

ECONOMIC DEVELOPMENT COMMITTEE

December 1, 2014

The Economic Development Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on December 1, 2014 at 3:51 p.m.

COMMITTEE PRESENT

Scott Somers, Chairman
Alex Finter
Dave Richins

COMMITTEE ABSENT

None

STAFF PRESENT

Bill Jabjiniak
Bill Taebel

1. Items from citizens present.

There were no items from citizens present.

2-a. Hear a presentation and discuss an update on LAUNCHPOINT, Mesa's Technology Accelerator.

Senior Economic Development Project Manager Shea Joachim displayed a PowerPoint presentation (**See Attachment 1**) and discussed staff's annual update on LAUNCHPOINT, Mesa's Technology Accelerator.

Mr. Joachim provided a brief historical overview of LAUNCHPOINT, which had its grand opening on December 18, 2013. He explained that the mission of this initiative was to stimulate the establishment and growth of small technology-based companies and other growth-oriented businesses in the Valley. He stated, in addition, that LAUNCHPOINT was created in partnership between the City of Mesa and Arizona State University (ASU). He added that the top level success metric for the Accelerator was job creation.

Mr. Joachim displayed a map illustrating the physical location of LAUNCHPOINT. (See Page 3 of Attachment 1) He noted that as part of the agreement entered into between the City and ASU, ASU has provided the City 6,500 square feet of space rent free. He also said that the City pays its proportionate share of the operational costs for the facility.

Mr. Joachim remarked that last year when LAUNCHPOINT began, the City offered entrepreneurs a fee-for-service model that was competitive with rates and fees offered elsewhere throughout the state. He commented that with respect to such a model, the two most

common “turn-down responses” he received from entrepreneurs included not being able to afford the services offered at LAUNCHPOINT or the facility being situated too far away from the central Phoenix/Tempe area.

Mr. Joachim pointed out that in an effort to overcome the above-referenced challenges, the City and ASU developed the Business Academy @ LAUNCHPOINT. He explained that the free program is designed to train entrepreneurs in a variety of methodologies, validate business ideas, and position the respective companies for funding opportunities. He noted that in September of this year, 19 companies applied to participate in the program, of which eight were selected for the first cohort.

Mr. Joachim further reported that the key selection filters for the program included whether the applicant was currently affiliated with an incubator or accelerator in the Valley and also if the person’s business concept was technology-based. He stated that the admission criteria consisted of the entrepreneur’s business concepts, the market research qualifications of the applicant’s team, and whether the applicant’s idea was aligned with the strategic initiatives of ASU or the City of Mesa.

Mr. Joachim indicated that in order for an entrepreneur to participate in the Business Academy, the person was required to make a commitment to do the following:

- Complete the program curriculum.
- Maintain a presence at LAUNCHPOINT in an effort to interact with the members of the cohort.
- Provide metrics to the City to demonstrate business growth (from a sales or job perspective) and financial challenges.
- Actively pursue funding opportunities.

Mr. Joachim offered a short synopsis of the Business Academy curriculum, which was developed by ASU, but facilitated by City staff. (See Page 5 of Attachment 1) He cited, for instance, that the curriculum is based on a lean startup methodology which, in its most general sense, is evidence-based product and service validation. He also commented that the participants must attend 12 facilitated sessions; review a variety of material, such as topics related to client development, enterprise development and team development; and complete assigned tasks. He added that the curriculum is complimented by other amenities, consisting of a free Mesa Chamber of Commerce membership and coaching as it relates to public speaking and presentations.

Mr. Joachim, in addition, highlighted some of the Business Academy participants. (See Page 6 of Attachment 1) He noted that the group has many diverse business concepts including, but not limited to, the following:

- GoMechanic – Mobile applications to connect consumers with service providers who are willing to travel to a person with a disabled vehicle.
- Movement Interactive – The development of sensors and a proprietary algorithm to diagnose head trauma in real time. The application would assist student athletes who experience injuries related to, for instance, football or soccer.
- Intelligent Analytics – The creation of a smart fire prevention/fire detection device for kitchens. The device would communicate with a homeowner’s mobile device in order to alert the appropriate authorities of a fire.

- Claw Master – A 16-year-old student, who has learned to “beat” the Claw Machine game, has established a YouTube channel demonstrating him playing the game. The entrepreneur has also developed an online community that enables individuals to trade the prizes that they win playing the Claw Machine game. In addition, he recently purchased the arcade at Superstition Springs Mall, where he demonstrates various strategies that he uses to win at the game.

Mr. Joachim spoke relative to the desired outcomes of the Business Academy within one to two years and two to five years. (See Page 7 of Attachment 1) He reiterated that one of the primary goals of the program is to assist the entrepreneurs in identifying appropriate funding opportunities. He added that although the City of Mesa does not offer investment opportunities for startup companies, entities such as the Arizona Commerce Authority (ACA) and ASU have programs to assist in that regard.

In response to a question from Chairman Somers, Mr. Joachim clarified that pending completion of the Business Academy, if any of the eight participants were able to obtain funding for their business concepts, the next step in the process would be the onsite program at LAUNCHPOINT. He explained that the entrepreneur could begin the fee-for-service model in order to receive professional consulting services in a variety of areas.

Chairman Somers thanked Mr. Joachim for the presentation.

2-b. Hear a presentation and discuss an update on the Business Retention and Expansion Program.

Economic Development Project Manager Andrew Clegg displayed a PowerPoint presentation and provided a brief overview of the City of Mesa’s Business Retention and Expansion (BR&E) Program. **(See Attachment 2)**

Mr. Clegg reported that on July 1, 2014, the City and the Mesa Chamber of Commerce launched the BR&E Program. He explained that in the past few years, management of the program has moved back and forth between the City of Mesa and the Chamber. He stated that since both entities have a vested interest in supporting local businesses, they determined that it was appropriate to implement an ongoing program in order to meet the needs of Mesa businesses into the future.

Mr. Clegg noted that the BR&E Program consists of a three-tier approach with respect to business visitations. He said that Tier 1 businesses include high impact companies, with a large workforce, that have been located in Mesa for a long period of time. He indicated that the businesses have well-established relationships with City management and the City Council. He further remarked that visits with Tier 2 businesses occur as a result of staff solicitations. He added that Tier 3 visits entail businesses that have contacted the City regarding the BR&E Program.

Mr. Clegg further commented that the program initially focused on the healthcare and aviation industries, both of which comprise elements of the City’s Healthcare, Education, Aerospace/Aviation and Technology (H.E.A.T.) initiative. He pointed out that staff solicited more than 150 businesses throughout the City, which resulted in 60 visits (11 Tier 1; 44 Tier 2; and 5 Tier 3). He also provided a breakdown of the various H.E.A.T.-related companies that were visited and the associated number of employees at each site. (See Page 3 of Attachment 2)

Mr. Clegg indicated that of the 60 visits, 18 businesses expressed an interest in expanding their operations. He said that the companies were at varying levels of readiness, with five entities prepared to make a decision in the short term and the remaining 13 seeking a longer timeframe within which to expand.

Mr. Clegg displayed a series of maps illustrating the sites of the 60 visits throughout Mesa. (See Pages 5 through 9 of Attachment 2)

Mr. Clegg, in addition, highlighted examples of the different types of businesses that were visited as follows:

- Several businesses are operated out of the owners' homes.
- The largest manufacturer of golf grips is located in Mesa.
- An eye retina display company has developed a unit that connects to a computer, laptop or Smartphone and tracks a person's eye movement.
- An application manufacturer has created a program which, when used in conjunction with an Internet-connected television, allows people in different parts of the world to play a game of golf.

Mr. Clegg provided a short synopsis of the findings that were generated as a result of the visits. (See Page 10 of Attachment 2) He noted, for instance, that the businesses were appreciative of the City's outreach efforts, but were often unaware of a variety of free resources available to them, such as posting/advertising job openings or seeking job training funds.

Mr. Clegg reported that in 2015, staff intends to follow up with the 18 businesses that are in varying stages of expansion. He explained that in addition, staff will identify new businesses to visit; develop a communication plan, which will offer tools and resources to the thousands of Mesa businesses that staff is unable to visit; and continue to partner with the Mesa Chamber of Commerce and host forums/workshops in an effort to address issues that are identified during staff's visits to various businesses.

Mr. Clegg further commented that in 2015, staff will partner with the Greater Phoenix Economic Council (GPEC) and the Arizona Commerce Authority (ACA) with respect to "selected visits." He stated that both organizations have identified five or six businesses they would be interested in visiting with City staff. He added that in the third quarter of 2015, staff's goal is to make 60 visits during that period of time.

Discussion ensued relative to the fact that several years ago, GPEC developed a market intelligence program, which focused on similar companies in the marketplace that were unaware of each other; that such information gathering centered around aerospace and defense industry layoffs and has since expanded to computer technology; that GPEC gathered metrics that address "threats" to those businesses; that as a result of such analysis, GPEC was able to advise Economic Development Department Director Bill Jabjiniak of a potential layoff at Boeing prior to its occurrence; that GPEC and ACA have the ability to bring additional research and data to the City with respect to economic development; that 80% of the City's growth is derived from the existing business community; that it was important for City staff to solicit local businesses to identify their needs and assist them in achieving long-term success; and that Mesa does not require that businesses obtain a business license, which would enable the City to track the existence of such entities in an easier manner.

Responding to a question from Committeemember Richins, Economic Development Department Director Bill Jabjiniak clarified that the implementation of a business license in the City of Mesa would require a policy change per the direction of the Council. He stated that gathering information to determine what kinds of businesses are located in the community and which entities require assistance is not only important, but also very challenging.

Chairman Somers recounted that the Council has engaged in prior discussions concerning the possible utilization of some form of business registry in order to enhance business retention and expansion in Mesa. He noted that the Council challenged the Mesa Chamber of Commerce to collect its own information relative to the development of such a registry. He added that it was further proposed that the data would be forwarded to the City as a grass-roots effort.

Mr. Jabjiniak pointed out that the Mesa Chamber of Commerce has revisited this issue and is in discussions concerning the most appropriate manner in which to proceed. He concurred with Chairman Somers' comment that it is a grass-roots effort.

Committeemember Finter remarked that the December 8, 2014 Regular Council meeting agenda contains an item related to software replacement for the Tidemark system, including a module that would allow people to register their businesses online. He expressed support for moving forward with the development of such a registry at this time.

Chairman Somers thanked staff for the presentation.

2-c. Hear a presentation, discuss and provide a recommendation modifying the threshold of the Economic Development Utility Rate.

Energy Resources Department Director Frank McRae displayed a PowerPoint presentation (**See Attachment 3**) and reported that in 2009, one of the City of Mesa's higher consumption electric customers considered moving its Mesa operations to another site in the Valley. He explained that the potential relocation would have resulted in a significant electric utility loss, as well as the loss of other forms of revenue and economic activity.

Mr. McRae stated that in an effort to address this matter, the City's Energy Resources, Economic Development and Budget Departments developed Mesa's Electric Retention/Economic Development rate (E3.6). He noted that the rate was designed to provide electric commercial customers, with a similar scenario as described above, an incentive to retain their operations in Mesa.

Mr. McRae remarked that when E3.6 was developed, the rate provided a reduction in energy usage-based charges for eligible commercial customers that use a minimum of 250,000 kilowatt hours (kWh) per month. He said that such a provision was designed to eliminate and/or delay the relocation or discontinuation of the above-referenced company's Mesa operations. He noted that the eligible customer was required to enter into a service agreement with the City to retain its business in Mesa for five years and also exercise reasonable efforts to increase the number of jobs in the community.

In response to a question from Committeemember Richins, Mr. McRae clarified that the company for which E3.6 was developed has remained in Mesa and significantly expanded its operations.

Mr. McRae, in addition, remarked that although the primary focus of E3.6 was to retain an existing electric commercial customer, it was somewhat awkward to apply the current rate and tariff structure to a new business or an existing business that was interested in expanding its operations. He commented that in an effort to address those issues, staff would propose certain modifications to E3.6 that would allow for the more effective accommodation of new or expanding economic development opportunities.

Mr. McRae provided a short synopsis of the proposed modifications to E3.6 as follows:

- A reduction in the minimum annual consumption from 250,000 average kWh per month to 200,000 average kWh per month.
- The consolidation of up to four meters for eligibility and billing.
- The total term of rate applicability modified from “not to exceed five years” to “for an initial term of five (5) years;” and subsequent terms shall be for a term of one (1) year.
- The requirement for a financial instrument that would be applicable only during the first five (5) years of rate applicability, but would be optional (City option) in any extensions or continuation of service under the E3.6 rate.

Responding to a question from Committeemember Richins, Mr. McRae explained that the purpose of the modifications is to extend the rate to new customers. He reiterated that the current E3.6 language makes it “awkward” with respect to how such a rate extension can be accomplished. He stated that the modification would allow a new customer to locate its operations in Mesa and “ramp up” its production over time, with the goal of meeting the minimum annual consumption of 200,000 kWh per month threshold within three years.

Mr. McRae further reported that the proposed modifications to E3.6 would enhance the Economic Development Department’s ability to attract new businesses to the community, as well as expand existing business customers. He said, in addition, that the proposal would mitigate the loss of Mesa’s utility revenues; create the potential for additional utility revenue; and generate taxes, capital investment, and jobs.

Committeemember Richins commented that given that the City’s electric utility covers downtown Mesa, he expressed concern regarding the type of businesses that would be offered the above-listed incentives. He stated that he could probably “get comfortable” with staff’s proposal if the criteria included goals related not only to economic development, but also other goals that the City endeavors to accomplish in the downtown area.

Committeemember Richins cited, by way of example, that if a 100,000 square foot warehouse was built in the downtown area, which would consume a substantial amount of electricity, there should be at least a minimum threshold of jobs that the company would create. He stressed the importance of the City not just “chasing” utility revenue, but also bringing employment opportunities to the downtown that will result in a demand for various uses, such as restaurants and housing.

Mr. McRae concurred with Committeemember Richins’ comments. He stated that he and Economic Development Department Director Bill Jabjiniak both agree that the intent of E3.6 is to retain an existing customer that generates a considerable amount of economic development and utility revenues in the City. He assured the Committee that such incentives would not be extended to a company unless economic development benefits existed in order to justify the implementation of the rate/billing reduction.

In response to a series of questions from Committeemember Richins, Mr. McRae explained that staff could extend the existing policy. He noted, however, that with the minimum annual consumption requirement of 250,000 kWh per month, the City might be losing out on customers that could grow into the 200,000 kWh per month range. He pointed out that currently, the City has two electric customers “on the cusp” of consuming 200,000 kWh per month.

Committeemember Richins suggested that it would be helpful for the Committeemembers to review data that outlines the number of businesses in the 200,000 kWh per month range. He commented that while two companies may not be enough of a reason to make modifications to E3.6, seven to ten companies that employ 1,000 people, on the other hand, might justify moving forward in that direction.

Economic Development Department Director Bill Jabjiniak addressed the Committee and indicated that Mesa is at somewhat of a competitive disadvantage in its downtown area with Salt River Project (SRP) and Arizona Public Service (APS), both of which offer rebates to electric commercial customers. He noted that what staff is attempting to accomplish with this proposal is to entice manufacturing and production-type jobs to locate to the downtown area.

Mr. Jabjiniak, in addition, reported that his office has been working with an employer who is considering moving his operations to a long-time vacant structure in downtown Mesa. He explained that the person has encountered several issues and stated that one of the alternatives that staff has offered the individual is the E3.6 rate. He said that most likely, the employer would not qualify for the minimum annual consumption level of 250,000 kWh per month which, he reiterated, places Mesa at a disadvantage from a business attraction standpoint. He added that the company would bring an estimated 100 jobs to the downtown area.

Discussion ensued relative to the fact that Mesa’s residential electric utility rate is lower than SRP’s, whereas its commercial rate is higher; that the City’s rate model is focused on maintaining commercial rates while increasing non-commercial rates; that such a rate model will address the disparity in commercial rates between the City and SRP; and that it will take several years before there is parity in commercial rates between SRP and the City.

Responding to a question from Committeemember Richins, Assistant City Attorney III Bill Taebel clarified that the City’s electric utility rates are adopted by ordinance. He explained that the ordinance related to staff’s proposal is included on tonight’s Regular Council meeting agenda for introduction. He stated that the action is not necessarily a policy change, but rather a change to the rate schedule by ordinance. He added that the concept is incorporated into the rate schedule and becomes part of the eligibility criteria to qualify for the rate.

Mr. McRae further remarked that a rate tariff is designed to standardize the terms and conditions and rates to be applied to customers that are similarly situated.

Committeemember Richins commented that it would be important for him to understand the process with respect to how it is determined which companies would receive the proposed rate set by ordinance and what oversight the Council would have in this regard.

Mr. McRae responded that he would envision Economic Development staff coming to the Energy Resources Department with a customer or his staff identifying a customer and determining whether the economic development benefits justify offering service under the E3.6 tariff. He assured the Committee that he would not negotiate an agreement with the company

without first seeking the concurrence of the Economic Development and Budget Departments and the City Manager's Office. He added that if the Council directed staff that such agreements should be forwarded on to them for consideration, he would be happy to do so.

Committeemember Richins indicated that he did not want to hinder staff's ability to negotiate with potential customers, but reiterated that he wanted to ensure that there was adequate oversight by the Council.

Chairman Somers stated that at the upcoming Study Session, the full Council will review the agenda for tonight's Regular Council meeting, which includes this item. He suggested that between now and then, staff conduct research with respect to Committeemember Richins' inquiry and be prepared to respond at the Study Session.

Mr. Taebel restated the proposed modifications of E3.6 as cited on Page 4 of Attachment 3. He pointed out that if a company did not adhere to such modifications, it would be charged a regular commercial rate.

Committeemember Richins remarked that he was "a little nervous" with respect to this issue and said that perhaps it would be appropriate to delay this process for a period of time.

Committeemember Finter commented that although staff is proposing to modify E3.6 for the purpose of enhancing economic development opportunities in the downtown area, he concurred with Committeemember Richins that it was important to ensure that the necessary "checks and balances" are in place with regard to this process.

Committeemember Richins stated that in his opinion, there should be "a layer of Council oversight" with respect to this matter. He noted that at the very least, the case should be heard by the Economic Development Committee, if not the full Council.

Mr. Jabiniak indicated that he did not want this issue to be about the one existing commercial customer that was receiving the E3.6 rate, but rather reducing the consumption threshold in an effort to attract new companies to the downtown area.

Chairman Somers thanked staff for the presentation.

3. Adjournment.

Without objection, the Economic Development Committee meeting adjourned at 4:54 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the meeting of the Economic Development Committee of the City of Mesa, Arizona, held on the 1st day of December, 2014. I further certify that the meeting was duly called and held and that a quorum was present.



DEE ANN MICKELSEN, CITY CLERK

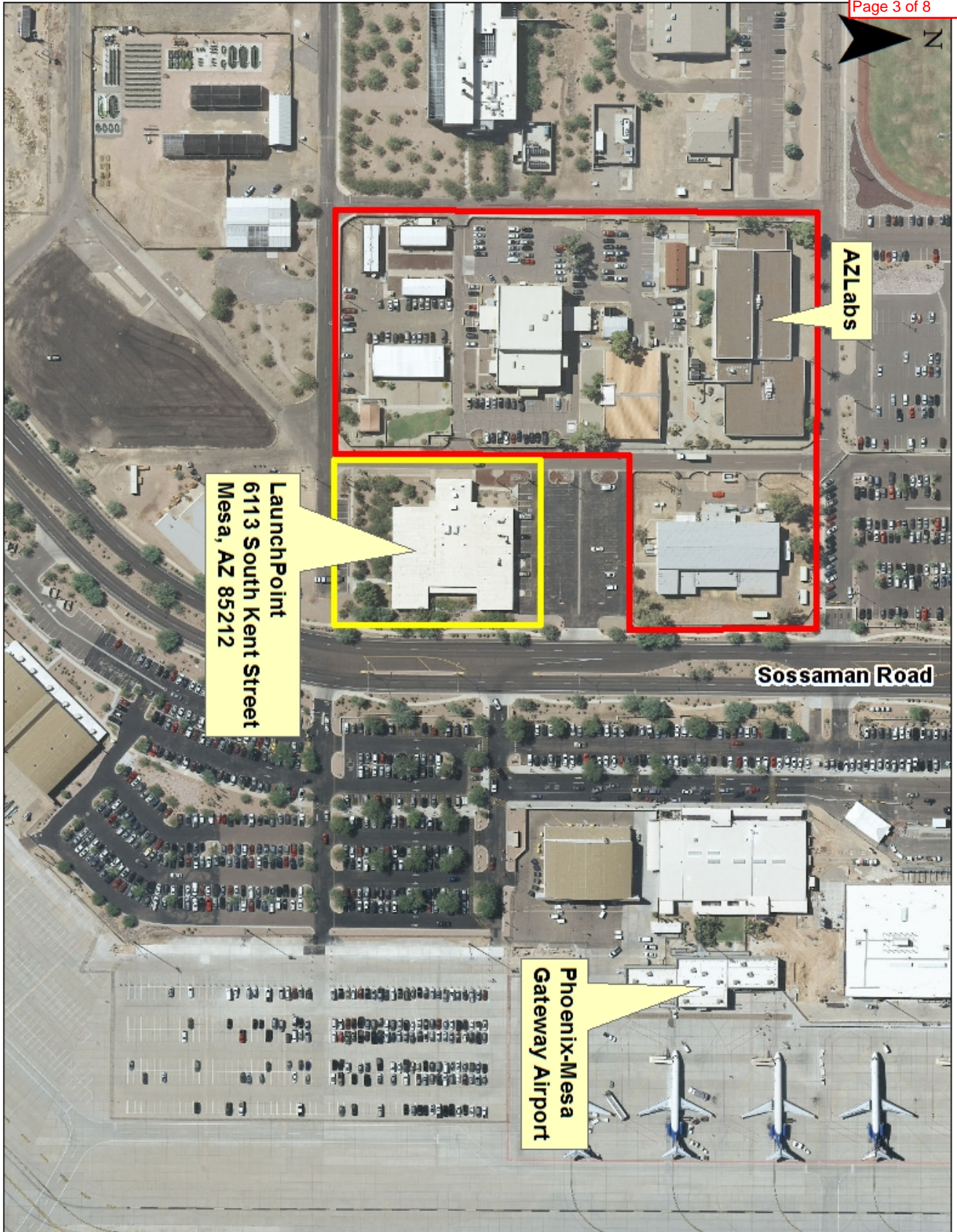


Economic Development Council Committee December 1, 2014

Annual Update

Background

- The mission of LAUNCHPOINT, the Mesa Technology Accelerator, is to stimulate the establishment and growth of small technology based companies and other growth oriented businesses in the Phoenix East Valley.
- Partnership with Arizona State University
- **JOB CREATION!**
- Grand Opening – December 18, 2013



The Business Academy @ LaunchPoint

- A free program to train entrepreneurs in a variety of methodologies, to validate business ideas, and to position their companies for funding opportunities.
- 19 Applications... Selected 8 companies for 1st cohort
- Selection Filters and Admission Criteria
- Client Commitment(s)

Curriculum Overview

- ASU's Rapid Start-Up School Curriculum
 - Stage 1 – Ideation
 - Stage 2 – Validation
 - Stage 3 – Acceleration
- Three Primary Focus Areas:
 - Client Development
 - Enterprise Development
 - Team Development
- Curriculum Highlights:
 - Rigorous methods and tools that emphasize accountability and progressive action;
 - Curated content from a wide variety of experts;
 - Broad applicability across a variety of venture types & development stages;
 - Facilitated discussion and collaboration with other entrepreneurs.

LaunchPoint Client Roster

- Business Academy Participants:
 - Rapid Rescue
 - GoMechanic
 - Claw Master
 - Codes Unlimited
 - Thousand Themes
 - Movement Interactive
 - Alternative Education
 - Intelligent Analytics
- OnSite Program Participants:
 - TechItEzee
- Affiliates:
 - Qwik Eyes

Program Desired Outcomes

- Short-Term outcomes (1-2 years):
 - Entrepreneur Capacity Building
 - Product/Service Validation
 - Success with Funding Opportunities (non-dilutive is preferred)
- Long-Term outcomes (2-5 years):
 - Business Expansion & Growth in Mesa
 - Job Creation

Questions



Shea Joachim

Senior Project Manager – Strategic Initiatives

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www.mesaaccelerator.com



Business Retention and Expansion

Mesa City Council

Economic Development Committee

December 1, 2014

Office of Economic Development



Mesa BR&E Program

- Partnership with Mesa Chamber
- 3 tier approach
- Initial focus
 - Healthcare and aviation
- 1st quarter goal
 - 60 visits
- Citywide targets
- Over 150 businesses solicited



Mesa BR&E Recap

Tier Visits

- Tier 1 – 11 (13,690)
- Tier 2 – 44 (1,718)
- Tier 3 – 5 (82)
- Total Visited: 60 (15,490)

H.E.A.T. Initiative

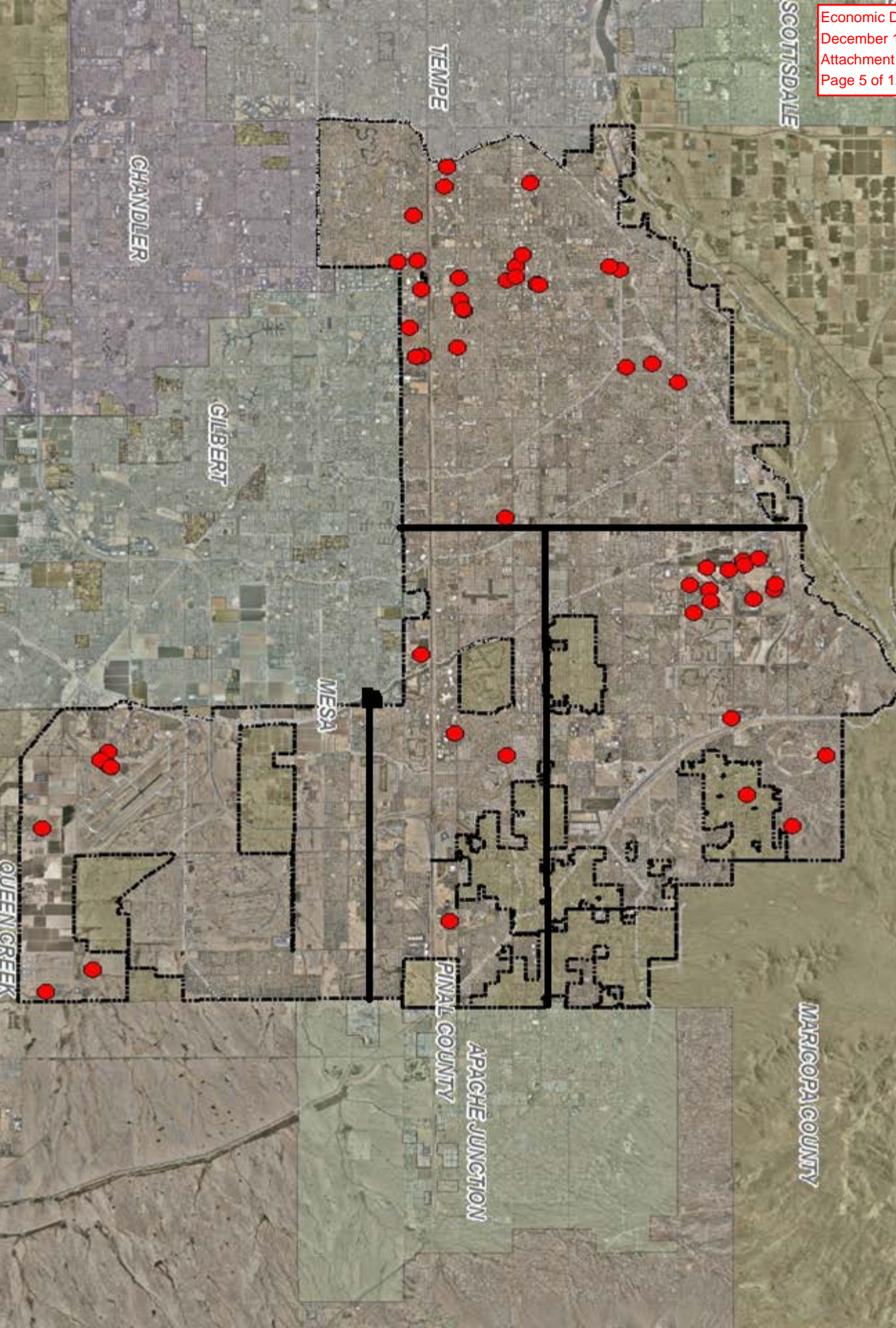
- Healthcare – 10 (7,401)
- Education – 1 (686)
- Aerospace/Aviation – 17 (5,784)
- Technology – 16 (359)
- Other – 16 (1,260)
- Total Visited 60

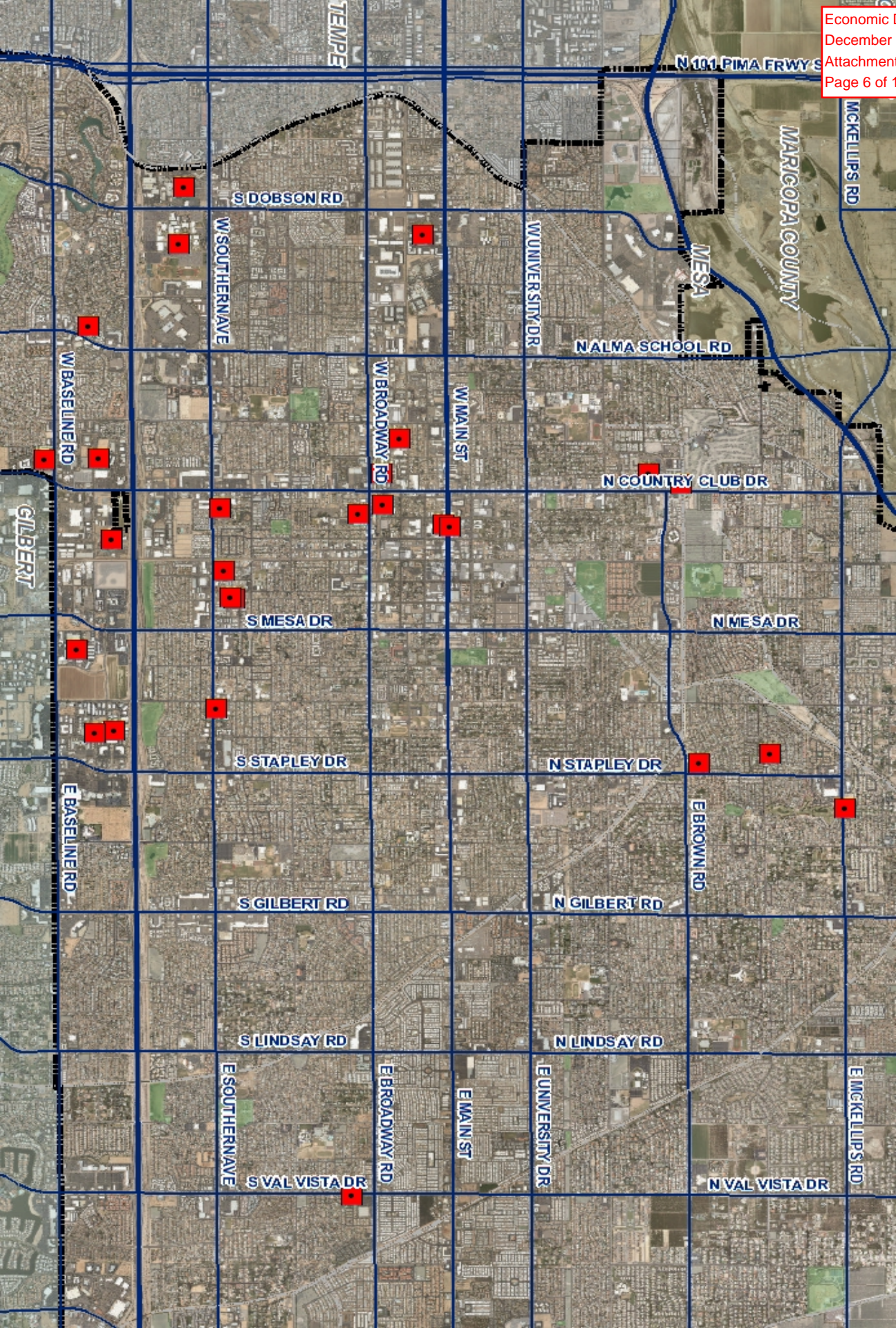


Mesa BR&E Recap

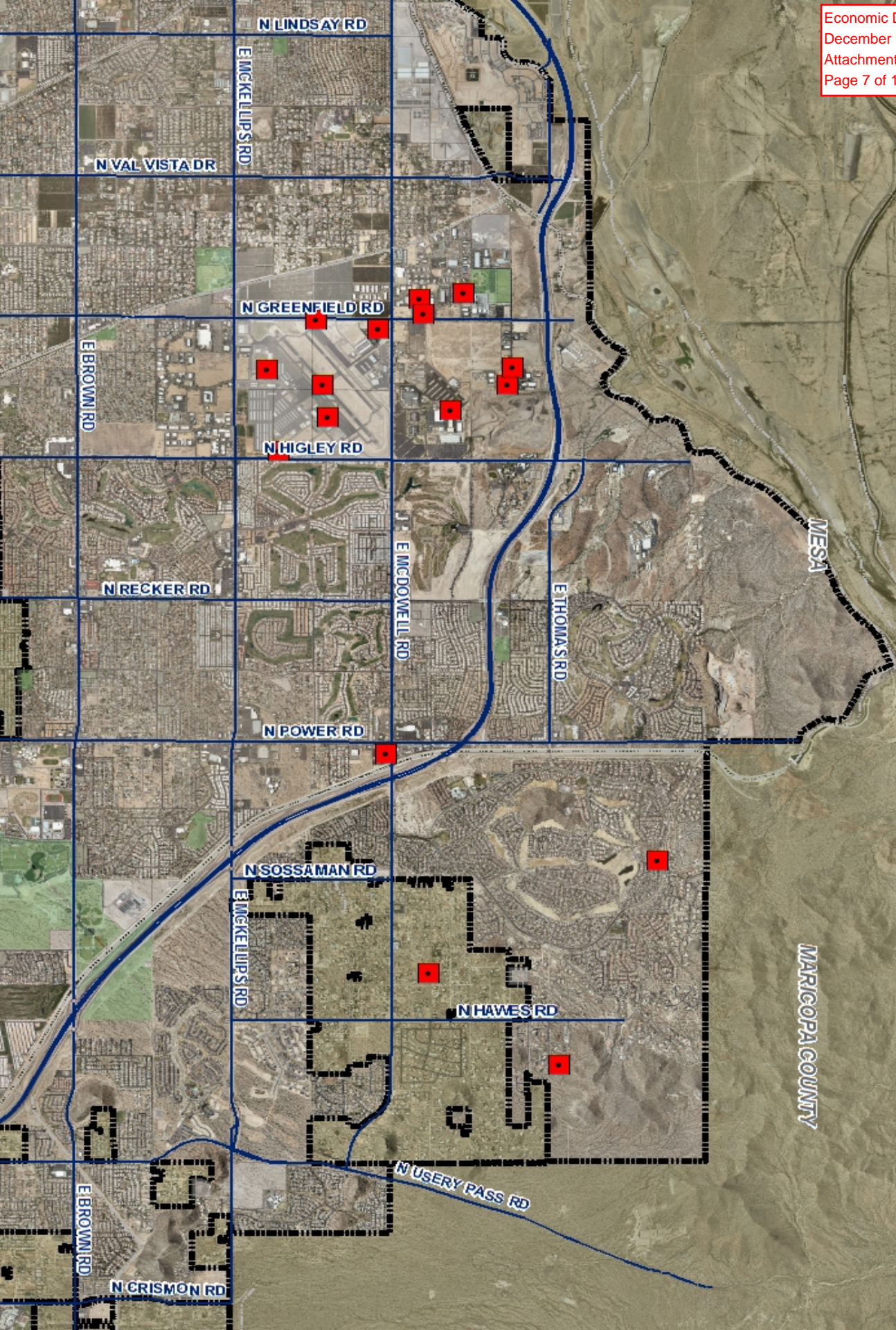
- 18 companies expressed interest in expanding
 - Different levels of readiness
 - 5 active projects
 - 13 prospects

BR&E Visits

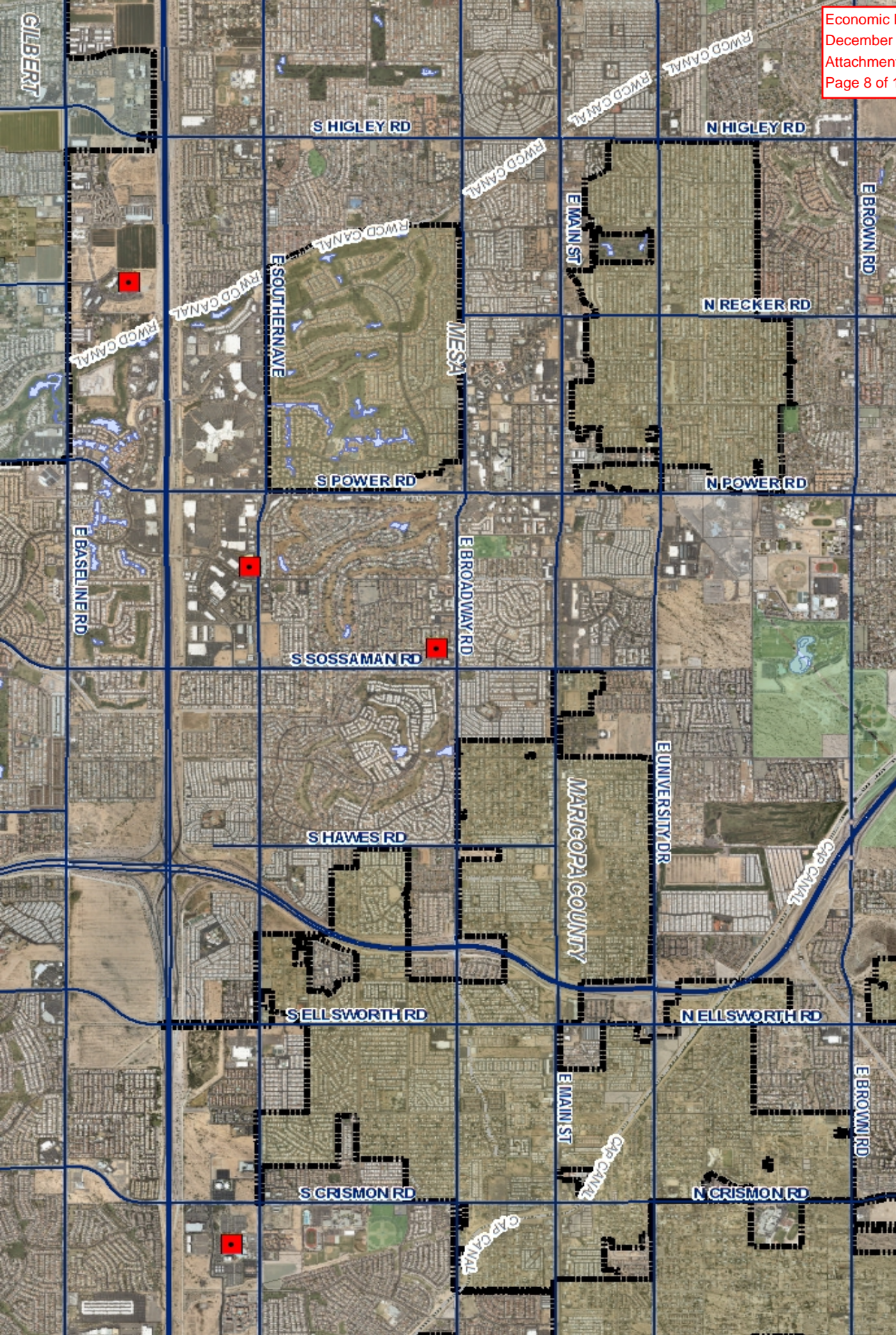




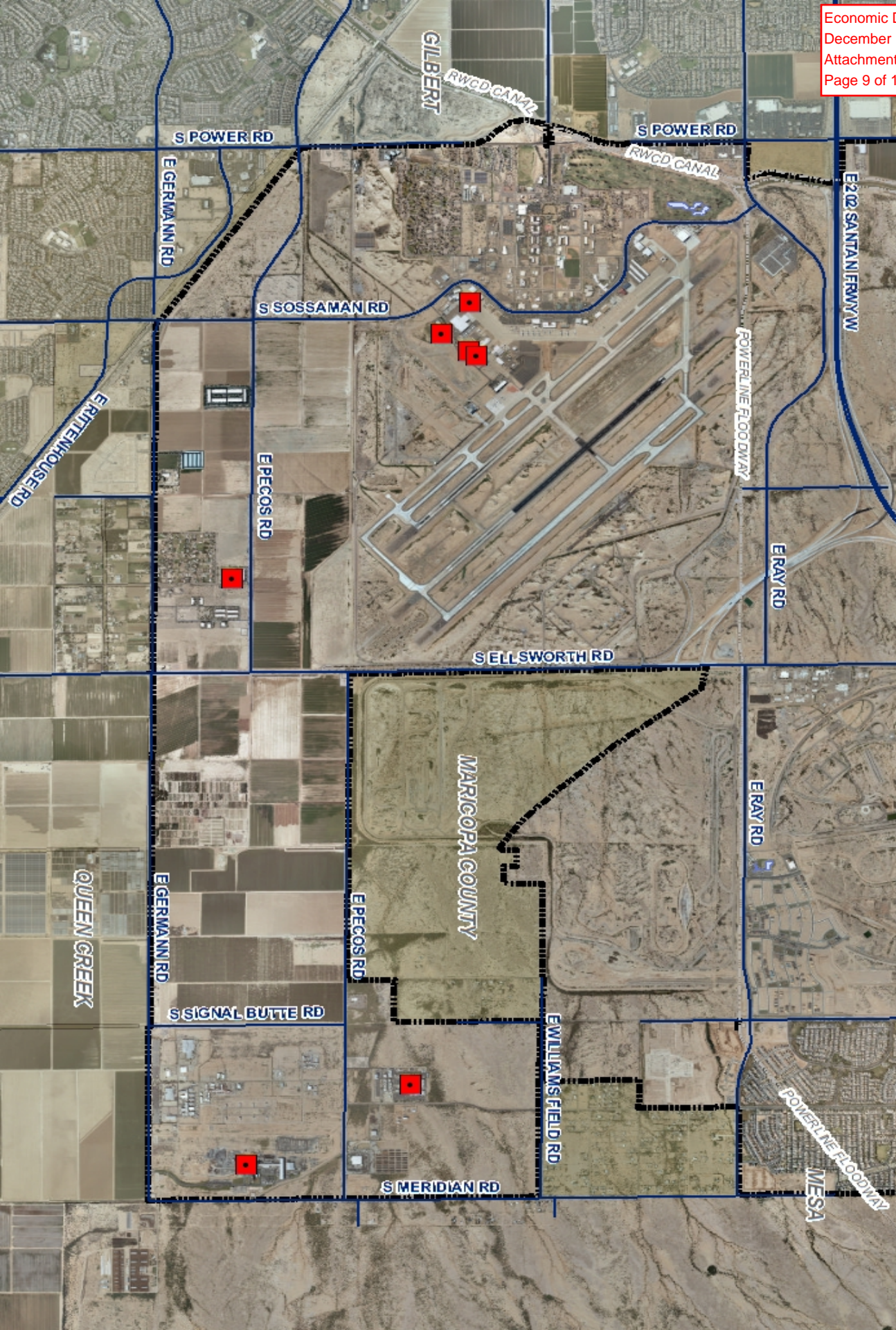
BR&E Visits



BR&E Visits



BR&E Visits



BR&E Visits



mesa·az

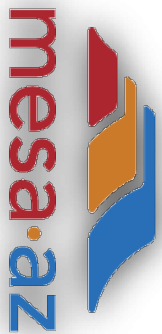
Mesa BR&E Findings

- Industry types
- Survived downturn
- Business has been slow to recover
- Operating in the City is positive
- Do not know about existing resources
- Appreciative that we made outreach
- Built relationships
- Communication/marketing
- Workforce needs
- Small business needs



Mesa BR&E Next Steps

- FY 15, Q2 – Continue to follow up with Mesa businesses from first round visits
- Identify new businesses to visit
- Communication plan
- Partner with Mesa Chamber on forums/workshops
- Include GPEC and ACA on selected visits (Top 100)
- FY 15, Q3 – 60 new visits over 4 months



Questions

ANDREW CLEGG

ECONOMIC DEVELOPMENT PROJECT MANAGER

CITY COUNCIL ECONOMIC DEVELOPMENT COMMITTEE

MODIFICATION OF ELECTRIC ECONOMIC
DEVELOPMENT & RETENTION RATE
SCHEDULE (E3.6)

ENERGY RESOURCES DEPARTMENT

DECEMBER 1, 2014

BACKGROUND

2

- E3.6, Mesa's Electric Retention/Economic Development Rate adopted in 2009 in close coordination with Economic Development & Budget Depts.
 - A very large electric customer explored moving to non-Mesa location.
 - Significant electric utility revenue loss.
 - Significant loss of other forms of revenue & economic activity.
- E3.6 developed to provide incentive to retain operations in Mesa.
 - Reduction in rate for energy usage for commercial customers.
 - Eligibility Requirements
 - Minimum of 250,000 kWh per month (Average).
 - E3.6 eliminates/delays relocation or discontinuation of Mesa operations.
- Customers enter into an agreement with City to:
 - Retain its business operation in the City for 5 years.
 - Use reasonable efforts to increase number of jobs in Mesa.

PROPOSED MODIFICATIONS

3

- Current E3.6 language reflects purpose at time - retention.
- Modifications allow for more effective accommodation of new or expanding economic development opportunities.
- Reduction in minimum consumption - 200,000 kWh per month.
- New/expanding customers eligible if minimum consumption projected to be met within 3 years.
- Consolidation of up to 4 meters to meet eligibility requirements.
- Initial term of 5 years and 1 year extensions.
- Financial instrument only required during first 5 years.
- No proposed changes to the \$/kWh rates

FISCAL IMPACT

4

- Enhances Economic Development tools to attract new businesses & expand existing business customers.
- Closely Coordinated with Economic Development:
 - Mitigate loss of utility revenues
 - Potential for additional utility revenue
 - Capital Investment
 - Jobs
 - Taxes

QUESTIONS?