



AGENDA MEMORANDUM

Action Item for the City Council Meeting February 18, 2020

DATE: January 22, 2020
TO: Peter Zaroni, City Manager
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Nominating Flint Hills Resources Corpus Christi, LLC as a Texas Enterprise Project

CAPTION:

Resolution nominating Flint Hills Resources Corpus Christi, LLC to the Office of the Governor Economic Development & Tourism through the Economic Development Bank as a single enterprise project pursuant to the Texas Enterprise Zone Act.

SUMMARY:

This resolution will designate Flint Hills Resources ("FHR") for a single enterprise designation for the Texas Enterprise Zone incentive. This incentive uses state sales tax funds to reimburse FHR for their investment and the retention 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 percent 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 percent 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.

Communities participating in the Texas Enterprise Zone Program are required to provide incentives to the project in addition to offering nomination for participation in the Texas Enterprise Zone Program. At least one of the incentives must be exclusive to the Texas

Enterprise Zone.

A designated project located in the Texas Enterprise Zone must agree to hire at least 25 percent 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. If the project is located outside the zone, the project must agree to hire at least 35 percent of its new employees from the enterprise zone or economically distressed groups.

The program allows a refund of \$2,500 for each job created or retained. 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.

State Law allows each participating community with a population less than 250,000 to nominate up to six projects per biennium and communities with a population more than 250,000 to nominate up to nine projects per biennium. Since City of Corpus Christi's population exceeds the 250,000 threshold, up to nine projects can receive designation during this biennium. A double jumbo project assumes two of the number of projects allowable and a triple assumes three. Thus far, the City has nominated one business for this biennium. This nomination will use one of the City's eight remaining nominations of local businesses.

The City of Corpus Christi has nominated a number of projects in the past including the Valero, Bay Ltd, CITGO, Stripes, and Flint Hills Resources. To date, the designated enterprise zone projects have resulted in at least \$2 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.

Flint Hills Resources Corpus Christi, LLC, ("FHR Corpus Christi" or the "Company") is a member of the Flint Hills Resources group. FHR Corpus Christi operates out of two refining facilities in Corpus Christi, Texas and employs 800 personnel. These refineries receive crude oil and other raw materials via the Corpus Christi Ship Channel and pipelines and have crude oil refining capacity of about 320,000 barrels per day. Once refined, products including jet fuel and low-sulphur gasoline and diesel flow through the company's terminals in San Antonio, Bastrop, Austin, Waco, and the Dallas/Ft. Worth area, including the Dallas/Ft. Worth International Airport. This refining operation has earned industry and government accolades for its safety performance. One of the proudest achievements is the Distinguished Safety Award from the National Petrochemical and Refiners Association, which is considered one of the industry's highest honors. The refineries have also earned Star status from the U.S. Occupational Safety and Health Administration's Voluntary Protection Program, which recognizes facilities with exceptionally safe performance as verified by an extensive audit.

FHR Corpus Christi prides itself on its deep history in Corpus Christi as being a responsible corporate citizen and contributing member of the local economy. Since 1981, The Company has contributed more than \$13 million to Texas philanthropic organizations. The Company is committed to understanding the needs of the community and partners with organizations to develop projects and activities that add value to our neighbors and improve the quality of life. As evidence, the Company has participated in philanthropic activities via donation to various charitable organizations such as Driscoll Children's Hospital, Fiesta de los Niños, Texas State Aquarium's STEM Center for Excellence and Helping Heroes. We are proud of the partnerships we have developed and supported over the past three decades that work to improve the quality of life in our community.

FHR Corpus Christi is planning new capital investments starting in 2020 and continuing over the next five years for machinery and equipment upgrades at its West refinery, located at 2825

Suntide Road, Corpus Christi, Texas (the Qualifying Business Site"). The planned investment is expected to exceed \$22 million.

The Company's planned investment will result in improved efficiency and continuous improvement of its chemical processes. As part of this investment, FHR Corpus Christi will retain 500 jobs at the Qualified Business Site. FHR Corpus Christi seeks to continue growing by investing in the community, as a leading business partner to build a bigger and better place of employment for current and future employees. The short-term goal for the new potential investment is to improve our operational capabilities, update technologies and improve working environments. Ultimately, the long-term benefit of our improvements is to better serve customers. This capital investment and retention of jobs represent the basis for this single enterprise project nomination.

ALTERNATIVES:

Due to State statute no other taxing entity can be the nominating authority. The City can choose not to nominate the company. The City has eight nominations left in the biennium which ends January 2021. There is no fiscal impact for the City and it helps a large employer in our area be more cost efficient and retain jobs.

FINANCIAL IMPACT:

This incentive is a rebate of the State's portion of the sales tax and does not affect the City in any way.

Funding Detail:

Fund: NA
Organization/Activity: NA
Mission Element: NA
Project # (CIP Only): NA
Account: NA

RECOMMENDATION:

Staff recommends approval of the Resolution to nominate Flint Hills Resources Corpus Christi, LLC as a single Enterprise Project, as presented. This will aid a large employer in our area and keep those jobs here helping our economy stay strong.

LIST OF SUPPORTING DOCUMENTS:

Resolution
TEZ Ordinance