



Date: April 4, 2016

To: Thomas J. Bonfield, City Manager

Through: Keith Chadwell, Deputy City Manager

From: Kevin Dick, Director - Office of Economic and Workforce Development

Subject: Potential Economic Development Incentive Agreement between the City of Durham and Aurobindo Pharma U.S.A., Inc.

Executive Summary

This item describes an expansion project related to potential economic development incentives for job creation within the city limits between the City of Durham and Aurobindo Pharma U.S.A., Inc.

Recommendation

The Office of Economic and Workforce Development recommends that City Council:

1. Hold a public hearing on the proposed economic incentive agreement per G.S. 158-7.1; and,
2. Authorize the City Manager to execute an economic development incentive agreement with Aurobindo Pharma U.S.A., Inc. for a total incentive payment amount not to exceed \$200,000.00.

Background

Company Summary:

- Pharmaceutical company with U.S. headquarters in New Jersey;
- Company started operations in 1988 and became public in 1992;
- Market leader in semi-synthetic penicillin and has a presence in therapeutic segments such as neurosciences, cardiovascular, anti-retrovirals, anti-diabetics, gastroenterology, cephalosporins and others;
- Recognized as one of the top 10 pharmaceutical companies (brand or generic) in terms of total prescriptions dispensed;
- Portfolio includes more than 125 product families and 450 individual product packages;
- FDA approvals received in 2015 have allowed Company to manufacture products that are slated to help treat various conditions such as schizophrenia, bipolar disorder, ulcers and hyperlipidemia;
- Company has plans to create new service lines and will grow the R&D business to develop new inhalation and dermatological products; the manufacturing facility would then create these products.

Company's Options:

- Either locate a manufacturing facility and research and development center in Durham or at its headquarters location in New Jersey.

Issues and Analysis

Project Assumptions:

- Company owns land in NJ and would gain economies of scale from locating a facility on land they currently own; however, renovating an existing facility in Durham would enable a faster project completion time than building a new facility;
- Company anticipates the creation of 200 jobs, including 113 manufacturing-production jobs by the end of 2018 and \$31.7M in capital investment;
- Average wage for the positions is \$54,175.00 and the positions would have full benefits;
- Capital investment at the stated levels could result in approximately \$395,000.00 in new tax revenues after five years and an additional \$310,000.00 after another five years for a total of over \$700,000.00 after ten years.

The State of North Carolina Department of Commerce and the Economic Development Partnership of North Carolina are proposing an incentive offer in the form of a Job Development Investment Grant (JDIG) that is being finalized. The State's offer would require an adequate local match (not necessarily one to one). Based upon that stipulation and based upon the parameters of the Economic Development Financial Assistance and Incentive Policy for Job Creation and Capital Investment, the maximum amount recommended is appropriate.

Potential City of Durham Incentives:

- Proposed offer is up to \$1,000.00 per job for each individual hired for a total not to exceed \$200,000.00.
- Durham County is considering an incentive offer of equal value with similar conditions.

Company would be required to enter into a Durham Workforce Plan that would stipulate the use of the NCWorks Career Center for personnel recruitment and to utilize the Durham Based Business Plan in order to provide opportunities for Durham firms to enter into contracts.

Additional City of Durham assistance may include the offer of On-the-Job Training based upon funding availability and program suitability, as well as usage of the NCWorks Career Center system for recruitment.

Other Factors:

- Biopharmaceuticals is a coveted industry;
- There is significant evidence that not providing an incentive would result in the project occurring elsewhere;
- Incentive agreement would stipulate:
 - Support of the Durham YouthWork Internship Program;
 - Participation in the Durham Workforce Plan;
 - Participation in the Durham Based-Business Plan

Alternatives

Council could elect not to authorize the City Manager to negotiate an economic development agreement not to exceed \$200,000.00 and risk losing the potential creation of 200 jobs within Durham and \$31.7M in capital investment.

Financial Impact

The Office of Economic and Workforce Development is recommending up to a maximum of \$200,000.00. The Office of Economic and Workforce Development will determine allocation of funding for this incentive. The full incentive of \$200,000 will be paid in one lump-sum upon successful creation of 200 jobs in the three-year time period as specified in the incentive agreement.

SDBE Summary

This item is not applicable because no SDBE goals have been set for the item.

Attachments

Contract between Aurobindo Pharma U.S.A., Inc. and the City of Durham Regarding Incentives for Job Creation within the City Limits, 18 pages.