



SHAKER HEIGHTS

Neighborhood Revitalization and Development Committee Minutes Wednesday, March 13, 2019 6 P.M. Council Chambers

Members Present: Anne E. Williams, Chair
Nancy R. Moore, Council Member
Earl Williams, Council Member
Danielle Sydnor, Citizen Member
David E. Weiss, Mayor
Jeri Chaikin, Chief Administrative Officer
Katharyne Starinsky, Economic Development Specialist

Audio of this meeting may be found [here](#).

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The meeting was called to order by Anne E. Williams, Chair at 6:00pm.

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Approval of the January 9, 2019 Meeting Minutes

Anne E. Williams reviewed. Motion to accept the minutes were made, seconded and approved.

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Align Capital Partners Vision Fund Proposal

Presented by Katharyne Starinsky. The Economic Development (ED) Department requests that the Neighborhood Revitalization & Development Committee approve a Vision Fund incentive in the amount of up to \$80,000, to Align Capital Partners (Align), who intends to lease 4,500 square feet of 2nd floor office space (Suite #250) in the C2 building in the Van Aken District for ten years. Align has agreed on terms with RMS and has signed a letter of intent and will process their lease agreement concurrent to the City's approval process during the month of March.

Question was raised as to where Align will be located. Katharyne indicated that they will be located north of Market Hall. When you are standing at Mitchell's and you look to your right, they will be located there.

The Economic Development plan, adopted by City Council in November of 2010, called for the implementation of tenant incentives to make it financially feasible for businesses to expand their operations and locate new offices in Shaker Heights. The income tax revenue from the office workers will help to diversify the City's income tax base and the addition of significant daytime employment will increase demand for new restaurants and retail nearby. At the same time, this incentive requires that businesses meet agreed upon payroll and income tax targets within a set time frame to ensure that the City realizes a return on its investment.

The Economic Development plan calls for financial incentive parameters that not only include return on investment targets, but also take into consideration the location and the business segment of the tenant or project. Incentives should be targeted to generate economic activity in the places well-suited for commercial development by their zoning, transportation access, and surrounding land use. In addition, incentives will be most effective if they are focused on business segments identified in the ED report as these industries are the most likely to expand in the future and generate positive returns for the City.

The Vision Fund has made ten loans, totaling \$362K – the loans have stabilized office buildings in Shaker Heights and yielded \$653K (in income taxes) thru 2018, representing a return of 2:1 return on the City's funds. Funds for this incentive are available in the 2019 ED Department budget for this kind of financial incentive.

The Align office will occupy the last 10% of office in the RMS office property. The \$80,000 incentive will reduce the cost of build out and relocation from Beachwood to the Van Aken District. Managing Partner, Chris Jones, and his CBRE broker, met with me and Russell Berusch, consultant to the Economic Development Department on February 22. The City's internal loan review committee, including the Mayor, has reviewed Align's business history, ownership, financials and return on investment to the city.

Align Capital Partners is a growth-oriented private equity firm making control investments in business to business specialty manufacturing, distribution, and business services companies. Align has been in business for two and one half years. The Align team has completed 90+ transactions representing more than \$5 billion in enterprise value. In August 2018, Align acquired two Cleveland-based businesses: Predictive Service (located in Beachwood) and ABCO Fire. The three principals worked together at Riverside Investments, two of which live in Ohio - Chris Jones is a Shaker Heights resident and Steve Dyke is a Cleveland Heights resident. Align has two offices, locally at Lakepoint Office Park (3201 Enterprise Parkway, Suite 205, Beachwood, OH 44122) and another in Dallas, Texas. Their Lakepoint office lease commitment to renewal is in April 2019, but they are out of space there and Align is planning to grow further. The Beachwood office currently has six employees (not including the two local principals) with plans to add one to two jobs in the very near term. The Van Aken District office

layout has been designed to accommodate growth for up to fourteen employees. Individual employee pay is between \$150,000-200,000.

The out of pocket expense for build out at Van Aken is \$21,830, plus a data and cabling estimate of \$13,500 and furniture, fixtures and equipment estimate is \$112,500. Relocation expenses are estimated to be \$9,000. Additionally, the Van Aken lease will be approximately \$16,000 per year more than another Class A office space in Beachwood, which is \$160,000 during their ten year lease. Total expenses will thus total \$316,830.

The attraction of Align to the Van Aken District is testament to the City’s Economic Development plan, as we have created a place that would attract businesses of the caliber of Align Capital Partners. Align reflects the industry mix of the City’s economic development plans as a professional service business and would contribute to the City’s income tax base. Align is projecting that their income tax and net profits tax will range from \$60,115 to \$113,625 annually. If we assume a more conservative tax generation that does not include their planned growth, holding their payroll and net income profits steady at their 2018 values, they will produce \$44,435, paying off the incentive in two years.

The up to \$80,000 incentive will be paid out over the course of six years in installments. The first payment will be in January 2020 for \$12,000. For each of the following four years, depending on their previous year tax productions (see Table 1). If Align produces \$30,000 to \$90,000 in prior year income taxes, they will receive a payment of \$12,000. If Align produces more than \$90,000 in taxes in the previous year, they will receive a payment of \$17,000. Align will have the option to use year 6 as an alternate tax measurement period in lieu of one annual measurement period during the incentive term in order to reach the full, not to exceed, \$80,000 incentive amount. The aggregate incentive paid to Align (if any) based on the replaced measurement period and the year 6 alternate measurement period shall in no event exceed \$17,000. See Table 2 for possible payment scenarios.

Prior Year Taxes Collected	Incentive Payment Amount
\$30,000-90,000	\$12,000
>\$90,000	\$17,000

Year #		Payment Scenario #1 Taxes collected are \$30,000-\$90,000	Payment Scenario #2 Taxes collected are >\$90,000	Payment Scenario #3 Year 6 “Catch Up”
1	Flat Amount Paid January 2020	\$12,000	\$12,000	\$12,000
2	2021 Payment based on 2020 taxes	\$12,000	\$17,000	\$12,000
3	2022 Payment based on 2020 taxes	\$12,000	\$17,000	\$17,000
4	2023 Payment based on 2020 taxes	\$12,000	\$17,000	\$17,000

5	2024 Payment based on 2020 taxes	\$12,000	\$17,000	\$17,000
6	2025 Payment based on 2021 taxes	\$0	\$0	\$5,000
TOTAL		\$60,000	\$80,000	\$80,000

Question: Do we have, in terms of safety, UCC's on their payroll? Are we going to put any types of securitized positions on their payroll? Liens? Banks usually put some sort of guarantee to back up what their loaning on the receivables that they receive.

This company doesn't want this structured as a loan (it's a grant) so it's different. In the past, we called them unforgivable loan on the theory that if they close, the likelihood of getting the money back is slim to none. This is more of a "pay as you go".

Question: What incentive is RMS providing to Align? I understand that they are coming in and building. The \$386,000 is what is not being provided. Does this fund revolve so if we have the incentive, does it come back into fund for distribution? The finance department evaluates annually.

Recommendation: The Economic Development Department requests that the Neighborhood Revitalization and Development Committee approves a Vision Fund incentive to Align Capital Partners not to exceed \$80,000 with a six-year term.

Motion to approve the Fund was made, seconded and approved.

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There being no further business, the meeting was adjourned. The next meeting will be April 17, 2019.



Anne E. Williams, Chair
Neighborhood Revitalization Committee