



City of Kerrville, City of Ingram and Kerr County

Economic Development

Incentive Policy

Adopted by City of Ingram – September 2, 2008
Adopted by Kerr County – September 8, 2008
Adopted by City of Kerrville – September 9, 2008

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The City of Kerrville, City of Ingram, and Kerr County have joined together with their economic partners to provide a cohesive, consistent, and coordinated regional approach to economic development while ensuring the public a justifiable investment in private projects. Kerrville/Kerr County is blessed with an unusually high number of unique assets. Our community has an excellent reputation in Texas, and growing recognition through out the US and internationally. The Kerrville area and surrounding communities have economic base more stable than most. The community is primed to support economic development. The existing quality of life makes Kerrville a great place to live and work.

Economic development is defined as the public resources for private projects implemented for the benefit of the public good. The purpose of these policies is intended to provide a frame work for economic development in the Kerrville, Kerr County area. Stakeholders will be identified, and roles will be acknowledged based on each entity's ability to use certain tools outlined by state law. The key purpose is to encourage growth and development in targeted industries.

In February 2008 the Kerrville City Council and the Kerr County Commissioners adopted an economic development strategic plan produced by TXP, Inc. One of the recommendations from the plan was to organize a committee to develop an incentive policy. The committee will consist of nine members including the following positions:

Kerr County Judge, City of Kerrville City Manager, City of Ingram Mayor, President - Chamber of Commerce, President – Kerr Economic Development Foundation, President - Economic Improvement Corporation, and three community representatives. The committee will meet to discuss, evaluate, and recommend public participation in private sector business recruitment and existing business expansions. This policy will be reviewed on an annual basis.

Objectives for creating the policy for incentives are:

- To sustain the local economy
- Strengthen the tax base
- Match specific incentives to the benefit
- Publicly justify the incentive, and
- Develop a non-competitive economic strategy with governmental entities

The priorities and strategies set forth in the plan include business attraction and business retention and expansion concentrating on target market development to provide a sustainable tax base. Equally as important is a strong workforce development effort ensuring adequate infrastructure to retain quality of life while currently attracting a growing retirement sector and tourism industry.

Also, attention to revitalization and redevelopment of downtown Kerrville is a great priority through the promotion of historic preservation while heightening tourism initiatives in concert with following positive land use management practices. And finally, the plan maintains that a priority be given to unified tactics for marketing, education, and information.

Procedure

The City of Kerrville and/or Kerr Economic Development Foundation will accept applications for projects at any time. Applications will not be considered until complete. Applicants must be available to present projects to the full membership of the Incentives Committee or a designated sub-committee of the Incentive Committee or both. Applicants may be businesses currently located in the City of Kerrville or Kerr County. Each project must be in compliance with legal requirements. If the project is within the city limits of Kerrville, said project should be consistent with the Comprehensive Plan, Capital Improvement Plan, Airport Master Plan, and Parks Master Plan. All projects will be required to provide an economic impact analysis including a return on investment calculation, job creation impact analysis, and tax base adjustments. If an applicant cannot make an economic development argument aligning with one or more of the above mentioned priorities or strategies, the applicant need not apply as the project will not be processed. It's not the intent of this policy to consider a project that is already underway, as originally planned, when application is received.

Scoring of projects

Each project will be scored on a case by case basis considering added value and/or jobs created. Scoring weights for capital investment will be a maximum of 50% of the total score. Wage and workforce will have a combined score maximum of 50% of the total score. Large projects presented beyond the maximums published may be reviewed for additional consideration. Eligible projects may be granted an incentive (s):

- A project is considered to be a target industry type if it fits within the Economic Development Strategic Plan as approved by Kerrville City Council and Kerr County Commissioners in February 2008, and shall be eligible for an incentive only upon a finding by the Incentive Committee that the project will make a unique contribution to the economy, development, redevelopment, tourism or employment opportunities.

Targeted Sectors for Recruitment/Retention+

Professional	Corporate/management, aircraft
Legacy Production	Aircraft-related, jewelry-related, plastics, specialty food processing

Tourism-related	High-end lodging, destination retail, entertainment, recreational sports facilities
Advanced Building Practices	Water/wastewater, materials/energy systems
Life Science	Physicians/nursing, laboratory-based testing, local population based research

+TXP, Inc. report 2008

- For new facilities and for expansion or modernization of existing facilities. (The economic life of a facility, and/or eligible property must exceed the duration of the incentive return on investment.)
- In order to be considered for an incentive, the following criteria apply:
 1. Tax Abatement applicants: An application for eligible facilities located in an area designated for property tax abatement and resulting in a minimum added value of \$500,000 in real and business personal property (excluding inventory and supplies).
 2. Enterprise Zone, a zone not more than a 10 square mile area in distress of high unemployment, deteriorating buildings, substantial loss of businesses or jobs: Eligible facilities located in the Kerrville Enterprise Zone resulting in a minimum added value of \$100,000 in real and business property (excluding inventory and supplies).
 3. Main Street District: Eligible facilities located in downtown Kerrville resulting in a minimum added value of \$50,000 in real and business personal property (excluding inventory and supplies).
 4. Airport Development Area: Eligible facilities located within the aviation and non-aviation areas of the Kerrville – Kerr County Municipal Airport resulting in a minimum added value of \$300,000 in real and business personal property including inventory.

Suggested Scoring Formula – Maximum score of 30 points

One point is scored for each \$200,000 increase in value in real and personal business or commercial property included in project (rounded to nearest \$100,000). Total scoring of 30 points with a maximum 15 points for capital.

One point is scored for each ten permanent full-time qualified employees compensated 50% or more of the difference between local and State of Texas most recent published covered wage hired within twelve months of project completion. Qualified employees are those receiving access to benefits via the employer, i.e. medical, vacation, etc. and work not less than 2000 hours per year. For business expansions where additional jobs are created at an existing business, points may be awarded for new employees from one point up to a maximum of 10 points.

One point is scored for each \$25,000 invested by the company in work force training within the first twelve months of the project. Up to a maximum of 5 points can be earned.

The total point value will be tallied for each application. In order for a project to be considered, a minimum of 10 points must be scored. Applications scoring 10 points or above will be evaluated and processed for a recommendation. Applications scoring less than 10 points will be returned to the applicant with an explanation of deficiencies. Tax abatement schedules are as follows:

- Business expansions: 11-15 points scored qualifies for 5 year abated schedule; 16-30 points scored qualifies for 7 year abated schedule
- New businesses: 11-18 points scored qualifies for 5 year abated schedule; 19-24 points scored qualifies for 7 year abated schedule; 25-30 points maximum schedule (see examples)

Incentive Tools

Local

Tax abatements

Property tax abated for a set period of years depending on reinvestment zone location of project and associated thresholds

4B Sales Tax for Economic Development

1. Business development for expansions or relocations for building assistance, workforce development, job training, relocation expenses.
2. Infrastructure partnerships agreement to share infrastructure costs as utilities, street development.

Lease abatements

Publicly owned building or ground lease relief on the front end of an expansion.

Land exchange

Publicly owned property used in partnership with developer in exchange for economic impact to tax, property values.

Low Interest Loan Pools

Partnering with local financial institutions for lower interest rates for improvements or start-ups (KMS district established in 1995).

Hotel/Motel Tax

Use for lawful economic development activities within the HOT categories of tourism.

Residential Development[^]

Property set asides for workforce housing programs in return for infrastructure improvements.

Workforce Housing Projects

Per unit grant or credit for new construction or rehabilitation of existing structures.

Waiver of fees

Relief from building, tap, recovery, etc. fees to lessen upfront expenses.

State

Tax Increment Financing*

Finance infrastructure improvements repaid by future tax revenues, freezes tax value, utilizes incremental future value to fund improvements.

Section 380 grants

Sales tax rebate to relocating or expanding business based on increase sales tax base with a net growth impact.

Freeport Exemption	Allows property tax exemptions for goods for 175 days or less (Adopted March 1990).
Public Improvement District*	Partnership with developer for infrastructure improvements with an assessment return.
Texas Capital Fund Grant*	<ol style="list-style-type: none"> 1. Infrastructure Funds up to \$750k for a specific infrastructure project 2. Real Estate Up to \$750k for acquisition, construction or rehabilitation of property for business development 3. Main Street Funds up to \$150k for Main Street district infrastructure improvements
Go Texan*	Dollar for dollar matching fund for small business with Texas agriculture products
Texas Enterprise Fund*	Funds from the Governor's Office for Economic Development for out of state business development
Texas Leverage Fund*	Loans to businesses using 4B sales tax funds
Linked Deposit Program*	Loans to historically utilized businesses in an enterprise zone
Texas IRB program*	Industrial revenue bond program providing taxable and non-taxable bond financing for land for industrial or manufacturing projects
Texas Enterprise Zone*	A designated area representing a 20% or higher poverty rate eligible for economic development activities; area must be approved by the State
<u>Federal</u> Foreign Trade Zone**	Designated area to assist international trade related activities whereby duty payment is deferred.

* Program requires appropriate local legislation within State of Texas guidelines

**Requires approval at the federal level

^ Developments not in the workforce housing category

Clawbacks and Performance criteria

Each project applicant should anticipate certain clawback provisions in a funding agreement between the applicant, the City of Kerrville and/or Kerr County depending on the level of participation of the public funding. Determined on a case by case basis, projects will be evaluated on property value increases and jobs created above the current average wage. A timeline of performance criteria will be agreed upon whereby a claw back will be charged to the applicant if performance measures are not met. An industry standard return on investment to the City of Kerrville and Kerr County is expected in five to seven years. Again, each project must be in compliance with legal requirements.

PROPERTY TAX ABATEMENT SCHEDULE
FOR City of Kerrville, City of Ingram, Kerr County

Tax abatement shall be authorized for industrial facilities and commercial facilities. All other types of facilities shall be ineligible. Abatement shall extend to the value of buildings structures, fixed machinery and equipment, site improvements plus office space and related fixed improvements necessary to the operation and administration of the facility. However, land, inventories, supplies, tools, furnishings and other forms of movable personal property shall be ineligible. Abatement incentives in most cases will not exceed seven years.

Eligibility requirements for tax abatements have a minimum capital investment of \$500,000.00 for expansion/retention of existing businesses and a minimum of \$750,000.00 for new business development. The Economic Development Strategic Incentive Committee has the authority to review all incentive applications and modify incentives at their discretion. All eligible applications will be reviewed by the committee with either a recommendation for business incentives to economic partners or comments on why the application did not apply. Scoring weights for capital investment will be a maximum of 50% of the total score. Wage and workforce will have a combined score maximum of 50% of the total score.

Expansion of Existing Businesses

- Minimum capital investment to apply \$ 500,000.00 (Existing businesses may receive up to 10 points in scoring system for minimum capital investment for expansion of business)

Maximum incentive from tax abatement requires a capital investment of \$ 3,000,000.00. Maximum capital investment score of 15 points.

<u>Maximum Capital Investment</u>	<u>% of Abatement</u>	<u>Year of Abatement</u>
\$ 3,000,000.00	50%	1-2
	40%	3-4
	30%	5
	20%	6
	10%	7

New Business Development

- Minimum capital investment to apply \$ 750,000.00

Maximum incentive from tax abatement requires a capital investment of \$ 3,250,000.00
Maximum capital investment score of 15 points..

<u>Maximum Capital Investment</u> <u>Abatement</u>	<u>% of Abatement</u>	<u>Year of</u>
\$ 3,250,000.00	50%	1-2
	40%	3-4
	30%	5
	20%	6
	10%	7

2007 Tax rate per \$ 100.00 valuation

- .5500 City of Kerrville
- .3896 Kerr County
- .3285 City of Ingram
- K.I.S.D. (not applicable)

Tax Abatement example for an expansion/retention of existing business

Business data on current status of existing business in Kerrville includes the following:

1. Business owners own 4 acres of land and current facility is 7,500 square ft.
2. Company employs 15 with an average employee wage of \$ 12.00 per hour or a annual salary of \$ 25,000.00.
3. Company offers medical coverage to employees

The XYZ Company has requested for tax abatements to expand their company in the Kerrville/Kerr County community. XYZ has completed the application for economic incentives and provided the following expansion plans for scoring their request.

1. Company wants to expand current site with an additional 12,500 sq. ft. building.
2. Company will add an additional 20 employees to business with an increase of wages to all employees of \$ 14.00 per hour or an annual salary of \$ 29,120.00.
3. Company offers medical coverage to all employees.
4. If company can expand operation in Kerrville one potential supplier company may relocate to the Kerrville/Kerr County community.
5. XYZ Company will invest \$ 25,000.00 for workforce training for employees.

Review of Expansion of XYZ Company and potential tax abatement incentives offered to company

12,500 sq. ft (built on assumption \$ 125.00 per sq. ft.) \$ 1,562,500.00

Additional Payroll to local economy \$ 582,400

Employee Health Insurance provided by company

Economic Incentive Committee would then evaluate and use the suggested scoring formula to grade and make recommendations for this project. This project would be scored as the following:

<u>XYZ Company Expansion Project</u>	<u>Incentive Score</u>
Capital Investment and new improvements (12,500 sq. ft.) \$ 1,562,500.00	12 pts
New jobs created (20) average annual salary of \$ 29,120.00; benefits include Medical coverage for all employees. Company invests \$ 25,000.00 dollars for workforce development.	3 pt
Other project considerations (potential attraction of Supplier Company); Incentive committee could recommend to ABC that abatement may be reviewed depending on economic impact of potential supplier company for community.	
Total Points Scored for abatement incentive	15 pts

Incentive committee could make the following recommendation for the XYZ Expansion Project.

<u>Capital Investment Pts. Scored</u>	<u>% of Abatement</u>	<u>Year of Abatement</u>
15	40%	1-2
	30%	3
	20%	4
	10%	5

Total Tax Created by Business Expansion Annually

City of Kerrville	\$ 8,594.00
Kerr County	\$ 6,088.00

City of Kerrville Tax Abatement incentive for XYZ Company Expansion

Year	1	2	3	4	5
	3,427	3,427	2,578	1,719	860

Total new tax revenue created	\$ 42,970.00
Abatement Incentive (5 years)	\$ 12,011.00
City of Kerrville new tax revenue	\$ 30,959.00

Kerr County Tax Abatement incentive for XYZ Company Expansion

Year	1	2	3	4	5
	2,435	2,435	1,826	1,218	609

Total new tax revenue created	\$ 30,438.00
Abatement Incentive	\$ 8,523.00
Kerr County new tax revenue	\$ 21,915.00

Tax abatement example for a new business development

The Icabad Crane Company has requested tax abatements to develop their new retail location in the Kerrville/Kerr County community. Crane has completed the application for economic incentives and has provided the following business data for scoring their incentive request.

1. Company has acquired 35 acres at intersection two major highways with high volume traffic count per day. Company purchased Agriculture exempt property for \$ 2 million dollars for new development.
2. Crane Company store will be 95,000 sq. ft. which the company has secured construction cost for \$ 40.00 per sq. ft.
3. Company will employ a total of 120 employees; five percent or 6 employees will be management and have annual salary of \$ 50,000.00; 40 percent of 46 employees will be full time with an average wage of \$ 10.00 per hour or \$ 21,000.00 annually however, company does provide medical coverage to full time employees; 68 part time employees with average wage of \$ 10.00 per hour.
4. Crane Company wants to be involved in community activities with economic partners.

New Business Development for Crane Company and potential tax abatement incentives offered to company.

95,000 sq. ft. (built at \$ 40.00 per sq. ft.) \$ 3,800,000.00

Additional Full time payroll to local economy \$ 1,266,000.00;
FT employees received health insurance coverage

Economic Incentive Committee would then evaluate and used the suggested scoring formula to grade and make recommendations for this project. This project would be scored as the following:

<u>Crane Company Business Development</u>	<u>Incentive Score</u>
Capital Investment \$ 3,800,000.00	15
New jobs created 120; only 5 % of jobs have higher wage and Company benefits, 40% of jobs are full time with health insurance Coverage with a total salary package that meets the current min. wages In Kerrville/Kerr County; addition of 68 part time jobs with no benefits	
Total Points scored for abatement incentive	15 pts.

Incentive committee could make the following recommendation for the Crane Company Business Development.

<u>Capital Investment Pts. Scored</u>	<u>% of Abatement</u>	<u>Year of Abatement</u>
15	40%	1-2
	30%	3
	20%	4
	10%	5

Total Tax Created by new business development annually

City of Kerrville	\$ 20,900
Kerr County	\$ 14,805

City of Kerrville tax abatement incentive for Crane Company Business Development

Year	1	2	3	4	5
	8,360	8,360	6,270	4,180	2,090

Total new tax revenue created	\$ 104,500.00
Abatement Incentive (5 years)	\$ 29,260.00
City of Kerrville new tax revenue	\$ 75,240.00

Kerr County Tax Abatement incentive for Crane Company Business Development

Year	1	2	3	4	5
	5,922	5,922	4,442	2,961	1,481

Total new tax revenue created	\$ 74,025.00
Abatement Incentive	\$ 20,728.00
Kerr County new tax revenue	\$ 53,297.00

Incentive Committee makes recommendation to appropriate governmental body.

Initial Response Team Evaluation

Members of the Incentive Committee will serve on Initial Response Teams within the committee to evaluate projects and make recommendations to the Committee. Ultimately, a final recommendation will be made to the Kerrville City Council, Ingram City Council and/or the Kerr County Commissioners. The Teams will be positioned according to the geographic location of the project. Some team members may serve on more than one team. Suggested positions are as follows:

- Citywide reinvestment zone: City Manager, KEDF President, KACOC President, Community Representative 1, EIC President
- Kerrville enterprise zone: City Manager, KEDF President, Community Representative 2, EIC President
- Main Street District: City Manager, KEDF President, KACOC President, Community Representative 3
- Airport area: County Judge, Community Representative 1
- Kerr County: County Judge, Community Representative 2
- City of Ingram: Mayor of Ingram, Community Representative 3

A realistic time line for evaluation and processing will be shared with each applicant. To that end, the process would be:

1. Application is received by KEDF or BP of COK and forwarded to
2. Initial Response Team assigned, who will then
3. Make a recommendation to the Incentive Committee, who will
4. Make a recommendation to the appropriate approving entities

The applicant will be contacted:

- for additional information if an application is deemed eligible, but more information is needed, or
- if application is complete and eligible for consideration or
- if the application is ineligible

Applicable incentive tools will be determined for each project, whether new or existing, during the evaluation process containing the required documentation from the applicant. (ROI, cost/benefit analysis, opportunity cost analysis).

Roles

Community Representatives serving on the Incentive Committee have a role of providing guidance for decision making concerning projects presented for consideration.

Kerrville Area Chamber of Commerce - Is to have input for policy decisions affecting the business community and the protection and cultivation of business base by growing their membership.

Kerr Economic Development Foundation - Is to market the Kerrville area as a business friendly community encouraging existing business growth and facilitating new business opportunities.

Kerrville Convention and Visitors Bureau - Is to promote tourism activities to enhance the hotel occupancy tax revenues while creating a repeat destination experience for the traveling population.

City of Kerrville - Facilitate policy making activities; carry out development packaging initiatives for the City of Kerrville in cooperation with industry partners, local economic developments partners, and business community. Additionally, manage the tax base through realistic methodology of determining a positive return on investment of resource.

Kerr County - Kerr County Commissioners' role is to consider and act upon recommendations from the Incentive Committee.

City of Kerrville - City Council's role is to consider and act upon recommendations from the Incentive Committee.

City of Ingram - Ingram City Council's role is to consider and act upon recommendations from the Incentive Committee.

Economic Improvement Corporation - role is to hear presentations and act upon recommendations from the IRT and Incentive Committee.

Deliverables

Members of the Incentives Committee agree to have open communication with each other concerning every project or potential project under consideration in confidence. IRTs will follow in the same commitment ensuring consistencies in all discussions. Collectively, the Committee evaluates the process on an annual basis during a scheduled meeting of the entire group. The IRTs will meet only when a project is presented specifically for the assigned team and make a recommendation to the Incentive Committee within 15 working days of receipt of the application. The Incentive Committee will meet quarterly and when called together by an IRT.

Application

Section I – Contact Information

Date_____

Company Name_____

Contact_____

Address_____

Telephone (0)_____ Cell_____

Fax_____ E-mail_____

Website_____

Section II – Business Profile

Nature of business_____

New business or expansion of existing business_____

Years in Business_____ Current number of employees_____ FT_____ PT

Annual payroll_____

Current square footage occupied_____

Desired square footage occupied_____

Taxing entities (check applicable)

___ Kerr County ___ City of Kerrville ___ City of Ingram

___ Kerrville ISD ___ Ingram ISD ___ Center Point ISD

Financial Information: Five Years Annual Financials Attached _____

Include: Statement of profit and loss; Balance sheet; Cash
Flow Statement; IRS reporting forms, proforma

Has the Company applied for any State or Federal assistance on this project?

No ___ Yes _____. If yes, please describe.

Section III – Project Description

Expansion of existing business _____ or new construction _____

Project details including building size, materials, infrastructure needs, utilities, etc. Detail parking needs, technology infrastructure, anticipated construction costs and time line. Attach additional sheet if necessary

Current inventory value _____

Projected value w/i year 1 _____ year 3 _____ year 5 _____

Section IV -- Employees

Anticipated number of new employees _____

Median annual salary for new employees' _____

Average wage for employees: _____ Management _____ Non-supervisory

Description of benefits offered _____

Number of Full time _____ Part time _____ employees

Anticipated number of new employees moving to Kerr County _____

New employees within 12 months of project completion _____ within 24 months of project completion _____

\$ _____
FTE X Avg. Wage X 40 hrs X 52 wks

\$ _____
PTE X Avg. Wage X 20 hrs X 52 wks

For additional information visit www.kerredf.org or www.kerrville.org or
call 830.792.8343 or 830.896.1157

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Internal Routing

Date received _____ by _____

Initial Response Team assignment _____

Application distribution date _____

IRT Review meeting date _____

Recommendation _____

Consideration schedule _____ COK _____ KC _____ COI

Contact Information

City of Kerrville
800 Junction Highway
Kerrville, Texas 78028
830. 257.8000

www.kerrvilletx.gov

Kerr Economic Development Foundation
1700 Sidney Baker
Kerrville, Texas 78028

830.896.1157

www.kerredf.org