

Agenda Item #6

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

**TO:** Sheryl Sculley, City Manager

**FROM:** Ramiro A. Cavazos, Director

**SUBJECT:** Tax Phase-In Agreement with Lowe's Home Centers, Inc.

**DATE:** June 29, 2006

**SUMMARY AND RECOMMENDATIONS**

This item provides for: (1) a public hearing and consideration of an ordinance designating the *Lowe's Reinvestment Zone* consisting of 10 acres, out of a 403.896 acre tract known as Section C of the Westover Hills Development Master Plan bordered on the South by the proposed Rogers Run Road; (2) consideration of an ordinance approving and authorizing execution of a Tax Phase-In Agreement with Lowe's Companies, Inc. to exempt 100% of ad valorem taxes for 10 years on personal and real property improvements of approximately \$126 million out of a total investment of \$200 million over 20 years; and (3) approving a one-time, economic development grant of up to \$300,000 for redundant water utility infrastructure and other related project costs.

Staff recommends approval of this ordinance.

**BACKGROUND INFORMATION**

Lowe's Companies, Inc., founded in 1946, is a publicly traded Fortune 500 company with over 180,000 employees nationwide and more than 1,250 superstores in 49 states. With sales revenue of over \$43 billion and a one-year net growth of 27.3%, Lowe's is ranked as the #2 US home improvement chain in the U.S. The company's stores sell about 40,000 products for home improvement projects, gardening projects, home fashion items, lumber, millwork, plumbing and electrical supplies, and tools, as well as appliances and furniture.

In order to centralize data transactions and storage for their increasing business volume, Lowe's has been searching for a potential site to locate a new data center. Lowe's considered sites in Fort Worth and San Antonio. Lowe's plans to construct a new 100,000 square foot data center facility on 10 acres in the Westover Hills area (District 6). The total capital investment of the project will be \$200 million over 20 years. This facility will also be a higher than average user of electricity with an approximate demand of 2.5 megawatts annually.

Data centers are not labor intensive operations, but do require a significant investment which translates into a significant increase in the tax base benefiting all taxing jurisdictions. The Lowe's data center is expected to create 22 high-tech jobs with an average wage of \$51,700 and generate at least \$1,100,000 in annual payroll. Additionally, the data center operations will result in several full-time contractor support jobs for local information technology professionals. This project will also promote continued growth in the City's Information Technology industry.

Lowe's is requesting a 10-year, 100% tax phase-in on real and personal property. Furthermore, they are requesting an economic development grant not to exceed \$300,000 for redundant water utility infrastructure and other related project costs.

### **POLICY ANALYSIS**

To qualify for a tax abatement on personal property, a company must invest at least \$10 million in personal property improvements or \$1 million in real property and create at least 25 jobs. All new employees must receive a wage of at least \$9.06 per hour. Lowe's will be creating 22 high-tech jobs. All of these jobs will pay well above the wage requirements in the Tax Phase-In Guidelines which require all new employees to receive at least \$9.06 per hour, and after one year, at least 70% of the new employees must receive at least \$11.00 per hour. The average annual wage for the 22 jobs is \$51,700. The project will also result in several Information Technology contractor support jobs. Therefore, the company is seeking approval for an exception to the job creation criteria.

The planned location will also require an exception to the Tax Phase-In Guidelines. The location of the data center is in a 6-year term targeted area, and the company is requesting a 10-year term on the tax abatement. The project supports the City's *Strategic Plan for Enhanced Economic Development* by encouraging the attraction of new Information Technology businesses to the community. More importantly, the location of this national data center will be the first of its kind in San Antonio. It will also be a significant addition to our growing Information Technology industry and strengthen the City's market position as a viable location for future high growth technology companies.

Lowe's offers an attractive benefits package, which includes medical, dental, flexible benefits, life and long-term disability insurance for employees and dependents. In addition to the standard benefits, Lowe's offers a stock purchase plan, option incentives and a 401K plan.

### **FISCAL IMPACT**

The following table details the estimated fiscal impact to the City resulting from the project. The total value of the 10-year abatement is estimated to be \$4,459,361. The City will receive new sales taxes and CPS Energy revenues estimated at \$2,291,818 over the 10-year tax phase-in term. Overall, new revenues to the City over this 20-year period will be approximately \$9,706,738, with the overall net benefits accruing to the City estimated to be \$4,947,377.

Years	New Property Taxes + Sales Taxes + CPS Revenues (Present Value)	Property Taxes Abated + Economic Development Grant (Present Value)	Net Benefits (Present Value)
1-10	\$ 2,291,818	\$ 4,759,361	\$ (2,467,543)
11-20	\$ 7,414,920	0	\$ 7,414,920
<b>Total</b>	<b>\$ 9,706,738</b>	<b>\$ 4,759,361</b>	<b>\$ 4,947,377</b>

The Tax Phase-In Agreement will allow the City to recapture up to 100% of abated taxes from Lowe's during the 10-year term, and on a declining basis for another 6 years in the event that Lowe's relocates its business activities outside the City or ceases conducting business activities or does not meet the wage or investment requirements.

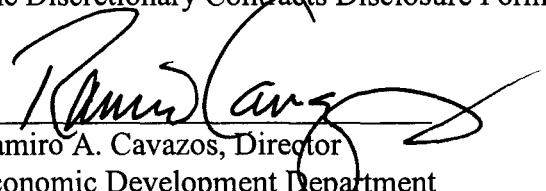
In addition, the City will provide a one-time economic development grant as authorized under Chapter 380 of the Local Government Code of up to \$300,000 for water utility infrastructure and other related project costs. This grant will be covered by approximately \$462,804 of sales taxes generated from the data center construction activities.

### **COORDINATION**

The Economic Development Department (EDD) staff has met with the City Attorney's Office to finalize the agreement. EDD has coordinated with relevant City departments and determined that the project has no appreciable impact on the delivery of City services. These departments include Public Works, Development Services, Planning, Finance, Police and Fire. EDD has also coordinated this project with Bexar County, CPS Energy, SAWS, Bexar Appraisal District and the Economic Development Foundation. This incentive request was also presented to the Economic Development and International Affairs Committee on June 20.

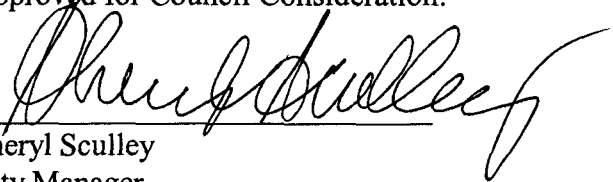
### **SUPPLEMENTARY COMMENTS**

The Discretionary Contracts Disclosure Forms are attached.

  
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Ramiro A. Cavazos, Director  
Economic Development Department

  
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Jelyne LeBlanc Burley  
Deputy City Manager

Approved for Council Consideration:

  
\_\_\_\_\_  
Sheryl Sculley  
City Manager

Attachments