



# City of San Antonio

## Agenda Memorandum

**File Number:**14-875

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**Agenda Item Number:** 20.

**Agenda Date:** 5/1/2014

**In Control:** City Council A Session

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**DEPARTMENT:** Economic Development Department

**DEPARTMENT HEAD:** Rene Dominguez

**COUNCIL DISTRICTS IMPACTED:** District 3, City-Wide

**SUBJECT:**

Arvin Sango, Inc. Tax Abatement Agreement

**SUMMARY:**

Staff is recommending City Council consider the following items related to the ASI project: (A) A Public Hearing and Ordinance designating the Arvin Sango Reinvestment Zone located near the intersections of Watson Road, Applewhite Road, and 1 Lone Star Pass, on a leased 3.038 acre site in the Toyota Supplier Park located in City Council District 3; and (B) An Ordinance approving a 10-year, 100% Tax Abatement Agreement with ASI on its planned investment of approximately \$16.6 million in real and personal property improvements, and the creation of at least 45 new full-time jobs.

**BACKGROUND INFORMATION:**

ASI is a Toyota Tacoma supplier for exhaust equipment seeking to establish a manufacturing facility to supply parts to Toyota Motor Manufacturing, Texas (TMMTX). ASI was formed 27 years ago in Madison, Indiana, as a joint venture between Arvin Industries (USA) and Sango Company (Japan) to manufacture exhaust parts for Toyota. The company was a 50/50 joint venture until 2011, when ownership changed to 100% owned by Sango. ASI has been successful as a Toyota supplier beginning with sales of \$3 million in 1988. ASI had nearly \$850 million in sales in 2013. Presently, ASI produces exhausts for the Camry, Corolla, and Tacoma models. There are five ASI plants in the United States and one wholly-owned subsidiary in Canada. The San Antonio plant will be ASI's sixth plant in the United States. ASI has approximately 895 employees in its present six ASI facilities located in Indiana, Tennessee, and Canada.

ASI is considering a site at the Toyota Supplier Park located in Council District 3 for an initial investment of approximately \$16.6 million and the creation of at least 45 new full-time jobs. ASI will invest approximately \$7.3 million in real property and approximately \$9.3 million in personal property (for a total capital investment of approximately \$16.6 million) to construct a 63,000 sq. ft. building to manufacture front and tail exhaust systems from manifold to tail pipe. The building will house mostly robotic equipment to manufacture exhaust systems for TMMTX. The Tax Abatement Agreement will require that all jobs at the project site exceed the minimum hourly “living wage” of \$11.32 and, after two years, more than 70% of its employees will exceed the \$14.44 hourly median all industry wage. In order to secure this proposed expansion, staff recommends a 10-year, 100% tax abatement valued at approximately \$1,005,583 over 10 years.

## **ISSUE:**

Before the City can enter into a Tax Abatement Agreement with ASI for its project located near the intersections of Watson Road, Applewhite Road, and 1 Lone Star Pass, the City must, by state statute, designate the 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. This project will result in the creation of at least 45 new high-paying jobs and an investment of approximately \$16.6 million and, therefore, meets the requirements of the statute.

This project meets the requirements in the City’s Tax Abatement Guidelines based on job creation and investment expenditures. This project will also meet the wage requirements in the Guidelines requiring ASI to pay all employees the “living wage” of at least \$11.32 per hour and, after two years, pay 70% of all employees the area median hourly wage for all industries of at least \$14.44 per hour. ASI estimates it will pay an annual average salary of \$50,000, and will provide all employees and their dependents health care benefits.

The project requires an exception to the Tax Abatement Guidelines because the Toyota Supplier Park is not located within the Targeted Investment Area (TIA) known as the Inner City Reinvestment Infill Policy. Additionally, staff recommends an exception to policy to allow up to two years for ASI to pay 70% of its employees the all industry wage (\$14.44/hr). This one year extension will help minimize disruption in the Supplier Park as they hire supplier staff.

## **ALTERNATIVES:**

Based on the City’s offer to ASI of tax incentives, the company chose to locate in San Antonio. City Council could choose not to approve this Ordinance, which could deter the company from selecting San Antonio to expand its operations.

## **FISCAL IMPACT:**

Staff conducted a cost-benefit analysis evaluating the City’s estimated costs from the tax abatement and the City’s estimated revenues from incremental sales taxes from construction costs and new jobs, property taxes, and CPS Energy revenues over a term of 20 years. Staff estimates this project will have a net fiscal benefit to the City within the initial 10-year term and a \$1,246,248 net fiscal benefit over a 20-year period. The following table summarizes the costs, revenues, and net fiscal benefits from the ASI project:

**20-Year Net Fiscal Impact from the ASI Project**

	<b>A</b>	<b>B</b>	<b>C</b>
<b>YEARS</b>	Revenues to City (CPS Energy 14%, Property Taxes, Sales Taxes from Jobs)	Costs to City (10-Year, 100% Tax Abatement)	Net Fiscal Benefit (Present Value) $C = (A - B)$
1-10	\$1,338,603	\$1,005,583	\$333,020
11-20	\$913,228	\$0	\$913,228
Totals	\$2,251,831	\$1,005,583	\$1,246,248

**RECOMMENDATION:**

Staff recommends approval of an Ordinance designating the Arvin Sango Reinvestment Zone, and an Ordinance approving a 10-year, 100% Tax Abatement Agreement on real and personal property with Arvin Sango, Inc.