

**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, Deputy City Manager; Manuel Longoria, Assistant Director, Economic Development; Trey Jacobson, Assistant Director, Economic Development; Andrew Martin, City Attorney; Milo Nitschke, Director, Finance Department; Peter Zanoni, Acting Budget Director; file

SUBJECT: Amendment to the City's Tax Phase-In Agreement with Royal Oak Industries

DATE: September 2, 2004

SUMMARY AND RECOMMENDATIONS:

This ordinance would authorize an amendment to the City's Tax Phase-in Agreement with Royal Oak Industries, Incorporated (approved September 12, 2002 by Ordinance No. 96358) to adjust the existing 10-year term of the Agreement to commence January 1, 2004; amending the job creation deadline and facility completion date corresponding with the adjusted term of the Agreement; revising the descriptions of real and personal property improvements and investment levels; and assigning the rights and obligations of the Agreement to Texas Machining Enterprises II, L.L.P., an affiliate entity of Royal Oak Industries, Incorporated.

Staff recommends approval of this Ordinance.

BACKGROUND:

Royal Oak Industries is a privately-owned company headquartered in Michigan. The company is a leading manufacturer of highly-engineered cylinder blocks, cylinder heads, engine covers, valves and other high-value components for the heavy truck industry and automotive after-market (e.g., Caterpillar, Ford, Navistar, Mack Truck and Detroit Diesel). They currently employ over 400 personnel nationally with annual sales of approximately \$50 million. In 2002, Royal Oak was awarded a long-term contract with a major automotive company to machine diesel engine blocks cast in Saltillo, Mexico. Royal Oak selected San Antonio, over Seguin and Houston, as its Texas site, and constructed a 130,000 square-foot manufacturing facility located in the Perrin Creek Business Park (City Council District 10).

As part of this corporate recruitment effort, on September 12, 2002, City Council approved a tax phase-in agreement with Royal Oak Industries. The 10-year agreement was for 100% abatement of taxes on \$5.5 million of real property and \$40 million of personal property improvements. In addition, Royal Oak agreed to create 100 new full-time positions by the end of 2003.

Royal Oak intended to commence operations by January 1, 2003. Due to unanticipated weather conditions that caused a delay in construction, Royal Oak did not occupy the facility until July 1, 2003, delaying hiring efforts. However, Royal Oak has to date created 75 jobs, with over 57% of the workers being economically disadvantaged. Royal Oak will hire the required 100 employees by December 31, 2004. In addition, Royal Oak has exceeded the required real and personal property investment. To date, real property investment is \$6.5 million while personal property investment exceeds \$44 million.

Pursuant to Articles 5 and 11 of the Tax Phase-in Agreement, Royal Oak has provided notice that they will assign their rights and obligations under the Agreement to Texas Machining Enterprises II, L.L.P. ("TME II, L.L.P."), an affiliate entity of Royal Oak Industries, Incorporated. As an affiliate entity, and with prior notice, TME II, L.L.P. is authorized to assume the assignment of the applicable rights and obligations under Articles 5 and 11 of the Agreement. Attached is the proposed Tax Phase-In Amended Agreement.

POLICY ANALYSIS:

Royal Oak qualified under the City's Tax Phase-In Guidelines as a manufacturing/assembly facility, and is part of the City's targeted industries. This project also promotes implementation of Inland Port San Antonio through the establishment of value-added manufacturing and assembly for products originating in Mexico and destined for the U.S. and international markets.

Criteria in Tax Phase-In Guidelines	Royal Oak Contract Terms	Royal Oak Status as of Dec 31, 2003
<u>Investment</u> Real Property => \$1 M Personal Property => \$10 M	<u>Investment</u> Real Property \$ 5.5 M Personal Property \$40.0 M Total Investment \$45.5 M	<u>Investment</u> Real Property \$ 6.5M Personal Property \$44.0M Total Investment \$50.5M
50 New Jobs	100 New Jobs	75 New Jobs
Benefits Package	Yes	Yes
Wage Standard	Yes	Yes

Since Royal Oak has not received the full benefit of their abatement and has been delayed in construction and hiring, staff recommends that the City's Tax Phase-in Agreement with Royal Oak Industries be adjusted to commence January 1, 2004. The one-year job creation and facility completion deadline should also be amended to reflect the adjusted term. The descriptions of real and personal property improvements should be amended to include additional facilities, and the rights and obligations of the Agreement be assigned to Texas Machining Enterprises II, L.L.P., an affiliate entity of Royal Oak Industries.

FISCAL IMPACT:

In 2003, the City received \$10,314 in property taxes on the existing land. This project will add new City revenue of \$1,543,824 in years 1-10 from the City's 14% share of revenues from CPS, and incremental City sales taxes based on new and induced jobs. In years 11-20, new City revenue is estimated at \$3,692,765

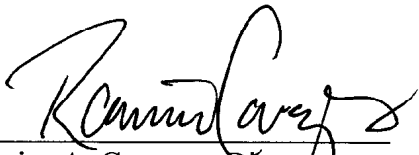
from taxes collected on all property, inventory, CPS revenue, and City sales taxes. Current unrealized City property taxes to be abated over the 10-year term are estimated at \$3,340,103. However, over the 20-year period of this project, the City will receive an estimated \$5,236,589 in revenues, resulting in net benefit of \$1,896,486.

FINANCIAL IMPACT TO THE CITY

Years	New Property Taxes + Sales Taxes + CPS Revenues (Present Values)	Real Property Taxes Abated (Present Value)	Net Benefits (Present Value)
1-10	\$1,543,824	\$3,340,103	(\$1,796,279)
11-20	\$3,692,765	\$-0-	\$3,692,765
Total	\$5,236,589	\$3,340,103	\$1,896,486

COORDINATION:

Economic Development Department staff has coordinated this item with the City Attorney's Office. The Economic Development Department met with the Economic and Human Development Council Committee on June 1, 2004 to present proposed amendments. The Committee recommended that staff bring this item forward to Council.

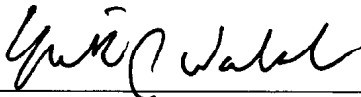


Ramiro A. Cavazos, Director
Economic Development Department



J. Rolando Bono
Deputy City Manager

Approved:



Terry M. Brechtel
City Manager

Attachment

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:

Not applicable

(2) the identity of any **business entity**¹ that would be a party to the discretionary contract:

Texas Machining Enterprises II, LLP

and the name of:

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

Not applicable

and the name of:

(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:

Not applicable

¹ A *business entity* means a sole proprietorship, partnership, firm, corporation, holding company, joint-stock company, receivership, trust, unincorporated association, or any other entity recognized by law.

(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.

W. Bebb Francis, III

Political Contributions

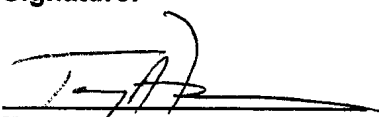
Any individual or business entity seeking a discretionary contract from the city must disclose in connection with a proposal for a discretionary contract all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made directly or indirectly to any 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:
Not applicable		

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 question² 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.

Not applicable

Signature:  Terry Fiscus	Title: Chief Financial Officer PARTNER, Royal Oak Industries Company: Texas Machining Enterprises II, LLP	Date: July 30, 2004
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² 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.