



McAllen, Texas Possible Incentives

On behalf of the McAllen Economic Development Corporation, I thank you for your interest in our community. McAllen has a number of incentive programs designed to make resources available for businesses like yours looking to create new jobs in our area. Our policy has been to design a customized plan that meets the unique requirements of each company interested in the McAllen area.

City of McAllen Offers:

1. City Economic Development Grant:

A Company meeting the criteria on wage levels may be eligible for the Economic Development Grant. MEDC uses half-cent sales tax funds to finance these grants which are awarded to companies for assistance during the critical start up period. The amount awarded to a company is based directly on the number of new jobs being created in McAllen, Texas, the wages and benefits that will be paid to employees and the capital investment of the project. In order to qualify for this grant, the company must pay a base of \$10.00/hr per full time company employee and offer medical, vacation, and any other benefits that may be available. The payout of these grants is structured according to Company's needs and projections over the first five years in operation. The company would need to submit a letter of intent prior to locating to McAllen. MEDC would act as an advocate on behalf of the company and present the letter to the City Commission for approval.

2. City Property Tax Reimbursement:

The City of McAllen offers qualifying companies a property tax reimbursement. This incentive is offered in conjunction with the Economic Development Cash Grant. If the company meets employment numbers each year, then the company is awarded 100% tax reimbursement. If employee numbers are not met, then the tax reimbursement is prorated. General Formula:

$$\frac{\text{Value of Building} + \text{Land} + \text{Equipment}}{100} \times .4213 \text{ Tax Rate} = \text{Tax Reimbursement} \times \frac{(\# \text{ of employees Employed})}{(\# \text{ of employees Projected})}$$

The payout of both the City Economic Development Grant and the City Property Tax Reimbursement Grant is structured according to your employee projections over the first five years of operation.

Hidalgo County Offers:

1. County Property Tax Abatement:

The County of Hidalgo offers property tax abatement. MEDC will assist you in applying for this benefit. This incentive would be based on the number of employees and or the amount of investment according to the following schedule:

Percent of Value to be abated	Capital Cost of the Project	No. of Full Time Permanent Jobs Created
0%	0-\$1,500,00	0-25
25%	\$1,500,001-\$5,000,000	26-50
50%	\$5,000,001-\$9,999,999	51-100
80%	\$10,000,000-\$19,999,999	101-250
100%	Over \$19,999,999	Over 250

For additional information, please see attached document

2. Freeport Exemption-Texas Property Tax Code 11.251:

The Texas basic law is that all property is taxable according to its market value. However, various exemptions have been legislated with subsequent voter approval to amend the Constitution, including the “Exemption for Goods Exported from Texas” under certain conditions. This conditional entitlement has since been referred to as the “Freeport Exemption”. Freeport Exemption applies only to raw materials and finished goods inventory other than oil, natural gas and other petroleum or derivatives. Eligible inventory must be transported to destinations outside of Texas no later than 175 days after the date acquired or imported to Texas. Freeport eligible inventory includes property detained in Texas for assembling, storing, manufacturing, processing, or fabricating purpose. McAllen is considered a Quadruple Freeport. The following entities grant Freeport exemption: McAllen ISD, City of McAllen, South Texas College, and the local Drainage District. This exemption has no expiration date and continues as long as you elect to annually claim this exemption.

3. Employee Training Incentives:

A. South Texas College

The M.E.D.C. agrees to be an advocate for training funds. The Partnership for Workforce Training and Continuing Education will explore the various possible sources of training program funds as well as provide the Company with assistance in fund application and administration. Amongst the possible sources of funds are four different funding sources for training programs offered through S.T.C.: TWC Self Sufficiency Funds, U.S. Department of Labor-Apprenticeship Program, TWC Skills Development Fund, and the ½ Cent Sales Tax Program. These funding sources help companies pay for training requirements. If your company requires customized training is also available on a cash basis at \$4.50/training hour X number of employees (minimum 12) X number of training hours. Smaller classes are also available.

The Partnership will prepare all program applications for funding on behalf of your Company as a part of their service; however, funding availability requires approval by the appropriate agency. A detailed training plan, which would generate an actual training budget, will be prepared upon receipt of job titles and a brief description of training requirements for each position. However as you are aware we were successful in getting advanced approval for the first installment of training assistance in the amount of \$150,000 dollars available within 10 days. Further funding is available as your growth plans are implemented. The training assistance will be administered by South Texas College to relieve you of the accounting requirements of the grant.

B. WorkForce

Representatives of the Local Workforce Solutions office will provide assistance to your Company in maximizing eligibility of the following programs:

Texas Tax Savings programs:

The following three tax credits are part of the State and Federal Welfare Reform Act.

Work Opportunity Tax Credits:

The Work Opportunity Tax Credit is a federally funded program that is used to reduce the federal tax liability for private-for-profit employers who hire new employees from criteria 'targeted' groups. The allowable tax credit could be as much as \$2,400 per employee.

Welfare-to-Work Tax Credit:

The Taxpayer Relief Act of 1997 authorized the W-2-W credit for long-term family assistance recipients. The allowable federal tax credit could be as much as \$8,500 per employee.

State of Texas Refund for Employers of AFD/TANF Clients:

An employer that pays wages during the first year of employment to an employee who is a Texas resident and received AFDC/TANF benefits during the month of hire may recover up to 20% of \$10,000 in wages paid during the first year of employment; which means a refund from the State of up to \$2,000 per employee. The employer must offer some form of health care benefits to the employee in order to qualify.

Customized Training Program:

The Customized Training Program is available to assist employers with new and incumbent worker training that is customized to the business and operation of the employer. This program reimburses employers up to 50% of the total costs of the training. This program is intended to provide employers with training funds that will be utilized to promote a training environment that will provide employees with higher skills and competencies to perform their job.

On-The-Job-Training

Up to 50% reimbursement of employee's wages is possible for up to 25% of the workforce eligible under WIA for up to six months.

* Your Company will work directly with the Local Office of the Texas Workforce Commission to apply for these tax credits or programs.

State of Texas Offers:

1. Texas Enterprise Fund:

The 78th Texas Legislature established the Texas Enterprise 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 worthiness, maximize the benefit to the State of Texas and realize 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, 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.

2. Emerging Technology Program:

The \$200 million Texas Emerging Technology Program is designed to help Texas create jobs and grow the economy over the long-term by expediting the development and commercialization of new technologies and attracting and creating jobs in technology fields that will form the backbone of our economy. The program will work 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:

1. Regional Centers of Innovation and Commercialization (RCICs) - The City of McAllen is a designated site of the RCIC. These centers will become concentrated with applied R&D activities, be incubators (including specialized workforce training) for startup firms and encourage expansion of existing companies resulting from commercializing their developments.

2. Matching grant funds. Applied technology research and development projects that accelerate commercialization into production and have a demonstrated ability to receive or have received federal grants or non-state grants may apply for matching dollars from the Emerging Technology Fund. Grants such as Small Business Innovation Research grants, Small Business Technology Transfer grants, etc

3. Attracting research talent. The state will help Texas public universities attract highly renowned research teams from universities and institutions in other states. This could involve a sharing of cost of Symbol/Motorola research personnel located in McAllen.

For more information regarding the application process or funding, please contact Mark Ellison with the Office of the Governor at 512/463-1472.

3. Texas Enterprise Zone Program:

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.

Local communities must nominate a company as an Enterprise Project to be eligible to participate in the Enterprise Zone Program. The state accepts applications quarterly with deadlines on the first working day of March, June, September, and December.

Designated projects are eligible to apply for state sales and use tax refunds on qualified expenditures. The level and amount of refund is related to the capital investment and jobs created at the qualified business site. Projects may be physically located in or outside of an Enterprise Zone.

Upon a community designating a business as an enterprise project, and upon that project's designation being approved by the state, the business would be eligible for the following incentives:

State Sales and Use Tax Refunds

Beginning September 1, 2003 an enterprise project is eligible for a refund for state sales and use taxes paid for building materials, machinery and equipment, electricity and natural gas purchased and consumed in the normal course of business and depending on investment amount and number of jobs created/retained.

The refund can be an amount ranging from a minimum of \$2,500 per job to a maximum of \$7,500 per job as follows:

1. If project investment amount is greater than \$40,000 and less than \$400,000, then refund amount is \$2,500 per job up to a maximum of 10 jobs created/retained;
2. If project investment amount is equal to or greater than \$400,000 and less than \$1,000,000, then refund amount is \$2,500 per job up to a maximum of 25 jobs created/retained;
3. If project investment amount is equal to or greater than \$1,000,000 and less than \$5,000,000, then refund amount is \$2,500 per job up to a maximum of 125 jobs created/retained;
4. If project investment amount is equal to or greater than \$5,000,000 and less than \$150,000,000, then refund amount is \$2,500 per job up to a maximum of 500 jobs created/retained;

5. If project investment amount is equal to or greater than \$150,000,000 and less \$250,000,000, then refund amount is \$5,000 per job up to a maximum of 500 jobs created/retained;

6. If project investment amount is equal to or greater than \$250,000,000, then refund amount is \$7,500 per job up to a maximum of 500 jobs created/retained;

Further eligible items include tangible personal property purchased and consumed in the normal course of business and taxable services. Receipts for purchases of building materials and machinery and equipment and payroll information are required to be retained as part of the audit process. (Note: All contracts should separate the costs for building materials and/or equipment from the costs of labor and services in order to be eligible.)

The refund for sales and use tax must be for all eligible items for use at the qualified business site.

Texas Capital Fund Program

The Texas Capital Fund Program is administered by the Texas Department of Agriculture for non-entitlement city and county governments. The Texas Capital Fund Infrastructure and Real Estate Programs provide a way for an eligible applicant to receive up to \$1 Million in funds to make infrastructure and/or real estate improvements to support businesses that are expanding or beginning operations in the applicant's jurisdiction. The business must create or retain jobs for Texans. In order to comply with the national goal of expanding economic opportunities for persons of low and moderate income, a minimum of 51% or more of all the jobs created or retained by the business must benefit persons who qualify as low and moderate income (LMI) persons. The State accepts applications four times each year: March, June, September, and December.

4. State Sales & Use Tax Exemptions:

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.

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% of the electricity or natural gas consumed by the business directly causes a physical change to a product.

5. Bonds:

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. The maximum bond amount is \$10 million (which can include certain capital and administrative costs). (On January 1, 2007, the maximum bond amount will increase to \$20 million.) These issues must receive a reservation under the State's volume limitation ("volume cap") managed by the Texas Bond Review Board.

The Tax Reform Act of 1986 imposes a volume ceiling on the aggregate principal amount of "private activity bonds" that may be issued with the State during any calendar year. Generally, the reservation of state ceiling issues is allocated by lottery in October each program year.

For more information on the “volume cap” or the lottery dates, contact the Texas Bond Review Board at (512) 463-1741.

6. Texas Economic Development Act:

In 2001, the 77th Texas Legislature enacted House Bill 1200 creating Tax Code Chapter 313, Texas Economic Development Act, to encourage large-scale manufacturing, research and development, and renewable energy capital investment projects to the State of Texas. It requires companies to invest a specified amount of money to qualify for a tax credit and an eight-year limitation on the appraised value of a property for the maintenance and operations portion of the school district property tax. The local school district must elect to participate in order for the Company to recognize this benefit.

The qualifying investment amount is determined on a sliding scale that begins at \$100 million for large urban areas and \$30 million for rural areas. The qualifying investment amount is reduced for areas with a lower tax base.

For detailed information regarding this incentive, please contact Tim Wooten with the Comptroller of Public Accounts at (512) 305-9838.

7. AD Valorem/Property Tax Exemption:

A Texas constitutional amendment providing an exemption from property taxation for pollution control was approved in 1993. The intent was to ensure that compliance with environmental mandates, through capital investments, did not result in an increase in a facility's property taxes. A facility must first receive a determination from the Texas Commission on Environment Quality (TCEQ) that property is for pollution control purposes. That positive use determination is then provided to the local appraisal district, which must accept the TCEQ's decision and grant the property an exemption from property taxes.

To be eligible for a positive use determination, the property must have been purchased, acquired, constructed, installed, replaced, or reconstructed after January 1, 1994 to meet or exceed federal, state, or local environmental laws, rules, or regulations.

For detailed information regarding this incentive, please contact Ken Zarker with the Texas Commission on Environmental Quality at (512) 239-3145.

8. Property Tax Rule 9.105:

The Texas Comptroller of Public Accounts offers a refund of State franchise and sales/use taxes paid by companies owning certain abated property. A company who 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 established under Chapter 312.
2. Is exempt in whole or in part from property tax imposed by a city or county under a tax abatement agreement established under Chapter 312.
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, not to exceed the net state sales and use taxes and state franchise taxes paid or collected and remitted during that calendar year. The refund amount may also be limited by a statewide appropriation per year for this refund program.

For more information and assistance on this incentive, contact the Comptroller of Public Accounts at (800) 252-9121 or (512) 305-9999.

9. Freeport Exemption:

A community may choose to offer the Freeport exemption for various types of goods that are detained in Texas for a short period of time. Freeport property includes goods, wares, merchandise, ores, and certain aircraft and aircraft parts. Freeport property qualifies for an exemption from ad valorem taxation only if it has been detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing, or fabricating.

10. Franchise Tax Credits for Economic Development:

The 76th Texas Legislature passed Senate Bill 441, which created new franchise tax credits for economic development. Eligible corporations may take advantage of certain research and

development, capital investment, and jobs creation credits. Businesses located in designated county strategic investment areas (SIA) qualify for these tax credits.

Research and Development (R & D)

A corporation may claim a credit for certain incremental qualified research expenses incurred and basic research payments made for research conducted in Texas during the period upon which the tax is based.

Amount of Credit

For reports originally due on or after January 1, 2002, the credit equals 5 percent of qualifying expenses and payments. In computing the credit, a corporation will receive a bonus for any qualified R & D expenditures made in a SIA. For reports due on or after January 1, 2002, a corporation may double the amount of such expenditures made in an SIA.

Limitations on Credit

For reports originally due on or after January 1, 2002, the total R & D credit for a report (including any credit carryforward) is limited to 50 percent. Any unused credit may be carried forward until the credit is used for up to 20 consecutive reports. A corporation that establishes an R & D credit cannot establish a jobs-creation credit in the same period. However, a corporation with an R & D credit carryforward may establish a jobs-creation credit in a period to which an R & D credit is carried forward.

11. Jobs-Creation:

To be eligible for a jobs-creation credit, a corporation must be a qualified business and must create at least 10 qualifying jobs. In addition, the corporation must pay an average weekly wage for each year in which credits are claimed of at least 110 percent of the county-average weekly wage for the counties where the jobs are located. (*Hidalgo County Average weekly wage is \$362.00 dollars or \$9.05 dollars per hour.*)

Qualifying Job

A "qualifying job" is a new permanent full-time job that is located in a strategic investment area, or, if the job is created by a business primarily engaged in agricultural processing, a Texas county with a population of less than 50,000. A "qualifying job" requires at least 1,600 hours of work a year, and pays at least 110 percent of the county average weekly wage for the county where the job is located.

The job must be covered by a group health benefit plan for which the corporation pays at least 80 percent of the premiums or other charges assessed under the plan for the employee. The job must

not be transferred from one area in Texas to another, and must not be created to replace a previous employee. A "qualifying job" must meet all of these requirements.

Amount of Credit

The credit equals 25 percent of total wages and salaries paid for qualifying jobs for the applicable year. The credit must be taken in five equal installments over the five consecutive reports beginning with the report based upon the period during which the qualifying jobs were created.

Limitations on Credit

The total credit for a report (including any credit carryforward) is limited to 50 percent of the tax due on the report before any other applicable credits. A corporation eligible for a credit from an installment that exceeds the 50 percent limitation amount may carry forward the unused portion of the installment until used for up to 5 consecutive reports.

A corporation that establishes the jobs-creation credit cannot establish the R & D credit in the same period. However, a corporation with a jobs-creation credit carryforward may establish an R & D credit in a period to which a jobs-creation credit installment is taken or carried forward.

12. Capital Investment:

A corporation may use a capital investment credit to reduce its franchise tax liability. To take advantage of this credit a corporation must be a qualified business; pay an average-weekly wage that is at least 110 percent of the county-average weekly wage in the county where the job is located; offer a specified group health benefit plan to all full-time employees, for which the corporation pays at least 80 percent of the costs; and make a minimum \$500,000 qualified capital investment (QCI).

Qualified Capital Investment (QCI)

A qualified capital investment is tangible personal property first placed in service in an SIA, or, if the QCI is made by a corporation primarily engaged in agriculture processing, first placed in service in a Texas county with a population under 50,000.

Amount of Credit

The credit equals 7.5 percent of the qualified capital investment during the period upon which the tax is based. The credit must be taken in five equal installments over the five consecutive reports beginning with the report based upon the period during which the QCI was made.

Limitations on Credit

The total credit for a report (including any credit carryforward) is limited to 50 percent of the tax due for the report before other applicable tax credits. A corporation eligible for a credit from an

installment that exceeds the 50 percent limitation amount may carry forward the unused portion of the installment until used for up to 5 consecutive reports.

A corporation that establishes a capital investment credit cannot claim the enterprise zone deduction authorized under Section 171.1015. (A corporation designated as an enterprise project may reduce its apportioned taxable capital or apportioned taxable earned surplus by qualifying capital investments made in the enterprise zone in which the enterprise project is located. For more information about the enterprise zone deduction, see Franchise Tax Rule 3.561.)

13. Permit Assistance:

TCEQ and the Office of the Governor Economic Development & Tourism division have established a relationship to assist companies, which may experience unwarranted delays in their environmental permitting process for projects that could affect job creation or have a high economic impact.

14. Economic Development & Diversification In-State Tuition for Employees:

The Economic Development and Diversification In-state Tuition incentive may be offered to qualified businesses that are in the decision-making process to relocate or expand their operations into Texas. The incentive allows employees and family members of the qualified businesses to pay in-state tuition fees if the individual files with a Texas institution of higher education. Without this incentive designation, a student must reside in Texas for a 12-month period to be entitled to pay the tuition fees of a Texas resident.

Private Incentives:

The M.E.D.C. agrees to be an advocate for the Hunt Power's private incentive. This incentive is available to those companies that will be setting up an operation in the Shary Business Park facility. This is a cash incentive that is offered to pay for any moving costs, or to alleviate any overhead expenses. The M.E.D.C. is the contact for this particular incentive.