

City of Buda Incentive Policy

The City of Buda, Texas and the Buda Economic Development Corporation (Buda EDC) are focused on growing the local economy by attracting and retaining quality businesses and jobs. The purpose of Buda's incentive program is to expand the city's tax base, create new jobs for residents, increase the average wage, and promote sustainable economic development throughout the city and its extraterritorial jurisdiction. Economic development incentives should balance local job creation in target industries with revenue intensive projects that generate significant positive return for the public sector.

Given Buda's strategic location in Central Texas, incentives do not need nor will be offered to the majority of expanding and relocating businesses. However, this policy will evolve in response to changing market conditions, actions of competitive communities, and shifts in community priorities. Therefore, it is paramount that Buda's elected officials and Buda EDC representatives continually engage the community on the incentive policy objectives, why some projects are won and lost, and how the community benefits from these projects.

Incentive Task Force

An Incentive Task Force is established to streamline the process of evaluating projects. This task force will be comprised of key city staff as designated by the City Manager, the Buda EDC Executive Director, and the Buda EDC Board President or designated representative; depending on the project additional staff upon selection by City Manager may be included in advisory positions. The Incentive Task Force will consider the following:

- Is this project reliant upon incentives to locate in Buda?
- What is the opportunity cost of the incentive (if the Buda EDC uses cash grants, for example, what alternative uses of these funds are foregone by supporting this project)?
- How much economic activity will remain in Buda compared to what leaks out to the surrounding area?
- How much will it cost Buda to adequately service the project during its construction and operational phases?
- What is the total present value of the incentive package?
- How will this incentive deal influence (positive and negative) future deals with other prospects?
- Does this project fill an unmet need or market in Buda?
- Is the project in an existing TIF/TIRZ or similar tax reinvestment district?
- Will the business create at least 10 jobs or have an annual salary of at least \$750,000?

Policy Guidelines & Evaluation Criteria

- The City of Buda and the Buda EDC are committed to using the same standards and scoring matrix when considering offering incentives for economic development projects.
- The Incentive Task Force will evaluate each project for the City of Buda and the Buda EDC.
- Benefits should exceed costs, even after incentives are granted. Except in extraordinary situations, Buda should not be willing to “go upside down” on a deal, meaning that tax revenues must exceed public sector costs.
- Any front-loaded cash incentives should flow through the Buda EDC, with the City and EDC setting policies on returning taxes and/or fees paid by a company upon the execution of a specific set of agree upon performance measures between the firm and each participating jurisdiction.
- Chapter 380 of the Texas Local Government Code, due to its flexibility and simplicity, shall be the preferred tool for incentive agreements.
- To be eligible for incentives, a project should meet the following minimum requirements:
 - Create or maintain at least 10 full-time equivalent jobs, with the average wage paid equal to or greater than the local average wage for the firm’s industry sector), or
 - Invest at least \$250,000 in new taxable real and business personal property
 - Must be an target industry or one that fills an unmet need or market
- In general, incentive packages offered by Buda should not extend beyond 10 years.
- The City of Buda and the Buda EDC reserves the right to craft a special incentive package in the case of unique or extraordinary opportunities for economic development.
- The applicant will submit an Incentives Application, a prospectus and/or business plan providing for such economic impacts and projections for the requested information as set forth in the thresholds to achieve section of the application.
- A performance agreement will be issued between the EDC and the City of Buda and the incentive recipient for all incentives granted.
- All incentives will be subject to compliance with all laws and legislation in the State of Texas.

Cost-Benefit Analysis

The Incentive Task Force will create a performance-based 10-year pro forma, regardless of years left on pro forma, for the project that includes key revenues and expenses which should be discounted for the net present value. Businesses must provide the following information to be considered for any incentives (this information is required in the Incentive Application):

- Business Description, including NAICS Code, years in Business, other locations
- Estimate of new capital investment
- Estimate of taxable sales
- Estimate of value of personal property and annual inventory
- Number of Employees, Full Time and Part Time, and projected employment growth for 10 years

- Wages for Employees
- Benefits offered to Employees and who is eligible for benefits
- Estimate of the percentage of employees, who will reside in Buda.

This analysis shall be used to determine the value of any incentives. Most projects will not require calculating the indirect and induced economic impacts, but these can be a factor into the analysis, if deemed necessary. Key variables to be estimated include:

Business Impact

- Property Tax Revenues generated from the business Sales Tax Revenues generated from the business
- Permits and Fees Associated with Project
City Services for Business

Employee Impact

- Property Tax Revenues generate from employees, which will reside in the City limits of Buda
- Sales Tax Revenues generated from employees
- City Services for employees, which will reside in Buda

Economic Development Matrix

The following Economic Development Matrix should be used to evaluate both the traditional (economic impact) and non-traditional (quality of life) elements of a project. These point values should be refined and adjusted over time to reflect changes in target industries, prospect activity, and financial and quality of life conditions of the City of Buda and Buda EDC.

Evaluation Criteria	← Scoring Range →			
Target Industry		No		Yes
Project Based / Firm Based		0.0		5.0
Economic and Fiscal Impact	Unacceptable	Acceptable	Good	Excellent
Sales Tax Generator	0.0	5.0	10.0	15.0
Property Tax Generator	0.0	5.0	10.0	15.0
Impact on City Services	0.0	2.5	5.0	10.0
Character of Jobs				
High Paying Jobs / Above Current Industry Average	0.0	2.5	5.0	10.0
Match Skills of Existing Residents (Especially those Who Work Outside of Buda)	0.0	5.0	10.0	15.0
Quality of Life				
Create Opportunities for Both Tourists and Residents	0.0	2.5	5.0	10.0
Desired Development Location / Site	0.0	2.5	5.0	10.0
Building Design Standards / Site Plan	0.0	2.5	5.0	10.0
Extraordinary Impact				
Project Leverages County, State, or Federal Incentives/Grants	0.0	2.5	5.0	10.0
Number of Employees	0.0	2.5	5.0	10.0
Capital Investment	0.0	2.5	5.0	10.0

Points	Incentive Guidance
Less than 50	Not eligible for incentives
50 to 75 points	Up to 30% of the present value of the equivalent of the tax revenue impact for up to 10 years
75+ points	Up to 50% of the present value of the equivalent of the tax revenue impact for up to 10 years

Category Description and Definitions

Target Industry

As part of the Strategic Planning Process, Buda identified a set of high priority target industries for the community and indicated willingness to potentially offer additional incentives for these industries.

- Project Based / Firm Based – Projects that align with Buda’s adopted target industry list and are eligible for points:
 - Advanced Manufacturing/Industrial
 - Hospitality /Tourism
 - Professional Office/Entrepreneurial
 - Retail/Entertainment

Economic and Fiscal Impact

The economic and fiscal impact analysis attempts to quantify how Buda and its citizens will benefit from a project. Annual Buda employment and wage data is not available from the Texas Workforce Commission. Therefore, the Hays County average will serve as the baseline value for the community. For a project to score “acceptable,” the starting point in the evaluation should be the Hays County five-year average for sales tax per job (0.5 percent sales tax rate) and taxable commercial property per job (real and personal property). Using a five-year average minimizes fluctuations in local employment patterns.

- Sales Tax Generator – Not all projects will generate direct sales tax (ex. manufacturing). If the project does generate sales tax, then evaluate the project using the average Hays County sales tax per job which is \$227 (as of 2012)
- Property Tax Generator – average Hays County taxable commercial property per job (real and personal property) is \$43,470 (as of 2012)
- Impact on City Services – \$1,290/job (Total city budget x 28% (commercial ratio vs residential) / 3600 jobs in Buda.

Character of Jobs

Beyond the project’s industry classification and tax revenue generated, Buda would like to attract businesses that pay above average wages and match the skills of existing residents. This incentive matrix category focuses on linking recruitment efforts, incentive policy, and local employment opportunities for Buda citizens. The emphasis is not on size of project or total number of jobs, but the wages, skills, and benefits.

- High Paying Jobs / Above Current Industry Average – the Hays County average wage for the project’s industry code will serve as the baseline value for a project to score “acceptable.” If there is no Hays County industry data available, then use the overall average county wage of \$34,145 per year. (as of 2012)
- Match Skills of Existing Residents (Especially those Who Work Outside of Buda) – Currently, 38 percent of Buda’s population has a Bachelor’s degree or higher. Approximately, 34 percent of

Buda's population has some college or an Associate's degree. A project who requires some college experience or higher for at least 50 percent of the jobs will be classified as "acceptable."

- Benefits – If employer offers benefits to employees who are listed in their application, cite the applicable benefits offered to part-time and full-time employees.

Quality of Life

Since no project can be evaluated strictly quantitatively, the Incentive Task Force will also have to consider the qualitative benefits of the project such as the quality of life implications.

- Create Opportunities for Both Tourists and Residents
- Desired Development Location / Site
- Building Design Standards / Site Plan

Extraordinary Impact

When a large project considers a community, the level of incentives offered typically increases. For Buda, a large project with an extraordinary impact would likely consist of hundreds of new jobs and capital investment in excess of \$100 million. In addition, some high profile projects are able to leverage state or federal incentive/grant programs. For these types of projects, the Incentive Task Force will need to carefully consider awarding additional points for unique projects with an extraordinary impact.

- Project Leverages County, State, or Federal Incentives/Grants
- Capital investment
- Number of Employees:
 - Acceptable >25 jobs
 - Good > 50
 - Excellent > 100