

BUDGET/FINANCIAL COUNCIL ACTION IMPACT STATEMENT

INITIATOR'S SUMMARY OF COUNCIL ACTION (Deliver original to the Bureau of Financial Planning Retain copy)

1 Name of Initiator Michael Ogan	2 Bldg /Room No 233/100	3 Telephone No 823-3309	4 Bureau/Office/Dept Portland Development Commission
5a To be filed (date) September 8, 1999	5b Calendar (Check One) Regular <input type="checkbox"/> Consent <input type="checkbox"/> 4/5ths <input type="checkbox"/>	6 Date Submitted to OF&A Budget Analyst September 1, 1999	
			7 Fund Name General Fund

Category 3 Non-Routine or Unbudgeted Item []

SUMMARY OF ACTION

City Council Resolution approving Freightliner Corporation's application for a N/NE Enterprise Zone property tax exemption

Council action will authorize PDC to enter into an Enterprise Zone Precertification Contract with the company, which upon execution, will provide a 5-year property tax exemption for an anticipate \$71.7 million investment to Freightliner Corporation's facilities on Swan Island

Revenue Impact Statement

The \$71.7 million portion of Freightliner Corporation's investment within the N/NE Enterprise Zone that is qualified for a property tax exemption will result in an estimated City of Portland general fund property tax exemption of \$1,531,341 over the 5-year allowable exemption period

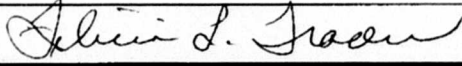
A \$21.5 million portion of the company's investment is not qualified for an exemption and will result in additional assessed valuation on the tax roll. This \$21.5 million non-exempt investment will generate an estimated \$459,189 in additional City of Portland general fund property tax revenues during the 5-year period

Combined, this nets \$1,072,152 in City general fund revenues forgone over the 5-year exemption period, or roughly \$214,000 annually

Cost of Services

As a mechanism to insure that the City's cost of serving an exempted project are covered, the City's N/NE Enterprise Zone Strategy requires that the company's general fund payments to the City associated with this project total at least 25% of the exempted taxes. The additional property tax revenues generated by the company's non-exempt investment amounts to 30% of the exempted taxes. This, combined with additional general fund revenues generated from the City's Business Income and Utility Franchise Fees, are more than sufficient to cover the City's estimated costs of serving Freightliner Corporation's new development

Drew Barden (OFA) states, "This abatement looks pretty good because of the extra property tax revenues that the project will generate thus it has a positive fiscal impact that offsets to some extent property tax abatement. In addition, the abatement generates a large number of new jobs. I think in a qualitative sense that the benefits associated with this abatement exceed whatever additional current service level cost increases come along with the added jobs and population that come with the jobs"

Felicia L. Trader, Executive Director 

APPROPRIATION UNIT HEAD (Typed name and signature)

EXHIBIT A

PORTLAND DEVELOPMENT COMMISSION

DATE: September 8, 1999
TO: Portland City Council
FROM: Felicia L. Trader, Executive Director, PDC
SUBJECT: **Report and Recommendation on Freightliner Corporation's
N/NE Enterprise Zone Precertification Application.**

The Resolution accompanying this Report is to approve Freightliner Corporation's N/NE Enterprise Zone Precertification Application and authorize the Portland Development Commission to enter into an Enterprise Zone Contract with Freightliner Corporation consistent with the City's adopted N/NE Enterprise Zone Strategy

Executive Summary

In 1996, Portland's N/NE Enterprise Zone was re-designated by the Oregon Economic Development Department. At that time, City Council adopted the N/NE Enterprise Zone Strategy that established a set of conditions that companies must meet to qualify for an exemption.

Freightliner Corporation is planning to construct a new corporate headquarters building and make other investments on Swan Island. The company has submitted an application for a property tax exemption under the City's enterprise zone program.

The company will invest \$93.2 million in new construction and renovation of their Swan Island facilities. Of this total investment \$71.7 million is eligible for an exemption. The remaining \$21.5 million is not eligible for a property tax exemption and will be a direct increase to Freightliner's taxable assessed valuation on Swan Island.

The anticipated property tax exemption would total \$6.8 million over a 5-year exemption period. The City of Portland's General Fund portion of the exempted taxes is estimated at \$1.5 million over the 5-year exemption period. During this same 5-year period, the \$21.5 million investment that is not eligible for an exemption will generate an estimated \$1.9 million in net new property tax revenue. Additional General Fund property tax revenues to the City would be approximately \$492,000 over the 5-year period.

Freightliner anticipates hiring 1,125 people to fill new and replacement manufacturing and office positions within the zone during the 5-year exemption period.

The recommendation by staff to approve Freightliner Corporation's application and authorize PDC to enter into an Enterprise Zone Precertification Contract is based on the following background and analysis.

History Of The N/NE Enterprise Zone Program

In 1986, in response to economic conditions that were made worse by the recession of the early 1980s, the Oregon legislature passed a set of laws allowing the creation of enterprise zones in economically disadvantaged areas of the state. The state enterprise zone program was designed to create job opportunities in targeted areas by encouraging new investment through a 3-year exemption of local property taxes. A portion of N/NE Portland was designated as an enterprise zone under the state program. Through City Council resolution, the PDC was authorized to act as Zone Manager and administer the N/NE Enterprise Zone program as part of its economic development responsibilities.

The original enterprise zone legislation required companies to meet three basic criteria to qualify for an enterprise zone exemption.

- 1) The company had to make a real property investment within the zone,
- 2) 25% of all positions hired during the exemption period had to be filled by residents of the zone;
- 3) The company had to enter into a First Source Hiring Agreement that allowed the local employment services system access to the job openings created by the company.

In the early 1990's concerns were raised by the N/NE Economic Development Alliance and others in the N/NE community that the qualification criteria was not adequate to insure that the community would benefit from the enterprise zone program. PDC, in consultation with the N/NE Economic Development Alliance, developed a broader set of criteria and standards that companies were required to meet to qualify for an exemption. These broader criteria were set up as a complex matrix and point system, a set of alternative community support programs that companies could choose among to qualify for an exemption. In 1994, City Council adopted this system as the City's Interim Guidelines for Enterprise Zone Investments.

In the 1995 legislative session the Oregon Enterprise Zone Act was amended to.

- 1) Eliminate the zone resident hiring requirement, which the State Attorney General determined was unconstitutional, and,
- 2) Allow the zone sponsor (the City) to include additional conditions in order for companies to qualify for a 5-year exemption (vs. a 3-year exemption provided by the basic statute). The statute requires that these additional conditions be reasonably related to the public purpose of providing opportunities for groups of persons to obtain employment. The statute also stipulated that the City must adopt a "policy" that establishes standards for the imposition of these additional conditions.

The original enterprise zone designation was for a 10-year period. In 1996, Portland's N/NE Enterprise Zone was re-designated by the Oregon Economic Development Department. At this same time, City Council adopted a N/NE Enterprise Zone Strategy that established the set of standards that companies must meet to qualify for an exemption, including entering into a First Source Hiring Agreement with worksystems, inc.; the development of a procurement plan to increase the purchase of goods and services from N/NE companies, and for large companies, providing public transit support to employees, and child care support to employees with low household incomes.

Council's adoption of the N/NE Enterprise Zone Strategy replaced and simplified the Interim Guidelines for Enterprise Zone Investments

In the Spring of 1997, following the election of Commissioners Sten and Francesconi, City Council asked PDC to place the enterprise zone program on hold pending further analysis of the program and discussions with the N/NE community

An analysis of program results was prepared and a number of discussions were held with the N/NE community, represented by the N/NE Economic Development Alliance. As a result of those discussions the Alliance Board recommended the continuation of the enterprise zone program using the N/NE Enterprise Zone Strategy, as originally adopted in 1996, to serve as the conditions that companies must meet in order to receive an enterprise zone exemption.

In March of 1999, Council adopted Resolution No. 35773, approving the continuance of the enterprise zone program using the adopted N/NE Enterprise Zone Strategy which outlined the goals, operating principals, performance standards and guidelines for the program

Portland's Current N/NE Enterprise Zone Program

The Oregon Enterprise Zone Act and the City's adopted N/NE Enterprise Zone Strategy currently contain the following requirements that companies must meet to receive an enterprise zone exemption:

State Requirements

- Locate within the zone and not diminish the company's employment outside of the metropolitan area.
- In order to insure that the job creation benefits of new investment are realized throughout the exemption period:
 - New companies must **retain at least 15% of the peak employment** during the exemption period **or not fall below 50% of peak employment** for more than one year.
 - Existing companies must either **expand and retain** full-time employment **by at least 10%** throughout the exemption period **or invest a minimum of \$25 million**
- In order to insure that the jobs created through an exempted investment being a minimum level of benefit to the community, **85% of the Zone facility's jobs' basis wages must exceed 150% of Oregon minimum wage** after one year of employment
- In order to maximize access of local, qualified residents to job opportunities the company must enter into a **First Source Hiring Agreement**

Additional Requirements imposed by the City of Portland

- To address the original intent of the enterprise zone program, which was to encourage investment that creates job opportunities – not just encourage investment, companies can receive a **maximum exemption of \$10,000 per full-time hire**
- To insure that companies will not attempt to maximize their exemption by hiring and then laying employees off, the company is required to **retain at least 50% of employees hired during the exemption period for a minimum of two years**

- In order to insure that the community benefits not only from the direct jobs that result from the company's investment but also from the construction activity tied to the investment, the company must require its construction contractors to participate in the City of Portland's MBE/WBE/ESB program in order to **maximize Portland's emerging small business' participation in the facility construction**. Construction contractors must also utilize the City of Portland's Workforce Training and Hiring Program to **increase apprenticeship training and work opportunities for minorities, woman and disadvantaged workers** in the construction trades.
- To insure that the quality of jobs meet community goals, the company must offer **employee benefits that meet or exceed the national average** for non-mandated benefits for a company of its size, **offer training and advancement opportunities**, and for investments that receive an exemption greater than \$1 million, **offer child care subsidies to employees of low-income households and transit subsidies for all employees.**
- To more directly insure that the "multiplier" benefit to local N/NE firms occurs, companies are required to develop a procurement plan that outlines how they will **expand the total dollar value of their purchases of goods and services from businesses within the N/NE Enterprise Zone**. The plan must include goals, numeric or percentage, as a means of providing benchmarks to evaluate the effectiveness of the plan.
- To insure that the City's direct costs of service are covered, the **company's payments to the City from other sources** (business license fees, utility franchise fees, etc.) must be **equal to or greater than 25% of the City's exempted property taxes.**
- In order to monitor the impacts and benefits delivered from the program, companies are required to **annually report on the status of each of the requirements** listed above.

The strategy also requires that enterprise zone applications with exemptions above \$2 million, or that do not meet the City's adopted program criteria, be taken to City Council for their determination of the level of review that they felt appropriate.

Company Background -- Project Overview

Freightliner Corporation began as the truck manufacturing subsidiary of Consolidated Freightways, Inc. in Portland in 1939. Freightliner was sold to Daimler-Benz, of West Germany, in 1981 and are now part of Daimler-Chrysler as the result of an international merger which took place last year.

Freightliner's Portland operations encompass all facets of the engineering, design, manufacture, marketing, sales and servicing Freightliner-nameplate, heavy-duty diesel trucks. Portland is also the location of Freightliner's corporate headquarters.

The company has been experiencing substantial growth during the last several years. Total employment is currently just over 4,800. Plans are to relocate and consolidate executive and administrative staff from the current headquarters buildings into a newly constructed building, along with other existing department staff (marketing, some design, etc.). The new building is anticipated to house a total of 1,300 employees.

The current headquarters building would become Freightliner's R&D and Engineering facility. Staff from leased facilities off of the island would be relocated back onto Swan Island, some into each of the old/new headquarters buildings. Freightliner will also acquire and renovate the former Boise Cascade Research and Development facility to house the company's trucks business unit. In addition, the company plans to invest in new production machinery and equipment to support their manufacturing operations.

Included as Attachment #1, is a two-page *North/Northeast Portland Enterprise Zone Program Investment Strategy Project Summary* that details Freightliner Corporation's planned investment and the company's commitment to fulfilling each of the requirements of the City's N/NE Enterprise Zone Strategy.

Community Discussions -- Company Commitments

Staff has facilitated meeting between Freightliner and the N/NE Economic Alliance to discuss the company's plans and explore potential partnerships and working relationships between the company, the Alliance and the broader N/NE community. During these meetings the company has committed to working with the Alliance to meet the spirit of the standards of the enterprise zone program in a manner that ensures that benefits accrue to the N/NE community.

As a result of these discussions the Alliance Board voted, at their July 26th meeting, to support Freightliner's Enterprise Zone exemption application and recommends that City Council approve the application.

Representatives of the Alliance have commented that while meeting the requirements contained in the N/NE Enterprise Zone Strategy are important, what is more critical is Freightliner's willingness to work with the Alliance and other organizations to ensure that community benefits are actually realized. It is this relationship and partnership with Freightliner that the Alliance views as a primary value of the enterprise zone program – since it will provide benefits in addition to those which are mandated by the City and is likely to extend beyond the limited exemption period.

Conclusion

Freightliner's proposed investments and anticipated hiring meet the purpose and intent of both the Oregon Enterprise Zone Act and the City's adopted N/NE Enterprise Zone Strategy. The company meets all of the State requirements and has committed to meet each of the requirements of the City's adopted N/NE Enterprise Zone Strategy. Freightliner has agreed to enter into a N/NE Enterprise Zone Precertification Contract with PDC and a First Source Hiring Agreement with worksystems inc. These contracts will legally bind the company to meet each of the requirements of the City's adopted N/NE Enterprise Zone Strategy – and will include penalties if Freightliner fails in meeting those requirements.

Recommendation

Adopt the accompanying Resolution approving Freightliner Corporation's N/NE Enterprise Zone Precertification Application and authorizing the Portland Development Commission to enter into an Enterprise Zone Contract with Freightliner Corporation consistent with the City's adopted N/NE Enterprise Zone Strategy.

ATTACHMENT #1

**North/Northeast Portland Enterprise Zone Program Investment Strategy
Project Summary**

COMPANY: Freightliner Corporation

PRODUCT/SERVICES OF ZONE OPERATIONS:

Freightliner's operations with the N/NE Enterprise Zone encompasses all facets of the engineering, design, manufacture, marketing, sales and servicing of Freightliner-nameplate, heavy-duty diesel trucks. All corporate executive and administrative functions are also located within the Enterprise Zone.

PROJECT AND LOCATION:

The project is located on Swan Island, encompassing multiple parcels and buildings.

PROJECT FEATURES:

- 1. A new, 350,000 sq.ft., \$55 million, state-of-the-art corporate headquarters building will be constructed. \$40 million of the construction costs of the new headquarters building are qualified for an exemption.**
- 2. \$24 million will be invested in new production machinery and equipment between 1999 and 2001.**
- 3. The former headquarters buildings will be renovated to house Freightliner's Product Engineering and R&D operations. \$3.5 million will be invested in this renovation.**
- 4. \$10.7 million will be invested in the purchase and renovation of the former Boise Cascade Research and Development facility to house Freightliner's Trucks business unit. \$4.2 million of this investment is qualified for an exemption.**

TOTAL INVESTMENT \$93,200,000

TOTAL QUALIFIED INVESTMENT. \$71,700,000

ESTIMATED TOTAL TAX EXEMPTION \$6,805,959 over 5 years

RETAINED EMPLOYMENT IN PORTLAND 4,830

PROJECTED NET NEW JOBS: 400

ANTICIPATED TOTAL HIRES DURING ABATEMENT PERIOD: 1,125

PROJECTED NET TAX EFFECT PER HIRE (replaced and new) \$6,050

REQUIRED COMMUNITY CONTRIBUTIONS \$0

AS REQUIRED BY THE CITY'S NORTH/NORTHEAST ENTERPRISE ZONE PROGRAM, THE COMPANY WILL PARTICIPATE IN OR PROVIDE:

CITY'S CONSTRUCTION WORKFORCE AND HIRING PROGRAM: Freightliner and their building contractor(s) will utilize the City of Portland's Workforce Training and Hiring Program to increase apprenticeship training and work opportunities for minorities, women and disadvantaged workers in the construction trades.

MINORITY AND EMERGING SMALL BUSINESS PROGRAM (MBE/WBE/ESB): Freightliner will participate in the City of Portland's MBE/WBE/ESB program in order to maximize use of Portland emerging small businesses in the construction project, particularly those in N/NE Portland. Contractor's goal for MBE/WBE/ESB contracts is 10% of public benefit calculated as total taxes saved less contributions.

PURCHASE OF SUPPLIES AND SERVICES FROM N/NE BUSINESSES. Freightliner will develop a procurement plan that will outline how Freightliner will make a good-faith effort to annually expand the total dollar value of its purchases of goods and services from businesses within the North/Northeast Enterprise Zone. The plan will include goals, numeric or percentage, as a means of providing benchmarks to evaluate the effectiveness of the plan.

TRANSIT SUPPORT. Freightliner will make public transit support available for regular (i.e. those who successfully pass Freightliner's probationary period) full-time and part-time employees. The minimum contribution is at least 75% of the monthly transit pass costs for employees who choose to utilize public transit for transportation.

CHILD CARE SUPPORT: Freightliner will make child care support available to regular full-time employees with low household incomes.

FIRST SOURCE AGREEMENT Freightliner will enter into a First Source Agreement with Worksystems Inc. simultaneously with the execution of the Enterprise Zone Program contract. Freightliner will notify and work through Worksystems Inc. in hiring for open positions and will provide quarterly hiring summaries.

WORKFORCE DEVELOPMENT SYSTEMS. Freightliner will participate in the development of long-term workforce systems - such as a Swan Island Training Center to facilitate job readiness of Enterprise Zone residents.

NEW HIRE RETENTION. Freightliner will agree to meet the City's two-year, 50% retention requirement for new hires who complete the company's probationary period.

COST OF SERVICE FEES The City's cost of services, estimated at 25% of the abated taxes, will be covered by other general fund revenues generated by Freightliner (Business Income Tax, Utility Franchise Fees, etc.).

REMEDIES: Penalties for non-performance against contractor – can range from liquidated damages to disqualification of the tax exemption). Freightliner will agree to payment of penalties for non-performance of the obligations under the contract.

RESOLUTION No.**Approve Freightliner Corporation's N/NE Enterprise Zone Precertification Application and authorize the Portland Development Commission to enter into an Enterprise Zone Contract with Freightliner. (Resolution)**

WHEREAS, the Oregon Enterprise Zone Act, ORS 285B 650 – 285B 728, authorizes the designation of Enterprise Zones in urban and non-urban areas and provides that property tax abatement, job creation, and local municipal incentives are desirable to stimulate economic development in economically depressed areas, and

WHEREAS, in January 1986, the City Council adopted Resolution No 34019, which authorized the Portland Development Commission (PDC), the City's designated economic development agency, to prepare and submit application on behalf of Portland to the Oregon Enterprise Zone Program, qualifying under unemployment hardship criteria; and

WHEREAS, in March 1987, City Council adopted Ordinance No. 159467, accepting the Governor's designation of the City of Portland as the Zone Sponsor, and authorizing the PDC to manage the Enterprise Zone program as part of its economic development responsibilities, and

WHEREAS, ORS 285.577 (4) allows the Zone Sponsor to include additional conditions for Zone precertification that are reasonably related to the public purpose of providing opportunities for groups of persons to obtain employment, and

WHEREAS, a "policy" must be adopted by the Zone Sponsor that establishes standards for the imposition of the conditions contemplated by ORS 285 577 (4), and

WHEREAS, in March 1996, City Council adopted Resolution No 35506, which adopted the N/NE Enterprise Zone Strategy to serve as the City's policy, requiring provision of child care support to employees with low household incomes, provision of public transit support to employees, the development of a procurement plan to increase the purchase of goods and services from N/NE companies, and the utilization of the City's MBE/WBE/ESB and Workforce Training and Hiring Program during any building construction and authorized the PDC to apply to the Oregon Economic Development Department for continuation of the North/Northeast (N/NE) Enterprise Zone designation which was set to expire on June 30, 1996; and

WHEREAS, in June 1996, the City's N/NE Enterprise Zone re-designation was granted by the Oregon Economic Development Department, and

WHEREAS, in March 1999, City Council adopted Resolution No 35773, accepting the continuance of the Enterprise Zone program which had been placed on hold in the spring of 1997 at the request of City Council until review by the N/NE community and PDC, and

WHEREAS, Freightliner Corporation (Freightliner) is a Portland-grown company that began operations as a part of Consolidated Freightways, Inc in 1939, and

WHEREAS, Freightliner maintains their corporate headquarters adjacent to their Portland manufacturing facilities on Swan Island and currently employs 4,800 in their Portland operations within the N/NE Enterprise Zone, and

WHEREAS, Freightliner is expanding its employment, has outgrown their existing facilities and is planning to invest \$55 million to construct a new corporate headquarters building in order to expand their workforce, while consolidating these activities closer to their production facilities; and

WHEREAS, Freightliner is planning to invest \$38.2 million to renovate existing facilities to house the company's Product Engineering/R&D operations, their trucks business unit, and to invest in new production machinery and equipment, and

WHEREAS, Freightliner has submitted an Enterprise Zone Precertification Application, seeking a five-year property tax exemption under the City's N/NE Enterprise Zone program, and

WHEREAS, Freightliner anticipates that it will hire 1,125 people to fill new and replacement manufacturing and office positions during the five-year exemption period, and

WHEREAS, Freightliner has agreed to meet each of the requirements of the City's adopted N/NE Enterprise Zone Strategy, including providing child care support to employees with low household incomes, providing public transit support to employees, the development of a procurement plan to increase the purchase of goods and services from N/NE companies, entering into a First Source Hiring Agreement with worksystems, inc, and utilizing the City's MBE/WBE/ESB and Workforce Training and Hiring Program during their building construction, and

WHEREAS, PDC staff have facilitated meetings between Freightliner and the N/NE Economic Alliance (Alliance) to discuss the company's plans and potential partnerships and working relationships among Freightliner, the Alliance and the broader N/NE community, and

WHEREAS, the Alliance Board has voted to support Freightliner's Enterprise Zone application and recommends City Council approval of the application, and

WHEREAS, at its August 18, 1999 meeting, the PDC adopted a resolution recommending that City Council approve Freightliner's N/NE Enterprise Zone application and authorize the PDC to enter into a contract with Freightliner, and

WHEREAS, Freightliner's proposed project meets the purpose and intent of the City's adopted N/NE Enterprise Zone Strategy as outlined in the attached Report and Recommendation on Freightliner Corporation's N/NE Enterprise Zone Precertification Application (Exhibit A),

NOW, THEREFORE BE IT RESOLVED that Freightliner's Precertification Application for a N/NE Enterprise Zone property tax exemption be approved, and

BE IT FURTHER RESOLVED that PDC is authorized to enter into an Enterprise Zone Precertification Contract with Freightliner consistent with the City's adopted N/NE Enterprise Zone Strategy

Adopted by the Council:

SEP 08 1999

Michael Ogan, PDC
September 8, 1999

GARY BLACKMER
Auditor of the City of Portland
By

Britta Olson
Deputy

1287

Agenda No

RESOLUTION NO.

35824

Title

Approve Freightliner Corporation's N/NE Enterprise Zone Precertification Application and authorize the Portland Development Commission to enter into an Enterprise Zone Contract with Freightliner (Resolution)

INTRODUCED BY	DATE FILED
MAYOR KATZ	SEP 02 1998 1999
NOTED BY COMMISSIONER	Gary Blackmer Auditor of the City of Portland
Affairs	By <u>Cory Kerchner</u> Deputy
Finance and Administration <i>MSJ</i>	For Meeting of _____
Safety	ACTION TAKEN
Utilities	
Works	
BUREAU APPROVAL	
Bureau PDC	
Prepared by Date Michael Ogan 8/30/99	
Budget Impact Review	
<input checked="" type="checkbox"/> Completed <input type="checkbox"/> Not Required	
Bureau Head <i>Felicia L. Trader</i> Felicia L. Trader	

AGENDA	FOUR-FIFTHS AGENDA	COMMISSIONERS VOTED AS FOLLOWS	
		YEAS	NAYS
Consent Regular <input checked="" type="checkbox"/>	Francesconi		<input checked="" type="checkbox"/>
NOTED BY	Hales	<input checked="" type="checkbox"/>	
City Attorney	Kafoury	<input checked="" type="checkbox"/>	
City Auditor	Sten		
City Engineer	Katz	<input checked="" type="checkbox"/>	