

Mayor and Council Communication

DATE: 06/16/20

M&C FILE NUMBER: M&C 20-0421

LOG NAME: 17EDPALINEAR

SUBJECT

Authorize Execution of an Economic Development Program Agreement with Linear Labs, Inc. or an Affiliate for the Relocation of Its Corporate Headquarters to the City of Fort Worth and for Associated Investments in Research and Development and Product Manufacturing (COUNCIL DISTRICT 7)

RECOMMENDATION:

It is recommended that the City Council Authorize the City Manager to execute an Economic Development Program Agreement with Linear Labs, Inc. or an affiliate for the relocation of Its corporate headquarters to the City of Fort Worth and for associated investments in research and development and product manufacturing.

DISCUSSION:

Linear Labs develops fully modular electric motors and generators that deliver greater performance versus existing technology. Currently located in Fort Worth's extraterritorial jurisdiction (ETJ), Linear Labs has used the greater Fort Worth area as its domestic headquarters and center for product technology development, while current large-scale manufacturing is focused on operations outside of the United States, including in Monterrey, Mexico.

In addition to various technological and performance advantages presented by the company's products, the products' design and necessary components and materials permit highly advanced manufacturing practices to be possible and economical at scale. As such, the possibility of large-scale domestic production for global customers is feasible provided that the company make significant investments in capital equipment over what would be required for foreign manufacturing. Moreover, the more advanced manufacturing techniques as well as the products themselves require significant and sustained investment by the company in research and development (R&D).

In an effort to establish large-scale domestic production, develop industry-leading manufacturing systems, and to continue its development of new technologies and applications for its products, Linear Labs proposes to relocate its corporate headquarters to be within the City of Fort Worth, to build its Fort Worth operations to serve as the company's primary manufacturing center, and to ensure that Fort Worth serves as the chief location of the company's R&D activities. The project is proposed to be located at 2060 Eagle Parkway (or such other property(ies) located in the corporate limits of Fort Worth as agreed upon by the parties) (the Subject Property).

In order to facilitate the relocation and expansion of Linear Labs (Company) and in order to promote greater R&D activity within the City of Fort Worth, the City proposes to provide up to 15 annual Economic Development Program grants to the Company, as authorized by Chapter 380, Texas Local Government Code (each a Grant). The proposed project and Grants are eligible under criteria and guidelines contained in Section 6 the City's Economic Development Policy (Resolution No. 5039-01-2019, as amended), which specifically applies to R&D projects. The Grant funds will be built into the City's long-term financial forecast for the General Fund with an estimated grant award of \$68,900,000.00. The grants will be based on a percentage of the Company's Qualified Costs in R&D during a 10-year performance period and will be tied to the satisfaction of other project and investment requirements, as follows:

Company Investment:

Company must comply with all of the following requirements with respect to the Subject Property:

- By December 31, 2023, a temporary or final certificate of occupancy must be in place for all space occupied by Company at the project site;
- Company must expend at least \$250,000.00 by the end of its first operational year and \$3,750,000.00 by the end of its third operational year in construction costs for upgrades and modifications to the building and the property at which project operations will occur;
- Company must maintain its corporate headquarters at a location within the corporate limits of the City at all times during the term of the Agreement.

Utilization of Certified Minority and Women Business Enterprise (M/WBE) Companies (Real Property Improvements):

Company must expend or cause to be expended 15% of all construction costs for tenant improvements, upgrades and modifications to the building and the property comprising the Subject Property with Certified M/WBE Companies. A Certified M/WBE Company is a minority or woman-owned business that (i) has received certification as either a minority business enterprise (MBE), a woman business enterprise (WBE), or a disadvantaged business enterprise (DBE) by the North Central Texas Regional Certification Agency (NCTRCA), D/FW Minority Supplier Development Council (MSDC) or Women's Business Council – Southwest (WBC) and (ii) has a Principal Office located within Tarrant, Dallas, Denton, Johnson, Parker or Wise Counties. Failure to meet this M/WBE commitment will not constitute a default, but the available percentage of ad valorem tax revenues used to calculate the amount of each Grant will be reduced by 10%.

Minimum Qualified R&D Expenditures:

Company must expend at least \$3,800,000.00 annually in qualified R&D costs in the first operational year; \$9,000,000.00 annually in qualified R&D costs as of the third operational year; \$28,000,000.00 annually in qualified R&D costs as of the fifth operational year; and \$135,000,000.00 annually in qualified R&D costs as of the eighth operational year. Failure by Company to meet these minimum expenditures in qualified R&D costs will result in a cap to the Qualified R&D costs used in the calculation of grant payments equal to 95% as of the first operational year, 80% as of the third operational year, 65% as of the fifth operational year, and 50% as of the eighth operational year.

Employment and Wage Commitments:

Company must comply with all of the following requirements with respect to employment and wages:

- Employ at least 25 Full-time Equivalent Jobs (FTEs) by December 31 of the first operational year, with failure to meet this commitment constituting a default under the Agreement;
- Employ at least 60 FTEs by December 31 of the third operational year, 240 FTEs by December 31 of the fifth operational year, and 1,200 FTEs by December 31 of the eighth operational year, with failure to meet any of these commitments in a respective year resulting in a proportional reduction of up to 25% of the Grant payable in the following year;
- For Company activities relating to Product R&D, employ at least 2 FTEs by December 31 of the first operational year, employ at least 4 FTEs by December 31 of the third operational year, 40 FTEs by December 31 of the fifth operational year, and 200 FTEs by December 31 of the eighth operational year;
- For Company activities relating to Advanced Manufacturing R&D, employ at least 15 FTEs by December 31 of the first operational year, employ at least 35 FTEs by December 31 of the third operational year, 100 FTEs by December 31 of the fifth operational year, and 400 FTEs by December 31 of the eighth operational year;
- For other Company activities relating to qualified R&D, employ at least 8 FTEs by December 31 of the first operational year, employ at least 11 FTEs by December 31 of the third operational year, 60 FTEs by December 31 of the fifth operational year, and 500 FTEs by December 31 of the eighth operational year;
- Maintain average annual salaries for all employees at the Subject Property who are engaged in Product R&D of at least \$90,000.00 and average annual salaries for all employees who are engaged in Advanced Manufacturing and other Qualified R&D of at least \$70,000.00;
- Failure by Company to meet any of the employment and wage commitments relating to qualified R&D activities as specified above will result in a cap to the Qualified R&D costs used in the calculation of grant payments equal to 95% as of the first operational year, 80% as of the third operational year, 65% as of the fifth operational year, and 50% as of the eighth operational year;
- Maintain average annual salaries for all employees at the Subject Property (except as indicated below for non-exempt employees) of at least \$70,000.00, with failure to meet this commitment constituting a default under the Agreement;
- Pay all non-exempt employees that are directly engaged in Company manufacturing an average wage of no less than \$15.00 per hour, with failure to meet this commitment constituting a default under the Agreement;
- Offer healthcare benefits to all exempt and non-exempt employees that are employed in Project Operations, with failure to meet this commitment constituting a default under the Agreement;

City Commitments:

The City will make up to 15 annual Economic Development Program grants to the Company in a total amount not to exceed \$68,900,000.00 (the Program Cap). Grant amounts will equal 25% of those costs expended by Company (or such higher percentage that may be permitted under the City's Economic Development Policy based on project location) in each calendar year for a period of 10 years that are expenses classified as qualified expenses under Internal Revenue Code Section 41 (the Research and Experimentation Tax Credit) and any other expenses identified in the Agreement as direct expenses for utility patent generation, technology commercialization, or spinoff incubation costs. At no time may any Grant paid to Company exceed 75% of incremental real and business personal property ad valorem tax revenues attributable to the Subject Property that are received in the preceding calendar year.

Assignments:

Company shall have the right to make assignments of the Grants, in whole or in part, to one or more third-party assignee owners of real property in the City. For purposes of calculating assigned Grants, the Subject Property will be the real property or properties in the City that are owned by the assignee, instead of the Subject Property on which Company is conducting the project operations. Assignment agreements will be executed by the City Manager, and the City shall not unreasonably withhold or delay execution of any assignment.

Grant assignments will be subject to the following restrictions:

- The City will only pay Grants for 15 consecutive years, beginning in the year in which the first Grant payment is made. For example, if an assignment is made after 2 annual Grants have already been paid under the Agreement, the assignee will be entitled to a maximum of 13 annual Grants;
- No property that is already tied to an existing City incentive agreement may be included as the Subject Property;
- No property that is zoned Residential by the City shall be permitted to be included as part of an Assignee's Subject Property except where such

zoning may be changed to facilitate new development (e.g. Residential property that is subsequently rezoned for Commercial). Properties that are zoned Mixed-Use (including any part of a form-based code) or properties that are zoned Planned Development may be included as part of an Assignee's Subject Property;

- In an event of an assignment, the amount of Qualified R&D costs used in the calculation of Grant payments will be reduced by 5%, with the resulting amount of the grant reduction to be dedicated for use by the City in the administration of its economic development programs or for other purposes relating to the promotion of R&D activity within the City;

- In the event an assignee advances funds to Company in an amount equal to at least 10% of the value of the Program Cap within the first 18 months following execution of the Agreement and an event of default subsequently occurs under the Agreement (but not later than the 48th month following execution of the Agreement), the assignee will have the right to receive Grants equal to 25% of its annual incremental real and business personal property ad valorem tax revenues for up to 10 years up to the lesser of the amount advanced or 15% of the Program Cap, but only if the assignee performs and meets certain specified commitments of the Company relating to minimum capital investment, minimum employment, and minimum average wages; and

- The aggregate cap on all annual Grants paid by the City, regardless of the number of assignments and the parties to whom the Grants are made, shall not exceed \$68,900,000.00.

This project is located in COUNCIL DISTRICT 7

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that funds will be available contingent on the approval of future Fiscal Year operating budget appropriations in the General Fund and the Economic Incentives Fund. Prior to any expenditure being incurred, the Economic Development Department has the responsibility to validate the availability of funds.

Submitted for City Manager's Office by: Jay Chapa 5804

Originating Business Unit Head: Robert Sturns 2663

Additional Information Contact: Michael Hennig 6024