

AGENDA ITEM NO. 41

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: J. Rolando Bono; Trey Jacobson; Veronica Zertuche; Ed Davis; File

SUBJECT: Kelly Defense Economic Readjustment Zone (Kelly-DERZ) Project Nomination

DATE: May 20, 2004

SUMMARY AND RECOMMENDATIONS:

The purpose of this resolution is to nominate Standard Aero San Antonio, Inc. (Standard Aero) to the Office of the Governor, Economic Development and Tourism, for designation as a Defense Economic Readjustment Zone (DERZ) Project. This project is in the Kelly Defense Economic Readjustment Zone (Kelly-DERZ). This designation will qualify Standard Aero for State sales and use tax refunds and franchise tax credits based on a projected capital investment of \$10 million for facility improvements and the purchase of machinery and equipment. This resolution authorizes the City Manager to submit a DERZ application to the State of Texas and designates the Economic Development Department as the DERZ project liaison. There is no financial impact to the City associated with this State incentive program or application.

Staff recommends approval of this resolution.

BACKGROUND INFORMATION:

The Defense Economic Readjustment Zone Program (DERZ) is an economic development tool provided by the State of Texas to assist communities that have been adversely impacted by Department of Defense base closure and realignment activities. The Kelly-DERZ, which includes all of the property at KellyUSA, was designated by the State for a period effective from July 24, 2000 to September 1, 2007. The purpose of a DERZ is to provide incentives that will encourage businesses to locate and expand at KellyUSA, as well as provide local employment opportunities.

With a DERZ project designation, a business can receive a refund of up to \$1.25 million (over 5 years) in State sales and use taxes paid on the purchase of equipment/machinery, labor and materials for renovation or construction, and electricity/natural gas consumed in the normal course of business. Specifically, a company can receive a refund of \$2,500 per employee up to 500 permanent jobs created or retained. In addition, projects are also eligible for a reduction in state franchise tax credits based on job creation and investment. To qualify for DERZ incentives, a business must be located within the DERZ and fill 25 percent of all new or retained jobs with San Antonio residents, economically disadvantaged individuals, or dislocated defense workers.

Under State program guidelines, the City may nominate two readjustment projects within the Kelly-DERZ for State designation. Standard Aero is the City's first Kelly-DERZ project nomination. Standard Aero is part of Dunlop Standard Aerospace Group, headquartered in Winnipeg, Canada, with operations worldwide and over 4,000 employees. Standard Aero has been conducting aircraft engine repair and overhaul work for the U.S. military at KellyUSA since May 1999, leasing 433,928 square feet of facilities from GKDA. The company

currently employs 736 workers, with an annual payroll of approximately \$33 million, and an average hourly wage of \$15/hour. The company has also invested approximately \$5 million in improvements on a leased facility, and has located its USA headquarters at KellyUSA.

Standard Aero is planning to expand operations due to the recent award of a US Navy aircraft engine contract worth \$47 million and an anticipated surge in existing requirements. To accommodate this additional workload, Standard Aero intends to invest \$10 million over the next 1-3 years in facility improvements (\$1.5 million), the purchase of machinery and equipment (\$7.5 million), and materials and tools (\$1 million). Standard Aero plans to add another 100 full-time jobs as a result of this expansion, with the majority to be hired by July 2004 at an estimated annual payroll increase of \$3 million. Standard Aero also provides its employees with a benefit plan at about 25% of salary. Standard Aero San Antonio, Inc. has requested that City Council nominate this project to the Office of the Governor, Economic Development and Tourism, for Defense Economic Readjustment Zone designation.

POLICY ANALYSIS:

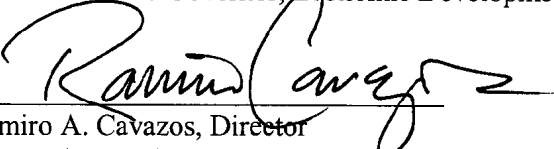
By nominating Standard Aero to the State for DERZ project designation, the City will have one project nomination remaining in the Kelly-DERZ through September 1, 2007. This project supports the City's Strategic Plan for Enhanced Economic Development by: (1) promoting continued growth in the targeted industry of aerospace and manufacturing; (2) facilitating the continued redevelopment of KellyUSA into a world-class aircraft maintenance, repair and overhaul center; (3) creating good-paying jobs in a targeted industry; and (4) promoting the expansion of a locally headquartered aerospace company. This project will provide employment to San Antonio residents, economically disadvantaged individuals, and dislocated defense workers. 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 zone.

FISCAL IMPACT:


There is no fiscal impact to the City of San Antonio.

COORDINATION:

The Economic Development Department (EDD) staff coordinated this item with the City Attorney's Office and the Office of the Governor, Economic Development and Tourism.

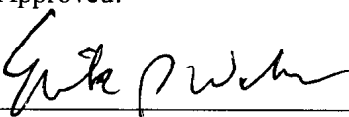


Ramiro A. Cavazos, Director
Economic Development Department



J. Rolando Bono
Deputy City Manager

Approved:



Terry M. Brechtel
City Manager