



City of San Antonio

Agenda Memorandum

File Number:21-2181

Agenda Item Number: 23B.

Agenda Date: 3/18/2021

In Control: City Council A Session

DEPARTMENT: Economic Development

DEPARTMENT HEAD: Alejandra Lopez

COUNCIL DISTRICTS IMPACTED: District 3

SUBJECT:

A public hearing and City Council consideration of ordinances designating the Navistar International Corporation Reinvestment Zone, approving a 10-year, 50%, real and personal property tax abatement agreement, and a resolution nominating Navistar for designation as a Texas Enterprise Zone Project.

SUMMARY:

The following items relate to a potential Navistar facility in San Antonio: (A) a public hearing and an Ordinance designating the Navistar International Corporation Reinvestment Zone at 4526 South Loop 1604 in City Council District 3; (B) an Ordinance approving a 10-year, 50% Tax Abatement Agreement on real and personal property based on a capital investment of at least \$14 million; and (C) 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.

In 2019 it was announced that Navistar would construct a \$235 million, 900,000 square foot manufacturing facility in San Antonio at 15770 South US Highway 281 in Council District 3. This facility will employ at least 598 and is projected to be completed in early 2022. The new facility will produce approximately 12,500 medium and heavy-duty commercial trucks annually. In order to secure the manufacturing facility, City Council approved a 10-year, 100% Tax Abatement Agreement on real and personal property; a Chapter 380 Economic Development Fund (EDIF) grant agreement for up to \$750,000.00, restricted to costs associated with water infrastructure improvements; city development fee waivers up to \$200,000.00 and SAWS impact fee waivers up to \$300,000.00; an EDIF grant of up to \$250,000.00 to study the Kelly Parkway alignment; participation by in the CPS Energy E16 Economic Development Incentive Rate Rider (E16 Rider) Program; and (F) a Resolution nominating Navistar for designation as a Texas Enterprise Zone Project.

The proposed San Antonio Navistar expansion will house a truck validation center, truck specialty center, and support the company's San Antonio manufacturing facility approximately eight miles away. At least \$14 million in improvements are planned for the validation center and the specialty center. A majority of the 60 employees at this facility would work at the validation center, which tests and validates a range of commercial vehicles in research and development. Validation tests include heat / cold resiliency, humidity, stability, and sound mitigation. Navistar will also develop commercial trucking electric battery and fuel cell technologies at the validation center.

The truck specialty center provides customization of trucks for commercial customers. After production at the San Antonio manufacturing facility, and Navistar's facility in Escobedo Mexico, trucks will receive customer specific post-production work. Additions include extra batteries, customer specific paint jobs, and chrome design.

ISSUE:

To secure this project, staff recommends approval of a 10-year, 50% tax abatement agreement on real and personal property valued at approximately \$297,301.00. The agreement is contingent on the company investing \$8 million in personal property, \$6 million in real property, creating 60 jobs, and paying an average annual salary of at least \$56,875.00.

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 publicly posted 30-days in advance in accordance with Chapter 312 of the Tax Code.

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 \$1.25 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 five of its Enterprise Zone Project designations remaining for this state biennium, ending on August 31, 2021.

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 truck validation center and truck specialty center in San Antonio, which includes 60 new full-time jobs and at least \$14 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 \$379,917.00 over 17 years.

The estimated city revenue of the project over the 17-year term of the abatement agreement is \$1,197,697.00 which includes anticipated property tax revenues, sales tax revenues associated with the construction of the production facility and jobs created. The estimated costs to the city over 17 years is approximately \$520,479.00 and includes costs to city services associated with the project. Finally, the estimated cost of the 10-year, 50% abatement of personal and real property tax is projected at \$297,301.00.

RECOMMENDATION:

Staff recommends approval of (A) an Ordinance designating the Navistar International Corporation Reinvestment Zone; (B) an Ordinance approving a 10-year, 50%, Chapter 312 ad valorem real and personal property tax abatement agreement with Navistar; and (C) a Resolution nominating Navistar for designation as a Texas Enterprise Zone Project.