

**DATE:** November 13, 2013

**TO:** Board of Commissioners

**FROM:** Patrick Quinton, Executive Director

**SUBJECT:** Report Number 13-44

Authorizing a Development Loan with Daimler Trucks North America LLC in an Amount Not to Exceed \$8,000,000 for Construction of a Parking Garage to Support a New Headquarters Building in the Interstate Corridor Urban Renewal Area

### **BOARD ACTION REQUESTED**

Adopt Resolution No. 7031

### **ACTION DESCRIPTION**

On September 13, 2013, Daimler Trucks North America LLC (DTNA) confirmed its long-term commitment to Portland by announcing the construction of a new United States corporate office headquarters building and parking garage on its Swan Island campus (the Project).

The new 265,000 square foot building and garage will serve two distinct functions: to merge DTNA employees currently located in offices separated by the Willamette River and to accommodate approximately 400 new positions in Portland that the company will need in conjunction with future business growth. The Project requires a \$152,000,000 investment by DTNA and is expected to be completed in 2016.

If approved, this action will authorize an \$8,000,000 Business Incentive Fund (BIF) loan to DTNA, in accordance with the loan terms described in Attachments A and B. The loan would be partially or fully forgivable if total, aggregate employment in Portland is increased by 400 employees over five years, as defined and described in the loan terms. Some exceptions to Portland Development Commission (PDC) loan program guidelines would be required for this loan.

There are three exceptions as part of the proposed BIF loan terms:

- 1) The loan exceeds the maximum loan amount (\$2,000,000).
- 2) The conditional loan forgiveness and five-year deferred interest-only period was structured to allow sufficient time for construction and the job creation compliance period.
- 3) The proposed loan does not include collateral or guarantees.

### **BACKGROUND AND CONTEXT**

Headquartered in Portland for more than 70 years, DTNA, the leading heavy-duty truck manufacturer in North America, contributed significantly to Oregon's economy by producing world-class products and well-paying jobs. DTNA manufactures, sells, and services commercial vehicles under the Freightliner, Western Star, Detroit, and Thomas Built Buses nameplates. It is a business unit of Daimler AG, the world's leading commercial vehicle manufacturer, located in Stuttgart, Germany.

In the fall of 2011, DTNA approached PDC, the Port of Portland (Port), and the State of Oregon (State) regarding potential local and State incentives in connection with the possible major expansion of the existing DTNA headquarters facility in Portland, Oregon.

Over the past two and a half years, PDC worked with DTNA, State, and local partners to craft an incentive package and partnership that would provide Daimler AG, DTNA's parent company, with the necessary assurances to approve the proposed expansion.

In September 2013, DTNA made its formal announcement to expand its current headquarters and to add 400 new employees in Portland. At that time, DTNA president and CEO Martin Daum reiterated the company's ongoing commitment to the city of Portland and the state of Oregon, and noted that the new headquarters building would position DTNA for long-term business efficiencies and an enhanced employee experience in a technically advanced, environmentally friendly facility.

The approval of the Project and the Project budget by DTNA and its parent, Daimler AG, was based in part upon potential incentives to be provided by PDC, the State, and the Port. The PDC loan represents approximately five percent of the overall Project cost.

In addition to the PDC loan, DTNA will receive other local and State incentives. As part of the incentive package, DTNA also intends to apply for statutory tax abatements via the Portland Enterprise Zone (E-Zone) program. These are discussed more thoroughly in Budget and Financial Information sections of this report.

### **COMMUNITY AND PUBLIC BENEFIT**

The Project will provide significant community benefits as described below.

#### **Community Benefits as Conditions of the Loan:**

As conditions of the loan, DTNA agrees to:

- Comply with PDC's adopted Equity Policy, including requirements for providing professional, supplier, and construction contracting opportunities for minority-owned, women-owned, and emerging small businesses; shall make good faith efforts to utilize apprentices and women, minorities, and disadvantaged individuals in the construction workforce for the parking garage.
- Insure a minimum of Leadership in Energy and Environmental Design (LEED) Silver (or comparable building performance) is achieved on the corporate office building, since parking garages do not qualify under PDC Green Building policy requiring LEED Silver certification.
- Comply with Oregon's Prevailing Wage Law (Oregon Revised Statutes (ORS) 279C.800 to 279C.870 and the administrative rules adopted thereunder) as the parking garage shall be considered a "public work."

#### **Community Benefits as Conditions of E-Zone Program**

The community and public will benefit in additional ways, as DTNA pursues approval for the Project's inclusion in the E-Zone program. In exchange for approximately \$7,000,000 in tax abatements, DTNA is required to meet the following obligations:

- **Minimum Investment:** DTNA must invest more than \$142,000,000 in capital improvements at their headquarters site in order to receive the E-Zone benefit.
- **Workforce Training and Business Development Fund:** DTNA will pay PDC 15 percent of its actual tax savings derived from the E-Zone program. These funds will be used to train the local workforce and support small businesses in the city of Portland.

- First Source Hiring Agreement (FSA): DTNA shall enter into a FSA with WorkSource Portland Employment Department for all employees hired at the headquarters throughout the Project's construction and tax exemption period.
- Business Procurement Plan: DTNA will create and execute a procurement plan with the goal of increasing local purchases by a minimum of five percent per year from businesses located within the city of Portland.
- Transit Support: DTNA will be required to provide public transit support for all regular full-time and part-time workers.

Additional Public Benefits Anticipated to Result from the Project and DTNA's Long-Term Commitment to Portland

- Tax Revenue: The project will produce positive financial impacts through increased business taxes and income taxes for the City, Multnomah County, and other taxing jurisdictions. Over the next 15 years, DTNA will pay approximately \$38,000,000 in new property taxes due to the new corporate office building and parking garage.
- Economic Development Strategies: This project represents a unique opportunity to advance the City's Economic Development Strategy. This action will support the retention of approximately 1,574 family wage jobs and the planned creation of approximately 400 new Portland jobs at a prominent, global advanced manufacturing company. It is estimated that the new positions will average \$80,000 per year in salary (plus benefits).
- Leveraging Other Public Investment: PDC's loan will leverage \$17.29 in private investment for every \$1 of PDC investment. PDC's loan will also leverage an additional \$5,700,000 in public funding from the State and the Port.
- Education in Motion Program: DTNA will provide \$330,000 in donations and mentoring programs geared toward career development in engineering and manufacturing in the Portland metro area. The funds will support DTNA's Education in Motion campaign, a collection of corporate giving initiatives benefiting science, technology, engineering and mathematics education and Career and Technical Education programs in 34 Portland metro area and southwest Washington schools. Two of the campaign's more significant initiatives are Pathways to Manufacturing and the Daimler Educational Outreach program, which operate on the volunteer efforts of more than 50 DTNA employees who serve as education outreach liaisons to schools.
- Long-Term Commitment: As per the incentive agreement with the State, DTNA has made a 20-year commitment to the city of Portland.

**PUBLIC PARTICIPATION AND FEEDBACK**

Multiple partners have participated in public outreach over the last few months, including the State (Governor's Office and Business Oregon), the Port, City, PDC, and DTNA.

The PDC specifically informed such stakeholders as the National Association of Minority Contractors of Oregon, the Neighborhood Economic Development Leadership Group, and Multnomah County. PDC also actively participated in the media outreach and public announcement where a significant number of local media outlets were present, and where Mayor Charlie Hales, Governor John Kitzhaber, and CEO Martin Daum spoke in support of the Project. At this event, PDC Executive Director Patrick Quinton took questions from media, and PDC staff followed up as inquiries came in.

Public participation for a project like this will differ from a neighborhood-based development. The Project will be sited in a heavy industrial area with no neighborhoods in the immediate vicinity. However, DTNA initiated discussions with the closest neighborhood association (Overlook) and will likely continue to stay in contact with this neighborhood if issues arise in the future.

## **BUDGET AND FINANCIAL INFORMATION**

### **Summary**

The fiscal year (FY) 2013-14 Adopted Budget and forecast includes \$8,000,000 in the Interstate Corridor Urban Renewal Area (URA) Traded Sector Budget (see Attachment C); \$2,000,000 is allocated in FY 2013-14 and will be moved to the BIF line item as a proposed change in the FY 2013-14 Revised 1 Budget to fund this transaction.

As part of securing financing for the Project, DTNA is in final negotiations to purchase the land from the Port. The land will then be assigned to the financing entity, which will fund the Project and lease the facility to DTNA.

### **State and Local Incentives**

The State will offer the following incentives:

- Special Public Works Fund grant of \$1,000,000 towards the greenway enhancements that will be publicly owned.
- Governor's Strategic Reserve Fund loan of \$1,169,600, forgivable if 1,574 employees are retained for two years.
- Business Expansion Program loan of \$1,830,400, half of which is forgivable if 1,574 jobs are retained and 220 are created, and the other half forgivable if personal income tax from the jobs created is greater than the loan amount.

The Port will provide a \$1,700,000 grant towards the project. If DTNA permanently vacates the new corporate office building within 20 years of initial occupancy, the grant must be reimbursed to the Port.

### **Sources and Uses**

The parking garage is approximately \$19,000,000 of the total \$152,000,000 Project construction cost. PDC's \$8,000,000 of financial assistance will help fund construction of the parking garage and be contributed on equal footing with other financing (*pari passu*).

## **RISK ASSESSMENT**

Staff at PDC has done underwriting and concluded that waiver of collateral and guarantee risk is supported by historical and projected income to DTNA to provide sufficient cash flow to cover operating costs, proposed debt service, and other obligations.

## **ALTERNATIVE ACTIONS**

The PDC Board of Commissioners (Board) could choose to not approve the loan or propose a different loan structure.

## **ATTACHMENTS**

- A. Loan Term Sheet
- B. Loan Table, Sources, and Uses Table
- C. Adopted FY 2013-14 Interstate Corridor URA Budget
- D. Map/Project Vicinity/Site Location

**Loan Term Sheet**

Conditional Loan Terms	Draft Term Sheet 7/25/13
<b>Borrowing Entity</b>	Project "NOVA" (North American Manufacturing Company) or a Lessor of the project.
<b>Total Development Costs</b>	Approximately \$135,000,000 in new improvements to construct a new Corporate Office Building, new Parking Garage and associated improvements on Swan Island.
<b>Site Location</b>	Garage will be located adjacent to the Corporate Office Building on Swan Island.
<b>Conditional Loan Amount</b>	\$8,000,000. Distributed by progress payments based on submitted invoices related to design and construction of the garage, only. PDC funds to be contributed pari passu.
<b>PDC Loan Program</b>	Business Incentive Fund.
<b>Use of PDC Funds</b>	Design, entitlements, and construction of parking structure to support the Nova project.
<b>Interest Rate</b>	Prime Rate (3.25 percent currently) to be fixed at time of closing with 6:1 minimum leverage of private to public funds for the entire project, including the Corporate Office Building (i.e., at least \$48,000,000 investment of non-public funds). Interest begins accruing at first disbursement, subject to forgiveness as provided herein.
<b>Payment Terms</b>	<p>Payments of principal and interest are deferred until a date that is five years after the issuance of a Certificate of Occupancy ("C of O") by the City for the new Corporate Office Building ("Deferral Date"). At the Deferral Date, all or a portion of the loan principal and interest may be forgiven as described below. For all portions of the loan not forgiven at the Deferral Date, accrued interest on the non-forgiven principal will be added to the remaining principal balance. The loan will have a 10 year term with a 10 year amortization period, each commencing on the Deferral Date.</p> <p>In the event the parties negotiate for loan advances prior to other project financing, all principal and interest shall be payable, in full, upon demand, in the event the construction of the garage or the new Corporate Office Building are not commenced by January 1, 2015, with extension options to be negotiated.</p>
<b>Loan Fee</b>	One percent of the loan amount, to be paid at closing.
<b>Conditional Loan Forgiveness</b>	PDC's proposal provides for reduction or elimination of principal and accrued interest if the company and any of its affiliates, subsidiaries, and related companies collectively achieve and maintain certain employment levels. This proposal is outlined as follows:

Conditional Loan Terms	Draft Term Sheet 7/25/13
	<p>1) Baseline Employment: Baseline Employment is established at time of execution of the Loan Agreement. “Baseline Employment” is defined as the total number of the Company’s “Eligible Employees.” “Eligible Employees” are defined as the Company’s employees in its corporate offices and all non-manufacturing employees of affiliates, subsidiaries and related companies (and specifically does not include manufacturing related positions) located in the city of Portland that work at least 32 hours per week on a permanent basis (not temporary, seasonal, contractor, or probationary). Definition of Baseline Employees to be refined in the Loan Agreement.</p> <p>2) Minimum Long Term Employment (MLTE): MLTE is calculated by taking the average number of Eligible Employees in years four and five following the C of O Date as measured by taking semi-annual counts of Eligible Employees during this 2-year period (a total of 4 counts), If the MLTE is equal to or more than 400 above the Baseline Employment, the loan principal and interest will be forgiven in full. If the MLTE is less than 400 above the Baseline Employment, the loan principal and interest shall be forgiven proportionally by an amount equal to the percentage calculated by dividing the amount that MLTE exceed Baseline Employment (“MLTE Increase”) by 400 and multiplying the result by the total outstanding loan principal and accrued interest.</p> <p>We are assuming that the Corporate Office Building will be completed around the time the garage is completed. We will need confirmation of such in the Loan Agreement.</p> <p>For example, if the company’s MLTE Increase is 280 employees, the reduction of principal will equal \$5,600,000 (Calculation: <math>(280/400) * \\$8,000,000 = \\$5,600,000</math>) and the reduction in accrued interest will equal 70 percent (280/400) of the accrued interest. Thereafter, the remaining loan shall be payable as indicated in the Loan Agreement.</p> <p>3) Counting/Reporting Employment: MLTE benchmarks will be counted using information provided by DTNA and is subject to verification by PDC and consistent with the counting methodology utilized by Nova to meet Portland E-Zone requirements. To the maximum extent practicable, reporting requirements for this loan and Portland E-Zone program will be consistent and coordinated to promote efficiency for DTNA.</p>
<b>Closing Date</b>	Not later than December 31, 2013.

Conditional Loan Terms	Draft Term Sheet 7/25/13
<b>Other Conditions:</b>	
<b>Equity Goals</b>	Pursuant to PDC's adopted Equity Policy & Procedures, DTNA will comply with PDC's requirements for participation of minority-owned, women-owned, and emerging small businesses and shall make good faith efforts to utilize apprentices and women, minorities, and disadvantaged individuals in the construction workforce for the parking garage, as provided by the Business Equity Program requirements previously provided DTNA.
<b>Green Building</b>	PDC Green Building policy requiring LEED Silver certification does not apply because parking garages do not qualify for certifications. Nonetheless, borrower shall insure a minimum of LEED Silver (or comparable building performance) is achieved on the Corporate Office Building.
<b>Prevailing Wage</b>	The parking garage shall be considered a “public work” subject to Oregon’s Prevailing Wage Law (ORS 279C.800 to 279C.870 and the administrative rules adopted thereunder).
<b>Guarantee</b>	If borrower is Lessor, obligations are guaranteed by Nova.
<i>This draft term sheet reflects a proposal. PDC financing is subject to approval by the Board.</i>	

**Loan Table, Sources, and Uses Table**

**Loan Table**

<b>Conditional</b> Loan Amount:	\$8,000,000
Loan Fund #:	370-235-160-L02110370-7810
Lawson Fund / Portfol Corp #:	6713
Business Category:	Advanced Manufacturing Cluster
Urban Renewal Area:	Interstate
Purpose:	New Construction
Loan Fee:	1.0%
Interest Rate:	3.25%
Payment Terms:	Principal and interest payments deferred until 5 years after Certificate of Occupancy issued ("Deferral Date"). At Deferral Date, all or a portion of loan P&I forgivable. Non-forgiven interest to be added to non-forgiven principal balance and repaid in monthly payments with a 10 year term and 10 year amortization commencing on Deferral Date.
Monthly Payments:	Maximum P&I payments of about \$99,000 for 10 years (fully amortizing); minimum P&I payments of \$0
First Payment:	approx. 1/1/21
Maturity:	approx. 12/1/30
Collateral:	n/a
Combined Loan to Value (CLTV):	n/a
Guarantors:	n/a
Loan Rating:	A
Jobs Information (FTE):	Existing: 1,574 / New: 400 / Total: 1,974
Job/Dollar Ratio:	1 job per \$4,053
Total Project Cost:	\$152,000,000
Total Leverage Ratio for PDC Funds:	18.0
Exceptions to Program Guidelines:	Yes

**Sources and Uses Table**

Sources	Amount	Percentage
Senior Financing (TBD)	\$138,000,000	91%
Proposed PDC Financial Assistance (earmarked for the parking garage)	\$8,000,000	5%
State of Oregon Financial Assistance	\$4,000,000	3%
Port of Portland Grant	\$1,700,000	1%
<b>Total Sources</b>	<b>\$152,000,000</b>	<b>100%</b>
Uses	Amount	Percentage
Property Acquisition, New Construction, Machinery/Equipment, <b>Financing Costs</b>	<b>\$152,000,000</b>	<b>100%</b>

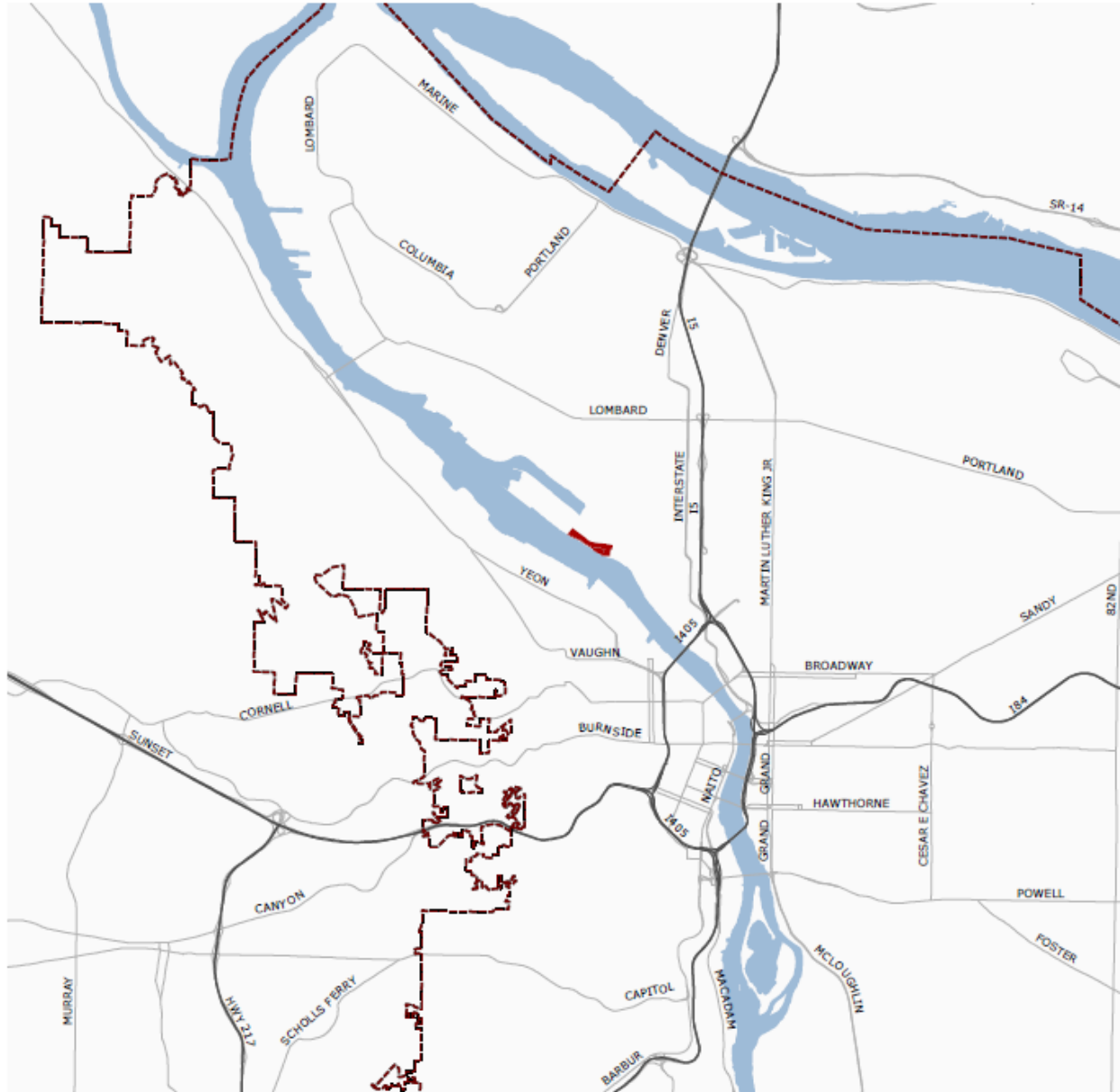


**Adopted FY 2013-14 Interstate Corridor URA Budget**



**Five-Year Forecast Program Requirements Detail**

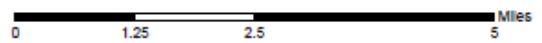
	Revised-3 FY 2012-13	Adopted FY 2013-14	Forecast FY 2014-15	Forecast FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18
<b>Interstate Corridor URA</b>						
<b>Resources</b>						
Beginning Fund Balance	7,316,861	6,753,143	711,523	1,358,624	307,242	483,904
Interest on Investments	30,000	30,000	30,000	30,000	30,000	30,000
Loan Collections	6,000,000	303,678	256,423	365,747	261,150	971,574
Long Term Debt	0	3,500,000	1,750,000	0	0	0
Property Income	211,580	574,998	210,000	210,000	210,000	210,000
Reimbursements	61,573	0	0	0	0	0
Short Term Debt	10,936,644	10,242,243	10,739,568	11,488,500	11,488,500	11,488,500
<b>Total Resources</b>	<b>24,556,658</b>	<b>21,404,062</b>	<b>13,697,514</b>	<b>13,452,871</b>	<b>12,296,892</b>	<b>13,183,978</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101370 Debt Management-ISC	50,000	22,532	22,532	22,532	22,532	22,532
<b>Total Administration</b>	<b>50,000</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>	<b>22,532</b>
<b>Business Dev</b>						
<b>Business Lending</b>						
L02100370 BIF-General-ISC	250,000	500,000	500,000	500,000	500,000	500,000
L02110370 BIF-Cluster Group-Budget-ISC	0	300,000	200,000	200,000	200,000	200,000
L02119370 BIF-Nbrhood Ec Dev-Budget-ISC	0	300,000	300,000	300,000	300,000	300,000
<b>Small Business &amp; Community Dev</b>						
B55800370 Business Development-ISC	75,000	1,000	1,000	1,000	1,000	1,000
B55900370 Community Development-ISC	200,000	80,000	80,000	80,000	80,000	80,000
G07100370 MAIN-General-ISC	0	74,000	74,000	74,000	74,000	74,000
<b>Traded Sector Business Dev</b>						
B15102370 Site Recruitment-ISC	1,118,805	2,000,000	2,000,000	2,075,000	2,075,000	75,000
T01069370 Lean Manufacturing-ISC	70,000	70,000	70,000	70,000	70,000	70,000
<b>Total Business Dev</b>	<b>1,713,805</b>	<b>3,325,000</b>	<b>3,225,000</b>	<b>3,300,000</b>	<b>3,300,000</b>	<b>1,300,000</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N37017415 Dawson Park-ISC-Adm	598,000	1,700,000	600,000	0	0	0
N37017515 Small Scale Improv-ISC-Adm	0	50,000	0	0	0	0
N37017315 Bridgeton-ISC-Adm	262,000	1,500,000	0	0	0	0
<b>Transportation</b>						
N37032115 Interstate Trans-ISC-Adm	200,000	0	0	0	0	0
N37037615 Denver Streetscape-ISC-Adm	15,000	0	0	0	0	0
N37037715 Killingsworth Stscape-ISC-Adm	0	2,000,000	1,000,000	900,000	0	0
N37037815 Lombard Investment-ISC-Adm	0	670,000	1,000,000	1,000,000	1,000,000	0
<b>Total Infrastructure</b>	<b>1,075,000</b>	<b>5,920,000</b>	<b>2,600,000</b>	<b>1,900,000</b>	<b>1,000,000</b>	<b>0</b>
<b>Portland Hsg Bureau</b>						
<b>PHB Housing</b>						
H15906370 Killingsworth Station-ISC	400,000	246,000	0	0	0	0
H15410370 Home Repair Projects-ISC	555,685	500,000	500,000	500,000	500,000	500,000
H15420370 Home Buyer Assistance-ISC	530,416	500,000	500,000	500,000	500,000	500,000
H15430370 Affordable Rental Hsg-ISC	3,840,991	1,000,000	400,000	400,000	650,000	2,600,000
H15712370 Habitat for Humanity HO-ISC	19,250	1,000,000	0	0	0	0
H15900370 PHB Staff & Admin-ISC	599,946	865,334	818,505	793,527	925,055	1,045,092
H15908370 McCoy Apts-ISC	126,891	0	0	0	0	0
H15928370 PCRI Scat Sites 2 (NOFA)-ISC	193,533	0	0	0	0	0

**Map/Project Vicinity/Site Location**



November 6th, 2013

-  DTNA Site
-  City of Portland



Information Sources: Portland Development Commission Geographic Information System (GIS)

Care was taken in the creation of this map, but it is provided "as is."  
The Portland Development Commission cannot accept any  
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