

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

**PUBLIC HEARING
TIME CERTAIN
ITEM NO 4 B4C
2:30 PM**

TO: Mayor & City Council

FROM: Ramiro A. Cavazos, Director, Economic Development Department

THROUGH: Terry M. Brechtel, City Manager

COPIES: Christopher J. Brady; Trey Jacobson; Veronica Zertuche; Ed Davis; File

SUBJECT: Tax Phase-In and Designation of Reinvestment Zone for Aero Sky L.L.C.

DATE: May 29, 2003

SUMMARY AND RECOMMENDATIONS:

The purpose of this item is to: (1) conduct a public hearing and consider an ordinance approving the designation of the Aero Sky Reinvestment Zone consisting of approximately 15 acres at 2030 First Avenue, San Antonio International Airport; and (2) consider an ordinance approving and authorizing execution of a Tax Phase-In Agreement to exempt from ad valorem taxation approximately \$4.26 million in real property improvements for Aero Sky L.L.C. The ordinance approves a 100% tax phase-in on real property improvements for a 6-year term.

Staff recommends approval of this ordinance.

BACKGROUND INFORMATION:

Aero Sky has been conducting aircraft maintenance operations at San Antonio International Airport since 1993. The company currently leases its airport facilities and employs 40 full-time personnel with an annual payroll of about \$2 million. The company specializes in routine and heavy aircraft maintenance for corporate jets and major airlines with an emphasis on interior refurbishment for overseas air carriers and VIP aircraft. Some of Aero Sky's customers include Delta Airlines, America West, Eagle Aviation, and Express One. Aero Sky currently utilizes 350 local vendors and subcontractors spending approximately \$1.5 million per year.

Aero Sky has applied for a tax phase-in on real property improvements associated with the construction of new facilities at San Antonio International Airport. Aero Sky will finance and own these improvements that will include: (1) constructing a new 83,200 sq. ft. aircraft hangar; (2) constructing a new employee/customer parking area; (3) constructing a new 40,000 sq. ft. facility for maintenance, inspection and administrative offices; and (4) demolishing three existing facilities totaling 41,679 sq. ft. With this expansion, Aero Sky will add 40 new full-time jobs by 2009. This project will also provide approximately 70 one-time construction jobs for 18-24 months. Construction is scheduled to begin in June 2003, with completion expected by June 2005.

POLICY ANALYSIS:

Aero Sky is in the targeted aerospace industry and qualifies under the City's Tax Phase-In Guidelines as an aerospace/aviation facility. In addition, this project supports the Strategic Plan for Enhanced Economic Development by: (1) encouraging the retention and expansion of local businesses; and (2) promoting continued growth in a targeted industry.

This project meets the City's Tax Phase-In Guidelines for investment, wages and the term of the abatement. To qualify for tax abatement on real property, a company must invest \$1.0 million or create 26 new jobs. The company is projected to invest \$4.26 million to construct two new facilities and parking resulting in 40 new jobs. All new jobs will start at \$10.00 an hour, with the average employee wage of \$12.00 - \$16.00. This project, therefore, exceeds the City's wage standard for tax phase-in agreements that require all new employees to earn at least \$8.75/hour, and that at least 70% of all new employees must earn \$9.86/hour. The term of the agreement is for six years, pursuant to the Tax Phase-In Guidelines.

Criteria for Real Property Tax Phase-In	Aero Sky Project
Investment => \$1 million	\$4,260,000
OR Job Creation => 26 New Jobs	40 New Jobs
AND Benefits Package	Yes
AND 100% of New Jobs => \$8.50/hr	Yes
AND 70% of New Jobs at or above \$9.86/hr (following a one-year skills development period)	Yes
6-Year Term Outside Loop 410	Yes

FISCAL IMPACT:

The following table details the direct financial impact to the City due to the project's \$4.3 million investment in real property. The company currently pays no taxes on the land or buildings it is leasing (City-owned property). Over the first 6-years of the abatement, the City will collect approximately \$38,757 in new taxes from Aero Sky from personal property, inventory and sales taxes collected from new payroll. In years 7-12 following the abatement term, the City will collect \$178,873 in new taxes on real and personal property and sales taxes. Total property taxes abated over the 6-year term of the tax phase-in are \$142,003. Overall, the City's net fiscal benefit over 12 years is \$75,627 in new property and sales tax revenues. It is

estimated that the Northeast Independent School District will receive approximately \$880,889 in school district taxes over the 12-year period.

City 12-Year Fiscal Impact (Phase-In Project: 100%, 6-Year Term, \$4.3 M Real Property)

Year	New Property and Sales Taxes Collected (note)	Property Taxes Abated (Real Property)	Net Benefit
1-6	\$ 38,757	\$142,003	(\$103,246)
7-12	\$178,873	\$0	\$178,873
Total	\$217,630	\$142,003	\$ 75,627

Note: Currently no assessed value (city-owned property). Includes taxes collected on new personal property and new inventory that is not being abated and sales taxes collected from new payroll.

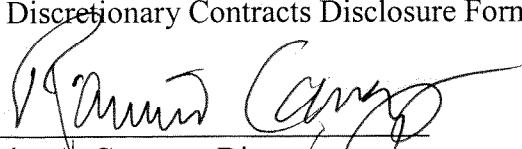
The phase-in contract will allow the City to recapture up to 100% of abated taxes from Aero Sky during the 6-year term and on a prorated basis for another 4 years. Recapture provisions apply if Aero Sky relocates its business activities outside the City limits or ceases conducting business activities in the City limits. The City may also terminate the agreement if Aero Sky fails to retain a minimum of 40 jobs and create 40 new jobs as a result of this project.

COORDINATION:

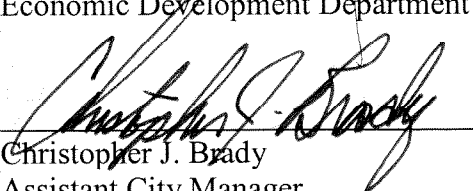
The Economic Development Department (EDD) staff has met with the City Attorney's Office to finalize this agreement. EDD coordinated with the Aviation Department, as well as Public Works, Development Services, Planning, Finance, Police and Fire and determined that the project has no appreciable impact on the delivery of City services.

SUPPLEMENTARY COMMENTS:

The Discretionary Contracts Disclosure Form is attached.

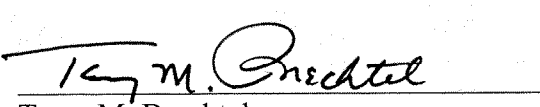


Ramiro A. Cavazos, Director
Economic Development Department



Christopher J. Brady
Assistant City Manager

Approved:



Terry M. Brechtel
City Manager

Attachments

City of San Antonio

Discretionary Contracts Disclosure*

For use of this form, see City of San Antonio Ethics Code, Part D, Sections 1&2
Attach additional sheets if space provided is not sufficient.
State Not Applicable for questions that do not apply.

* This form is required to be supplemented in the event there is any change in the information under (1), (2), or (3) below, before the discretionary contract is the subject of council action, and no later than five (5) business days after any change about which information is required to be filed.

Disclosure of Parties, Owners, and Closely Related Persons

For the purpose of assisting the city in the enforcement of provisions contained in the City Charter and the code of ethics, an individual or business entity seeking a discretionary contract from the city is required to disclose in connection with a proposal for a discretionary contract:

(1) the identity of any **individual** who would be a party to the discretionary contract;

Sherri Fourrier

(2) the identity of any **business entity** that would be a party to the discretionary contract:
AERO SKY, L.L.C. a
nd the name of:

(A) any individual or business entity that would be a *subcontractor* on the discretionary contract;

NONE

(B) any individual or business entity that is known to be a *partner*, or a *parent* or *subsidiary business* entity, of any individual or business entity who would be a party to the discretionary contract;

NONE

(3) the identity of any **lobbyist** or **public relations firm** employed for purposes relating to the discretionary contract being sought by any individual or business entity who would be a party to the discretionary contract.

NONE

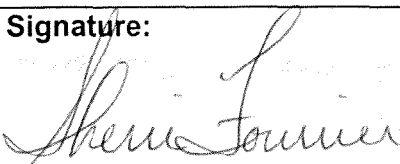
Political Contributions

Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any current or former member of City Council, any candidate for City Council, or to any political action committee that contributes to City Council elections, by any individual or business entity whose identity must be disclosed under (1), (2) or (3) above. Indirect contributions by an individual include, but are not limited to, contributions made by the individual's spouse, whether statutory or common-law. Indirect contributions by an entity include, but are not limited to, contributions made through the officers, owners, attorneys, or registered lobbyists of the entity.

To Whom Made:	Amount:	Date of Contribution:
NONE		

Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city shall disclose any known facts which, reasonably understood, raise a question¹ as to whether any city official or employee would violate Section 1 of Part B, Improper Economic Benefit, by participating in official action relating to the discretionary contract.

NONE		
Signature: 	Title: Manager/President Company: AERO SKY, L.L.C.	Date: 4/18/03

¹ For purposes of this rule, facts are "reasonably understood" to "raise a question" about the appropriateness of official action if a disinterested person would conclude that the facts, if true, require recusal or require careful consideration of whether or not recusal is required.