Maricopa County Economic Development Committee
December 14, 2010
2:00 p.m.
Board of Supervisors Conference Room
301 W. Jefferson, 10th Floor
Phoenix, Arizona

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

Others in attendance: David Smith, Sandi Wilson, Jim Rounds, Trish Georgeff, Patrick Burkhardt, Erinn Herberman, Terri Leija, David Benton

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1. Call to Order

The meeting was called to order by Mr. Bradley at approximately 2:05 PM.

2. Welcome and Introductions

Mr. Bradley informed the other members of the Committee that the Committee's by-laws were scheduled for action by the Board of Supervisors on December 15. The purpose of the meeting is to get the Committee started and to inform the Committee on its background and purpose.

Mr. Smith welcomed committee members, and asked members and participants to introduce themselves. Mr. Smith stated the Board of Supervisors' goal is to participate in the economic recovery of Maricopa County through job creation. The County is looking to the Committee to provide experience in job creation and economic development in a particularly unique time. The current recession is the most difficult and most severe he has experienced, and defies conventional solutions.

Mr. Smith stated that the Committee can advise the County on how to use its funding allocated for economic development to accelerate economic recovery and especially economic diversification around new clusters of industry and manufacturing. The Committee can use the process outlined in the Board's policy to recommend projects to the Board that will provide "closing" money to create jobs. Committee can use the experience of its members to offer additional ideas to the County. Mr. Smith asked for the Committee members' reaction to his remarks.

Mr. De La Melena arrived, and introduced himself.

Mr. Fees noted that Phoenix and Maricopa County have great advantages in starting and relocating businesses here, but the region does not have structures such as this (the Committee) to tell its story.
Mr. Manos observed that the local economy is not just in a down cycle, and conditions prior to the recession will not return. Investment patterns have changed. What investors want is very different than three or four years ago. The rules have changed, and this is not just a cyclical development.

Ms. Atkins stated that County government can focus as a partner in this arena with existing business so that we have a good solid infrastructure.

Mr. Rounds stated that the State is making progress with economic policy, but slowly. A lot of cities are talking about economic reform, but at a very micro level. The county can take a leadership role. Maricopa County is the core of the Arizona economy, and the County government structure provides the ability to get things done more quickly. If the County can take a leadership role and do it well, it might serve as a template for other communities in other parts of the State. The Committee can demonstrate that it doesn't take five or six legislative sessions to establish an economic development program that creates jobs.

Mr. Kile stated the need for job creation and diversification. There are State statutory prohibitions that create an enormous disadvantage for this State. Taking this on as a county-wide issue helps to bring some of the smaller players together. The first group of Committee members will be challenged to establish the process.

3. Presentation and discussion on Open Meeting Law, conflict of interest and the Board of Supervisors' authority related to economic development.

Mr. Benton reminded Committee members that they are a public body created by the Board of Supervisors, and as such are subject to public records, open meeting, and conflict of interest laws. The Committee has to assume that everything it handles is going to be public. Public records requests to the Committee will be reviewed administratively to determine what must be included.
E-mails about meeting to discuss Committee business would be a public record, but e-mails about social events would not. Committee members should keep e-mails regarding Committee issues separate and all in the same place. Committee meetings will be open to the public. Agendas and discussion will be kept on record. If a quorum discusses Committee business, it would be a public meeting and should be open to the public. Committee members need to be aware of this as they communicate with each other. Minutes will be taken of all Committee meetings, so Committee members' comments will be on record and available for future review by the public. The Committee can meet in executive session to get legal advice about issues on its agenda. An executive session

can be called by motion to, and approval by the chair. Executive session discussions are not public records.

Mr. Benton also addressed conflicts of interest, which are very important considering the matters that will be discussed by the Committee. Committee members are subject to the conflict of interest laws in Title 38 of the Arizona Revised Statutes. If a Committee member has an interest in something that is brought before the Committee, they have to disclose it on the record. Such conflicts must be disclosed in a letter that will be part of the record. If an item before the Committee will affect a member negatively or positively, it is a substantial interest, and by law the member cannot participate in the decision. If a Committee member thinks that they might have interest, they can seek clarification.

Mr. Benton informed the Committee of the County Ethics Policy, which applies to members of the Committee.

3. Presentation and discussion: County Strategic Goals and Economic Development Resolution

Mr. Bradley described how the Board of Supervisors considered and adopted a new County strategic plan that included two new strategic goals regarding economic development The first goal is to increase Maricopa County per capita personal income as a percent of the US average. The second goal is to increase regional employment in base industries, meaning industries that bring in income from outside the region.

Mr. Bradley reviewed a chart displaying percentage of employment in high-tech manufacturing. There has been a steady decline for the past twenty years, from about 6% to about 2 ½%. The Board of Supervisors has set a goal of getting employment in high-tech manufacturing up to 3.2%

Mr. Bradley also reviewed a chart showing the trend in per capita personal income. Per capita personal income for both Maricopa County and Arizona has declined as a percentage of per capita income for the United States as a whole. This trend is related to the decline in employment in base industries. Prior to the recession, Maricopa County had increased to 97.7% of the United States. However, Maricopa County dropped back to 92 ½% in 2008. The County strategic goal is to get back to 97 ½% in the next five years.

In response to a request for clarification from Mr. De La Melena, Mr. Rounds explained that a base industry is an export-oriented industry that exports products and receives income from outside the County. A base industry does not have to produce physical products; tourism is a base industry because it brings in revenue from outside the County.

In response to a question from Mr. De La Melena about how the 3.2% was identified as the goal for high-tech manufacturing employment, Mr. Bradley explained that the goal was established by reviewing the historical trend, considering what had happened as a result of the recession. There is a national trend of declining manufacturing employment due to many factors, including technological advance and the global economy. This goal is to hold the line and not let manufacturing employment in Maricopa County degrade further, and try to build it up

Mr. Fees stated that aerospace business generates base-industry jobs. Over half the jobs in this industry were moved over the last decade.

Mr. Bradley explained that the County attempted to set goals that were ambitious yet achievable.

Mr. Fees expressed interest in a chart displaying the number of publicly traded companies and market capitalization in Arizona over time. According to Mr. Fees, these have doubled over the last ten years. Jobs in these companies can be an indicator of base employment.

Mr. Bradley explained that high-tech manufacturing was used as an indicator of base employment.

Mr. Bradley reviewed the Board of Supervisors' Resolution of October 4, 2010. The Resolution concerned the County involved to provide funding for targeted economic developments projects specifically related to job creation and job retention. The Resolution defines the types of projects that can be considered for funding, and mentions that projects can be administered by a nonprofit regional economic development agency.

Mr. Bradley described the minimum criteria for economic development projects, according to the Resolution:

- The business has to be located in Maricopa County.
- The project has to result in additional County general fund tax revenue that produces a 100% on investment return within five years. According to research conducted with Mr. Rounds, this standard is in line with other jurisdictions.
- The project must result in 80% of business income derived from sale of goods and services outside Maricopa County.

- New jobs must have an average salary of at least 125% of the median wage in Maricopa County. The median wage is about $32,000. This standard requires decent-paying jobs that move per capita personal income up.

- The business enterprises must be viable must maintain their commitment to the Maricopa County economy for at least five years and meet performance expectations, or otherwise be required to repay the County

Mr. Bradley explained that the five-year return on investment standard is important because the County would be using its public tax money to support economic development projects. It is important that the County demonstrate that it eventually recovers the money.

Mr. Bradley informed the Committee that the October 4, 2010 Resolution requires that the Committee's bylaws be approved by the Board of Supervisors. Bylaws have been drafted and are schedule for consideration by the Board on December 15. Mr. Bradley also described how the Resolution includes a provision that the committee can engage independent consultants if it chooses to do so to help it evaluate projects.

Mr. Bradley discussed the importance of project review. All proposals are going to be reviewed by the Committee. The Committee will consider a list of projects proposed by an economic development agency, and can recommend any of them to the Board of Supervisors. The Committee is charged with prioritizing projects within the funding that the board as set aside.

Mr. Bradley pointed out that the Resolution states that the Committee may coordinate proposals with the Industrial Development Authority. Staff has begun investigating these opportunities, and it seems that there are some ways of packaging funding through the Committee with financing that may be available through the Authority.

Mr. Bradley explained that project funding is coming from interest earnings on the County's general fund balance. Estimated revenue for Fiscal Year 2011 is seven million dollars. None of this funding can be allocated until interest is actually received. County interest earnings are a revenue source that isn't otherwise being used to support general operations like public safety, law enforcement or public health.

In response to a question from Mr. De La Melena about the County fiscal year, Mr. Bradley explained that the fiscal year is July 1st to June 30th. Interest earnings are apportioned quarterly to the various funds by the County Treasurer. General Fund interest earnings for the first quarter were $3.2 million, and there will be another apportionment after the close of December.

In response to a question from Mr. Manos as to whether any projects had been submitted for review by the Committee, Mr. Bradley responded that he was not aware of any. Mr. Smith stated that he had been in communication with Barry Broome of the Greater Phoenix Economic Council (GPEC), and they have sent over a request for a food service company requesting $650,000, 130 jobs at an average salary of $35,000.

Mr. Kile stated that he expects considerable interest from economic development agencies, and that the Committee will be challenged to prioritize the many projects brought forward for their consideration.

Mr. Bradley informed the Committee that the Board of Supervisors would have to approve any award of funding, as well as any necessary budget action. In response to a question from Mr. Manos, Mr. Bradley explained that the Committee would make recommendations to the Board of Supervisors, but that the Board of Supervisors would have to take formal action to release funds. Mr. Bradley stated that he anticipated that the Committee set forth a policy about how it would prioritize projects. Points could be awarded based on exceeding the minimum criteria set forth in the Resolution.

In response to a question from Ms. Atkins about carryover of funds, Mr. Bradley explained that any funds not expended from the current appropriation would have to be appropriated by the Board of Supervisors in the budget for the following year. Mr. Bradley stated that the amount of General Fund interest earnings available in the current fiscal year is estimated at $7 million. The County might be interested in capping the funds available to the Committee if interest earnings significantly exceed amounts estimated.

In response to a question from Mr. Fees, Mr. Bradley explained that the available funds were only interest earnings for the County General Fund, not all County interest earnings. General Fund interest earnings are only earmarked for economic development projects at this point. Annual General Fund interest earnings had been much greater than $7 million, to as much as $40 million, but have dropped significantly due to interest rate trends and reduction of the General Fund balance. Mr. Manos added that the County has to invest in very short-term instruments, which limits the rate of return.

In response to a question from Mr. Manos, Mr. Bradley stated that he thought that the Committee would need to adopt a policy. Staff will draft such a policy and bring it back to the rest of the group for consideration. Mr. Bradley suggested that the Committee could discuss preferences and priorities.

Mr. Bradley also stated that the County would need to modify its agreement with the regional economic development agency to specifically to address how they would submit projects and what information would be required from them. Staff will also need to work with legal counsel and procurement to draft a standard development agreement. Mr. Bradley stated that he had already gathered examples of such agreements from other entities that are successful.

Mr. Manos stated that the Industrial Development Authority (IDA) requires applicants for financing to enter into a regulatory agreement that provides that the applicant maintain certain things for the life of the agreement.

In response to a question from Mr. de la Melena, Mr. Bradley explained that County funding awards would need to have a quantifiable return in relation to County, principally the County primary property tax.

In response to Mr. De La Melena, Mr. Bradley explained that the regional economic development agency is presently the Greater Phoenix Economic Council (GPEC). The County provides funding to GPEC under another economic development statue. This funding supports the work of GPEC. The County will need to negotiate with GPEC about how to handle forwarding projects to the Committee, and that it is not expected that GPEC would require additional funding.

Mr. Kile stated that GPEC might not want to address that question if a chamber or City of Mesa Development Director is sponsoring the budget. They are not an agency that sees direct investment. We are clearinghouse for investment and not a placement agency.

Mr. Bradley stated that as the Committee moved forward it would be able to evaluate the project criteria set forth in the Board Resolution. If the Committee finds that some criteria are too strict or not strict enough, it can recommend changing them. The Committee can also adjust its project prioritization criteria. The Committee and the County could consider retaining its own agent instead of relying on GPEC.

Mr. Smith excused himself from the meeting.

4. Presentation and discussion:
- **Regional needs for economic development**
- **Potential role of County government**
- **Potential cooperation with the Industrial Development Authority and other entities**
- **Options and best practices for project prioritization**

Mr. Rounds explained that Elliott D. Pollack and Company advises the County on economic development. Mr. Rounds discussed the importance of business and job retention in the context of what has occurred during the last few years.

However, the County would have to be careful that the any threats of business relocation away from the region are real. He stated that he expects that nine-tenths of the work that the State will be doing will relate to demands for retention incentives.

Mr. Rounds suggested that other economic entities and site selectors would be expected to identify the opportunities and forward the top-level projects to the Committee. The Committee should not be expected to review hundreds of projects. The State is still moving forward, and will have two or three economic development programs implemented right away, including recommendations made by his firm last year. Mr. Rounds discussed the impact of income tax incentives and tax cuts generally. He stated that he did not expect the State to have a lot of money for its closing fund right away, and not be up to speed with working with GPEC and other entities to bring projects forward.

Mr. Rounds suggested that the County should not fund projects by itself, but in concert with other entities. A city that would benefit from a project should be expected to contribute. The County will thereby leverage its funding.

Mr. Rounds reviewed a map displaying relative competitiveness by state that he had obtained from CB Richard Ellis. Arizona is on the bottom tier in terms of how competitiveness, in part because we didn't have a job training program The job training program was reinstated, but Arizona is still missing a lot of the basics including tax policy, economic development policy and a few other things that would cause a business to locate. Mr. Rounds stated that Arizona has a lack of economic diversity.

Mr. Rounds stated that Arizona has historically been a high-growth state in terms of population, but has not been expanding its base industries and is not even maintaining a status quo. It would be an admirable goal to just stop the bleeding of those industries. We have to start thinking about not just growing. If we did nothing Arizona will return to the top five in growth within two or three years. We should focus on growing well not just adding construction jobs. The Board of Supervisors and the County are going to have to take the lead during this next year.

Mr. Rounds stated that job growth in Arizona was number two in the country in 2006, but dropped to 49th by 2009. Arizona and other states with weak job growth also have the weakest economic development polices. Arizona needs to focus on basic sectors that drive the economy. There is no need for the Committee to support retail development. This is not necessarily picking winners or losers, but supporting companies that have the biggest impact on the economy. Lower-paying local market industries have limited "spin-off" benefits and will locate here anyway, as they follow population and therefore do not need to be incentivized.

Mr. Rounds stated that they were not picking winners and losers or suggesting that we “put all of our eggs in this one industry basket.” E.D. Pollack supported the GPEC proposal to incentivize solar energy industry. Changes happen slowly in the Legislature. They had an opportunity to pursue advancements in solar energy industry, and they went ahead and took advantage of it and they are already locating businesses because of it. Focusing on base industries is good for the entire economy. Also, the Committee should remember to never provide more assistance than the revenue benefits that will be realized in return for it.

In response to a question from Mr. Fees about support for specific economic “clusters” and what would be the priorities, Mr. Rounds stated that historically we have done well with engineering type work, manufacturing semi-conductors and aerospace. With regard to aerospace, Mr. Rounds suggested that we should maintain our current base and keep that from leaving.

Mr. Fees mentioned an effort in the 1990’s through the Arizona Town Hall to support economic clusters, and asked what had happened with this effort. Mr. Rounds stated that a document was created that identified clusters, but that we have never had the tools to really take advantage of them. Mr. Fees said that an education cluster had been created, but expressed uncertainty as to its impact and stated that he would like to know what the best thinking out there for these five or six clusters.

Mr. Kile stated that there are clusters that are emerging and proving themselves to be profitable, and a lot of the credit has to go to educational services. There has been a tremendous amount of work to develop biomedical clusters across the State, largely as a result of what is one of the leading research facilities now in the country at ASU.

Mr. Kile stated that secondary research and federally-funded research at the educational cluster are renewable and fall in that high-wage job residual that the Committee’s charter requires. 150% of the median wage of $32,000 is $54,000, which will be difficult to achieve. This guideline will limit the kinds of sectors that the Committee can support. Mr. Rounds agreed, clarified that the County isn’t here to create clusters. Basic economics are what causes a company to locate here beyond anything else. If a company needs a seaport, there is nothing you can do to get them to come here. When clusters are created, fewer incentives will be required to get firms to locate here. If we do not have a competitive advantage in locating a particular industry here, the incentives required for them to locate here will be excessive. As a result, we will automatically match up with the types of companies for which we will have that competitive advantage. This will lead to certain industry clusters.

Mr. Kile stated that the Committee is part of a team. The genesis of the Committee began two years ago in discussions of a job-closing fund to make available a few hundred thousand dollars at the last minute when the economic agency was about to lose a deal to Texas because Texas was going to throw job training money at it.

Mr. Fees noted how difficult it is to determine if a company would have otherwise located here but did not because incentives were not available. Mr. Fees also asked how companies would be informed that economic development programs are in place so that they consider Arizona. Mr. Rounds replied that we have not done a good job marketing the state. The State, County and cities will have to make this happen.

Mr. Fees stated that there should be a fast track bring jobs in for certain clusters, and asked what the key industry clusters are.

Mr. Kile stated that every economic development agency in the State, county and across the Country target what they industries with which they think they can be most effective. The economic development agencies we sponsor will be going through their processing before they even get to us, and at that point the Committee will get an opportunity to sort out which ones will have the most impact.

Mr. Rounds stated that he would distribute his report that was provided to the State Legislature last year, and which was the basis for Speaker Adams' jobs bill. The bill ended up with a number of provisions that they did not recommend. The County is in a position to be a leader in economic development. Cooperation is going to be critical because it will be difficult to make a competitive offer without combining resources from several entities. There are going to be companies with which we have a competitive advantage, building off the engineering base in which we have always been strong. The Committee will need to build on whatever the State puts forward. Cutting corporate income taxes will have to wait, but the can do something with enterprise zones right away. Mr. Bradley suggested that participation of other entities in supporting a project could be used as one basis for prioritizing projects. Mr. Rounds agreed, and stated that this would make the County's $7 million go a lot farther. The Committee would need to address how to handle the closing fund, whether it would be used to fund job training, for example.

Mr. Rounds emphasized that has to be some sound economic basis for allocation from the closing fund, because otherwise the Goldwater Institute would then characterize it as a "giveaway" fund.

Mr. Rounds suggested that participation by the IDA would enhance the value of a deal. The IDA can offer things like conduit financing, purchasing of buildings, tenant improvements and a number of other options.

Mr. Rounds observed that the County does not hold a lot of land, but that the cities do, and they can sometimes donate it or lease it at a very low rate. Cities can also put in minimal infrastructure improvements, which might be the thing that makes or breaks a deal.

Mr. Rounds suggested that the Committee consider what it wants to receive in order to consider a project, such as a document that shows that this is the most likely area where the company is going to locate, and how much the County's benefit would be so that the Committee does not recommend funding beyond the desired return on investment period. The Resolution calls for a maximum return on investment period of five years, which is in line with information from site selectors that the average across the country four to six years.

Mr. Rounds stated that the Committee and the County would have to form strong partnerships with two or three cities, starting with the City of Phoenix plus one on the west side and one on the east side.

Mr. Rounds suggested that the Committee would have to be quick to respond to potential prospects. The Committee could have more regular formal meetings quarterly, but will likely need to meet monthly address immediate projects.

Mr. Rounds stated that GPEC or a site selector is going to bring projects to Maricopa County, and the Committee will have to weed out the good versus the bad. The Committee may want to have an independent staff review.

Mr. Rounds suggested that the Committee may want to be flexible with project criteria if a project involves a high amount of capital investment or enhances a sector. Mr. Bradley explained that the project criteria in the Board resolution are relatively conservative by design, because the County's new in this type of activity. The County may consider loosening the criteria in the future.

5. Discussion of Proposed Committee By-laws:

Mr. Bradley reviewed the draft Committee by-laws. The by-laws call for regular quarterly meetings, but provide for special meetings if called by the Chair or by a majority of the membership. Quarterly meetings are in line with the County's schedule for interest revenue apportionment. If the Committee had awarded all of the funds available in a quarter, it would have to wait until the next quarter to award additional funds anyway. If not all funds were allocated, the Committee could meet between quarters to allocate the remainder. Mr. Bradley suggested that there needs to be a balance between preserving the ability to prioritize limited resources quarterly and being able to respond quickly. Considering projects one-by-one eliminates the ability to prioritize among projects.

Ms. Atkins observed that the required meetings in the by-laws does not limit the Committee but sets a minimum of meetings, to which Mr. Bradley agreed.

Mr. Kile observed that the real limitation is the number and timing of Board of Supervisors' meetings. Mr. Bradley explained that the Board of Supervisors normally meets bi-weekly on Mondays and Wednesday, and that there are often executive sessions on the other weeks. The Committee will not want to meet on Mondays or Wednesdays.

In response to a question from Mr. Fees as to whether all Committee members turn over every two years, Mr. Bradley explained that it was felt that it would work best for the time being if the Chair was appointed by the Chairman of the Board of Supervisors, for one year.

Mr. Bradley noted that the by-laws require the Committee members provide written notice to the Clerk of the Board of Supervisors if they have a conflict of interest, and this information will be available to the public.

Mr. Bradley reviewed the section of the draft by-laws regarding attendance, which provides for a Committee member to be replaced if that person does not attend Committee meetings for an extended period.

Mr. Rounds asked how the Committee would handle exceptions to the project guidelines set forth in the Board of Supervisors' resolution. Would the Board need to amend the resolution first, or could the Committee make an exception? Mr. Benton replied that the Board of Supervisors could amend the resolution. Mr. Bradley stated his view that the Board of Supervisors could approve a project that was an exception to the guidelines, but would have to acknowledge that in their action. Mr. Rounds cautioned the Committee not to lose sight of the goal of securing jobs with salaries 125% of the median when considering exceptions. Ms. Scharbach observed that a Board of Supervisors agenda item can include exception language.

Mr. Bradley brought up the topic of setting the schedule for quarterly Committee meetings. Mr. Kile requested a schedule of Board of Supervisors meeting schedules and deadlines for submission of items, as the Committee would not want to miss deadlines. Ms. Scharbach indicated that the Board of Supervisors could hold a special meeting to consider a pressing item.

Mr. Rounds asked to what extent he needs to be private with what he hears at Committee meetings. Mr. Fees observed that it is beneficial to have Mr. Rounds in contact with other entities. Mr. Bradley asked how the Committee would handle requests that involved an agreement not disclose proprietary information. Ms. Atkins asked if the Committee would have to act in an Executive Session. Mr. Kile stated that all the Committee's recommendations to Board need to be public. Mr. Benton stated that the Committee will not see a proposal that is not public. Mr. Fees suggested that the Committee could recommend projects anonymously. Mr. Bradley stated that Board of Supervisors actions have to be public. Ms. Atkins asked if the Committee should have the authority under the by-laws to have the flexibility to work under Non-Disclosure Agreements (NDAs). Mr. Kile stated that the Committee would be bound by an NDA signed by the parent (the County). Mr. Rounds observed that if the Committee were bound by an NDA, it would have to discuss the project in Executive Session. Mr. Benton reminded the Committee that it can discuss certain items in Executive Session, but had to act in an open meeting. Mr. Rounds suggested that the Committee could discuss projects anonymously in open session.

Mr. Fees stated that GPEC could do more to help companies that are already here to expand and create jobs. He also stated that education funding is a problem, and is going to get worse. Nobody is talking about it.

6. Call to the Public

Ms. Trish Georgeff, Director of the Maricopa County Human Services Departments, commented on the need to consider how to help people seeking employment through the Workforce Development program.

7. Adjourn

The meeting was adjourned at approximately 4:00 p.m.