

MEETING MINUTES

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

Date: September 4, 2018 **Time:** 7:30 A.M.

MEMBERS PRESENT

Natascha Ovando-Karadsheh, Chair
Rich Adams
Brian Campbell
James Christensen
Deb Duvall
Matt Likens
Dominic Perry
Richard Warren

MEMBERS ABSENT

Jim Kasselmann, Vice Chair

EX-OFFICIO

Mayor John Giles (Excused)
Chris Brady, City Manager
Sally Harrison
Jeff Pitcher

GUESTS PRESENT

Councilmember Kevin Thompson
Geoff Shumway, Arizona Commerce Authority
Dane Mullenix, AZLabs Director

STAFF PRESENT

William Jabjiniak
Kelley Keffer
Maribeth Smith
David Packard

1. Chair's Call to Order

Chair Ovando-Karadsheh called the Economic Development Advisory Board meeting to order at 7:30 a.m. She welcomed Councilmember Kevin Thompson to the meeting.

2. Items from Citizens Present – None.

3. Approval of Minutes from the August 7, 2018 Board Meeting

Chair Ovando-Karadsheh called for a motion to approve the August 7, 2018 meeting minutes. It was moved by James Christiansen, seconded by Dominic Perry, that the August 7, 2018 meeting minutes be approved.

Upon tabulation of votes, it showed:

AYES – Ovando-Karadsheh, Adams, Campbell, Christensen, Duvall, Likens, Perry, Warren

NAYS – None

Chair Ovando-Karadsheh declared the motion carried by unanimous vote.

4. Arizona Commerce Authority Programs

Geoff Shumway, Senior Vice President of Business Expansion, Arizona Commerce Authority (ACA), gave a presentation on ACA's performance over the past five years and the various programs offered. At the state level, ACA works with many of the local economic development teams, and Mr. Shumway commended Bill Jabjiniak and his team for all of their work.

ACA is the state's leading economic development organization, established in 2011. ACA's Board of Directors is made up of 17 private-sector C-level leaders and is chaired by Governor Ducey. The mission is to foster and support positive economic development across the state, and the strategy is to recruit, grow, and create.

Target industries include Aerospace & Defense, Business & Financial Services, Film & Digital Media, Manufacturing, and Technology & Innovation. There is a heavy focus on the State of California with its regulatory issues, and ACA has offices in California to create and grow relationships. Over the past five years, ACA has reached 116% of its goal in projected jobs, 158% of its goal for projected capital investment, and 98% of its goal on projected wages. Projects include companies across the state with several in Mesa, including Dexcom.

Tremendous momentum was created with the growth in GDP and new technologies on the horizon, and Arizona has received several accolades. The FY18 results were record setting with 87 different projects, nearly 26,000 jobs, an average wage of \$58,000 (164% of the median), and \$3.8 billion in capital investment. Regionally, California represents nearly 5,000 jobs and \$297 million CAPEX. ACA's Tyler Gentry is making a lot of headway in the East to create relationships in New York and Boston. Of the FY18 results, 37% were from the Business & Financial Services sector, 18% in IT/Software, 14% in Manufacturing, and 13% in Logistics.

ACA client activity over the last year includes Boeing, Orbital ATK (now Northrop Grumman), and EdgeCore of Mesa. The Business Attraction Pipeline currently has 140 opportunities representing 38,000 new jobs with an average wage of \$53,000, and \$10 billion worth of capital investment. Forty-one percent of those opportunities are coming from California, an increase of almost 100% from the previous year. This is a testament to Arizona opening its doors and the interest in our IT workforce as things tighten up in the Bay area.

There are currently 64 opportunities in the business expansion pipeline, representing nearly 11,000 jobs with an average wage of \$55,000 and \$3.6 billion in capital investment. There has been a 10% uptick in the IT/Software sector which suggests that Arizona has the right kind of talent, and once companies are established here, they continue to grow. The total pipeline is very balanced across the targeted sectors.

Financial Programs: ACA manages and administers 17 different performance-based grant and tax credit programs on behalf of the state. The Quality Jobs tax credit is a non-refundable credit of \$9,000 per net new employee, and there are qualifying thresholds. The Job Training grant program no longer exists. It was supported by a per employee tax that was eliminated in 2016, although the ACA will continue to manage those job training dollars until they are gone or until December 31, 2020. Small employers in rural communities can take advantage of a grant of up to \$8,000, and large employers in a metro area can receive grants of up to \$5,000. The Qualified Facilities program is focused strictly on manufacturers and smelting operations with a refundable tax credit of \$20,000 per net new employee or 10% of capital investment, whichever is less. There is a TPT Exemption for machinery & equipment, as well as for electricity. Back in 2014, legislation was passed that allowed for a TPT exemption on power for manufacturers, which is retroactive. There is a Military Reuse Zone in Mesa at Phoenix-Mesa Gateway Airport. Tax credits are also available for Research & Development, Renewable Energy Production, and Commercial Industrial Solar.

Innovation Programs: Brian Sherman manages the Arizona Innovation Challenge. Twice a year, \$1.5 million is granted to qualified innovative start-ups or early stage companies. Future changes to the program will bring in more companies. Venture Ready is a business mentorship program, and Venture Madness is a start-up competition.

Chair Ovando-Karadsheh noted that Matt Likens with GT Medical Technologies was one of the Innovation Challenge winners. Matt Likens noted that there are certain milestones that need to be met in order to earn the \$250,000 over a period of time, and they are right on track. A previous start-up, Ulthera, also received a grant from ACA worth \$1 million, although only two of the three milestones were met, and only two-thirds of that money was captured based on job growth and average wages.

As a result, the company grew to 230 employees. These are the types of things that not only keep companies here but attract other early stage or existing companies.

Mr. Shumway reviewed ACA's small business programs which help companies with SBIR grants. ACA has one of the foremost experts in exports, Kevin O'Shea, who manages the AZSTEP program to help guide companies looking to get into international markets.

Manufacturing Programs: REVAZ is a rebrand of the Manufacturing Extension Partnership (MEP) led by Dave Garafano. REVAZ is an in-house consulting practice helping small to medium manufacturers through customized solutions.

Rural Programs: Keith Watkins oversees the Certified Sites outside of greater Phoenix and Tucson.

Board Discussion:

Brian Campbell has reviewed the JLBC scores on those financial programs and he has reached out to some relocates for feedback on how effective those programs are. He noted a disconnect as JLBC has to budget these as an actual cost although it is not seen on the tax returns of the relocates. Is there some discussion at ACA to make these programs more efficient and more effective in capturing those dollars, especially this time of year looking at new legislation moving forward?

Geoff Shumway stated ACA is always looking to modernize the programs. One example is an adjustment made four years ago to the Quality Jobs tax credit, which originally required 25 net new hires and \$5 million in capital investment within one calendar year. Due to the high CAPEX number, it did not appeal to tech companies. The adjustment created a tiered structure with the ability to qualify with as little as \$500,000 in capital investment, although there is a corresponding wage threshold of 200% of the county median (\$71,000).

Mr. Campbell stated we are paying the cost at JLBC, although when we are competing with Denver or Austin, we are not getting the credit. He encouraged the ACA to get more involved politically and to engage legislative leaders now heading into the next session to target these programs and maximize efficiencies.

Mr. Shumway felt that was a valid point. When the Governor created the Office of Economic Opportunity, a lot of professionals were brought over from agencies such as DES and DOA to look at our competitiveness as a state.

Deb Duvall asked how the number of net new hires is determined for the tax credit programs. If an existing company hires people from other jobs within Arizona, are those considered new employees?

Mr. Shumway stated their programs are available to new companies we are trying to attract to the state as well as existing companies in Arizona. As an example, if Company A hires 20 people from Company B, those are considered net new employees for the purposes of the incentive programs.

Rich Adams was impressed with the performance results. He asked about the goal setting process for the next five years.

Mr. Shumway is not as close to that process as Sandra Watson, CEO, although the goals are every bit as aggressive. He would be happy to provide more specifics, although Ms. Watson is the spokesperson on that process.

Jeff Pitcher asked how the Opportunity Zones may affect some of ACA's programs.

Mr. Shumway did not see a tremendous connection with their programs and the Opportunity Zones.

Bill Jabjiniak appreciated Mr. Pitcher's question and advised that at the last Board meeting there was a detailed presentation on Opportunity Zones. The Treasury is due to release more direction in the next week or two. At the end of the month, there is a statewide event on Opportunity Zones with CDFA.

As an attorney, Jeff Pitcher is well-schooled on the topic and is looking to take advantage of Mesa's Opportunity Zones.

Mr. Shumway felt it is an interesting opportunity in terms of the benefit, although the question is on the execution piece with the different mechanics involved. A couple of funds have been established and it will be interesting to see how it will all work mechanically. Shawn Neidorf, ACA's Director of Research, has been working with Treasury from day one and is the expert on Opportunity Zones. He suggested that any questions be directed to Ms. Neidorf.

Bill Jabjiniak noted the intent of Mr. Shumway's presentation was to bring the Board up to speed on the variety of programs ACA has to offer. There has been a lot of work on the expansion in Mesa and ACA was able to go back a few years looking at the growth.

Mr. Shumway stated the Qualified Facilities program is retroactive and has looked back to July of 2012 to capture job creation and capital investment. He noted that many of the companies that he meets with on a daily basis are largely unaware of those programs and opportunities.

5. AZLabs Update

Dane Mullenix, Director, advised that AZLabs was founded in 2011 as a result of the BRAC closure of the former Mesa Air Force Research Lab. This was unique as the Defense Department does not normally focus on a single facility for BRAC (Base Realignment and Closure). The AZLabs facility is located on 6.5 acres at the former Williams Air Force Base, now Phoenix-Mesa Gateway Airport. It is a very unusual business model and the only one in the country. There is a lot of interest from out of state regarding this model.

Mr. Mullenix had spent a few years on a BRAC analysis team for the US Army. When he learned the facility was going to be closed, he, along with other like-minded individuals and ASU, wrote a white paper on how the facility might be used. That developed into a contract between Alion and the City to run the facility now known as AZLabs. The partnership with the Air Force was equally unique as it allowed access 3 months before closing the doors. The Air Force held the door open on the security clearances, which allowed the new facility to go directly into an operational capacity with no lapse in clearances.

AZLabs provides security-enhanced leasable space, and the initial client base was mostly related to Department of Defense contracts. Since 2016, there was an opportunity to increase occupancy on the technology side specific to cyber security. ACTRA, the Arizona Cyber Threat Response Alliance, and the Arizona Cyber Warfare Range took up residence, and have since been joined by other cyber tech companies resulting in a great deal of notoriety for the Lab in national circles. AZLabs carries a unique accreditation from the Defense Security Service called Security-in-depth with a walled campus, 24-hour guards, surveillance, and a controlled population. The Lab has one very large area that is a SCIF facility (Special Compartmented Information Facility) and conforms to ICD 705 standards.

Tenants cannot be mentioned by name, but by organization type and technical domain. These include contractors for government clients, US government agencies, Aerospace, and Technology firms. There are currently 6 tenants and 15 leases, and about \$180 million in federal contracts backlogged. There are 81 full-time employees on-site with an average salary of \$89,000. The total investment of tenants is about \$12 million and represents equipment and interior configuration. Most are systems owned by the US Government. The annual rent revenue is just over \$1 million. The facility is currently 59% leased. The High Bay is the largest lab and the most valuable space in the facility. It is currently unleased and will require a very careful match of client to space valued at almost \$800,000.

Councilmember Thompson asked about the difference per square foot between a lease at AZLabs versus the typical office complex.

Mr. Mullenix explained that the office space at AZLabs collects between \$25 and \$35 per square foot in largely unrenovated spaces. Laboratory space ranges from \$45 to \$100 per square foot depending on the configuration and the level of classification. Compared to the cost of some nearby and more modern spaces, AZLabs collects between two and five times per square foot with a high re-lease rate.

When AZLabs first opened, they looked at small to mid-size businesses. They are now seeing large defense firms and are in discussions with a major firm that may be a match for the High Bay. Over 36 renovation projects have been completed at the facility, including exterior paint, a new Service Entry System, a sitewide electrical upgrade, and security upgrades to comply with ICD 705. Since July 1, 2018, a new management contract reduced annual costs to the City, and utility costs were reduced through LED lighting conversions and the removal of an ASU high school facility from the chilled water load. A new tenant came in and an existing tenant doubled its footprint since July.

A new business development plan includes targeted marketing focusing on cyber, artificial intelligence, and cutting-edge technologies. There is a link for the lab between cyber security, artificial intelligence, unmanned systems, and the internet of things. AZLabs has a niche in the sweet spot of what is happening in scientific achievement. The plan calls for dedicated outreach for Buildings 561 High Bay and 558 secure labs, and to expand the leasable inventory. Mr. Mullenix advised that 98% of the facility is either leased or ready to be leased. The buildings are now in the best shape they have been in a decade.

Board Discussion:

Councilmember Thompson is very passionate about AZLabs. Aside from being in his district, it is the only secured SCIF-type facility in the entire state of Arizona. He, Mr. Mullenix, and Ms. Keffer have been looking at the Cyber Warfare Center to bring in a classified as well as an unclassified side. Congresswoman McSally's staff was there two weeks ago to tour the facility. There is a lot of interest from the congressional delegation and staffers, with visits to the lab at least twice a month. Now the intent is to grow the classified cyber side and combine that with an unsecured cyber side. He asked for an update in that realm.

Mr. Mullenix sees a great opportunity to bring the classified and unclassified worlds together. Cyber is at the center of everything we do. One of the biggest challenges our government has in fighting the cyber war is finding places where they can bring together classified and unclassified intelligence. The people without security clearances are out there gaining real world intelligence, but the federal government has no access to that. Once the federal government gains access to that information, it becomes classified and tucked away and is not usable by the rest of the world. There is a great opportunity to bring those two worlds together in a place where the two can meet to exchange that classified information, keep it informal, and out of the government's own facilities. The challenge is how to bring in the civilian sector that needs access to that intelligence and the procedures being developed at the Lab.

Kelley Keffer stated having both a classified and an unclassified space creates a barrier for sharing information. The unclassified side has the high school kids and college students for workforce development. There are not a lot of places to get that type of training. We have another university partner that would like to be involved. She stated walls could be created between classified and unclassified that would allow the volunteers to come in and learn separate from the classified side.

Mr. Mullenix noted that three weeks ago, the Cyber Warfare Range asked to use a secure conference room. Two individuals from three-letter national agencies visited the facility that day and met for six hours with a handful of core volunteers at the Cyber Warfare Range. As a result, a bad person they had been looking for was identified and located. That type of exchange could not have occurred anywhere else.

Brian Campbell appreciated the presentation and the history of AZLabs, and felt it was timely with the passing of Senator McCain, who was very committed to this project. Moving forward, he suggested looking at renaming the facility in recognition of the Senator's commitment to our community and to this asset. He noted that 561 High Bay is a unique piece that could increase the current annual revenue by about 70%. He asked how realistic are the three current bids for that space and what is the timeline to get that revenue flowing.

Mr. Mullenix stated that is the golden question. He noted there have been a number of lukewarm opportunities for the High Bay. The recent opportunities are hot, and the feedback is that they simply cannot afford to build a replacement and cannot afford to go outside of Arizona to find a facility. Similar facilities do exist on the East Coast, typically as part of the portfolios of larger companies or former government facilities. The timeline could be tomorrow, next month, or in five years. The High Bay is so important in terms of an asset and lease revenue, and the main focus of the business plan is to match a client to the High Bay.

Mr. Campbell asked what we can do as an organization, as a city, or as a partner to get that space leased. That will alleviate a lot of financial pressure on everyone. The city's commitment has been outstanding, but the pockets only go so deep.

Mr. Mullenix essentially is the marketeer for AZLabs and he acknowledges that there is room for improvement. The venue for outreach is mostly the Lab itself, although they do occasionally get out and travel. He could use help in following up on this opportunity. He would like to get inside that large organization, although at present he has no contact there. That might make a big difference.

Mr. Campbell encouraged Mr. Mullenix and his team to reach out to Bill Jabjiniak and his staff as High Bay 561 is critical. To the extent that we can honor the late Senator to help gain more attention to that asset is something we ought to be looking at to move it forward.

Matt Likens stated much of the presentation was new information for him. He asked about the marketing process to bring awareness and how many other facilities are we competing with.

Mr. Mullenix stated the competition is non-existent in the model presented in AZLabs. There are SCIF spaces around the country and in Arizona. They are all occupied and owned by one of two groups—either a large original equipment defense company or the US Government, with almost no exceptions. The challenge is how to market a classified facility. According to the Defense Security Service, you don't. They have been very cooperative of late in how we can do things. We do bring a lot of groups through and we have gone to a few trade shows. We rely on word of mouth and the daisy chain effect. There is a lot we can do to expand that.

Ms. Keffer stated there are a few things we need to concentrate on in marketing this space. This is a true vault space that does not exist anywhere else in the southwest that is available for small to medium size companies to lease. A true vault means that all outer walls and the roof are completely lined with copper. It is an electron-free environment. Newer SCIFs are built as a fence within a fence, and do not have the same level of security with impenetrable walls. We need to push that capability to the front and make it more well-known in the community and with medium-sized companies. Our facility is perfectly positioned for medium-sized government contractors in need of secure space. We need to conduct more outreach focusing on those items.

Chair Ovando-Karadsheh stated you can have the best facility in the world, but the challenge is that no one knows about it. With so much cyber security in the Valley, she could see a partnership with a private company coming in with a large TI investment. If this is the only facility of its kind in the private space, it is hard to imagine that it is not leased.

Mr. Campbell stated that one of the large defense contractors based in the West Valley actually closed its SCIF facility three years ago. This type of facility is very unique, but certain words cannot be said

together in the public setting under DSS regulations. How can you market something that you need to keep secret? Depending on what sort of cyber asset is placed in this facility, it can present problems whether it is offensive or defensive capabilities. This is a complex area and we need to look at unique opportunities to bring attention to this site, like a renaming, to garner general press attention. Then we can follow up with the one-to-one relationships within companies to drive home these contracts.

Dominic Perry asked if those DSS restrictions applied only to the facility and the City or does that mean that no one can talk about these things.

Mr. Mullenix had mentioned broadening the lens of the market. It is not good for him to say certain things nor is it ideal for a city official, but beyond those circles, it is a free country. There have been discussions with some of the organizations that they interact with. For example, the Arizona Tech Council folks have technical backgrounds and military affiliations and know the code words. Unfortunately, a lot of people throw around the terminology. He noted advertisements for SCIF accredited space that are falsehoods. By definition, an accredited SCIF space could not be advertised on a billboard. We have a fabulous resource and we have challenges in marketing that resource.

Ms. Keffer invited those that are not familiar with the facility to come out and visit. Over the last two years, many refresher projects have been completed which make the facility more attractive to newer companies. She appreciated Mr. Campbell's suggestion to consider the late Senator McCain.

Bill Jabjiniak advised that the City continues to spend time on AZLabs in helping with marketing, property management, and the security changeover from Alion to Danan Technologies.

6. Director's Update

Mr. Jabjiniak reported that the East and West Redevelopment Area Plans will be presented to the Planning & Zoning Board on September 19th for approval, before going to City Council at a Study Session October 11th and for approval October 15th.

The GPEC annual event will be held on October 10, 2018 at Events on Jackson in downtown Phoenix. Those interested in attending can contact Mr. Jabjiniak.

The Cognizant announcement went worldwide with 145 million impressions. Apple held a ribbon cutting for its Arizona Data and Global Command Center. There were various press pieces on the Elliot Road Tech Corridor including an article on Todd Holzer and Sunbelt's investment. They are a great partner and that will be a great opportunity for Mesa.

Advertising has stepped up around Aerospace with a digital marketing campaign focused to executives and decision makers, and those that have previously visited the website were re-targeted.

In August, there were 6,179 page views of the newly launched Economic Development webpage www.selectmesa.com.

There will be a statewide presentation on Opportunity Zones on September 27th in Tempe by the Arizona Commerce Authority in partnership with the CDFFA (Community Development Finance Association).

Mr. Jabjiniak has been asked to speak on two panels regarding airports and general opportunities in the area.

Mr. Jabjiniak announced that Lori Gary is now the Economic Development Director in Goodyear. It is a fantastic opportunity for her, although we will miss her. She has been driving from Buckeye to Mesa for the past six years.

Brian Campbell noted that change is due to Mr. Jabjiniak's credit as he brings in quality people. He congratulated Mayor Giles and Councilmembers Luna and Heredia. He thanked the Mayor for his

leadership through the election cycle and stated the re-election of those two Councilmembers bodes well. He has heard feedback from clients who appreciate the stability and leadership shown by our Mayor and are excited about the Council moving forward.

Bill Jabjiniak clarified that Councilmember Luna was elected and Councilmember Heredia is in a runoff. Councilmember Thompson did well with 99.5% of the vote.

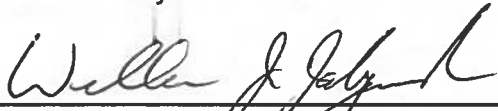
7. Other Business and Next Meeting

The next EDAB meeting will be held on October 2, 2018, 7:30 a.m. in the City Council Chambers, Lower Level, 57 E. 1st Street, Mesa, AZ 85201. Mr. Jabjiniak will be on travel and Jaye O'Donnell will take his place for that meeting.

8. Adjournment

With no further business, Chair Ovando-Karadsheh adjourned the meeting at 8:42 a.m.

Submitted By:



William J. Jabjiniak
Economic Development Department Director