

Agenda item #31
(A)

**CITY OF SAN ANTONIO
ECONOMIC DEVELOPMENT DEPARTMENT
CITY COUNCIL AGENDA MEMORANDUM**

TO: Sheryl Sculley, City Manager

FROM: Ramiro A. Cavazos, Director

SUBJECT: Adopting the existing Tax Phase-In Guidelines; and approving two Tax Phase-In Agreements with Kautex, Inc. and Metakote Corporation

DATE: June 1, 2006

SUMMARY AND RECOMMENDATIONS

This ordinance would adopt the existing Tax Phase-In Guidelines pending future revisions by City Council and authorizes the City Manager to enter into two Tax Phase-In Agreements with Kautex, Inc. and Metakote Corporation, Toyota Tier 1 suppliers who are locating on the Toyota Supplier Park property. By the terms of these Agreements, the City will abate 100% of ad valorem taxes for a term of 10 years on all real and personal property improvements, inventory and supplies of Kautex, Inc. based upon its commitment to pay a minimum hourly wage of \$11.03 and to abate 80% of ad valorem taxes for a term of 10 years on all real and personal property improvements, inventory and supplies of Metakote Corporation based upon its commitment to pay a minimum hourly wage of \$9.06.

Staff recommends approval of this ordinance.

BACKGROUND INFORMATION

By State statute, the Tax Phase-In Guidelines (the "Guidelines") utilized by a City to evaluate Tax Phase-In applications and approve Tax Phase-In Agreements must be renewed every two years. The City Council last approved the City's Guidelines on January 8, 2004. To allow for the evaluation of Tax Phase-In applications and approval of Tax Phase-In Agreements submitted since January 8, 2006, staff is requesting adoption of the previously approved Guidelines. Staff intends to present suggested revisions to the Guidelines at a meeting of the City Council in June of 2006 to coincide with suggested revisions to the Incentive Scorecard program and the Tax Increment Financing Guidelines.

Following Toyota's decision to locate an automotive manufacturing plant in San Antonio, plans were developed to create an on-site Supplier Park that would attract Toyota Tier 1 suppliers (suppliers who manufacture, assemble and distribute components directly to the automotive assembly line) and create an incentive to have such suppliers locate at the Supplier Park on the Toyota site. In October 2004, the City and County developed a supplier incentive package intended to assist Toyota in recruiting Tier 1 suppliers to the Supplier Park, which offered a 10-year tax phase-in on all real and personal property improvements, including inventory and supplies. The proposed terms included: (1) a 100% abatement for those suppliers agreeing to pay all employees at least \$11.03 per hour (the durable goods wage standard in the City/County Tax

Phase-In Guidelines); or (2) an 80% abatement for those agreeing to pay all employees at least \$9.06 per hour (the minimum wage in the Guidelines) at the startup of business operations.

Since August of 2005, City Council has authorized the execution of Tax Phase-in Agreements with a total of 16 Toyota Tier 1 Suppliers (Attached) who have agreed to the terms of the incentive package and have located at the Supplier Park. Since these approvals, staff has received two additional Tax Phase-In applications from Tier 1 suppliers, Kautex, Inc. and Metakote Corporation.

Kautex, Inc. is a subsidiary of Textron, Inc. with corporate headquarters in Providence, Rhode Island. Kautex, Inc., in a joint venture with Toyota Tsusho America, will design, manufacture, and install the fuel tank and components for the Toyota Tundra. The company will occupy a 47,000 square foot building located on the Supplier Park, invest approximately \$13.8 million and create 45 jobs. Kautex, Inc. has agreed to pay its employees at least \$11.03 per hour (the City's durable goods manufacturing wage standard) thereby qualifying for a 100% abatement of ad valorem taxes for a term of 10 years on all real and personal property improvements, inventory and supplies.

Metakote Corporation, with corporate headquarters in Lima, Ohio, has over 850 employees. The company, in a joint venture with Toyota Tsusho America, will apply a protective electro-coating to various components of the Toyota Tundra. The company will occupy a 27,000 square foot building at the Supplier Park, invest approximately \$7.3 million and create 44 jobs. Metakote Corporation has agreed to pay its employees at least \$9.06 per hour (the City's current "living wage" standard) thereby qualifying for an 80% abatement of ad valorem taxes for a term of 10 years on all real and personal property improvements, inventory and supplies.

With the addition of these two companies, Toyota Tier 1 suppliers locating at the Supplier Park are creating another 2,100 jobs and investing over \$300 million in capital investment. Staff does not expect to receive any further Tax Phase-In applications under the targeted Toyota Supplier Park incentive program. The overall impact of Toyota and those companies locating at the Supplier Park is reflected in the following table:

Company	Direct Jobs	Capital Investment	Annual Payroll
Toyota	2,000	\$850M	\$100M
Tier One Suppliers	2,100	\$300M	\$55M
TOTAL IMPACT	4,100	\$1.150B	\$155M

POLICY ANALYSIS

The Supplier Park project supports the City's *Strategic Plan for Enhanced Economic Development* by promoting growth in the targeted manufacturing industry and in the targeted southern sector. The Supplier Park project allows the City to maximize the full economic benefit of the Toyota automotive manufacturing plant. Kautex, Inc. and Metakote Corporation, as well as all of the Toyota Tier 1 suppliers at the Supplier Park, offer a full benefits package, including health care coverage for the employee and their families.

The Toyota property is located within the City's Federal Empowerment Zone and, therefore, qualifies as a Reinvestment Zone. The Supplier Park project qualifies under the City's Tax Phase-

In Guidelines as a Level 3 "exceptional investment" project, since the project collectively exceeds \$50,000,000 in total property investment and creates at least 500 permanent, full-time jobs. The Supplier Park is located south of U.S. Highway 90, therefore, qualifying for a 10-year abatement under the Guidelines. All Tier 1 suppliers at the Supplier Park will meet the City's minimum wage standard of \$9.06/hour.

FISCAL IMPACT

The following table details the overall estimated fiscal impact to the City resulting from the Kautex, Inc. and Metakote Corporation Tax Phase-In Agreements. The net fiscal benefit to the City over the 20-year period is approximately \$473,625.

Years	New Property and Sales Taxes and CPS Energy Revenue Collected on Metakote and Kautex (Present Value)	Taxes Abated on Real and Personal Property, plus Inventory and Supplies, and Training Grant Allocations (Present Value)	Net Fiscal Benefit (Present Value)
1-10	\$ 370,734	\$ 691,408	\$ (320,674)
11-20	\$ 794,299	0	\$ 794,299
Total	\$ 1,165,033	\$ 691,408	\$ 473,625

The table below details the overall estimated fiscal impact to the City resulting from the entire Toyota Supplier Project, including Kautex, Inc. and Metakote Corporation. The net fiscal benefit to the City over the 20-year period is approximately \$15,234,846.

Years	New Property and Sales Taxes and CPS Energy Revenue Collected on Toyota Supplier Project (Present Value)	Taxes Abated on Real and Personal Property, plus Inventory and Supplies, and Training Grant Allocations (Present Value)	Net Fiscal Benefit (Present Value)
1-10	\$ 10,997,034	\$ 12,911,891	\$ (1,914,857)
11-20	\$ 17,149,703	0	\$ 17,149,703
Total	\$ 28,146,737	\$ 12,911,891	\$ 15,234,846

The Tier 1 Toyota Supplier Tax Phase-In Agreements allow the City to recapture up to 100% of abated taxes during the 10 year term, and for 6 years following on a declining percentage basis, if the Suppliers relocate or cease their business operations at the Supplier Park. The City may also terminate the Agreement if a Supplier fails to meet and maintain the minimum wage standard specified in the Tax Phase-In Agreement.

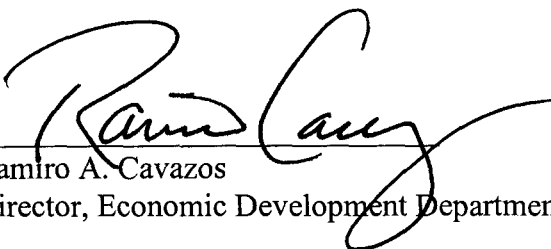
COORDINATION

The Economic Development and International Affairs Committee has recommended approval of this item.

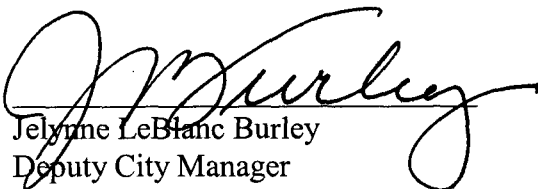
The Economic Development Department (EDD) staff has met with the City Attorney's Office to finalize the proposed Agreements. EDD has also coordinated this action with Public Works, Development Services, Planning, Finance, Police and Fire Departments, as well as Bexar County, CPS Energy, SAWS, and the Bexar Appraisal District.

SUPPLEMENTARY COMMENTS

The Discretionary Contracts Disclosure Forms for Kautex, Inc. and Metakote Corporation are attached.



Ramiro A. Cavazos
Director, Economic Development Department



Jelynn LeBlanc Burley
Deputy City Manager

**TOYOTA SUPPLIER PARK PROJECT
TAX PHASE-IN APPLICATIONS
APPROVED BY CITY COUNCIL SINCE JUNE 16, 2005**

	Applicant Company	Description	Level of Investment	Number of Jobs	Percent Abatement
1.	Ark, Inc. and Toyota Tsusho America, Inc.	Industrial Waste Management; Recycling	\$2.2M	13	80%
2.	Avanzar Interior Technologies, Ltd.	Motor Vehicle Seating, and Interior Trim Manufacturing	\$42.2M	500	100%
3.	Curtis-Maruyasu America, Inc.	Brake and Fuel Line Systems	\$1.5M	14	100%
4.	Futaba Industrial Texas Corp.	Metal stamping and welding for automotive structural components	\$40M	170	80%
5.	Green Metals, Inc. and Toyota Tsusho America, Inc.	Scrap Metal Recycling	\$5.4M	8	80%
6.	HERO Assemblers, LP. and Toyota Tsusho America, Inc.	Tire and Wheel Assembly	\$19M	46	100%
7.	HERO Logistics, LP. and Toyota Tsusho America, Inc.	Receive, Sort, and Store Vehicle Components for Delivery	\$1.5M	104	80%
8.	Metalsa Light Truck, Inc.	Logistics and Distribution of Chassis Frames	\$5M	15	80%
9.	Millennium Steel of Texas, LP. and Toyota Tsusho America, Inc.	Manufacture Steel Blanks from Steel Coils	\$37.2M	46	100%

**TOYOTA SUPPLIER PARK PROJECT
TAX PHASE-IN APPLICATIONS
APPROVED BY CITY COUNCIL SINCE JUNE 16, 2005**

	Applicant Company	Description	Level of Investment	Number of Jobs	Percent Abatement
10.	Reyes Automotive Group, LLC.	Manufacture Automotive Interior and Exterior Trim Products	\$20.3M	69	80%
11.	Reyes-Amtex Automotive, LLC.	Manufacture Automotive Carpets	\$1.6M	30	80%
12.	Takumi Stamping Texas, Inc.	Metal Stamping	\$19M	140	80%
13.	Toyota Tsusho America, Inc. and Tenneco Automotive Operating Company, Inc.	Manufacture Exhaust Systems	\$5.7M	30	80%
14.	Toyotetsu Texas, Inc.	Metal Stamping, welding for automotive structural components	\$32.5M	160	80%
15.	Vutex, Inc.	Instrument panel, windshield and door glass subassembly	\$9.0M	525	80%
16.	Toyoda Gosei Texas, LLC. (Approved August 18, 2005)	Center console box, glove box, ashtray and instrument panel	\$25M	158	80%

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.

ATTACHMENTS ITEM
31(A)

* 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:

None

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

Metokote Corporation

and the name of:

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

None

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;

Metokote Holdings, Inc. (Parent)
Subsidiaries: Metokote Mexico Holdings, Inc.; Metokote de Mexico, S. de R.L. de C.V.;
Metokote Sweden AB; Metokote France SAS; Metokote Brasil Ltda.; Metokote UK Limited;
Metokote Canada Limited; Metokote CR s.r.o.; Metokote Hungary Coating Limited Liability
Company; Metokote Servicios, S. de R.L. de C.V.

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.

None

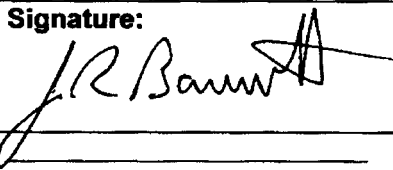
Political Contributions

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 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.

None		
Signature: 	Title: Vice President Company: MetroKote Corporation	Date: December 7, 2005

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.

City of San Antonio
Discretionary Contracts Disclosure

*For use of this form, see Section 2-59 through 2-61 of the City Code (Ethics Code)
Attach additional sheets if space provided is not sufficient.*

(1) Identify any individual or business entity¹ that is a **party to the discretionary contract:**

Kautex Inc., a Delaware corporation
750 Stephenson Highway
Troy, Michigan
Attention: Steve Phillips, Controller

(2) Identify any individual or business entity which is a **partner, parent or **subsidiary** business entity, of any individual or business entity identified above in Box (1):**

☐ **No partner, parent or subsidiary; or**

List partner, parent or subsidiary of each party to the contract and identify the corresponding party:

Kautex Inc. is a wholly owned subsidiary of Textron Inc. a New York Stock Exchange company with several hundred subsidiaries. Well known subsidiaries include Bell Helicopter Textron Inc., Cessna Aircraft Company and Textron Fastening Systems. Further information can be found at www.textron.com

(3) Identify any individual or business entity that would be a **subcontractor on the discretionary contract.**

☒ **No subcontractor(s); or**

List subcontractors:

(4) Identify any **lobbyist or **public relations firm** employed by any party to the discretionary contract for purposes related to seeking the discretionary contract.**

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. A sole proprietor should list the name of the individual and the d/b/a, if any.

☒ No lobbyist or public relations firm employed; or

List lobbyists or public relations firms:

(5) Political Contributions

List all political contributions totaling one hundred dollars (\$100) or more within the past twenty-four (24) months made 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 Box (1), (2), (3) or (4) above, or by the officers, owners of any business entity listed in Box (1), (2) or (3):

☒ No contributions made; If contributions made, list below:

By Whom Made:	To Whom Made:	Amount:	Date of Contribution:

(6) Disclosures in Proposals

Any individual or business entity seeking a discretionary contract with the city must disclose any known facts which, reasonably understood, raise a question² as to whether any city official or employee would violate Section 2-43 of the City Code (Ethics Code), ("conflicts of interest") by participating in official action relating to the discretionary contract.

☒ Party not aware of facts which would raise a "conflicts-of-interest" issue under Section 2-43 of the City Code; or

Party aware of the following facts:

This form is required to be supplemented in the event there is any change in the information 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, whichever occurs first.

Signature: JABroder Title: Vice President

Date: 1/23/2006

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.