



# City of San Antonio

## Agenda Memorandum

**File Number:** 19-1653

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**Agenda Item Number:** 28.

**Agenda Date:** 3/21/2019

**In Control:** City Council A Session

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**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** 3

**SUBJECT:**

City Council consideration on two agreements with Halliburton, including a mutual termination of an existing Industrial District Non-Annexation Agreement (IDA), and a Chapter 380 Tax Rebate Agreement.

**SUMMARY:**

This ordinance authorizes two agreements with Halliburton: (1) a mutual termination of an existing IDA (which would commence Halliburton's voluntary annexation request), and (2) an eight-year, Chapter 380 Tax Rebate Agreement rebating approximately 62% of San Antonio's ad valorem taxes, to be effective upon annexation. These agreements are based on Halliburton's continued operations at 4526 S Loop 1604 and the retention of at least 500 jobs. In summary, at Halliburton's request, the City would accelerate the annexation of Halliburton's property, resulting in the retention of Halliburton's employees, personal property and ongoing operations.

**BACKGROUND INFORMATION:**

Founded in 1919, Halliburton is one of the world's largest providers of products and services to the energy industry. Registered on the New York Stock Exchange, with over 55,000 employees in more than 80 countries, the company provides oilfield services to its customers. Halliburton maintains an office near San Antonio at the corner of I37 and Loop 1604, in the City's Extraterritorial Jurisdiction (ETJ) and in Emergency Services District (ESD) #6. This office is the main base for its Eagle Ford Shale operations, which are subject to Texas sales/use tax via a direct pay permit. As of 2018, Halliburton has approximately \$29.8 million real property value and \$240 million personal property value (mostly mobile equipment called "rolling stock") at the project site.

In 2010, the City identified Halliburton's property in its Heritage South Sector Plan (as part of the City's Master Plan to accommodate sustainable growth). In 2016, in order to retain Halliburton's presence, City Council approved a ten-year IDA with Halliburton. Under the IDA, Halliburton is required (1) to maintain at least 500 full-time jobs, at least 200 of which must be dedicated to duties solely at the project site, (2) all jobs at the

project site must receive an annualized cash wage of no less than \$24,876.80 (based on living wage as of 2016), and (3) 70% of the incentivized jobs must receive an annualized cash wage of no less than \$47,400. Further, Halliburton must meet established City requirements such as offering an employee benefits package and participating in City job fairs and other workforce programs.

Additionally, under the IDA, the City received a one-time, \$2 million payment into the City's workforce development fund, receives an annual \$1.5 million payment in lieu of taxes (PILOT), and receives an annual \$40,000 fire services fee. These payments were calculated to estimate potential tax revenues to the City as if the City had annexed Halliburton in 2016 and as if the City had provided a 60% property tax rebate, based on job creation and capital investment requirements in accordance with the City's incentive guidelines.

Pursuant to the IDA, if the IDA terminates the City is entitled to annex Halliburton's property.

### **ISSUE:**

After the City approved the IDA, the ESD #6 voted on and passed an additional 1.5% sales/use tax (effective October 1, 2017). This in essence caused Halliburton to be double-taxed by the City's PILOT payment and by the ESD's sales/use tax.

Halliburton has requested the City's help to eliminate the double tax situation. In the alternative, Halliburton is considering cost-reducing measures, including potentially relocating its Eagle Ford Shale operations.

In order to retain Halliburton's base at the Eagle Ford Shale and the accompanying jobs and local operations, staff recommends the following:

- Terminate the IDA with no cash payment due from either party pursuant to the IDA, and with a proportionate refund to Halliburton pursuant to the fire services fee prepaid for the year 2019;
- Annex Halliburton's property, via a voluntary annexation process initiated and paid for by Halliburton; and
- Enter into an eight-year Chapter 380 Tax Rebate Agreement, effective upon annexation, rebating the portion of San Antonio's ad valorem taxes allocated to the City's maintenance and operations budget as subject to annual adjustment (currently \$0.34677, or 62% of the City's ad valorem tax).
- Halliburton will be subject to the following requirements under the Chapter 380 Tax Rebate Agreement:
  - Maintain at least 500 full-time jobs, at least 200 of which must be dedicated to duties solely on the project site;
  - 100% of the incentivized jobs must meet City wage requirements, i.e., receiving an annualized cash wage of no less than \$25,750 (based on living wage as of 2019);
  - 70% of the incentivized jobs must receive an annualized cash wage of no less than \$47,400.00;
  - Maintain project site as designated Texas sales/use tax direct pay permit location;

- Participate in at least one City-identified job fair within the City limits annually; and
- Make reasonable efforts to utilize the services of Workforce Solutions Alamo.

The new Chapter 380 Tax Rebate Agreement aligns with the original City agreement and retains Halliburton's local operations. Current estimates place the tax rebate value at approximately \$7.4 million over eight years and provides a net benefit to the City of approximately \$2.4 million annually (based on 2018 actuals) over eight years, stemming from the accelerated annexation schedule.

Chapter 380 of the Local Government Code authorizes the City to provide economic development grants (including rebates) for the purposes of promoting economic development, provided that the City has established a program for such purposes. City Council approved such a program promoting economic development in April 2005.

**ALTERNATIVES:**

Although Halliburton does not intend to make significant additional investments or to increase its workforce, the company has decided to maintain its workforce, property and operations in San Antonio based on the City's offer and support. City Council could choose not to approve the ordinance authorizing the agreements, which may adversely impact Halliburton's decision to remain in San Antonio.

**FISCAL IMPACT:**

This ordinance authorizes a Chapter 380 Tax Rebate Agreement with Halliburton for eight years at the maintenance and operations tax rate, which is estimated at 62%. Over eight years, the abated tax is estimated to be \$7.4 million. In the existing IDA, the City was designated to receive an annual amount of \$1.5 million, intended to represent a portion of the ad valorem taxes and direct pay sales and use taxes that would otherwise have been paid to the City if the property were annexed for a term of 10 years.

With the termination of the existing IDA, beginning in FY 2020, the City will no longer receive the \$1.5 million as a payment in lieu of taxes; however in FY 2020 the City will receive a portion of the ad valorem taxes according to the Chapter 380 Tax Rebate Agreement, and sales and use taxes. For FY 2019, the City will retain the \$1.5 million but will refund the prepaid unused fire services, totaling approximately \$33,000.

**RECOMMENDATION:**

Staff recommends the approval of an ordinance authorizing the City to terminate the IDA and to enter into a Chapter 380 Tax Rebate Agreement with Halliburton, provided that the company fulfills the requirements described above.