

BUSINESS INCENTIVES IN DEER PARK, TEXAS

Businesses may apply for a variety of incentives offered by the City of Deer Park, Harris County and the State of Texas. A business is usually required to meet a particular threshold for capital investment and/or job creation in order to be considered for the incentives.

TAX ABATEMENT – CITY OF DEER PARK

If your project meets these thresholds, simply call for an application. Each case is considered by City Council and variances may be requested.

For manufacturing, regional distribution, regional service, research, research & development and other basic industry projects: The City abatement policy requires a minimum of \$5,000,000 capital investment and the retention or creation of 50 permanent jobs (job requirement takes effect three years after the effective date and continues through the remaining term of the agreement).

For retail & regional entertainment: The City abatement policy requires a minimum of \$5,000,000 capital investment. Minimum job creation will be determined by City Council based on the economic impact of the proposed project. Facility size must be at least 5,000 square feet.

For Restaurants Only: The City abatement policy requires a minimum of \$2,000,000 capital investment and the retention or creation of 20 permanent jobs. Facility size must be between 5,000 - 50,000 square feet.

The term of the abatement is 10 years. The City tax rate is \$0.72 per \$100 assessed value. Please contact the City for more information by calling (281) 478-2042.

CHAPTER 380/MUNICIPAL GRANT PROGRAM – CITY OF DEER PARK

The City Council of Deer Park, Texas may, on a case-by-case basis, give consideration to providing grants or lending of personnel and/or services to stimulate or promote economic development projects and commercial activity within the city limits of Deer Park.

Eligible projects may contract with the City to receive sales tax rebates or grants, water or sewer line extensions or connections, drainage improvements, building permit fee waivers, public road extensions or grants for capital recovery fees. Eligible projects must foster development or redevelopment projects that enhance the City's economic base, diversity and/or expand job opportunities, or promote and encourage projects that create additional revenue for the City without substantially increasing the demand on City services or infrastructure. Please contact the City for more information at (281) 478-2042.

INDUSTRIAL DISTRICT AGREEMENT – CITY OF DEER PARK

The City of Deer Park operates an Industrial District within its extra-territorial jurisdiction (ETJ). Within this Industrial District, the City has established tax incentives to encourage economic growth and expansion of existing facilities.

Terms

According to terms of the City's current 12-year Industrial District Agreement (IDA), the Company renders to the City an amount "in lieu of taxes" on Company's land, improvements and tangible personal property equal to a certain percentage of the amount of ad valorem taxes payable if the Company's land, improvements and tangible personal property had been located within the City. Those percentages are as follows:

63% for years 2015-2018

64% for years 2019-2022

65% for years 2023-2026

NEW CONSTRUCTION INCENTIVE

For substantial increases in value due to new improvements that are the lesser of 5% of total appraised value or at least \$5 million, an amount equal to those shown below would be payable if the Company's land and improvements were located within the City during the remaining term of the agreement.

10% 1st Year after operations being

20% 2nd Year after operations begin

30% 3rd Year after operations begin

40% 4th Year after operations begin

50% 5th Year after operations begin

Contract Rate 6th Year after operations begin

A substantial increase in value of new improvements exceeding \$100,000,000 allows the City and Company to enter into negotiations to determine new construction progressive rates.

Benefits

In return, the City agrees that the Company's land covered by an IDA:

- Will not be annexed within the term of agreement (renewable)
- Shall have no right to City services
- Shall not be subject to City ordinances governing plats and subdivision of land
- The company will not have to meet building, electrical, plumbing or inspection codes
- The City will not attempt to exercise in any manner control over the conduct of the business.

Please contact the City for more information at (281) 478-2042.

TAX ABATEMENT – HARRIS COUNTY

Harris County projects that may qualify for reinvestment zone and property tax abatement include the following types of facilities: manufacturing, research, regional distribution, regional service, regional entertainment, research and development or other basic industry. Abatements may be granted for new facilities, expansion of existing facilities, or the improvement to existing facilities having the effect of improving current economic conditions.

Eligible property may be extended to the value of buildings, structures, fixed machinery and equipment, site improvements plus the office space and related fixed improvements necessary to the operation and administration of the facility.

Projects may be eligible for abatement of new value subject to an abatement cap: to be calculated as \$1,000,000 per job created/retained times the number of such jobs. Such cap shall not exceed the increased value requirement as set out in the abatement agreement, and will adjust annually.

The abatement amount each year is determined by the adjusted cap being multiplied by 50% in each year up to a total period of 10 years and five years for research and development projects. Minimum investment is \$1,000,000 in new increased value upon completion of the contractually defined "construction period".

Criteria for jobs: the project must be shown to directly create or prevent the loss of permanent full-time employment for at least 25 people (5 people for research development projects) within the reinvestment zone upon completion of the contractually-defined "employment period".

The project must also be "competitively sited and must be shown not to solely or primarily have the effect of transferring employment from one part of Harris County to another.

Additionally, company history with compliance with state and federal environmental laws and worker safety laws are taken into consideration.

For more information, contact Harris County at (713) 578-2000 or click here (<http://www.csd.hctx.net/edtaxabatementschecklist.aspx>).

BONDS – STATE OF TEXAS

There are three types of bonds to which access is provided through the state.

Sales Tax Bonds

Sales Tax Bonds do not fall under the volume cap and are eligible to communities that have

passed the economic development sales tax. Ineligible projects include for-profit hospitals, multi-family projects and municipal services.

Exempt-Facility Bonds

Bonds can be issued to finance certain facilities such as airports, dock and wharf facilities, mass commuting facilities, high-speed inter-rail facilities, or certain qualified hazardous waste facilities (including certain training and storage facilities). Although the facility must be governmentally owned, it may be leased or subject to management contracts with the business.

Other types of exempt bonds include projects for water, sewage and solid waste facilities, facilities for the local furnishing of electricity or gas, local district heating or cooling facilities. There is no restriction to project size for exempt-facility bonds that are not governmentally owned.

Tax-Exempt Industrial Revenue Bonds

Tax-Exempt Industrial Revenue Bonds are designed to provide tax-exempt financing to finance land and depreciable property for eligible industrial or manufacturing projects. On Jan. 1, 2007, the maximum bond amount increased to \$20 million, which can include certain capital and administrative costs.

Additional information can be obtained from the Texas Bond Review Board at (512) 463-1741.

TEXAS CAPITAL ACCESS FUND – STATE OF TEXAS

The Capital Access Fund was established to support the availability of financing for businesses and nonprofit organizations that face barriers in accessing capital or fall outside the guidelines of conventional lending.

Use of proceeds may include working capital or the purchase, construction, or lease of capital assets, which include buildings and equipment. Construction or purchase of residential housing and simple real estate investments (excluding those occupied by the applicant's business), are ineligible uses of capital access proceeds.

A lender must submit a participation agreement to be considered for eligibility to enroll loans under the program. The borrower must apply for a loan with a participating lender with terms negotiated between the borrower and the lender. To be eligible, the borrower must be:

- A small or medium-sized business (499 employees or less);
- A nonprofit organization; or
- Domiciled in this state or having at least 51 percent of its employees located in this state

The participating lender has a reserve account in which the funds may be used in case of default of an enrolled loan. The reserve fund is composed of contributions from the borrower, the lender and the state. The financial institution may recover all or part of its contribution in any manner previously agreed upon with the borrower.

TEXAS CAPITAL FUND – STATE OF TEXAS

The Texas Capital Fund (TCF) program encourages business development, retention, or expansion by providing funds to eligible applicants. Funds will be awarded for the express purpose of assisting in the creation of new permanent jobs or retention of existing permanent jobs, primarily for low and moderate income (LMI) persons. In order to comply with the national goal of expanding economic opportunities for LMI persons, a **minimum of 51 percent** or more of all the jobs created or retained by the business must benefit persons who qualify as LMI.

Programs under TCF include Downtown Revitalization, Infrastructure Development (water, sewer, roads, etc.), Main Street Improvements, and Real Estate Development (acquisitions, construction and/or rehabilitation of a business location). The minimum award is \$50,000 and the maximum is \$750,000. The award may not exceed 50 percent of the total project cost.

TEXAS EMERGING TECHNOLOGY PROGRAM – STATE OF TEXAS

Designed to help Texas create jobs and grow the economy by expediting the development and commercialization of new technologies and attracting and creating jobs in technology fields. The program works through partnerships between the state, institutions of higher education and private industry to focus greater attention on the research, development and commercialization of emerging technology. The Emerging Technology Program is dedicated to three areas:

- **Commercialization** - for-profit Texas businesses, matching equity investments
 - **Research Grant Matching** - for consortia composed of Texas universities and for-profit businesses, matching non-State-of-Texas grants
 - **Research Superiority** - for Texas public universities, providing funds for recruiting researchers of emerging technologies
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TEXAS ENTERPRISE FUND PROGRAM – STATE OF TEXAS

The Texas Enterprise Fund was established as a “deal-closing” fund to provide financial resources to help strengthen the state’s economy. The Governor, Lieutenant Governor, and the Speaker of the House must unanimously agree to support the use of the Texas Enterprise Fund for each specific project.

Projects that are considered for Enterprise Fund support must demonstrate a project’s benefit to the State of Texas by realizing a significant rate of return of the public dollars being used for economic development in Texas. Capital investment, job creation, wages generated, financial strength of the applicant, the applicant’s business history, analysis of the relevant business sector, and federal and local government and private sector financial support of a project will all be significant factors in approving the use of the Enterprise Fund.

TEXAS ENTERPRISE ZONE PROGRAM – STATE OF TEXAS

The Texas Enterprise Zone Program is an economic development tool for local communities to partner with the State of Texas to promote job creation and capital investment in economically distressed areas of the state (census block groups with a poverty level greater than 20 percent).

Designated projects are eligible to apply for state sales and use tax refunds on qualified expenditures. Qualified expenditures include building materials, machinery and equipment, electricity, gas and tangible property purchased and consumed in the normal course of business, and taxable services.

The level and amount of refund is related to the capital investment and jobs created at the qualified business site. In addition, local communities **must** offer incentives to participants under the Enterprise Zone Program, such as tax abatement, tax increment financing, one-stop permitting, and other incentives developed by participating communities.

Communities may nominate projects for a designation period up to **five years**, not including a 90-day window prior to the application deadline. Employment and capital investment commitments must be incurred and met within the five-year time frame.

Projects may be physically located in or outside of an enterprise zone:

- If located **within** a zone, the company commits that at least 25 percent of its new employees will meet economically disadvantaged or enterprise zone residence requirements.
- If located **outside** of a zone, the company commits that at least 35 percent of its new employees will meet economically disadvantaged or enterprise zone residency requirements.

Deer Park has recently sponsored three Enterprise Zone nominations for the following local businesses; Shell Refinery, Lubrizol, Rohm & Haas Texas, Inc.

RENEWABLE ENERGY INCENTIVES – STATE OF TEXAS

Wind and Solar Energy Tax Exemption and Deduction

Texas Tax Code Section 171.056 provides an exemption from the franchise tax for a taxable entity engaged solely in the business of manufacturing, selling, or installing solar energy and wind energy devices, as defined by Tax Code Sec. 171.107.

HB 3 of the 79th Legislative Special Session amended Tax Code Sec. 171.107 to provide that a taxable entity may deduct from its apportioned margin 10 percent of the amortized cost of a solar energy device.

Wind energy qualifies under the term “solar energy” for the exemption and deduction under Sections 171.056 and 171.107.

SKILLS DEVELOPMENT FUND – STATE OF TEXAS

The Skills Development Fund was created to assist Texas public community and technical colleges on funding customized job training for their local businesses. Grants are provided to help companies and labor unions form partnerships with local community colleges and technical schools to provide custom job training. Average training costs are \$1,000 per trainee; however, the benefit may vary depending on the proposal.

The focus of customized classes is to develop a higher skill competency which employees can use immediately. The program offers many benefits such as flexible schedules and tailoring of coursework as well as holding classes either on site or at the college campus.

STATE SALES and USE TAX EXEMPTIONS – STATE OF TEXAS

Companies may qualify for certain sales & use tax exemptions by the State Comptroller in the following areas:

Manufacturing Machinery & Equipment

Leased or purchased machinery, equipment, replacement parts, and accessories that have a useful life of more than six months, and that are used or consumed in the manufacturing, processing, fabricating, or repairing of tangible personal property for ultimate sale, are exempt from state and local sales and use tax. Texas businesses are exempt from paying state sales and use tax on labor for constructing new facilities.

Texas businesses are exempt from paying state sales and use tax on the purchase of machinery exclusively used in processing, packing, or marketing agricultural products by the original producer at a location operated by the original producer.

Natural Gas & Electricity

Texas companies are exempt from paying state sales and use tax on electricity and natural gas used in manufacturing, processing, or fabricating tangible personal property. The company must complete a “predominant use study” that shows that at least 50 percent of the electricity or natural gas consumed by the business directly causes a physical change to a product.

State Franchise and Sales/Use Taxes

Additionally, the Texas Comptroller offers a **refund** of state franchise and sales/use taxes paid by companies owning certain abated property. A company that meets the following three conditions may apply for a refund:

1. Paid property taxes to a school district on property that is located in a reinvestment zone. Since January 2002, there were 17 reinvestment/enterprise zone agreements with various municipalities designated in Galveston and Harris counties. The average size of the zone for business properties was 10.5 acres. One of the 17 zones designated were in a state-designated enterprise zone.
2. The city or county, but not the school district, must have granted a tax abatement for the owner’s property.
3. Is not in a tax abatement agreement with a school district.

The refund is equal to the amount of property taxes that would have been paid had the company entered into a school district abatement agreement with terms identical to the city or county abatement agreement.

Additionally, many items purchased, used, rented or repaired during the studio master recording process are exempt from the state sales and use tax, as well as local sales and use taxes. A producer may claim **100 percent exemption** from state and local sales and use taxes on qualifying machinery and equipment purchased, repaired, leased or rented and used directly in the production of audio recording masters. If the equipment is exempt, any parts, repair or maintenance labor is also exempt. Similar exemptions are available to **film producers**.

TAX RELIEF FOR POLLUTION CONTROL PROPERTY – STATE OF TEXAS

Companies wishing to apply for tax relief for their efforts in controlling pollution can apply for and potentially receive a positive use determination from the Texas Commission on Environmental Quality (TCEQ). The determination can then be filed with the local appraisal district to receive a property-tax exemption.

Companies that have applied for and received tax exemptions in the Deer Park region include Rhodia, Shell Chemical, Rohm & Haas, and Exxon Mobil.

Types of Property that Are Eligible

Property must be wholly or partly used for pollution control to be eligible. The following specific types of property are also eligible for determination:

- Dedicated-purpose vehicles used solely for pollution control (vacuum trucks, street sweepers, surface-watering trucks, spill-response vehicles);
- Land with pollution control property (e.g., the actual square footage containing a baghouse, scrubber, settling pond, or wastewater containment); and
- Used equipment as per TCEQ's predetermined equipment list.

Types of Property Not Eligible

The following types of property are not eligible:

- Motor vehicles
- Residential property
- Property for recreational, park, or scenic uses
- Property subject to a tax-abatement agreement executed before Jan. 1, 1994
- Manufactures or produces a product used in pollution control; or
- Provides a service that monitors, controls, or reduces pollution.

While land is eligible, only the part that actually contains the pollution control property is eligible; land used solely as a buffer zone is not eligible.