



City of San Antonio

Agenda Memorandum

File Number:16-4848

Agenda Item Number: 32.

Agenda Date: 9/29/2016

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: Council District 1

SUBJECT:

A Chapter 380 Economic Development Grant Agreement with Liquid Web, LLC in an amount not to exceed \$225,000 over four years.

SUMMARY:

Staff is requesting City Council consideration and action on an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement (Agreement) with Liquid Web, LLC (Liquid Web). The Agreement will provide performance-based financial incentives to Liquid Web in an amount not to exceed \$225,000 over four (4) years, based on Liquid Web's commitment to relocate and retain 57 full-time jobs to Downtown San Antonio, and create up to 43 new, full-time IT sector related jobs.

BACKGROUND INFORMATION:

The Liquid Web project falls in line with several of the key long-term economic goals laid out in the City's *SA Tomorrow Comprehensive Plan*, as well as those presented in *Forefront SA*, the community's economic development strategic plan led by the San Antonio Economic Development Foundation, including the retention of local businesses and their employees, expanded job creation and economic growth, and support for continued growth of the City's Targeted Industries.

Founded in 1997, privately held, and headquartered in Lansing, Michigan, Liquid Web offers a wide range of hosting services for enterprise customers, while operating and managing its own data centers. With over 30,000 customers spanning 150 countries, Liquid Web employs over 500 people and has been recognized among *Inc.* magazine's "5,000 Fastest Growing Companies" for the last ten years. The company provides a variety of cloud based products, including shared hosting services, dedicated servers, virtual private servers (VPS), a host of add-on products, and recently purchased the Cloud Sites division of Rackspace.

Experienced technology professionals comprise the company's leadership team, including CEO Jim Geiger, CFO Terry Flood, and COO Carrie Wheeler who graduated from San Antonio's Trinity University and served

as Assistant Vice President at AT&T. The company is part of Madison Dearborn Partners, LLC, a private equity investment firm based in Chicago, IL.

On August 8, 2016, Rackspace announced its decision to sell the company's Cloud Sites business unit to Liquid Web, stating the non-core business unit would have required a substantial investment in order to be profitable. Liquid Web, which already provides services similar to Cloud Sites, had initially considered relocating the business unit, including its 57 employees, to one of its existing locations in Michigan and Arizona. However, based on the community incentive offer and local support for the project, Liquid Web has decided to relocate the Cloud Sites operations to Downtown San Antonio, retaining its existing positions and investing in the business with the goal to grow quickly and sustainably.

For this project, Liquid Web will relocate its recently acquired 57 employees from Rackspace (City of Windcrest) to a stand-alone office suite at 175 E Houston in Downtown San Antonio, and grow its local presence to 100 employees within four years. The project presents an excellent opportunity to secure the presence of an innovative, rapidly growing, and high-paying technology company in the heart of Downtown San Antonio, and adds additional momentum to the continued growth of the IT ecosystem in the city's urban core. As Liquid Web expands its cloud-related operations team over the coming years, this project will further elevate San Antonio's standing as a leader in the cloud technology sector.

In order to secure this project in San Antonio, staff recommends a job creation and retention based agreement in an amount not to exceed \$225,000 over four (4) years. Liquid Web must commit to relocating the company's existing, recently acquired 57 full-time jobs to Downtown San Antonio, and creating up to 43 new full-time IT-related jobs at the project site within four (4) years, with the grant paid out as the company reaches certain job creation milestones. The Economic Development Department (EDD) and the Center City Development and Operations Department (CCDO) have also been working with the company to assist with its downtown parking needs.

As part of its San Antonio operations, Liquid Web will have technical support, software development, and engineering departments, along with potential growth in its sales and marketing operations here as well. The average salary of all positions will be approximately \$81,000, and all positions must be maintained in San Antonio for at least four (4) years following the end of the grant term.

In accordance with the City's Economic Development Incentive Fund (EDIF) Guidelines, 100% of the jobs at the project site will meet the minimum hourly "living wage" of at least \$11.68 per hour and, within one year, at least 70% of all employees at the project site will meet or exceed the median "All Industry Wage" of \$14.96 per hour.

In collaboration with the City's economist, Dr. Steve Nivin, staff prepared an economic analysis that estimated the direct impact from the Liquid Web project, the indirect impacts resulting from business-to-business transactions, and the induced impacts of increased spending at local businesses, with almost \$214 million in overall impact to the community. The analysis also included an estimated fiscal impact of more than \$1.35 million to the City over the first 5 years of the project.

ISSUE:

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants for the purposes of promoting economic development, provided that the City has established a program for such purposes. City Council approved a program promoting economic development in April 2005.

The recommended incentive complies with EDIF Guidelines for per job grant for headquarter relocations,

projects located within the Inner City Reinvestment Infill Policy (ICRIP) Area, and other related criteria.

ALTERNATIVES:

Based on the City's offer and local support for the project, Liquid Web has decided to proceed with relocating its operations to Downtown San Antonio, retaining its existing 57 full-time positions and creating up to 43 new full-time jobs based on the competitive financial incentives offered by City staff to secure the project. City Council could choose not to approve the Ordinance authorizing the City to enter into the Agreement, which could adversely impact Liquid Web's decision to move and grow its operations in San Antonio.

FISCAL IMPACT:

Funding is available in the Economic Development Incentive Fund in FY 2016 to support the grant to Liquid Web. The grant will be paid based on the company's job retention and job creation milestones for up to four (4) years and a total amount of no more than \$225,000.

RECOMMENDATION:

Staff recommends approval of the Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement with Liquid Web. The City will provide a performance-based grant in an amount up to \$225,000, provided that Liquid Web relocates and retains 57 existing jobs and creates up to 43 new full-time jobs in Downtown San Antonio.