MEETING MINUTES

Office of Economic Development

Economic Development Advisory Board

57 E. 1st Street
Lower Level Council Chambers
Mesa, AZ 85201

Date: March 6, 2018 **Time:** 7:30 A.M.

MEMBERS PRESENT	EX-OFFICIO	STAFF PRESENT
Jeff Pitcher, Chairman	Mayor John Giles (Excused)	William Jabjiniak
James Christensen	Chris Brady (Excused)	Sara Sorensen
Deb Duvall	Rich Adams (Excused)	Jeffrey McVay
Jim Kasselmann	Brian Campbell (Excused)	David Packard
Matt Likens	Jeffrey Crockett	Anita Jerger
Dominic Perry	Sally Harrison	
MEMBERS ABSENT		
Natascha Ovando-Karadsheh, Vice Chair		
Laura Snow		

1. **Chair's Call to Order**

Chair Pitcher called the Economic Development Advisory Board meeting to order at 7:31 a.m.

2. **Items from Citizens Present** – None.

3. **Approval of Minutes from the February 13, 2018 Board Meeting**

Chair Pitcher called for a motion to approve the minutes from the February 13, 2018 Board meeting.

MOTION: Matt Likens made a motion to approve the minutes.
SECOND: Deb Duvall seconded the motion.
DECISION: Passed unanimously.

4. **Opportunity Zones**

Sara Sorensen, Economic Development Project Manager, advised that Opportunity Zones are a new incentive established under the Tax Cuts and Jobs Act of December 2017. The goal is to attract long-term investment in distressed areas, which are determined based on census tracts. The U.S. Department of Treasury sets the eligibility requirements for this federal program. Each state may nominate 25 percent of its qualifying census tracts to receive the Opportunity Zone designation.

The benefit of this designation is realized through the creation of investment funds. Once the funds are certified by the US Treasury, investors will see a deferral, reduction or elimination of certain federal capital gains taxes. After 10 years, those capital gains will be tax free. It is estimated that US investors currently hold $2 trillion in unrealized capital gains, and this could be a great mechanism to put that money to work in rebuilding our distressed communities.

The program uses low-income census tracts to determine which areas of each city are eligible for Opportunity Zone Designation, and 669 of Arizona's 1,526 census tracts qualify. In Arizona, Governor Ducey can nominate 168 tracts statewide. The Governor's office is working with the Arizona Commerce

Authority (ACA) to allocate those 168 tracts throughout the state, and Mesa may recommend up to 12 tracts. There is also a Contiguous Provision which allows states to nominate 5 percent of census tracts that do not automatically qualify, as long as the tract is contiguous and has a median family income that does not exceed 125 percent of the qualifying adjacent tract. Governor Ducey may only nominate nine of these tracts statewide.

A map was reviewed showing Mesa's 123 census tracts, 57 of which are eligible for the Opportunity Zone designation, and a few tracts that would qualify under the Contiguous Provision. The tracts that are being recommended are focused on areas with strong potential for private investment and jobs. These tracts cover four of the five employment areas. Several tracts are in the western portion of the City along the Light Rail between University Drive and Broadway Road. One tract is within the Fiesta District. There is a very large census tract in northern Mesa near Falcon Field. Much of the Gateway area is being suggested as one contiguous tract, which overlaps with the Elliott Road Technology Corridor. We are strongly suggesting that the ACA consider this as one of the nine contiguous tracts for the state.

There was a conscious decision not to include the tract at the northwest corner of Alma School Road and Southern Avenue, since there is already a Planning & Zoning proposal for a housing development on that site. Unfortunately, the Fiesta Mall site is not eligible for this designation, and there is very little flexibility in the requirements.

Mesa has submitted its recommendations to the ACA, and after some refinement, our final submission is being reviewed with the Governor's office. The Governor will submit Arizona's final recommendation to the Treasury Department on March 22, 2018.

Board Discussion:

Jeffrey Crockett asked if there is any certainty that the 12 sites Mesa is submitting will receive this designation, or are there contingencies. Ms. Sorensen stated we feel fairly confident, although the ACA has made it clear that the numbers allocated per jurisdiction were rounded up, so they will have to eliminate a few of those recommendations. We were asked to rank the recommended tracts in order of preference in the submittal.

Mr. Crockett asked whether there is a plan to publicize this program after the tracts are designated. Ms. Sorensen advised that we are waiting on program detail clarifications from the Treasury Department and hope to have more guidance in the next few months. The City of Mesa would certainly do some sort of roll out to publicize this opportunity.

William Jabjiniak stated this Act was passed in December and some of the communities have complained that it is moving too fast. The Treasury Department is making the rules as the process moves along, and released additional guidance in January. After we identified 12 tracts, the Treasury added some clarifications and we had to resubmit. If we receive designation for the contiguous tract, more than likely they will knock something off our lower priority tracts. The Fiesta Mall is not eligible, and trying to have it qualify as a contiguous tract was a challenge. This initiative will spur investors who have a lot of capital gains tax to reinvest in some of these targeted areas. The longer that investment is held, the better off it is from a tax perspective. There are $2 trillion sitting on the sidelines that can make a big difference.

Mr. Crockett asked if there is a time limit for that money to be deployed under this program. Ms. Sorensen did not know the answer.

Dominic Perry asked if there is a cap in terms of minimum and maximum amounts for investments. Ms. Sorensen stated those kinds of details are still under discussion within the Treasury Department.

Deb Duvall asked if there are investor requirements in terms of what types of commerce, services, or industries qualify, or on the type of employee or demographics required in Opportunity Zones.

Mr. Jabjiniak noted that all of these census tracts are low-moderate income, so any investment will benefit the majority of that population. Commercial and residential developments are eligible. He is assuming that the residential should be more market-rate. Low-income housing tax credits are also available. Ms. Sorensen stated it uses the same eligibility requirements as new markets.

Mr. Jabjiniak noted that low-income census tracts follow Main Street from one end of the city to the other. We were fortunate to be able to pick up the Falcon Field area. In the future, the census tract calculations may change, unless new tracts are created due to Eastmark and the growth in that area.

Matt Likens requested clarification that an individual who may have unrealized capital gains can reinvest those funds in one of these zones. He asked if there is a certain time period to make that investment before taxes need to be paid on those capital gains. Mr. Jabjiniak advised that the longer that investment is kept in an Opportunity Zone, the better the tax break. After 10 years, it likely will be tax free. Ms. Sorensen has not seen any information relating to such a time limit. Mr. Jabjiniak stated the funds need to be certified by the Treasury.

Mr. Perry stated he believes it would be similar to a 1031 exchange, when you sell a property and have capital gains with an opportunity to reinvest that money into another property or properties of the same or greater value in order to defer that tax payment. With a 1031 exchange, investors have 45 days to identify a property and 120 days to close on that property. This may be similar, but more specific in terms of where that next property will be.

Deb Duvall asked about the timeline for the process. Mr. Jabjiniak advised that Governor Ducey will submit Arizona's final recommendation to the Treasury Department on March 22, 2018. There is the opportunity for a 30-day extension, although the ACA is not planning on an extension. After that, the process is not clear. We are unsure how long it will take for the Treasury Department to make a decision.

Ms. Duvall asked whether Arizona is guaranteed at least some of this money or is it possible that the ACA could say Florida or another state needs it more in light of all the tragedies that have occurred due to weather in the US this past year. Mr. Jabjiniak stated Arizona is allowed to nominate 25 percent or 168 of the state's qualifying census tracts. This is private investor money, not federal money. Once we get our proper share of designated Opportunity Zones, it then depends on the private sector investor.

Mr. Perry clarified that the money exists as capital gains which will be invested in other properties, providing a savings to the investor and their tax liability. There is not a fund of money that can be tapped by anyone else. It is up to the investor to decide in what area they are interested in making an investment.

Mr. Crockett asked if there has been any interest in this program and are people aware of this opportunity. Mr. Jabjiniak has found that we need to publicize the opportunity and there needs to be a marketing campaign. He recently met with a hotel and brought up the option to invest in that Opportunity Zone. They were very interested. It will become part of our typical discussion points going forward.

Chair Pitcher felt there would be no real interest until investors figure out the regulations and benefits.

5. ASU Development in Downtown

Jeffrey McVay, Manager of Downtown Transformation, reported that Council voted to approve an Intergovernmental Agreement (IGA) with ASU last week. This is set up to be a multi-phase agreement, with Phase I for the design and construction of Building A of approximately 100,000 to 125,000 square feet. Future phases will be decided at a later date. ASU would provide all the tenant improvements to the building, including the furniture, fixtures, and equipment (FF&E) estimated at $10 million, plus $1.3 million a year in O&M costs. The City would be obligated to build the first phase of a 2-acre City Center Park located on the east side of the Municipal City Plaza (the orange lot) adjacent to Main Street.

There is also a commitment on the IT building, since it will become available after IT moves to the AT&T Data Center on University Drive and Alma School Road. A 6,000-square foot portion of the IT building will be built out as a collaborative space called the Mesa Innovation Studios. The Mayor and City Council want to move forward with the Mesa Innovation District initiative after the recent presentation by the Brookings Institute. The Mesa Innovation Studios could serve as the front door of that Innovation District with collaborative space. Additionally, Boeing and Mesa Community College have expressed interest in participating. This will offer space where ASU students can begin to apply what they have learned with the opportunity for collaborative encounters with Boeing personnel as a possible pipeline into their workforce.

If this project moves forward, ASU's commitment to the City is a minimum of 750 students plus 40 faculty and staff within five years. In addition to the investments to FF&E and the O&M costs, ASU will be responsible to place money into a reserve and replacement fund for significant capital improvements to the building. They will also commit to a number of film, innovation, and entrepreneurial events per year, open to students and the Mesa general public. An ASU staff member will be assigned to participate on a board to guide the process for the Innovation District. As the most innovative university in the country, having an ASU staff member participate on this board will be very helpful.

<u>ASU Academic Programs</u>: Film, Media and Gaming – ASU intends to grow its film school, much like it did with the Cronkite School of Journalism. ASU wants to grow the film school at the Mesa location to be a better respected program producing talented students. Advanced Visualization, Virtual & Blended Realities, and Rapid Prototyping are new programs for ASU that will utilize different delivery methods to train students to respond to these ever-changing fields and technology.

Chair Pitcher asked about the Virtual & Blended Realities program. Mr. McVay explained that it is a similar concept to augmented reality as in the Pokémon Go game. It relates to using virtual reality in connection with your actual environment and blending it into our everyday lives. One example might be using virtual reality to train doctors on how to perform a specific surgery.

For the City, these technology programs can be monetized and will hopefully result in tech start-ups and entrepreneurs choosing to stay in Mesa. ASU intends for this building to be the start of their entry into downtown Mesa. They plan to be a key member of the Downtown community and the City as a whole.

<u>Primary Business Points</u>: The IGA also allows for future phases. At the City's discretion, it could design and construct Buildings B and C through an identified funding source. Those buildings had been included two years ago in a voter initiative for a sales tax increase. This is a scaled back version of that original plan. The agreement provides the option for ASU to design and construct Buildings B and C through donor funding.

Jim Kasselmann asked if this property lies within an Opportunity Zone, is it theoretically possible for a donor to use capital gains funds to build the facility and retain the value of that property, while allowing ASU to use the facility and provide the capital improvement funds and cover the O&M costs.

Mr. Perry stated that while it sounds theoretically possible, a donation is not expected to bring a tremendous return on investment. The value is in the donation. Mr. McVay provided a few examples of similar donations with the ASU Fulton Center, the Del E. Webb School of Construction, and the Cronkite School of Journalism.

If ASU moves forward with the future phases, the IGA does have additional ASU commitments built-in. At build-out of Buildings B and C, ASU would commit to a minimum of 2,000 students and 200 faculty and staff, in addition to all the tenant improvements, O&M costs, the reserve and replacement fund, and continue to hold ongoing events Downtown and participate in the Innovation District board.

There are additional terms in the IGA that would need City Council approval. The first is project financing through municipal bonds to be paid back through Enterprise funds. City staff is working on an initial conceptual design with cost estimates to go to Council in early summer. Next in the process would be to develop the master plan, design guidelines, and a master lease.

Another item is the lease with ASU, which will supersede the IGA. ASU would serve as the landlord for any commercial subleases, and any net revenues beyond normal O&M costs will go to the City of Mesa as a form of revenue, in addition to the $100,000 a year in rent. The term of the lease will be 99 years with an option to extend if ASU spends significant sums on capital improvements. In addition to rent, ASU would pay a prorated portion of a City employee's salary to coordinate operations and maintenance of the building. Also there is the potential for additional revenues from student parking permits and utilities.

<u>Board Discussion</u>:

Mr. Perry asked what the building will cost. Mr. McVay gave a rough estimate for the whole package including the building, utilities, and the park at a cost of up to $75 million. The majority of that cost will be the building at $40 million to $50 million. The conceptual design will provide realistic cost estimates. The initial budget will not change after it is set. If construction costs are greater than estimated, there is the choice to stop the agreement, or ASU can shrink or value-engineer the building.

Sally Harrison asked about the Enterprise Funds. Mr. McVay explained that the Enterprise Funds are the City's utilities: gas, electric, sewer and water. Each utility makes more money than it costs and has a budget transfer annually into the General Fund to be available for debt service payments. In 1949, the City bought the electric utility, which at the time was making so much money that the City leaders did away with the primary property tax. As the City grew, Enterprise Funds were created for the other utilities to act as major revenue sources for the City. Mesa still does not have a primary property tax.

Chair Pitcher asked if there will be synergy with the other universities downtown. Mr. McVay hopes that this will be part of a larger ecosystem. Benedictine University continues to grow with entrepreneurial programming, and has asked the City to help fund its additional build-out of 25,000 square feet. In 2016, there was a voter initiative which included several million dollars for build-out for Benedictine. Mesa Community College will likely make an announcement about bringing an information technology institute to our Downtown, partnering with major tech companies like Microsoft and Apple.

Mr. Jabjiniak asked for the timeframe for the IGA and construction. Mr. McVay stated the agreement has been signed by ASU, subject to approval by the Board of Regents, anticipated in June. The City will invest in the preliminary design and master plan, and will come back this summer with the lease and budget. The goal is to have the building complete with students in place by the spring of 2020.

Mr. Likens noted Kent State University in Ohio is constructing a new college of business administration building about the same size with a cost estimate of $60 million to $70 million. Compared to that, the $75 million estimate with the park sounds reasonable. Jeff McVay advised that two years ago, the design concept was estimated at $400 to $450 per square foot for the building. With the current construction climate, that estimate will be at the low end.

Mr. Crockett believes that ASU is hitting it out of the park in our state and wholeheartedly supports this plan. Throughout his career, he watched the transformation of downtown Phoenix with ASU coming in. He agrees with the ecosystem concept, and as the synergy grows, the businesses will grow because it will drive more people there. This is a fantastic opportunity for Mesa, and he is excited to see this go forward. This Board will do whatever it can to help move this along.

Mr. McVay explained that a mechanism to fund ASU through a sales tax increase had previously gone to the voters and was voted down. This proposal does not increase the sales tax.

Ms. Harrison asked what the Enterprise Funds have been used for in the past. Mr. McVay stated those funds have been used to help invest and reinvest in the City for economic development purposes, including Benedictine University's build-out. The Cubs build-out used similar-sourced funds.

6. Director's Update

William Jabjiniak reported on the Business to Baseball event last Thursday, March 1, 2018, with a sell-out crowd. The Development Agreement with both the Cubs and the A's provided the City with 50 tickets, and we bought 50 more. Six out of the seven elected officials were in attendance. Today is Industry Day if anyone would like to attend.

Tomorrow, March 7, 2018, will be the groundbreaking for EdgeCore at 10 a.m. at Eastmark, with the first of seven buildings of 180,000 square feet each.

Last week, a Cybersecurity conference was held at the Mesa Convention Center with about 150 attendees. This is a good start to a growing cyber presence in Mesa.

Aerialsphere has now rolled out on the five employment areas. There was a media press piece last week. There are many positives in and around that marketing tool. GPEC is focusing on employment areas as well.

There was a budget presentation to City management, and the budget is pretty much flatlined for the next year. Last year, one person from Economic Development was assigned to Falcon Field, and the department received approval to replace that position now.

Jaye O'Donnell is working on the Pre-K initiatives. Sara Sorensen will be off for several months for maternity leave. There are discussions for downtown marketing. Jeff McVay has his hands full with the downtown transformation as well as an RFP on Site 17.

7. Other Business

The next EDAB meeting will be held on April 3, 2018, 7:30 a.m., at the i.d.e.a. Museum, 150 W. Pepper Place, Mesa, 85201. There will be a brief Board meeting in the lobby followed by a tour.

8. Adjournment

With no further business before the Board, Chair Pitcher adjourned the meeting at 8:25 a.m.

Submitted By:

William J. Jabjiniak
Economic Development Department Director

(Prepared by Dana Desing, TEI: 14082507)