



# City of San Antonio

## Agenda Memorandum

**File Number:** 14-1331

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**Agenda Item Number:** 27.

**Agenda Date:** 8/21/2014

**In Control:** City Council A Session

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**DEPARTMENT:** Economic Development Department

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** City Wide

### **SUBJECT:**

Amendment to the Agreement to Pledge Structural Reserve Funds between the City and Port San Antonio and the redirection of FY14 allocated funds to pay down a HUD 108 loan in order to provide Port San Antonio with flexibility to assist in the retention and attraction of aerospace tenants.

### **SUMMARY:**

The City's FY 2014 adopted budget allocated \$3.7M to Port San Antonio (the "Port") to provide funding for the improvement of certain streets. The improvements were intended to bring the streets up to City Code requirements allowing for their future dedication to the City. As a result of a coordinated and focused effort to assist the Port in retaining existing aerospace tenants and encouraging those companies to expand into the commercial aerospace industry, staff is proposing to redirect the previously allocated \$3.7M to assist the Port in paying down a Housing and Urban Development (HUD) 108 Loan. Additionally, to provide flexibility to the Port to attract and retain its aerospace tenants, the staff is proposing an amendment to the Agreement to Pledge Structural Reserve Funds between the City and Port San Antonio to remove the structural reserve requirement.

### **BACKGROUND INFORMATION:**

San Antonio has long played, and continues to play, an important role in the global aerospace industry. From the nation's first military flight at Fort Sam Houston in 1910, through the founding of Kelly Air Force Base in 1917 and its nearly 80 years of operation, to the establishment of the Port, San Antonio has served as an important asset in the U.S. defense aerospace industry.

On July 13, 2001, Kelly Air Force Base officially closed as a result of the Base Realignment and Closure (BRAC) 1995, and the land and facilities were transferred to the Greater Kelly Development Authority, a City-created Local Redevelopment Authority responsible for overseeing the redevelopment of the base into a business and industrial park. The business park, now known as the Port San Antonio, has over 11 million

square feet of industrial/commercial space.

In 1998, a HUD 108 Loan was approved as the City and Port partnered to retain and expand aerospace maintenance, repair and overhaul (MRO) in San Antonio. The Loan provided City with funds to provide to the Port for the purposes of upgrading an existing hangar to attract private-sector aerospace companies to the former Air Force base. Today, 14 aerospace-related firms specializing in aircraft MRO employ approximately 4,000 workers and are significant contributors to the region's economic activity. Furthermore, newly available sites at the Port for future hangars and workshops could support an additional 8,000 good paying aerospace industry jobs in the years ahead.

For over 15 years, private sector aerospace firms at the Port have primarily supported military aircraft. As a result of nationwide decreases in demand for military MRO services in recent years, San Antonio's aerospace industry must respond to the changing market environment. The Port intends to do so by focusing on commercial aerospace opportunities while working to sustain its current military MRO base.

To ensure that San Antonio adapts to the changing aerospace industry and remains nationally competitive, the Port San Antonio Aerospace Working Group appointed by former Mayor Castro, developed a set of recommendations and strategies to help secure the long-term future of existing and future aerospace tenants at the Port. As a result, a number of recommendations were made including the need to focus on the Port's business model and financial structure.

After reviewing a number of alternatives, staffs from the Port, City Finance and Economic Development Departments recommended the restructuring of the HUD 108 Loan to provide significant financial savings to the Port.

#### **ISSUE:**

In order for the Port to have greater flexibility in its business and financial models to retain and attract aerospace tenants, Staff is recommending

- A. Amending the Agreement to Pledge Structural Reserve Funds between the City and Port San Antonio to remove the structural reserve requirement.
- B. The redirection of \$3.7M in the City's FY2014 budget from street dedication costs to paying down the HUD 108 Loan.

Staff's recommendation will allow the Port to reduce costs to its current and future commercial aerospace tenants. This will allow the Port to expand and diversify its tenant base to include more commercial aerospace MRO firms that will complement the Port's existing Department of Defense MRO tenants.

#### **ALTERNATIVES:**

City Council could chose not to remove the structural reserve requirement or redirect the \$3.7M appropriated in the City's FY2014 Budget. However, this could potentially reduce the Port's ability to create flexibility in its business and financial model to help retain and attract aerospace companies.

#### **FISCAL IMPACT:**

There is no fiscal impact to the City because the recommendation only applies to the redirection of funds.

**RECOMMENDATION:**

Staff recommends removing the structural reserve requirement in the Agreement to Pledge Structural Reserve Funds between the City and Port San Antonio and redirecting the \$3.7M from the FY14 capital budget to allow the Port to pay down the HUD 108 Loan to help retain and attract aerospace tenants.