



## *FINANCIAL INCENTIVES*

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## *Performance-Based Cash Incentive*

**Definition:** The Conroe Industrial Development Corporation administers funds generated by the half-cent sales tax in Conroe. A portion of these funds is earmarked for a performance-based cash incentive. The amount of the incentive is determined by a qualifying company's capital investment and/or gross payroll added in the City of Conroe/Montgomery County.

**Benefits:** A cash incentive based on projected performance is available to new and expanding companies in the Conroe area.

**Qualifications:** Only "basic industry" companies are eligible to receive a cash incentive. Qualifying companies are required to sign mutually accepted performance agreements based on capital investment and/or payroll and maintain a physical location and conduct business in the City of Conroe/Montgomery County for a specified period of time.

A cost-benefit analysis will be conducted for each applicant for incentives. The incentive amount is determined by the city/county tax cash flow over a seven-year period. The community return on investment time period projected by the cost-benefit analysis will, in all cases, not exceed seven years.

Three years of financial statements are required for credit worthiness analysis.

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## *Montgomery County Tax Abatement/ Reinvestment Zone*

- Definition:** Montgomery County has a Reinvestment Zone which offers ad valorem tax abatements for additional ad valorem tax value created by new construction, remodeling and expansion. County boundaries are the boundaries of the Reinvestment Zone.
- Benefits:** Montgomery County government officials have agreed to consider value added tax abatements. The taxable value of new eligible improvements must be in excess of two million dollars (\$2,000,000.00) and must create or retain a minimum of twenty-one (21) permanent jobs.
- Qualifications:** (1) A company must clearly add to the Montgomery County economic base. In order to be eligible to receive tax abatement, the planned improvements:
- A. Must be reasonably expected to increase taxable ad valorem tax value at least \$2,000,000.00 base on appraised value.
  - B. Must be expected to prevent loss of payroll or retain, increase or create payroll on a permanent basis in the county.
  - C. Must not be expected to solely or primarily have the effect of transferring employment from one part of the County to another.
  - D. Must be necessary because capacity cannot be provided efficiently utilizing existing improved property.

*This tax abatement policy applies to the granting of tax abatement by Montgomery County only.*

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## *City of Conroe Tax Abatement/ Designated Reinvestment Zones*

- Definition:** The city of Conroe recently passed a tax abatement plan similar to the one offered by Montgomery County. The city is in the process of developing Reinvestment Zones that offer ad valorem tax abatements for additional ad valorem tax value created by new construction, remodeling and expansion.
- Benefits:** Conroe city officials have agreed to consider value added tax abatements. The taxable value of new eligible improvements must be in excess of two million dollars (\$2,000,000.00) and must create or retain a minimum of twenty-one (21) permanent jobs.
- Qualifications:** (1) A company must clearly add to the city of Conroe economic base. In order to be eligible to receive tax abatement, the planned improvements:
- E. Must be reasonably expected to increase taxable ad valorem tax value at least \$2,000,000.00 base on appraised value.
  - F. Must be expected to prevent loss of payroll or retain, increase or create payroll on a permanent basis in the city of Conroe.
  - G. Must not be expected to solely or primarily have the effect of transferring employment from one part of the County to another.
  - H. Must be necessary because capacity cannot be provided efficiently utilizing existing improved property.

*This tax abatement policy applies to the granting of tax abatement by city of Conroe only.*

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## *Freeport Exemption*

**Definition:** The Montgomery County Freeport Exemption exempts certain types of tangible personal property is:

1. Acquired in or imported into Texas to be forwarded out of state;
2. Detained in Texas for assembly, storing, manufacturing, processing, or for fabricating purposes by the person who acquired or imported it; and
3. Transported out of state within 175 days after the date the person acquired or imported it into Texas.

Because oil, natural gas, and other petroleum products are not considered Freeport goods, they are not eligible for the exemption and therefore remain taxable.

**Benefits:** A company that manufactures or distributes a product from within a jurisdiction which has been designated a Freeport will realize a significant savings if it serves national or international markets.

**Qualifications:** Montgomery County, City of Conroe, Conroe I.S.D. (2007), Montgomery County Hospital District, Montgomery I.S.D., City of Willis, City of Shenandoah, City of Panorama Village, City of Magnolia, and the City of Montgomery allow the exemption. The amount of the goods in transit exemption for each year is normally based on the percentage of inventory made up by such goods last year. A one page application requests a company to identify property owned on January 1<sup>st</sup> of each year (or September 1<sup>st</sup> of the preceding year if the company receives a September, inventory appraisal). A company must apply for the exemption each year from the Montgomery County Appraisal District between January 1<sup>st</sup> and May 1<sup>st</sup>.

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## *Foreign Trade Zone*

- Definition:** A Foreign Trade Zone is an area within the United States, in or near a U.S. Customs port of entry, where foreign and domestic merchandise is considered to be outside the country, or at least, outside of U.S. Customs territory. Certain types of merchandise can be imported into a Zone without going through formal Customs entry procedures or paying import duties. The Foreign Trade Zone may consist of contiguous or non-contiguous sites. The Foreign Trade Zone is intended to serve the greater Montgomery County and surrounding area.
- Benefits:**
- Duty exemption on exports** – When foreign merchandise is brought into a Foreign Trade Zone, no Customs duty is owed until the merchandise leaves the zone and enters the commerce of the United States. Only then is the merchandise considered imported and the duty paid. If the imported merchandise is exported back out of the U.S., no Customs duty is ever due.
  - Tariff election (lower customs duties paid on imports)** – The importer may elect to pay the duty rate applicable to either the raw material or the finished product, depending upon which is lower.
  - Duty deferral** - No duty is due on merchandise unless and until the merchandise is entered into the Customs territory.
  - No duty paid on defects/damage/obsolescence/waste/scrap** – Customs duties are not paid on merchandise subject to these accountable losses.
  - Inventory taxes** – Foreign and domestic merchandise held for export may not be subject to local inventory tax.
  - Zone to zone transfers** - Zone users may transport merchandise, in-bond, around the country to other zones for various reasons and never incur Customs duty liability. Networking among companies in zones for zone to zone transfers can also provide significant market advantages for such companies, to the exclusion of companies not in zones.
- Qualifications:** Manufacturing and production are permitted; other common uses include storage, warehousing activities such as assembly, cleaning, sorting, packaging/repackaging, and distribution. Exclusive operation of

## *Foreign Trade Zone Continued...*

the Foreign Trade Zone is by the Trade Development Company with offices in Washington, D.C. and in Conroe. The Trade Development Company is working in conjunction with the Greater Conroe Economic Development Council to make this zone project available to all interested users. In keeping with Federal law, the zone and all users must comply with the terms and conditions of the published rate schedule.

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## *Industrial Development Revenue Bonds*

**Purpose:** The authority to issue tax-exempt Industrial Bonds was reinstated when "Title XIII, the Revenue Reconciliation Act of 1993," was signed into law on August 10, 1993. Non-profit development corporations or authorities ("IDSs or issuers") may issue bonds, pursuant to the Development Corporation Act of 1979. The Act allows non-profit corporations such as (Montgomery County Industrial Development Board) to issue bonds on behalf of cities, counties, conservation or reclamation districts for eligible projects. The purpose of bond financing is to promote new and existing businesses, encourage employment, and increase the tax base of the community where the project is located.

**Availability:** The types of Bonds available are:

1. Tax exempt Industrial Revenue Bonds for Manufacturing Projects: - bonds issued to finance land and depreciable property for manufacturing facilities. Since the interest earned is exempt from federal income taxes, the bonds are sold at a lower rate of interest, thus lowering the cost of capital for a project. The maximum bond amount is \$10,000,000.
2. Taxable Industrial Revenue Bonds: - These bonds typically have higher interest rates than tax exempt issues. These issues, however, do not have restrictions on the use or amount of the issue.

**Process:** To begin the process, it is important for business to contact the Montgomery County Industrial Development Board.

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## *Banking Consortium*

- Definition:** A group of banking institutions in Conroe has joined in an effort to support economic development
- Benefits:** Businesses moving to the Conroe area as well as existing Conroe area industries can call upon this banking consortium for participation in their banking needs. All banking and loan activity can be addressed in this forum. The chamber's economic development department will act as a facilitator for an industry to present its business plan to this group of local bankers.
- Qualifications:** The business should be prepared to present information on the company, its products, principals, marketing plan and financial information.
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## ***SBA 504 Loan Program***

- Purpose:** The Small Business Administration (SBA) 504 loan is a fixed asset financing program which offers small businesses fixed interest loans at a below market rate. The SBA 504 stimulates local investment and creates new or saves existing jobs.
- Commerce's Role:** Capital Certified Development Corporation (non-profit), in conjunction with Texas Department of Commerce staff, acts as an intermediary between the business, the lender, and the SBA in the development process. Staff members will assist businesses in assessing their debt service capacity, structuring the financing, packaging, closing and servicing the loan.
- Use of Proceeds:** Loan proceeds may be used to acquire land, construct a building, purchase land/building/and /or machinery and equipment.
- Proceeds cannot be used for working capital or to refinance existing debt.
- Eligible Project:** The program is available to successful small businesses planning an expansion. Eligible businesses with a three-year track record are desirable. The size criteria for a small business includes:
- \* Any business whose tangible net worth is less than \$6 million and whose profits after tax averaged under \$2 million for the previous two years.
  - \* There are no limitations on the personal net worth of business owners.
  - \* Limited to owners-users; developers do not qualify.
- Terms:** The 504-loan program is a dual program, which involves the SBA, through a CDC and a private lending source. Private lenders make up the first mortgage loans for fifty percent (50%) of the SBA 504 project costs, using their normal credit terms. Generally, projects are between \$200,000 and \$2.5 million. The SBA through the CDC may finance Forty percent (40%) of the SBA 504 total projects costs. The maximum CDC participation is \$750,000.

## *SBA Continued...*

The business must provide a minimum then (10%) equity contribution, although additional equity contributions may be required if the business is less than three years old.

SBA 504 loans are generally second mortgage loans for forty percent (40%) of the SBA 504 project cost (the CDC portion). The lending source is generally a bank, although seller financing may be an option in some instances. The rate charged on the private loan is set by the private lender and may be fixed variable or floating. The private lender, subject to SBA term requirements also sets the term.

SBA 504 loans are usually subordinated to the private loan and are offered at an interest rate set at  $\frac{3}{4}$  percent over the U.S. Treasury bond rate. The rate fluctuates with the market and is set once a month for loans that are closed once a month. When a loan is closed, the rate is fixed and remains constant over the life of the loan. The loan's term is tied to the life of the assets and is either 10 or 20 years.

**Collateral:** Collateral may include mortgages on commercial buildings, equipment, assignments or receivables, and may also include personal assets.

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## *Work Opportunity Tax Credit*

- Definition:** The Work Tax Credit is a federal tax credit given to companies that hire employees from one of nine target groups. The tax credit is used to reduce a company's federal tax payment in the current tax year.
- Benefits:** Provides a tax credit of up to 35% to employers who hire tax credit eligible employees. The maximum tax credit is \$2,100, which represents 35% of \$6,000 in wages paid.
- Qualifications:** To benefit from the targeted jobs tax credit a company needs to have a tax ID number, pay federal income tax and directly employ its workers. In addition, the company must hire workers from one of seven targeted groups. These targeted groups include: Qualified IV-A Recipient (AFDC), Qualified Veteran, Qualified Ex-Felon, High Risk Youth, Vocational Rehabilitation Referral, Qualified Summer Youth Employee and Qualified Food Stamp Recipient. Individuals must be certified as WOTC eligible prior to hire. Certification is handled locally by Texas Employment Commission.
- Example:** If a company hires ten tax credit certified employees per year it will reduce its tax burden by \$21,000 assuming that the employees make at least \$6,000. This amount is deducted from federal corporate income taxes to be paid.
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## *Pollution Control Property Tax Exemption*

- Definition:** In 1993, Texas voters passed a constitutional amendment providing the availability of a property tax exemption for pollution control equipment. Equipment or land for air, water, or land pollution control is eligible for the exemption.
- Benefit:** This program provides an exemption of real and personal property tax for the life of the eligible equipment.
- Qualification:** Any structure, building, installation, excavation, machinery, equipment, or device installed to meet or exceed rules and regulations adopted by any environmental protection agency of the United States, this state, or a political subdivision of this state, for the prevention, monitoring, control, or reduction of air, water, or land pollution.
- Process:** The individual or company seeking the exemption must submit a use determination permit application to the executive director of the Texas Natural Resource Conservation Commission.
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## *Skills Development Fund*

- Definition:** The Skills Development Fund is a new program designed to help Texas public community and technical colleges finance customized job training for their local businesses. The Fund will provide training for specific skills for workers who will be hired by the businesses. The Legislature appropriated \$25 million for fiscal 1996 and 1997.
- Goal:** The program will assist the community through business expansion or relocation, and continue to help the creation of a competitive and trained Texas workforce.
- Eligibility:** Businesses and labor unions that form partnerships with local community colleges and technical schools may apply. They should have a training plan and jobs, which pay the occupational wage in their local area.

**A proposal packet or additional information can be obtained by contacting the Business Services Division of the Texas Workforce Commission at (512) 463-8844.**

**Definition:** Created in 2003, the Texas Enterprise Fund is used as a “deal closing fund” that has the flexibility and financial resources to help strengthen the state’s economy. The amount of incentive is determined by the capital investment, job creation, wages generated, financial strength of a qualifying company’s business history, analysis of the relevant business sector, and federal and local government and private sector financial support. It is to be used after the local economic development community has made its offer of local incentives.

**Benefit:** This program is used primarily to attract new business to the state or assist with the substantial expansion of an existing business as part of competitive recruitment.

**Qualification:** The qualifying company must demonstrate a significant return on the state’s investment and strong local support. Qualifying companies are required to sign mutually accepted performance agreements for a specified period of time. Before funds can be awarded, the governor, lieutenant governor, and speaker must unanimously agree to support the use of the Enterprise Fund for each specific project.

A cost-benefit analysis will be conducted for each qualifying company for incentives.

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## *Targeted Brownfields Assessment (TBA)*

**Definition:** Provided by the U.S. EPA Region 6 to encourage the reuse of brownfields. Brownfields are properties for which the redevelopment or reuse may be complicated by the presence or potential presence of environmental concerns due to current or prior use of the property. In order to encourage redevelopment of brownfields, EPA will provide free environmental site assessments for qualified properties and entities.

**Benefit:** Phase I environmental site assessments (a report based on available public information, interviews and site visit), Phase II environmental site assessments (a report based on sampling and analysis of soil and groundwater on the property), and cleanup planning (a report which defines cleanup needs and an estimated cost for the cleanup). These assessments will determine if there are potential environmental concerns associated with the property, and if so, the magnitude of the concerns.

**Eligibility:** Local governments, community development organizations, non-profit entities, private owners if the redevelopment will benefit the local community.

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