



City of San Antonio

Agenda Memorandum

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In Control: City Council B Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Brenda Hicks-Sorensen

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

City of San Antonio's Economic Development Department Incentives Guidelines.

SUMMARY:

Briefing on proposed revisions to the City's Economic Development Department Incentives Policy Guidelines. State of Texas tax code requires incentive guidelines be reauthorized every two years and the current guidelines are set to expire on December 31, 2024.

BACKGROUND INFORMATION:

The City of San Antonio is committed to supporting the growth, sustainability, and diversity of our regional economy. This includes enhancing the adaptability and competitiveness of the San Antonio's workforce, as well as our business community. In FY2023, the City's Economic Development Department's ("EDD") Strategic Plan was adopted which set forth key guiding principles and goals. Those five guiding principles included: Economic Healing, Resilience, Investment & Growth, Tax Base, and Equity. The guiding principles serve as the foundation for the plan's four goals of Innovation & Industry, Placemaking & Real Estate, Talent & Workforce, and Capacity & Resources.

To implement the adopted economic development goals, the City developed detailed policies

concerning Chapter 312 Economic Development Agreements and Chapter 380 Economic Development Agreements. Chapter 312 of the Texas Tax Code provides local governments with the authority to enter into tax abatement agreements to promote the attraction of new companies and the retention and expansion of existing businesses to create new jobs and investment. State law requires the adoption of the Tax Abatement Guidelines by City Council every two years.

Chapter 380 of the Texas Government Code provides the City with the ability to issue grants for economic projects, and rebate taxes. While Chapter 380 does not mandate that City Council approve the Chapter 380 guidelines every two years, staff reviews on a bi-annual basis to ensure alignment with the Chapter 312 Guidelines.

In December 2022, City Council approved comprehensive changes to incentive guidelines that further supported the City's priorities of:

1. Attracting new targeted industry jobs and investment;
2. Maximizing the competitiveness of local businesses; and
3. Supporting socioeconomic mobility for San Antonio residents.

The current guidelines for Chapter 312 and Chapter 380 created an objective approach to incentives that allows companies and consultants to better calculate the value and term on a potential incentive. The policy emphasizes the City's desire to recruit high-paying and high-quality jobs to San Antonio by increasing minimum criteria for wages, investment, and job creation. Additional incentive value is available for those projects locating within a regional center, locating within an area with an Equity Atlas score of 7 or higher, or are within one of the target industries identified in the Economic Development Strategic Framework. These industries include IT Security & Infrastructure, Mobility, Sustainable Energy, Corporate Services, and Bioscience Anchors & Catalysts.

A shift to performance-based contracting in the previous update has changed the compliance process to require the contracted company to perform prior to an abatement or rebate. This approach to performance-based contracting eliminated the need for a recapture period or recapture payments, including partial prorated abatements, since the incentive will not move forward until compliance by the company is met. The policy also ensures that recipients of tax abatements must dedicate 10% of their abatement value to wrap-around services in direct support of their employees, which include workforce development, transportation assistance, and childcare support.

Under the existing guidelines City Council fostered competitiveness on time-sensitive projects by allowing the Economic Development Director to provide prospective companies and site consultants with a qualified incentive offer letter for projects that fit the policy. Any such letter clearly articulates any incentive are contingent on City Council approval.

Staff has engaged stakeholders to receive feedback on impacts of current guidelines and staff's proposed updates. Staff has hosted roundtable events with local chambers of commerce, City of San Antonio departments, labor unions, and other economic development stakeholders, including greater:SATX and its direct work with site selectors. Staff briefed the Economic and Workforce Development Committee (EWDC) on October 22, 2024 to gather input on the proposed revisions. This feedback, along with significant benchmarking against Texas and national communities,

provided the foundation for the current incentive policy and the proposed updates. Prioritized through this policy and proposed updates is the need to intentionally serve the broader community needs while maintaining a streamlined, efficient process that keeps San Antonio competitive.

ISSUE:

State of Texas tax code requires incentive guidelines be reauthorized every two years and the current guidelines are set to expire on December 31, 2024. As part of this routine review, staff is recommending updates to the incentive guidelines. These updates include administrative revisions, such as updated wages, and clarifications based upon experiences the past two years. Staff is also recommending adjustments to wrap-around services as well as addressing hybrid/remote work.

The policy continues to include a minimum wage mirroring the City of San Antonio's minimum wage for 100% of all jobs, and for 90% of all jobs, the wages must be at or above 80% of the median income. This wage, based off the U.S. Census American Community Survey's median household income, is currently at \$22.92 compared to \$20.54 in current policy. Staff recommends that the indexing of the wages for the life of the agreement, which will help ensure that wages growth tracks throughout the term of the agreement. Additionally, staff is recommending that the wage requirements apply to all employees at the project site, not just those positions related to the project.

Staff recommend including provisions that will ensure that projects determined to be "power-intensive users" meet a higher requirement for job creation. CPS Energy defines "power-intensive users" as those projects which require more than 40 MW of energy. This change is recommended to ensure that such projects are not posing a threat to local grid reliability. As part of these discussions, greater:SATX has been convening local leaders to discuss a coordinated position on how economic development stakeholders will balance industry growth with energy demand.

The draft amendments address hybrid/remote jobs that balance flexibility for employers and benefit to the community. This will help ensure that San Antonio is attracting high-wage companies that rely on some level of remote/hybrid employees, while the proposed residency and/or in-office requirements ensure that these workers are spending money in the community and strengthening the local economy. Additionally, the draft amendments include a cap on tax abatement and rebate values, which will be based on the level of investment that the company commits to when entering into the agreement.

Finally, based on recent feedback from a local labor union, staff is engaging with site consultants and general contractors to complete the due diligence on including safety requirements for heat-related illness and occupational hazards, as well as local hiring requirements. Conclusions of this due diligence and any associated policy amendment recommendations will also be included in this briefing.

ALTERNATIVES:

This item is for briefing purposes only.

FISCAL IMPACT:

This item is for briefing purposes only.

RECOMMENDATION:

This item is for briefing purposes only.