



# City of San Antonio

## Legislation Details (With Text)

**File #:** 17-4643

**Type:** Procedural

**In control:** City Council A Session

**On agenda:** 9/14/2017

**Title:** PULLED: Consideration of the following items regarding economic development incentives for NEC Networks, LLC and NEC Services, LLC (collectively d/b/a CaptureRx): [Carlos Contreras, Assistant City Manager; Rene Dominguez, Director, Economic Development]

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Draft Ordinance, 2. Draft Ordinance, 3. Draft Ordinance, 4. Draft Resolution, 5. Tax Abatement Agreement, 6. Chapter 380 Agreement, 7. HB 1295 Form, 8. Chapter 380 Agreement - Signed

Date	Ver.	Action By	Action	Result
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**DEPARTMENT:** Economic Development Department

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** Council District 1

**SUBJECT:**

City Council consideration of the following items regarding economic development incentives for NEC Networks, LLC and NEC Services, LLC (collectively d/b/a CaptureRx):

A. An ordinance designating the CaptureRx Reinvestment Zone consisting of 2.1483 acres located at 420 Broadway Street, San Antonio, TX, City Council District 1.

B. An ordinance authorizing a 6-year, 100% tax abatement agreement with CaptureRx and GrayStreet Partners (GrayStreet) for real and personal property improvements with the CaptureRx Reinvestment Zone.

C. An ordinance authorizing a Chapter 380 Economic Development Program Grant Agreement with CaptureRx in an amount not to exceed \$614,000; authorizing SAWS Impact Fee Waivers in the amount of \$158,160; and approving a tax abatement agreement between CaptureRx and Bexar County within the Midtown Tax Increment Reinvestment Zone #31.

D. A resolution nominating CaptureRx to the Office of the Governor Economic Development and Tourism Division through the Economic Development Bank for designation as a “Qualified Business” and Enterprise Project under the Texas Enterprise Zone Program.

## **SUMMARY:**

Staff is requesting City Council action to redirect previously approved agreements associated with the NEC Networks, LLC and NEC Services, LLC (collectively d/b/a CaptureRx) project from the former location at 305 E. Houston and 315 E. Houston to the updated location at 420 Broadway Street, through the following related items: (A) a Public Hearing and Ordinance designating the CaptureRx Reinvestment Zone located at the adjoining buildings at 420 Broadway Street (San Antonio Light Building) in Council District 1; (B) an Ordinance approving a 6-year, 100% Tax Abatement Agreement based on a capital investment of at least \$10.5 million in real and personal property at the site, the retention of 114 jobs and the creation of 240 new full-time jobs over six years with a minimum base salary of \$50,000 annually for all retained and new full-time jobs; (C) an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement providing performance-based financial incentives to CaptureRx in an amount not to exceed \$614,000 based on the company's retention of 114 jobs and the creation of 200 new full-time jobs over five years; authorization of SAWS Impact Fee Waivers not to exceed \$158,160; and authorizing a tax abatement between Bexar County, CaptureRx, and GrayStreet, as the project falls within the boundaries of an active City of San Antonio designated Tax Increment Reinvestment Zone and the County is required to seek approval from all taxing entities participating in the zone in accordance with Texas Tax Code Section 311.0125(b)(1)(2); and (D) a resolution nominating CaptureRx for designation as a Texas Enterprise Zone Project. All agreements, resolutions, and ordinances stemming from the previous project location at 305 E. Houston and 315 E. Houston will be terminated

## **BACKGROUND INFORMATION:**

On March 9, 2017, City Council approved a variety of incentives to secure the relocation of the corporate headquarters of CaptureRx to the Kress and Grant Buildings (305 E. Houston and 315 E. Houston) in Downtown San Antonio, provided it retained 114 jobs, created 240 new full-time jobs over six years, and made a minimum investment of \$9 million in real property improvements and \$1.5 million in personal property improvements, for a total investment of \$10.5 million.

As it looked to expand its operations, CaptureRx considered relocating its San Antonio headquarters, including the company's 114 employees, to sites in Kansas City, MO, as well as Florida and Arizona. However, based on the community incentive offer and local support for the project, CaptureRx chose to remain in San Antonio.

Founded in 2000 and headquartered in San Antonio, CaptureRx is a privately held healthcare software company that provides prescription management services for pharmacies, with a focus on the federal 340B drug discount program that requires manufacturers to provide outpatient drugs to eligible health care organizations at reduced prices. The company's products and services support relationships between payers, providers, pharmacies, and patients, and help CaptureRx's customers manage inventory and financial flow for 340B prescriptions filled at contract pharmacies, while also performing the program's required eligibility checks. Then company's pharmacy base has grown from 80 in 2010 to over 2,300 in 2015, and includes various pharmacies affiliated with companies such as WalMart, HEB, Rite Aid, and CVS.

Since approval of the incentives by City Council, CaptureRx terminated lease negotiations for the Kress and Grant Buildings and instead decided to relocate and expand its headquarters and operations to the redeveloped San Antonio Light Building on Broadway Street. The company and GrayStreet Partners (owner of all three buildings) plan to maintain the previously agreed upon levels of investment of at least \$10.5 million in real and personal property improvements. Additionally, CaptureRx also intends to maintain the minimum, annual base salary of \$50,000 for all retained and new full-time jobs at the new project site.

This project also remains eligible as a Texas Enterprise Project, which could potentially result in a refund to CaptureRx of state sales and use taxes on qualified expenditures up to \$1,250,000 over five years. If approved for the new project site, the City will have eight additional Enterprise Project designations for the remainder of this state biennium, ending on August 31, 2019.

Finally, the Bexar County Economic Development Department has also requested approval of a resolution authorizing a 10-year, 90% Bexar County tax abatement of real property taxes for the project, with an estimated value of approximately \$281,138. If approved by the Midtown TIRZ Board, the TIRZ would forego the Bexar County portion of tax increment generated by this project during the abatement period. As Bexar County is a Participating Taxing Entity (PTE) in the Midtown TIRZ #31, Bexar County must obtain approval from the City, in accordance with Texas Tax Code Section 311.0125(b)(1)(2).

The CaptureRx project remains aligned with several of the key long-term economic goals laid out in the City's SA Tomorrow Comprehensive Plan, as well as those presented in Forefront SA, the community's economic development strategic plan. Led by the San Antonio Economic Development Foundation, our strategies include the retention of local headquarters and their employees, high-wage job creation, downtown development, and support for the continued growth of the City's targeted industries. The project continues to present an opportunity to secure the presence of an innovative, rapidly growing, high-paying healthcare technology company in downtown San Antonio, while also supporting the re-development of a historic building and adding further momentum to the continued growth of the IT ecosystem in the city's urban core.

#### **ISSUE:**

Before the City may enter into a tax abatement agreement with CaptureRx, the City must designate the CaptureRx project site as a "reinvestment zone." This designation requires a public hearing and a finding by City Council that designation of the zone is reasonably likely to contribute to the retention or expansion of primary employment, or to attract major investment to the zone. The capital investment, job creation, and job retention resulting from this project continue to exceed the criteria required for the designation of a reinvestment zone. The CaptureRx project site remains in the City's Central Business District and within an ICRIP area. It is considered a targeted project under the City's Tax Abatement Guidelines, based on location, the retention of a corporate headquarters with business activities in two targeted industries (IT & Healthcare), a high new capital investment, and the retention and creation of a high number of jobs.

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants for the purposes of promoting economic development, provided that the City has established a program for such purposes, which was established by City Council in 2005 and most recently updated in 2016 through the Economic Development Incentive Fund (EDIF) Guidelines. The recommended incentive complies with the EDIF Guidelines for per job grant amounts for headquarters, projects located within ICRIP Area, and other related criteria. Additionally, as part of both the tax abatement and grant agreements, all positions will have a minimum annual salary of \$50,000, which exceeds both the City's Living Wage and the Bexar County Average Weekly Wage.

The project site is located within the existing Midtown #31 Tax Increment Reinvestment Zone (TIRZ). The TIRZ Board will consider the project and proposed abatement for approval on September 8, 2017.

In accordance with Section 311.0125 of the State Tax Code, a taxing unit seeking to abate taxes on real property located in a reinvestment zone must obtain approval from the following entities in order for the agreement to be effective: "The board of directors of the reinvestment zone and the governing body of each taxing unit that imposes taxes on real property in the reinvestment zone and deposits or agrees to deposit any of its tax

increment into the tax increment fund for the zone.”

**ALTERNATIVES:**

CaptureRx decided to proceed with the relocation and expansion of its operations to downtown San Antonio, retain its existing 114 full-time positions, and create 240 new full-time jobs over six years, based on the competitive financial incentives offered by City to secure the project. City Council could choose not to approve the redirection of the incentives from the previous location at 305 & 315 E. Houston to 420 Broadway Street. However, this could adversely impact CaptureRx’s decision to retain and grow its headquarters operations in San Antonio.

**FISCAL IMPACT:**

The estimated fiscal impact to the City is \$949,277, which is comprised of the tax abatement over 6 years, a \$614,000 EDIF grant over five years, and an estimated \$26,530 in ICRIP Area City fee waivers. SAWS credits have been approved for the ICRIP Fee Waiver Program through 2020, and the program - including the proposed San Antonio Water System (SAWS) Impact Fee Waivers of \$158,160 for this project - has no fiscal impact to the City’s General Fund.

Staff conducted a cost-benefit analysis evaluating the City’s estimated costs from the tax abatement, EDIF grant, and fee waivers in relation to the City’s estimated revenues from incremental sales taxes from construction costs and new jobs, and property taxes. Staff estimates this project will have a net fiscal benefit to the City of \$447,525 over a 10-year period, as summarized in the following table:

**10-Year Estimated Net Fiscal Impact from the CaptureRx Project**

	<b>REVENUE</b>	<b>COSTS</b>	<b>BENEFIT</b>
<b>YEARS</b>	Revenues to City (Property Taxes, Sales Taxes from Construction & New Jobs)	Costs to City (Tax Abatement, Grant, and ICRIP Fee Waivers)	Net Fiscal Benefit (Present Value) C = (A - B)
1-6	\$874,372	(\$949,277)	(\$74,905)
7-10	\$522,430	--	\$522,430
<b>Totals</b>	<b>\$1,396,802</b>	<b>(\$949,277)</b>	<b>\$447,525</b>

Funding is available in the FY2018 Economic Development Incentive Fund budget to support the Chapter 380 Economic Development Grant to CaptureRx in an amount not to exceed \$614,000.

**RECOMMENDATION:**

Staff recommends redirection of previously approved incentives through approval of: (A) an Ordinance designating the CaptureRx Reinvestment Zone; (B) an Ordinance authorizing a 6-year, 100% Tax Abatement Agreement on new real and personal property; (C) an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement providing performance-based financial incentives to CaptureRx in an amount not to exceed \$614,000; (D) SAWS Impact Fee Waivers not to exceed \$158,160; (E) a Resolution nominating CaptureRx as a Texas Enterprise Project; and (F) a resolution approving a tax abatement between Bexar County, CaptureRx, and GrayStreet.