



City of Cincinnati

July 15, 2003

To: Mayor and Members of City Council

From: Valerie A. Lemmie, City Manager

RE: **Convergys Corporation Documents**

- Emergency Ordinance Approving an Agreement with Convergys Corporation for the Creation and Retention of Jobs
- Emergency Ordinance Authorizing the Conveyance of a permanent, non-exclusive, Easement for ingress and egress over City-owned Property
- Emergency Ordinance Authorizing the Conveyance of an Aerial Easement from fifteen (15) above the surface over City-owned Property
- Emergency Ordinance Authorizing the City Manager to execute Consent to Assignment of Service Agreement with Asset Ohio Fourth Street LLC, or its designee.
- Emergency Ordinance Authorizing the City Manager to execute a Release of a Pedestrian Access Easement
- **Emergency Ordinance Approving the sale of City-owned property located at 220-224 East Third Street to Asset Ohio Fourth Street LLC, an Ohio limited liability company, or its designee**

Transmitted herewith are the following emergency ordinances captioned:

APPROVING an agreement with Convergys Corporation, an Ohio corporation allowing: a refundable credit against the tax imposed on that company's net profits under Chapter 311 of the Cincinnati Municipal Code, in the amount of eighty (80%) percent of new income tax revenues from new jobs created by the company at and around 201 East Fourth Street and 227 West Seventh Street, Cincinnati, for a fifteen-year term; a nonrefundable credit against the tax imposed on that company's net profits under Chapter 311 of the Cincinnati Municipal Code, in the amount of seventy-five (75%) percent of income tax revenues from jobs retained by the company at and around 201 East Fourth Street and 227 West Seventh Street, Cincinnati, for a fifteen-year term; a direct property acquisition grant of \$4,000,000, and reimbursable employment performance grants in the aggregate amount of \$4,000,000.

AUTHORIZING the conveyance of a permanent, non-exclusive, easement for ingress and egress over City-owned property being an undedicated alleyway located between Hammond Alley and Third Street to Convergys Corporation, an Ohio corporation, or its designee, which conveyance is not adverse to the interest in the real estate retained by the City of Cincinnati.

AUTHORIZING the conveyance of an aerial easement from fifteen (15) above the surface over City-owned property being an undedicated alleyway located

between Hammond Alley and Third Street to Convergys Corporation, an Ohio corporation, or its designee, which conveyance is not adverse to the interest in the real estate retained by the City of Cincinnati.

AUTHORIZING the City Manager to execute Consent to Assignment of Service Agreement with Asset Ohio Fourth Street LLC, or its designee.

AUTHORIZING the City Manager to execute a release of a pedestrian access easement located on property to be owned by Asset Ohio Fourth Street LLC, or its designee, at 201 East fourth Street.

APPROVING the sale of City-owned property located at 220-224 East Third Street to Asset Ohio Fourth Street LLC, an Ohio limited liability company, or its designee, whose address is c/o Convergys Corporation, 201 East Fourth Street, Cincinnati, Ohio 45202; determining that the conditions for the sale of the property are satisfactory; and authorizing the proper city officers to do all necessary and proper actions to effectuate said sale.

BACKGROUND

Convergys has its world headquarters located in Cincinnati and currently employs 1,450 jobs within the City with an average salary of \$73,000. Convergys plans to consolidate its world headquarters downtown at 201 East 4th Street (Atrium One). This project will result in a capital investment of approximately \$115 million, the retention of 1,450 jobs and the creation of 1,450 new jobs over a 15-year period. Convergys had opportunities to locate their expansion in suburban Cincinnati or Kentucky. If Convergys relocates outside of the City, it would result in a loss of the 1,450 employees income and Convergys corporate income, which together generate about \$4.0 million in City income tax a year.

In its analysis to make a location decision Convergys compared the costs of doing business in Cincinnati versus a Kentucky site. It then compared incentives offered by various entities to determine the cost benefit of a location decision. The cost benefit was measured by Convergys on a net present value after tax basis. The company indicates that state and local assistance were the deciding factor in Convergys' decision to expand and consolidate its headquarters at 201 East 4th Street. The company also indicates that this is the amount of incentives that they need to stay in Cincinnati. The company further indicates that while a slightly better cost benefit could be obtained in Kentucky, it made a strategic decision to remain in Cincinnati.

The attached document reflects the following understanding of the Convergys project:

- (1) Convergys will invest at least \$100 million within the City of Cincinnati to acquire, renovate, and/or construct a world corporate headquarters and purchase additional machinery and equipment.

- (2) The project site will include the acquisition, renovation, and/or construction of a downtown Cincinnati office building, and the renovation of a data center currently located in downtown Cincinnati.
- (3) Convergys will create a minimum of 225 new full-time jobs inside the City within the first 3 years of the project with an average annual salary of not less than 400% of federal minimum wage, with the potential for up to 1450 new jobs during the term of the tax credit and retain approximately 1,450 jobs with an average salary of not less than 400% of current federal minimum wage.
- (4) The City of Cincinnati is in competition with Northern Kentucky for this project.

CONVERGYS AGREEMENT FOR THE CREATION AND RETENTION OF JOBS

The City's incentive package was developed generally to match the State of Ohio's incentive package containing job creation and retention credits and a business development grant. Most of the terms and conditions also mirror those of the State. The attached document for the Creation and Retention of Jobs is provided to ensure that Convergys will maintain its corporate headquarters in Cincinnati. It contains the following elements:

Job Creation Income Tax Credits

The State of Ohio Job Creation Tax Credit Authority has approved an 80% job creation tax credit for 15 years. The City's Job Creation Tax Credit (JCTC) incentive is a refundable income tax credit to Convergys by the City for new job growth. It is based upon the number of jobs created in the City of Cincinnati. Credits will be offered for a period of 15 years and are calculated at a rate of 80% of the 2.1% City earnings taxes paid by new jobs. Assuming 225 jobs created in the first three years with an average annual base salary of \$71,000 plus continued annual job growth of 3.35%, this incentive has a projected value to Convergys of \$22.4 million over the 15-year period. It is estimated that 1,450 new jobs will be created over the 15-year period in the City of Cincinnati. The resulting estimated net gain of City income tax revenue ranges from \$50,000 to \$730,000 a year.

Job Retention Income Tax Credits

The State of Ohio Job Creation Tax Credit Authority has approved a 75% job retention tax credit for 15 years. The City's Job Retention Tax Credit (JRTC) incentive is nonrefundable job retention credit to Convergys for the retention of approximately 1,450 jobs within the Cincinnati city limits. It is calculated on an annual basis and utilizes the same assumptions, policies, and procedures consistent with the State of Ohio incentive for retained jobs. Convergys must meet all of the State's eligibility criteria and conditions to receive this credit, which include the following:

- (1) The Grantee's Project will retain at least 1,000 full-time jobs and involve a minimum capital investment in this State during a period of three consecutive calendar years of

either \$200 million, or \$100 million if the average wage of all Full-Time Employment Positions is greater than four hundred (400) percent of the federal minimum wage;

- (2) The Grantee is economically sound and has the ability to complete the proposed capital investment project;
- (3) The Grantee intends to and has the ability to maintain operations at the Project Site for at least twice the number of years as the term of the credit;
- (4) The Grantee's Project primarily involves the provision of significant corporate administrative functions; and
- (5) Receiving the tax credit is a major factor in the Grantee's decision to begin, continue with or complete the Project.

In addition to the above, the \$100 million capital investment eligibility requirement must occur within the Cincinnati city limits. Credits will be offered for a period of 15 years and are calculated at a rate of 75% of the 2.1% City earnings taxes paid by retained employees. Estimating 1,450 retained jobs in 2003, with an average annual salary of \$73,000, this incentive has a projected value to Convergys of \$33 million over the 15-year period. The resulting estimated net loss of City income tax revenue ranges from \$1.7 million to \$2.8 million a year.

Business Development Grants

The agreement provides that the City will match the State of Ohio's Business Development (412) Account grant of up to \$4 million. This Property Acquisition Grant amount will be provided on a reimbursement basis to offset the cost of building purchase and/or renovation. To be eligible for reimbursement, Convergys shall meet the State's retention investment criteria of \$100 million.

In addition, the City will also provide grants up to \$4 million to Convergys based on the employment performance of Convergys. These Employment Performance Grants will be dispersed as follows: \$2 million after the addition of at least 225 jobs (1,675 total jobs); \$1 million after the addition of another 225 jobs (1,900 total jobs); and \$1 million after the addition of another 225 jobs (2,125 total jobs).

The Business Development grants will also be funded from the downtown TIF bonds, notes and revenues which can only be used for downtown projects. The Atrium One annual tax increment revenue of \$1.3 million in effect will fund the grants. An ordinance for issuance of bonds and notes to accomplish the business development grants will follow in August. An appropriation transfer for temporarily funding the grants is incorporated into these provisions.

Additional Components of the Contract

The following items are additional components of the attached contract:

- (1) Convergys agrees to release the skybridge (walkway over Fort Washington Way) litigation after it purchases the building.
- (2) Consistent with the State package, this agreement also provides for a Passive Investment Company (PIC) tax refund if State tax laws should ever change to provide for an add-back of PIC taxes. This refund is only applicable to corporations which meet the strict definition of an "applicable corporation" as set forth in Ohio Revised Code section 122.171(A)(6).
- (3) Convergys must commit to hiring at least 10 percent disadvantaged and/or minority persons as defined by the Ohio Administrative Code and use good faith effort to hire minorities for employment at the Project in the same percentage as the average percentage of minorities represented in the population and demographics of the county in which the project is located and the contiguous Ohio counties.
- (4) The City Contract Compliance Division has determined that Convergys is in compliance with the City's EEO program. Convergys agrees to comply with both the City's EEO and SBE requirements.
- (5) Convergys must use reasonable efforts to fill at least 75% of the new jobs with City of Cincinnati residents. We also expect that Convergys will continue to take a leadership role in attracting customers, suppliers and others to locate downtown.
- (6) The contract includes several provisions which call for significant reduction of benefits if the job targets are not met or if Convergys fails to maintain operations in Cincinnati for 30 years. These are the same or slightly stricter than the State's requirements. In the event that job targets are not met, the penalties include a lower percentage for the retention and creation tax credits and/or reimbursement of a portion of the business acquisition and employment performance grants. If Convergys fails to maintain operations then a portion of the job creation and retention credits previously dispersed and/or business acquisition and employment performance grants previously dispersed may be refunded to the City.

ORDINANCES FOR EASEMENTS AND OTHER PROPERTY MATTERS

There are a number of items which also need to be accomplished related to this project. These additional items include:

- (1) To grant Convergys a non-exclusive easement to use the undedicated alleyway located between Hammond Alley and Third Street. This easement will allow Convergys to use the undedicated alleyway to access their parking garage and for other normal uses.

- (2) To grant Convergys an aerial easement from fifteen (15) above the surface over the undedicated alleyway located between Hammond Alley and Third Street. This is similar to the existing aerial easement granted to Cincinnati Bell and will allow Convergys to build over the undedicated alley.
- (3) As Convergys will now own the building located at 201 East 4th Street, the City Manager needs to execute consent to assignment of the existing service agreement for continued payment of the tax increment revenues.
- (4) To grant Convergys a release of a pedestrian access easement in the lobby of the 201 East 4th Street buildings for security reasons. This will allow the Convergys headquarters to be a private building.
- (5) To sell to Convergys a small City-owned parking lot located on Third Street at a price of \$75 per square foot.

In addition, the City has committed to update the downtown urban renewal plan for the area around 201 East 4th Street and perform a blight study.

SUMMARY OF THE STATE OF OHIO INCENTIVE PACKAGE

The State of Ohio's incentive package, which was approved by State Tax Credit Authority on June 30th, includes the following elements:

- (1) Job Creation Tax Credits in the amount of 80% for new jobs over a 15-year term. The estimated value of this incentive to Convergys is \$31.5 million.
- (2) Job Retention Tax Credits in the amount of 75% for retained jobs over a 15-year term. The estimated value of this incentive to Convergys is \$100 million.
- (3) Business Development Grant (412 account) of up to \$4 million to offset the costs of machinery and equipment purchases broken down as follows: \$3 million from calendar year 2003 and \$1 million from calendar year 2004.
- (4) Ohio Investment in Training Program training grant of up to \$2.7 million or 50 percent of the company's training costs associated with the project, whichever is less, spread over calendar years 2003 and 2004
- (5) A 166 Direct Loan for \$6 million to Convergys for financing machinery and equipment associated with the project.
- (6) A Passive Investment Company (PIC) tax refund if State tax laws should ever change to provide for an add-back of PIC taxes.

ANALYSIS OF CONVERGYS INCENTIVE PACKAGE

The following table provides a breakdown of the estimated incentives to Convergys:

Convergys Incentives	15 Years
Job Creation Tax Credits	\$22.4 million
Job Retention Tax Credits	\$33.0 million
Property Acquisition Grant	\$4.0 million
Employment Performance Grants	<u>\$4.0 million</u>

Total Incentives: \$63.4 million

Convergys Incentives	Annual Range over 15 years	
Job Creation Tax Credits	\$0.5 million to \$2.9 million	
Job Retention Tax Credits	\$1.7 million to \$2.8 million	
	Timing	Amount
Property Acquisition Grants	In 2003	\$4.0 million
Employment Performance Grants	@ 1,675 jobs	\$2.0 million
	@ 1,900 jobs	\$1.0 million
	@ 2,125 jobs	\$1.0 million

There are a number of risks related to this project:

- (1) The loss of Convergys could equal nearly \$4 million per year in tax revenue to the City. This loss would impact the City's budget and financial plan
- (2) The job retention credits result in reducing existing tax revenues to retain a company in Cincinnati. This will impact the City's budget and financial plan.
- (3) Convergys commits to the creation of a minimum of 225 new jobs. Convergys anticipates creating more jobs than the minimum; however, there is no guarantee that these additional jobs will be created. Convergys' application to the State of Ohio indicated a loss of more than 400 jobs in the Cincinnati area in the past year.
- (4) The movement of Convergys to Atrium One will cause other location/relocation decisions downtown.
- (5) Other companies may ask for similar incentive packages. The City has limited ability to provide any future packages.

RECOMMENDATION

The City Council is requested to approve the following items to keep Convergys in the City of Cincinnati:

- (1) Emergency Ordinance Approving an Agreement with Convergys Corporation for the Creation and Retention of Jobs
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- (6) Emergency Ordinance Approving the sale of City-owned property located at 220-224 East Third Street to Asset Ohio Fourth Street LLC, an Ohio limited liability company, or its designee

The reason for the emergency is the necessity to enable Convergys Corporation to commence work on its headquarters consolidation in order to create new jobs and to retain existing jobs.

Attachments: Emergency Ordinance Approving an Agreement with Convergys Corporation for the Creation and Retention of Jobs
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 EEO Compliance Letter