



# City of San Antonio

## Agenda Memorandum

**File Number:**18-3682

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**Agenda Item Number:** 40.

**Agenda Date:** 6/21/2018

**In Control:** City Council A Session

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**DEPARTMENT:** Economic Development

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** 1

### **SUBJECT:**

City Council consideration of an Economic Development Incentive Fund (EDIF) Grant Agreement with The Hut Group.

### **SUMMARY:**

This ordinance authorizes a performance-based Chapter 380 EDIF Grant Agreement with The Hut Group valued up to \$500,000, based on the relocation of the company's US Divisional Ingenuity Headquarters and the creation of 165 new full-time jobs earning \$70,000 or more annually in Downtown San Antonio.

### **BACKGROUND INFORMATION:**

Founded in 2004 and headquartered in Northwich, Cheshire, United Kingdom, The Hut Group is a private, British e-commerce company that operates over 100 international websites selling health, beauty, and lifestyle products, in addition to a business-to-business division that includes several web hosting brands. The company's investors include KKR, BlackRock, Sofina, and Bladerton Capital, as well as established retailers Sir Terry Leahy and Lord Rose.

In 2017, the company received a significant investment from Old Mutual Global Investors, which allowed it to purchase Glossybox, luxury spa brand ESPA, and RY, a major online hair and beauty store in Australia. With the acquisition, The Hut Group became the #1 online retailer for health and beauty products in Australia, and expanded its presence to Berlin, Germany as well.

The company is regarded as a premier European technology company, and was valued at more than £2.5bn

(\$3.5 billion) in 2017, making it one of the most valuable private companies in the United Kingdom. The company has over 3,000 employees and had sales of \$990 million in 2017.

As part of this project, the company is looking to relocate its U.S. Divisional Ingenuity Headquarters and create 165 new, high-paying full-time jobs over five years at The Commerce Building, located at 314 E. Commerce Street. The location will be a launching point for the company's growth in the U.S. and for operations related to its platform division, which focuses on web hosting properties and brands. These operations will include high-skill jobs, including software developers, engineers, technical development, as well as the company's U.S. executive suite.

The 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 (SAEDF). Such goals include the attraction of corporate headquarters and their employees, the creation of high-wage, high-skill jobs, and support for the continued growth of the City's targeted industries. The project presents an excellent opportunity to secure the presence of an innovative, high-paying, high-growth IT company in San Antonio and associated new foreign direct investment (FDI).

In collaboration with the City's economist, Dr. Steve Nivin, staff prepared an economic analysis that estimated the direct impact from the The Hut Group project, the indirect impacts resulting from business-to-business transactions, and the induced impacts of increased spending at local businesses, at over \$113 million in overall impact to the community over five years. The analysis also included an estimated fiscal impact of \$1.6 million to the City over five years.

## ISSUE:

In order to secure this project in San Antonio, City staff offered The Hut Group a performance-based Chapter 380 Economic Development Grant of up to \$500,000. In order to qualify for the recommended incentives, The Hut Group must relocate its U.S. Divisional Ingenuity Headquarters to Downtown San Antonio and create at least 165 new, full-time jobs within five years that pay a minimum of \$70,000 annually. The grant would include an initial disbursement of \$100,000 to support the company's relocation costs, and a per job grant of \$2,424.24 for each job created over five years, up to 165 jobs.

The company anticipates the potential for additional job growth, so in addition to the 165 new-full time jobs that must make at least \$70,000 annually, all employees at the project site must be paid the Living Wage of no less than \$12.07 per hour. Additionally, 70% of all employees at the project site must make a wage of no less than \$16.29 per hour after one year of operation.

As part of The Hut Group's agreement with the City, the company must also commit to participating in a corporate commuter benefits program, such as becoming a corporate member of VIA's EZ Rider Program, alternative work schedule programs, and/or transit, carpool, or vanpool subsidies. Additionally, The Hut Group must also agree to sponsor internships through a negotiated partnership with the *SA Works* program, and participate in at least two job fairs within the San Antonio city limits during the first two years of operations.

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants for the purpose 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 grant amounts per job for headquarters

relocation, targeted industry development, and other related criteria.

#### **ALTERNATIVES:**

Based on the City's competitive offer and local support for the project, The Hut Group has decided to proceed with the relocation of the company's U.S Divisional Ingenuity Headquarters to San Antonio and creation at least 165 new high-wage full-time jobs over five years. City Council could choose to not approve the Ordinance authorizing the incentive agreement, which may adversely impact The Hut Group's decision to locate and grow its operations in San Antonio.

#### **FISCAL IMPACT:**

This ordinance authorizes a performance-based Chapter 380 EDIF Grant Agreement with The Hut Group in the amount of \$500,000. Funds for this Grant Agreement are available from the FY 2018 Adopted Budget for EDIF.

#### **RECOMMENDATION:**

Staff recommends approval of an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement with The Hut Group in which the City will provide a grant of up to \$500,000, provided that The Hut Group relocates its headquarters and creates 165 new full-time jobs in San Antonio paying a minimum salary of \$70,000 annually.