

Office of Economic Development
Mesa Redevelopment Authority Executive Board
57 E. 1st Street
Lower Level Council Chambers
Mesa, AZ 85201

MEETING MINUTES

Date: August 28, 2012 1:00 P.M.

MEMBERS PRESENT

Brian Campbell, Chair
Tony Ham, Vice-Chair
William Jabjiniak
General John Regni
Virgil Renzulli

STAFF PRESENT

Betsy Adams
Margaret Robertson
Thomas Webb

GUESTS

Dane Mullenix

1. Chair's Call To Order

Chair Brian Campbell called the meeting of the Mesa Redevelopment Authority Executive Board (MRA) to order at 1:04 P.M.

2. Approval of Minutes from the July 24, 2012 Meeting

Chair Campbell called for a motion to approve the minutes from the meeting held on July 24, 2012.

MOTION: Mr. Virgil Renzulli moved that the minutes from July 24, 2012 be approved as written.
SECOND: Mr. Tony Ham
DECISION: Pass unanimously

3. Items from Citizens Present

No citizens were present.

4. Discuss and possibly take action on Arizona's effort to be designated a National Test Range to Integrate Unmanned Aircraft Systems into the National Airspace System

General Regni stated that the FAA's information request, synonymous to an RFP, originally scheduled for July 25, 2012, has not yet been completed. The technical director of the FAA gave a presentation at the AUVSI convention in Las Vegas and stated that the SIR will be released soon; however, no definitive date has been provided. In Washington D.C., the Secretary of Transportation and his staff will approve the FAA plan, then it is anticipated an additional three weeks for verbiage to be approved and the SIR released. The current complicating factor includes 11 separate bills concerning privacy for citizens with unmanned aircraft systems flying

overhead at the test ranges. Privacy requirements must be included in the SIR. A 45, 60 or 90 day response period will follow the release of the SIR with everything slated for completion by the end of the calendar year. A one hour presentation to the Governor and her economic forum will be delivered on September 13th at the 3-day Governor's Conference on Arizona's economy. Visitors are still welcome in Washington since the FAA has not made a presentation yet, so General Regni will present the case for Arizona on September 21st. The state has hired a proposal writing firm for assistance with a team of approximately 40 members for an adequate fact-based presentation as a response to the SIR. Mr. Renzulli suggested that ASU might assist on the writing proposal team. General Regni responded that Dr. Berna Dobb (sp?) from the Research Consortium as well as ASU personnel are involved on the technical writing portion.

Mr. Jabjiniak stated that since the General is going to Washington D.C. next month, it does not appear that he is expecting an answer within the next three weeks which the General confirmed. General Regni believes that the Research Consortium and the AZLabs will set Arizona apart as well as the modeling and simulation dimension.

Chair Campbell requested that General Regni elaborate on the Research Consortium. Governor Brewer communicated to the presidents of the universities a desire to build a Research Consortium that focuses on development of aircraft systems and specifically assist with FAA developments. The schools have banded together including Arizona State University, Embry-Riddle Aeronautical University, University of Arizona, Northern Arizona University and the Arizona Laboratories. They have identified teams and their particular areas of expertise in special types of research as centers of excellence. The Science Foundation of Arizona was selected as the lead coordinator to orchestrate the Research Consortium. The FAA will communicate its requirements which will require research. The Research Consortium and Science Foundation will then determine strategies for the team. Additionally, state money is being pursued for some of this effort. The state will also turn to industry for seed monies and grants and invite them to participate in the research. The goal is to see universities, the state and industries band together for success.

Chair Campbell inquired regarding the funding, whether this will be requested from the Governor's funds or separate appropriation through the state legislature. General Regni believes it is premature to answer at this point since internal as well as external sources are being pursued. Chair Campbell pointed out that obtaining a line item in the budget is a process that is currently in progress, so if there is an expectation of state funding that will need to happen now with JOBC and the legislature and the governor's budget.

Ms. Robertson noted that AZLabs is a member of the consortium then queried who is representing AZLabs at the consortium. General Regni and Chair Campbell both confirmed that this would be Mr. Dane Mullenix. Ms. Robertson further requested clarification regarding Alion and AZLabs function in this capacity. Chair Campbell pointed out that Alion is not a member of the Executive Consortium Board. Mr. Mullenix is the voice for AZLabs. Companies are working with the Research Consortium to identify research capabilities, Alion being one of them, but the actual representation and voting is through Mr. Mullenix.

5. Discuss and possibly take action on status of the Economic Development Conveyance (EDC) application for the Arizona Laboratories for Security and Defense Research (AZLabs)

Ms. Robertson stated that the initial proposal in terms of a draft from the Air Force has been received. Mr. Jabjiniak and Ms. Robertson reviewed the document and have developed a response. Outside counsel has not been able to review the response and they are waiting for his response. The Air Force communicated with Ms. Robertson today and she let them know the counter proposal should be received from Mesa very soon. Chair Campbell inquired about timelines with the Air Force and Ms. Robertson replied that nothing has been expressed: they just want to have it done correctly and in the best interest of the City.

6. Discuss and possibly take action on report of Alion Science and Technology regarding marketing efforts at AZ Labs

Chair Campbell stated that in light of the AUVSI Convention that was recently attended, marketing is a pressing issue. He expressed that in order to avoid going into executive session, the board will not discuss specifics during the discussion. With sequestration and uncertainty in the defense market, the board needs to focus on basic marketing ideas to be in the best possible position to begin positive cash flow for the City.

Mr. Dane Mullenix of Alion distributed charts for marketing information with up-to-date leads. Marketing is an emerging concern to turn the facility from a liability to an asset for the state of Arizona. Due to the sensitive nature of the businesses, specific names are not discussed in the executive meeting. The current task at hand for Alion is the facility management and business attraction with marketing the focus of today's discussion. The capability of attracting potential tenants continues to evolve. The marketing plan previously presented has changed as Mr. Mullenix had previously stated that this is a "living document" and changes as needs are recognized and addressed. Mr. Mullenix shared that approximately 50 percent of his time is dedicated to this need as well as two other Alion employees, Dr. Chuck Louisell and Mr. Austin Stoudenmire who are both east coast based. The marketing efforts to date relate to the Department of Defense (DoD), Department of Homeland Security (DHS) and other Washington D.C. based opportunities. The original marketing plan focused on four categories: 1) Legacy contractors (local companies that had done business with the AFRL before, 2) other DoD and DHS contractors, 3) academia and not-for-profits and 4) government agencies. Amazingly, the government agency interest is broader than was originally anticipated. An executive summary of the first year marketing was submitted on July 15th, a copy which was provided for this discussion.

On charts four, five, six and seven in the material Mr. Mullenix highlighted organizations that have shown interest in the facility. ASU Polytechnic has a key interest for some security and defense systems with negotiations ongoing. East coast senior representatives in and out of government have visited the site often. The Honorable George Foresman, the Former Under Secretary for Homeland Security came in his official capacity to assist with marketing of the facility. He is well-connected to the current leadership and decision makers. Dr. John Appleby, Director of Science and Technology for DHS, is also the Department's Unmanned Aerial Systems (UAS) flight test lead. He has visited the site twice and is especially interested in RND and US flight test-related. Their current testing is at Fort Sill in a very small air space designated for artillery training. Chart five reveals examples of not-for-profits and some representatives from political interests including Mayor Smith from Mesa and Mayor Lewis from Gilbert. Additionally visitors from other city agencies including Mesa Police Department, Chief Milstead

and his team are looking at the potential use of UAS. An up-to-date briefing was provided from DHS and FAA sources that assisted in the understanding of the opportunities and the challenges with the adoption of their desired outcomes. Furthermore, opportunities with Fort Huachuca have three or four acquisition authorities that have shown interest in the labs from training to site research. A handful of senior company owners, CEO's and COO's from small to medium size companies are attracted to the lab for capabilities they do not have access to. For companies their size they view the risks associated with acquiring those capabilities, particularly related to security. These charts include only approximately one third of the contacts from the first year of the lab. Chart six refers to Alion having specific interest in leasing at the lab as well, making them a tenant as well as the managing entity. A skip study has been conducted which included six visits on a pro bono basis by a company that are experts across the country in the area of construct and accreditation heading toward expansion. One visit was made by the local FEMA Response Team, which is looking for emergency operations capabilities for the state of Arizona. They are looking to expand including communications and security locations that exist now. Other companies are awaiting response on two proposals that would put them in a position to move their entire research and development within the lab. One company would be a very significant piece using approximately 25 percent of the lab space. This company would not only be interested in moving its research and development, but its entire company headquarters.

The City of Mesa accompanied Alion with the representation of the AZLabs to the AUVSI trade show in Las Vegas. This attendance proved to be an effective way to present the lab to those who have the greatest interest in flight testing. The networking opportunities presented through this show are now in the process of follow-up with over 1,000 contacts made and a shorter list of those who showed interest. Mr. Jabjiniak inquired how Alion is following up with leads made. Mr. Mullenix stated that contacts were received first by subsets which were about 3,000 to 4,000; secondly, roughly 1,000 company names reached out by email; then thirdly, companies that physically made contact and expressed specific interest or needs. This is a labor-intensive process that is anticipated to last for several weeks.

Mr. Mullenix, referring to slide seven, delineates a list of specific events in the past as well as future possibilities. Documents with the City of Mesa focused primarily on a fairly short list of very large trade shows; however, some smaller regional trade shows which have been attended reveal a contact rate which is much higher and the overall cost is much less, being shorter in duration. For a fraction of the investment, smaller trade shows within driving distance of a team member can be made and presentations are often accepted more widely with face-to-face contact. In conversations with the City last week, Mr. Mullenix feels this should be expanded and more focused on these small trade shows.

Current marketing activities are summarized on chart eight. Three hot lease leads are shown on the chart. Mr. Mullenix believes all three will close as leases and would be fairly significant for the lab. Strategic follow up leads are federal agencies that have made multiple trips to the lab. Each agency refers to sequestration as the reason they are unable to continue discussions at this time. Alion has retained a Washington D.C. consulting firm that is focused on marketing to the agencies, but feedback is budget and sequestration concerns. Ms. Robertson queried regarding the sequestration budget, if it is enacted, then the cuts will come in to meet the sequestration budget. She stated that even when the budget passes no one knows what is going to trigger sequestration. Mr. Mullenix agreed with that summation, countering that agencies are not making commitments because of this uncertainty. General Regni stated Senator McCain from the Armed Services Committee has been reviewing tangible impacts of sequestration. He

inquired whether any of these issues with the lab have been presented to Senator McCain, where potential lessees impact national security as well as the City of Mesa. Chair Campbell inquired whether Alion needs any assistance in contacting Senator McCain's staff. The suggestion was for city staff to contact the Senator, particularly pointing out the expense already incurred with the infrastructure being frustrated by sequestration.

Alion's business development support includes Dr. Oded Flascher, assigned full time by Alion's CEO to assist Mr. Mullenix. Not only is he assisting in business attraction to the site, but to assist Alion for business development efforts accelerating their role as a leaseholder as well. Mr. Steve Kimmel is part of the marketing team as well as Mr. Tim Cook who is Alion's registered lobbyist. He supports efforts in Arizona and the national level at the CEO and Board's request.

A large USA conference, a training and education symposium in Orlando, will display a booth for the companies of Alion and AZLabs with the City of Mesa. Referring to chart nine, Mr. Mullenix referred to the smaller trade shows and recommended to the City and the committee that these represent a smaller audience, less investment and a better return on investment.

Mr. Mullenix stated the webpage has been completed and is active. Mr. Mullenix believes the lab is a national resource and recognizes that marketing is local, regional and national. Local and regional are equally valuable for defense contracts; however, as previously stated, the impact of sequestration is being felt. Flexibility is the key to marketing the facility: remembering this is the security business, not real estate. When marketing the facility, the focus is not just the lab but also the airport, the airspace, ASU Polytechnic and the other partners in the area. Chair Campbell interjected that the valley cities are focusing on this area and inquired whether Alion has contacted other community partners regarding integrating what they are doing, noting that they have raised a significant amount of money. Mr. Mullenix responded that they have joined the East Valley Partnership. Mr. Jabjiniak states that Mr. Arnett with East Valley Partnership is in the process of raising \$200,000 for this branding effort and is approximately three-quarters of the way there.

Mr. Mullenix, continuing on the same chart, referred to UAS and cyber as hot. The contact list and physical showing revealed approximately 50% interest in the UAS sites. The City has been working on a HUB zone qualification for the lab which affects marketing. HUB zones are difficult to obtain which is step one in a series of challenges. The opportunity for collaboration with ASU, namely students and interns in the area, is recognized in that a residency requirement of 35% within the zip code is necessary. Mr. Jabjiniak and Mr. Thomas Webb updated the Board on the HUB zone status. The facility will be designated a HUB zone, but unsure when that will begin. The HUB zone designation is for a five-year period. Mr. Webb informed the Board of the designation criteria that the area must be 1) designated as a small business by SBA standards; 2) the company must be 51% owned by an American citizen; 3) the company has to be headquartered within the HUB zone and 4) 35% of the employees have to reside in the HUB zone area. According to the SBA, the residency stipulation cannot be waived, however if there is another HUB zone in close proximity, employees could live in that zone. Mr. Jabjiniak pointed out that there is limited residential access in this area. This will be discussed further at the next meeting. Chair Campbell inquired if there is something the Board could do to assist in addressing the residency issue for the HUB zone. Mr. Renzulli stated that no faculty lives on the campus and the residence hall is primarily freshmen so probably no interns would come from that group. Chair Campbell suggested Mr. Renzulli assist Mr. Webb in contacting someone with ASU to assist with these efforts. General Regni stated that a board in Virginia that was

designated a HUB zone worked actively to get the 35% and attempting to get a waiver is a difficult endeavor.

General Regni inquired about the three hot lease potentials, whether they are imminent and if that would be known by the next meeting. Mr. Mullenix stated one should be known by then, one possibly by early October and the third is making a fourth visit to the lab next week. Chair Campbell inquired whether the third interested party is a HUB zone interested party which Mr. Mullenix affirmed. The owner of the company knows how to build disadvantaged companies. General Regni further inquired regarding the skip certification, whether it is still secure since lessees are not currently known. Mr. Mullenix responded that, yes, plans are underway for obtaining certification and no known risks exist for that transition.

Mr. Campbell referred to the ability to follow up with the potential contacts, how to follow up in an intelligent way, taking into account they are military and government type procurement, are there skilled individuals following up in the appropriate manner or losing a return on investment. Mr. Mullenix countered that two in Mesa and one individual on the east coast are working that list. He states it is a labor-intensive, divide and conquer process, but the largest part is a mass mailing which is about to be launched. Chair Campbell queried whether the board could assist with that follow up. Mr. Mullenix stated that the board can solicit feedback, guidance and recommendations. Mr. Jajiniak suggested Alion stay visible with the executive board, not drilled down to the company, but see month to month what is going on with the marketing outreach.

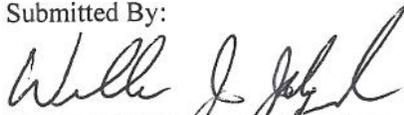
7. Other Business

Next Meeting: Tuesday, September 25, 2012, 1:00 P.M. at 57 E. 1st Street, Lower Level Council Chamber, Mesa, AZ 85201

8. Adjournment

Chair Campbell adjourned the meeting at 2:11 P.M.

Submitted By:



William J. Jabiniak
Economic Development Department Director
(Prepared by Jeanne LaRue)