

MEETING MINUTES
Office of Economic Development
Economic Development Advisory Board
57 E. 1st Street
Lower Level Council Chambers
Mesa, AZ 85201
Date: September 3, 2019 Time: 7:30 A.M.

MEMBERS PRESENT

Natascha Ovando-Karadsheh, Chair
Rich Adams (Via telephone)
Brian Campbell
Matt Likens
Christopher Nickerson
Dominic Perry
Brad Wilson

EX-OFFICIO

Mayor John Giles (Excused)
Chris Brady, (Excused)
Sally Harrison
Jeffrey Pitcher
Jim Kalberer *on behalf*
of Dan Olson

STAFF PRESENT

William Jabjiniak
Jaye O'Donnell
JD Beatty
Maribeth Smith
Kimberly Gram

MEMBERS ABSENT

Jim Kasselmann, Vice Chair (Excused)
Deb Duvall (Excused)

GUESTS PRESENT

Councilmember Jen Duff
Dr. Andi Furlis, Mesa Public Schools
Helen Hollands, Mesa Public Schools

1. Chair's Call to Order

Chair Ovando-Karadsheh called the meeting of the Economic Development Advisory Board to order at 7:30 a.m. Councilmember Jen Duff was welcomed to the meeting.

2. Items from Citizens Present – None.

3. Approval of Minutes from the August Board Meeting

MOTION: Dominic Perry moved to approve the August 13, 2019 minutes as presented; seconded by Brad Wilson. Upon tabulation of votes, it showed:

AYES – Ovando-Karadsheh, Adams, Campbell, Likens, Nickerson, Perry, Wilson
NAYS – None

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

4. Introduction of New Board Members - Dan Olson and Jim Kalberer

Chair Ovando-Karadsheh welcomed Jim Kalberer to the Board meeting. Mr. Kalberer is attending the meeting on behalf of Dan Olson.

Jim Kalberer recently relocated from Minnesota to Mesa with his family and heads the Northrop Grumman site near Falcon Field.

5. Importance of Education in Economic Development

Chair Ovando-Karadsheh noted the upcoming special election for the budget increase for Mesa Public Schools and the importance to this Board to support education as it translates into better jobs and higher income levels for our community. One of our roles as a Board is to go out in the community and

speak on behalf of items that support economic development. Dr. Andi Furlis and Helen Hollands of Mesa Public Schools were welcomed to the meeting.

Dr. Andi Furlis, Deputy Superintendent of Mesa Public Schools, stated it takes a lot of minds and people to support the students and staff in the school district. Last year, they kicked off the hashtag *#oneteam* to represent those efforts. Every student in Mesa Public Schools (MPS) is known by name, served by strength and need, and graduates ready for college, career, and community. She reported that 80% of MPS students who graduate stay in Mesa.

The goals for 2023 are to achieve 90% proficiency in third-grade reading, 90% proficiency in eighth-grade math, 90% proficiency in 11th-grade English language arts, and a 95% graduation rate. There have been significant gains over the last few years in the graduation rate, which is currently at 82%, although there is more work to do in order to reach the goal of 95%. There are increasing challenges around the mental health of not only our children, but our society, and MPS takes that very seriously. Annual growth targets were developed to ensure that all students are socially and emotionally strong, prepared, and supported.

Dr. Furlis shared that in determining how many beds a prison needs to plan for, one of the indicators they look at is the third-grade reading levels of the community. The lower the proficiency of third-grade readers, the higher the need for prison beds. There is a direct correlation between the ability to read and a life of incarceration. Proficiency in eighth-grade math is an important data point because ninth-grade algebra is the gateway to high school graduation and performance beyond high school. Proficiency in 11th-grade English language arts is important for the ACT and SAT exams, and for the writing skills needed for entry into college and the workforce. We want our MPS kids to cross that finish line with a diploma in hand, which will provide them with many opportunities. The current status of MPS regarding proficiency in third-grade reading, eighth-grade math, and 11th-grade ELA is at the 42% mark for all three data points and the graduation rate is currently at 82%.

Chair Ovando-Karadsheh asked about the best rate historically in MPS.

Dr. Furlis will do some research and provide that data to the Board. She noted that the focus is on these particular grade levels because the measurements have changed over time. Years ago, there was a different accountability system in place and the numbers are based on the state assessments. The data point of 11th-grade ELA is correlated to the ACT and SAT as the national norms.

Helen Hollands, Director of Technology and Communication with Mesa Public Schools, reported on the change in graduation requirements over the past eight years. Now, four years of math are required to graduate, with the fourth year being a high-level algebra. That is a real hurdle for some students. We are considering whether that is that right math to prepare for a college career and the workforce, or whether there is a better math course that would serve as a gateway rather than a barrier.

Dominic Perry asked what percentage of City of Mesa children are educated through Mesa Public Schools versus charter schools and other school districts.

Ms. Hollands advised that Mesa also encompasses portions of the Gilbert and Queen Creek School Districts. There are approximately 17,000 charter school students within the City of Mesa boundaries. MPS educates about 64,000 students mostly north of US60 and a small portion south of US60 in the Chandler corridor. She will report back on the percentage regarding Mesa children served.

Mesa Public Schools is focused on four organizational goals for the 2019-20 school year in order for all students to learn at high levels. The strategic plan is designed around the portrait of an MPS graduate—the attitude and essential skills needed to be prepared for higher education and the workforce. The focus for the professional learning community is the learning framework using data to understand how to best plan for instruction and providing a collaborative environment for our educators. The master facility planning was aligned to the successful passage of the bond last year. The budget increase on the ballot in November will be aligned to our learner resources for students.

Multiple stakeholders throughout the MPS organization and in the community have joined together to look at what our students need and how we can best prepare them in order to fulfill our promise and to support the work of the community. This strategic plan will be a living document posted on the MPS website that will show evidence of our progress towards the goals. Survey questions were asked of district employees about the skills they needed to help our students reach the portrait of a graduate. That data is currently being analyzed in order to ensure that our employees have the tools they need as part of the strategic plan. Another survey will be going out to the community and parents regarding what their children need in order to be ready for the workforce. The Professional Learning Communities model brings educators together to solve complex problems around student learning. Master Facility Planning is well underway, and a consultant is working on short-term and long-term building needs assessments.

A handout was provided to the Board regarding the Budget Override outlining the cost impact to residents, how the money will be spent, and the mail-in ballot process. Per state statute, school district employees cannot advocate for an override, but can only provide information. The Board was encouraged to share this information with the community and business partners. The term budget increase or override refers to the maintenance and operations budget. We have learned from past elections that a long ballot can be confusing to people. This time, there will be voter education so that it will be clear that the question on the ballot is for a budget increase. This will be the first mail-in only ballot and it will go out beginning October 9th. Last November, the community passed a bond, but not a budget increase. Much of the work for the master planning was predicated on that bond. MPS has been at a 10% budget increase since 1995, as passed by the voters every five years. In order to fund the schools appropriately, the governing board is again asking for a 15% budget override, which failed last November. We are one of the few districts that is not currently at a 15% override. If the budget override does not pass in November, we will have to start making cuts for the next fiscal year.

The budget increase will focus on three key areas: To retain and attract quality teachers, improve school safety and security, and prepare students for college and the workforce. We want to provide a decent wage in order to compete with other districts in the East Valley and the state. Measures were taken post-Sandy Hook with additional fencing, more secure entrances onto school campuses, and increased cameras. We also need security guards and properly trained individuals. The community has expressed that workforce development is as important as college readiness as not every student will go to college to pursue a career. Certifications and other industry entrance points are just as important, but our students need the skills to be workforce ready. For the first time, we have an Executive Director of Innovative Partnerships, Marlo Loria, whose role is to identify pathways and partnerships to better prepare our students to enter industries as well as how industries can help our schools better prepare students. Ms. Loria will be reaching out to the Board regarding how we can work together on workforce development.

Chair Ovando-Karadsheh noted that Mesa does not have a primary property tax that would support our schools, which is a big issue for the community. Mesa is a thriving bedroom community with more building permits than any other community. The schools have to bond for a lot of the work they do. She asked for an overview of how we structure the funding for our schools.

Ms. Hollands explained that schools are funded through a formula from the state legislature and all school districts receive a similar amount of dollars per student referred to as the base funding level. Additional factors come into play such as transportation and special education services, which are paid out of the State Equalization Tax or the general fund of the state budget. Charter school funding can only come out of the general fund, not the Equalization Tax. If a district needs more money to fully educate their students, they ask the local community for either bond money for capital expenditures or a budget increase (override) for maintenance and operations. Capital expenditures include building repairs, furniture, equipment, and some instructional materials. The state has a limited formula for district additional assistance, or capital money, which has been severely cut for several years. With

approximately 9,500 part-time and full-time employees within MPS, about 85% of the maintenance and operations budget goes to people. Up to a 15% increase is allowed over the standard budget.

Jeff Pitcher noted that last year's bond provided money for facilities, while this year's budget increase is about people. There were no funds to accommodate the increase in the minimum wage and the override will help with that. He understood that the current override will start to decel if we don't maintain or increase it. He felt Mesa Public Schools' request was on par with other school districts.

Ms. Hollands stated that is correct. The current override will go down by a third in the next fiscal year if the budget increase does not pass. If the budget increase passes, it would start decreasing by a third in years six and seven and would be down to zero in year eight. That is why most school districts go out every five years to request an override.

Chair Ovando-Karadsheh noted that a lot of school districts asked for an override in the last election cycle. It has become an issue in Mesa, although our voters have historically supported schools. Last year was the first time a school district budget increase did not pass in Mesa.

Rich Adams appreciated that we would not have such a busy ballot this time, which he felt was part of the problem last year. He did not think we can over-educate the voters. We need to spread as much information as possible, as often as possible, on the importance of this increase.

Bill Jabjiniak noted the current graduation rate in Mesa Public Schools was 82% and the other three proficiency indicators were at 42%. That is a challenge.

Ms. Hollands advised that MPS was centered at about the average of the state, although Arizona is below the national average on those three indicators.

Councilmember Duff stated Mesa K-Ready is a direct correlation for the preschools to raise those rates, which are important for our future workforce. She serves on the Mesa Achieves Higher Education Task Force, which will be presenting to Council this fall. Their goal is to be in alignment with the Achieve 60 AZ standards to have 60% attain a two-year college degree or CTE. That will enable Mesa to have an educated workforce, raise the median income, and to prepare for our 21st century workforce as we will be less reliant on labor. It all ties together from early education to higher education to the wealth of our community. In Mesa, we have a lot of work to do. In order to get the quality employers here, we need to have an educated workforce.

Matt Likens felt that going from an 82% graduation rate to 95% by 2023 was a realistic goal. For the other three indicators, going from 42% to 90% did not seem as realistic. For people to buy in to the strategic plan, they need to understand how we will get there. He suggested framing it in terms of more realistic goals, such as reaching 50% by 2023, which would be a huge accomplishment.

Dr. Fourlis appreciated that feedback. The goals are geared towards 90% of students meeting the annual growth targets. That will make a difference towards reaching the 90% proficiency rates. She understood those are big goals, and through the strategic planning we can determine reasonable metrics. The measurement of those rates continues to change at the state level with the various state assessments.

Brad Wilson asked if the reasons for such low percentages in Mesa have been identified.

Dr. Fourlis stated there has been a lack of understanding of the rigor of the academic standards in the State of Arizona and teachers have not necessarily been teaching to the new standards. Last year, our professional learning plan for administrators was to understand what those standards look like in our classrooms. This year, the focus is how to assess those standards so that kids are thinking differently and beyond the one right answer. In the MPS district, our kids are happy, respectful and kind, but they are not necessarily being challenged to the level of the standards. That is where the gap is.

Chair Ovando-Karadsheh asked if the lower numbers were a consequence of raising the standards. Her concern is that we actually do the opposite and reduce the standards so that we look better

nationally. She noted that a score on the AZ Merit test can retroactively change a grade that has already been issued. She stressed being honest in getting where we want to go and meeting the end goals. The overreaching goal has to be creating students that can go forward into the world and be successful and be part of our workforce that will attract the types of companies we are looking for.

Ms. Hollands reviewed the many stakeholders that have been involved from parents, students, teachers, the business community, interfaith community, to migrant parents about what our students need when they graduate to be successful. Very few mentioned an academic standard of any kind. It is almost implied that the academic standards are there. We are settling on the core competencies and attributes that every graduate of MPS needs. They need to be ethical, inclusive, resilient as well as communicators, collaborators, critical thinkers and problem solvers, creative thinkers and innovators, and community contributors. That has come out of thousands of data points that our community is saying our graduates need to look like. Underneath all of that are the academic standards.

Brad Wilson is the father of a junior at Mountain View High School and noted the various distractions from social media to vaping. To take this from 42% is a tall order. He offered the Board's help.

Chair Ovando-Karadsheh appreciated the presentation. Please let us know how our Board can support MPS in these efforts in addition to helping to educate the voters between now and November. The Board would like to have a progress update every year or so regarding these goals.

6. Business Prospect Report

Chair Ovando-Karadsheh explained that the Board looks at GPEC's fiscal year prospect overview as well as Mesa's quarterly prospect overview. The current and previous quarters are provided to allow for a side by side comparison. She reminded staff that it had been requested to color coordinate the charts for development type and prospect industry.

Bill Jabjiniak noted this will be JD Beatty's last presentation on the Business Prospect Report as that role will transition to Kimberly Gram.

JD Beatty advised that he will not be going far. He did attempt to shift the colors in the report to match, although formatting was a challenge. With Kim taking over, we may see some changes in the next quarterly report. He explained that the Prospect Report covers a rolling 12-month basis and provides a breakdown of potential projects that come in from a variety of sources including GPEC and brokers. We track how many of those projects are landing in Mesa and in what industries. It may look like there are major drops in terms of job potential, payroll, and capital investment, although there was one lead that came in through GPEC for a \$4 billion project with 20,000 jobs that has since fallen off, reducing those figures.

Chair Ovando-Karadsheh stated it is alarming to see such a drop in those numbers, although it is really from one large project, similar to what happened with Amazon. She asked if there was a way to take out those major outliers as they skew the numbers.

Mr. Beatty noted that those mega projects still require an immense amount of work on our end, so we want to reflect them in the report, although we can look at how to separate those projects out.

There was a question on how many of the prospects that are qualified into projects we are actually landing and are successful here in Mesa. In order for a prospect to be qualified into a project, it will have conducted a site visit and expressed a further interest in Mesa, and staff is interacting with them regularly. A lot of these projects have very long lead times. Out of the 125 prospects, we qualified 51 into projects, and 13 of those ended up locating or expanding in Mesa. We are landing about 1 in 10 prospects, which is slightly above average. We have been getting more prospects directly into our department. In prior years, more of our prospects came from GPEC or ACA through national site selection searches.

Chair Ovando-Karadsheh noted that Mesa pays GPEC for these leads. She asked if the percentage of leads we receive was based on what we pay, which is more than most of the other municipalities. She suggested looking at our return on investment.

Mr. Beatty stated the amount of leads is not based on what we pay. Most Etracks are sent out to all Valley communities unless a specific area is requested.

Bill Jabjiniak stated the bigger challenge is that a lot of what comes into GPEC is not eTracked out to the communities. Most of the time, those prospects come with their own broker. For Mesa, it is not so much getting the better leads, but being able to see all the leads. Years ago, we couldn't compete with our neighbors as we didn't have the product and the first thing site selectors do is to eliminate communities. Now we have industrial product and for the first time, we have Class A office product. Ultimately, we would like to see more of the GPEC prospects, if possible.

Mr. Beatty noted that Dexcom came through GPEC and Google came from ACA. There have been some great projects that have come from those organizations, although we aren't seeing everything. Compared to last quarter, the development type and industry have been fairly consistent. Compared to last fiscal year, manufacturing is up 11% as it relates to the percentage of total prospects. The industries have been pretty consistent overall since last quarter.

Page two of the report compares the real estate profile to the number of prospects. We saw 37 industrial prospects requiring 100,000 SF or more. We have projects requiring up to 500,000 SF and the recommendation is to widen the square footage range over 100,000 SF in the report. We may soon have one build-to-suit that would satisfy that larger need along Ray Road. The demand for industrial is still strong and we are seeing an increase in the number of buildings available, although they are getting taken down as soon as they are built, as we have seen in Gateway and Falcon Field.

Rich Adams left the meeting via telephone at 8:30 a.m.

Bill Jabjiniak stated a year and a half ago at Falcon Field, a developer built 150,000 SF with high ceilings to meet today's demands, although it still sits there today. Why? That developer will not consider subdividing the property because they only want credit tenants. A mile away on Greenfield, EastGroup built 100,000 SF and there is only about 30,000 SF left because they took smaller non-credit tenants. There is now talk of a development west of Greenfield near the 202, so we are seeing a little bit of movement. Mr. Beatty had mentioned Ray Road, which will be grading next week for a 486,000 SF and a 175,000 SF spec building. This is territory that Mesa has not participated in before. The developer is risking capital due to the success they've had directly across the street as well as the 202 completing a loop around Phoenix. All of a sudden, half a million square feet is realistic.

Mr. Beatty noted that 486,000 SF is a huge amount, and the types of groups that are taking that down are the E-commerce and warehouse distribution folks that have typically gone to the West Valley. Microsoft bought three large sites in the West Valley, which has driven land prices through the roof. Now the land prices are fairly comparable between the East and West Valley. The East Valley is now getting looks from tenants that we would not have years ago.

Chair Ovando-Karadsheh asked how much of the spec is in Opportunity Zones. Last year, this Board talked excessively about Opportunity Zones and how those overlays came together was really critical, based on what the Economic Development Department did and what was recommended to the Governor. People don't always realize that economic development leads what growth will happen in the future. The decisions that are being made as far as development, housing projects, and other things coming down the pipe need to be in line with the vision coming through the Economic Development Department. This Board has been hammering about the need for spec industrial over 100,000 SF. We have been able to fill those projects, and the spec on Ray Road is a testament to that. She commended the Department for pushing for that, getting developers on board, and sharing the story.

Bill Jabjiniak noted the traffic this morning was backed up past Power Road on the westbound 202. We need to start planning now to expand that highway. With all the residential growth, if we can't build enough jobs within Mesa, it will only get worse.

Brian Campbell suggested for a future agenda topic bringing in the MAG Transportation Policy Committee planners. They do an excellent job of projecting the use and growth of our multi-modal and freeway transportation systems. The 202 corridor maintains its best condition the longest of any freeway system in the MAG region. The others will fail sooner without expansion. The 202 corridor will be a significant marketing advantage for the City. We should look at how to integrate with the South Mountain connectivity coming online and how that will benefit us at Gateway as well as the other alignments that will go out through the I-10. Jack Sellers with the State Transportation Board would be an excellent person to bring to the Board to discuss those issues.

Bill Jabjiniak advised that the housing study that is now wrapping up projected Mesa to grow by 72,000 people over the next 8 or 9 years. There is a lot of land being entitled today and we need to think in advance about where the residential growth will be and protect that. How many years ago did we talk about Elliot Road, and without power, we would not have Google or Apple.

Mr. Beatty noted the huge success with the Union being announced. There will be a groundbreaking coming up on their Phase A building with 225,000 SF. The demand is apparent, and they have already signed an anchor tenant for 150,000 SF. He expects that Phase B will break ground much sooner than anticipated. 1.35 million SF is a lot of runway to grow, but that can't be the only egg in our basket. Where do we find other opportunities to put Class A Office around major transportation corridors?

Mr. Jabjiniak reviewed the GPEC report covering a complete fiscal year through June. The industrial demand is huge with 73 leads over 100,000 SF. Over the year, the office prospects have changed with a lot more looking for smaller square footages. The big clients looking for 200,000 SF and above are still limited. He advised that we will see a market correction in the next year. We are anxious to get the Union going which will allow us to compete on a few others in the market already.

Mr. Campbell asked if there was a way to align our data and how we categorize prospects with the GPEC report in order to better interpret the data. Mr. Beatty will look at making some adjustments.

Chair Ovando-Karadsheh noted that years ago, we were missing industrial and office. Everyone has been working on building relationships to try to get those pieces here. What are we missing now that we need to focus on, especially if we are heading into a downturn?

Mr. Beatty stated we still need more office product. Even though we were able to announce 1.35 million SF, the initial phase is only 225,000 SF. The development agreement allows them eight years with options to extend up to 12 years. We need to determine where else we can do that and there are only so many City-owned sites. We can look at redevelopment options like we did with Santander. Finding opportunities to diversify through new industries will make sure we have a well-rounded economic base. The data center industry did not exist in Mesa three years ago. When those groups start building, there is a huge economic return from a tax base perspective.

Chair Ovando-Karadsheh stated the land against the power line where we have attracted data centers along the Elliot Tech Corridor is critical to preserve for that continued tax income. The key is being able to plug into that power line.

Mr. Jabjiniak noted there has been a lot of press from the region about the growth in tech jobs and medical devices. We have to align our strategies with the growth industries. Aerospace has changed over the years, but we are still aligned because of the assets we have. We can expand and diversify by taking advantage of things like tech corridors and growing our tech jobs. What Matt Likens has done with medical devices and what Dexcom has done has created other discussions. We do look hard at what GPEC and the state are doing and there are a lot of synergies with working together.

7. Director's Update

Bill Jabjiniak thanked Jim Kalberer for joining us and attending on behalf of Dan Olson as well as lending a Northrop Grumman voice to the Board.

Aric Bopp has accepted a director position at ASU. That is the second staff departure from our Department to a director level position since Lori Gary went to Goodyear almost a year ago. Lori Collins will be joining the City of Mesa later this month. She served as a deputy director in Phoenix, lives in Chandler, and has a lot of expertise around business development and attraction, as well as Chandler Airpark experience.

Upcoming events include:

- September 5 - 2 p.m., Able Aerospace will hold a dedication for their new addition.
- October 2 - 10 a.m., groundbreaking for Longbow Home2 Suites, east of the Longbow Golf Course. This is the first hotel product in northeast Mesa.
- October 22 is the tentative date for The Union groundbreaking, which has been pushed out in order to accommodate a new partner. They are scheduled to close this week and will then start the utility work. They have already signed their first tenant, WageWorks, with 150,000 SF and 1,000 new jobs.

City Council recently approved a Development Agreement and GPLET Agreement for the Grace property at the northwest corner of Alma School and Southern. There has been a fence around that property for the last 15 or 20 years. Back in 2015, AZ Central named that as one of the most blighted corners in the Valley. There is a lot of work to be done to clean up the site.

Brian Campbell noted that GPLET deal turned into a solid win-win partnering with the school district in that space to help alleviate some of the financial impact from that GPLET. That was a result of some great creativity from the Economic Development team.

Mr. Jabjiniak advised that the GPLET is only on the residential component, which will be a three-story walk-up. The focus is on eliminating the blight and the benefit to the school district. We extended the Redevelopment Area focusing on two properties: The Grace property and the Mall. If we can eliminate the blight and make this into a usable corner, it will be a win in a lot of ways. There are also discussions going on across the street at the Mall.

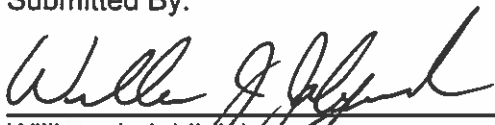
8. Other Business / Next Meeting

The next EDAB meeting will be held on October 1, 2019, 7:30 a.m. in the City Council Chambers, Lower Level, 57 E. 1st Street, Mesa, AZ 85201.

9. Adjournment

Chair Ovando-Karadsheh adjourned the meeting at 8:54 a.m.

Submitted By:



William J. Jabjiniak
Economic Development Department Director

(Prepared by Dana Desing, TEI: 14082507)