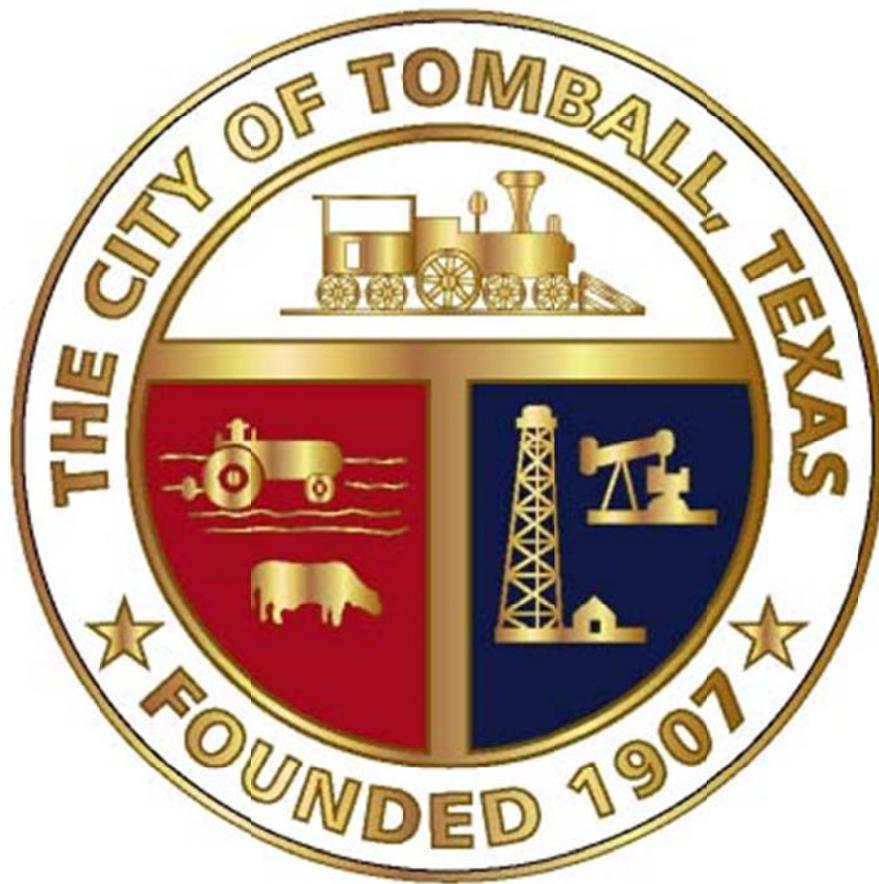


CITY OF TOMBALL, TEXAS
TAX ABATEMENT POLICY



AUGUST 6, 2018

TAX ABATEMENT GUIDELINES SUMMARY

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| TERMS | Up to 100% abatement for a period not to exceed 10 years. Each project is reviewed on a case-by-case basis. The amount of the abatement will be determined based on the merits of the project, including, but not limited to, location of the project, its size, total capital investment value, the number of temporary and permanent jobs created, the costs and benefits for the City, and the project's impact on Tomball's economy. |
| FACILITIES THAT QUALIFY | Corporate Headquarters Facility Manufacturing Facility Research Facility Regional Distribution Facility Regional Service Facility Regional Entertainment/Tourism Facility Other Basic Industry Facilities |
| AUTHORIZED INVESTMENTS | New Facilities Expansions |
| ABATED | Modernizations |
| ECONOMIC CRITERIA | Buildings, structures, fixed machinery, equipment, personal property, site improvements, and related office space New business: Minimum two million dollar (\$2,000,000) investment; create a minimum of twenty-five (25) jobs. Expansions: Minimum one million dollar (\$1,000,000) investment; must prevent the loss of payroll or retain, increase, or create payroll on a permanent basis in the City of Tomball. |

CITY OF TOMBALL, TEXAS TAX ABATEMENT POLICY

SECTION 1: GENERAL PURPOSE AND OBJECTIVES

The City of Tomball is committed both to the promotion of high quality development within the City and to the improvement in the quality of life of its citizens. In order to meet these goals, the City will, on a case-by-case basis, give consideration to providing tax abatement within designated reinvestment zones as stimulation for economic development in the City. Texas Tax Code Chapter 311. The purpose of this tax abatement policy is to encourage the growth and establishment of industry and commercial enterprise in the City. Growth is measured by the capital investment in the City for buildings, machinery, and other capital goods that increases the Tomball workforce.

The City of Tomball will consider tax abatement for qualified business and property owners in accordance with the procedures and criteria outlined in this document. Nothing herein shall imply or suggest that the City is under any obligation to provide any incentive to any applicant. All applications shall be considered on a case-by-case basis.

All applications for tax abatement must be for commercial and/or industrial improvements. Tax abatement is available for both new facilities and for the expansion and modernization of existing facilities. No residential developments will be considered for tax abatement. Tax abatement will not be ordinarily considered for projects that would be developed without such incentives unless it is demonstrated that higher development standards or other community development goals will be achieved through the use of abatement.

SECTION 2: DEFINITIONS

- (a) **Abatement** means the full or partial exemption from ad valorem taxes of certain new improvements of real and/or personal property in a reinvestment zone designated for economic development purposes.
- (b) **Agreement** means a contractual agreement between the City of Tomball and a property owner and/or lessee for the purpose of tax abatement.
- (c) **Base Year Value** means the assessed value of eligible property on January 1 preceding the execution of the Agreement plus the agreed upon value of eligible property improvements made after January 1 but before the execution of the Agreement.
- (d) **Corporate Headquarters Facility** means the facility or portion of a facility where corporate staff employees are physically employed and where the majority of the company's financial, personnel, legal, planning or other headquarters related functions are handled either on a national, regional or division basis.
- (e) **Deferred Maintenance** means improvements necessary for continued operations, which do not improve productivity or alter the process technology.

- (f) **Economic life** means the number of years a property improvement is expected to be in service in a facility. Provided, however, that in no circumstance shall the number of years exceed the depreciation allowance specified in the United States Internal Revenue Code.
- (g) **Effective Date of Abatement** means the first (1st) day of January immediately following the date the Agreement is approved by the City Council of Tomball or at any other date specifically authorized by City Council.
- (h) **Eligible Jurisdiction** means the City of Tomball, Harris County and any school district or college district which levies ad valorem taxes upon, and provides services to, property located within the proposed or existing reinvestment zone.
- (i) **Expansion** means the addition of buildings, structures, fixed machinery, equipment, and personal property for the purpose of increasing production capacity.
- (j) **Facility** means property improvements completed or in the process of construction which together comprise an integral whole.
- (k) **Manufacturing Facility** means buildings, structures, fixed machinery, equipment and personal property, the primary purpose of which is or will be the manufacture of tangible goods or materials or the processing of such goods or materials by physical or chemical change.
- (l) **Modernization** means the upgrading of existing facilities, which increases the productive input or output, updates the technology or substantially lowers the unit cost of the operation; modernization may result from the construction, alteration, or installation of buildings, structures, fixed machinery, equipment and personal property. It shall not be for the purpose of reconditioning, refurbishing or repairing.
- (m) **New Facility** means a property, previously undeveloped, that is placed into service by means other than or in conjunction with expansion or modernization.
- (n) **New Machinery and Equipment** means tangible machinery, equipment, or personal property that is securely placed or fastened and stationary within a building or structure or permanently resides in the City of Tomball.
- (o) **Other Basic Industry Facility** means buildings and structures including fixed machinery, equipment, and personal property not elsewhere described, used or to be used for the production of products or services which primarily serve a market outside the City of Tomball and result in the creation of new permanent jobs and bring new wealth in to the City.
- (p) **Real Property:** The land on which a facility is placed.
- (q) **Regional Distribution Facility** means buildings and structures including fixed machinery, equipment, and personal property used or to be used primarily to receive, store, service or distribute goods or materials owned by the facility, from which a

majority of revenues generated by the activity at the facility are derived from outside the City of Tomball.

- (r) **Regional Entertainment/Tourism Facility** means buildings and structures, including fixed machinery, equipment, and personal property used or to be used to provide entertainment and/or tourism related services, from which a majority of revenues generated by activity at the facility are derived from outside the City of Tomball.
- (s) **Regional Service Facility** means buildings and structures, including fixed machinery, equipment, and personal property used or to be used to provide a service, from which a majority of revenues generated by activity at the facility are derived from outside the City of Tomball.
- (t) **Research Facility** means buildings and structures, including fixed machinery, equipment, and personal property used or to be used primarily for research or experimentation to improve or develop new tangible goods or materials or to improve or develop the production processes thereto.

SECTION 3: GUIDELINES AND CRITERIA

Minimum Standards for Tax Abatement

- (a) The project shall not have any negative environmental impacts on the community (e.g., significant pollution or hazardous waste).
- (b) The project should stimulate local employment and/or commercial activity and benefit existing business and not compete with existing businesses to the extent of being a detriment to the local economy as a whole.
- (c) **New Facilities:** The project will establish and maintain at least twenty-five (25) jobs in the City of Tomball and have a minimum capital investment of two million (\$2,000,000). *(The acquisition cost of the real property is not included in the project investment).*
- (d) **Expansion/Modernization:** The project must prevent the loss of payroll or retain, increase or create payroll on a permanent basis in the City of Tomball and have a minimum capital investment of one million (\$1,000,000). *(The acquisition cost of the real property is not included in the project investment).*
- (e) The City of Tomball may consider tax abatement for an investment less than the minimum amount required based upon City evaluation of economic development factors, including but not limited to:
 - (a) the location of taxable inventory on the property;
 - (b) the amount of sales tax that the project will generate for the City.
- (f) Tax abatement may only be granted for the additional tax value resulting from any of the following:
 - (a) construction of a new facility of any type as herein defined;

- (b) expansion of existing facilities of any type as herein defined; or
- (c) modernization of existing facilities of any type as herein defined.
- (g) The project should have high visibility and image impact, or be a significantly higher level of development quality.
- (h) The project will serve as a catalyst or magnet to attract or retain other high quality industrial/business development.
- (i) The project will not solely and primarily have the effect of transferring employment from one part of the city to another.
- (j) The development must conform to the City's zoning ordinance.
- (k) The costs of city services required for the development should not exceed the amount of taxes generated if abatement is provided.

SECTION 4: ABATEMENT AUTHORIZED

- (a) **Authorized Tax Abatement Categories.** A facility may be eligible for tax abatement if it is a:
 - Corporate Headquarters Facility
 - Manufacturing Facility
 - Research Facility
 - Regional Distribution Facility
 - Regional Service Facility
 - Regional Entertainment/Tourism Facility, or
 - Other Basic Industry Facility
- (b) **Authorized Date:** A facility shall be eligible for tax abatement if it has applied for such abatement prior to the commencement of construction.
- (c) **Creation of New Value:** Abatement may only be granted for the additional value of eligible property improvement made subsequent to and in an abatement agreement between the City of Tomball and the property owner and/or lessee, subject to such limitations as the City Council may require.
- (d) **Eligible Property:** Abatement may be extended to the value of buildings, structures, fixed machinery, equipment, personal property, site improvements plus that office space and related fixed improvements necessary to the operation and administration of the facility. The value of all property shall be the appraised value for each year, as finally determined by the applicable appraisal district.
- (e) **Ineligible Property:** The following types of property shall be generally be fully taxable and ineligible for abatement: land; inventories; supplies; tools; furnishings; and other forms of movable personal property; vehicles; vessels; aircraft; housing; hotel

accommodations; deferred maintenance investments; property to be rented or leased except as provided below; improvements for the generation or transmission of electrical energy not wholly consumed by a new facility or expansion; any improvements, including those to produce, store or distribute natural gas, fluids or gases, which are not integral to the operation of the facility; property which has an economic life of less than fifteen (15) years; property owned or used by the State of Texas or its political subdivision or by any organization owned, operated or directed by a political subdivision of the State of Texas, or any property exempted by local, state or federal law; and property owned or leased by a member of city council or a member of a zoning or planning commission of the City.

- (f) Leased Facilities:** If a leased facility is granted abatement, the agreement shall be executed with the lessor and the lessee.
- (g) Value and Term of Abatement:** Abatement shall be granted effective with the January 1 valuation date immediately following the date of execution of the agreement or at such other date specifically authorized by City Council. The value of the abatement will be determined based on the merits of the project, including, but not limited to, total capital investment value and added employment. Up to one hundred percent of the value of new eligible properties may be abated for a total term of abatement not to exceed ten years. However, a project must provide an extraordinary economic benefit to the City to be considered for one hundred percent abatement.

If a modernization project includes facility replacement, the abated value shall be the value of the new unit(s) less the value of the old unit (s).

- (h) Taxability:** From the execution of the abatement to the end of the agreement, taxes shall be payable as follows:
- (1) The value of ineligible property as provided in Section 4(e) shall be fully taxable;
 - (2) The base year value of existing eligible property as determined each year shall be fully taxable; and,
 - (3) The additional value of new eligible property shall be taxable at the end of any abatement period.

SECTION 5: APPLICATION

- (a)** Any present or potential owner of taxable property in the City of Tomball may request the creation of a reinvestment zone or tax abatement by filing a written application with the City Secretary of the City of Tomball.
- (b)** The application shall consist of a completed application form accompanied by: a general description of the project/new improvements to be undertaken; a descriptive list of the improvements for which an abatement is requested; a list of the kind, number and location of all proposed improvements of the property; a list of the estimated value of

inventory and the location where the inventory will be stored; the projected employment number at the proposed facility and the estimated average salary; the estimated amount of annual sales subject to State Sales & Use Tax; a map and property description; and a time schedule for undertaking and completing the proposed improvements. The applicant shall also include information pertaining to the reasons the abatement is necessary in order to have the project undertaken in the City of Tomball. In the case of modernization, a statement of the assessed value of the facility separately stated for real and personal property shall be given for the tax year immediately preceding the application. The application form may require such financial and other information as the Tomball City Council deems appropriate for evaluating the financial capacity and other factors of the applicant.

- (c) The applicant must certify that the applicant does not employ nor will it employ any undocumented workers (an individual who, at the time of employment, is not lawfully admitted for permanent residence to the United States or, authorized under law to be employed in that manner in the United States). The applicant must agree that if it is convicted of a violation under 8 U.S.C. Section 1324a(f) after receiving a tax abatement, applicant shall repay the amount of the tax abatement with interest, at the rate of 12% per annum, within 120 days after the City notifies the applicant of the violation. The City shall have the authority to bring a civil action to recover any amounts which the applicant must repay the City under this provision, and in such action may recover court costs and reasonable attorneys' fees.
- (d) The City of Tomball may request additional information as deemed appropriate for evaluating the financial capacity of the applicant and compatibility of the proposed improvements with these guidelines and criteria.
- (e) Upon receipt of a completed application, the Mayor of the City of Tomball shall notify in writing the presiding officer of the governing body of each eligible jurisdiction.
- (f) After receipt of a completed application, the City Council through its City Manager shall determine whether the application qualifies for abatement under the terms of these guidelines and criteria.
- (g) The City Manager shall prepare a fiscal impact analysis setting out the impact of the proposed reinvestment zone and tax abatement. The impact analysis study shall include, but not limited to, an estimate of the economic effect of the creation of the zone and the abatement of taxes and the benefit to the City of Tomball and the property to the included in the zone. The cost of city services to the development should not exceed the amount of taxes generated by the development
- (h) The City Council shall not establish a reinvestment zone or enter into an abatement agreement if it finds that the request for the abatement was filed after the commencement of construction, alteration, or installation of improvements related to a proposed new facility, expansion, or modernization. An applicant is ineligible for abatement if a decision to commence a new facility, expansion or modernization in the City of Tomball has been formally announced on or before the date of adoption of these guidelines.

SECTION 6: PUBLIC HEARING AND APPROVAL

- (a) The City Council may not adopt an ordinance designating a reinvestment zone until it has held a public hearing at which interested persons are entitled to speak and present evidence for or against the designation. TEXAS TAX CODE § 312.201. Notice of the hearing must be published at least 7 days before the hearing in a newspaper of general circulation in the City. Id. The presiding officers of eligible jurisdictions shall be notified in writing at least 7 days prior to the hearing. Id.
- (b) Prior to entering into an tax abatement agreement, the City Council, may, at its option, hold a public hearing at which interested persons shall be entitled to speak and present written materials for or against the approval of the agreement.
- (c) In order to enter into a tax abatement agreement, the City Council must find that the terms of the proposed agreement meet these GUIDELINES AND CRITERIA and that:
 - (1) There will be no substantial adverse effect on the provision of the City of Tomball's services or tax base; and
 - (2) The planned use of the property will not constitute a hazard to public safety, health or morals.

SECTION 7: AGREEMENT

- (a) After approval of a tax abatement application within a designated reinvestment zone, the Tomball City Council shall formally pass a resolution and execute an agreement with the owner of the facility and lessee as required, which shall include:
 - (1) Estimated value to be abated and the base year value;
 - (2) Percent of value to be abated each year;
 - (3) The commencement date and the termination date of abatement;
 - (4) The proposed use of the facility, nature of construction, time schedule for completion of the project, map, property description and improvement list;
 - (5) The contractual obligation in the event of default, violation of terms or conditions, delinquent taxes, recapture, administration and assignment, or other provisions that may be required for uniformity or compliance with state law;
 - (6) Amount of investment, increase in assessed value and average number of job involved; and
 - (7) A requirement that the applicant annually submit to the City, a January employee count of the abated facility which corresponds to the employment counts reported in the facility's Employer's Quarterly Report to the Texas Workforce Commission, and a separate notarized letter certifying the number of jobs created

or retained as a direct result of the abated improvements and the number of employees in other facilities located within the City of Tomball. Submission shall be used to determine abatement eligibility for that year and shall be subject to audit if requested by the governing body. Failure to submit may result in the ineligibility to receive an abatement for that year and the termination of the tax abatement agreement and subject any abated taxes to recapture pursuant to Section 8 hereof.

Such agreement shall normally be executed within 60 days after the applicant has forwarded all necessary information and documentation to the Tomball City Council.

- (b) The City Council may impose any other conditions in a tax abatement agreement that the City Council deems necessary to promote the purpose of these guidelines.

SECTION 8: RECAPTURE

- (a) In the event that the facility is completed and begins producing product or service, but subsequently discontinues producing product or service for any reason excepting fire, explosion or other casualty or accident or natural disaster for a period of one (1) year during the abatement period, then the agreement shall terminate and so shall the abatement of the taxes for the calendar year during which the facility no longer produces. The taxes otherwise abated for that calendar year shall be paid to the City of Tomball within sixty (60) days from the date of termination.
- (b) Should the City Council determine that the company or individual is in default according to the terms and conditions of its agreement, the City of Tomball shall notify the company or individual in writing at the address stated in the agreement, and if such is not cured within sixty (60) days from the date of such notice (the Cure Period), then the agreement may be terminated.
- (c) In the event that the company or individual allows its ad valorem taxes owed the City of Tomball to become delinquent and fails to timely and properly follow the legal procedures for their protest and/or contest, or violates any of the terms and conditions of the abatement agreement and fails to cure during the Cure Period, then the City may terminate the agreement and all taxes previously abated by virtue of the agreement will be recaptured and paid within sixty (60) days of the termination.

SECTION 9: ADMINISTRATION

- (a) Each year, the company or individual receiving abatement shall furnish the Chief Appraiser and the City of Tomball with such information as may be necessary for the abatement.
- (b) The agreement shall stipulate that employees and/or designated representatives of the City of Tomball will have access to the reinvestment zone during the term of the abatement to inspect the facility to determine if the terms and conditions of the agreement are being met. All inspections will be made only after the giving of twenty-

four (24) hours prior notice and will only be conducted in such manner as to not unreasonably interfere with the construction and/or operation of the facility. All inspections will be made with one or more representatives of the company or individual and in accordance with its safety standards.

- (c) Upon completion of construction, the jurisdiction which created the zone shall annually evaluate each facility receiving abatement to ensure compliance with the agreement and report possible violations of the agreement to the City of Tomball and its attorney.
- (d) All documents related to tax abatements, including the annual certifications, will be kept on file with the City Secretary.

SECTION 10: ASSIGNMENT

An abatement may be assigned by the holder to a new owner or lessee of the same facility with the written consent of the Tomball City Council, which consent shall not be unreasonably withheld. Any assignment shall provide that the assignee shall irrevocably and unconditionally assume all the duties and obligations of the assignor upon the same terms and conditions as set out in the agreement. Any assignment of a tax abatement agreement shall be to an entity that contemplates the same improvements or repairs to the property, except to the extent such improvements or repairs have been completed. No assignment shall be approved if the assignor or the assignees are indebted to the City of Tomball for ad valorem taxes or other obligations.

SECTION 11: CONFIDENTIALITY OF PROPRIETARY INFORMATION

Subject to the provisions and limitations of Chapter 552 of the Texas Government Code, information that is provided to the City of Tomball in connection with an application or request for the creation of a reinvestment zone for the purposes of tax abatement in accordance with the above criteria and guidelines and which describes the specific process or business activities to be conducted or equipment or other property to be located on the property for which the tax abatement is sought is confidential and not subject to public disclosure until the tax abatement agreement is executed. Texas Tax Code § 312.003. The information in the custody of the City of Tomball after the agreement is executed will be treated as confidential to the extent allowed by law.

SECTION 12: SUNSET PROVISION

These GUIDELINES AND CRITERIA are effective upon the date of their adoption and will remain in force for two (2) years, at which time all reinvestment zones and tax abatement contracts created pursuant to its provisions will be reviewed by the Tomball City Council to determine whether the goals have been achieved. Based on that review, the GUIDELINES AND CRITERIA will be modified, renewed or eliminated.