



AGENDA MEMORANDUM

Future Item for the City Council Meeting of January 13, 2015
Action Item for the City Council Meeting of January 20, 2015

DATE: November 25, 2014
TO: Ronald L. Olson, City Manager
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Nominating Flint Hills Resources Corpus Christi, LLC as a Triple Jumbo Texas Enterprise Project

CAPTION:

Resolution nominating Flint Hills Resources Corpus Christi, LLC ("Flint Hills") to the Office of the Governor Economic Development & Tourism ("EDT") through the Economic Development Bank ("Bank") as a Triple Jumbo Enterprise Project pursuant to the Texas Enterprise Zone Act ("Act").

PURPOSE:

Designate Flint Hills for a Triple Jumbo Enterprise Project for the Texas Enterprise Zone incentive.

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.

As Flint Hills announced on May 29, 2014, Flint Hills received approval from the U.S. Environmental Protection Agency and the Texas Commission on Environmental Quality for a \$600 million project at its West Refinery to process more domestic crude. This project will allow Flint Hills to process more of the crude received from Eagle Ford, while reducing criteria air emissions.

This project also received media attention in 2013 for its collaboration with the University of Texas Environmental Law Clinic, which represents Citizens for Environmental Justice, and the Environmental Integrity Project (EIP). Flint Hills Resources worked with both organizations and agreed to additional emission reduction projects, more stringent operating requirements, monitoring and reporting.

Flint Hills has proactively sought a working partnership with the UT-Environmental Law Clinic and EIP. These measures are above and beyond regulatory requirements.

Flint Hills has been a part of this community since 1980. It operates two Corpus Christi refineries: the West Refinery, with a capacity of about 230,000 barrels per day, and the East Refinery, with a capacity of about 70,000 barrels per day.

If the project is put in operation, up to 10 full-time employees may be added in addition to the retention of existing jobs at the site. The current employment level at the site is in excess of

1,300 employees as well as over 2,000 contractors. When the new construction begins, it will require additional contractors at the site. Flint Hills' investment of \$600 million will include an added light ends unit, extensive crude unit conversion, and expansion of its hydrotreater expansion.

This capital investment and retention of 500 jobs represent the basis for this Triple Jumbo enterprise project nomination

ALTERNATIVES:

Due to State statute no other entity can be the nominating authority. The City can choose not to nominate the company.

OTHER CONSIDERATIONS:

Flint Hills was nominated as a Double Jumbo in November 2014 because the City had used up the allotted nominations for the biennium. The State did not award all of the slots requested and the City now has five slots available instead of the four anticipated. The City nominated voestalpine for a Double Jumbo and Flint Hills for a Double Jumbo. With the added nomination available, Flint Hills is requesting the City nominate them for a Triple Jumbo.

CONFORMITY TO CITY POLICY:

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

EMERGENCY / NON-EMERGENCY:

Non-emergency

DEPARTMENTAL CLEARANCES:

Legal

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				

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 Flint Hills Corpus Christi, LLC as a Triple Jumbo Enterprise Project, as presented.

LIST OF SUPPORTING DOCUMENTS:

Resolution – Flint Hills TEZ

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