



AGENDA MEMORANDUM

Future Item for the City Council Meeting of November 11, 2014
Action Item for the City Council Meeting of November 18, 2014

DATE: October 21, 2014
TO: Ronald L. Olson, City Manager
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Nominating voestalpine Texas, LLC as a Double Jumbo Texas Enterprise Zone Project

CAPTION:

Resolution nominating voestalpine Texas, LLC ("voestalpine") to the Office of the Governor Economic Development & Tourism ("EDT") through the Economic Development Bank ("Bank") as a Double Jumbo Enterprise Project pursuant to the Texas Enterprise Zone Act ("Act").

PURPOSE:

The purpose of this item is to nominate voestalpine as a Double Jumbo Texas Enterprise Zone project in order to make them eligible for State sales tax rebates for investments and the creation of jobs.

BACKGROUND AND FINDINGS:

Under State Law, the Office of the Governor - Economic Development and Tourism Division through the Texas Economic Development Bank administers the Texas Enterprise Zone (TEZ) Program. According to the Texas Enterprise Zone Act, Chapter 2303, Texas Government Code, the purpose of the program is to encourage job creation and retention and capital investment in areas of economic distress.

The 78th Legislature amended the act to increase participation in the program, decrease paperwork and streamline the process. Under the amended act, communities are no longer required to submit an application and fee to create an Enterprise Zone; designation of an Enterprise Zone is automatic based on decennial figures. Areas designated as Enterprise Zones include census block groups with 20 % poverty and areas federally designated as Renewal Communities. Previously designated Enterprise Zones will be designated until their expiration, after which the area would need to meet the 20 % poverty guideline. A project seeking designation as a Texas Enterprise Zone Project still must seek nomination from the governing body to the Office of the Governor for consideration and designation.

A designated project located in the Texas Enterprise Zone must agree to hire at least 25 % of its employees from the Enterprise Zone or economically disadvantaged groups and in return will receive a refund of sales and use tax (SUT) paid to the Office of the Comptroller. This project is located within an Enterprise Zone.

The Program allows a refund of \$2,500 for each job created or retained, up to 500 jobs. If investment levels are adequate, the local nominating governing body may nominate a project as a Double or Triple Jumbo Project designation, increasing the value per job created or retained to \$5,000 or \$7,500, respectively. Therefore, a Double Jumbo Project can receive a rebate of up to \$2.5 million, and a Triple Jumbo Project can receive a rebate of up to \$3.75 million.

<u>Level of Capital Investment</u>	<u>Max Jobs Allocated</u>	<u>Max Refund Per Job Allocated</u>	<u>Max Potential Refund</u>
\$40,000 - \$399,999	10	\$2,500	\$25,000
\$400,000 - \$999,999	25	\$2,500	\$62,000
\$1,000,000 - \$4,999,999	125	\$2,500	\$312,500
\$5,000,000 - \$149,999,999	500	\$2,500	\$1,250,000
Double Jumbo Project \$150,000,000 - \$249,999,999	500	\$5,000	\$2,500,000
Triple Jumbo Project \$250,000,000 +	500	\$7,500	\$3,750,000

The maximum refund that a business may receive is for 500 employees. If a company has more than 500 employees, it can request a designation to receive rebates for those employees over 500. To do this they must have another investment over and above the original designation.

State Law allows communities with a population more than 250,000 to nominate up to nine projects per biennium which begins in September of each odd year through June of the following odd year. A Double Jumbo Project assumes two of the number of projects allowable and a Triple assumes three. Thus far, the City has nominated three businesses for this biennium. This nomination will use two of the City's four remaining nominations of local businesses.

The City of Corpus Christi has nominated a number of projects in the past including Valero, Bay Ltd, CITGO, Stripes, Flint Hills Resources, and TPCO. Since 2003, the designated Enterprise Zone Projects have resulted in at least \$2.278 billion in investment in Corpus Christi. This local capital investment represents a significant portion of all of the combined capital investment made in enterprise zones across the state.

The Company plans to construct iron and steel (including the processing of iron and steel) facilities potentially in multiple phases, Phase I of which shall be a direct reduced iron ("DRI") plant for the production of hot briquetted iron ("HBI"). The DRI/HBI plant covers an area of 82 acres for Phase I of the La Quinta site. Approximately 14,000 tons of structural steel, 10,000 tons of mechanical equipment, 1.6 million ft³ of reinforced concrete and 540,000 ft² of road surface will be constructed and installed. The reduction of the iron ore takes place in a 400 foot high DRI-tower, which holds an 800 ton reactor vessel. Depending on the chosen technology, a 300 foot long and 30 foot wide natural gas reformer is required. Further, up to 31 buildings, with a total floor space of approximately 400,000 ft², will be constructed. Handling the in-bound and out-bound materials requires the construction of a 1,030 foot long and 100 foot wide high-performance dock with two unloading cranes and one ship loader. The equipment is designed to handle 3.7 million tons of iron ore pellets and 2.0 million tons of HBI annually.

The total investment of up to \$700,000,000 will be comprised of approximately

- \$40,000,000 for the construction of buildings
- \$660,000,000 machinery, equipment, the erection of the dock and its equipment and construction services (including \$55,000,000 for pollution reduction equipment.)

This capital investment and creation of 150 jobs represent the basis for this Double Jumbo Enterprise Project nomination.

ALTERNATIVES:

Due to State statute only the City can be the nominating authority.

OTHER CONSIDERATIONS:

Corpus Christi has nine designations for the current biennium and has used five.

CONFORMITY TO CITY POLICY:

This conforms to City policy of promoting economic development, attracting primary jobs to the area, and is regional in scope.

EMERGENCY / NON-EMERGENCY:

Non-emergency

DEPARTMENTAL CLEARANCES:

None

FINANCIAL IMPACT:

Operating Revenue Capital Not applicable

Fiscal Year: 2014-2015	Project to Date Expenditures (CIP only)	Current Year	Future Years	TOTALS
Line Item Budget				
Encumbered / Expended Amount				
This item				
BALANCE				

Fund:

Comments: This incentive is a rebate of the State’s portion of the sales tax and does not have a negative fiscal impact to the city.

RECOMMENDATION:

Staff recommends approval of the resolution to nominate voestalpine Texas, LLC as a Double Jumbo Enterprise Project, as presented.

LIST OF SUPPORTING DOCUMENTS:

Resolution – voestalpine Texas, LLC

Ordinance – Corpus Christi Texas Enterprise Zone (passed August 19, 2014)