



City of San Antonio

Agenda Memorandum

File Number:16-2096

Agenda Item Number: 15.

Agenda Date: 4/7/2016

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: Council District 6

SUBJECT:

An Ordinance to amend a Tax Phase-In Agreement with Maxim Integrated Products, Inc

SUMMARY:

Staff is requesting City Council action to approve an amendment to a Tax Phase-In Agreement with Maxim Products, Inc. (Maxim) in connection with the assignment of Maxim's interest in the agreement to TJ Texas, Inc. (Jazz).

BACKGROUND INFORMATION:

Maxim was established in 1983, with headquarters in Sunnyvale, California, and is a worldwide leader in the design, development, and manufacturing of linear and mixed-signal integrated circuits. In order to attract Maxim to San Antonio, in December 2004 City Council approved a Tax Phase-In Agreement (Tax Abatement Agreement) for a 10-year, 100% tax abatement and a \$1.5 million economic development grant agreement for workforce training from the City's Economic Development Incentive Fund.

Under the Tax Abatement Agreement, Maxim committed to investing \$136.2 million in real and personal property improvements and creating at least 575 full-time jobs by December 31, 2014. In addition, the Tax Abatement Agreement requires Maxim to maintain at least 575 full-time jobs through the end of the recapture period, which commenced on January 1, 2015 and expires on December 31, 2020.

Just prior to the end of the Maxim's jobs and investment reporting cycle for 2015, Maxim informed the City of the pending sale of its San Antonio manufacturing facility to Jazz, a U.S. subsidiary of Tower Semiconductor

Ltd. Jazz intends to continue and grow current operations at the project site, which includes the creation of additional full-time jobs.

In 2015, the first year of the recapture term, Maxim reported a total capital investment of over \$237 million in real and personal property and the creation and maintenance of 511 jobs, 64 jobs short of the total jobs required under the Tax Abatement Agreement. However, Maxim met all requirements under the economic development grant agreement and has otherwise complied with or exceeded all other material requirements under the Tax Abatement Agreement, including exceeding the capital investment requirement by 57%.

To encourage and secure the continuation of its manufacturing operations in San Antonio, staff is recommending amending the Tax Abatement Agreement to consent to the assignment of the agreement to Jazz, which is permitted under the terms of the agreement. In addition, staff has negotiated the terms of the Amendment, subject to City Council approval, which provide: (1) for an increase in the number of full time jobs required to be maintained by Jazz from 575 to 600; and (2) the City with the right to recapture 100% of all abated taxes in the event Jazz fails to maintain 600 full-time jobs through December 31, 2020 (after a jobs ramp up period from February 1, 2016 through December 31, 2017), or fails to maintain at least 484 full-time jobs in a given year during the recapture term.

In the event the sale to Jazz did not occur or if City Council failed to approve the Amendment, Maxim escrowed \$1,848,124, the total amount of taxes abated under the Tax Abatement Agreement, to secure the City's right to recapture abated taxes. The escrow agreement between the City and Maxim provides for the immediate release of the escrowed funds to the City if the Amendment is not approved by City Council.

ISSUE:

In order to amend the Tax Abatement Agreement to best ensure the maintenance of Maxim's manufacturing facility in San Antonio and increase the jobs creation and maintenance requirements under the Tax Abatement Agreement, City Council must approve the Amendment. Upon City Council's approval of the Amendment, the \$1,848,124 escrowed by Maxim will be released and returned to the company.

ALTERNATIVES:

Based on the City's offer to Maxim and Jazz to amend the Tax Abatement Agreement, Jazz closed on its purchase of Maxim's San Antonio manufacturing facility. City Council could choose not to approve the Amendment, which would result in the release of the escrowed funds to the City, but may impact the continued operation of Maxim's San Antonio manufacturing facility and the maintenance of 600 full-time jobs through December 31, 2020.

FISCAL IMPACT:

There is no fiscal impact to the City as a result of the approval of the Amendment, as taxes are no longer being abated at the project site. The City will maintain a first priority tax lien for the \$1,848,124 in abated taxes in the event of a default by Jazz under the Tax Abatement Agreement.

RECOMMENDATION:

Staff recommends approval of an ordinance approving the Amendment, which: (1) evidences the City's consent to the assignment of Maxim's rights and obligations under the Tax Abatement Agreement to Jazz; (2) obligates Jazz to increase and maintain its total number of full-time jobs at the facility to 600 through December 31, 2020; and (3) gives the City the right to recapture 100% of all abated taxes in the event Jazz fails to maintain the 600 full-time jobs or falls below 484 full-time jobs at any time during the recapture term.