



Economic Development Incentive Policy Update

City Council Work Session
March 1, 2022



Purpose of Today's Work Session

- Provide overview of proposed updates
- Receive City Council feedback to incorporate into new policy for economic development incentives



Why Have a Policy for Incentives?

- Provides formal guidance on incentives
- Supports growth and a stable tax base through economic diversification
- Provides consistency and sets expectations to the process when making requests
- Sets guidelines for the decision-making process



Policy Background

- Adopted December 13, 2013 (Resolution 2013-185R)
- Amended January 5, 2016 (Resolutions 2016-03R) to add family living wage criterion
- Amended February 2, 2016 (Resolution 2016-15R) to add Economic Development Supplemental Fund
- Following feedback from the City Council June 1, 2021, Work Session, staff has worked with the Economic Development San Marcos Board, San Marcos Area Chamber of Commerce Board, Greater San Marcos Partnership staff, and City staff to incorporate items for consideration



Proposed Updated Policy Outline

Section 1. General Purpose & Objectives

Section 2. Definitions

Section 3. Incentive Policy Criteria

Section 4. Types of Incentives

Section 5. Performance

Section 6. Ineligible Projects

Exhibit A. Incentive Policy Process for Ch. 312, Ch. 380, Economic Development Supplemental Fund, and Fee Waivers

Exhibit B. Business Improvement & Growth (BIG) Grant

Exhibit C. Downtown Co-Marketing Fund

Exhibit D. Economic Development Supplemental Fund

Exhibit E. Legacy Business Program

Exhibit F. Main Street Incentive

Exhibit G. Small Business Retention Incentive

Exhibit H. Speculative Buildings

Exhibit I. Sustainable Resources Grant



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Note: Items in **bold** text indicate additions to the current policy
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Notable Proposed Changes

- Addition of other incentives beyond Chapter 380s
 - Including incentives to support existing or small businesses (BIG Grant, Legacy Business Program, Small Business Retention Incentive, and Sustainable Resources Grant)
- Revision of scoring matrix
 - Allocates points for economic & fiscal impact, sustainability, labor force practices, and quality of life considerations
- Inclusion of administrative approval for some incentives
 - BIG Grant, fee waivers, infrastructure assistance, Legacy Business Program, process incentives, Small Business Retention Incentive, and Sustainable Resources Grant
- Updated definitions
 - Full-time job, local labor force, headquarters, target industry, legacy business, and small business



Notable Proposed Changes

(continued)

- Tax-based incentives are only for the Maintenance & Operations (M&O) portion of the tax rate
- Living wage (currently \$15/hr) is replaced by the county all industry average wage
 - Hays County is \$43,394 (or approximately \$20.86/hr).
 - Caldwell County is \$38,338 (or approximately \$18.43/hr)
 - Guadalupe County is \$45,886 (or approximately \$22.06/hr)



EDSM Recommendation Resolution

- The EDSM Board voted 6-3 on January 28, 2022, to submit a Recommendation Resolution for suggestions in the updated policy
- Notable differences from EDSM Recommendation Resolution Policy
 - Proposed policy tax-based incentives are only for Maintenance & Operations portion of tax rate
 - Proposed policy removes Exhibits A (Preferred Scenario Map) & B (Strategic Initiatives)
 - Proposed policy has enhanced information on processes
 - Proposed policy has updated wording for Downtown Co-Marketing Fund grant



Maintenance & Operations (M&O) Incentive

- **City of San Marcos current tax rate**
 - Total: 0.6030 per \$100 valuation
 - M&O: 0.4076 (or 67.6%)
 - I&S: 0.1954 (or 32.4%)
- **Scenario on \$10 million capital investment**

	Total Tax Rate (current policy)	Proposed M&O Only
M&O	\$40,760	\$40,760
I&S	\$19,540	\$0
Total Incentive (100%)	\$60,300	\$40,760



Other Community Benefits

- Sales tax, utility revenue, salaries paid
- Property tax revenue to other taxing jurisdictions (ISD, County)



Project Outlook Incentive

➤ Estimated Incentive and Revenues (at minimum \$11 M investment)

- 3-year rebate of real property tax - phase out as buildings are occupied

Year	1	2	3	4 and beyond	10 Year Total
Rebate (%)	100%	75%	50%	0%	
Rebate (\$)	\$12,280	\$26,890	\$26,880	\$0	\$66,050

City Revenue	\$0	\$8,960	\$26,880	\$69,570	\$522,810
SMCISD Revenue	\$26,280	\$76,730	\$115,050	\$148,890	\$1,260,300
Hays Co Revenue	\$7,800	\$22,770	\$34,140	\$44,180	\$373,990
Revenue Total	\$34,080	\$108,460	\$176,070	\$262,640	\$2,157,100

Economic Development San Marcos recommended approval (vote 9 to 1)

STAFF RECOMMENDS APPROVAL OF THIS INCENTIVE

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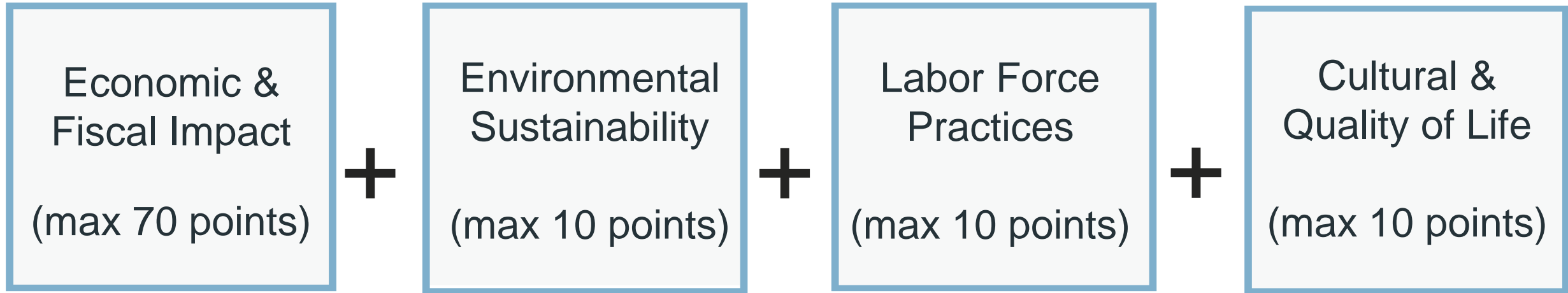


Proposed Scoring Matrix

**Chapter 312 Agreements
Chapter 380 Agreements
Economic Development Supplemental Fund
Fee Waivers**



Scoring



= 100 POSSIBLE BASE POINTS

Extraordinary economic impact (max 10 extra points)
Extraordinary contribution to community values (max 10 extra points)



Scoring

81 to 100 points

Up to 80% of the net present value of the estimated total tax liability or up to \$200/job per year up to 10 years

71 to 80 points

Up to 70% of the net present value of the estimated total tax liability or up to \$150/job per year up to 10 years

60 to 70 points

Up to 60% of the net present value of the estimated total tax liability up to 10 years

Less than 60 points

No consideration for incentives



Staff Recommendation

- Staff recommends proceeding with this updated policy



Council Direction Needed

- Keep total tax rate or only M&O for incentives? (Slide 10)
- Is Council prepared to move forward to adopt this revised policy?
 - If yes, next steps:
 - Staff will bring back a City Council agenda item for approval
 - Staff will establish internal administrative process and submittal requirements



Supplemental Information

- Proposed incentive categories
- Detailed scoring categories
- Comprehensive list of proposed updates



Proposed Incentive Categories

- **Business Improvement & Growth (BIG) Grant**

- Provides technical and financial assistance to property owners or business tenants seeking to renovate or restore facades, signage, lighting, and life-safety systems for commercial buildings through a 50% matching grant of up to \$20,000. An additional 50% matching grant up to \$5,000 is available for removal and replacement of non-conforming signage.

- **Chapter 312 Agreements**

- Tool to exempt all or part of the increase in value for real property from taxation for a period of up to 10 years.

- **Chapter 380 Agreements**

- Tool to offer incentives designed to promote economic development. Incentives may be in the form of tax rebates or jobs-based grants or waivers from certain development standards.

- **Downtown Co-Marketing Fund**

- A marketing program that provides matching advertising funds for downtown businesses to promote their business in areas outside of the San Marcos area.

- **Economic Development Supplemental Fund**

- This Fund complements existing economic development incentive tools for projects. It can provide up-front grant-like incentives.

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Proposed Incentive Categories

- **Fee Waivers**

- A full or partial waiver of development-related fees, such as permit fees, to reduce the overall cost of a project.

- **Infrastructure Assistance**

- Improving or extending electric, water, or wastewater lines within the City's service area.

- **Legacy Business Program**

- Businesses who have maintained a continuous, physical presence in the City of San Marcos for at least 20 years are eligible to apply for the Legacy Business Program for promotional and technical support and possible financial incentives.

- **Main Street Incentive Grant**

- The Main Street Incentive Grant provides financial assistance to property owners or business owners seeking to renovate or restore facades or signage in the Main Street district. The Main Street program will provide a 50% matching grant to reimburse up to \$2,000.

- **Process Incentives**

- In some cases, expedited processes may be offered so long as they do not conflict with applicable ordinances or other laws or create a negative impact to the thoroughness of reviews and inspections.



Proposed Incentive Categories

- **Small Business Retention Incentive**

- Businesses having 1 to 25 full-time employees that have operated with a physical presence in San Marcos for at least 24 months may be eligible to apply for the Small Business Retention Incentive which can provide assistance with infrastructure improvements or a jobs-based grant.

- **Speculative Buildings**

- Incentives may be considered for high-quality speculative new-build construction where less than 50% of the space is pre-leased or owner-occupied.

- **Sustainable Resources Grant**

- Businesses implementing environmentally sustainable business practices may be eligible for a grant of up to \$2,500 to reimburse for eligible projects.

- **Tax Increment Reinvestment Zones or Public Improvement Districts**

- Special zones and districts may be created to pay for improvements in a geographic area.

- **Utility Fee Reductions For Commercial Users**

- Temporary utility fee reduction.



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Overall
Economic &
Fiscal Impact

(max 70 points)

- A. Relative to its industry, what are the net benefits as measured by jobs and income for the City?
- B. Relative to its industry, what are the net benefits as measured by the level of desirable public benefits? Or, does the project fulfill one of the City's identified strategic initiatives?
- C. Relative to its industry, what are the net benefits as measured by net fiscal impact?
- D. Will the project create contracting opportunities for local firms including small and disadvantaged businesses?
- E. Does the project have the potential to either seed a new development or bring additional firms to the city? sanmarcostx.gov



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Environmental
Sustainability

(max 10 points)

- A. Does the project make use of an underutilized asset?
- B. Does the company use building materials or landscaping features known to promote sustainability?
- C. Does the company use innovative practices or technology to support environmental sustainability?



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Labor Force Practices

(max 10 points)

- A. Are the majority of new hires intended be local?
- B. How does the average wage paid compare to the county and/or industry average?
- C. Are there opportunities for training, additional educations, and/or advancement within the organization?
- D. Does/will the firm actively promote or exemplify diversity in hiring and promotion?
- E. Will the majority of employees be full-time W-2 employees?



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Cultural &
Quality of Life
Considerations

(max 10 points)

- A. Does the firm have positive corporate and social practices?
- B. Will the firm participate in cultural and charitable programs in the community?
- C. Will the firm participate in education and charitable programs with the school district?
- D. Does the firm actively encourage employee volunteer and charitable efforts?



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Extraordinary
Economic
Impact

(max 10 extra
points, 2 points
each)

- A. Is the firm in a targeted industry?
- B. Is the firm involved in leading edge technology?
- C. Will the firm generate 250 full-time jobs or more?
- D. Will the firm invest \$100 million or more in capital investment?
- E. Will the firm establish or relocate its headquarter operations to San Marcos?



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Extraordinary
Contribution to
Community
Values

(max 10 extra
points, 2 points
each)

- A. Will the project use electric vehicles or solar panels?
- B. Will the building be designated Leadership in Energy and Environmental Design (LEED) Certification after completion of construction?
- C. Will the firm offer health benefits to all employees beginning from day one of employment?

(continued on next slide)



Scoring

For chapter 312 agreements, chapter 380 agreements, economic development supplemental fund, and fee waivers

Extraordinary
Contribution to
Community
Values

(max 10 extra
points, 2 points
each)

- D. Will the firm designate a substantial portion of budget to employee training and promotion programs or tuition-reimbursement or scholarship programs?
- E. Will the firm designate a substantial portion of construction, design professional, or vendor budgets to contract with Historically Under-Utilized Businesses, Minority Business Enterprises, or Woman Business Enterprises in San Marcos or the county?



Scoring

- Proposed scoring matrix weighted categories

BASE POINTS

Economic and Fiscal Impact		
Small	Medium	Large
10	35	70
Sustainability		
Poor	Acceptable	Excellent
0	5	10
Jobs/Labor Force Practices		
Poor	Acceptable	Excellent
0	5	10
Quality of Life/Cultural Considerations		
Poor	Acceptable	Excellent
0	5	10
Total Possible Base Points		100

EXTRA POINTS

Extraordinary Economic Impact	
Total Possible Extra Points	10
Extraordinary Contribution to Community Values	
Total Possible Extra Points	10



Proposed Updates

Feedback/Direction	Body/Organization	Included In (page # corresponds with accepted changes document)
Explore other incentives besides Ch. 380s and best practices of other cities	City Council, EDSM Board, Chamber Board of Directors, Staff	Best practices are incorporated from the cities of Austin, Buda, Dripping Springs, Flower Mound, Fuquay-Varina, Houston, Kyle, La Grange, Lower Merion, Mauston, New Braunfels, Phoenix, Richardson, San Antonio, and Travis County. Other incentives included for consideration are Chapter 312 agreements, fee reductions for commercial users, fee waivers, infrastructure assistance, legacy business program, process incentives, small business retention incentive, speculative buildings policy, sustainable resources grant and Tax Increment Reinvestment Zones & Public Improvement Districts.
Establish clear processes for each incentive	Staff, Chamber Board of Directors	Attempted throughout the document by separating incentives and their respective process into different exhibits where applicable.
Include administrative approval process for some incentives	City Council, Staff	Administrative approval is included for Business Improvement & Growth Grant, fee waivers, infrastructure assistance, Legacy Business Program, process incentives, and Small Business Retention Incentive.

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Proposed Updates

Feedback/Direction	Body/Organization	Included In
Include administrative approval process for some incentives	City Council, Staff	Administrative approval is included for Business Improvement & Growth Grant, fee waivers, infrastructure assistance, Legacy Business Program, process incentives, and Small Business Retention Incentive.
Include wording from Vision SMTX comprehensive plan	City Council	<u>Section 1, General Purpose & Objectives, p.1.</u> Included Community Vision statement of “San Marcos is a complete community of diverse and inclusive neighborhoods that protects and celebrates the San Marcos river and the City’s other rich natural and historical assets; retains its small-town feel, charm, and quality of life; and leverages growth to continue building a sustainable community that benefits existing and new businesses and residents.”
Establish definition of “full-time job”	City Council, Staff	<u>Section 2, Definitions, p.1.</u> Established as an average of 30 hours or more per week.



Proposed Updates

Feedback/Direction	Body/Organization	Included In
Add definition of “legacy business”	City Council, Staff	<u>Section 2, Definitions, p.2.</u> Established to mean a business with a continual physical presence within the City for at least 20 years and contributes to the history, culture, and authentic identity of the city.
Add definition of “small business”	City Council, Staff	<u>Section 2, Definitions, p.2.</u> Established to mean a firm with less than 26 employees throughout all its locations.
Include City staff into discussions early for incentives	City Council	<u>Section 3, Incentive Policy Criteria, p.2.</u> and <u>Exhibit A, Incentive Policy Process, p.6.</u>
Review living wage number and determine if it is appropriate to use	City Council, EDSM Board	<u>Section 3, Incentive Policy Criteria, p.3.</u> “Except for the Small Business Retention Incentive, all jobs calculated or counted for economic development purposes shall earn no less than the County all industry average wage....”And <u>Exhibit A, Incentive Policy Process, p.7.</u> “How does the average wage paid compare to the county in which the firm will be or is operating or national industry average?”



Proposed Updates

Feedback/Direction	Body/Organization	Included In
Scoring for small business incentives should be different from larger companies and incentives should be used to help companies retain workers	EDSM Board	<u>Section 3, <i>Incentive Policy Criteria</i>, p.3.</u> Requirement to pay employees the county average wage or higher is removed for small business retention incentive. <u>Exhibit G, <i>Small Business Retention Incentive</i>, p.15.</u> The jobs-based grant is geared towards employee support and “This incentive can fund employee hiring/signing bonuses, relocation bonuses for employees that are moving to take an open position, and employee retention bonuses.”
Include local advertising for new jobs for companies receiving incentives	City Council, Staff	<u>Section 3, <i>Incentive Policy Criteria</i>, p.3.</u> Minimum requirement that “Any company receiving incentives is expected to make efforts to use local public resources to inform the local labor force of career opportunities (e.g., San Marcos Public Library, Workforce Solutions Rural Capital Area, Texas State University, San Marcos Daily Record, local job fairs).”



Proposed Updates

Feedback/Direction	Body/Organization	Included In
Rebate only the Maintenance & Operation (M&O) portion of the tax rate	Staff	<u>Exhibit A, Incentive Policy Process, p.6 and Exhibit H, Speculative Buildings, p. 17.</u> “Tax-based incentives will only be on the Maintenance and Operations (M&O) portion of the tax rate...”
Tax-based incentives will be for the increase in property value over the base value before improvements rather than on the total assessed value	Staff	<u>Exhibit A, Incentive Policy Process, p.6 and Exhibit H, Speculative Buildings, p. 17.</u> “Tax-based incentives will be for the increase in property value over the base value before improvements.”
Redistribute weight for scoring criteria to have emphasis on economic/fiscal impact	EDSM Board	<u>Exhibit A, Incentive Policy Process, p.7-8.</u> Overall Economic & Fiscal Impact is weighted at 70 points out of 100. Environmental Sustainability, Labor Force Practices, and Cultural and Quality of Life Considerations comprise the remaining 30 possible base points.
Require companies receiving incentives to support or participate with the school district	EDSM Board	<u>Exhibit A, Incentive Policy Process, p.7.</u> Scoring criterion for whether the firm will participate in educational and charitable programs with the school district. sanmarcostx.gov



Proposed Update

Feedback/Direction	Body/Organization	Included In
Establish how many jobs are contracted vs. full-time as scoring criterion	City Council	<u>Exhibit A, Labor Force Practices, p.7.</u> Scoring criteria considering if the majority of employees will be full-time W-2 company workers.
Include requirement of electric vehicles as scoring criterion	City Council	<u>Exhibit A, Extraordinary Contribution to Community Values, p.7.</u> A company can receive extra points for incorporating electric vehicles into their operations.
Offer health benefits from first day of employment as scoring criterion	City Council	<u>Exhibit A, Extraordinary Contribution to Community Values, p.7.</u> A company can receive bonus points for offering health benefits from the first day of employment.
Ensure positive corporate reputation of businesses receiving incentives as scoring criterion	City Council	<u>Exhibit A, Cultural and Quality of Life Considerations, p.7.</u> Scoring criteria considering if the firm has positive corporate and social practices.



Proposed Updates

Feedback/Direction	Body/Organization	Included In
Provide additional resources for under-supported businesses	City Council, Staff	<u>Exhibit A, <i>Extraordinary Contribution to Community Values</i>, p.8.</u> Scoring criteria for bonus points by designating a portion of project budget for construction, design, or vendors to minority business enterprises, woman business enterprises, or historically under-utilized businesses. <u>Exhibit E, <i>Legacy Business Program</i>, p.13</u> and <u>Exhibit G, <i>Small Business Retention Incentive</i>, p.15</u> to support long-standing legacy and small businesses in San Marcos.
Re-establish Business Improvement & Growth (BIG) Grant	Chamber Board of Directors	<u>Exhibit B, <i>Business Improvement & Growth Grant</i>, p.9-10.</u> Program is updated and incorporated as an exhibit to the Economic Development Incentive Policy.



Proposed Update

Feedback/Direction	Body/Organization	Included In
<p>BIG Grant updates:</p> <ul style="list-style-type: none">• Recipient must not be a franchise or chain with more than 10 locations nationwide• Limit owners with multiple properties/businesses to two BIG Grants per year• Businesses receiving a BIG Grant must sit out of the program for one year after receiving reimbursement before applying for another grant• Include time limit on BIG improvements to be complete• Open to businesses city-wide	Staff, EDSM	<p><u>Exhibit B , <i>Business Improvement & Growth (BIG) Grant</i>, p. 9-10.</u></p> <ul style="list-style-type: none">• “Businesses must not be part of a franchise or chain store with more than 10 locations nationwide”• “Property or business owners with multiple properties may apply for up to 2 businesses or property location in one year”• Businesses receiving a BIG grant must sit out of the program for a minimum of 1 year from the date of reimbursement prior to being approved for a subsequent BIG grant”• “Applicant has 60 days from notice to begin improvements and 9 months to complete improvements after permit is issued.”
Financial literacy for small business retention incentive	EDSM Board	<p><u>Exhibit G, <i>Small Business Retention Incentive</i>, p. 15.</u></p> <p>“Business owners who receive funding will be required to attend a free financial literacy session as part of the City of San Marcos small business counseling program or similar approved program.”</p> <p>sanmarcostx.gov</p>



Proposed Updates

Feedback/Direction	Body/Organization	Included In
Small business retention incentives should be up-front grants or assistance rather than a rebate after a year	EDSM Board	<u>Exhibit G, <i>Small Business Retention Incentive</i>, p 15.</u> “The City will offer grant funding that will be forgiven if the business remains in continuous operation for at least 24 months after the funding is approved.”
Establish incentives for sustainability	Strategic Initiatives	<u>Exhibit I, <i>Sustainable Resources Grant</i>, p.18.</u> Small reimbursement grant to begin encouraging transition to sustainable business practices or materials.