Mayor & Council — Diana Blanco

McAllen pays nearly $3.9M incentive to Sam's Club

By DAVE HENDRICKS The Monitor | Posted: Thursday, January 9, 2014 9:43 pm

McALLEN — That second Sam's Club membership wasn't cheap.

Last month, McAllen paid Uptown Partners — the development company that convinced Sam's Club to build at North 10th Street and Trenton Road — $3,875,000 promised during April 2011.

The deal neutered any attempt to build the new Sam's Club near the Shops at Rio Grande Valley, located just a few miles away on Edinburg's slice of Trenton Road.

"Unfortunately, that's the price of doing business nowadays," said McAllen Mayor Jim Darling.

Originally, the City Commission agreed to pay Uptown Partners about $4 million, gradually making payments with sales tax generated by the new Sam's Club. Uptown Partners agreed to accept a slightly smaller lump-sum payment on Dec. 18.

"Getting paid over time is less attractive than something now," said developer Rob Gandy of Uptown Partners.

When Sam's Club started scouting Hidalgo County for potential locations, the company considered property near the Shoppes at Rio Grande Valley in Edinburg, Gandy said. Wherever the Sam's Club landed would have a major impact on local sales tax revenue.

Texas collects a 6.25 percent states sales tax and local governments may levy an additional 2 percent local sales tax. The system, which rewards local governments with large retail sectors, often spurs intense competition between neighbors.

McAllen depends heavily on local sales tax to fund city spending. The city Finance Department projected sales tax would generate nearly $47.5 million during the current fiscal year, easily McAllen's single-largest revenue source.

Concerned the new Sam's Club might shift sales tax revenue to Edinburg, the McAllen City Commission inked the economic development deal with Uptown Partners, which wanted to develop the northwest corner of Trenton Road and North 10th Street. McAllen would pay Uptown Partners $4 million — if the new Sam's Club materialized.

"We sold to Sam's at a lower price than what our basis was and we're only able to do that if the city participated through this vehicle," Gandy said, talking about the development agreement.

Sam's Club built a 139,000-square-foot retail warehouse on the property and opened the doors in April 2012.

The deal protected McAllen's sales tax revenue, anchored the Uptown Partners development at

North 10th Street and Trenton Road, and handed Sam's Club dirt-cheap property.

"It is a pretty common practice for large retail boxes to look to cities for incentives," said City Manager Mike Perez. "And so location is always going to be the prime, driving factor, but if you have two places that have two good locations, it comes down to who can make the better deal."

McAllen later renegotiated the deal with Uptown Partners, which agreed to accept a smaller, lump-sum payment of $3,875,000. Gandy estimated the early payment deal saved McAllen roughly $650,000 to $700,000.