



City of San Antonio

Agenda Memorandum

File Number: 19-7958

Agenda Item Number: 24B.

Agenda Date: 10/31/2019

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Alejandra Lopez

COUNCIL DISTRICTS IMPACTED: 3

SUBJECT:

A public hearing and City Council consideration of ordinances designating the Navistar Reinvestment Zone, approving a 10-year, 100%, real and personal property tax abatement agreement, authorizing a Chapter 380 Economic Development Incentive Fund (EDIF) grant agreement, authorizing City and SAWS impact fee waivers, authorizing a CPS Energy E16 Economic Development Incentive Rate Rider (E16 Rider) agreement, and a resolution nominating Navistar for designation as a Texas Enterprise Zone Project.

SUMMARY:

The following items relate to a potential Navistar production facility in San Antonio: (A) a public hearing and an Ordinance designating the Navistar Reinvestment Zone located at 15770 S US Highway 281 in City Council District 3; (B) an Ordinance approving a 10-year, 100% Tax Abatement Agreement on real and personal property based on a capital investment of at least \$235 million over four years and the exclusive use of CPS Energy and San Antonio Water Systems for 16 years; (C) an Ordinance authorizing a Chapter 380 Economic Development Fund (EDIF) grant agreement with Navistar for up to \$750,000, restricted to costs associated with water infrastructure improvements, City development fee waivers up to \$200,000 and SAWS impact fee waivers up to \$300,000, and approving an agreement with Navistar to participate in the CPS Energy E16 Economic Development Incentive Rate Rider (E16 Rider) Program; and (D) a Resolution nominating Navistar for designation as a Texas Enterprise Zone Project.

BACKGROUND INFORMATION:

Founded in 1902 as the International Harvester Company, Navistar is a publicly-traded, multinational

commercial truck manufacturer headquartered in Lisle, Illinois, in the Chicago metro area. Today, Navistar employs 14,000 people worldwide, and its products, parts, and service are sold throughout a network of nearly 1,000 dealer outlets in four countries: United States, Canada, Mexico and Brazil. The company's primary line of business is medium to heavy commercial truck production. Other key lines of business include school buses, joint ventures for producing automotive diesel engines, and support brands of commercial trucks.

The proposed San Antonio facility will create at least 598 new full-time jobs with an investment of \$235 million. The new facility will produce approximately 12,500 medium and heavy-duty commercial trucks annually. San Antonio's location is a crucial factor for this project as the new facility will be located on a corridor along Interstate 35, linking Navistar's supply bases in Mexico and the southern United States.

In collaboration with Dr. Steve Nivin, City staff prepared an economic impact analysis of the proposed Navistar manufacturing facility. The project is estimated to create approximately \$5.6 billion economic impact to the community over 10 years, including direct impact from this project, indirect impacts resulting from business-to-business transactions, and induced impacts of increased spending at local businesses.

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, including advanced manufacturing, which create valuable career opportunities for residents and locating new prospects in one of 13 activity centers to encourage and facilitate live, work and play with such centers.

ISSUE:

To secure this project, staff recommends approval of a 10-year, 100% tax abatement agreement on real and personal property valued at approximately \$7 million. The agreement is contingent on the company investing \$126.2 million in personal property and \$108.8 million in real property over four years, creating 598 full-time jobs, and exclusively using CPS Energy and SAWS for the term of the agreement. In addition, over five years, Navistar will also invest at least \$348,000 on paid internships and at least \$1.04 million to promote sustainability initiatives and employee wellness initiatives.

Before the City may enter into a Tax Abatement Agreement with Navistar, the City is required to designate the Navistar 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. In addition to the designation, the tax abatement associated with this item was publically posted 30-days in advance in accordance with Chapter 312 of the Tax Code.

The Chapter 380 EDIF grant agreement of up to \$750,000 is restricted to fees associated with water infrastructure improvements necessary at Navistar's production facility in San Antonio. 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 project complies with Chapter 380 of the Local Government Code and the economic development program established by the City.

The City development fee waivers of up to \$200,000 and SAWS impact fee waivers of up to \$300,000 align with the fee waiver policy approved by City Council in 2018 for business development. This project is in the

eligibility category of targeted industry. All fee waivers are also contingent on investment, jobs, CPS and SAWS use, workforce initiatives, sustainability initiatives and employee wellness initiatives.

The CPS Energy Economic Incentive Rate Rider (E16 Rider) is designed to attract major industrial electric customers, and promote major industrial expansions, by offering significant rate reductions, based on electric load, for a specified time period. City Council approved this incentive program in 2003. Navistar qualifies for an E16 Rider, with a discounted utility rate over four years, based on Navistar's anticipated electric load of 40 megawatts at full build-out.

The Texas Enterprise Zone is an economic development tool that allows local communities to partner with the State of Texas to encourage job creation and capital investment in economically distressed areas. The Texas Enterprise Zone Project designation will make Navistar eligible to apply for State Sales and Use Tax refunds on qualified expenditures of up to \$3.75 million over five years.

In order to nominate Navistar for designation as a Texas Enterprise Zone Project, City Council must approve said nomination via a resolution. The City of San Antonio receives an allotment of nine potential Enterprise Zone Project designations every state biennium. The 2020-2021 Biennium commenced on September 1, 2019. If the Navistar Enterprise Zone Project designation is approved by the state, the City will have six of its Enterprise Zone Project designations remaining for this state biennium, ending on August 31, 2021. Bexar County also receives an equal allotment of nine potential Enterprise Zone Project designations each state biennium.

ALTERNATIVES:

Based on the City's competitive offer of these incentives and local support for this project, Navistar has stated intent to proceed with the creation of a manufacturing facility in San Antonio, which includes 598 new full-time jobs and at least \$235 million in capital investment. If City Council chooses not to approve the ordinances and resolution authorizing the incentive agreements, such decision may adversely impact Navistar's decision to invest in San Antonio.

FISCAL IMPACT:

Staff conducted a cost-benefit analysis evaluating the City's estimated costs in relation to the City's estimated revenues. Staff estimates the project will have a direct net fiscal benefit to the City of \$29 million over 16 years from personal property tax, real property tax, sales taxes, and the CPS Energy general revenue fund contribution. The estimated cost to the City over the 16-year term of the abatement agreement is approximately \$8.25 million and includes the value of property tax abatement, City fee waivers, SAWS impact fee waivers, a Chapter 380 EDIF grant agreement, and estimated CPS revenue the City will forego from this project as a result of the E16 Rider. The estimated fiscal revenue to the City over the 16-year term of the abatement agreement is \$37.4 million, which includes anticipates property tax revenues after the 10-year abatement term, sales tax revenue associated with the construction of the production facility and jobs created, and CPS revenues.

Funds in the amount of \$750,000 are available from the EDIF FY 2020 Adopted Budget and funds in the amount of \$500,000, for the City and SAWS fee waivers, are available in the FY 2020 Adopted Budget.

RECOMMENDATION:

Approval of (A) a public hearing and Ordinance designating the Navistar Reinvestment Zone; (B) an Ordinance approving a 10-year, 100%, Chapter 312 ad valorem real and personal property tax abatement agreement with Navistar; (C) an Ordinance authorizing a Chapter 380 EDIF grant agreement of up to \$750,000, City fee waivers of up to \$200,000 and SAWS impact fee waivers of up to \$300,000, and an E16 Rider Agreement with Navistar; and (D) a Resolution nominating Navistar for designation as a Texas Enterprise Zone Project.