AGENDA ITEM EXECUTIVE SUMMARY

Title:	Recommendation to create a "Knowledge Based Employment Incentive Pilot Program" and utilizing such pilot program to secure The Clarke Group's Headquarters and Research and Development facilities
Presenter:	Chris Aiston

Please check appropriate box:

	Government Operations		Government Services
X	Planning & Development (7/08/13)		City Council

Estimated Cost:	$275,000 Max. over 5 years	Budgeted:	YES		NO	X

If NO, please explain how item will be funded:

Cost shall be allocated in the future FY14-15 through FY18-19 budgets

Executive Summary:

The Clarke Group is a third generation, family-owned, international business specializing in mosquito control products and services. Clarke is considering relocating its headquarters and research and development facilities from Roselle and Schaumburg, respectively. It has narrowed its site selection process to two sites: Ames, Iowa and St. Charles (675 Sidwell Ct.). The proposed relocations will result in 71 new jobs (average salary of $80,000) immediately and 15 additional positions created in the first five years after occupancy (average salary of $60,000). Clarke anticipates a total capital investment to acquire and occupy the property to be $4,000,000.

Staff is recommending the City create a pilot business attraction program, specifically designed to attracting high technology business enterprises and increasing the City's knowledge-based employee count. In accordance with State Statutes, the City may offer direct grants to businesses for economic development purposes. Under this authority, staff has negotiated a five-year, site selection incentive program with Clarke, based on actual employee count (only positions with salaries of $50,000+ annually). Recognizing consumer behavior patterns show that, where possible, persons spend the bulk of their disposable household income within reasonable proximity to where they reside, staff is further proposing a bonus payment be made to Clarke (years 2-5, only) for each position (and internship) filled by a person either residing in St. Charles or close proximity thereto.

Attachments: *(please list)*

Proposed terms of incentive program (incl. example for illustration purposes); NIU CGS Economic Impact Study; Map of Site; and Background into The Clarke Group

Recommendation / Suggested Action *(briefly explain)***:**

Recommendation to create a "Knowledge Based Employment Incentive Pilot Program" and utilizing such pilot program to secure The Clarke Group's Headquarters and Research and Development facilities.

For office use only	*Agenda Item Number:* 4b

Knowledge-based Employment Incentive Pilot Program. We are proposing an incentive pilot program that commits the City to paying the company for creating employment in St. Charles, establishing the following:

a. A value for each of the total number of jobs (FTE) with annual salaries of $50,000 or greater at the St. Charles facility;
b. A bonus value for each of the above described jobs that is filled by a person residing within defined boundary surrounding the City of St. Charles corporate boundary;
c. An additional bonus value for each of the above described jobs that is filled by a person that resides within the St. Charles corporate boundary itself;
d. An additional bonus value for each paid intern position that is filled by a person that resides within the St. Charles corporate boundary itself; and
e. A maximum amount to be paid to the company in employment incentives on an annual basis and over the entire five year period.

In accordance with subparagraph (a.) above, the value to be paid by the City for each such job is as follows: Year 1: $1000; Year 2: $750; Year 3: $500; Year 4: $250; and Year 5: $250.

In accordance with subparagraph (b.) above, the value to be paid by the City as a bonus for each such job filled by a person residing within five miles of the City of St. Charles is as follows: Year 1: $0; Year 2: $250; Year 3: $250; Year 4: $250; and Year 5: $250.

In accordance with subparagraph (c.) above, the value to be paid by the City as a bonus for each such job filled by a person residing within the City of St. Charles itself is as follows: Year 1: $0; Year 2: $750; Year 3: $750; Year 4: $750; and Year 5: $750. This bonus would be on top of bonus described in subparagraph (b.).

In accordance with subparagraph (d.) above, the value to be paid by the City as a bonus for each paid intern position filled by a person residing within the City of St. Charles itself is as follows: Year 1: $100; Year 2: $100; Year 3: $100; Year 4: $100; and Year 5: $100.

In accordance with subparagraph (e.) above, the maximum amount the City will pay the company in a given year is as follows: Year 1: $80,000; Year 2: $65,000; Year 3: $50,000; Year 4: $50,000; and Year 5: $50,000. Further, the maximum amount of money the City of St. Charles shall pay the company under this incentive pilot program over the five-year term is $275,000. Below is a possible payout scenario for the purpose of illustration.

The Clarke Group - Knowledge-based Employment Incentive
City of St. Charles Proposed Program

Incentive Description	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**
Knowledge-based Employment Incentive = Total paid for each job with annual salary of $50K or greater	$1,000	$750	$500	$250	$250
Proximity Bonus = Total paid for each job with annual salary of $50K or greater and filled by a person residing outside of City but within defined boundaries	$0	$250	$250	$250	$250
City Resident Bonus = Total paid for each job with annual salary of $50K or greater and filled by a City of St. Charles resident	$0	$750	$750	$750	$750
Intern Bonus = Total paid for each paid internship filled by a City of St. Charles resident attending, in good standing, high school or college	$100	$100	$100	$100	$100

Possible Scenario	**Y1**	**Y2**	**Y3**	**Y4**	**Y5**	**Five Year Totals**
Relocated Positions (cum.)	71	71	71	71	71	
New Positions (cum.)	7	15	15	15	15	
No. of Employees outside proximity	74	78	75	70	65	
No. of Employees w/in proximity (not in City)	2	4	6	10	14	
No. of Employees w/in City	2	4	5	6	7	
Interns residing w/in City boundaries	25	25	25	25	25	
Knowledge-based Payout	$78,000	$64,500	$43,000	$21,500	$21,500	**$228,500**
Proximity Bonus Payout	$0	$1,000	$1,500	$2,500	$3,500	**$8,500**
City Resident Bonus Payout (Paid on top of Proximity Bonus Payout)	$0	$4,000	$5,000	$6,000	$7,000	**$22,000**
Intern Bonus Payout	$2,500	$2,500	$2,500	$2,500	$2,500	**$12,500**
Total Incentive Payout	**$80,500**	**$72,000**	**$52,000**	**$32,500**	**$34,500**	**$271,500**

The Economic Impact of "Project Mercury" on the Chicago Metro Area

Prepared for the

City of St. Charles, Illinois

NORTHERN ILLINOIS UNIVERSITY
Center for Governmental Studies
Outreach, Engagement, and Information Technologies

Final Report (not for public distribution)

June, 2013

This document was prepared by Brian Harger, Research Associate at the Center for Governmental Studies, Northern Illinois University, on behalf of the City of St. Charles, Illinois. Questions regarding the content of this report should be directed to Mr. Harger at 815-753-0934 or bharger@niu.edu. For more information on the Center for Governmental Studies, please visit our website at www.niucgs.org.

Introduction

The Center for Governmental Studies (CGS) at Northern Illinois University completed an analysis of the estimated impact of the proposed consolidation of the "Project Mercury" existing administrative and R&D operations in Schaumburg and Roselle, Illinois and their relocation to St. Charles, Illinois. The Company is a global environmental products and services company that specializes in mosquito control and aquatic services to help prevent disease, control nuisances and create healthy waterways. It currently employs 95 of its 155 employees at three suburban Chicago facilities: the administrative offices in Roselle, a research and development (R&D) facility in Schaumburg, and manufacturing operations in Roselle.

The Company plans to consolidate the administrative and R&D operations and relocate them to a single facility that will also allow for future expansion of operations and employment. The Company has identified two options for the relocation and expansion. The first involves the leasing and renovation of an existing facility in St. Charles, Illinois. The second involves the consolidation of both operations at a site in Ames, Iowa near Iowa State University. The relocation will affect 71 current employees and the addition of 15 employees within one year of the consolidation.

The following analysis is intended to illustrate the current and possible future contribution of these operations to the greater Chicago metropolitan area[1] and what may be lost if the Company decides to relocate out of state. Because of the concentration of population and economic activity in this region, it is assumed that business spending and employee household spending are disbursed over a broad area and the consolidation of operations in St. Charles would not result in any corresponding relocation of employees or suppliers. It represents the estimated impact resulting from the employment and related business and household spending that already exists within the region, the new jobs that the Company expects to add if they consolidate operations in St. Charles, as well as the impact of the Company's investment in the facility renovations over the next two years.

The analysis consists of two parts. The first deals with the impacts of operations of the facility in terms of employment, output (sales), and value-added (employee compensation, rent, taxes, and profit paid or earned, etc.). These are assumed to be annually recurring impacts as long as employment and other factors remain stable. The second involves estimating the one-time impacts generated by the Company's expenditures on facility renovation or construction.

The economic impact of the retention and expansion of the administrative and R&D operations of "Project Mercury" were based on the following assumptions:

- The Company will relocate 71 administrative, professional and technical employees from the existing facilities in Roselle and Schaumburg to the St. Charles facility in 2013. The estimated employee compensation (including benefits) is $6.14 million.
- The Company will create 15 new positions in 2014 with estimated annual employee compensation (including benefits) of $874,000.

[1] For the purposes of this study, the Chicago metropolitan area is defined as Cook, DuPage, Kane, Kendall, Lake, McHenry and Will counties.

- Analysis for the Company operations was based on the North American Industrial Classification Code (NAICS) 541712 (Environmental research and development laboratories or services), which is the finest level of detail available.
- The Company expects to spend $600,000 in facility renovation costs over the next two years; $300,000 in 2013 and $300,000 in 2014.
- Analysis for the facility renovation was based on the North American Industrial Classification Code (NAICS) 236220 (Addition, alteration and renovation, commercial and institutional buildings) which is the finest level of detail available.
- The baseline information for this analysis was provided by the Company's business consultant and City economic development officials.

Economic Impact Analysis

The economic activity of an industry is linked with other industries in the general economy. Employment and payroll figures only illustrate a portion of the importance of an industry or individual facility to the local economy. Indirect effects in the regional economy are created by the project's purchases of goods and services such as office supplies, accounting services and marketing materials. Induced effects result from the Company's employees spending their income in the local economy. Additional impacts result from businesses-to-business purchases of goods and services such as fuel, food, equipment and services from other local and regional firms. These purchases lead to further inter-industry activities that represent the indirect impact.

Multipliers

Input-output analysis generates estimates of indirect economic impacts commonly referred to as "multiplier effects." Multiplier effects measure the impacts on output, income, and employment that result from an increase in final demand. An increase in final demand (an additional dollar of output or employee compensation, or one additional job in the sector) results in a total increase in output, value-added, or employment in the economy equal to its multiplier. That is, multipliers estimate the amount of direct, indirect, and induced effects on income or employment that result from each additional dollar of output, additional job, and additional dollar of employee compensation in a sector.

Part 1: Impact of Company Operations

Below is a summary of the economic impacts of the operations of the "Project Mercury" that will be affected by the proposed consolidation and relocation of their Roselle and Schaumburg facilities (Figure 1). If these operations are retained in the Chicago metro area, then the direct and indirect impacts would continue to benefit the regional economy. In addition, the Company's expansion would stimulate additional economic activity in the region as illustrated in Figure 2.

Figure 1.
Estimated Impacts of "Project Mercury" Retention (2013)

Chicago Metro Area	Direct	Indirect	Total
Employment	71	84	155
Output ($millions)	$15.8	$12.3	$28.1
Value-added ($ millions)	$9.7	$7.6	$17.3
- Employee Compensation ($ millions)	$6.1	$4.1	$10.2

Source: IMPLAN, 2011.

Figure 2.
Estimated Impacts of "Project Mercury" Expansion (2014)

Chicago Metro Area	Direct	Indirect	Total
Employment	15	16	31
Output ($millions)	$3.4	$2.3	$5.7
Value-added ($ millions)	$1.7	$1.4	$3.1
- Employee Compensation ($ millions)	$0.9	$0.8	$1.7

Source: IMPLAN, 2011.

Summary of Employment Impacts

The relocation and consolidation of the Company's operations in St. Charles will retain 71 current employees. Indirect employment of 84 jobs will also be created or supported in the region as a result of the Company's operations. The expansion of Company operations in St Charles will create 15 jobs in 2014. The indirect employment impact will result in creation or support of 16 jobs in other sectors of the regional economy (Figure 3).

Figure 3.
Indirect Employment Impacts of "Project Mercury" Retention and Expansion

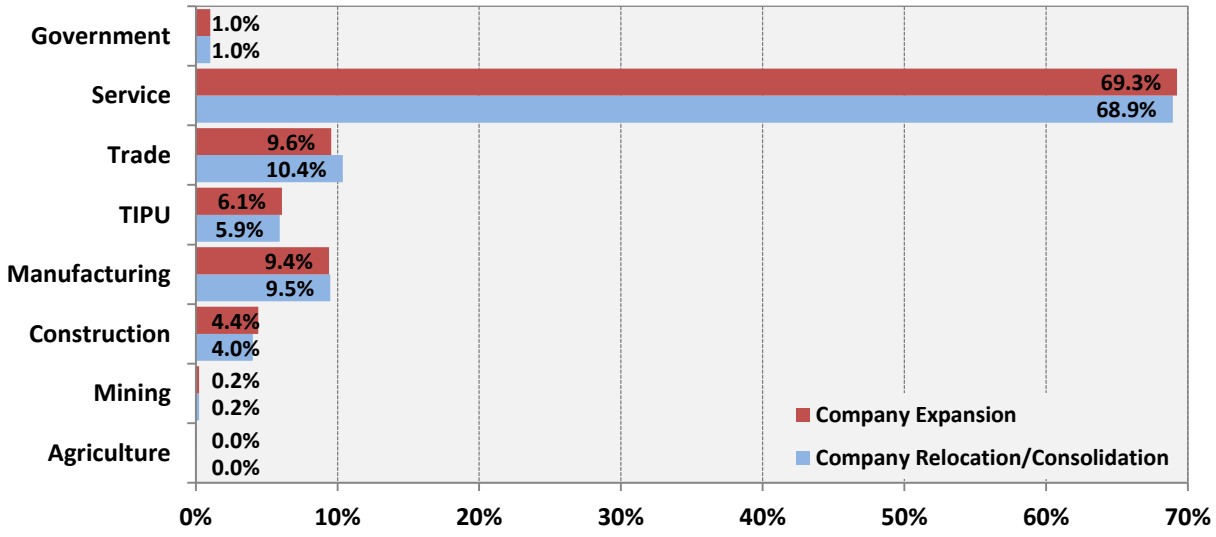
Chicago Metro Area Industry Sector	Company Retention (71 Jobs)	Company Expansion (16 Jobs)
Agriculture	0	0
Mining	0	0
Construction	*4*	*1*
Manufacturing	*2*	*0*
Transportation, Information and Public Utilities	*3*	*1*
Wholesale and Retail Trade	*14*	*2*
Services	*61*	*12*
Government	*1*	*0*
Total Indirect Jobs	**84**	**16**

Note: Figures made not added because of rounding.
Source: IMPLAN, 2011.

Summary of Output Impact

Output is used as a measure of overall industry productivity and represents the value of an industry's business activities including sales. The retention of Company operations is projected to generate $28.1 million in direct and indirect economic activity (sales and output) in the Chicago metro area annually, $15.8 million in direct and $12.3 million in indirect. The expansion of operations in St. Charles will create an additional $3.4 million in direct output and $2.3 million in indirect output in other sectors of the regional economy (Figure 4).

Figure 4. Indirect Output Impacts by Industry Sector



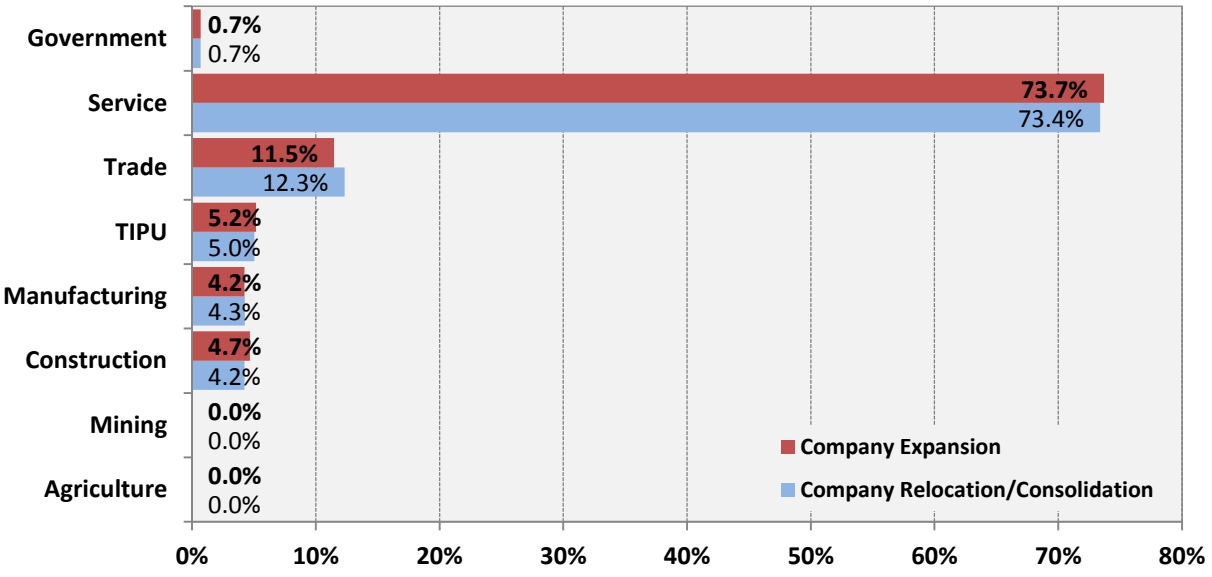
Source: IMPLAN, 2011.

Summary of Value-Added and Employee Compensation

Value-added is a measure of the contribution to the regional economy made by an individual business, industry or institution. It includes employee compensation, rent, interest, taxes, and profit paid or earned.

Keeping the Company's present operations in the region will retain approximately $17.3 million in value-added in the region, of which $9.7 million is generated directly by the Company operations with an additional $7.6 million in indirect impacts on other industries. The proposed expansion of operations will generate an additional $3.1 million in value-added; $1.7 million generated directly by Company operations and $1.4 million in indirect impacts on other industries (Figure 5).

Figure 5. Indirect Value-Added Impacts by Industry Sector



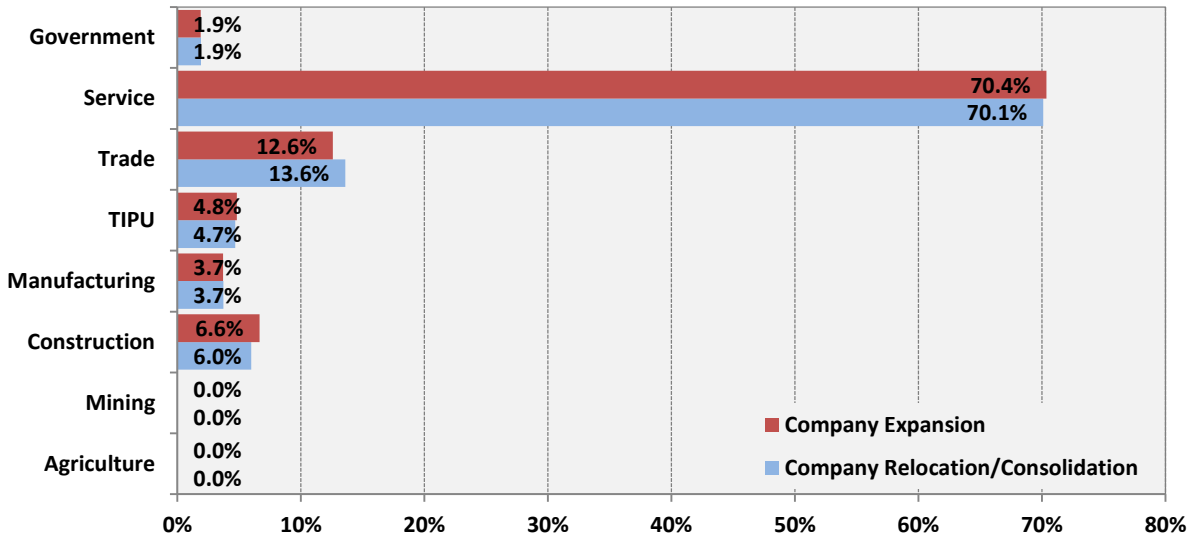
Source: IMPLAN, 2011.

Employee Compensation is an important component of value-added reflecting the total payroll cost of the employee paid by the employer. This includes, wage and salary, all benefits (e.g., health insurance, pensions) and employer paid payroll taxes (e.g. employer side of social security, unemployment taxes).

Direct and indirect employment by the Company will result in annual employee compensation of $10.2 million being paid by regional employers; $6.1 million of this comes directly from the Company itself, with an additional $4.1 million generated indirectly by other industries in the region. The expansion of operations in St. Charles will generate an additional $874,000 in direct

employee compensation, with an additional $773,000 in indirect employee compensation being generated in other industry sectors (Figure 6).

Figure 6. Indirect Employee Compensation Impacts by Industry Sector



Source: IMPLAN, 2011.

Part 2: Impact of Facility Construction/Renovation

The economic impacts of business operations differ from capital investment projects in that company operations are assumed to be recurring so long as employment, output and spending remain stable, whereas the impacts of construction projects are experienced during a defined period of time. The Company plans to lease an existing facility in St. Charles Illinois and will spend approximately $600,000 over two years ($300,000 per year) on renovations. Below is a summary of the projected economic impacts of the planned construction spending in 2013 and 2014 (Figures 7 and 8).

Figure 7.
Estimated Impacts of "Project Mercury" Facility Renovation (2013)

Chicago Metro Area	Direct	Indirect	Total	Multiplier
Employment	2	2	4	1.54
Output ($millions)	$0.3	$0.2	$0.5	1.68
Value-added ($ millions)	$0.2	$0.1	$0.3	1.63
- Employee Compensation ($ millions)	$0.15	$0.05	$0.2	1.42

Source: IMPLAN, 2011.

Figure 8.
Estimated Impacts of "Project Mercury" Facility Renovation (2014)

Chicago Metro Area	Direct	Indirect	Total	Multiplier
Employment	2	2	4	1.53
Output ($millions)	$0.3	$0.2	$0.5	1.68
Value-added ($ millions)	$0.2	$0.1	$0.3	1.63
- Employee Compensation ($ millions)	$0.15	$0.05	$0.2	1.42

Source: IMPLAN, 2011.

Summary of Indirect Impacts

- The Company's renovation expenditures are expected to create or support the equivalent of 2 jobs per year on the construction industry during the two year duration of the project. In addition, it will create or support the equivalent of 2 jobs per year in the other industry sectors; 1 in wholesale/retail trade and 1 in the services sector.

- The expenditure of $300,000 per year on the renovation will stimulate additional output in other industries. The sectors most affected by these indirect impacts of about $200,000 per year will be services (66%), wholesale and retail trade (14%), and manufacturing (12%).

- The Company's spending on the renovation project will stimulate contribute an additional $320,000 per year to the regional economy (value-added); $196,000 comes directly from the project which in turn will generate $124,000 in other industry sectors. The sectors most affected by these indirect impacts will be services (71%), wholesale and retail trade (17%), and manufacturing (6%).

- Employee compensation, an important component of value-added, is expected to increase by an additional $219,000 in per year in the region as a result of the project. Approximately $154,000 will come directly from the project with $65,000 paid to workers in other affected industries. The sectors most affected by these indirect impacts will be services (70%), wholesale and retail trade (19%), and manufacturing (4%).

Appendix

To understand the full effect that a firm or industry has on the economy, including its impact on other sectors, input-output analysis is employed. Input-output analysis is based on the principle that industries are interdependent. One industry purchases inputs from other industries and households (i.e., labor) then sells its output to other industries, households, or the government. Additional induced impacts occur when workers involved in direct and indirect activities spend their wages on consumer goods produced or sold in the region and local economy. Therefore, economic activity in one sector impacts other sectors.

Direct Economic Impacts are created by the operations of the facility itself or of a particular project (such as building construction or renovation), primarily the employment, payroll, and local expenditures.

Indirect Economic Impacts refer to additional jobs and payroll created in the surrounding economy as a result of the purchase of inputs by the facility. This might be goods such as food, office supplies and computer equipment or services such as accounting and legal services.

Induced Economic Impacts are the additional impact that results from the employees spending their income in the local economy.

For reporting purposes, the indirect and induced impacts are commonly combined into a single figure and reported as indirect impacts. This is the case in this report. All discussion of indirect impacts includes both the induced and indirect impacts as discussed above.

The economic variables referred to in this report are as follows:

Employment (Jobs) For the purposes of this analysis an employee is defined as a person that enters into an agreement with an enterprise which may be formal or informal, with a business to perform work in return for compensation in cash or in kind. In IMPLAN, jobs are equivalent to the annual average of monthly jobs in that industry (the same definition used by Quarterly Census of Employment and Wages, the Bureau of Labor Statistics, and the Bureau of Economic Analysis nationally). Thus, 1 job lasting 12 months = 2 jobs lasting 6 months each = 3 jobs lasting 4 months each. A job can be either full-time or part-time.

Output represents the value of an industry's production. For manufacturers this would be sales plus or minus any change in inventory. For service sectors production it would be analogous to sales. For retail and wholesale trade, output equals gross margin.

Value-Added is a measure of the study area's economic output similar to "Gross Domestic Product" or "GDP". It represents the difference between the value of goods and services purchased as production inputs and the value of the goods and services produced.

Employee Compensation is a component of the value-added variable and represents the total payroll cost of the employee paid by the employer. It includes wage and salary; all benefits (health insurance, retirement, etc.), and employer paid payroll taxes (employers portion of social security, unemployment insurance, etc.).

Principal Investigator

The principal investigator on this project was Brian Harger. He is an economic development practitioner, researcher and analyst with over 20 years' experience. His current work focuses on effective practice, project feasibility, applied research and policy studies in economic development, industry occupational cluster analyses, comprehensive planning and development strategies (CEDS), and the economic impacts of universities and community colleges. Recent projects include assessment of regional economic development opportunities in Northwest Illinois, identifying demographic and economic benchmarks, and designing and implementing a new regional economic development web portal.

Previous career experiences included the development and management of local and regional economic development research programs to support business recruitment and retention efforts; delivering technical assistance to public and private sector clients including local and regional economic development and planning organizations, chambers of commerce, small business development centers and corporations; participation in business recruitment and retention programs; creating publications and websites in support of local and regional economic development efforts, including manufacturers and organized labor directories, available site and building databases, demographic profiles, retail trade area analyses, and economic development newsletters.

Mr. Harger holds a Bachelor of Arts degree in Geography from the University of Northern Iowa, and a Master of Science degree in Economic Development from the University of Southern Mississippi. He also holds an Economic Development Finance Professional (EDFP) certification through the National Development Council.

Brian's professional associations include the Council for Community and Economic Research, International Economic Development Council, Illinois Development Council, Strategic and Competitive Intelligence Professionals and the Mid-Continent Regional Science Association.

His research interests include industry targeting economic impacts analyses, competitive intelligence, retail market analysis, economic gardening (entrepreneurship as a development strategy), and local economic development planning and implementation.

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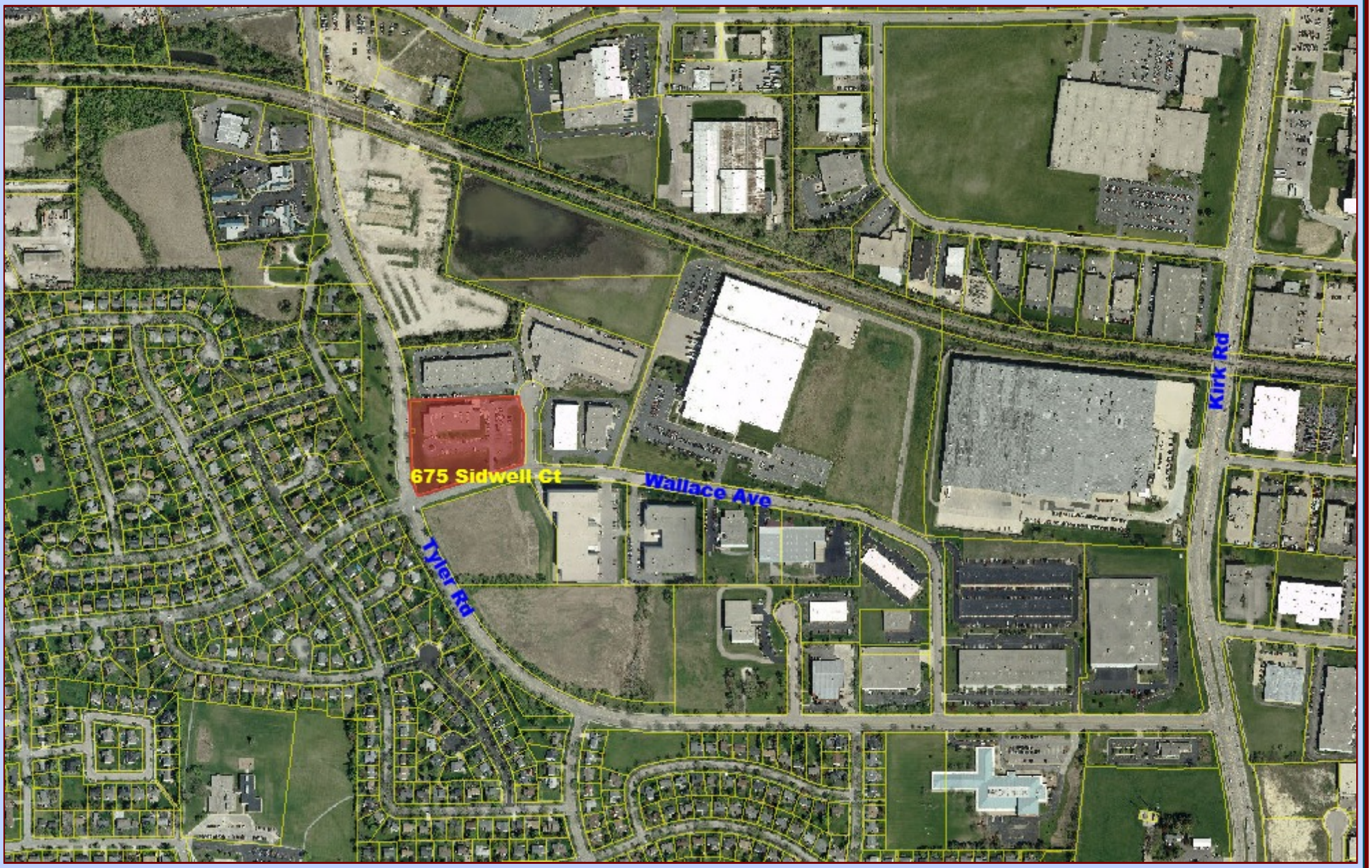
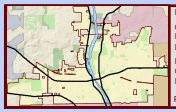
Prospective The Clarke Group Site

RAYMOND ROGINA *Mayor*
BRIAN TOWNSEND *City Administrator*





Data Source:
City of St. Charles, Illinois
Kane County, Illinois
DuPage County, Illinois

Projection: Transverse Mercator
Coordinate System: Illinois State Plane East
North American Datum 1983

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