

**CITY OF SAN ANTONIO
INTERDEPARTMENTAL MEMORANDUM
ECONOMIC DEVELOPMENT DEPARTMENT**

TO: Mayor and City Council
FROM: Ramiro A. Cavazos, Director, Economic Development Department
THROUGH: Terry M. Brechtel, City Manager
COPIES: Christopher J. Brady, Manuel Longoria, Jr., Trey Jacobson, Veronica Zertuche, Ed Davis, File
SUBJECT: Nomination of Boeing Aerospace Operations, Inc. as a State Enterprise Zone Project
DATE: May 22, 2003

SUMMARY AND RECOMMENDATION:

This resolution nominates Boeing Aerospace Operations, Inc. to the Texas Department of Economic Development (TXED) as State Enterprise Zone project. This project is located at KellyUSA within a Developable Area of the Federal Empowerment Zone that also meets the State's criteria for qualification as State Enterprise Zone area. State Enterprise Zone project designation by TXED will qualify the company for state sales and use tax refunds and franchise tax credits based on the retention of 250 jobs at Boeing's KellyUSA site, resulting from \$47 million of private investment in a state-of-the-art paint/depaint facility.

Staff recommends approval of this resolution.

BACKGROUND INFORMATION:

The State Enterprise Zone Program is an economic development tool that allows communities to partner with the State in promoting development in economically distressed areas. The City of San Antonio administers three state-designated Enterprise Zones. In addition, projects that locate within a federal empowerment zone are eligible to receive state enterprise zone designation. KellyUSA is one of three City of San Antonio Empowerment Zone Developable Sites and is, therefore, part of the federal empowerment zone established in January 2002.

State enterprise zone project status allows designated businesses to receive a refund of up to \$1.25 million in state sales and use taxes paid on labor and materials for renovation or construction, as well as on electricity/natural gas consumed in the normal course of business. The state sales tax refund is based on job creation or retention over 5 years. Specifically, a company can receive a refund of \$5,000 per employee for up to 250 permanent jobs created or retained by the company. In addition, projects are also eligible for a reduction in state franchise tax credits.

To qualify for State enterprise zone incentives, a business must be located within an approved enterprise zone and fill 25% of all new or retained jobs with either zone residents or economically disadvantaged individuals. The City has already used three of its six enterprise projects for the current State biennium.

Boeing has been operating at KellyUSA since 1998. The company currently leases 1.3 million square feet of facilities conducting maintenance and modification on large, primarily military aircraft and employing over 2,300 aerospace workers. Boeing's San Antonio payroll totals approximately \$55 million annually with an average hourly employee wage of \$16.50. Boeing also spends about \$16 million on local contractors and vendors with approximately 74% of these contracts are awarded to small, disadvantaged and women-owned businesses.

The Boeing lease at KellyUSA includes large paint and de-paint facilities capable of handling all types of wide-bodied aircraft. Due to outdated technological processes and poor workflow design in these facilities, Boeing is experiencing a bottleneck in the servicing of aircraft that is severely limiting their ability to grow this portion of their business operations at KellyUSA. Failure to improve and upgrade these facilities will likely result in the transfer of paint/depaint workload and jobs to other Boeing locations. Boeing, therefore, expects to retain 250 jobs in San Antonio by investing approximately \$47 million over 5 years in new paint/de-paint technology and processes that will make their paint/de-paint facilities more efficient and productive. This investment will increase their aircraft servicing capability from 50 to 80 planes per year resulting in a 60% increase in capacity, a significant decrease in costs and improved customer satisfaction.

Boeing Aerospace Operations, Inc. has requested that City Council nominate this project to TXED for State EZ designation. With the Boeing nomination the City will have 2 projects remaining until September 1, 2003, when the City will receive a new allocation of 6 enterprise projects for the next State biennium.

POLICY ANALYSIS:

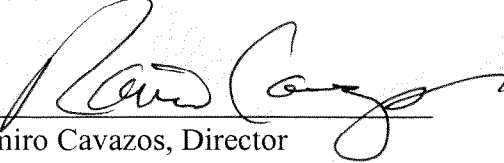
This project supports the City's Strategic Plan for Enhanced Economic Development by promoting: (1) the targeted industry of aerospace; (2) the continued redevelopment of KellyUSA into world-class maintenance and modification center; (3) the retention of good-paying aerospace jobs; and (4) the potential expansion of a local aerospace company. This project will provide employment opportunities for enterprise zone residents and economically disadvantaged individuals. The company is also eligible for federal Empowerment Zone incentives, such as the federal employment wage credit of \$3,000/year for each employee who resides within the EZ.

FISCAL IMPACT:

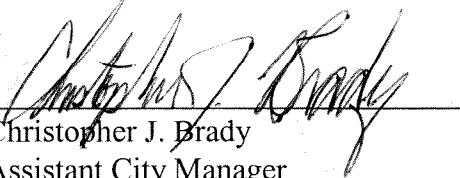
There is no direct financial impact to the City of San Antonio.

COORDINATION:

Staff has coordinated this item with the Texas Department of Economic Development.

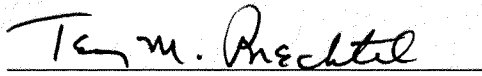


Ramiro Cavazos, Director
Economic Development Department



Christopher J. Brady
Assistant City Manager

Approved:



Terry M. Brechtel
City Manager