

**Minutes of the Meeting of the Economic Development Committee of Council
Held in the Council Chambers of the Municipal Building
On Monday, September 21, 2020
6:30 P.M.**

The Chairman, Ward 3 Councilman Tony Moore, called the meeting to order.

Committee Members Present:

Chairman, Ward 3 Councilman Tony Moore

Ward 1 Councilman Bob Butkowski; Councilwoman-at-Large Tammy Holtzmeier

Others in Attendance:

Clerk of Council Barbara Brooks; Law Director John Gasior; Council President Brian Fischer; Mayor Bryan Jensen; Ward 4 Councilman Scott Radcliffe; Councilman-at-Large Craig Witherspoon; Planning and Economic Development Coordinator Pam Fechter; Scott Christman, Hunter International; Dylan Reynolds, Reporter, Chronicle; Finance Director Bill Logan; Ward 2 Councilman Dennis McBride; Gabrielle Christman, Hunter International

Discussion of the Status of the Tax Incentives for Hunter International

Mr. Moore stated that Ms. Christman had sent in an email with a proposal for a tax abatement and he asked Mr. Christman to review what they were requesting from Council.

Mr. Christman said that he knew that Ms. Christman had some conversations and was aware that she had sent information to Mr. Logan but he believed the City had some questions and was looking for some other data, and additionally was talking about getting creative with maybe looking at Hunter's City income tax that is collected. He noted that Ms. Christman would be there at the meeting momentarily.

Mr. Logan said that he could speak to what he has discussed with Mrs. Christman over the last few weeks. On August 18th she sent an email to Ms. Fechter and himself and her request for Hunter was a 50% property tax abatement: 50% for the first 3 years, 60% for the next 3 years, and 75% for the final 4 years and that would be based just on the \$3.5 million dollar building which would be taxed in a real estate tax. Over 10 years, that would amount to about \$485,000 of total property tax. Mr. Logan said he spoke with her about some other ideas, some of which had come up in the original meeting when she was here on August 10th as far as income tax. They looked at a couple things; we wanted to take a look at the income tax being generated by all of Hunter's employees that are working elsewhere, working at other companies apparently all over the country but yet they are on Hunter's payroll. Although there are also quite a few here in Ohio. He also wanted to take a look at Hunter's net profits tax; that is the business tax that they file in Avon and he did speak with Mr. Harrison of Hunter and he provided Mr. Logan some numbers with Ms. Christman's permission. He said he has not shared any of that with Council or with anybody else and what it boils down to is that we really cannot do anything with the net profits tax. We cannot grant a credit against that because they are filing that net profits tax as a

Sub S corporation through their individual tax returns, and are actually filing out of Avon Lake. Now Avon is getting its allocated share of that net profits tax and everything is going fine with that. As far as the withholding tax, the payroll tax on those other employees who are working all over the country, he talked with a couple legal people, including the RITA legal counsel, about the idea there of maybe funneling that through Hunter's offices in Avon and withholding Avon income tax and we really cannot do that. You have to be domiciled in Avon and working in Avon for that to happen. Now that does not mean that Council and the Economic Development Committee cannot entertain the idea of a withholding income tax credit of some kind. They certainly can do that, but that was the gist of his conversations with Ms. Christman and then with Mr. Harrison about the taxes in general. He sent some information to the Committee and everybody today based on all of that.

Ms. Christman arrived at the meeting at this time.

Mr. Moore noted that on the email that Mr. Logan had sent, it shows 20 jobs on the payroll, but when Ms. Christman was in front of them, she mentioned that Hunter had 18 positions with a \$1.42 million dollar payroll. And the second thing, over 10 years she was proposing going from 24 to 46 employees but when he asked her about total number of employees in the page 1, she was referencing 100 employees. So he was curious why the discrepancy on 50% less of employees in the difference of the payroll starting out of the gate.

Ms. Christman said that what they were trying to do was provide a conservative estimate based on advice that they have been given from other business owners and from Jobs Ohio and so that is where those numbers came from. Mr. Moore said because we typically do not do an abatement for companies of that size. We have turned down other companies with much larger payrolls and probably double the size of employees on an abatement. He stated this proposal was the only thing he has seen from Hunter as far as what they want. In talking with Mr. Logan, there are going to be some challenges with this. He said that he is just one of many of the Council here in trying to understand because once we open that, we are going to trigger a floodgate of all businesses with 20 employees saying they are going to be in a similar situation and asking for abatements because one was granted to Hunter.

Ms. Christman said that she thought the difference is the investment that they are making in the property; they are going to invest \$5 million dollars in developing the property. Would another business owner that might have 20 employees or 43 employees in the City of Avon be doing the same thing? She thought she could safely say, the answer is, no.

Mr. Christman stated that three years after they moved into the building on Colorado Avenue, they had to expand that parking lot. The plan for their new building on Chester Road is to finish the first floor and leave the second floor a shell, but they are still going to have to pay tax on the second floor, but what they are trying to avoid is moving into the building and then shortly being out of space which is what happened on Colorado Avenue. He said that Avon is a great community but there is no other office space around in Avon for them. There are many options in Westlake and with a move there, Avon would lose their \$22,000 of income tax - over 10 years

it would be \$220,000 and if they double employees, it is \$440,000 of City tax that would not be collected in the City of Avon. Additionally you would at least be getting a good chunk of the property tax income that is not being received right now. Right now it is a vacant lot and is maybe producing a few thousand dollars. So he thought that coupled with that and coupled with a growing business, those are some things to consider. When you start doing the math on the income tax and the property tax that is not being collected and the piece of property that is just a vacant, grassy lot, you ask what is best for the City and what is best for Hunter and he thought that trying to find that marriage is what they are looking for. He said that this is a critical phase right now for them; they are at that pivot point in growth. They have been growing every year and they have to find space. They know they need to be centralized in one location. They have looked all around Avon and there are things for lease but not up to the level of the environment they are looking to create for their employees and their company.

Mr. Logan asked if they were considering renting the upper floor of the new building to any other businesses. Mr. Christman said that if things go as planned, he would never say no. Mr. Logan said that the only reason he was asking was that if Council granted any kind of enterprise zone tax abatement, property tax abatement, that could present a problem if there are other businesses in that facility doing something different than what your business is. He was not positive of that but he thought it could be an issue if it were to be leased out to another business.

Mr. Butkowski stated that they had mentioned a \$5 million dollar investment and he knows that \$.5 million of that is for furniture, computer software, etc. He asked if Mr. Christman could break down the rest of that \$5 million? Mr. Christman responded that they have estimates for construction right around \$3.5 to \$4 million dollars, depending on size and type. They own the property so once they put the building up the property will be valued close to \$800,000 to \$1 million dollars. Then there will be landscaping, a privacy fence and City permits, such as a \$36,000 water tap fee and all the building construction fees as well. So he thought that they will easily get to total spending of \$5 million dollars, but just the building, parking lot, and lighting is \$3.5 to \$4 million right there.

Mr. Moore stated that for him personally it is a little hard to get behind because of the unknowns. He felt that abatement out of the gate sets a really tough precedent from Council as companies that will come after Hunter will point out the abatement that was granted. One of the ideas he was thinking about was potential income tax credit for a Phase 1 if you hit certain thresholds. Ms. Fechter could talk about some of the companies that have come to us on an initial abatement and then come back for a second, different abatement, maybe in a Phase 2, where we could talk about abatement for a certain level from a payroll side. He asked the Christmans if that would be off the table.

Ms. Christman said that she would say that nothing would be off the table. They would consider anything that is worth to consider and they are trying to balance it out. As Mr. Christman said, he has researched all the options. They have thought about going to Westlake to build their payroll dollars to come back to Avon in the future and then potentially develop the Chester Road property. But there is more unknown in that too.

Mr. Moore stated his question then is what is the request of what the abatement is or is there something else that we could propose from the Committee to send to Council without having it drag on for Hunter and for us. Maybe a tax credit from a level hitting certain criteria where they get the tax credit back and Mr. Logan can explain more about that.

Mr. Logan stated that we are still new at doing an income tax credit but an option that Council could consider would be to credit back payroll withholding tax. In other words, your employees pay the 1.75% Avon income tax. You are suggesting you are going to create 26 jobs over 10 years, 12 jobs in the first 3 years. The assumptions were \$40,000 per job so in 3 years, you are going to create a new payroll of \$480,000. He thought that what Mr. Moore is saying is we can credit back even up to 50% of that new payroll tax that those new employees are generating if you hit certain thresholds. So instead of the 12 jobs in Avon in the first 3 years, if you created say 25 jobs in those first 3 years rather than 12, that would be \$1 million dollars of payroll (25 jobs at \$40,000 each) in those first 3 years, then we could conceivably credit back some of that payroll withholding tax that those new jobs created. The employees are paying that; your company is technically not paying that but we could give the company a credit. The withholding tax on \$1 million dollars in Avon is \$17,500 so half of that could conceivably be credited back, which is roughly \$8 - \$9,000. It is not a property tax abatement figure but it is something. That is just an idea of having a threshold in there and then maybe 2 more years after that, with more new employees, we could again think about those types of credits. It could actually run annually but it would all be tied to the employment growth of the company, which is what the abatement would be tied to as well. If Council ends up doing a property tax abatement, the goals you have to hit are employment goals, the payroll dollars, because that is what generates economic success. You are looking for abatement of property tax and again Council can consider thresholds there; maybe you hit certain thresholds there to obtain some sort of a property tax abatement.

Mr. Christman stated that is the blend for them too. He has looked at some similar properties on Chester and their property taxes are around \$100,000. Hunter could take that \$100,000 and put it into rent or..... Mr. Logan said that it looks like the real estate value they are forecasting is around \$3.5 million. We can only consider property tax and looking at your numbers, property tax is only going to be assessed on the land and on that \$3.5 million dollar investment in the facility. On the \$3.5 million that is about \$77,000 of property tax but if the land value goes up, yes, you could have \$100,000 of tax. Mr. Christman said that there is an existing building of 23,000 sq. ft. in Westlake that they are looking at and the tax bill is around \$45,000 or \$50,000. And there are a lot of incentives available right now that they would not gain on this new construction but for them, because it is going to be new construction and a building they would have for the future, really that is why that property tax eases the blow for them. They consider income tax; they have been in Avon for 5 years and are at around \$22,000 in City income tax so in 5 years if they are producing \$44,000 for the City and in another 5 years are producing \$66,000 for the City, it seems like a good chunk of revenue. Mr. Logan agreed and said he thought what Mr. Moore is trying to say basically is that there are a lot of companies right around Hunter's size and they are all great companies to have here in Avon and they generate \$20 - \$25,000 a year in income tax and we have to be careful with property tax abatement especially if somebody expands and we grant that abatement then as Mr. Moore was saying, others are going to get in

line, too, saying they are going to expand. Mr. Christman said he thought that is a good thing; they are creating professional jobs; it is not another big box store coming in. Mr. Logan said, it is a good thing, if it is managed properly. Mr. Christman pointed out, again, they are using that \$40,000 because that is their entry level but they have bonus incentives and things like that. Mr. Logain said, yes, it could average much more than that which is why you might hit those payroll goals without a problem at all.

Mr. McBride said that it sounds like we may need a working session with the Christmans to sit down and look at some of the numbers. He personally distinguishes between their company based on some unique circumstances vs other similar companies of their size and professional services, so he does not have a problem with abatement but is that really the best way to go? He thinks they should sit down with Mr. Logan and a few others and work out what is the best way to go that is going to help everyone involved. This is basically a public hearing and there are probably numbers, etc. that they do not want to disclose here. So he advised to sit down in the office where they can pull numbers and just go through it and figure out which way is the most advantageous because there are other ways that we have helped other companies.

Mrs. Holtzmeier said that she liked Mr. McBride's suggestion for a work session for some of these things to be hammered out. We do want to discuss it publically but when we get to this stage, it is going to be more advantageous for them to have worked out some hard numbers so that we have something concrete to look at and direct our questions accordingly. Contrary to what a lot of people may believe, we do not hand out a lot of abatements in Avon. At this point in our history, we do not need to. In the future, we certainly might. But that being the case, historically for the past companies that have gotten these enterprise zone abatements, the standard has been set pretty high for what they needed to do to achieve that and what the Council at the time would agree to. She then asked Ms. Fechter how have those particular companies have been doing and Ms. Fechter responded that they have been doing well. She took L&W as an example and stated that they said that they would do 20 jobs in one year, with an investment of \$2.5 million dollars and they made those numbers within the first year. Companies have 3 years to make the numbers that they commit to; if they do not have 75% of those numbers within the first 3 years, then they have to pay back everything they have been given. So it is one of those situations where if you do an abatement for a company, you have the ability to clawback on them if they are not meeting their numbers.

Mrs. Holtzmeier stated, so there is a road map already in place historically and that is all public information. We always wish our businesses success and we hope for the best but as lawmakers, we have to plan for the worst. So in these abatements there are provisions for clawbacks. She asked Ms. Fechter if the clawbacks were all the same with the 3 most recent abatements that were given, or are they different and Ms. Fechter said they are all the same. She said it is her understanding that the clawback is part of the Ohio Revised Code and is standard across the board for the entire State. She then asked Mr. Gasior if we have the ability to make that a harsher clawback or change the plan of it and Mr. Gasior responded that he would have to check into that and that will be part of whatever we discuss in the future. That will be very important to anything that we agree to.

Mr. Moore stated that he would prefer not to put this to a vote tonight. He would entertain the suggestion of having a work session to try and help the Christmans if they were willing to do that to drill down a little bit more on the numbers to something that is specific. That would be more beneficial for them as opposed to setting this for either a yea or nay recommendation to the Council.

Mr. Butkowski said, yes, he thought it was important. As he mentioned in the last meeting, we have to think outside the box on this beyond just the typical abatement. To Mr. Logan's point, with credits, and there are other ways we might be able to help with that. The question becomes, how do we balance that with the school component when it comes to abatements because the schools get hurt worse than the City does because of the way the taxes get split up between the City and the schools. So he was trying to weigh all that out and trying to help Hunter out at the same time and that is why he encourages the Christmans to ask around some of their business colleagues, what other things they have other cities do. There are also better ideas that are out there so he would encourage them to use their network and talk about what other things those companies have done and seen, bring that to us, and let us sit down and try and work with them to help them grow and get to where they want to be.

Ms. Christman said that it is a little bit frustrating for them as a business because while the other business owners they went to previously have all their employees right here under one roof in Avon, we have 365 employees in 21 states, so if another Avon company with 20 employees comes and says they want to expand, Hunter is different because Hunter has 365 employees. She knows they are not here in Avon but the story is different and the company is different. So it is frustrating as a business owner because they have this payroll, they have these employees but they are not all here. That is the nature of their business and so it is unique and different and obviously they would love to sit down for a working session and go through more numbers and more discussion to see what we might come up with.

Mr. Butkowski said, and that is our struggle, too, because those 365 employees are not here so we can only work on the 20 or the 46 that are proposed and try and make that do with what we can here. And so we share that same anxiety but how do we get to where it is mutually beneficial?

Mr. Logan stated that he was open to a work session meeting. We can be creative with a lot of things but ultimately it is going to come down to this Economic Development Committee saying they agree or do not agree with what is proposed. But he has no problem with a work session and they can discuss some things and get it out to everybody. Mrs. Holtzmeier added that also, in the Economic Development Committee, they can dive more into Hunter's financials and do that under Executive Session if they are comfortable disclosing those figures to them. And so if that means the Committee gets together to further hammer some of that out, that is part of what our goals are.

Mayor Jensen noted that Hunter was talking about doing different phases of development so maybe there is a way to benefit them at the very beginning, which may be more important to them. We will get a meeting again with probably as many people as we can without the Sunshine Law, or get everybody together for a public meeting and then go into Executive Session. We need to come up with something that can be voted on.

Mr. Moore said to the Christmans that they are more than welcome to talk to him or to Mr. Logan or Ms. Fechter. He does not know if Mr. Butkowski and Mrs. Holtzmeier want to be part of that meeting but we would be happy to do whatever we can do to try to help the process. So we will get that meeting together over the next week or so to hammer things out. That way the Committee could make their recommendation and move it along. Ms. Christman said that sounded good.

Mr. Moore adjourned the meeting at 7:14 P.M.

Transcribed by Gail Hayden, Assistant Clerk of Council