Maricopa County Economic Development Committee
January 5, 2012
10:00 AM
Board of Supervisors Conference Room
301 W. Jefferson, 10th Floor
Phoenix, Arizona

Committee Members in attendance: John Fees, Don Kile, Tom Manos, Lisa Atkins, Christopher Bradley, Gonzalo De La Melena and Shelby Scharbach

Others in attendance: David Smith, David Benton, Sandi Wilson, Jill Welch

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1. Call to Order

The meeting was called to order by the Chair, Mr. Fees, at approximately 10:05 AM.

2. Approval of Minutes from June 21, 2011 Meeting

Motion by Mr. Kile to approve the minutes of the June 21, 2011 meeting was seconded by Mr. Manos and approved.

3. Presentation/Discussion: Project "Alpha"

Mr. Smith described the commitment made to Silicon Valley Bank (SVB) for $1 million over four years ($250,000 each year). SVB will create 460 jobs with average annual salaries of $88,000. The County would have a ten-year agreement with SVB. SVB is not an export industry. The County commissioned a fiscal impact analysis by Elliott D. Pollack and Co.

Mr. Fees expressed support for the project, as well as the process used by Elliott D. Pollack and Co. to estimate fiscal impacts. Mr. Fees also recalled that the Committee discussed project parameters at its first meeting. Mr. Fees noted the importance of SVB to venture capital formation, an integral part of creating an ecosystem that would support new industries. He expressed support for the project, noting the reservation in the Pollack report regarding export basis.

Ms. Welch of Elliott D. Pollack and Co. presented an analysis of the fiscal impact of Project Alpha. The analysis is based on assumptions given. The consultants had not signed a non-disclosure agreement, and their information about the project was thus limited, but it appeared that SVB was planning to establish an information technology support center. The jobs to be created would be good jobs with average salaries of $88,000 per year. One hundred jobs would be added in the first year, followed by sixty jobs each year for the six years, reaching a total of 460 jobs in seven years. It is assumed that SVB will make $29.2 million in capital investment, but the composition of the amount is not clear, and therefore them impact on personal property tax revenues is not certain. Ms. Welch stated that the project was estimated to generate a positive return on investment for Maricopa County within five years if the analysis includes secondary effects, or induced jobs.

Mr. Kile stated that the Committee was to recommend, not approve and therefore could be flexible. He noted that SVB would create good jobs that meet the County's salary threshold. It would be difficult to track SVB's fulfillment of the export criteria, but would contribute to an ecosystem to support economic growth. Mr. Kile proposed suspending the requirement for 80% of revenue derived from export activities.

Mr. Kile asked Ms. Welch whether indirect or induced jobs should be appropriately included in the economic impact analysis or not. Ms. Welch responded that it was appropriate to include such impacts.

Mr. Kile discussed the difference in analyzing manufacturing-based companies versus service-based companies. The capital investment is very different for a service-based industry.

Mr. Bradley stated that the Committee was formed pursuant to the County's strategic goals with respect to economic development, to increase per capita personal income relative to the national level, and increase the share of employment in base or export industries, as these industries bring new income to the region. The Board of Supervisors' Resolution therefore requires that projects create jobs with average salaries at or above 125% of the County median wage, and that 80% of revenue be derived from exports. The guidelines as to fiscal impact do not address direct or indirect, so that is not an issue.

Mr. Bradley noted that the SVB project meets the average salary and minimum return-on-investment criteria, but may not meet the export income requirement. Mr. Bradley stated that it is important to determine what value the project adds to the local economy, if it does not meet the export requirement. There has been limited time to fully review the project, and the County was pressed to make a commitment.

Mr. Bradley suggested that the Committee could defer making a recommendation on the SVB project until it has more information and there is more time for analysis, or that the Committee could endorse the project with the condition that it meets the County's criteria with respect to salary levels for new jobs, the County's return on investment, and the requirement that at least 80% of revenue be derived from export activity. The export requirement could possibly be met in some other manner, possibly by export jobs created indirectly.

Mr. Fees stated that the Committee should not be limited to the two options mentioned by Mr. Bradley. It would be difficult to quantify indirect export job creation. The Committee will always have incomplete information.

Mr. Kile noted that the State and other communities were participating in the SVB project, and asked for the amount of the total incentive package. Mr. Bradley stated that, to his knowledge, the Arizona Commerce Authority was contributing several million dollars. Mr. Bradley distributed copies of a newspaper article about the SVB announcement. The City of Tempe is involved, but, the participation of the City is not known. Mr. Smith stated that whole package may be in the range of $8 million to $9 million. Mr. Kile stated that he understood that the total package was between $9.0 million and $9.6 million. The City of Tempe was contributing over $4 million, and the State was contributing over $4.5 million. This assistance was over four or five years.

Mr. Kile stated that the Committee is not just discussing Project Alpha but the process itself. The Committee would always to be trailing because of the information available to it.

Mr. De La Melena noted the strategic value of locating SVB. Mr. De La Melena asked if the there was competition for locating SVB, and whether the proposal was for a cash investment or a reduction in cost over time.

Mr. Bradley stated that it would be a cash payment. No funds are currently appropriated for economic development projects, and that the Board of Supervisors would have to amend the County budget and transfer resources from another item in the budget, probably a contingency fund.

Mr. Fees stated that Texas was another likely location, and that SVB would probably consider California. Mr. Bradley stated that he understood that SVB had been considering Phoenix, Dallas and Salt Lake City, but that Salt Lake City had been dropped from consideration. Phoenix was chosen in the last week of December.

Mr. De la Melena asked if the proposed County contribution was a critical component of the overall assistance package, and noted that it appeared that no funds were budgeted for it. Mr. Fees stated that he understood that the County Manager had sent a letter of support for the project in principal, and that the Committee needs to decide if it support, endorse, or recommend the project with any qualifications.

Mr. Manos stated that he was comfortable endorsing the project, and suggested that the Committee do so with the understanding that Mr. Smith was negotiating an agreement that protects the County's interests.

Mr. Manos noted that there needed to be a discussion of the role of the Committee. As originally conceived, the process of comparing and prioritizing projects will not work, as the County must be opportunistic. The Committee also needs to consider the total cost of a project, not just what the County is contributing. Mr. De La Melena also noted that projects move quickly, and questioned how the Committee can contribute to the process

Ms. Atkins noted that the Committee lacks an understanding of how the ACA makes decisions, and asked if there is confidence that ACA is moving in the right direction. The County Manager has determined that the SVB project is a good investment for the County, but it is difficult for the Committee to make a recommendation without knowing where the funds are coming from. Ms. Atkins stated that in the future, she would like to have a better understanding from the ACA and GPEC of the strategic value they assign to projects.

Mr. Fees stated that the Board of Supervisors and the County Manager would benefit from the Committee's observations with regard to clusters that they are advancing. One role for the County could be to keep GPEC focused on longer-term goals.

Mr. Fees asked Mr. Kile if he had a motion. Mr. Kile presented a motion written as follows:

The motion is to Approval for Project Alpha to the Maricopa County Board of Supervisors with the recommendation for approval by the Committee. The motion and the recommendation of the Committee is to include an acknowledgement that the criteria of 80% of export business income is inapplicable. The motion is also to include an acknowledgment that Mr. Smith and his staff are to use the precedent established in previous agreements to protect the interest of the County and its resources.

Mr. Kile's motion was seconded by Ms. Atkins.

Mr. Bradley expressed concern about suspending the 80% export requirement, and proposed amending motion to allow for the benefit to be measured in a different way. Mr. Manos suggested that the wording "comparable benefit" be used. Mr. Bradley agreed with Mr. Manos' suggestion.

Mr. Kile noted that his point was to acknowledge inapplicability of 80% export requirement, and that he would agree to add a specific measure. Mr. Bradley stated that a specific measure could not be defined immediately given current information. Mr. Manos proposed substituting a new requirement for comparable benefit to community. Mr. Kile asked Ms. Welch for a recommendation for how to measure the comparable benefit. Ms. Welch could not recommend a specific measure. Mr. Fees recommended that staff be given flexibility.

Mr. Kile added to his motion the following language after the second sentence: The Committee would like to request that inside the funding agreement with Silicon Valley Bank that Silicon Valley Bank be requested to provide information that would allow for an ongoing analysis of the export business income achieved.

The motion was approved with Mr. Kile, Ms. Atkins, Mr. Fees, Mr. Manos, Mr. De La Melena and Ms. Scharbach voting in favor; Mr. Bradley voted no.

4. Presentation and Discussion: Update on Prior County Projects

Ms. Scharbach discussed the County's relationship and funding commitment to the International Genomics Consortium (IGC). IGC has partnered with the University of Arizona and Arizona State University.

Mr. Manos stated that IGC would not have come to Maricopa County without the County's $5 million grant, which has paid off. Mr. Kile expressed agreement, and noted that IGC was one of those clusters that started the whole discussion of economic development.

Ms. Atkins stated that IGC has put us on the map and has established a totally different relationship between the State of Arizona and the scientific community in Washington, DC.

Mr. Bradley reported on the status of the First Solar agreement. The media has reported that First Solar has announced that it will delay opening any of its new manufacturing facilities in East Mesa for at least another year and would eliminate some existing jobs, most in California but be a few at its headquarters in Tempe. Mr. Bradley noted that the elimination of existing jobs affects the requirement in the agreement with the County for First Solar to retain 125 existing jobs. The existing jobs were included in the average salary requirement. Mr. Bradley mentioned the possibility of sending a letter to First Solar to request clarification. Mr. Benton concurred with Mr. Bradley's analysis with respect to the requirements of the development agreement.

Mr. Fees recommended that staff not communicate with First Solar until they request payment from the County. Mr. Bradley pointed out that the $20 million awarded to First Solar has to be maintained in a special account, and cannot be used for other County purposes.

Mr. Kile suggested that, instead of the County sending a letter to First Solar, GPEC be asked to report to the Committee on the status of the project.

Ms. Atkins asked if development agreements can be structured so that funds can be released if a company does not meet performance requirements within a reasonable time. Mr. Bradley explained that the First Solar agreement has a term of ten years in order to enable the claw-back provision to work.

5. Call to Public

No members of the public requested to speak.

6. Motion to Adjourn

The meeting was adjourned at 11:40 AM