



City of San Antonio

Agenda Memorandum

File Number: 15-5822

Agenda Item Number: 26B.

Agenda Date: 11/12/2015

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: 4

SUBJECT:

A Tax Abatement Agreement with INDO-US MIM TEC PVT, Ltd. (Indo), the establishment of the Indo Reinvestment Zone, and a Chapter 380 Economic Development Incentive Fund (EDIF) Grant Agreement with Indo.

SUMMARY:

Staff is requesting City Council action on the following items related to the Indo project: (A) a public hearing and Ordinance designating the Indo Reinvestment Zone located at 711 Davy Crockett Street at Port San Antonio in Council District 4; (B) an Ordinance approving a 10-year, 100% Tax Abatement Agreement based on a capital investment of at least \$24 million in personal property improvements and the creation of at least 330 new full-time jobs; and (C) an Ordinance authorizing a \$500,000 Chapter 380 EDIF Grant based on the creation of at least 330 new full-time jobs, with a minimum of 50 of the new full-time jobs paying no less than \$46,000 annually.

BACKGROUND INFORMATION:

Indo is a leading global supplier of precision-engineered products using Metal Injection Molding (MIM) manufacturing technology. The company's primary customers include many from the City's target industries, such as those in the bio-medical equipment and aerospace industries. Headquartered in Bangalore, India, Indo has achieved a global leadership position in the field of MIM, providing precision-engineered products to customers in more than 40 countries in the Americas, Europe, and Asia. The MIM process combines the design flexibility of plastic injection molding with the strength and integrity of wrought metals to offer cost effective solutions for precise and highly complex component geometries.

Indo started as a joint venture with a U.S. company in 1997 and became a wholly-owned Indian company in

2001. The company currently has global annual sales of \$115 million dollars, with over 70 customers in the U.S. Indo's two plants in Bangalore employ 2,200. To grow its manufacturing operations in the United States and meet customer demand, Indo sought locations in Texas, Florida, and South Carolina, with workforce and proximity to Mexico key considerations during its decision process. Indo anticipates commencing U.S. manufacturing operations in August 2016 and will initially lease 50,000 square feet of space, with plans to grow to more than 120,000 square feet.

In order to secure this project at the Port San Antonio site, staff recommends a 10-year, 100% personal property tax abatement valued at approximately \$809,561 over 10 years, based on a minimum capital investment of \$24 million in personal property and the creation of at least 330 new full-time jobs. Staff also recommends a \$500,000 EDIF grant, based on the creation of at least 330 new full-time jobs with at least 50 of them paying no less than \$46,000 annually, excluding benefits. The proposed EDIF grant will be paid based on the company reaching certain milestones and will be secured by a first lien on Indo's personal property. In addition, the company commits to participating in two job fairs agreeable to the City within one year of the commencement of the Tax Abatement Agreement term, and will seek to partner with local colleges for curriculum development and skills programs to train the local workforce for jobs in this precision-engineered manufacturing industry.

In accordance with the City's Tax Abatement Guidelines, all jobs at the project site will meet the minimum hourly "living wage" of at least \$11.47 and, within one year of the commencement of business operations, at least 70% of all employees at the project site will meet or exceed the \$14.66 hourly median "All Industry Wage."

ISSUE:

Before the City may enter into a Tax Abatement Agreement with Indo, the City is required to designate the Indo 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 recruitment, retention or expansion of primary employment, or to attract major investment to the zone. The capital investment and job creation resulting from this project exceed the criteria required for the designation of the Indo Reinvestment Zone.

The project is located at Port San Antonio, a location within in the Inner City Reinvestment/Infill Policy (ICRIP) area, and meets the Tax Abatement Guidelines criteria for capital investment and job creation for the recommended 10-year, 100% tax abatement.

Chapter 380 of the Local Government Code authorizes the City to provide incentives for the purpose of promoting economic development, provided the City has established a program for such purposes. City Council approved a program promoting economic development in April 2005. The creation by Indo of at least 330 new full-time jobs and location of a new manufacturing facility in the ICRIP at Port San Antonio, meets the EDIF Guidelines for the approval of the Chapter 380 EDIF grant.

ALTERNATIVES:

Based on the City's offer to Indo of the tax abatement and EDIF grant, Indo chose to expand in San Antonio for its new U.S. manufacturing operations. City Council could choose not to approve the Ordinances, which could impact Indo's decision to select San Antonio for the location of its new U.S. injection molding manufacturing facility.

FISCAL IMPACT:

The estimated fiscal impact to the City is \$1,309,561, which is comprised of the \$809,561 tax abatement over

10 years and the \$500,000 Chapter 380 EDIF grant over 2 years. Staff conducted a cost-benefit analysis evaluating the City’s estimated costs from the tax abatement and EDIF grant in relation to the City’s estimated revenues from incremental sales taxes from construction costs and new jobs, property taxes, and CPS Energy revenues over a term of 16 years.

Staff estimates this project will have a net fiscal benefit to the City of \$3,259,619 over a 16-year period. The following table summarizes the costs, revenues, and net fiscal benefits from the Indo project:

16-Year Estimated Net Fiscal Impact from the Indo Project

	REVENUE	COSTS	BENEFIT
YEARS	Est. Revenue (CPS Energy 14%, Property Taxes, and Sales Taxes from Construction & New Jobs)	Est. Incentive (10-yr, 100% Tax Abatement (Personal Only), Chapter 380 EDIF Grant)	Est. Net Fiscal Impact
1-10	\$2,894,875	\$1,309,561	\$1,585,314
11-16	\$1,674,305	\$0	\$1,674,305
Totals	\$4,569,180	\$1,309,561	\$3,259,619

RECOMMENDATION:

Staff recommends approval of: (1) an Ordinance designating the Indo Reinvestment Zone; (2) an Ordinance authorizing a 10-year, 100% Tax Abatement Agreement on personal property; and (3) an Ordinance authorizing a \$500,000 Chapter 380 EDIF Grant Agreement.