



City of San Antonio

Agenda Memorandum

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Agenda Date: 11/21/2013

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: District 6 and City-wide

SUBJECT:

An ordinance approving a 15-year Chapter 380 Economic Development Tax Reimbursement Agreement with Microsoft Corporation

SUMMARY:

This ordinance authorizes execution of a 15-year Chapter 380 Economic Development Agreement with Microsoft Corporation to reimburse a minimum of 40% of City of San Antonio ad valorem property taxes commencing in 2016.

BACKGROUND INFORMATION:

Microsoft Corporation, founded in 1975 by Bill Gates and Paul Allen, is headquartered in Redmond, Washington. The company is ranked 35 on the 2013 Fortune 500 list and is a worldwide leader in software development, services, and solutions. Microsoft employs 90,000 and the technology company reported net revenues of \$77.31 billion and net income of \$22.12 billion for fiscal year ending June 30, 2013.

On January 18, 2007 City Council approved a 10-year, 100% Tax Abatement of Microsoft's real and personal property improvements to successfully compete for Microsoft's initial data center project. Microsoft's initial investment consisted of \$550 million and the creation of 75 high-paying jobs. Council also approved a grant from the CPS Energy (CPSE) Community Infrastructure and Economic Development (CIED) Fund to help pay for required electrical infrastructure costs. As a result of the 2007 agreement, Microsoft constructed a 400,000 sq. ft. datacenter, has invested over \$840 million in real and personal property and has surpassed all job creation

milestones to date.

Microsoft is currently considering San Antonio, and other sites in the Southwest for a new data center project consisting of an investment of \$250M in real and personal property over five years and the creation 20 high wage jobs.

To secure the new Microsoft data center expansion project and attract future investment, staff recommends (1) a 15-year Chapter 380 Tax Reimbursement equating to 40 percent of the City's portion of ad valorem property taxes assessed for the project by the Bexar Appraisal District beginning in 2016. This reimbursement will be in place for up to \$1B in assessed value of new real and personal property investment in San Antonio; and (2) it will also include a Net Property Tax Revenue Milestone that will increase the Chapter 380 Tax Reimbursement to approximately 63 percent for the remainder of the term of the incentive agreement. The Net Property Tax Revenue Milestone of \$5M could be generated as a result of additional Microsoft investment during the 15-year term. The Net Property Tax Revenue Milestone is the aggregate of all new property tax revenues less tax revenues applicable to the City's debt service tax rate currently set at \$0.002115, and less the initial 40 percent provided to Microsoft. This milestone serves to encourage additional investment in San Antonio as Microsoft continues to invest in data center operations around the world.

To gain access to the Chapter 380 Tax Reimbursement, Microsoft must commit to collaborate with the University of Texas at San Antonio (UTSA) on a Research and Development (R&D) agreement to pursue material improvements in efficiency and reliability in distributed generation technology. In addition, Microsoft will also contribute \$1 million to UTSA (that could include endowments, professorship, or scholarship). The R&D project would be hosted at a research site installed at the proposed Microsoft data center. The specific parameters of the R&D project will be pursuant to an R&D agreement that will be executed by Microsoft and UTSA following the approval of this ordinance.

Data centers are highly dependent upon a reliable source of electricity to ensure uptime for its online services. Microsoft typically achieves this reliability through a combination of electricity grid connection and back-up generation. Most commercially available distributed generation technology fails to achieve adequate efficiency or availability metrics that would warrant widespread deployment.

Microsoft intends to provide the infrastructure to house and test this technology at a research center located at Microsoft's San Antonio data center. It would focus on a defined set of generation technology (e.g., fuel cells, micro turbines, supercritical fluids). Research would be conducted into the current state of the technology, potential advancements through improvements in materials or design.

This research center would provide the capabilities to validate distributed generation technology in a live data center environment. UTSA would provide research capabilities and support on the testing and validation of the technology. Project leads for both UTSA and Microsoft will jointly determine the appropriate avenues (e.g., publications, conferences) to discuss the progress and outcomes of this joint research effort.

Because Microsoft's current operation has established relationships with local small businesses, Microsoft must also commit to utilize local certified small and/or minority and/or women-owned businesses based in the San Antonio Metropolitan Statistical Area for the life of the agreement. Utilization of these local small business categories will account for no less than 20 percent of Microsoft's annual operating budget, excluding the cost of energy, utilities and payroll for regular employees.

ISSUE:

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants and

loans for the purposes of promoting economic development provided the City has established a program for such purposes. City Council approved a Chapter 380 program in April 2005.

The Microsoft Project supports the City of San Antonio’s SA2020 Vision Plan by encouraging the attraction of new businesses and good paying jobs in the information technology industry. This project further establishes San Antonio as a preferred location for major data centers, supports local research and development capabilities, and fosters small business development.

ALTERNATIVES:

Microsoft has chose San Antonio based on the City’s competitive offer of financial incentives, and other site specific variables. The City Council could choose not to approve this Ordinance, but staff does not recommend this alternative. If City Council chose not to approve this Ordinance, this action could deter the company from 1) expanding the data center operations 2) executing the pending R&D partnership between Microsoft and UTSA, and 3) implementing a formal small/minority/women business contracting program.

FISCAL IMPACT:

Staff conducted a cost-benefit analysis evaluating the City’s estimated costs from the tax rebate and the City’s estimated revenues from incremental property taxes and sales as well as COSA’s portion of CPS Energy revenues over a term of 15 years. Staff estimates this project will have a net fiscal benefit to the City of \$56,319,724. The following table summarizes estimated revenues, incentive value and net fiscal benefits of the Microsoft Expansion Project.

Years	Estimated Total Revenue (Property Tax, Sales Tax, CPS Rev)	Estimated Incentive Value (15-Year, 40%)	Estimated Net Fiscal Impact
1-5	\$17,658,454	\$1,268,451	\$16,390,003
6-10	\$21,725,087	\$940,175	\$20,784,913
11-15	\$20,023,285	\$878,476	\$19,144,808
Total	\$59,406,826	\$3,087,102	\$56,319,724

RECOMMENDATION:

Staff recommends approval of this ordinance authorizing the execution of a 15-year Chapter 380 Tax Reimbursement Agreement with Microsoft Corporation at a minimum of 40% of City property taxes on real and personal property investment of \$250 million and the creation of 20 high paying jobs.