

PUBLIC HEARING  
TIME CERTAIN  
ITEM NO 5  
4 p.m.

**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; Christopher J. Brady; Trey Jacobson; Andrew Martin; Veronica Zertuche; Ed Davis; file

**SUBJECT:** Public Hearing and Nomination of Toyota Motor Manufacturing Texas, Inc. as a State Enterprise Zone Project

**DATE:** August 26, 2004

**SUMMARY AND RECOMMENDATIONS:**

The purpose of this ordinance is to nominate Toyota Motor Manufacturing of Texas, Inc. (TMMTX) to the Office of the Governor, Economic Development and Tourism, for designation as a State Enterprise Zone Project. This will make Toyota eligible for certain tax incentives from the State, as specified in the Project Starbright Agreement. Pursuant to State law, the City must conduct a public hearing to: (1) declare the City's intent to participate in the Texas Enterprise Zone (EZ) program; (2) identify the tax incentives that the City will make available to nominated Enterprise Zone projects or activities of a qualified business; and (3) designate the Director of the Economic Development Department as the City's liaison for the Enterprise Zone program. The City's eligible Enterprise Zone areas include census block groups within the City's jurisdiction that have a poverty rate of at least 20 percent, as determined by the U.S. Census Bureau, and those areas constituting the City's Federal Empowerment Zone.

Staff recommends approval of this ordinance.

**BACKGROUND INFORMATION:**

The State EZ Program is an economic development tool that allows communities to partner with the State in promoting development in economically distressed areas. The 78<sup>th</sup> Legislature enacted new program rules for the Enterprise Zone program in 2003 by passing the Texas Enterprise Zone Act. Under the new EZ program, census block groups with a poverty rate of at least 20 percent (as identified during the 2000 census) automatically qualify as EZ areas. Previously, communities had to identify and qualify areas for State approval based on specific poverty, unemployment and square mileage criteria. San Antonio has 413 qualifying census block groups that now qualify as EZ areas. The City's Federal Empowerment Zone areas, including the developable sites at Brooks City-Base, KellyUSA/Toyota, and the Fredericksburg Road corridor, also qualify as state EZ areas. A map of the City's qualifying state EZ areas is attached.

The State is authorized to award up to 85 EZ projects per biennium (every two years) and to this date has awarded 39 projects. The City is permitted to nominate up to six EZ projects each State biennium. All six City projects remain available to offer as business incentives through August 31, 2005 assuming the State still has projects available. The State and the City will get a new allocation of EZ projects on September 1, 2005. Any unused EZ projects do not carry-over into the new biennium. As a State EZ project, a company qualifies for State sales and use tax refunds on taxes paid on labor and materials for construction and franchise tax credits based on investment and job creation.

A company qualifies for EZ nomination as a “single” project, a “double jumbo” project or a “triple jumbo” project based on investment and job creation. A “single” project is available to companies investing between \$40,000 and \$150 million and provides a state sales tax refund up to \$1,250,000 (\$2,500 per job up to 500 jobs). A “double jumbo” project is available to companies investing between \$150 and \$250 million providing a state sales tax refund up to \$2,500,000 (\$5,000 per job up to 500 jobs). A “triple jumbo” project is available to companies investing over \$250 million and provides a state sales tax refund up to \$3,750,000 (\$7,500 per job up to 500 jobs). Companies receiving EZ designation are also eligible for franchise tax credits based on 25 percent of the wages and salaries of jobs created and 7.5 percent of qualified capital investment. To qualify for State EZ designation, a business must locate within an approved enterprise zone and fill 25 percent of all new or retained jobs (e.g., 125 out of 500 jobs) with either zone residents or economically disadvantaged individuals. The following table summarizes the eligibility criteria and benefits for a State EZ designation:

EZ Project	Investment Threshold	City EZ Project(s) Utilized	State Sales Tax Refund Per Job (up to 500 Jobs)	Maximum State Sales Tax Refund
Single	\$40,000 - \$150M	1	\$2,500	\$1.25 M
Double Jumbo	\$150M - \$250M	2	\$5,000	\$2.50 M
Triple Jumbo	Over \$250 M	3	\$7,500	\$3.75 M

On June 17, 2004, Toyota submitted a letter requesting that the City nominate their project for a “triple jumbo” EZ project designation. The Toyota project is located in a qualifying EZ census block group and is also within the City’s Federal Empowerment Zone, which qualifies as a State EZ area. In the “Project Starbright Agreement” approved by City Council on May 22, 2003, the City agreed to nominate Toyota for the **maximum benefit allowed** under the State EZ program. Toyota qualifies for a “triple jumbo” EZ designation based on their planned investment of over \$400 million and job creation of over 1,950 jobs. Nominating Toyota for a “triple jumbo” EZ designation will require the City to use three EZ project designations, leaving the City with three EZ projects through August 2005 to offer other companies seeking to locate in an EZ area.

Before nominating a project for EZ designation under the new program, the City must hold a public hearing to declare the City’s intent to participate in the EZ program. The City must also identify those local incentives that will be available to companies qualifying for EZ designation. Any requested incentives for a nominated EZ project will still be considered by City Council on a case-by-case basis depending on the merits of each individual project. Staff is recommending the following local incentives be made available in the EZ areas: tax abatement, tax increment financing, Freeport Exemption on inventory taxes, streamlined/preferential permitting, priority for CDBG funding/job training/industrial revenue bonds, Foreign Trade Zone designation, creation of a public improvement district, zoning

changes to promote development, and reduction in utility rates. This is consistent with current City policy.

State law also specifies that the City must also offer at least one local incentive exclusively to EZ projects. Staff recommends that the City offer eligible EZ projects a waiver of the fees charged to companies applying for a tax abatement. These fees range from \$500 to \$1,500 depending on the size of the company. With this ordinance, the City will also establish the designated EZ areas as reinvestment zones for the purpose of offering tax abatements in accordance with Chapter 312 of the Texas Tax Code. This statute automatically recognizes state EZ areas as reinvestment zones, precluding the requirement to later hold a separate public hearing to establish a reinvestment zone for the purpose of offering a tax abatement in the EZ areas.

**POLICY ANALYSIS:**

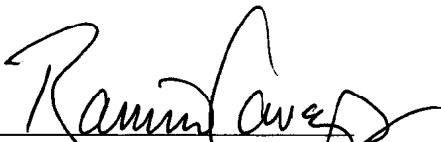
Nominating Toyota's project for State EZ designation fulfills one of the City's commitment to Toyota.


**FISCAL IMPACT:**

There is no direct fiscal impact to the City of San Antonio. The fiscal impact of waiving tax abatement application fees for nominated projects in an EZ area is approximately \$2,000 to \$3,000 annually.

**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.

  
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Ramiro A. Cavazos, Director  
Economic Development Department

  
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J. Rolando Bono  
Deputy City Manager

Approved:

  
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Terry M. Brechtel  
City Manager

Attachment