MEETING MINUTES

Office of Economic Development
Economic Development Advisory Board

City Council Chambers
57 E. 1st Street, Lower Level
Mesa, AZ 85201

Date: August 7, 2018 **Time:** 7:30 A.M.

MEMBERS PRESENT	**EX-OFFICIO**	**STAFF PRESENT**
Natascha Ovando-Karadsheh, Chair	Mayor John Giles (Excused)	William Jabjiniak
Jim Kasselmann, Vice Chair	Chris Brady, City Manager	JD Beatty
Rich Adams	Sally Harrison	David Packard
Brian Campbell		Maribeth Smith
James Christensen		
Deb Duvall		
Matt Likens	**GUESTS PRESENT**	
Dominic Perry	Kevin Thompson, Councilmember	
Richard Warren	Shawn Neidorf, ACA	

1. **Chair's Call to Order** – Chair Ovando-Karadsheh called the Economic Development Advisory Board meeting to order at 7:33 a.m. In attendance were Councilmember Kevin Thompson, City Manager Chris Brady, and Sally Harrison of the Mesa Chamber of Commerce.

The City of Mesa Economic Development Advisory Board was created in 1992, and since then has served as an active forum for economic development policy discussion for the City. Chair Ovando-Karadsheh expressed her appreciation to the Mesa residents who volunteer their time on the Board. The Board members for the 2018-19 session were introduced, including new Board member Rick Warren, CFO, Banner Health Network.

Chair Ovando-Karadsheh acknowledged Director Bill Jabjiniak and his Economic Development team members. They do a great job in promoting the objectives of economic development in our city and moving us forward in this global economy.

The order of some agenda items was rearranged to accommodate schedules.

2. **Items from Citizens Present** – None.

3. **Approval of Minutes from the June 5, 2018 Board Meeting** – Chair Ovando-Karadsheh called for a motion to approve the June 5, 2018 meeting minutes. It was moved by Rich Adams, seconded by Deb Duvall, that the June 5, 2018 meeting minutes be approved.

Upon tabulation of votes, it showed:

AYES – Ovando-Karadsheh, Kasselmann, Adams, Campbell, Christensen, Duvall, Likens, Perry, Warren.

NAYS – None.

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

4. <u>Business Prospect Report (4th Quarter)</u> – JD Beatty provided a quarterly update for the 4th Quarter prospect activity from July 1, 2017 through June 30, 2018. The 3rd Quarter report was provided for comparison. Prospects generated went up 14% from 141 to 160. The job potential has remained stable, while payroll, square footage, and capital investment potential all experienced slight increases. Amazon HQ2 has been removed as it would over-inflate the report numbers. Prospect status is fairly similar to last quarter with about half being active prospects and 41% that have qualified into a project. A prospect that has conducted a site visit is considered qualified. The City receives a lot of prospects through GPEC and ACA, although some of those end up going elsewhere and are considered terminated. There was a shift in the prospects coming directly to the City (43%), rather than through GPEC (39%). In the last quarter, GPEC sent out fewer Etracks than in the past. Prospects received through site selectors and brokers have remained even at 10%. The development type and industry of prospects have stayed fairly consistent. The bulk of leads are in manufacturing space and advanced back office looking for larger floorplans and Class A office space. Prospects were largely in the HEAT Industries: 30% in manufacturing, 16% in technology, and 7% in health care. We have seen fewer prospects in education than in the past.

The Real Estate Snapshot shows a shortage in existing as well as under construction industrial space. The Quality Industrial Buildings in the report refer to those built no later than 1998. The one building between 100,000 to 199,000 SF is Longbow Gateway One in the Falcon District, which is complete. Given the demand, that space is expected to be leased rather quickly. We continue to see demand for large buildings, either existing or build-to-suit. Office space inventory versus prospects is a similar story, although there were fewer prospects looking in the larger 100,000 SF plus range than in the last quarter. The main change since last quarter is that two buildings over 100,000 SF are no longer available. Mesa Financial Plaza announced that it has leased 40,000-60,000 SF with three larger tenants, and Waypoint is working on some pending leases. The office space inventory continues to be down; however, The Union at Riverview office project will hopefully continue to move forward and assuage some of the lack of inventory. We would like to find other opportunities in the City where office space can be constructed.

<u>Board Discussion</u>:

Brian Campbell appreciated the presentation and was in favor of the slight changes made to the report format. On the GPEC report, the percentage of California prospects continues to be a strong pipeline and as a gross number from the GPEC side, it is up about 50%. He asked if Mesa has looked at ways to take advantage of that California pipeline.

Mr. Beatty explained that Mesa does not always know where prospects are coming from, whereas GPEC receives regional and national leads.

Mr. Campbell felt there were ways Mesa can be more targeted in focusing on the California markets to take advantage of what is becoming a dramatic flight from that jurisdiction.

Bill Jabjiniak advised that Mesa is spending as much time as we can with our partners, both ACA and GPEC, in California. We need to find the resources and people to be able to spend more time there.

Mr. Campbell commented that the team is doing great work, although they are getting swamped. California is a great opportunity and he suggested targeting specific industries through social media and marketing. The realization rate can be huge, although we do not have the resources.

Mr. Jabjiniak noted that in the GPEC report, there were 126 office prospects and 153 industrial prospects in FY18, although only 62 prospects have been Etracked in FY18 to all communities. While we are seeing a jump in the dollars we are spending for GPEC, we need be able to free up our people and resources to travel and follow up on leads.

5. **Arizona Opportunity Zones 101 Presentation** – Shawn Neidorf, SVP of Research at the Arizona Commerce Authority (ACA), provided an overview of Opportunity Zones. The idea of Opportunity Zones has been floating around for a while, although it was never passed until it was included in the tax bill that passed last December. It is a bipartisan measure that is meant to increase investment in low income communities by providing tax benefits to private investors. Investors would move money from a passive investment to an active investment with a long-term focus without the restrictions of other tax credit opportunities. Each governor was able to nominate 25% of a state's qualifying low-income Census tracts for Opportunity Zone status. Governor Ducey's nominations were submitted on March 21 and were certified by the Treasury on April 9, 2018. There was an option for a 30-day extension, although Governor Ducey and Sandra Watson, ACA CEO, decided to go forward with the original deadline. To qualify as an Opportunity Zone, a Census tract needed to meet a 20-80 rule with either a 20% poverty rate or a median family income not exceeding 80% of the median for the state or the MSA. The Treasury recommended using data from the 2011 to 2015 American Community Survey. Data from the 2012 to 2016 Survey was allowed in a number of cases.

States were allowed to nominate up to 5% of their total tracts from contiguous tracts—those that did not quite pass the 20-80 rule but were adjacent to a nominated qualifying tract. The contiguous tract could not have a median family income of more than 125% of the adjacent qualifying tract. Any jurisdiction could make a recommendation for a contiguous tract, although only 5% of the state's total nominated tracts could be from contiguous tracts. In rural communities, a contiguous tract may have been the only industrial tract or a tourism area.

Bill Jabjiniak advised that Mesa was fortunate to get one of those contiguous tracts partially in the Tech Corridor running from Elliot to Guadalupe and from Ellsworth to Power.

Statewide, Arizona has 1,526 Census tracts, of which 671 met the Opportunity Zone criteria. The state could nominate 168 tracts, including up to 9 contiguous tracts. Governor Ducey nominated 160 qualifying tracts and 8 continuous tracts, which were approved by the Treasury. Every county in the state has at least one Opportunity Zone, and Mesa has 11, including 1 contiguous tract.

Governor Ducey had asked the ACA to manage the recommendation process. ACA reached out to jurisdictions to recommend 25% of their tracts and one contiguous tract. In Maricopa and Pima Counties, ACA reached out to incorporated communities of 10,000 or more people and asked for their recommendations. The counties made recommendations for the smaller towns and unincorporated areas. Tribes that had qualifying tracts were asked to make recommendations for their areas. ACA staff reviewed all of the submissions and trimmed those down to the maximum of 168 that the state could nominate. Sandra Watson presented the recommendations to Governor Ducey, who approved them. Arizona was one of the first states to receive approval from the Treasury.

To qualify for tax benefits, an investment must be made in an Opportunity Fund as opposed to simply purchasing property or a business. The money has to be gains from another investment and must be invested in an Opportunity Fund within 180 days. If the money is left in the investment for 5 years, only 90% of the realized gain would be taxed and if left for 7 years, only 85% would be taxed. The investment needs to be made by the end of 2019, as the tax deferral only runs through 2026. Some lawyers state investments could be made later than that, although that has not been confirmed by the Treasury. The second tax benefit is that once the investment is held for 10 years, there will be no capital gains tax on the initial gain.

It was asked if the initial gain could be from any type of investment. Ms. Neidorf stated the Treasury has not been specific. It could be from a hedge fund or real estate investment. It does not need to be a like-kind investment. The intent is to move money into active investments in communities.

Ms. Neidorf reviewed what is known to date on how to start an Opportunity Fund. It must be organized as a corporation or partnership and certified by Treasury. The Treasury has indicated that it will be a self-certification through a form similar to an EIN when taxes are filed. That form is supposed to be out this summer. Also, 90% of the assets must be in qualified Opportunity Zone property, which will be judged twice a year. At most, there will be 6 months to deploy 90% of the capital. Due to those requirements, people will most likely wait until they have a project in mind before organizing an Opportunity Fund. This will be more difficult for those looking to do multiple projects in a Fund. Failure to meet the 90% rule will result in a fine, unless the failure is due to a reasonable cause, which has not yet been defined.

Once an Opportunity Fund is organized, it may invest through buying Opportunity Zone stock, Opportunity Zone partnership interest, or Opportunity Zone business property. A qualified business is a trade or business in which substantially all of the tangible property owned or leased by the taxpayer is Opportunity Zone property, 50% of the total gross income is derived from active conduct, a substantial portion of the intangible property is used in the active conduct of such business, and less than 5% of assets are invested in non-qualified financial property. It cannot be a holding company or a sin business, such as a golf course, country club, massage parlor, hot tub facility, sun tan facility, liquor store, racetrack or other gambling facility. Qualified business property has to be acquired by the Opportunity Fund by purchase after December 31, 2017. The original use should start with the Fund or the Fund may make substantial improvements to the property. This makes it difficult to buy an existing business that has a lot of equipment or facility, as in theory, all of that should have been purchased after December of 2017. There is a rule for substantial improvements, although it would take nearly as much money as it did to acquire the property. This will have an impact on rehab projects and will limit investments in existing businesses. During the Opportunity Fund's holding period, substantially all of the use of the property needs to be in a qualified Opportunity Zone. Ms. Neidorf reviewed several terms that need further definition from the Treasury.

Qualified Opportunity Zone stock must be acquired at original issue for cash, the corporation must be a qualified Opportunity Zone business when the stock is issued, and during substantially all of the fund's holding period the corporation must qualify as an Opportunity Zone business. The same rules apply for Qualified Partnership interests.

The Treasury's role is to establish rules for certification, and to establish rules to ensure a Fund has a reasonable period of time to reinvest the return of capital in qualified Opportunity Zone stock and partnership interests and to reinvest proceeds from the sale or disposition of qualified Opportunity Zone property. Ms. Neidorf hopes in the event of an exit in less than 10 years, this will allow interim funds to be reinvested and not create a tax event that violates the 10-year rule. The Treasury will also establish rules to prevent abuse.

Ms. Neidorf reviewed several outstanding questions that need further guidance from the Treasury related to the types of partnerships and corporations that may be used, options for investing in existing businesses and rental housing, the timeline for certain rules, further definition on several key terms, and what will happen in the event a company moves or is sold. EIG (Economic Innovation Group) has written a letter to Treasury asking for a one-year vacancy to determine a new original use.

An electronic version of the presentation materials will be sent out to the group with links to the Treasury's CDFI Opportunity Zone Resources and FAQs, EIG, Enterprise Community Partners, CDFA, LISC, PriceWaterhouseCooper, and other related links.

Ms. Neidorf advised that an all-day Opportunity Zone seminar and workshops will be held on September 27, 2018, in collaboration with CDFA in Tempe. This event will provide opportunities to meet with investors, lawyers, and experts, and to make sure Arizona is poised to take advantage of these Opportunity Zones.

Board Discussion:

Brian Campbell was encouraged by the statutory bias towards new builds and felt this opportunity will drive new construction in the southeast Valley. He asked if Mesa has the resources needed to market that section of the City that qualifies under the Opportunity Zones, pair it with existing programs, and let those Opportunity Funds know we are ready to start building now. Access to capital has been one of the hinderances to development.

Bill Jabjiniak asked how many certified Opportunity Funds there are in Arizona?

Ms. Neidorf advised as there is no certification form yet, technically there are zero Opportunity Funds. She was aware of two: Caliber which owns significant property in Mesa, and Virtua Partners which owns property in the West Valley. She noted there will be no registration for Opportunity Funds and no direct way to find them. Depending on how the rules are interpreted, this may simply be a facility to fund an individual project with investors creating the Opportunity Fund solely for the tax benefits.

Mr. Campbell stressed the marketing opportunity as we will not be able to find those funds. We can let them know we are qualified and ready to go. We've done everything right through the great work of ACA, and the money will find us if they know we are here.

Bill Jabjiniak stated it all comes back to developing a strategy. We have talked to Caliber and they will be coming in later this month to talk to staff about their Opportunity Fund. The issue is finding where those certified funds are. Developers are tying up property subject to getting answers from Treasury. The end of summer is almost here, and we hope to get more direction sooner versus later. We need to build a strategy around Opportunity Zones and whether we will layer entitlements or infrastructure. We can get some of that in place ahead of the game, although there is still a long way to go.

Ms. Neidorf stated that is the conversation they are having with other communities, particularly rural communities. The entitlements and infrastructure will be important. In order to maximize the tax benefits, you need to get going in 2019, or at the latest, 2021. Mesa has a wide variety of Opportunity Zones in well-defined areas.

Mr. Jabjiniak felt it is important to sit down with staff to define and refine the strategy, and then get it out to the investment community.

Mr. Campbell stated that will be driven by resources and the opportunity window will not be open very long. We need the City resources to make this happen. He offered the Board his support.

Dominic Perry stated the people with the resources are well aware of this opportunity.

Mr. Jabjiniak felt we need to reach beyond the Arizona borders to find those qualifying funds that are willing to invest in Mesa.

Ms. Neidorf explained that the designations are for 10 years and you will not be able to make new investments after that. If you forego the first tax benefit on the original capital gains, you can invest at any point up until 2028 and hold that investment for 10 years.

Bill Jabjiniak noted there are a lot of questions left for interpretation. He reviewed examples of businesses that could qualify: Manufacturing, office, health clinics, restaurants, hotels, sport facilities, retail grocery stores, parking facilities, strip centers, mixed-use developments, affordable and market-rate rental housing. Grocery stores with substantial liquor sales are not eligible. Jeff Pitcher had invited Mr. Jabjiniak to a presentation on tax law and Opportunity Zones. GPEC is helping from a regional level and this item may be on the agenda through the fall. It is an important investment vehicle for the Falcon Field area and southeast Mesa.

Brian Campbell stated the folks with the money will be putting the deals together. They need to know we are here, qualified, and shovel ready.

Ms. Neidorf advised there has been some conversation about the potential difficulty around manufacturing in that they move a lot in and out of the zone. That may be considered as operating substantially out of the Opportunity Zone property.

Mr. Jabjiniak referred to the map of Mesa Opportunity Zones, noting the transit corridor and the piece in southeast Mesa. The Fiesta Mall parcel did not qualify. He hoped that a piece east of Alma School could pick up an empty shopping center to renovate.

Deb Duvall felt that some of the other boards that have an interest in development in Mesa should have a level of awareness of this opportunity, such as Planning & Zoning, so that if there is a need for quick action, there will be some familiarity with the rules ahead of time.

Ms. Neidorf encouraged the group to reach out to her with any further questions.

Chair Ovando-Karadsheh appreciated the presentation and looks forward to more updates in the coming months.

6. Introduction of New Board Member – Rick Warren grew up and was educated in Mesa and has spent most of his life here. He spent 12 years in Texas and moved back to Mesa 3 years ago. He works for Banner Health Network near the Evergreen District where he lives. He is excited for the opportunity to serve on the Mesa Economic Development Advisory Board.

7. Director's Update – Bill Jabjiniak congratulated Matt Likens on receiving clearance for the GammaTile technology in the treatment of recurrent neoplasms.

Matt Likens stated the current standard of care for patients with operable brain tumors includes surgical resection of the tumor followed by three to four weeks of healing before the patient can withstand external beam radiation to take care of any residual cancer cells. In tumors of other parts of the body, the key is to remove all of the cancer cells leaving a healthy margin. In the brain, this is impossible because the adjacent tissue is so eloquent, and additional resection would affect speech, movement, or other functions. In the weeks after surgery before a patient is eligible for external beam radiation, any residual cancer cells can replicate and begin to establish a new tumor. Barrow Neurological Institute was desperate for a better answer. They needed to place effective radiation at the site of the tumor bed immediately following resection to deliver a lethal dose to residual cancer cells while protecting adjacent brain tissue. The GammaTile was created and used to treat 108 patients. The time to recurrence in those patients treated with GammaTile therapy was 12 to 24 months beyond their previous treatment, and 40% of those patients have yet to experience a recurrence. All of these patients had previous tumor removal through the current standard of care with an average of 6.4 months to recurrence. Based on this data, the FDA gave clearance to begin marketing GammaTile therapy. There will be a limited market release this fall at 7 to 10 of the leading cancer centers across the country including Barrow Neurological, with a full market release planned for April or May of 2019. This is very exciting news. The purpose of the company is to improve the lives of patients with brain tumors and this is a great opportunity to accomplish that.

Chair Ovando-Karadsheh noted this development is by a company coming out of LaunchPoint in Mesa.

Bill Jabjiniak reported on several new GPEC board members. Chris Brady, Mesa City Manager, is now a GPEC board member and former EDAB Chair, Jeff Pitcher, has become an ex-officio EDAB member and GPEC board member. There is one more GPEC board member yet to be determined. Mr. Jabjiniak expressed his appreciation to Rich Adams, Brian Campbell, and Jeffrey Crockett for their involvement with GPEC and keeping this Board informed.

Mr. Jabjiniak reported on announcements since June. Piper Plastic announced a 90,000 SF R&D tech center in the Falcon Field area. CyrusOne purchased land in southeast Mesa for a data center cloud campus. The Falcon District branding signage has launched, and Jaye O'Donnell did a video shoot last night for the Managers meeting. Rich Adams led that vision back in 2014, and we have been implementing a portion each year and making progress to change the image up at Falcon.

There were a variety of media sources, including one on Opportunity Zones. Mr. Jabjiniak was interviewed by Conway Publications for GPEC's Connected Place magazine. This Thursday, August 9, there will be a ribbon cutting at Waypoint with an expected 500 jobs in 100,000 SF, a welcome addition to the Riverview area.

Mr. Jabjiniak has been asked to sit on a panel by Shawn Neidorf on September 27th regarding Opportunity Zones. He has also been asked to speak at the IEDC Annual Conference on October 3 in Atlanta, GA, on "Setting a Higher Bar: Best Practices of Accredited Economic Development Organizations". The focus will be on partnerships with educational institutions. IEDC sought Mesa out as one of the best practices in the country.

8. Other Business – The next EDAB meeting will be held on September 4, 2018, 7:30 a.m. in the City Council Chambers, 57 E. 1st Street, Lower Level, Mesa, AZ 85201.

9. Adjournment – Councilmember Kevin Thompson was thanked for joining the meeting this morning. With no further business before the Board, Chair Ovando-Karadsheh adjourned the meeting at 8:32 a.m.

Submitted By:

William J. Jabjiniak
Economic Development Department Director

(Prepared by Dana Desing, TEI: 14082507)