



City of San Antonio

Agenda Memorandum

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Agenda Item Number: 13.

Agenda Date: 2/11/2021

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Alejandra Lopez

COUNCIL DISTRICTS IMPACTED: District 8

SUBJECT:

A Resolution to nominate the KCI USA, Inc.("KCI") as a Texas Enterprise Project

SUMMARY:

This Resolution nominates KCI a wholly owned subsidiary of 3M as a Texas Enterprise Zone Project. The Texas Enterprise Zone ("TEZ") 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. If the State of Texas awards KCI a TEZ designation, KCI would be eligible to apply for State Sales and Use Tax refunds on qualified expenditures of up to \$1.25 million over five years. This nomination has no fiscal impact to the City.

BACKGROUND INFORMATION:

KCI was founded in 1976 in San Antonio and originally focused on therapeutic beds for patients with pulmonary complications and then transitioned to advanced wound care and specialty surgical applications. KCI introduced V.A.C. Therapy, the first commercial negative pressure wound therapy. Negative pressure wound therapy assists in wounds healing faster and with fewer infections by creating a seal and drawing out fluid with a gentle vacuum. In 2014, Acelity was formed as a conglomerate of several regenerative and wound management companies worldwide including KCI.

In October 2019 3M completed its \$6.7 billion acquisition of San Antonio headquartered Acelity. 3M is a multinational conglomerate operating in the fields of industry, worker safety, health care, and consumer goods and is headquartered in the Minneapolis-St. Paul metro area. This is 3M's largest acquisition to date and was the largest medical technology acquisition for 2019.

3M currently employs 1,209 full time employees at its San Antonio headquarters along I-10 in District 8. 3M's

San Antonio positions have an average wage of \$69,673, with all positions earning above the Living Wage and 92% earn above the All-Industry Wage. The company's range of benefit include medical, dental, vision, life, FSA, HSA, investment and savings plans, 401(k), and paid time off.

Trauma / wound healing / regenerative medicine was identified as one of the five targeted disease areas in the BioMedSA's Industry Action Plan. There is also robust research and medical services in this field at the Army's Institute for Surgical Research and Brooke Army Medical Center.

ISSUE:

Over the next five years, 3M's subsidiary KCI plans to invest \$8.7 million in capital improvements at its five San Antonio facilities. 3M directly employs the 1,209 San Antonio positions and the five San Antonio facilities ownership is KCI. These expenditures include IT and drainage improvements at its San Antonio headquarters, replacing the cooling system for its data center, and replacement of generators at its San Antonio locations. There are no new jobs with this investment however 3M, that directly employs 1,209 positions at the KCI facilities expects to retain the San Antonio employees during the five-year duration of the TEZ. To support its job retention and investment, City staff recommends a City Council Resolution nominating KCI for a TEZ designation.

To be eligible for State Sales and Use Tax refunds on qualified expenditures, at least 35% of the company's retained employees at the TEZ qualified business site must meet state economically disadvantaged, enterprise zone residency, or veteran requirements. Through the City's nomination and the state's designation of KCI as a TEZ Project, 3M's commitment to retaining its existing workforce and capital investment will have an enduring positive influence on the development of the San Antonio bioscience ecosystem.

The City of San Antonio receives an allotment of nine potential TEZ Project designations every state biennium. The 2020-2021 biennium commenced on September 1, 2019. If the KCI TEZ Project designation is approved by the State, the City will have four of its TEZ Project designations remaining for the remainder of this state biennium, ending on August 31, 2021.

ALTERNATIVES:

Based in part on the City's nomination of KCI as a TEZ Project, the company will make a capital investment of approximately \$8.7 million to renovate its existing infrastructure and improve its operations. City Council could choose not to approve the Resolution nominating KCI for designation as a TEZ Project, which could impact 3M's decision to invest in its San Antonio facilities, job retention and growth.

FISCAL IMPACT:

There is no fiscal impact to the City of San Antonio.

RECOMMENDATION:

Staff recommends approval of a Resolution nominating KCI wholly owned subsidiary of 3M as a TEZ Project with its San Antonio facilities designated as the qualifying business site.