



## AGENDA MEMORANDUM

Action Item for the City Council Meeting March 29, 2022

**DATE:** March 3, 2022  
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### Disannexation and Amendment Industrial District #2 Boundaries

#### **CAPTION:**

Ordinance disannexing a 75.58-acre tract from a 114.8-acre continuous parcel of land currently divided by the City limit boundary; amending the boundaries of Industrial District No. 2 to include the disannexed area; and approving Industrial District Agreement No. 110B with Bootstrap Energy LLC, requiring payment in lieu of taxes in the amount of 100% of the ad valorem taxes that would be due if the property remained in the City.

#### **SUMMARY:**

This ordinance authorizes the disannexation of a 75.58-acre tax tract of a 114.8-acre continuous parcel of land that became divided by the City limit boundary and amending the boundaries of the Industrial District #2 to incorporate the balance of the landowner's acreage.

#### **BACKGROUND AND FINDINGS:**

The project proposed by Bootstrap Energy LLC is planned as a two-phase project that consists of the total 114.205 acres (as surveyed). Phase One consists of 33.5 acres and is currently located in Industrial District No. 2. Bootstrap Energy LLC will construct a 300 MW substation on a portion of the 33.5 acres in which Compute North will build, own, and operate approximately 150 containers (similar in appearance to shipping containers with major venting and fans for cooling) that utilize 2 MW of electric power per container. Compute North is the anchor for Phase One and will own the containers and rack space that will house computers owned by its cryptocurrency mining clients. Compute North is a leading and well capitalized operator in the industry, based in Minneapolis. Phase One is planned to be in service by November 2022. Phase 2 of the project will consist of the remaining acreage and is located contiguous to Phase One. The Phase Two property is currently located inside the city limits and outside Industrial District

No. 2. Bootstrap Energy LLC will construct a 250-300 MW power substation on the acreage and has plans to either lease or sell the Phase Two property to a colocation company that will own containers with rack space to house computers owned by various cryptocurrency mining clients. Phase Two is expected to be in service by the end of December 2022. Since electricity is vital to the development, Bootstrap has secured from AEP the necessary Mega Watts of electricity (600MW) to allow for the planned economic development activity. Initially, the development will receive power through a temporary source provided by LCRA. The temporary power source will be replaced in 2024 by AEP's future planned substation. The project will participate in ERCOT curtailment programs in event of power emergency and should not impact grid operation in times of power emergency. No wind turbines will be allowed on the property.

Bootstrap Energy, LLC is requesting the City to find the use of the property located in Industrial District No. 2 meets the criteria for industrial development and execute an Industrial District Agreement. Because the property is located in territory not currently within an Industrial District, the City may decide to annex the property into the boundaries of the City or execute a Industrial District Agreement with Bootstrap Energy, LLC. The second part of the Bootstrap Energy, LLC request is to disannex the portion currently located in the city limits, thus allowing for the property to become part of Industrial District No. 2 and execute and Industrial District Agreement.

The attached agreement includes Bootstrap Energy's agreement to provide payment in lieu of taxes in the amount of 100% of the ad valorem taxes that would be due if the property remained in the City. The Company also agrees to include a petition for annexation that becomes effective at the time that the Company defaults under certain provisions of the Agreement, which would allow for the voluntary annexation of the 75.58-acre tract of land to the City.

As proposed, both phases of the project are planned to create 70-100 new jobs with salary ranges of \$50,000 to \$80,000 annually, depending on skill levels and certifications. Both phases combined are also projected to generate an average of \$3.17 million in new General Fund revenues to the City annually through Industrial District PILOT program for a 5-year total of \$12,730,547 and a 10-year total of \$31,729,918. Through the Industrial District Agreement, the City would not be obligated to provide any City services, as typically required for new development, to the project. However, staff's financial analysis concludes the City will forego \$70,501,509 over a ten-year period if the same development were constructed and operated outside of an Industrial District Agreement in the city limits.

Subject to these actions being approved by City Council, the developer's implementation schedule for this phase (Phase One) is expected to be completed and in-service by the end of calendar year 2022 for appraisal purposes.

The development was first presented to the CCREDC in August 2021 by Bootstrap Energy, LLC, which inquired about the possibility of purchasing the land for industrial use. Bootstrap Energy, LLC subsequently began to conduct independent due diligence on the land and an independent transmission capacity study. In October 2021, Bootstrap Energy, LLC submitted a formal request to AEP Texas to confirm transmission network load serving capacity consistent with the findings of their independent analysis. Bootstrap Energy, LLC next entered direct negotiations with the property owners, resulting in the

seller and Bootstrap putting the land under contract on October 11, 2021.

On November 10, 2021, CCREDC representatives met with City to introduce the project and inquire about the City's willingness to disannex the 75.58-acre tract of land and amend the boundaries of the Industrial District 2. Since the November date, City and CCREDC staff conducted research and analysis related to the economic feasibility of the project.

The property was purchased by Bootstrap in an all-cash transaction on February 18, 2022 and the new deed was recorded in the Official Public Records of Nueces County on February 22, 2022 (document 2022008479).

The Comprehensive Plan classifies this area as light industrial therefore staff finds that the landowner's proposal is largely consistent with the City's intended future development of this part of its ETJ along the interface of Industrial District #2.

A facility of the nature of the proposed light industrial development does not involve truck traffic (other than construction phase) or impose burdens on city infrastructure typical of more intensive heavy industrial uses. The McKinzie Road property has been actively on the market since February 2017. Since 2019, CCREDC has been marketing the subject site under its Qualified Sites Program as a prime industrial site since 2019 CCREDC's criteria for attracting industrial development was set as a minimum of 100 acres of land together with all appropriate attributes including power infrastructure vetted by AEP. The contiguous property has been under the same family ownership by descendants of Frank and Isabella Kassner for over 100 years. The total property size was recently surveyed at 114.2 acres.

**PROCUREMENT DETAIL:**

N/A

**ALTERNATIVES:**

The alternative is to not allow the disannexation of the 75.58-acre tract of land or to amend the boundaries of Industrial District #2. In which case, the property would either continue to be taxed as an AG exempted parcel of land.

Because of significant power transmission lines (three) and multiple energy pipelines (31 underground lines) including three major city water mains that are on or directly adjacent to the property. Due to these encumbrances, alternative land uses are exceedingly difficult to develop. Staff reviewed the site with a leading local homebuilder who determined residential would be exceedingly difficult (if not impossible) to develop. HUD financing or guarantees would also be practically unfeasible for any residential due to the immediate proximity to the Enterprise Products Shoup Plant (gas processing) that is designated a major energy production facility. The only real practical development option would be industrial type facilities without large building or manufacturing footprints.

**FISCAL IMPACT:**

As proposed, both phases of the project are planned to create 70-100 new jobs with salary ranges of \$50,000 to \$80,000 annually, depending on skill levels and certifications.

Both phases combined are also projected to generate approximately an average of \$3.17 million in new General Fund revenues to the City annually through Industrial District PILOT program for a 5-year total of \$12,730,547 and a 10-year total of \$31,729,918. Through the Industrial District Agreement, the City would not be obligated to provide any City services, as typically required for new development, to the project

**FUNDING DETAIL:**

Fund:	N/A
Organization/Activity:	N/A
Mission Element:	N/A
Project # (CIP Only):	N/A
Account:	N/A
Amount:	N/A

**RECOMMENDATION:**

Staff recommends the development be classified as light industrial to serve as home to cryptocurrency mining companies, the execution of Industrial District Agreement 110, the disannexation of the 75.58-acre tract of Bootstrap's land and the amendment to the Industrial District 2 boundaries to allow for the Bootstrap development and the execution of Industrial District Agreement 110B.

**LIST OF SUPPORTING DOCUMENTS:**

Ordinance