

**ECONOMIC DEVELOPMENT SUBSIDY REPORT
PURSUANT TO GOVERNMENT CODE SECTION 53083.1**

**FOR AN OPERATING COVENANT AGREEMENT
BY AND BETWEEN
CITY OF ONTARIO
AND
NIKE RETAIL SERVICES, INC.**

Pursuant to Government Code Section 53083.1, the City Council of the City of Ontario must hold a noticed public hearing and, prior to the public hearing, provide all of the following information in written form and available to the public and through the City's website, regarding a proposed economic development subsidy to be provided by the City pursuant to an Operating Covenant Agreement by and between the City of Ontario and NIKE Retail Services, Inc. ("Agreement"). Notice was published in the local newspaper for a public hearing to be held on September 15, 2020.

The purpose of this report is to provide the information required pursuant to Government Code Section 53083.1 in regard to the Agreement. This report shall remain available to the public and posted on the City's website until the end date of the economic development subsidy, as further described in number 2 below.

- 1. The name and address of all corporations, including members of a commonly controlled group or members of a combined reporting group of which the corporation is a member, or any other business entities, except for sole proprietorships, that are the beneficiary of the economic development subsidy.**

The Agreement is with NIKE Retail Services, Inc. an Oregon corporation ("NIKE"). NIKE Retail Services, Inc. is the beneficiary of the economic development subsidy.

Luc Hooybergs, VP North America Logistics
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- 2. The name and address of all warehouse distribution centers that are the beneficiary of the economic development subsidy.**

5331 S. Carpenter Ave, Colony Commerce Center in Ontario, CA ("Facility") and other affiliate locations pursuant to the terms of the Agreement, and subject to approval by the City Council.

- 3. The start and end dates and schedule, if applicable, for the economic development subsidy.**

If the Agreement is approved by the City Council, the term will begin on the Effective Date of the Agreement and continue for no less than 11.5 years. The first Covenant

Payment will be paid following the first Covenant Quarter in which NIKE Retail Services, Inc. has performed its covenants and other obligations pursuant to the Agreement.

4. A description of the economic development subsidy, including the estimated total amount of the expenditure of public funds by, or of revenue lost to, the local agency as a result of the economic development subsidy.

The economic development subsidy shall be the sum of fifty percent (50%) of the Sales Tax Revenues attributable to annual taxable sales received by the City for Facility.

The City estimates that the annual payment to NIKE Retail Services, Inc. will be up to one million five hundred thousand dollars (\$1,500,000) by 2023, and that the total amount of the expenditure or loss of revenue of public funds as a result of the economic development subsidy will be up to seventeen million two hundred fifty thousand dollars (\$17,250,000) over the 11.5 year term. However, NIKE Retail Services, Inc. taxable sales paid to City is estimated to be up to thirty-four million five hundred thousand dollars (\$34,500,000) over the 11.5-year term of the agreement.

5. A statement of the public purposes for the economic development subsidy.

NIKE is world's leading designer, marketer and distributor of authentic athletic footwear, apparel, equipment and accessories for a wide variety of sports and fitness activities and is seeking to expand its business operations in order to serve customers within California and the Western region of the United States.

Through this agreement, NIKE will lease a newly constructed distribution center of approximately 580,000 square feet within the City of Ontario. Without an agreement, NIKE would not consider locating its distribution center in the City and possibly not in the State of California. The economic development subsidy will ensure that NIKE locates within the City for a period of 11.5 years.

The City has determined that location of NIKE, as described in the preceding paragraph, will generate substantial revenue for the City, allow for the creation of new jobs, revitalize an area of the City which has suffered a loss of jobs and businesses during the economic downturn of the mid-2000's, and result in community and public improvements that might not otherwise be available to the community for many years.

Further, the location of NIKE serves the additional public purpose of fostering a business and civic environment that may attract additional businesses and investment in the community due to the availability of the increased public and private services and economic activity resulting therefrom, thereby assisting the City in its goal of furthering the development of the community. This Agreement furthers the policies of the City to be business friendly and support economic growth including the creation of new job opportunities and new sources of revenue that support residents and city services.

6. The projected tax revenue to the local agency as a result of the economic development subsidy.

The City anticipates that the expansion of NIKE Retail Services, Inc. within the City will result in an approximate increase of annual sales tax revenue in the amount of up to three million dollars (\$3,000,000), minus the covenant payments to be paid to NIKE Retail Services, Inc., as set forth in number 4 above.

In addition, the value of the new improvements associated with the business is valued at approximately thirty million dollars (\$30,000,000) and will result in additional real property taxes in the amount of fifty-two thousand dollars (\$52,000) annually.

The City will receive an estimated sixty thousand dollars (\$60,000) in business license tax from NIKE Retail Services, Inc. annually.

7. The estimated number of jobs created by the economic development subsidy, including wage scale, broken down by full-time, part-time, and temporary positions.

NIKE Retail Service, Inc. has contracted with DHL to manage the employees and their operations at the distribution center. Below are the positions by year along with wage and benefit info. DHL utilizes a flex program that could be implemented here but is not currently identified in the structure.

Year	Full-Time Jobs Created	Seasonal Jobs Created	Weighted Average Base Salary	Weighted Average Wage w/ Incentives (Vacation, Bonus, Benefits, etc.)
1	89	264	\$35,413	\$37,810
2	242	628	\$35,296	\$41,948
3	325	849	\$36,197	\$43,093

8. The estimated number of workers employed through temporary agencies.

There will be no workers employed through temporary agencies. Short term associates are listed in the table above as “seasonal” but are hired directly to DHL.

9. Whether any benefit package is offered, including health benefits, fringe benefits, and defined benefit pensions.

Full benefits are provided to full-time associates after 30 days of employment. Seasonal associates are not offered benefits, but are expected to be employed for no longer than 90 days. If converted from seasonal to full-time they are offered the same benefit package.

DHL does not offer pension benefits.

10. Both of the following regarding each warehouse distribution center that is the beneficiary of the economic development subsidy:

a. A description of the outreach, training, and hiring plans, including plans to hire disadvantaged workers.

During startup, DHL Supply Chain in Ontario, CA will be hiring approximately 66 hourly and 15 exempt associates. The methods of recruitment will be through Indeed and different job boards in the area. Upon hire, all new associates will go through an orientation which includes 1 day of classroom training and 2 additional days of on-the-job training to get them acclimated with the company and their specific job functions. Associates will also get training in Nike's NLS operational method and will be cross trained in all functions in the building. As Nike grows the site in 2021, Nike will increase the headcount to accommodate the needs of the business.

While DHL does not specifically target disadvantaged workers, as defined under Government Code section 53083.1(j)(1), DHL will accommodate disadvantaged workers, if they can fulfill the physical requirements of the position (repetitively lift 30-60 lbs, stand for 8+ hours, and pass the safety test).

b. A description and total value of any state or federal subsidies in the process of being applied for, or received by, the warehouse distribution center.

None.

11. A description of any accountability measures, including, but not limited to, clawbacks of subsidies, provided in the contract if the warehouse distribution center does not meet the goal outlined in the contract for subsidies.

If Nike does not meet any of the covenants required by Agreement, City may automatically terminate its obligations with respect to Covenant Payments without cost, expense or liability, after providing Nike an opportunity to cure. Nike's contractual covenants include an operating and use covenant for the Facility, a required designation of City as point of sale for the Facility, obligations regarding maintenance of the Facility and against solicitation or acceptance of financial assistance, as defined. Nike also covenants that the Facility shall not be used for any purpose outside of that set forth in the Agreement, as a warehouse distribution facility.

If Nike breaches their covenant obligations within the first five (5) years of the Agreement (20 Computation Quarters), the City may recover an amount equal to sixty-six percent (66%) of the Covenant Payments paid to date.