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City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 19, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
Consideration of an Economic Development Incentive to Retain Kearney & Company in Alexandria.

ISSUE: Retaining 500 professional service company jobs in Alexandria.

RECOMMENDATION: That City Council allocate \$125,000 from the City’s share of the Alexandria Investment Fund to the Alexandria Economic Development Partnership (“AEDP”) as part of a \$250,000 total economic development retention incentive for Kearney & Company, P.C. to retain its headquarters in Alexandria with its 500 employees, as well as to grow by at least 50 additional jobs, subject to a planned Performance Agreement between Kearney & Company, P.C. and AEDP.

BACKGROUND: Founded in 1985, Kearney & Company, P.C. (“Kearney”) is a CPA firm focused exclusively on the Federal Government, providing services across the financial management spectrum. Kearney has helped the Federal Government improve its financial operations’ overall effectiveness and efficiency; increase its level of accountability and compliance with laws, regulations, and guidance; and protect federal funds from fraud, waste, and abuse.

Kearney currently employs more than 600 people in offices in Alexandria, Ohio and South Carolina. While 500 of those employees are assigned to the Alexandria office, with 200 currently working daily at the Alexandria office. The remaining work largely on-site at client locations around the Washington, D.C. metropolitan area, but do work at the Kearney headquarters offices on a regular basis.

In 2010, Kearney moved into their current headquarters location at 1701 Duke Street in Old Town, and has continued to grow, increasing their occupancy in their building to over 47,000 square feet (SF) as well as taking space in adjacent buildings as a result of new contract work (an additional 13,000 SF for a total Alexandria foot print of about 60,000 SF). As the end of their current lease term at 1701 Duke Street, approached AEDP reached out to Kearney as part of its expanded proactive retention efforts. Kearney had just begun to evaluate space options throughout the region, and through discussions with their leadership and real estate advisory teams, Kearney identified a number of items that would impact their desire to stay in Alexandria, and requested information about available state and local retention incentives.

Kearney now leases over 47,000 SF at 1701 Duke Street, with a lease expiration in 2020, with a proposal to sign a “blend and extend” lease that will extend their commitment through November 2028 (7 year, 10 month lease term) prior to their current lease expiration date. The lease and associated tenant improvements will accommodate their planned employee growth from 200 employees onsite to 250 employees over the next three years (+50). With an Alexandria-based payroll of more than 500 employees, Kearney is one of the largest private, for-profit employers in the City of Alexandria. It is also the last major accounting firm remaining in the City, as Grant Thornton has been moving to Arlington.

Kearney identified a variety of “must have’s” for their next office lease, including: competitive/favorable tax rates, proximity to a Metrorail station, parking availability and access to talent/workforce. The company narrowed their search to either expand in their current location near the King Street Metrorail station or sign on as a lead tenant in a new-build office building at another Metrorail station accessible site in Northern Virginia.

In order to assure Kearney’s growth in Alexandria, AEDP facilitated an application from the company to the Virginia Economic Development Partnership’s VJIP program, a grant program that provides State funding for each net new full-time job the company will create. Additionally, the AEDP has recommended Kearney receive an Alexandria Investment Fund grant totaling \$250,000, half of which (\$125,000) is from City funds set aside for economic development purposes. The remaining \$125,000 will be funded from Industrial Development Authority bond fees, which AEDP receives.

The Alexandria Investment Fund, or AIF, was established by City Council as part of the FY 2017 budget process for the purpose of providing the City and AEDP a tool to attract and retain job creating and revenue generating businesses. All grants awarded from the AIF are performance-based requiring companies to meet specific performance milestones before grant funds are distributed. If a company fails to meet the required milestones, funds will be “clawed back.” The AIF is funded through a combination of City General Fund monies and AEDP related Industrial Development Authority bond fee earnings.

DISCUSSION: Prior to recommending this grant, AEDP and City staff conducted due diligence on the company to develop the performance agreement metrics. The Performance Agreement outlines specific requirements that must be satisfied for the \$250,000 Alexandria Investment Fund grant to be disbursed to Kearney & Company, P.C. The agreement will be in place for a period of three years. The Performance Agreement will be between AEDP and Kearney. AEDP will disburse the \$250,000 to Kearney.

Expected outcomes include:

- The retention of 500 jobs and addition of 50 new highly paid jobs, of which the average wage must be \$79,500 which is above the City’s prevailing wage of \$71,795;
- Significant capital investment in an existing Class A office building;
- The retention of a nationally known growing accounting and consulting firm;
- Over the course of the extended lease, Kearney will contribute significant revenue directly to the City of Alexandria through real estate, business personal property and business license tax; and
- The City will receive additional economic and fiscal benefits from the company’s expansion, to include hotel room night generation, daily spending by the on-site workforce, and outlays by the company related to its business functions.

In accordance with the Performance Agreement, Alexandria will provide the following incentives:

- \$250,000 in cash from the Alexandria Investment Fund.

Given the performance-based nature of this incentive, the Performance Agreement includes a provision that requires the company to repay the grant if the targets outlined in the Performance Agreement are not met within the three-year performance period.

FISCAL IMPACT: AEDP's analysis of Kearney financial information concluded that the City direct tax revenue over the course of the extended lease will exceed \$6.7 million as a result of Kearney's retention and expansion. When the AIF cash grant is taken into account, the 7-year net direct tax benefit to the City will be approximately \$6.5 million.

STAFF:

Stephanie Landrum, President & CEO, Alexandria Economic Development Partnership
Kendel Taylor, Director of Finance