



# City of San Antonio

## Agenda Memorandum

**File Number:** 17-2739

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**Agenda Item Number:** 24B.

**Agenda Date:** 4/20/2017

**In Control:** City Council A Session

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**DEPARTMENT:** Economic Development Department

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** Council District 8

### **SUBJECT:**

City Council consideration of a Tax Abatement Agreement with Hulu, LLC (d/b/a Hulu) and Shorecliffs Investments, LLC (Owner), and nomination of Hulu as a Texas Enterprise Zone Project.

### **SUMMARY:**

Staff is requesting City Council action on the following items related to the Hulu, LLC (d/b/a/ Hulu) project: (A) an Ordinance approving a 6-year, 100% Tax Abatement Agreement on a capital investment of at least \$12.92 million in real and personal property improvements at the site, and the creation of 500 new full-time jobs over three years; (B) a resolution nominating Hulu for designation as a Texas Enterprise Zone Project.

### **BACKGROUND INFORMATION:**

The Hulu project falls in line with several of the key long-term economic goals laid out in the City's *SA Tomorrow Comprehensive Plan* and *Forefront SA*, the community's economic development strategic plan led by the San Antonio Economic Development Foundation, including the attraction of corporate and regional headquarters, and support for the continued growth of the City's Targeted Industries. Additionally, the project presents an opportunity to secure the presence of an innovative, rapidly growing, and globally recognized technology company in San Antonio.

Founded in 2007 and headquartered in Santa Monica, California, Hulu is a privately-held video streaming service with 12 million subscribers and 1,600 employees including offices in New York, Chicago, Seattle and Beijing.

Experienced technology executives comprise the company's leadership team, including Chief Executive Officer Mike Hopkins, who previously served as President of Distribution at Fox Networks, Chief Financial Officer Elaine Paul, a former vice president at the Walt Disney Company, and Chief Technology Officer Tian Lim, who served as senior vice president at Sony Network Entertainment before joining Hulu.

As the company looked for a location to open its new Viewer Experience Operations Headquarters, Hulu eventually narrowed its search to sites in San Antonio and Albuquerque, NM. Based on the community's incentive offer and strong local support for the project, Hulu has chosen to locate to and expand in San Antonio, with plans to make a capital investment of \$12.92 million in real and personal property at 4511 Horizon Hill (City Council District 8), and the creation of 500 new full-time jobs over three years.

#### **ISSUE:**

In order to secure this project, staff recommends a 6-year, 100% tax abatement on real and personal property valued at approximately \$278,589. In order to qualify for the recommended incentives, Hulu must create 500 jobs at the identified site, and make a minimum capital investment of \$12.92 million in real and personal property, comprised of a \$6.5 million investment in real property improvements and \$6.42 million in personal property improvements. Additionally, 100% of Hulu's employees at the project location must be paid the "Living Wage" of no less than \$11.83 per hour and be provided access to healthcare benefits. After one year, Hulu must pay at least 70% of all employees at the site a wage of no less than \$15.68 per hour. At least 65 employees at the site must earn a minimum annual salary of \$50,000.

Furthermore, Hulu agrees to work with the City and other community partners to support digital inclusion efforts, such as the Digital Inclusion Initiative (Di2), aimed at improving connectivity, accessibility, and digital literacy across the community. Such efforts include work and initiatives to make reliable and affordable high-speed internet widely available, particularly in lower-income neighborhoods, ensure a supply of and access to computers, provide tailored training, increase basic skill and competency in new technology, and achieve sustainable links for people to education, employment and quality of life outcomes.

The Hulu project site is located within an existing Texas Enterprise Zone area, and in accordance with Section 312.2011 of the Texas Tax Code, designation of an area as an enterprise zone constitutes designation of the area as a reinvestment zone without further hearing or other procedural requirements.

Staff also recommends nominating the project as a Texas Enterprise Project, which could potentially result in a refund to Hulu of state sales and use taxes on qualified expenditures of up to \$1,250,000 (\$2,500/job). The City of San Antonio receives an allotment of 9 potential Enterprise Project designations every state biennium. Biennium 2016-2017 commenced on September 1, 2015, and if this Enterprise Project designation is approved, the City will have 6 of its Enterprise Project designations remaining for the remainder of this state biennium, ending on August 31, 2017.

In addition to the City, Bexar County and the State of Texas have also pledged economic development support to secure Hulu's Viewer Experience Operations Headquarters in San Antonio.

The Hulu project site is in the City's Council District 8, and is considered an "exceptional" project under the City's Tax Abatement Guidelines based on the creation of at least 500 new full-time jobs, as well as a targeted project based on the attraction of corporate regional headquarters, business activities in a Targeted Industry (IT), and a significant capital investment.

#### **ALTERNATIVES:**

Based on the City's competitive offer and local support for the project, Hulu has decided to locate its Viewer Experience Operations Headquarters in San Antonio and to create 500 new full-time jobs over three years. City Council could choose not to approve the Ordinance authorizing the City to enter into the Agreement, which could adversely impact Hulu's decision to locate to and grow its operations in San Antonio.

#### **FISCAL IMPACT:**

The estimated fiscal impact to the City is \$278,589, which is comprised of the tax abatement over 6 years. Nomination as a Texas Enterprise Project has no fiscal impact to the City.

Staff conducted a cost-benefit analysis evaluating the City’s estimated costs in relation to the City’s estimated revenues from incremental sales taxes from construction costs, new jobs, and property taxes. Staff estimates this project will have a net fiscal benefit to the City of \$752,818 over a 10-year period, as summarized in the following table:

**10-Year Estimated Net Fiscal Impact from the Hulu 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)	Net Fiscal Benefit (Present Value) C = (A - B)
1-6	\$680,133	(\$278,589)	\$401,544
7-10	\$351,275	--	\$351,275
<b>Totals</b>	<b>\$1,031,408</b>	<b>(\$278,589)</b>	<b>\$752,819</b>

**RECOMMENDATION:**

Staff recommends approval of: (A) an Ordinance authorizing a 6-year, 100% Tax Abatement Agreement on new real and personal property with Hulu and Owner; (B) a Resolution nominating Hulu as a Texas Enterprise Project.