in the Austin region for 10 or more years and currently employs more than 500 full-time workers.	10%	Up to an Additional $50/job
7-MILE PROXIMITY BONUS: A firm that locates within a 7-mile radius of Downtown AND the Desired Development Zone. This cannot be combined with the 5-mile proximity bonus.	5%	Up to an Additional $25/job
5-MILE PROXIMITY BONUS: A firm that locates within a 5-mile radius of Downtown AND the Desired Development Zone. This cannot be combined with the 7-mile proximity bonus.	10%	Up to an Additional $50/job

Exhibit D
Recent Evaluations of Incentivized Companies

Company	Hanger	Facebook	LegalZoom	SunPower	eBay	The Advisory Board
Target Sector	Life Sciences, Back-Office, HQ	Technology	Back-Office, Regional HQ	Back-Office	Technology	Software / Convergence Technology
Project Description	HQ and back-office operations	Regional office	Back-office operations	Back-office operations	Technical engineering support office	Software design center
Matrix Scores						
Economic and Fiscal Impact	20	20	20	20	20	20
Linkages to the Local Economy	25	15	25	25	25	15
Infrastructure Impact	10	10	10	10	10	10
Character of Jobs	25	15	15	15	25	25
Quality of Life	5	5	5	10	10	10
Total	85	65	75	80	90	80
WebLOCI Analysis						
Total Benefits	6,020,220	3,365,990	8,117,246	8,499,298	12,422,407	6,486,095
Total Costs (Excluding Incentive)	(4,595,442)	(2,853,759)	(7,354,146)	(6,790,262)	(8,108,612)	(4,706,534)
Gross Benefit	1,424,778	512,231	763,100	1,709,036	4,313,795	1,779,561
Less: Economic Incentive	(500,000)	(199,500)	(200,000)	(901,710)	(1,206,250)	(372,590)
Net Benefits	924,778	312,731	563,100	807,326	3,107,545	1,406,971
Jobs Information						
Total Jobs Created	250	200	600	450	1,000	239
Average Salary of New Positions	97,343	54,000	42,000	70,000	122,576	90,000
Capital Investment Information						
Real Property	-	-	-	-	-	-
Leasehold Improvements	2,114,252	2,250,000	1,000,000	7,500,000	429,822	8,100,000
Machinery and Equipment	1,691,401	900,000	750,000	-	4,410,625	-
Furniture and Fixtures	2,938,682		-	2,500,000	104,204	-
Inventory	-	-	-	-	-	-
Total	6,744,335	3,150,000	1,750,000	10,000,000	4,944,651	8,100,000
Other Information						
State Enterprise Fund Grant	1,500,000	1,400,000	1,000,000	2,500,000	2,800,000	500,000

Company	US Farathane	Apple	HID Global	Visa	Nat'l Instruments
Target Sector	Automotive / Advanced Manufacturing	Software / Convergence Technology	Advanced Manufacturing / Distribution	Softwate / Technology	Technology / Research & Development
Project Description	Manufacturing facility	North American Headquarters	Manufacturing and distribution facilities	Global information technology center	Research and development facility
Matrix Scores					
Economic and Fiscal Impact	20	30	20	30	20
Linkages to the Local Economy	15	25	15	15	25
Infrastructure Impact	10	10	10	10	10
Character of Jobs	15	25	15	25	25
Quality of Life	5	10	5	10	10
Total	65	100	65	90	90
WebLOCI Analysis					
Total Benefits	11,568,222	89,774,021	7,721,064	21,828,939	25,577,531
Total Costs (Excluding Incentive)	(10,896,051)	(66,587,592)	(4,543,318)	(13,408,274)	(16,814,122)
Gross Benefit	672,171	23,186,429	3,177,746	8,420,665	8,763,409
Less: Economic Incentive	(212,696)	(8,612,725)	(920,576)	(1,560,000)	(1,667,575)
Net Benefits	459,475	14,573,704	2,257,170	6,860,665	7,095,834
Jobs Information					
Total Jobs Created	228	3,635	276	794	1,000
Average Salary of New Positions	27,159	63,950	51,569	121,107	72,222
Capital Investment Information					
Real Property	-	250,000,000	30,000,000	-	47,000,000
Leasehold Improvements	2,400,000	-	-	18,653,217	-
Machinery and Equipment	24,500,000	32,500,000	6,000,000	-	23,000,000
Furniture and Fixtures	-	-	-	8,659,701	10,000,000
Inventory	-	-	-	-	-
Total	26,900,000	282,500,000	36,000,000	27,312,918	80,000,000
Other Information					
State Enterprise Fund Grant	-	21,000,000	1,900,000	7,900,000	4,400,000

Exhibit E
Best Practices and Models for Incentivized Local Hiring

The Austin City Council Special Committee on Economic Incentives asked EGRSO to provide best practices and models for incentivized local hiring as well as failed models for comparative purposes. The International Economic Development Council (IEDC) has referred models used by economic development offices around the nation for incentivizing local hires.

Neighborhood Employment Network (NET) – Minneapolis

City/State: Minneapolis, Minneapolis
Year Established: 1981

Efficacy

NET has evolved into a cost effective program thanks in large part to its growing independence from the city's redevelopment agency and widespread community support. It has succeeded where other first source programs have failed due to its emphasis on providing a centralized source of high-quality, local workers who meet the job skills and requirements of participating employers. Hiring and participation are voluntary and compliance monitoring is performed.

Local Hire Requirement

The Neighborhood Employment Network and its affiliates were initially provided leverage through the city's redevelopment agency, which required employers to sign a first source agreement in order to receive financial assistance.

Today, redevelopment financing is not as abundant as during the program's inception, but employers continue to utilize NET to find qualified entry-level workers given the program's success and long-established relationship. Thus, NET no longer relies on requirements placed on employers, but rather is now seen as an effective source of labor supply in an economy with a high demand for labor.

The Neighborhood Employment Network generally targets low-income residents of Minneapolis who face multiple barriers to employment.

Compliance and Monitoring Policy

Compliance in regards to a local hire requirement is not at issue, as the city's redevelopment financing tied to such incentives has waned in favor of the NET program, which is entirely voluntary. By screening employees prior to referral, NET avoids costly and problematic compliance enforcement issues, as employers voluntarily utilize the resource as a means to fill open positions.

Minneapolis continues to maintain strict compliance policies related to its living wage ordinance, which does contain a local hiring requirement. Businesses that receive more than $100,000 of city assistance in a year are required to pay a living wage and hire local residents for at least 60 percent of newly created jobs. In the event of noncompliance, subsidy recipients will be suspended from receiving subsidies, made ineligible for city contracts in the next calendar year, and made liable for underpayment of the living wage requirements if applicable.

Description of Local Hiring Incentives

NET functions as a separate activity of the mayor's office, working with local neighborhood affiliates to link economically disadvantaged people to private job openings. In short, the program depends on its job developers to find job openings, which are then passed quickly to the neighborhood affiliates who recruit and screen potential job candidates.

Delivery System

The City established both a first source program and the Neighborhood Employment Network concurrently in 1981. The first source hiring program has since declined in importance while NET, a non-profit intermediary of community service providers each serving a different low income neighborhood, has filled the void to recruit, screen, and refer candidates directly to employers via its online database.

Emphasis is placed on providing a job screening and referral system that helps employers find quality applicants, which it can consider hiring, as opposed to programs that tie incentives to local hire quotas backed by strict penalties. NET is similar to Portland's JobNet program, but has thrived thanks to widespread local community support, and a mutually beneficial relationship in which employers voluntarily utilize NET's services without the need for monitoring compliance.

Staff Dedicated to Program

A partnership agency works on behalf of the city, employers, and local employees to manage the program's daily operations. Two full-time, dedicated staff maintain the entire job database, known as Job Link. The staff are dedicated to calling employers for job leads and posting the jobs to online listings. NET, which is housed within the Mayor's office, is a nonprofit organization run by a director responsible for the program's day-to-day operations.

Impact

NET has placed on average 1,270 economically disadvantaged people in jobs per year since its inception. 88 percent of placements found full-time jobs, the majority of whom were minority, local residents. Over a 12-year period, a study from 1996 found that NET placed 14% of the city's unemployed into full-time positions.

First Source – Berkeley

City/State: Berkeley, California
Year Established: 1988

Efficacy

Berkeley's First Source program has evolved in a very similar fashion to the Minneapolis NET program. Since its inception, ownership of the program has shifted away from the city's redevelopment agency and toward a centralized system of local workforce development programs, which refer screened, trained, and best-suited employees to the employers who have entered into First Source agreements with the city. Participation in the First Source program is a requirement, but hiring is voluntary and at the sole discretion of the employer. This is a more mutually beneficial arrangement that rewards participation, rather than imposing penalties for noncompliance. No staff is allotted to monitor compliance with the program

Local Hire Requirement

Berkeley utilizes zoning, contracting, and financing provisions as a means to leverage employer participation in its first source, or employee-referral program. However, quota requirements for local hires are not mandated to receive incentives. The program does require participation in its First Source hire program, specifically for any firm working on any public contract of $100,000 or more, developers of any commercial project of 7,500 square feet or greater, and companies applying for a small business loan or housing trust fund money. Participation is required before these projects can receive a zoning permit.

The First Source program is available to every Berkeley resident regardless of socioeconomic or demographic status. However, the program makes a strong effort to target residents from South and West Berkeley, two neighborhoods with the highest levels of unemployed and low-income minority residents.

Compliance and Monitoring Policy

The First Source agreements serve primarily as an intermediary between employers and the local labor force. While the program contains legally enforceable provisions, it does not include formal mechanisms for monitoring performance or imposing penalties for noncompliance. As such, the responsibility of maintaining relationships between First Source employers is left to city staff. The city staff follows up with the employer when jobs are made available.

Berkeley maintains four staff members who work closely with the Office of Economic Development to administer the First Source program. While the city does have the authority to revoke permits and cancel loans if it is determined that employers do not show a good faith effort to hire from the First Source applicant pool, city staff spend a limited amount of time monitoring or enforcing agreements.

To be in compliance with the agreement, employers must interview and consider qualified applicants referred by the first source program before interviewing other candidates or advertising job openings publicly.

The program cooperates with employers to find workers who meet their requirements, as opposed to relying on formal or legal mandates to impose participation. Of the more than one hundred businesses with active First Source agreements in Berkeley, about half of them are voluntary participants.

Description of Local Hiring Incentives

The Berkeley Model incorporates many similar principles as Portland's JobNet Program, though it is still operating. The First Source requirements apply for virtually any city assistance: city financing, city contracts, and city permits. Employers who have directly or indirectly received some assistance from the city agree to consider workers referred through the First Source Program, but hiring is voluntary at the employer's discretion.

Delivery System

First Source primarily draws candidates from a collaboration of 20 local job training and placement agencies serving low-income communities. These providers play a critical role in recruiting and preparing people with little or no skills or work experience to enter the labor market.

First Source ultimately exists to identify and coordinate linkages between academia, training entities, businesses and funding sources. Emphasis is placed on linking workforce development programs that train, screen and refer qualified, local workers to employers participating in the First Source agreement. The City of Berkeley has focused on providing a local employee database that welcomes employer participation in its First Source program rather than quota requirements and imposing penalties for noncompliance. Thus, local hiring is voluntary and at the sole discretion of the employer.

Staff Dedicated to Program

Since the ordinance's inception in 1988, the program has changed drastically as redevelopment financing has waned. In previous years, the First Source program employed four full time equivalent employees dedicated to administering agreements, monitoring the local hire ordinance, and enforcing compliance. The program has no staff dedicated to monitoring verified payrolls to enforce compliance with local hires. Staff has streamlined to include an employment program administrator and administrative staff who oversee employer and contractor participation in its First Source agreements.

Over the years, First Source has transitioned into less of a “program” and more of a tool used by city-funded workforce development programs and are monitored by the employment program administrator.

“In its early days, when funding was flush, four (4) staff operated the program. We leveraged CDBG funds with General Funds while also funding agencies and competing with the agencies for the local jobs, both in construction and end-user jobs. Now, my office processes the agreements, facilitates the connection between the developers and training programs, and requires the training programs to report on referrals and placements into First Source agreement businesses. This latter piece is new. This is the first year with built-in reporting requirements in agency contracts. First Source is a tool to assist in complying with HUD Section 3 requirements and Enterprise Zone job applicant referrals.” *Courtesy of: Delfina Geiken, Employment Program Administrator, City of Berkeley*

Impact

About 250 local hires are made annually through First Source: four-fifths are minorities and three-fifths are low-income workers.

First Source – East Palo Alto

City/State: East Palo Alto, California
Year Established: 2000

Efficacy

Responsibility solely applied to the city's redevelopment agency coupled with waning departmental capacity in order to run the program, have strained East Palo Alto's First Source program since its inception. In contrast to the models practiced in Minneapolis and Berkeley that use positive incentives, East Palo Alto's program mandates local hiring requirements. The program uses quotas and policy language that authorize both legal and fiscal penalties for noncompliance.

Local Hire Requirement

Requires participation in a First Source referral system for all subsidized development. Entities receiving incentives must show that they have filled 30% or more of their positions with local residents in order to be in compliance with the ordinance's safe harbor threshold. The ordinance defines locals as residents of the City of East Palo Alto.

Compliance and Monitoring Policy

The ordinance gives the city a strong degree of authority in dealing with non-compliance, including:

- Pursuing legal action;
- Withholding funds;
- Suspending occupancy permits; and/or
- Declaring the entity ineligible for future public works contracts or redevelopment projects.

Liquidated damages collected for non-compliance are directed to job training initiatives for local residents.

Employers and contractors receiving subsidies are required to submit quarterly reports of local hire activities in order to ensure compliance. Reports are to include: the percentage of available employment gone to residents of East Palo Alto; a short description of each job that has been filled, and whether a resident was hired; updates for each resident hired to ascertain whether that person is still employed; descriptions and numbers of jobs that will become available in the future, and an estimated timetable for availability of said jobs; any difficulties had or complaints in obtaining qualified referrals through First Source.

The Redevelopment Agency monitors compliance with the local hire policy through requests for documentation, site visits, interviews, and review of required reports.

Description of Local Hiring Incentives

The ordinance requires employers to engage fully in the first source referral system by alerting the Redevelopment Agency of upcoming job openings, hiring only from the local resident pool during the first six weeks of initial hire-up and first ten days of hiring for ongoing positions, and filing quarterly reports.

Delivery System

The East Palo Alto model was approved to reduce high unemployment. It is often used as the example for incentivizing local hires via a First Source referral system, which coordinates worker recruitment and screening, liaises with developers and employers, refers workers and supports them as they navigate the hiring process, and links workers with support services that can help them stay on the job.

The redevelopment agency also utilizes ad hoc sources of funding for job readiness and job training services to prepare workers for interviews and employment.

Staff Dedicated to Program

The City's Redevelopment Project Manager serves as a staff coordinator and oversees implementation of the ordinance. A recent report estimated that the project manager in East Palo Alto dedicated 10% of her time on activities associated with the ordinance; duties included enforcing compliance, conducting direct worker recruitments and referrals, and organizing orientation and training sessions for employers regarding the local hire requirements.

The project manager is responsible for direct worker recruitment through a database maintained by the city, and organizes ad hoc orientation and training sessions, particularly targeting new, major development projects.

Impact

On a quarterly basis, the permanent jobs program fills more than 300 positions with local hires, and consistently surpasses the 30% safe harbor threshold. The impact of local hiring requirements in East Palo Alto is attributed largely to strong policy language regarding compliance and monitoring practices that allow the Redevelopment Agency the authority to impose penalties for non-compliance.

JobNet - Portland

City/State: Portland, Oregon
Year Established: 1978
Year Ended: In 1998, JobNet was eliminated due to a lack of strong local neighborhood support, and consequently was consolidated into state-operated workforce development centers.

Efficacy

JobNet and Minneapolis' NET are two programs with similar backgrounds but divergent results. While NET has succeeded thanks to a centralized support system with community support, JobNet was eliminated due to its lack of local support and the subsequent strain placed on the city's redevelopment agency to maintain the program.

Local Hire Requirement

Firms receiving incentives must sign a JobNet agreement, which included built-in stipulations and mutual good faith efforts. The ordinance required participation in the JobNet program, but not that employers hire a set quota of local employees. All residents of Portland, regardless of income status, were eligible for job placement assistance through JobNet.

Compliance and Monitoring Policy

Firms that did not comply with the agreement could encounter sanctions, including the following:

- Repealing tax abatements;
- Recalling loans; or
- Fining firms $25,000 for each worker hired without a good faith effort

Businesses located within Portland's enterprise zone had to demonstrate that a defined percentage of locally hired employees had been retained in their positions for a minimum of two years. Conversely, firms could terminate the contract if JobNet failed to fulfill its end of the agreement.

Description of Local Hiring Incentives

JobNet was the first citywide effort in the U.S. to tie economic development incentives to preferential hiring of city residents, namely targeting its low-income community.

Requirements of JobNet were:

- Make information on covered positions (as defined in individual contracts) available exclusively on JobNet;
- Consider hiring from the pool of candidates referred by JobNet; and
- Provide JobNet with quarterly summaries of its [employer's] hiring activities

Delivery System

The JobNet program worked to control the flow of information by requiring employers to only post "covered positions" – usually entry-level jobs – exclusively through JobNet, thus creating an internal labor market that targeted local, low income populations. After a specified period of time if the job remained unfilled, the employer could release the position to the general public for hire.

Staff Dedicated to Program

JobNet was administered out of the Workforce and Targeted Industries Department housed within the Portland Development Commission (PDC), which is responsible for overseeing the city's economic development, redevelopment, and workforce development projects and programs.

Impact

The requirements were not overly burdensome, and JobNet achieved positive results: hiring on average 700 workers per year.

Exhibit F
Map Depicting 5-Mile and 7-Mile Radii from Downtown Core

The EGRSO proposal for a proximity bonus envisions using a 5-mile radius and 7-mile radius from the Downtown core as the basis for the bonus. The map that follows illustrates the following:

- Existing sites for Chapter 380 agreements
- Transit-oriented development
- Imagine Austin centers, including Regional Centers, Town Centers, and Job Centers, all of which are described below

As show in the map, Facebook and Hanger Orthopedics are located in Regional Centers. And, LegalZoom is located in close proximity to a Regional Center. HID Global is located in the Tech Ridge transit-oriented development (TOD), and U.S. Farathane is located in close proximity to the Tech Ridge TOD. The 5-mile and 7-mile proximity bonus is a tool that will be used to encourage location decisions closer to the Downtown core. The goal in doing so is to facilitate local hiring without the use of mandates or quotas.

The following descriptions were taken from the Imagine Austin comprehensive plan:

Regional Centers

Regional centers are the most urban places in the region. These centers are and will become the retail, cultural, recreational, and entertainment destinations for Central Texas. These are the places where the greatest density of people and jobs and the tallest buildings in the region will be located. The central regional center encompassing Downtown, the University of Texas, the Concordia University redevelopment, and West Campus is the most urban. Regional centers will range in size between approximately 25,000-45,000 people and 5,000-25,000 jobs.

Town Centers

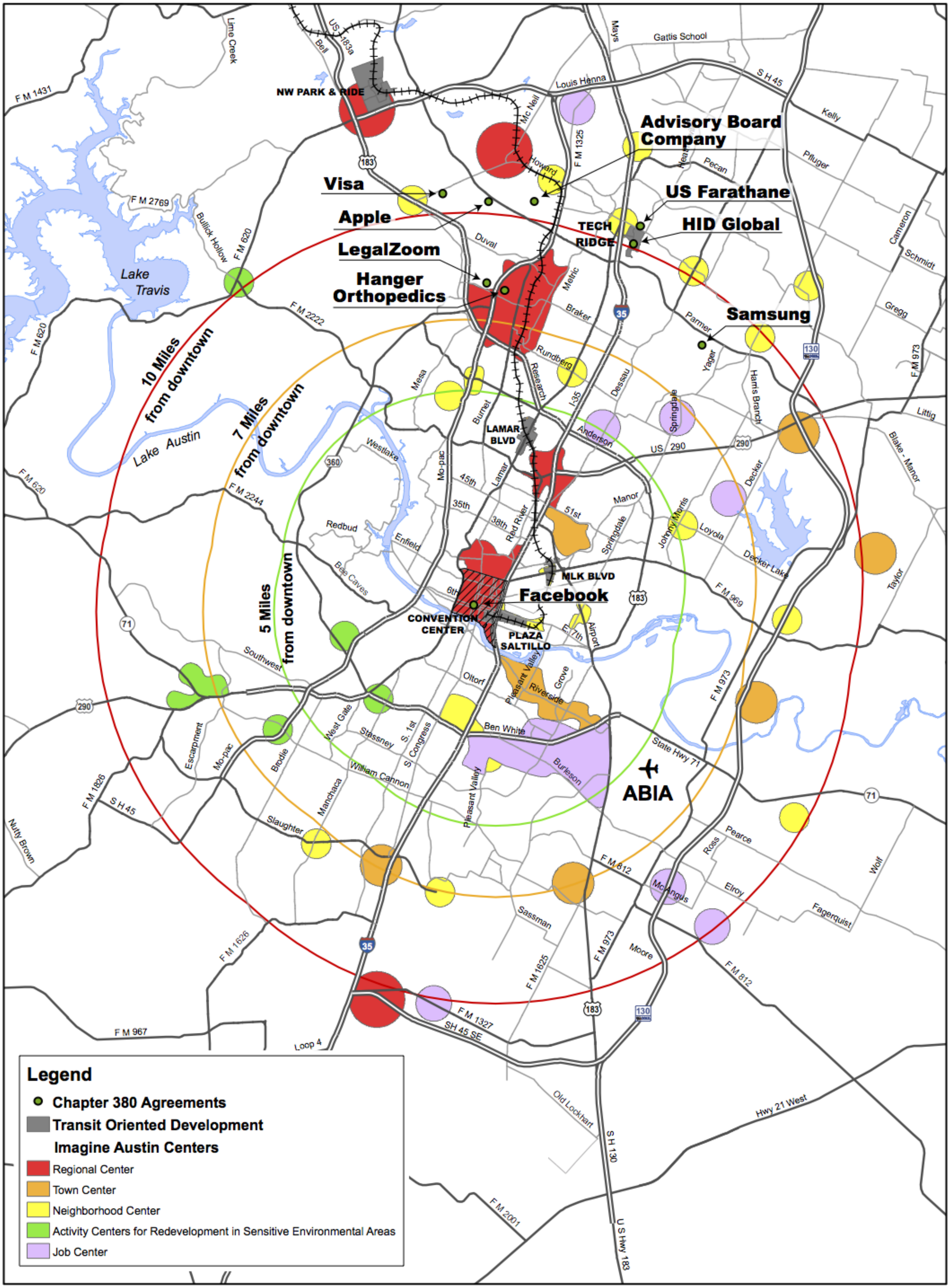
Although less intense than regional centers, town centers are also where many people will live and work. Town centers will have large and small employers, although fewer than in regional centers. These employers will have regional customer and employee bases, and provide goods and services for the center as well as the surrounding areas. These centers will also be important hubs in the transit system. The Mueller redevelopment in Central Austin is an example of an emerging town center. Town centers will range in size between approximately 10,000-30,000 people and 5,000-20,000 jobs.

Neighborhood Centers

The smallest and least intense of the three mixed-use centers are neighborhood centers. As with the regional and town centers, neighborhood centers are walkable, bikable, and supported by transit. Neighborhood centers will be more locally focused than either a regional or a town center. Businesses and services—grocery and department stores, doctors and dentists, shops, branch libraries, dry cleaners, hair salons, schools, restaurants, and other small and local businesses—will generally serve the center and surrounding neighborhoods. Neighborhood centers range in size between approximately 5,000-10,000 people and 2,500-7,000 jobs.

Job Centers

Job centers accommodate those businesses not well-suited for residential or environmentally sensitive areas. These centers take advantage of existing transportation infrastructure such as arterial roadways, freeways, or the Austin-Bergstrom International Airport. Job centers will mostly contain office parks, manufacturing, warehouses, logistics, and other businesses with similar demands and operating characteristics. They should nevertheless become more pedestrian and bicycle friendly, in part by better accommodating services for the people who work in those centers.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ABIA
Lake Travis
Lake Austin
Legend
Chapter 380 Agreements
Transit Oriented Development
Imagine Austin Centers
Regional Center
Town Center
Neighborhood Center
Activity Centers for Redevelopment in Sensitive Environmental Areas
Job Center