



**CITY OF SAN ANTONIO  
Request for Council Action**

Agenda Item # 10

Council Meeting Date: 5/30/2007

RFCA Tracking No: R-1709

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**DEPARTMENT:** Economic Development

**DEPARTMENT HEAD:** Robert Peche

**COUNCIL DISTRICT(S) IMPACTED:**

City Wide, Council District 2

**SUBJECT:**

Master Economic Incentives Agreement with the City of Windcrest

**SUMMARY:**

This ordinance authorizes the City Manager to enter into the Walzem Road Redevelopment Project Master Economic Incentives Agreement with the City of Windcrest, the Windcrest Economic Development Corporation (“WEDC”), the Windcrest Economic Development Company, L.L.C., Bexar County and Macro Holdings, Inc. doing business as Rackspace Managed Hosting (“Rackspace”).

**BACKGROUND INFORMATION:**

Rackspace is a local information technology company founded in 1998. Headquartered in San Antonio, Rackspace provides tailored web hosting services with annual revenues of \$240 million. Rackspace is a global company of over 1,500 employees with locations in Dallas, Austin, Virginia and the United Kingdom. The San Antonio facility employs over 1,100 and is currently hiring sixty five new employees every month with annual salaries of \$51,000. Rackspace anticipates adding 3,000 jobs over the next three years and is looking to relocate and expand operations at Windsor Park Mall. Other potential sites being considered include, Austin, Dallas and North Carolina.

The City of Windcrest and its WEDC have proposed a package of economic development incentives to Rackspace to locate its headquarters and expand its San Antonio operations at the Windsor Park Mall site. If these incentives are approved, Rackspace would agree to relocate no less than 1,800 employees to the Mall site by June 1, 2008, and expand to a total of 4,000 jobs within 4 years at an average annual salary of at least \$51,000. The proposal includes the following terms and conditions:

- A Boundary Change Agreement between the City of Windcrest and the City of San Antonio, whereby COSA would disannex approximately 221 acres of property -- the Windsor Park Mall site, surrounding properties and a strip along I-35 from Walzem to Eisenhower

(“Eisenhauer Development”).

- The WEDC has already acquired the Windsor Park Mall and intends to lease the site to Rackspace for 30 years.
- Rackspace would agree to invest \$100 million in property improvements financed by the WEDC through lease revenue bonds.
- The leased property, all improvements and personal property would be owned by the WEDC and be tax exempt during the term of the lease.
- Rackspace would agree to make payments in lieu of taxes (“PILOT”) to all taxing entities (through the WEDC), except during a 14-year exemption period beginning no later than January 1, 2009.
- Rackspace would make PILOT payments to North East Independent School District so that NEISD is not harmed by the property tax exemption.
- Rackspace would pay sales tax on its sales in the State of Texas.
- The commitment by Rackspace would be subject to the Bexar Appraisal District acknowledging the WEDC property tax exemption for the Mall property.
- The WEDC will acquire the real property for the “Eisenhauer Development” and sell it to a developer who will create a \$225M mixed-use project of residential, restaurants, retail and entertainment facilities.
- The City of Windcrest is also working with TXDOT on several road infrastructure improvements at the I-35/Walzem interchange, along Walzem and to support the new development.

Through this Master Incentive Agreement, the City of Windcrest is requesting COSA enter into a separate Boundary Change Agreement regarding the effective disannexation of approximately 221 acres. The Boundary Change Agreement would be implemented under new state legislation (HB 3367) that is specific to this area and this project, and it would contain the following specific provisions:

- The BCA would only be effective upon the City of Windcrest and the WEDC demonstrating to COSA prior to December 31, 2007: (1) the execution of a lease with Rackspace; (2) the execution of an agreement with the developer for the Eisenhauer Development; and (3) the concurrence of all taxing jurisdictions including Bexar Appraisal District.
- A guarantee that COSA will be reimbursed a minimum of \$137,968 annually for 30 years or fifty percent (50%) of the sales taxes collected at the Mall site, whichever is greater. This is the amount of 2006 property taxes currently collected by COSA within the 221 acres that would be forfeited through the boundary change.
- COSA and Windcrest will share equally all sales and property taxes from the I-35 Eisenhauer mixed-use development for 30 years.
- COSA and Windcrest will share equally the Rackspace PILOT payments at the Windcrest property tax rate for 16 years of the 30-year agreement.
- COSA will forfeit its right to share tax revenue with Windcrest (except sales tax on the Mall operations) if the WEDC-owned property loses its tax exemption and Mall property is placed on the tax rolls.
- An acceptable agreement between the City of San Antonio and the City of Windcrest regarding Automatic First Fire Response between the two entities in mutually agreed upon areas within and surrounding the City of Windcrest.

**ISSUE:**

Staff is requesting City Council authorize the City Manager to enter into this Master Incentive Agreement with the City of Windcrest, the WEDC and Rackspace and to negotiate and execute any related agreements, including a Boundary Change Agreement with the City of Windcrest.

This project supports the City’s *Strategic Plan for Enhanced Economic Development* by encouraging the growth and expansion of Rackspace -- a very successful, rapidly growing local information technology company. The location of Rackspace at the site of the former Windsor Park Mall and the associated planned mixed-use development along I-35 will certainly help revitalize a targeted area of the community and spur additional development in the surrounding areas.

Rackspace’s presence in San Antonio has provided significant employment opportunities for information technology employees at salaries averaging over \$51,000 annually. This project will further strengthen San Antonio’s position as a Center of Excellence for Information Technology and fuel continued growth in the technology sector.

**ALTERNATIVES:**

If COSA does not agree to enter into this Master Incentive Agreement and a subsequent Boundary Change Agreement, the City of Windcrest and its WEDC cannot offer the same level of competitive economic incentives. Therefore, COSA’s failure to enter into this Agreement would quite likely result in Rackspace choosing to expand its operations in another community and the loss of 3,000 – 4,000 new IT jobs over the next 3-5 years.

**FISCAL IMPACT:**

The following table details the estimated net fiscal impact over 30 years to the City by agreeing to enter into this Master Incentive Agreement. The annual payments of \$137,968 for thirty years or fifty (50%) of the sales taxes collected at the Mall Site, which ever is greater will be deposited into the General Fund to be distributed to debt service and operations and maintenance.

<p><b>30- Years</b></p>	<p><b>Loss of Current COSA Property Taxes on Mall and I-35 Properties</b></p>	<p><b>Shared Taxes (I-35), Pilot Payments (Mall), Taxes (New Residential) and Sales Taxes from 3,000 Jobs</b></p>	<p><b>Net Fiscal Impact to COSA</b></p>
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<b>WEDC Mall Property is Exempt from Taxes</b>	<b>(\$4,139,026)</b>	<b>\$38,707,370</b>	<b>\$34,568,344</b>
<b>WEDC Mall Property is on the tax rolls</b>	<b>(\$4,139,026)</b>	<b>\$19,888,370 (Note)</b>	<b>\$15,749,344</b>

**Note:** Reflects the loss of Rackspace PILOT payments and tax sharing.

Other than the loss of annual property taxes (\$137,968 in 2006) currently collected by COSA on the property proposed for disannexation, there is no fiscal impact to the City. Through this Master Incentive Agreement and related Boundary Change Agreement, COSA will at a minimum be reimbursed annually for 30 years for this lost tax revenue.

**RECOMMENDATION:**

Staff recommends approval of this ordinance.

**ATTACHMENT(S):**

File Description

[Ordinance/Supplemental Documents](#)

File Name

200705310598.pdf

**DEPARTMENT HEAD AUTHORIZATIONS:**

Ed Davis Assistant Director Economic Development

**APPROVED FOR COUNCIL CONSIDERATION:**

Jelynn Burley Deputy City Manager

AN ORDINANCE 2007-05-31-0598

APPROVING THE TERMS AND CONDITIONS OF THE WALZEM ROAD REDEVELOPMENT PROJECT MASTER ECONOMIC INCENTIVES AGREEMENT BETWEEN THE CITY OF WINDCREST, THE WINDCREST ECONOMIC DEVELOPMENT CORPORATION, THE WINDCREST ECONOMIC DEVELOPMENT COMPANY L.L.C., BEXAR COUNTY, THE CITY OF SAN ANTONIO AND MACRO HOLDINGS, INC. D/B/A RACKSPACE MANAGED HOSTING.

\* \* \* \* \*

**WHEREAS**, Macro Holdings, Inc. d/b/a Rackspace Managed Hosting (“Rackspace”) is an information technology company headquartered in San Antonio that employs over 1,100 people and has annual revenues of \$240 million; and

**WHEREAS**, Rackspace anticipates relocating and expanding its operations and adding 3,000 jobs over the next three years and is considering Austin, Dallas, North Carolina and the City of Windcrest as possible sites for such expansion; and

**WHEREAS**, the City of Windcrest has requested the assistance of the City of San Antonio in providing an economic incentives package that would attract Rackspace and retain jobs in the San Antonio area; and

**WHEREAS**, through the Walzem Road Redevelopment Project Master Economic Incentives Agreement (Exhibit “A”), the City of San Antonio would agree to enter into a Boundary Change Agreement in the future that would effectively disannex approximately 221 acres of real property consisting of the area known as Windsor Park Mall and surrounding property including a strip of land along Walzem Road and Eisenhower Road; and

**WHEREAS**, the City of San Antonio would receive a guarantee of at least \$137,968 annually for a period of thirty (30) years or fifty-percent (50%) of sales taxes collected at the site, whichever is greater; an equal share of sales and property taxes from the strip of land along Walzem Road and Eisenhower Road; and an equal share of Payments In Lieu Of Taxes made by Rackspace for sixteen (16) years as consideration for entering into the Boundary Change Agreement; and

**WHEREAS**, the City of San Antonio will further make entering into the Boundary Change Agreement contingent upon the City of Windcrest executing a lease with Rackspace, executing a development agreement for the development Eisenhower Road and the concurrence of all taxing jurisdictions effected by the agreements; **NOW THEREFORE:**

**BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:**

**SECTION 1.** The terms and conditions of the Walzem Road Redevelopment Project Master Economic Incentives Agreement are approved.

**SECTION 2.** The City Manager, or her designee, is authorized to execute the Walzem Road Redevelopment Project Master Economic Incentives Agreement. A copy of the Agreement, in substantially final form, is attached to this ordinance as Exhibit "A." The final Agreement shall be filed with this ordinance upon execution.

**SECTION 3.** This ordinance shall be effective on the tenth (10th) day after passage.

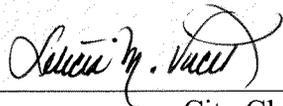
PASSED AND APPROVED this 31<sup>st</sup> day of MAY 2007.



M A Y O R

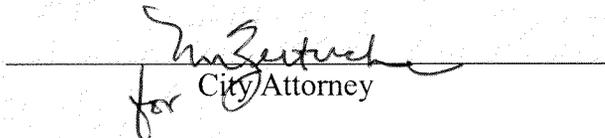
PHIL HARDBERGER

ATTEST:



City Clerk

APPROVED AS TO FORM:



for City Attorney

# Agenda Voting Results

**Name:** 10

**Date:** 05/31/07

**Time:** 10:41:27 AM

**Vote Type:** Multiple selection

**Description:** 10.

An Ordinance approving the terms and conditions of the Walzem Road Redevelopment Project Master Economic Incentives Agreement between the City of Windcrest, the Windcrest Economic Development Corporation, the Windcrest Economic Development Company L.L.C, Bexar County, the City of San Antonio and Macro Holdings, Inc. d/b/a Rackspace Managed Hosting. [Jelyne LeBlanc Burley, Deputy City Manager; Robert Peche, Director, Economic Development]

Voter	Group	Status	Yes	No	Abstain
ROGER O. FLORES	DISTRICT 1		x		
SHEILA D. MCNEIL	DISTRICT 2		x		
ROLAND GUTIERREZ	DISTRICT 3		x		
RICHARD PEREZ	DISTRICT 4		x		
PATTI RADLE	DISTRICT 5		x		
DELICIA HERRERA	DISTRICT 6		x		
ELENA K. GUAJARDO	DISTRICT 7		x		
ART A. HALL	DISTRICT 8		x		
KEVIN A. WOLFF	DISTRICT 9		x		
CHIP HAASS	DISTRICT_10		x		
MAYOR PHIL HARDBERGER	MAYOR		x		