



City of San Antonio

Agenda Memorandum

File Number: 17-2045

Agenda Item Number: 26A.

Agenda Date: 3/9/2017

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICTS IMPACTED: Council District 1

SUBJECT:

City Council consideration of a Tax Abatement Agreement with NEC Networks, LLC (d/b/a CaptureRx) and GrayStreet Partners (GrayStreet), a Chapter 380 Economic Development Grant Agreement with CaptureRx, SAWS Impact Fee Waivers, establishment of the CaptureRx Reinvestment Zone, and nomination of CaptureRx as a Texas Enterprise Zone Project.

SUMMARY:

Staff is requesting City Council action on the following items related to the NEC Networks, LLC (d/b/a CaptureRx) project: (A) a Public Hearing and Ordinance designating the CaptureRx Reinvestment Zone located at the adjoining buildings at 305 E Houston St. and 315 E Houston St. (Kress and Grant buildings) in Council District 1; (B) an Ordinance approving a 6-year, 100% Tax Abatement Agreement based on a capital investment of at least \$10.5 million in real and personal property improvements at the site, the retention of 114 jobs and the creation of 240 new full-time jobs over five years with a minimum base salary of \$50,000 annually for all retained and new full-time jobs; (C) an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement providing performance-based financial incentives to CaptureRx in an amount not to exceed \$614,000 based on the company's retention of 114 jobs and the creation of 200 new full-time jobs over five years; (D) authorization of SAWS Impact Fee Waivers not to exceed \$158,160; and (E) a resolution nominating CaptureRx for designation as a Texas Enterprise Zone Project.

BACKGROUND INFORMATION:

The CaptureRx project falls in line with several of the key long-term economic goals laid out in the City's *SA Tomorrow Comprehensive Plan*, as well as those presented in *Forefront SA*, the community's economic development strategic plan led by the San Antonio Economic Development Foundation, including the retention of local headquarters and their employees, high-wage job creation, Downtown development, and support for the continued growth of the City's Targeted Industries. The project presents an opportunity to secure the presence of an innovative, rapidly growing, high-paying healthcare technology company in the heart of Downtown San Antonio, while also supporting the re-development of a historic building and adding further

momentum to the continued growth of the IT ecosystem in the city's urban core.

Founded in 2000 and headquartered in San Antonio, CaptureRx is a privately held healthcare software company that provides prescription management services for pharmacies, with a focus on the federal 340B drug discount program that requires manufacturers to provide outpatient drugs to eligible health care organizations at reduced prices. The company's products and services support relationships between payers, providers, pharmacies, and patients, and help CaptureRx's customers manage inventory and financial flow for 340B prescriptions filled at contract pharmacies, while also performing the program's required edibility checks.

The company currently employs 114 people in San Antonio, who serve more than 500 hospitals and health care centers in 45 states. The company's customers include various pharmacies affiliated with companies such as WalMart, HEB, Rite Aid, and CVS. The company's pharmacy base has grown from 80 in 2010 to over 2,300 in 2015.

As it looked to expand its operations, CaptureRx considered relocating its San Antonio headquarters, including the company's 114 employees, to sites in Kansas City, MO, as well as Florida and Arizona. However, based on the community incentive offer and local support for the project, CaptureRx has chosen to remain in San Antonio with plans to relocate and expand its headquarters and operations to the redeveloped Kress and Grant buildings at 305 & 315 E Houston St. in San Antonio's Central Business District. The company and GrayStreet Partners (owner of the two buildings) plan to invest at least \$10.5 million in real and personal property improvements, and CaptureRx intends grow its local presence to 354 employees over the next five years, with an average annual salary of approximately \$91,000.

In order to secure this project in San Antonio, staff recommends a 6-year, 100% tax abatement on real and personal property valued at approximately \$308,747 over six years, a performance-based Chapter 380 Economic Development Grant in an amount not to exceed \$614,000 over five years, and SAWS Impact Fee Waivers not to exceed \$158,160. In order to qualify for the recommended incentives, CaptureRx must retain 114 jobs and relocate to the identified site in Downtown San Antonio, create 240 new full-time jobs over six years, and make a minimum capital investment of \$10.5 million in real and personal property, comprised of a \$9 million investment in real property improvements and \$1.5 million in personal property improvements. Additionally, the company will have to pay a minimum, annual base salary of \$50,000 for all retained and new full-time jobs at the project site.

The project site is located within the existing Houston Street TIRZ, and the TIRZ Board will consider the project and proposed abatement for approval on March 6, 2017.

Staff also recommends nominating the project as a Texas Enterprise Project, which could potentially result in a refund to CaptureRx of state sales and use taxes on qualified expenditures of up to \$1,250,000 over 5 years. 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 7 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 the continued presence and planned growth and expansion of CaptureRx in San Antonio.

ISSUE:

Before the City may enter into a Tax Abatement Agreement with CaptureRx, the City must designate the

CaptureRx project site as a “Reinvestment Zone.” This designation requires a public hearing and a finding by City Council that designation of the zone is reasonably likely to contribute to the retention or expansion of primary employment, or to attract major investment to the zone. The capital investment, job creation, and job retention resulting from this project exceed the criteria required for the designation of the CaptureRx Reinvestment Zone.

The CaptureRx project site is in the City’s Central Business District and located within an ICRIP area, and is considered a targeted project under the City’s Tax Abatement Guidelines, based on location, the retention of a corporate headquarters with business activities in two Targeted Industries (IT & Healthcare), a high new capital investment, and the retention and creation of a high number of jobs.

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 headquarters, projects located within ICRIP Area, and other related criteria.

Additionally, as part of both the Tax Abatement and Chapter 380 Agreements, all positions will have a minimum annual salary of \$50,000, which exceeds both the City’s Living Wage and the Bexar County Average Weekly Wage.

ALTERNATIVES:

Based on the City’s offer and local support for the project, CaptureRx has decided to proceed with the relocation and expansion of its operations to Downtown San Antonio, retaining its existing 114 full-time positions, and creating 240 new full-time jobs over six years, based on the competitive financial incentives offered by City staff to secure the project. City Council could choose not to approve the Ordinance authorizing the City to enter into the Agreement, which could adversely impact CaptureRx’s decision to retain and grow its headquarters operations in San Antonio.

FISCAL IMPACT:

The estimated fiscal impact to the City is \$949,277, which is comprised of the tax abatement over 6 years, a \$614,000 EDIF grant over five years, and an estimated \$26,530 in Inner City Reinvestment Infill Policy (ICRIP) Area City Fee Waivers.

SAWS credits have been approved for the ICRIP Fee Waiver Program through 2020, and the program - including the proposed San Antonio Water System (SAWS) Impact Fee Waivers of \$158,160 for this project - has no fiscal impact to the City’s General Fund.

Staff conducted a cost-benefit analysis evaluating the City’s estimated costs from the tax abatement, EDIF grant, and fee waivers in relation to the City’s estimated revenues from incremental sales taxes from construction costs and new jobs, and property taxes. Staff estimates this project will have a net fiscal benefit to the City of \$447,525 over a 10-year period, as summarized in the following table:

10-Year Estimated Net Fiscal Impact from the CaptureRx Project

| | REVENUE | COSTS | BENEFIT |
|--|----------------|--------------|----------------|
|--|----------------|--------------|----------------|

| YEARS | Revenues to City (Property Taxes, Sales Taxes from Construction & New Jobs) | Costs to City (Tax Abatement, Grant, and ICRIP Fee Waivers) | Net Fiscal Benefit (Present Value) C = (A - B) |
|---------------|---|---|--|
| 1-6 | \$874,372 | (\$949,277) | (\$74,905) |
| 7-10 | \$522,430 | -- | \$522,430 |
| Totals | \$1,396,802 | (\$949,277) | \$447,525 |

Funding is available in the FY2017 Economic Development Incentive Fund budget to support the Chapter 380 Economic Development Grant to CaptureRx in an amount not to exceed \$614,000.

RECOMMENDATION:

Staff recommends approval of: (A) an Ordinance designating the CaptureRx Reinvestment Zone; (B) an Ordinance authorizing a 6-year, 100% Tax Abatement Agreement on new real and personal property; (C) an Ordinance authorizing the City to enter into a Chapter 380 Economic Development Grant Agreement providing performance-based financial incentives to CaptureRx in an amount not to exceed \$614,000; (D) SAWS Impact Fee Waivers not to exceed \$158,160; and (E) a Resolution nominating CaptureRx as a Texas Enterprise Project.