CITY OF EL PASO, TEXAS
AGENDA ITEM
DEPARTMENT HEAD'S SUMMARY FORM

DEPARTMENT: **Planning and Economic Development**

AGENDA DATE: **May 31, 2011**

CONTACT PERSON/PHONE: **Ernesto Gamboa, Deputy Director 541-4670**

DISTRICT(S) AFFECTED: **All**

SUBJECT:
Discussion and action that the City Manager be authorized sign a Resolution to approve the creation of the City of El Paso Economic Development Incentive Policy for Targeted Growth and Investment for the purpose of achieving economic growth and development, wage growth, expanding and diversifying the tax base and creating new quality jobs within the City of El Paso.
[Planning and Economic Development, Ernesto Gamboa, (915) 541-4670]

BACKGROUND / DISCUSSION:
The purpose of this policy is to develop a sustainable life sciences campus and cluster in the Medical Center of the Americas (MCA) area of El Paso, remove non-competitive barriers, and create the infrastructure and environment to create, attract and retain jobs in the target industries clusters. The City of El Paso, through the implementation of this policy, shall endeavor to accomplish the following strategic objectives: provide assistance to the MCA Foundation and other key stakeholders in creating a life sciences campus and cluster; assist the creation, expansion, and attraction of life sciences companies that will make significant investment of payroll, capital and human resources in the community; assist the creation, expansion, and attraction of other target industry companies that will make significant investment of payroll, capital, and human resources in the community; establish a 'deal closure fund' to assist in removing non-competitive barriers; and other economic development purposes as reasonably determined by the City of El Paso. The funds available to achieve these strategic objectives come from El Paso Electric Franchise Fee Increase approved in 2010 for economic development purposes. Project proposals will be considered on a case-by-case basis and awarded by City Council. City Council will determine percentages to be set aside for specific target categories. Those percentages may be adjusted periodically based on current market and economic conditions or for some extraordinary economic opportunity.

PRIOR COUNCIL ACTION:
On May 3, 2011, City Council unanimously carried to postpone the item four weeks.

AMOUNT AND SOURCE OF FUNDING:
Approximately $4.5 M; restricted fund as described in Ordinance 17460.

BOARD / COMMISSION ACTION:
On April 7, 2011 the Economic Development, Planning and Tourism LRC approved bringing this item forward to City Council.

*******************REQUIRED AUTHORIZATION********************

DEPARTMENT HEAD: ______________________
Department Head

RESOLUTION

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL PASO:

That the City Council approve the creation of the "City of El Paso Economic Development Incentive Policy for Targeted Growth and Investment" for the purpose of achieving economic growth and development, wage growth, expanding and diversifying the tax base and creating new quality jobs within the City of El Paso, with the policy being attached hereto as Exhibit "A".

APPROVED this the _______ day of _________, 2011.

THE CITY OF EL PASO

____
John F. Cook
Mayor

ATTEST:

____
Richarda Duffy Momsen
City Clerk

APPROVED AS TO FORM:

____
Marie A. Taylor
Assistant City Attorney

APPROVED AS TO CONTENT:

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Ernesto Gamboa, Deputy Director
Planning and Economic Development

EXHIBIT A

City of El Paso Economic Development Incentive Policy "Impact Fund"

SECTION I. PURPOSE

The purpose of this policy is to create, attract and retain high-wage jobs in El Paso, by providing incentives to selected projects, including private businesses that will make a **measurable** difference in achieving economic growth and development, wage growth, expanding and diversifying the tax base and creating new quality jobs within the City of El Paso.

SECTION II. STRATEGIC OBJECTIVES, SOURCE OF FUNDS and DEFINITIONS

The City of El Paso, through the implementation of this policy, shall endeavor to accomplish the following strategic objectives:

1. Provide assistance to the MCA Foundation and other key stakeholders in order to create one or more life sciences campuses in the City of El Paso.
2. Provide capacity building support to enable UTEP to become a tier one University.
3. Establish a 'deal closing fund' to assist in the creation, expansion, and attraction of companies that will make significant investment s in capital and human resources, and/or may help improve the electric system load factor.
4. Support entrepreneurship and innovation economic development strategies to create and assist technology-based and/or high growth, scalable businesses.
5. Other economic development purposes as reasonably determined by the City of El Paso

The available resources provided to the Impact Fund are derived from an incremental increase (0.75%) in the El Paso Electric Company franchise fee paid to the City of El Paso, as approved in 2010. Project proposals will be considered on a case-by-case basis and awarded by City Council. City Council may determine percentages to be set aside for specific priority categories outlined in this policy, and may be periodically adjust such percentages, if any, based on current market and economic conditions or to pursue an extraordinary economic opportunity.

Projects which do not leverage proceeds from this fund with other non-city resources will not be given consideration.

The City of El Paso is under no obligation to approve any requested incentive and no right to these incentives is either intended or implied.

Definitions

Capital Investment – Expenditures made by an organization, including those made on capital improvements, equipment, and personal property (furniture and fixtures). For the purpose of calculating incentives, investment does not include real property acquisition or value of inventory.

Cluster – A concentration of interconnected companies, specialized suppliers, service providers, and associated institutions in a particular field that are/will become present in the El Paso region.

Full-time employees – Employees working at least 35 hours per week and eligible to receive health benefits.

High Energy User – A company whose electricity demand is 800 kW or more, with a projected load factor (in excess of in excess of the last reported annual load factor 70%). A high-load factor customer can be defined as any customer that operates at a level significantly in excess of El Paso Electric Company's system load factor and/or using power in off-peak periods.

Payroll – The total salaries, excluding benefits, paid to full-time employees in any given year.

Qualifying Project – A qualifying Project is one in which more than **50% of all jobs** at the company or organization's El Paso location **pays 110% of the El Paso Median County Wage (MCW) and is engaged in a targeted Industry.** In addition, the overall average wage must be above the County Median Wage, and the company must pay for a minimum of 50% of the employees' health care benefit.

Target Area – An area identified by City Council as having strategic economic development value. Current Target Areas are the Downtown 2015 Plan Area, Medical Center of the Americas Plan Area, Rapid Transit System (RTS) corridors, other designated Redevelopment Zones, and airport research and technology park.

Target Industries – Industry segments that have been identified as top priority for the community., Current Target Industries include Defense/ Homeland Security, Life Sciences, Automotive, Clean Technologies and Advanced Manufacturing.

Transformational Technologies – Technological innovations that radically transform a product or service in ways that the marked does not expect, typically by lowering price, improving technology performance and usability, and/or displacing an existing technology.

SECTION III. Medical Center of the Americas

The City of El Paso considers activities related to the growth and development of the Medical Center of the Americas campus as a top priority for funding. The City may designate that a portion of the annual Impact Fund allocation for use in one or more of the following areas:

1. Creation of a ‘research superiority endowment to attract qualified researchers to the region.
2. Creation of a ‘research and technology commercialization institute’ that will be housed in the MCA Foundation research facility.
3. Acquisition by the City of real property in and around the MCA area to assure land availability as the health sciences/research center expands.
4. Assist in the development of one or more MCA Research Buildings and/or Research Park.
5. Attraction of life sciences companies to the MCA area or expansion within the MCA area

SECTION IV. QUALITY JOBS AND INVESTMENT GRANTS

Other projects will be considered on a case by case basis depending on funding availability. An economic impact analysis will be conducted by the Economic Development Division on every project considered for incentives. The delivery mechanism of choice for incentives will be the Chapter 380 agreement; however, the City reserves the right to use any other source (City, State, Federal, Foundation, etc.) in the award of incentives. The City may at its discretion establish separate advisory review panels to evaluate and comment on specific proposals depending on technical aspect of the submission.

Agreements may be conditioned on the completion of specific improvements to real property and/or job numbers and salaries levels being met. The Agreements shall contain recapture clauses in the event that such conditions are not met. Grant contracts are available for five years. Projects showing extraordinary benefit may be eligible for grants for a maximum of 10 years. All grants are subject to fund availability.

In order to be eligible under this section, a company must first establish eligibility by meeting the definition of a qualified project. Only targeted businesses are eligible for the jobs and investment grants. All grant payments may be subject to recapture if contract terms are not met.

All projects meeting qualifying criteria will be scored. Since funds are limited, not all projects that qualify will receive funding. Grants will be awarded at the sole discretion of City Council; however, projects scoring above 200 points have a much better chance of being funded.

<u>Scoring Criteria</u>

All qualifying projects will be evaluated and scored on the following criteria:

# of Jobs
Quality of Jobs (% of jobs above MCW)
Benefits Package
Capital Investment
Non-city funds leverage
Technological Innovation
Electric Profile
Renewable Energy use or device manufacturer
Energy provider using Renewable Energy resources
Location in a target area
National or Regional Headquarters or Research & Development presence
Adherence to Green environmental/sustainability principles
Education Benefits
Training opportunities & programs
Projects which propose to fund collaborative research with institutions of higher education

<u>Amount of Grant</u>

The yearly grant amount will be derived by a simple formula and expressed as follows:

*Basic Grant = (Yearly Payroll + Investment) * .0025 * score (expressed as %)*

SECTION V. ENTREPRENEURSHIP AND INNOVATION DEVELOPMENT

The City of El Paso may, at City Council discretion, set aside a specific annual allocation from the Impact Fund or choose to fund other activities in support of the development of Target Industry Clusters. Such uses include but are not limited to:

1. Business incubation or acceleration in Target Industries
2. Proof of concept activities
3. Technology testing and evaluation centers

Applicants will be required to provide the following information to the City:

- Organizational structure
- Business and / or operational plan
- Technological and business background of executives and other key personnel
- Performance metrics relating to jobs, wages and capital investment
- Scientific and market validity of technology
- Transition to commercialization and self-sufficient operation creating Qualifying Jobs in the local market.

Technologies must have been reviewed by City staff and a technology development entity or private service provider (Innovate El Paso, BNSL, etc.) and at least one of the following groups: university personnel, private capital source (angel group, venture capitalist, etc),.

SECTION VI. APPLICATION

Applications must be made through the City of El Paso's Planning and Economic Development Department.

SECTION VII. TERM OF INCENTIVES

These guidelines and criteria shall apply upon adoption by resolution of City Council and shall remain in effect thru term of franchise fee and may be reviewed and revised periodically to assure impact and effective performance.

Alternative Language Changes Proposed by REDCO

On Page 3:

SECTION IV. QUALITY JOBS AND INVESTMENT GRANTS

In order for a project to receive an incentive from the Impact Fund, the applicant must establish eligibility by meeting the definition of a “Qualifying Project” as defined previously in this policy. To assist the City in making this determination, the applicant must provide credible information to the City, including but not limited to capital investment, employment projections, proposed wages, employee benefits and electric utilization profile. Such information will enable the City to prepare a fiscal impact analysis that will be used in determining the amount of an award, if any, from the Impact Fund. A recipient of an Impact Fund award will be required to provide the City with annual updates of this information after business operations or project development has begun. The City reserves the right to use this and/or any other source (City, State, Federal, Foundation, etc.) in the award of incentives.

The City Council may at its discretion establish separate advisory review panels to evaluate and comment on specific proposals depending on technical aspect of the submission.

Agreements may be conditioned on the completion of specific improvements to real property and/or job numbers and salaries levels being achieved. The Agreements shall contain recapture clauses in the event that such conditions are not met by the recipient. Grant contracts are typically available for up to five years, however, projects which exhibit extraordinary benefit, may be eligible for grants up to a maximum of 10 years. All grants are subject to fund availability.

All projects meeting the “qualifying project” criteria will be scored to measure the proposed project’s performance against the strategic objectives established in this policy. Grants will be awarded at the sole discretion of City Council, however, project scores will strongly influence the level of incentives awarded by Council.

<u>Scoring Criteria</u>

All Qualifying Projects will be evaluated and scored on the following criteria:

- Target Industry
- Total number of jobs and Qualifying Jobs
- Wages in comparison to the established wage requirements of a “Qualifying Project”
- Employee Benefits Package
- Investment

- Technological Innovation (see Transformational Technologies in "Definitions")
- Electric Usage Profile (including demand, consumption and load factor)
- Location in a Target Area (Inclusion of a headquarters and/or Research & Development operation
- Adoption of/adherence to LEED or equivalent green environmental/sustainability principles, including integration of renewable energy in facility operations
- Training opportunities & programs

Amount of Grant

Companies that meet the aforementioned criteria, will be eligible for a basic grant amount, calculated as follows:
*Basic Grant = (Yearly Payroll + Investment) * .0025*

An additional grant amount may be awarded based on the project's score in relation to a baseline threshold score.

Economic Development Impact Policy
Outstanding Policy Issues to be determined by City Council

The following is a list of policy questions which require City Council direction/action in order to finalize the policy. Several represent points of disagreement among some of the committee participants or interested stakeholders. Others are decisions the committee left to the determination of the full City Council.

- Specific set asides for MCA area or other categories vs. an open competition for funds by all parties. (This is a point of disagreement among some stakeholder groups.)

- How do we specifically address UTEP in reference to being a priority or target cluster? (I think this is Dr. Natalicio's concern but will know more after my meeting with her late this afternoon.)

- Targeted industry cluster development or general job/wealth creation regardless of industry type (Staff believes this is addressed in the latest draft with the caveat that a higher median wage threshold would be set for a non-cluster project if it's to be given consideration.)

- Is the present wage rate definition sufficiently aggressive enough to limit this Impact Fund only to those projects and proposals that will provide jobs dramatically above the current county median wage? Or do we establish a baseline and raise it annually or periodically to force an upward wage movement expectation, without setting the bar too high at the outset causing us to reject otherwise worthy projects?

- Does Council also want to establish a specific set aside in the fund for innovation/entrepreneurism, or address on a project-by-project basis based on fund availability?

- Should there be any specific reference to small business assistance (removed from the latest draft based on feedback that resources and sources are already available for this purpose. We can revisit this issue later as we evaluate the policy's performance and effectiveness over time, if some identified need emerges that's not covered by resources or programs elsewhere.)

- A desire on the part of some to create a separate advisory review panel to oversee the fund and vet projects – which I recommend against for several reasons. (1) If formally established by Council it sets up a whole different bureaucracy requiring open meetings, etc, plus issues with ORR requests for proposals under review which could be proprietary. (2) The ED/CMO staffs are competent enough to evaluate these and can always assemble an ad hoc technical review panel for certain proposals if need be. (3) The section on innovation requires a peer review prior to submittal for consideration. (4) The MCA has a fully developed concept that would be approved in advance and the funding would be used as leverage to help implement the plan concepts. (5) The LRC process has worked well up until now to vet projects so there is no compelling need to change. (6) It would be difficult to find panel members who don't have a preference for the use of monies and an inclination (even unintentional) to want to fund their preferences over other worthy projects, as witnessed by the competing perspectives and differences relating to the policy itself.

The University of Texas at El Paso

Franchise Fee Participation

May 23, 2011

The University of Texas at El Paso seeks to participate in the distribution of the City of El Paso's Franchise Fee funds to support and leverage its activities that are consistent with the City's economic development, targeted growth and investment goals. Such participation would be consistent with that provided by other Texas municipalities to Emerging Research Universities in their regions and would demonstrate clearly that the City of El Paso is fully supportive of UTEP's efforts to become a national research—or Tier One—university. In San Antonio, for example, the City has strongly endorsed UTSA's efforts to reach Tier One status by supporting its Texas Sustainable Energy Research Institute through a 10-year, $50 million agreement between UTSA and the city-owned utility (CPS Energy). With this investment, UTSA is now very well positioned to attract top-quality talent to San Antonio and build its reputation as a world-class leader in the area of green energy research.

A similar investment at UTEP would leverage economies of scale, scope and learning provided by past, current and future research work on the campus and would tap into an emerging workforce of graduate, especially doctoral, students. Such highly trained and skilled talent, which is not available at any other institution in the City, is required by new companies in the priority industries targeted for economic growth (e.g., energy, biosciences, computer sciences, engineering).

<u>UTEP Research and Impact on Economic Development</u>

UTEP's annual research expenditures rose to more than $66 million in FY2010, with an estimated impact on the Paso del Norte region's economy of $112 million; at the current growth rate, that impact is expected to exceed well over half a billion dollars over the next five years. UTEP's research growth has been the result of more than $300 million in externally funded infrastructure investments on the campus which have greatly increased UTEP's capacity to recruit and retain faculty members who not only serve as outstanding teachers and mentors for students, but also conduct nationally competitive research and develop intellectual property with commercialization potential. Furthermore, among UTEP's priorities is aligning its research and development activity with the unique characteristics, needs and opportunities present in the Paso del Norte region, and increasing its successful commercialization.

- An example of such alignment was UTEP 's success in securing support from the Texas Emerging Technology Fund (TETF), which was leveraged with institutional, federal, and industry funds. In January 2009, with a $2 million investment from the TETF, matched by UTEP, the University of Texas System, industry, federal agencies, and El Paso Water Utilities, UTEP created the Center for Inland Desalination Systems (CIDS) to recruit a world-class team of researchers led by Dr. Thomas A. Davis to focus on research and commercialization efforts to mine brine concentrate produced during desalination processes, to develop small-scale portable desalination equipment for remote locations, and to prototype processes that maximize energy and water production efficiencies.

- In September of 2010, UTEP secured another TETF research superiority award for $3 million to establish the Structural and Printed Emerging Technologies Center (SPEC) with the recruitment of Dr. Kenneth Church and his team to conduct world-class research and development of integrated 3D systems technologies for use in the aerospace and defense industries. Leveraged with institutional and industry matching funds, SPEC will expand existing world-class rapid-prototyping or additive manufacturing technology at UTEP's W.M. Keck Center for 3D Innovation to meet a set of TETF's milestones that include technology commercialization, the creation of start-up companies and job creation. UTEP recently received a stellar review from TETF for exceeding these milestones.

And most importantly, both CIDS and SPEC initiatives are not only contributing to the Paso de Norte region's economic development, but also supporting UTEP's quest to become a national research—or Tier One—university.

As it advances toward Tier One, UTEP continues to focus on the strategic recruitment of world-class faculty who will be instrumental in the formation of multidisciplinary research teams that will generate competitive proposals for major externally funded initiatives. For example, UTEP recently recruited to the endowed Robert A. Welch Chair in Chemistry Dr. Luis Echegoyen, who is internationally renowned for his research in the area of supramolecular materials chemistry and specifically carbon nanoparticles with applications in solar energy conversion by means of organic photovoltaic materials. Dr. Echegoyen brought his entire research team from Clemson University to UTEP where they will continue their highly successful work.

UTEP's Infrastructure Support for Commercialization and Entrepreneurship

To stimulate innovation, unify campus initiatives, and create a central identity for entrepreneurship, technology transfer, and commercialization, UTEP established the Center for Research Entrepreneurship and Innovative Enterprises (CREIE) in 2009 to guide research faculty and entrepreneurs in strategies to move their scientific advances or inventions into the marketplace. CREIE's staff provides consulting, coaching, training and networking services in such areas as: 1) best-in-class innovation practices; 2) technology, intellectual property, patent and licensing strategies; 3) market research, business strategy and plan development; 4) company formation, organization structures and capitalization strategies; and 5) incubation. CREIE's recent contributions to economic development have included partnering with six other organizations to establish a Technology Incubator for the Paso del Norte region, and securing funding through the Texas State Energy Conservation Office (SECO) to house Clean Energy related companies in the Incubator. CREIE has also drawn on UTEP faculty's intellectual property to license energy-based technology to a large private company in Texas and is currently negotiating licenses for three biomedical, one aerospace, and one clean energy technology, and has worked with faculty and entrepreneurs in the community to secure financing for four start-up companies from the Commercialization Program of the TETF.

UTEP proposes to use Franchise Fee funding to:

- Recruit world-class faculty and researchers to provide leadership in priority science, engineering and technology areas aligned with the unique characteristics, needs and opportunities of the Paso del Norte region.
- Underwrite a portion of the start-up costs to compete for recruited faculty, including equipment, facilities renovation and software.
- Fund pilot-scale research activities to secure sufficient preliminary data to support innovative technical approaches.
- Fund proof-of-concept prototypes and demonstrators.
- Engage external consultant services for regional innovation activities when the required expertise is not available at UTEP.
- Develop a culture of innovation among graduate and undergraduate students by fostering their participation in innovation and incubation activities.
- Offer innovation and entrepreneurship seminars through CREIE to increase contact between regional innovators and entrepreneurs and prominent national leaders and subject matter experts.

Conclusion

Franchise Fee funding would enable The University of Texas at El Paso to leverage its ongoing capacity-building efforts and expand its role in regional economic development, consistent with the targeted growth and investment goals of the City of El Paso, and to compete successfully with other Texas Emerging Research Universities by demonstrating that it has the City's strong support as it seeks to become a national research—or Tier One—university.