

INDUSTRIAL DISTRICT MASTER AGREEMENT



SEPTEMBER 10, 2013
PRESENTED FOR FIRST
READING

PRESENTATION OUTLINE

1. What is an Industrial District?
2. What is Our Industrial District History?
3. What Were the Negotiation Goals and Strategy for the New Master Agreement?
4. What Negotiating Structure was Used?
5. What did the 11-Month Process Look Like?
6. What Were the Key Findings & Results?
7. What is the Bottom Line?
8. What are the Next Steps?

What is an Industrial District?

- **Upshot**: State Law Allows for Industry to Make a Payment to Cities in Lieu of Annexation (Therefore in Lieu of Paying Full City Taxes)
 - Through the Designation of Geographic Districts in the ETJ Designed Specifically for Industry
 - Where City Services and Regulations are Not Extended to Those Districts
 - In Order to Enhance the Economic Stability and Growth of the City by Encouraging the Location, Retention and Expansion of Industry

What is Our Industrial District History?

- City has a 30-Year History with Industrial Districts
- Currently Two Designated Industrial Districts in the City's ETJ
- City's Practice is to Negotiate a Single Master Agreement for all Industries Within our Industrial Districts
- Current 10-Year Contract Expires on 12/31/14
- New 10-Year Master Agreement Would be Effective 1/1/15

What Were the Goals & Strategy?

□ COUNCIL GOALS:

- Clear, Easy to Understand
- Simple to Administer
- Fair, but Competitive
- Contribute a Fair Share to Citywide Road Maintenance

□ NEGOTIATION STRATEGY:

- Collaborative

What was the Negotiating Structure?

- Internal Working Team with Diverse Expertise Met Weekly
- Oversight of Internal Working Team :
 - Monthly Executive Steering Committee Briefings
 - Series of Council 1-on-1's and Executive Sessions
- Negotiating Table:
 - Front Table & Back Table
 - Four Members of City Internal Working Team
 - Two Reps from Each of the Big Six Industrial District Companies Representing 94% of Value
 - 2 M&G Reps
 - 2 Port Industry Slots for Designated Reps from the Smaller Industrial District Companies

What did the Process Look Like?

- 11 Months Total Process:
 - 4 Months in Fieldwork
 - 5 Months at Negotiating Table
 - Just Completed 1 Month of Legal Review
 - Beginning Final Month for Council Adoption of Master Agreement

Four Months of Fieldwork

- ❑ Reviewed 30-Year History of Both Industrial Districts
- ❑ Mapped and Matched All Geographic Tract IDs to 64 Billing Accounts
- ❑ Analyzed Past and Current Contract Language and Revenue Impact
- ❑ Completed Annexation All Funds Analysis and Created a Preliminary Annexation Service Plan
- ❑ Contacted 28 Texas Cities; 16 with Industrial Districts
- ❑ Identified Best Practice Contract Language
- ❑ Compared Revenue Impact of Texas Industrial Districts
- ❑ Engaged Stakeholders (NCAD, EDC, Port Industries)

Key Findings From Fieldwork

- ❑ Need to Address Numerous Current Contract Language, Billing and Contract Management Issues in New Agreement
- ❑ Current Contract has Produced a Lower Actual ID Rate than the Past Contract
- ❑ Annexation Cash Flows the First Year and Can be Accomplished in 90 Days to be Effective 1/1/15
- ❑ Missing Some Best Practice Opportunities
- ❑ Current Contract has the Lowest Actual ID Rate Paid in Texas Comparison
- ❑ Current Contract Revenue is Less than Half that of Similarly Sized Texas IDs

Key Results After Five Months at the Negotiating Table

- Successfully Negotiated 27 Contract Changes Using a Formal TA Process
- Over Half of the Changes Tied to Clarifying Language, Streamlining Contract Management, While Improving Notification, Reporting & Accountability
- Other Key Elements:
 - Annexation Corridor
 - Blanket Restrictive Covenant
 - Most Favored Nation Clause

Key Financial Provisions

#	CURRENT CONTRACT	NEW CONTRACT
1	Land at 100%	Land remains at 100%
2	ICL land and improvements at ID rate	ICL land and improvements at full City tax rate
3	Existing improvements at 60%	Existing improvements at 62.5%
4	Once in use, new improvements on 8-year graduated scale, then 60% in year 9	Once in use, new improvements get 4 years at 0%, then 62.5% in year 5
5	Cumulative \$3 million in value needed before considered a new improvement	Removed \$3 million floor for new improvements
6	Had a 3% floor and 6% ceiling on annual value	Removed both floor and ceiling
7	Pollution control equipment included in value; inventory & personal property is not included	Remained the same
8		Grandfathering for new improvements in use and underway, but not in use

Bottom Line

- Achieved All Four Council Goals:
 - Clear, Easy to Understand
 - Simple to Administer
 - Fair, but Competitive
 - Current Contract Rate of 46% is increased to 64% which is the Median Rate of Peer Texas Industrial Districts
 - Slightly Above Expected, but not Achieved Current Contract Rate of 60%
 - Contribute a Fair Share to Citywide Road Maintenance
- Maintained Positive, Collaborative Negotiations

What Are Our Next Steps?

- Today, 9/10/13, is First Reading on Ordinance for New Industrial District Master Agreement
- If Consent, Second Reading is Scheduled for 9/17/13
- Once Adopted, Financial Services will Immediately Begin Getting ID Partner Signatures on New Master Agreement which will be Effective 1/1/15
- City Manager will Facilitate Council Adoption of a Financial Policy Dedicating a Percent of ID Revenue to Ongoing Citywide Road Maintenance