Maricopa County Economic Development Committee
June 21, 2011
2:00 p.m.
Board of Supervisors Conference Room
301 W. Jefferson, 10th Floor
Phoenix, Arizona

Committee Members in attendance: Don Kile, Tom Manos, Lisa Atkins, Christopher Bradley and Shelby Scharbach

Committee Members Absent: John Fees and Gonzalo De La Melena.

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 Vice Chair Don Kile at approximately 10:05 AM.

2. Approval of Minutes from December 14, 2010 Meeting

Motion by Don Kile to approve the minutes of the December 14, 2011 meeting was seconded and approved.

3. Presentation/Discussion: First Solar Project

Mr. Smith discussed the process by which the First Solar project was funded by Maricopa County. Mr. Smith noted the challenges of participating in such projects when the County is operating in the public arena with public funds and confidentiality is expected.

According to Mr. Smith, the First Solar project involves five thousand well-paying manufacturing jobs related to renewable energy. The County's agreement is for incentives, with a contract term of ten years. The State and the city also provided incentives.

Mr. Smith explained that he had signed a letter agreeing to confidentiality. He was able to discuss the issue with the Chairman of the Board of Supervisors toward the end of the year, as well as staff. Negotiations with First Solar began in January, which involved David Benton and Christopher Bradley. In the meanwhile an economic impact analysis was conducted by E.D. Pollack and Co. Mr. Smith pursued the project because it involved renewable energy and a major manufacturer locating in Arizona.

Mr. Smith noted that the County is trying to find its appropriate role in economic development. Government's role is important for the long term.

Mr. Kile asked how other entities were involved in the project. Mr. Smith explained that the City is making a large infrastructure commitment, road access, and subsidized water and sewer rates. SRP will provide low-cost electricity for the next ten years. The State's is providing tax incentives. The County's contribution is cash, but will only be paid as First Solar in increments $1 million for each 240 jobs created with average annual salaries of $48,500. The County's agreement includes claw-back provisions in the event First Solar reduces its employment within the next ten years.

Mr. Bradley reviewed details of the First Solar agreement. The fiscal impact to Maricopa County was analyzed independently by E.D. Pollack and Co. The Pollack analysis estimated a longer-term return on investment for the County than GPEC had estimated, because the former applied strictly to County General Fund revenues. The project met the criteria set forth in the Board of Supervisors' resolution of October 4, 2010, except that the return on investment period was longer than five years.

Mr. Bradley explained that there were two objectives in negotiating the agreement. The first was to make sure that there no County funds were provided until performance criteria were met. The second was to have a claw-back provision so that the County could recover most if not all of its investment if First Solar didn't maintain its performance requirements. The agreement provides that the twenty million dollars would be paid on in installments of one million dollars for every two hundred and forty jobs and eighty million dollars of capital investment that First Solar documented. The claw-back provision was negotiated to provide for a declining repayment requirement such that in year one if First Solar did not maintain the jobs or capital investment they would repay one hundred percent of what the County had awarded. If by year ten however if the performance criteria were not met First Solar would only have to repay fifty five percent of funds paid by the County. In order to address First Solar's concern,
a provision in the contract requires the County to "fence off" the entire twenty million dollars in a special account with the County Treasurer.

Ms. Scharbach asked how the timing of the project and payout of funds would affect the availability of funds for other economic development. Mr. Bradley responded that First Solar talked of submitting requests for payment as early as FY 2010-11. However, according to sources at the City of Mesa, no jobs are expected to come on line until the fourth quarter of FY 2011-12. Mr. Bradley stated that he did not expect that the County would pay out any funds for about a year.

Ms. Atkins asked how the First Solar project fits in with the County's policies for economic development overall if the County is going to get "pop-up" requests, and how that affects the Committee's responsibility. Mr. Smith stated that the County needs the advice of the Committee to determine how to best address these issues.

Ms. Atkins asked if the Committee needs to be more nimble or flexible to be a partner with County. Mr. Smith stated that issues of high priority could arise. Ms. Atkins suggested that the Committee could assemble on shorter notice for special meetings to deal with priority issues.

Mr. Manos stated that he thinks most requests will be "pop- up" requests. An application process and quarterly Committee meetings will probably not be workable. The County is uniquely positioned for economic development because of its reach to all the cities. Are we going to have an overall strategy for reviewing projects?

Mr. Kile suggested that the Committee needs to address the policy and how the Committee participates in the process, along with how to address confidentiality issues. This Committee is a recommending committee not a deciding committee.

Mr. Bradley reminded the Committee that its by-laws allow for it to meet more frequently in special meetings. Mr. Bradley cautioned that many projects would be presented as emergencies, but that the Committee should be careful not to discard proper deliberation.

4. Presentation/Discussion: Availability of Project Funds in FY 2011 and FY 2012

Ms. Wilson explained that the FY 2010-11 budget included seven million dollars for Economic Development, funded by interest earned on the balance in the General Fund. It was assumed that any unspent amounts would be carried forward to the next fiscal year. Interest earnings were not used as an ongoing revenue source for General Fund operations. FY 2010-11 Interest earnings are forecasted to be $9.5 million, $2.5 million more than budgeted.

Ms. Wilson explained that for FY 2011-12, the estimated General Fund balance is declining due to capital project spending, which will reduce interest revenue to $5 million. Furthermore, General Fund interest earnings needed to be applied as operating revenue again in FY 2011-12. As a result, for FY 2011-12 there is no specific appropriation for economic development. After the close of FY 2010-11, the County will evaluate whether or not there are additional funds available in unanticipated General Fund balance that could be applied to economic development. Otherwise, any future projects would require that the Board of Supervisors allocate contingency funds. The First Solar project required additional funds that had to be diverted from other projects. The Board of Supervisors' policy is to fund County obligations up front, so entire $20 million for First Solar was appropriated in the FY 2011-12 budget. If projects have merit, they can be considered on a case-by-case basis for funding that would have to be reallocated, and will compete with other priority projects.

Mr. Manos asked if the balance of the $20 million for First Solar that was not funded by FY 2010-11 interest earnings needed to be funded from future interest earnings before new projects could be considered. Ms. Wilson responded that the Board of Supervisors had allocated the full amount. Mr. Bradley explained that the additional $13 million above and beyond the initial $7 million in FY 2010-11 interest earnings had to be allocated from contingency funds and other projects.

Mr. Manos asked if a budget adjustment would be required to fund an economic development project in FY 2011-12. Ms. Wilson responded affirmatively. Mr. Kile noted that when the First Solar project was approved the budget was not sufficient to fund it. As a result, the Committee will not be able to make a recommendation that has funding attached to it. However, there is still important business for the Committee to do.

5. Presentation/Discussion: Project "Neptune" and Analysis

Ms. Welch explained that Project Neptune may be a headquarters for a large retail chain, which would have 6,100 employees with an average annual salary of $90,000. However, the specific type of industry was not disclosed, which limits the analysis. The analysis assumed capital investment of $180 million, which was the lower end of the estimate.

The company would construct one million square feet of office space. However, there is a lot of vacant office space in the Valley now, so the company could just occupy existing space. This is an important assumption, because construction generates County revenues. The consultants have to make assumptions as to how much of the $180 million is for land, buildings or equipment, as these will have different fiscal impacts for the County. Ms. Welch explained that they used a general multiplier of 2.1, and the effect is higher because of the high wages. Project Neptune could generate $9.4 million dollars by year five, dependent on the personal property tax

Mr. Bradley asked to confirm that half the revenue impact from Project Neptune would be due to construction, and would therefore be a one-time effect. Ms. Welch responded affirmatively, but the construction is phased over five years in the analysis, per suggestion from GPEC. Mr. Bradley questioned the high salaries.

Ms. Scharbach asked about GPEC's deadline for proposals, which was June 2nd, and what the County had done. Mr. Bradley responded that the County was mentioned as a participant along with the State at a recent meeting of the GPEC Economic Development Directors Team. Mr. Kile noted that it is incumbent on the Committee to make ourselves available for those types of meetings and participate.

Ms. Welch noted that it was not known yet whether Project Neptune qualified ad an export or base industry. Mr. Bradley observed that it is more difficult to assess this criterion in relation to a corporate headquarters vs. a manufacturing facility.

6. Discussion: Collaboration with Industrial Development Authority of Maricopa County

Mr. Manos told the Committee that the Industrial Development Authority (IDA) Board believes that the Authority could be a resource in economic development. The IDA has about $25 million which the IDA Board would very much like to use for economic development projects. The IDA does not have the administrative ability to manage projects, so it is looking for partners like Maricopa County, GPEC or the Commerce Authority to help it to use these funds. Mr. Manos noted that the Commerce Authority is hosting a meeting of the four large IDAs in August to talk about how they can interact more collaboratively with the Commerce Authority.

Mr. Bradley asked if GPEC works with the IDA when it is trying to locate an enterprise in the region. Mr. Manos stated that GPEC occasionally calls, but there is a very short time period to respond.

Mr. Bradley asked what role the IDA could play in Project Neptune, as an example. Mr. Manos responded that it is difficult to know without more information about the business in question.

Mr. Bradley suggested that Mr. Manos and members of the Committee could meet with GPEC to discuss opportunities.

7. Discussion and action: Policy on Project Review and Prioritization

Mr. Kile suggested that the Committee take more time to review the draft policy. Mr. Kile moved to defer consideration of the draft policy, which was seconded and approved by the Committee.

8. Call to Public

No members of the public requested to speak.

9. Motion to Adjourn

The meeting was adjourned at 11:40 AM