



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 31

Agenda Date: June 20, 2024

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Brenda Hicks-Sorensen

COUNCIL DISTRICTS IMPACTED: District 3

SUBJECT:

A public meeting and City Council consideration of A.) an Ordinance authorizing terms and conditions of a 10-year Tax Abatement Agreement for a 65% abatement of real and personal ad valorem taxes and Chapter 380 Economic Development Agreement in an amount up to \$1,000,000, with associated City and SAWS fee waivers not to exceed \$800,000 with Toyota Motor Manufacturing, Texas, Inc., and B.) a Resolution nominating Toyota Motor Manufacturing, Texas, Inc. for designation as a “qualified business” under the Texas Enterprise Zone Program.

SUMMARY:

The following items relate to an expansion of the Texas Motor Manufacturing, Texas, Inc. (TMMTX) manufacturing facility in San Antonio:

A.) An Ordinance approving an incentive package to include a 10-year, 65% Tax Abatement Agreement based on a capital investment of at least \$531.72 million in real and personal property improvements and the creation of at least 411 new full-time jobs at the project site, authorizing the execution of a Chapter 380 Economic Development Incentive Fund grant agreement with Toyota Motor Manufacturing, Texas, Inc. for up to \$1,000,000 in Economic Development Incentive Fund (EDIF) grant funds and up to \$800,000 City and SAWS fee waivers, contingent on job creation and investment milestones.

Funding in the amount of \$1,000,000 is available from the EDIF in the FY 2024 Adopted Budget, up to \$500,000 is available from the General Fund FY 2024 Adopted Budget for City Fee Waivers, and up to \$300,000 in SAWS fee waiver; and

B) A public meeting and resolution designating Toyota Motor Manufacturing, Texas, Inc. as a Double Jumbo Texas Enterprise Zone (TEZ) Project in support of their planned manufacturing facility at the project area site located at 1 Lone Star Pass, San Antonio, Texas, 78264.

BACKGROUND INFORMATION:

Founded in 1937 by Kiichiro Toyoda, Toyota Motor Corporation (Toyota) is a Japanese automotive manufacturer. Toyota entered the U.S. market in 1958 and is a global leader in the automotive manufacturing industry, which is an identified Strategic Industry under the Economic Development Strategic Framework that was accepted by City Council in October 2022.

In 2003, Toyota selected San Antonio as the site for a 2.2-million square foot manufacturing facility on the city's South Side, where the company builds its full-size pickup truck, the Toyota Tundra. The company received support from the city, county, and state for the project, and Toyota Motor Manufacturing Texas, Inc. (TMMTX) was subsequently formed. In 2009, TMMTX expanded operations to incorporate production of its mid-size pickup, the Tacoma. In 2019, Toyota moved Tacoma production to another facility, but expanded its operations again in San Antonio to begin production of its Sequoia SUV alongside ongoing Tundra production. The City facilitated both expansions with additional economic development support. Since its establishment in 2003, the company has invested over \$3 billion at its facility site, and today, employs over 3,700 people as part of its operations. In 2023, TMMTX produced 181,872 vehicles at its San Antonio facility.

As part of this proposed project, TMMTX plans to expand its existing San Antonio manufacturing footprint on the company's property at 1 Lone Star Pass. The company intends to build an approximately 500,000 square foot facility and bring "in-house" an operation previously sourced to a third-party that is currently located outside of Texas. The new operation will provide key inputs into the company's broader operation to manufacture, assemble, produce, and distribute automobiles at the project site and other operations outside of San Antonio. The expansion will provide TMMTX with additional control over an essential manufacturing operation and grow the local workforce. The significant and extensive project will require new construction, the installation of new equipment, additional supply chain capacities, along with multiple disciplines and support functions for the new production operation.

ISSUE:

To secure this project, staff recommends approval of an incentive package to include:

- A 10-year, 65% tax abatement agreement on real and personal property, with a total estimated value of approximately \$14,717,102;
- An Economic Development Incentive Fund (EDIF) grant of up to \$1,000,000 dedicated to the reimbursement for project-related costs such as infrastructure and site work;
- City Fee Waivers of up to \$500,000; and
- SAWS fee waivers of up to \$300,000.

As part of the proposed tax abatement agreement, during the term of the abatement, the City would also provide the equivalent of at least 35% of the future taxes assessed on the project's real and personal property improvements to public infrastructure. These infrastructure improvements will be designed to enhance efficient ingress/egress for suppliers, employees and transportation product, as well as improve overall connectivity with major thoroughfares and highways in the immediate vicinity of the company's existing manufacturing facility. The value of this public infrastructure support is estimated at \$7,924,000.

The project will conform to the City Council approved *Chapter 380 Policy, Tax Abatement Guidelines*, and the *City's Fee Waiver Program Guidelines and Development Services Fee Schedule*, with exceptions to the City's *Tax Abatement Guidelines* as authorized under the terms and conditions of the Ch.312 Tax Abatement Agreement and authorizing ordinance.

The incentive agreements are contingent on the company investing a total of \$531.72 million in real (\$255 million) and personal property (\$276.72 million) improvements and creating 411 jobs by December 31, 2028. The company must also commit to pay 100% of its new, full-time employees at the project site a minimum of \$20.54 per hour.

The \$1,000,000 EDIF grant would be disbursed to TMMTX following the completion of its required capital improvements, creation of 411 new, full-time jobs, and submission of documentation for costs incurred for eligible site improvements at the Project Site. The City has the right to recapture all EDIF funds disbursed to TMMTX if it fails to satisfy the capital investment and job creation requirements by December 31, 2028, or otherwise fails to comply with the Ch. 380 Incentive Agreement. Funds for the EDIF grant in the amount of \$1,000,000 and for the City and SAWS fee waivers are available from the FY 2024 Adopted Budget.

Over the term of the agreements, staff estimates that the total City investment of \$16,217,102 for the entire proposed incentive package, with a Net Present Value of \$10.7 million, and an estimated return on investment of nearly 73%.

In addition to the City of San Antonio investment, TMMTX intends to apply for the Texas Enterprise Zone (TEZ) program. The TEZ program 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 proposed Double Jumbo Texas Enterprise Zone Project designation will make TMMTX eligible to apply for State sales and use tax refunds on qualified expenditures, with an estimated value of \$2,055,000 based on proposed job and capital investment.

To nominate TMMTX for designation as a Texas Enterprise Zone Project, City Council must approve said nominations via a resolution. The City of San Antonio receives an allotment of nine potential Enterprise Zone Project designations every State biennium. The 2024-2025 Biennium commenced on September 1, 2023. If the TMMTX Enterprise Zone Project designation is approved by the State, the City will have four of its Enterprise Zone Project designations remaining for this State biennium, ending on August 31, 2025.

ALTERNATIVES:

Based on the City's competitive incentives offer and local support for this project, TMMTX has stated its intent to proceed with the expansion of their manufacturing facility, which includes 411 new full-time jobs and at least \$531.72 million in new real and personal property improvements. If City Council chooses not to approve the ordinances and resolution authorizing the proposed incentives, such a decision may adversely impact Toyota's decision to invest in San Antonio.

FISCAL IMPACT:

This ordinance authorizes an incentive package to include 10-year, 65% Tax Abatement Agreement based on a capital investment of at least \$531.72 million in real and personal property improvements and the creation of at least 411 new full-time jobs.

This ordinance would also authorize the execution of a Chapter 380 Economic Development Incentive Fund (EDIF) grant with TMMTX of up to \$1,000,000 contingent on job creation and investment milestones, and \$800,000 in City and SAWS fee waivers. Funding in the amount of \$1,000,000 is available from the Economic Development Incentive Fund FY 2024 Adopted Budget, up to \$500,000 is available from the General Fund FY 2024 Adopted Budget for City Fee Waivers, and up to \$300,000 in SAWS fee waivers.

RECOMMENDATION:

Approval of A.) an Ordinance authorizing terms and conditions of a 10-year Tax Abatement Agreement for a 65% abatement of real and personal ad valorem taxes and Chapter 380 Economic Development Agreement in an amount up to \$1,000,000, with associated City and SAWS fee waivers not to exceed \$800,000 with Toyota Motor Manufacturing, Texas, Inc., and B.) a Resolution nominating Toyota Motor Manufacturing, Texas, Inc. for designation as a "qualified business" under the Texas Enterprise Zone Program.