



City of San Antonio

Agenda Memorandum

File Number:

Agenda Item Number: 5

Agenda Date: December 12, 2024

In Control: City Council A Session

DEPARTMENT: Economic Development Department

DEPARTMENT HEAD: Brenda Hicks-Sorensen

COUNCIL DISTRICTS IMPACTED: Citywide

SUBJECT:

Ordinance adopting the City of San Antonio Tax Abatement Guidelines effective from January 1, 2025, through December 31, 2026.

SUMMARY:

The Texas Tax Code provides local governments 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 jobs and investment. State law requires the adoption of the Tax Abatement Guidelines by City Council every two years. The current Tax Abatement Guidelines were approved by Council on December 1, 2022, effective January 1, 2023, through December 31, 2024. Staff requests City Council consider an Ordinance adopting the 2025 to 2026 Tax Abatement Guidelines as required by Chapter 312 of the Texas Tax Code.

BACKGROUND INFORMATION:

The Texas Tax Code provides local governments 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 jobs and investment. State law requires the adoption of the Tax Abatement Guidelines by City Council every two years. The current Tax Abatement Guidelines were approved by Council on December 1, 2022, effective January 1, 2023, through December 31, 2024.

Staff requests City Council consider an Ordinance adopting the proposed 2025 to 2026 Tax Abatement Guidelines as required by Chapter 312 of the Texas Tax Code.

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.

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 requires recipients of tax abatements 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.

The Council accepted policy revisions have allowed San Antonio to be more competitive 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 via roundtables and one-on-one meetings to receive input on impacts of current guidelines and proposed revisions. Staff briefed the Economic and Workforce Development Committee (EWDC) on October 22, 2024, to gather input on the proposed revisions. Subsequently, staff briefed City Council during the November 6, 2024, B Session.

Following this briefing, staff re-engaged partners via additional roundtables and one-on-one meetings, for additional feedback. In total over 33 organizations were engaged and provided

feedback throughout the process, in addition to input from clients and site selectors. Furthermore, staff met with representatives of Texas municipalities to understand how similar elements in their incentive guidelines have been implemented and tracked for compliance purposes.

The feedback, along with significant benchmarking against Texas and national communities (see Attachment A), provided the foundation for the proposed revisions, which balance the need to be competitive with serving the broader community needs and maintaining a streamlined, efficient process that keeps San Antonio competitive.

ISSUE:

The State of Texas Tax Code requires tax abatement guidelines be adopted every two years with the current guidelines are set to expire 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 the addition of language regarding hybrid/remote work.

The policy continues to include a minimum wage mirroring the City of San Antonio's minimum wage for 100% of all full-time jobs. The policy also includes that 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.

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.

Staff recommend including provisions that will allow staff and City Council to prioritize job creation for those companies determined to be power-intensive economic development projects. Specifically, "power-intensive" projects, defined by CPS Energy as projects requiring more than 40MW of energy, annually, would be required to create at least 200 jobs.

Additional revisions include the following:

- Projects that meet the Equity Atlas combined score of 7 or higher may also be offered additional support for Project-related costs;
- Require contractors and recipients to submit their safety program/plan information to include heat-related safety and OSHA-10 training or an equivalent, as well as their Experience Modification Rating (EMR);
- Ensure recipients demonstrate a good faith effort to hire 30% of all employees residing within City of San Antonio, Extraterritorial Jurisdiction (ETJ), or Bexar County; and

- Require recipients to develop a custom Ready to Work plan that includes interviewing and hiring qualified candidates.

The proposed guidelines also include a cap on tax abatement values, which will be based on the level of investment that the company commits to when entering into the agreement.

ALTERNATIVES:

Without adoption of the proposed Tax Abatement Guidelines, the current guidelines governing Chapter 312 tax abatements will expire on December 31, 2024, and the City will be unable to offer tax abatement incentives. Chapter 312 of the Tax Code requires cities to adopt guidelines and criteria before entering into tax abatement agreements.

FISCAL IMPACT:

There is no fiscal impact to the City as this pertains to the adoption of the proposed Tax Abatement Guidelines. Each proposed tax abatement agreement requires City Council approval.

RECOMMENDATION:

EDD staff recommends adoption of the 2025–2026 Tax Abatement Guidelines effective January 1, 2025, through December 31, 2026.