

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

AGENDA ITEM NO. **30**

TO: Mayor and City Council

FROM: Ramiro A. Cavazos, Director, Economic Development

THROUGH: Terry M. Brechtel, City Manager

COPIES: J. Rolando Bono; Andrew Martin; Milo Nitschke; Trey Jacobson;
Manuel Longoria Jr., File

SUBJECT: Guidelines for Economic Development Incentive Fund

DATE: June 3, 2004

SUMMARY AND RECOMMENDATION:

This ordinance would adopt Guidelines for use of the Economic Development Incentive Fund (EDIF). The Guidelines would give specific policy direction to staff regarding the use of the EDIF to attract or retain high-impact companies that are part of, or directly support, the City's targeted industries. Also, this ordinance would amend Ordinance No. 97248 (approved February 27, 2003), to modify the Economic Development Program for the City to permit grants in accordance with these Guidelines.

Staff recommends approval.

BACKGROUND:

As part of the FY2004 budget, the City Council allocated \$12 million to be used in attracting companies to San Antonio. The purpose of the Economic Development Incentive Fund (EDIF) is to support public improvements or customized job training that is offered as part of a larger package of incentives to attract, and/or retain, high-impact companies or government agencies that are part of, or support, the City's Targeted Industries. The funds may also be used to match and leverage private, state, or federal grants intended to achieve this goal. In response to City Council direction, staff developed draft Guidelines in September 2003 for the use of the EDIF. (The Guidelines are attached as Exhibit A.)

These Guidelines were presented to the City Council's Economic and Human Development Committee on two occasions. Written comments were also solicited from City Council offices on the draft Guidelines. Other than updates made by staff pertaining to targeted industries and development impacting the Edwards Aquifer Recharge Zone, no other revisions were proposed.

On May 12, the Economic and Human Development Committee approved the draft EDIF Guidelines, and requested that the Guidelines be presented to the entire City Council for approval.

POLICY ANALYSIS:

This ordinance would adopt Guidelines for the use of the EDIF, thus providing staff with policy guidance on the types of projects eligible for this economic development incentive. Staff will use these Guidelines during its discussions or negotiations with companies pertaining to incentive packages.

Eligibility Requirements: The EDIF will be limited in use to the following type of opportunity--

- **Attraction of a new company or government agency project that meets the following criteria:**
 - Company/agency is part of, or supports, one of the following Targeted Industries, which are included in the City's Tax Phase-in Guidelines or the *Strategic Plan for Enhanced Economic Development*:
 - Agribusiness
 - Aviation/Aerospace
 - Biotechnology
 - High Level Business Services
 - Information Technology and Security
 - Logistics and Distribution
 - Manufacturing
 - Telecommunications
 - New planned investment in real and/or personal property exceeding \$50 million.
 - Company/agency will directly create at least 500 full-time, permanent positions within one year of project completion.
 - Company/agency exceeds 1.5 times the Wage Standard of City, and provides access to health insurance for employee and their dependents.
 - Company/agency project is located in area targeted for development.
- **Retention of an existing company or government agency, meeting the criteria above, whose potential relocation is real and known.**

Use of Funds: The EDIF can be used directly for the acquisition, design, construction, financing, and development of public improvements (e.g., facilities, streets, utilities, right-of-way, easements) or workforce training. Additionally, the City's Economic Development Program may also allow for other economic development uses (e.g., property acquisition, site development, financing costs, facilities, and other uses) to be indirectly funded using EDIF, pursuant to Chapter 380 of the Texas Local Government Code.

Authorization for Use: The City Manager will be authorized to offer and negotiate use of some or all of the funds for companies meeting the eligibility requirements. All agreements and allocations for the use of funds from the EDIF must receive City Council approval.

Ineligible and Restricted Areas: Projects located in whole or in part over the Edwards Aquifer Recharge Zone are not eligible for incentives from the EDIF. Projects located in whole or in part over the Contributing Zone, or the Contributing Zone within the Transition Zone, require an affirmative vote by eight existing City Council members for use of EDIF funds.

Amount of Incentive Per Project: The EDIF will be used in conjunction with other incentive tools as part of a community package of incentives. The total dollar amount of incentive made available from EDIF for a particular project will be determined according to the following table:

Private Investment	Direct Job Creation	Incentive Available	Maximum Incentive Amt.
\$50 - \$75 million (ISS Score = 75+)	500-749	Equal to 1% of Company Direct Investment in Project	Up to: \$750,000
\$75 - \$100 million (ISS Score = 90+)	750-999	Equal to 2% of Company Direct Investment in Project	Up to: \$2 million
\$100 million + (ISS Score = 100 +)	1000+	Equal to 3% of Company Direct Investment in Project	Negotiable

*ISS=Incentive Scorecard System

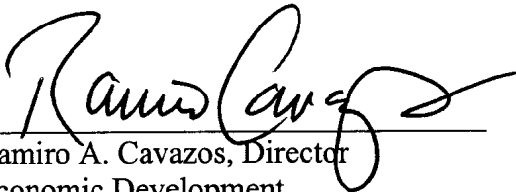
This action would also modify the City's Economic Development Program (approved by Ordinance No. 97248 on February 27, 2003) to permit grants to companies under these Guidelines. (See Exhibit B for detail regarding amendment.)

FISCAL IMPACT:

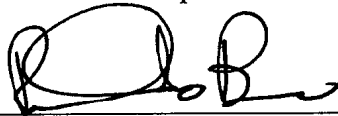
There is no direct fiscal impact associated with the implementation of these Guidelines. The EDIF was appropriated for the FY2004 budget, and will carry forward in future years until expended.

COORDINATION:

This item was coordinated with the City Attorney's Office, and the City Council Economic and Human Development Committee.



Ramiro A. Cavazos, Director
Economic Development



J. Rolando Bono
Deputy City Manager

Approved:



Terry M. Brechtel
City Manager

Attachments

Exhibit A

PROPOSED GUIDELINES

City of San Antonio Economic Development Incentive Fund

Purpose: The purpose of the Economic Development Incentive Fund (EDIF) is to fund public improvements or customized job training that is offered as part of a larger package of incentives to attract, and/or retain, high-impact companies or government agencies that are part of, or support, the City's Targeted Industries. The funds may also be used to match and leverage private, state, or federal grants intended to achieve this goal.

Eligibility Requirements: The EDIF will be limited in use to the following type of opportunity--

- **Attraction of a new company or government agency project:**
 - Company/agency is part of, or supports, one of the following Targeted Industries, which are included in the City's Tax Phase-in Guidelines or the *Strategic Plan for Enhanced Economic Development*:
 - Agribusiness
 - Aviation/Aerospace
 - Biotechnology
 - High Level Business Services
 - Information Technology and Security
 - Logistics and Distribution
 - Manufacturing
 - Telecommunications
 - New planned investment in real and/or personal property exceeding \$50 million
 - Company/agency will directly create at least 500 full-time, permanent positions within one year of project completion.
 - Company/agency exceeds 1.5 times the Wage Standard of City, and provides access to health insurance for employee and their dependents
 - Company/agency project is located in area targeted for development

Exhibit A

- **Retention of an existing company or government agency, meeting the criteria above, whose potential relocation is real and known.**

Use of Funds: The EDIF can be used directly for the acquisition, design, construction, financing, and development of public improvements (e.g., facilities, streets, utilities, right-of-way, easements) or workforce training. Additionally, the City's Economic Development Program may also allow for other economic development uses (e.g., property acquisition, site development, financing costs, facilities, and other uses) to be indirectly funded using EDIF, pursuant to Chapter 380 of the Texas Local Government Code.

Ineligible and Restricted Areas: Projects located in whole or in part over the Edwards Aquifer Recharge Zone are not eligible for incentives from the EDIF. Projects located in whole or in part over the Contributing Zone, or the Contributing Zone within the Transition Zone, require an affirmative vote by eight existing City Council members for approval of the tax abatement.

Authorization for Use: The City Manager will be authorized to offer and negotiate use of some or all of the funds for companies meeting the eligibility requirements. All agreements and allocations for the use of funds from the EDIF must receive City Council approval.

Amount of Incentive Per Project: The EDIF will be used in conjunction with other incentive tools as part of a community package of incentives. The total dollar amount of incentive made available from EDIF for a particular project will be determined according to the following table:

Private Investment	Direct Job Creation	Incentive Available	Maximum Incentive Amt.
\$50 - \$75 million (ISS Score = 75+)	500-749	Equal to 1% of Company Direct Investment in Project	Up to: \$750,000
\$75 - \$100 million (ISS Score = 90+)	750-999	Equal to 2% of Company Direct Investment in Project	Up to: \$2 million
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Exhibit A

EDIF Guidelines Appendix A

Helpful Definitions

Targeted Industry – “The chief industries that demonstrate the potential for producing or expanding high-wage job opportunities, to diversify and lead to the growth of the local economy and provide the most effective support for the City’s tax base.” (*Strategic Plan for Enhanced Economic Development*)

Agribusiness: Businesses engaged in the research, development, manufacturing, or refining of agricultural products into foodstuffs or for use as intermediate products in the processing of other agricultural finished goods or products, including those related to defense operations.

Aviation/Aerospace: Companies primarily engaged in one or more of the following activities:

- (1) Manufacturing complete aircraft, missiles, or space vehicles
- (2) Manufacturing aerospace engines, propulsion units, auxiliary equipment or parts
- (3) Developing and making prototypes of aerospace products
- (4) Aircraft conversion (i.e., major modifications to systems)
- (5) Complete aircraft, missile, or space vehicle or propulsion systems maintenance, repair, overhaul and rebuilding (i.e., periodic restoration of aircraft to original design specifications)
- (6) Research and development
- (7) Defense- related operations
- (8) Regional air passenger operations

Biotechnology: This industry comprises establishments primarily engaged in conducting research, development, and manufacturing in the physical, bio-engineering, and life sciences, such as pharmaceutical, agriculture, environmental, biology, botany, biotechnology, chemistry, food, fisheries, forests, health, and defense-related operations.

Call Center: A business in which the main task of a predominant number of the employees at the location is to receive communications via telephone, fax, electronic mail, or postal service for the purposes of providing customer service may be eligible for incentive. A business whose predominant function is to make outbound calls or a business who contracts their call center services to other

Exhibit A

companies, regardless of whether or not the communications are inbound or outbound, is not eligible.

Contributing Zone: The area or watershed where runoff from precipitation flows downgradient to the recharge zone of the Edwards Aquifer. The contributing zone is illustrated on Contributing Zone (Southern Part) for the Edwards Aquifer and Contributing Zone (Northern Part) for the Edwards Aquifer. The contributing zone is located upstream (upgradient) and generally north and northwest of the recharge zone for the following counties (See map in Appendix B):

- (A) All areas within Kinney County, except the area within the watershed draining to Segment 2304 of the Rio Grande Basin;
- (B) All areas within Uvalde, Medina, Bexar, and Comal Counties;
- (C) All areas within Hays and Travis Counties, except the area within the watersheds draining to the Colorado River above a point 1.3 miles upstream from Tom Miller Dam, Lake Austin at the confluence of Barrow Brook Cove, Segment 1403 of the Colorado River Basin; and
- (D) All areas within Williamson County, except the area within the watersheds draining to the Lampasas River above the dam at Stillhouse Hollow reservoir, Segment 1216 of the Brazos River Basin. (From TCEQ rules 30 TEX. ADMIN. CODE Chapter 213 Subch. B §213.22(2))

Contributing Zone within the Transition Zone: The area or watershed where runoff from precipitation flows downgradient to the Recharge Zone of the Edwards Aquifer. The Contributing Zone Within the Transition Zone is located downstream (downgradient) and generally south and southeast of the Recharge Zone and includes specifically those areas where stratigraphic units not included in the Edwards Aquifer crop out at topographically higher elevations and drain to stream courses where stratigraphic units of the Edwards Aquifer crop out and are mapped as Recharge Zone. See map in Appendix B. (From TCEQ rules, 30 TAC, § 213.22(3)).

High Level Business Services: Includes businesses or divisions of corporations that are primarily engaged in business support functions that require a high level of technical expertise, including, but not limited to finance/accounting, insurance/risk management, marketing, real estate/planning, project management, and other analytical services or transactional operations. It does not include call center operations, as previously defined. It is required that a majority of the positions at the project site require a bachelor's degree, professional degree, or equivalent relevant professional experience.

Information Technology and Security: This industry comprises establishments primarily engaged in planning and designing computer systems that integrate computer hardware, software, and communication technologies. The hardware and software components of the system may be provided by this establishment

Exhibit A

or company as part of integrated services or may be provided by third parties or vendors. These establishments often design and develop software, install the system and train and support users of the system. Companies in this industry are engaged in the following activities:

- (1) Producing and distributing information and cultural products
- (2) Providing the means to transmit or distribute these products as well as data or communications
- (3) Research and development
- (4) Defense-related operations
- (5) Processing data

Logistics/Distribution: Businesses involved in the receiving, storage, service, or distribution of goods or materials, where a majority of the goods or services are distributed to points outside the San Antonio metropolitan statistical area. This includes defense-related operations.

Manufacturing: Businesses engaged in the mechanical, physical, or chemical transformation of materials, substances, or components into new products - includes related research and development and defense-related operations.

Recharge Zone: That area where the stratigraphic units constituting the Aquifer crop out, including the outcrops of other geologic formations in proximity to the Aquifer, where caves, sinkholes, faults, fractures, or other permeable features would create a potential for recharge of surface waters into the Aquifer. The recharge zone is identified as that area designated as such on official maps located at the Authority and in 30 TEX. ADMIN. CODE § 213.22. See map in Appendix B. (From Edwards Aquifer Authority rules, Chapter 713.1(45))

Telecommunications: Businesses primarily engaged in research & development, regional distribution, defense-related operations and the manufacturing of telecommunication-related products and services. It does not include operations involved in the retail sale of telecommunications products and services. It also does not include operations categorized as call centers.

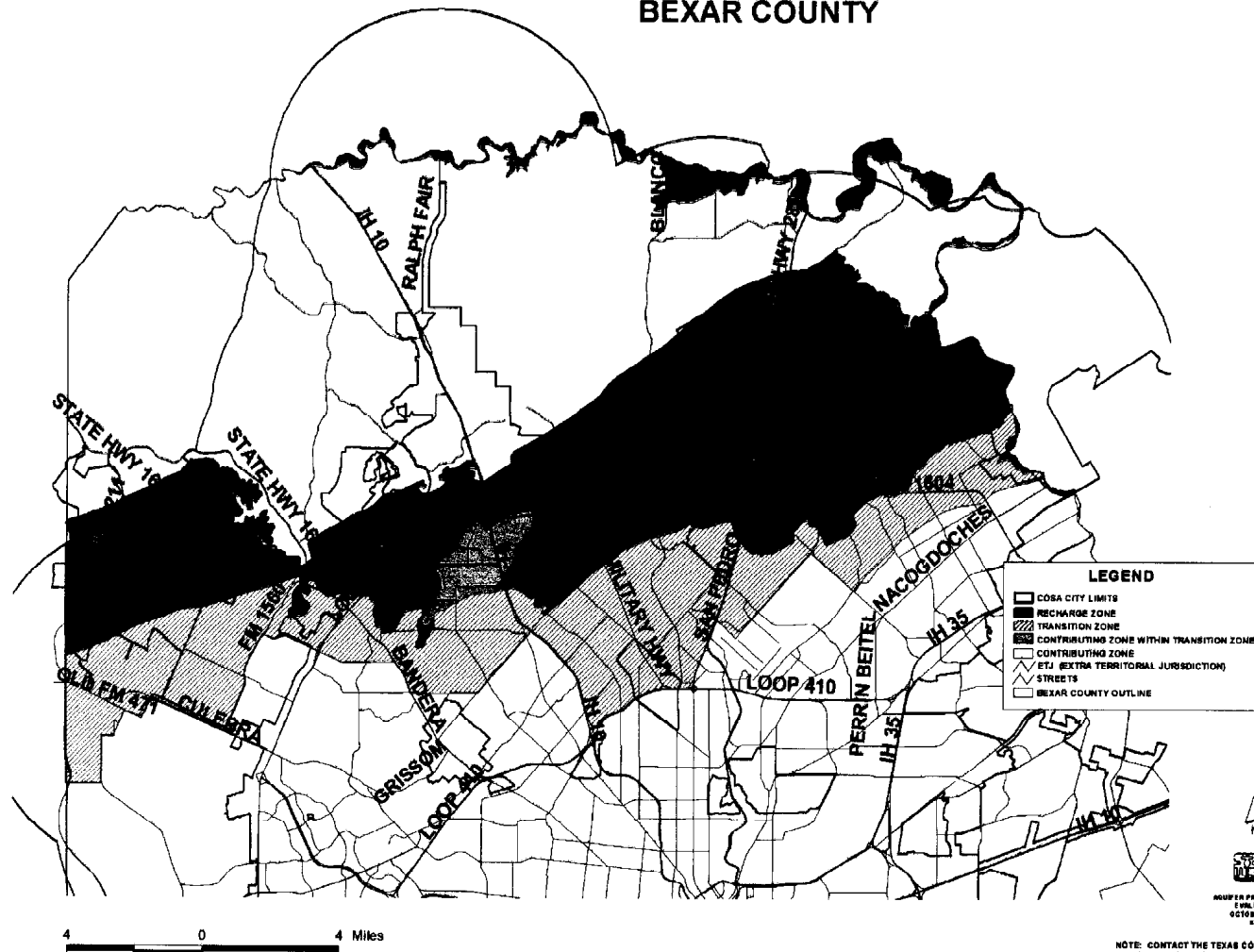
Wage Standard: A cash wage exceeding the poverty level for a family of four, as determined annually by the U.S. Department of Health and Human Services (HHS). This Wage Requirement currently equals \$8.85 per hour.

Exhibit A

**Appendix B
EDIF**

Map of Recharge Zone Areas

EDWARDS AQUIFER RECHARGE ZONE BEXAR COUNTY



NOTE: CONTACT THE TEXAS COMMISSION ON
ENVIRONMENTAL QUALITY (TCEQ)
FOR OFFICIAL EDWARDS AQUIFER
RECHARGE ZONE BOUNDARY

EXHIBIT B

City of San Antonio, Texas

Economic Development Program

(Pursuant to provisions of Chapter 380 of the Texas Local Government Code)

(Adopted February 27, 2003)

(Revised June 3, 2004)

Administration of Economic Development Programs

The Economic Development Department (EDD), under the direction of the City Manager, shall be responsible for coordinating the City of San Antonio's economic development activities through policy implementation, strategic planning, and partnerships with key organizations. By using available community resources and incentive programs, the Economic Development Department shall promote employment-generating investments by the private sector. The Economic Development Department is authorized to utilize all authorized economic development incentives, grants, and programs to implement strategies to attract and retain a diverse mix of business, institutional, and government employers that manufacture, distribute, or otherwise provide products or services to ultimate users residing primarily *outside* of the local economy.

One goal of the City's economic incentives and business development programs is to minimize the cost of expanding or locating a business in San Antonio. The City is also focused on growing the regional economy, revitalizing targeted areas of the City, and promoting a balanced growth of economic opportunities throughout the community.

Authorization for City of San Antonio Economic Development Program

Pursuant to Chapter 380 of the Local Government Code, the City of San Antonio is hereby establishing and providing for the administration of the following programs, including a program for making loans and grants of public money and providing personnel and services of the municipality, to promote state or local economic development and to stimulate business and commercial activity in the municipality. In implementing these programs, the City may contract with the federal government, the state, political subdivision of the state, a nonprofit organization, or any other entity for the administration of such programs.

Under this Program, the City of San Antonio shall be permitted, on a case-by-case basis with authorization of the City Council, to enter into a contract with a development corporation created by the municipality under the Development Corporation Act of 1979 (Article 5190.6, Vernon's Texas Civil Statutes), grant public money to the corporation. The development corporation shall use the grant money for legal purposes described in Chapter 380.

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Grants or Loans for Economic Development Purposes

The use of public dollars for the purposes of making grants and/or loans—in lieu of or in addition to other economic development incentive tools—shall be limited to **projects meeting eligibility requirements under the Guidelines for the Economic Development Incentive Fund (EDIF), as adopted by the San Antonio City Council.** ~~“extraordinary economic development opportunities,” would include the attraction or retention of an organization meeting the following criteria:~~

- ~~(a) Producing goods or providing services to users largely outside of the local economy;~~
- ~~(b) Initially employing at least 1,800 full-time workers;~~
- ~~(c) Locating in a facility in a targeted development area; and~~
- ~~(d)(a) Paying 100 percent of new and existing employees, within three years of opening, at least \$20 per hour in direct wages or salaries.~~

Matching Dollars for State Agency Grants

Further, in limited circumstances, the City of San Antonio may, as an agency of the state, provide matching funds for a federal program that requires local matching funds from a state agency to the extent state agencies that are eligible decline to participate or do not fully participate in the program.

Other Economic Development Programs

The Economic Development Department is also authorized to implement the following economic development programs. However, it should be noted that this Program Statement and authorization shall not limit the City staff's ability to implement, modify, cancel, or otherwise administer the following economic development programs, or to add or implement additional economic development programs not listed herein, at will. This Program Statement and implementing ordinance shall not govern these other economic development programs, which may be governed by independent statutes, federal regulations, contracts, grant requirements, ordinances, resolutions, or guidelines.

Tax Phase-In Program:

Under the City's Tax Phase-In Program, an abatement of up to 100% of real and/or personal property taxes on improvement values may be granted for a maximum term of 10 years. Projects must meet certain minimum capital investment and/or job creation requirements, as described in the approved Guidelines for Tax Phase-in.

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Freeport Exemption:

The City of San Antonio, Bexar County and some independent school districts allow personal property tax exemptions for companies that deal with goods-in-transit or inventories used in the manufacturing process. A Constitutional Amendment adopted in 1989 by the State of Texas authorized a type of property tax exemption for items classified as "Freeport Property." Freeport property includes various types of goods that are detained in Texas for a short period of time (175 days or less). The exemption provides a business incentive that can be used to promote the growth and expansion of businesses; particularly those engaged in logistics and distribution activities.

Enterprise Zone Project Designation:

An Enterprise Zone is an economic development tool that allows a community to partner with the State of Texas to offer a package of local and state tax and regulatory benefits to new and expanding businesses in economically distressed areas. The City of San Antonio currently administers four separate state-designated Enterprise Zones. Companies locating within any of those zones are eligible for designation by the State as an "Enterprise Project." The Federal Empowerment Zone (see below) also qualifies as a State Enterprise Zone.

San Antonio Empowerment Zone:

San Antonio was one of seven cities throughout the country named a Round III Empowerment Zone (EZ) by the U.S. Department of Housing and Urban Development. This designation will allow businesses to receive wage credits, tax incentives, and bond financing to help stimulate job growth, promote economic development and create affordable housing opportunities in targeted areas of the City. In addition, EZ designation provides the City priority in funding health, education, and human services that may give a tremendous boost to commercial and neighborhood revitalization efforts.

Foreign Trade Zone:

San Antonio is home to Foreign Trade Zone No. 80 with the designation of ten General Purpose Sites and four SubZones. Businesses can locate at existing sites or apply for designation as a new FTZ SubZone to take advantage of the incentives offered within an FTZ to include: (1) relief from inverted tariffs; (2) duty exemption on re-exports; (3) duty elimination on waste, scrap, and yield loss; and (4) duty deferral until merchandise is imported from the FTZ into the United States. FTZs, therefore, offer businesses a way to mitigate the costs of free trade and allow the United States economy to enjoy relatively greater benefits from its free trade initiatives. Furthermore, FTZs allow commercial merchandise to receive the same customs treatment it would if it were outside the commerce of the United States. Domestic and foreign goods can be placed in the FTZ without formal U.S. Customs entry and pay no customs duties or government excise taxes until your final product enters the U.S. market at which point duty is paid on either of the product itself or its component parts, whichever is lower.

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Defense Economic Readjustment Zone:

The City of San Antonio currently administers state-designated Defense Economic Readjustment Zones. This program is a state initiative to assist communities that have been adversely impacted by Department of Defense downsizing. Companies locating within a Zone are eligible for designation by the State as a Defense Readjustment Project.

Historically Underutilized Business Zone (HUBZone):

The purpose of the HUBZone Program is to:

- Provide federal contracting assistance for qualified small business concerns that are located in "historically underutilized business zones";
- To increase employment opportunities; and
- To stimulate capital investment in those geographic areas; and empower communities through economic leveraging and the "multiplier effect."

Industrial Development Bonds:

To promote industrial development, industrial revenue bonds are available through the City of San Antonio Industrial Development Authority, Inc. (IDA) or similar organizations. IDA bonds may be tax-exempt revenue bonds that can be issued for new construction, building improvements, and for the purchase of machinery and equipment.

San Antonio Local Development Company, Inc. d/b/a South Texas Business Fund:

The ~~San Antonio Local Development Company, Inc. (SALDC)~~ South Texas Business Fund was established in 1978 to help small businesses in South Central Texas realize business growth and job creation by facilitating access to a diverse package of intermediate and long-term loans for:

- Real estate Acquisition, improvement, or new construction
- Machinery and equipment
- Related soft costs, such as appraisal, engineering and environmental fees
- Working capital
- Competitive fixed interest rates

Small Business Economic Development Advocacy Program (SBEDA):

The Small Business Economic Development Advocacy Program (SBEDA) mission is to help small, minority, African-American, and women-owned business enterprises (SBE/MBE/AABE/WBE) pursue and obtain City contracts.

EXHIBIT B

Procurement Technical Assistance Center:

The Procurement Technical Assistance Center (PTAC) provides a variety of tools and services that help local businesses identify government contracting opportunities, develop a workable business plan, sharpen marketing skills and write winning bid proposals. Altogether, PTAC clients receive about \$30 million in government contracts each year.

First Point Business Information Center:

The First Point Business Information Office is the first place to go for entrepreneurs in the planning stages of starting or expanding a business. First Point can also guide you through the site development and regulatory processes.

Briefing Team:

The City of San Antonio, together with various public service utility companies, formed the San Antonio Site Development Briefing Team to provide an overview of the site development process. This team facilitates the process by serving as the direct, immediate line to key decision-makers that can troubleshoot and resolve problems encountered in the development and permitting process, such as issues related to local subdivision, uniform building, and the uniform fire codes.

Industry Workforce Assistance:

Through an Agreement established with the Alamo Community College District (ACCD) in March 2001, the Economic Development Department may offer customized training assistance through ACCD as an incentive to businesses seeking to relocate, retain, or expand their operations within San Antonio.