



# City of San Antonio

## Agenda Memorandum

**File Number:** 17-6105

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**Agenda Item Number:** 31C.

**Agenda Date:** 11/9/2017

**In Control:** City Council A Session

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**DEPARTMENT:** Economic Development

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** 8

### **SUBJECT:**

City Council consideration of a Tax Abatement Agreement with Ernst & Young U.S. LLP (EY) and Farinon Building II, LLC (Farinon), and an Economic Development Incentive Fund (EDIF) Grant Agreement with EY, and nomination of EY project as a Texas Enterprise Zone Project.

### **SUMMARY:**

Ernst & Young has chosen to expand its financial and technology support services in San Antonio. The company plans to make a capital investment of \$8.5 million in real and personal property, create 600 new full-time jobs over five years, and maintain their current San Antonio employees. Staff is requesting City Council action on the following items related to the Ernst & Young project: (A) an Ordinance approving a 6-year, 100% Tax Abatement Agreement based on a capital investment of at least \$8.5 million and the creation of 600 new full-time jobs over five years at the site; (B) an Ordinance approving a performance-based Chapter 380 Economic Development Incentive Fund (EDIF) Grant Agreement up to a maximum of \$309,000 based on 309 new full-time jobs making \$50,000 or more annually within the first five years; and (C) a Resolution nominating EY for designation as a Texas Enterprise Zone Project.

### **BACKGROUND INFORMATION:**

EY is owned by approximately 3,200 US partners and principals and is a member of Ernst & Young Global Ltd., an organization founded in 1894 and based at 5 Times Square, New York, New York, with additional offices in the United States, Middle East, Australia, Europe, and Asia. The company is one of the "Big Four" accounting firms and in 2016 ranked No. 3 on Accounting Today's ranking of the top 100 accounting firms according to U.S. revenue. The company provides assurance, tax, auditing, advisory, enterprise risk

management, entrepreneurial, and technology and security risk services to public and private companies in the automotive, energy, chemicals, financial, health, real estate, retail, consumer, and entertainment industries in the United States.

EY presently has a sizable presence in San Antonio with 265 employees at its downtown Frost Bank Tower offices. As the company sought a location to expand its financial and technology support services, EY narrowed its search to sites in San Antonio, Atlanta and Jacksonville. Based on the community's incentive offer and strong local support for the project, EY has chosen to expand in San Antonio, with plans to make a capital investment of \$8.5 million in real and personal property at Farinon Business Park, 12707 Silicon Drive, (City Council District 8), and the creation of 600 new full-time jobs over five years, all while maintaining their current San Antonio employees.

## **ISSUE:**

The EY project meets 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. Among these goals are to support the continued growth of the City's targeted industries. Additionally, the project presents an opportunity to expand the presence of an innovative, rapidly growing, and globally recognized financial services company in San Antonio with well-paying jobs.

In order to secure this project, staff recommends a 6-year, 100% tax abatement on real and personal property valued at approximately \$243,614. In order to qualify for the recommended incentives, EY must create at least 600 new full-time jobs at the identified site, and make a minimum capital investment of \$8.5 million in real and personal property. Additionally, 100% of EY'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, EY must pay at least 70% of all employees at the site a wage of no less than \$15.68 per hour. As part of the EDIF Grant Agreement, EY is eligible for \$1,000 for each new job created during the first five years of the Agreement with a salary at or exceeding \$50,000, up to maximum grant of \$309,000. The City will further offer the assignment of a single Point of Contact within the Development Services Department to assist with permitting and development needs.

The EY project is located in a non-ICRIP area, but is considered an "Exceptional" project under the City's Tax Abatement Guidelines because the expansion involves the creation of over 500 jobs.

The project site is located within an existing Texas Enterprise Zone area, and in accordance with Section 312.4011 of the Texas Tax Code, designation of an area as a State Enterprise Zone constitutes designation of the area as a Reinvestment Zone without further hearing or other procedural requirements. This project is also eligible for designation as a Texas Enterprise Project, which could potentially result in a refund to EY of state sales and use taxes on qualified expenditures up to \$1,250,00 over five years. If approved by the state, the City will have eight additional Enterprise Project designations for the remainder of this state biennium, ending on August 31, 2019.

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. City Council approved a program promoting economic development in April 2005. The recommended incentive complies with EDIF Guidelines for per job grant amounts for targeted industry high wage jobs outside the ICRIP.

In connection with the incentives offered by the City, and in alignment with our shared focus on workforce development, EY has agreed to sponsor student internships through SA Tomorrow along with other community engagement activities.

**ALTERNATIVES:**

Based on the City’s competitive offer and local support for the project, EY has decided to proceed with the expansion of its operations to San Antonio, creating at least 600 new full-time jobs over five years. City Council could choose not to approve the Ordinance authorizing the incentive agreements, which may adversely impact EY’s decision to grow its operations in San Antonio.

**FISCAL IMPACT:**

The estimated fiscal impact to the City is \$552,614 which is comprised of the 100% tax abatement over 6 years valued at \$243,614, and \$309,000 in EDIF grant funds approved by City Council in the 2017 budget. 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 \$501,790 over a 10-year period, as summarized in the following table:

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

	<b>REVENUE</b>	<b>COSTS</b>	<b>BENEFIT</b>
YEARS	Revenues to City (Property Taxes and Sales Taxes from Construction & New Jobs)	Costs to City (Tax Abatement and EDIF Grant)	Net Fiscal Benefit (Present Value) C = (A - B)
1-6	\$607,206	(\$552,614)	\$54,592
7-10	\$447,198	--	\$447,198
<b>Totals</b>	<b>\$1,054,404</b>	<b>(\$552,614)</b>	<b>\$501,790</b>

Funding is available in the FY2018 Economic Development Incentive Fund budget to support the Chapter 380 Economic Development Grant to EY in an amount not to exceed \$309,000.

**RECOMMENDATION:**

Staff recommends approval of: (A) an Ordinance authorizing a 6-year, 100% Tax Abatement Agreement on new real and personal property; (B) an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Incentive Fund Grant Agreement providing performance-based financial incentives to EY in an amount not to exceed \$309,000; and (C) a Resolution nominating EY as a Texas Enterprise Zone Project.