



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 27C.

Agenda Date: 5/30/2019

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Rene Dominguez

COUNCIL DISTRICT IMPACTED: 3

SUBJECT:

Consideration of three items related to the potential expansion of Toyota Motor Manufacturing, Texas, Inc. (TMMTX) for a capital investment of at least \$391.8 million, and a \$1 million contribution to educational and workforce development initiatives.

SUMMARY:

Staff is requesting City Council approval of the following items relating to TMMTX, with respect to potentially upgrading the company's San Antonio manufacturing plant into a state of the art facility:

- (A) An Ordinance authorizing a Chapter 380 Economic Development Fund (EDIF) grant agreement with TMMTX for up to \$621,000, restricted to costs associated with water infrastructure improvements;
- (B) A public hearing and an Ordinance designating the TMMTX Reinvestment Zone located at 1 Lone Star Pass in City Council District 3; and
- (C) An Ordinance approving an 8-year, 100%, Chapter 312 ad valorem real and personal property tax abatement agreement, based on a capital investment of at least \$391.8 million over three years (\$347.8 million personal property, \$44 million real property), the exclusive use of CPS Energy and San Antonio Water Systems for 14 years, and a \$1 million contribution over five years to educational and workforce development initiatives.

BACKGROUND INFORMATION:

Founded in 1937, Toyota Motor Corporation (Toyota) is a publicly-traded, multinational automotive manufacturer headquartered in Toyota City, Aichi Prefecture, Japan. Toyota has a global workforce of 364,445

and as of September 2018, was the sixth-largest company in the world by revenue.

In 2003, TMMTX, a subsidiary of Toyota, established its manufacturing plant in San Antonio by investing \$2.1 billion to manufacture Toyota Tundra trucks. The local community rallied in support of TMMTX's decision to locate in San Antonio. In lieu of a tax abatement, the City formed the Starbright Industrial Development Corporation and financed land acquisition and infrastructure improvements. The County and the State supported TMMTX's significant investments with a variety of incentives, including tax abatements, infrastructure improvements, permitting assistance and Texas Enterprise Zone nominations, which provide for refunds on state sales and use taxes. In 2010, TMMTX invested an additional \$100 million with respect to its Tacoma automotive line. The City and County each provided a 10-year, 100% ad valorem personal property tax abatement with respect to this additional investment.

TMMTX committed to retain 1,800 jobs from the original Starbright project and to create and retain an additional 1,000 jobs through 2026. Since its initial investment, TMMTX has continuously exceeded its job creation and capital investment targets. In addition, 23 suppliers have established facilities on Toyota's property. Currently TMMTX and its local suppliers employ approximately 7,200 people at the project site.

In collaboration with Dr. Steve Nivin, City staff prepared an economic analysis of the overall impact of the Toyota manufacturing facility to date (including suppliers). Since its inception, the project has created an enormous ripple effect, producing an estimated \$50 billion economic impact to the community, including direct impact from this project, indirect impacts resulting from business-to-business transactions, and induced impacts of increased spending at local businesses.

TMMTX has become a key corporate citizen in San Antonio, supporting multiple community initiatives. TMMTX offers well-established high school and college internship programs such as its partnership with the Alamo Academies, and was a founding member of the Federation for Advanced Manufacturing Education (FAME). Further, TMMTX's commitment to education has been demonstrated by its "Our Backyard Strategy" initiative. This initiative serves the highest economically-disadvantaged households in south San Antonio, helping those without high school diplomas in the area receive support for GED scholarships and to continue their education. To date TMMTX has donated \$45 million to local non-profits.

TMMTX has also committed to sustainability initiatives, including carbon dioxide reductions, water usage reductions, recycling improvements and more. TMMTX donated 700 acres to the City of San Antonio to create greenspace along Leon Creek and the Medina River. The TMMTX site is a zero landfill plant and uses solar energy from panels on building rooftops, as well as from a solar field array. The continuous focus on sustainability includes the planting and maintenance of a pollinator garden and the reintroduction of the horned lizard to the area.

For the proposed project, TMMTX is considering enhancing its production line with a total capital investment of approximately \$391.8 million (\$347.8 million personal property, \$44 million real property) over three years. With this investment, TMMTX would add next-generation, state of the art technology that is not currently utilized in the Americas to its existing production lines, creating greater flexibility to produce additional vehicle models. This highly-efficient technology would result in the effective, long-term sustainability of the plant.

TMMTX will submit a proposal to its leadership, which is evaluating alternative North American locations for this investment. TMMTX anticipates that if Toyota chooses San Antonio as its desired location for investment, local Toyota suppliers will likely expand operations.

San Antonio has a deep history with advanced manufacturing, and the TMMTX project continues that tradition. The project aligns 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. Such goals include support for the continued growth of the City's targeted industries. Additionally, the project presents an opportunity to upskill our workforce talent in the city, creating a pipeline for residents without degrees to gain specialized and in-demand training.

ISSUE:

To secure this project, staff requests approval of a Chapter 380 EDIF grant agreement of up to \$621,000, restricted to fees associated with water infrastructure improvements. These improvements will allow TMMTX to establish redundancy infrastructure and to promote continuity of operations. Staff also requests approval of an 8-year, 100%, Chapter 312 ad valorem real and personal property tax abatement agreement, valued at approximately \$9.7 million. These agreements are contingent on the company (1) investing \$347.8 million in personal property and \$44 million in real property over three years, (2) exclusively using CPS Energy and SAWS for the term of the agreement; (3) continuing ongoing workforce initiatives, and (4) contributing \$1 million to educational and workforce development initiatives over 5 years (in excess of its current annual workforce spending). TMMTX will also comply with all of the additional requirements included in the tax abatement guidelines, which include wage levels and health benefits. State statute also requires a public hearing prior to the approval of an ordinance designating the property site as the TMMTX Reinvestment Zone.

The City estimates the fiscal tax impact of the proposed project to be net positive \$8.1 million, which derives from revenues, including personal property tax, real property tax, sales tax from related construction efforts and CPS Energy revenues, plus a net positive \$1 million impact to City-approved workforce development initiatives.

The City's return on investment to date for the incentives provided to TMMTX has been overwhelmingly positive, netting approximately \$25 million in fiscal benefit. The City estimates the cumulative fiscal impact of TMMTX, inclusive of this proposed investment, through 2032 to be net positive \$83.4 million.

ALTERNATIVES:

Toyota leadership is evaluating several locations in North America in which to make capital investments. If City Council chooses not to approve the Ordinances, such decision may adversely impact TMMTX's decision to invest further in San Antonio.

FISCAL IMPACT:

These Ordinances authorize a performance-based Chapter 380 EDIF grant agreement with TMMTX in the amount of \$621,000. Funds in the amount of \$621,000 are available from the EDIF FY 2019 Adopted Budget. Further, the City estimates the fiscal impact of the proposed abatement agreement to be net positive \$8.1 million.

RECOMMENDATION:

Approval of (A) an Ordinance authorizing a Chapter 380 EDIF grant agreement of up to \$621,000 with TMMTX; (B) a public hearing and Ordinance designating the TMMTX Reinvestment Zone; and (C) an

Ordinance approving an 8-year, 100%, Chapter 312 ad valorem real and personal property tax abatement agreement with TMMTX.