

CITY COUNCIL REPORT



Meeting Date: September 8, 2015
 General Plan Element: *Economic Vitality*
 General Plan Goal: *Support quality employment and business opportunities*

ACTION

Dillon Flight Test, Inc. Foreign Trade Zone Sub-zone. Adoption of Resolution No. 10228 supporting the application on behalf of Dillon Flight Test, Inc. to have a portion of the property located at 8009 E. Dillon's Way designated as a Foreign-Trade Zone Sub-zone and authorizing the Mayor to execute an Intergovernmental Agreement with the City of Phoenix related to supporting the application for establishment and operation of the Foreign-Trade Zone Sub-zone.

BACKGROUND

Dillon Flight Test, Inc. (parent company Dillon Precision), a company located in the Scottsdale Airpark area and in existence since 1985, is interested in pursuing a Foreign Trade Zone (FTZ) Sub-zone designation in order to advance their business opportunities. They currently occupy 80,000 square feet of commercial space in Scottsdale and employ around 70 individuals. Their business is in firearms assembly, military defense training, and some commercial applications.

FTZ Background and Structures

FTZs are secure areas under the supervision of the U.S. Customs and Border Protection (CBP) that are considered outside the customs territory of the United States at which special CBP procedures may be used. Foreign and domestic merchandise may be moved into zones for storage, exhibition, assembly, manufacturing, and processing without payment of duties, quota and other import restrictions until the decision is made to enter the goods into the U.S. market. Authority for establishing foreign-trade zones is granted by the Foreign-Trade Zones Board. As Grantee, the City of Phoenix is responsible for establishing, administering and marketing the Foreign-Trade Zone program for the greater Phoenix area, known as FTZ No. 75. The City of Phoenix can sponsor a new FTZ application for sites within 60 miles, or within 90 minutes' driving time from the Phoenix Port of Entry, which is Phoenix Sky Harbor International Airport. Within FTZ No. 75, there are about 17 sites.

Benefits to Companies in Seeking a Foreign Trade Zone Designation

- Foreign-Trade Zones are secure areas under supervision of the U.S. Customs and Border Protection – FTZ sites offer Border Duty deferral until merchandise enters U.S. territory

- Duty elimination on exports, scrap and defective merchandise
- Duty reduction on foreign components that have a higher duty rate than finished articles
- There are no time constraints on storage
- Transit time can be reduced as goods can be received through direct delivery, rather than waiting at a port for a month waiting for backlogged Customs to clear it
- Customs entries can be made weekly rather than daily, speeding up the process and reducing cost and paperwork
- **OPTIONAL IN ARIZONA, ONLY WITH LOCAL COMMUNITY SUPPORT:** An approximately 73% reduction in real and personal property taxes for activated FTZs

Dillon Flight Test, Inc.'s Planned Utilization of the Foreign Trade Zone Sub-zone

Dillon Flight Test, Inc. will be taking advantage of the lack of time constraints of storage to store inert launching devices/testing weapons and equipment at its Scottsdale location; all explosive materials used for testing will be located at a different portion of the Zone that is located within Maricopa County about a 1-hour drive south of Sky Harbor Airport. There is also a positive economic impact as they estimate that being able to do additional testing for military applications will increase staff by 2-5 employees and annual revenue up to \$5 million.

Dillon Flight Test, Inc. will not be seeking the tax benefits available to an FTZ operator under A.R.S. 42-12001, therefore no local taxing jurisdictions will lose any tax revenue as a result of the FTZ locations in Maricopa County and Scottsdale.

The portion of the Zone proposed by Dillon Flight Test, Inc. that is located within the City of Scottsdale is only a very small section of their current business location – essentially an 8 foot by 20 foot storage area.

Requirements for Approval and Activation of a Foreign Trade Zone Sub-zone

- The City of Phoenix FTZ No. 75 application and approval process requires an ordinance or resolution of support from the local municipality a Sub-zone will be located within, in this case the City of Scottsdale
- Dillon Flight Test, Inc.'s site in Maricopa County will require a rezoning process which they are working on concurrent to this process
- Approval of the Sub-zone also requires approval by the Maricopa County Board of Supervisors as well as the City of Phoenix City Council
- The City of Phoenix will enter into an operating agreement with Dillon Flight Test, Inc. for the operation of the Sub-zone site
- Final activation of the Sub-zone is approved by U.S. Customs

Purpose of Intergovernmental Agreement

The portion of the FTZ proposed by Dillon Flight Test, Inc. that is located within the City of Scottsdale is only a very small section of their current business location – essentially an 8 foot by 20 foot storage area. An Intergovernmental Agreement (included in this action item) is required between the cities of Scottsdale and Phoenix to memorialize how the communities intend to work together to assist Dillon Flight Test, Inc. in its efforts to obtain this site status and clarify that this process shall be accomplished without any cost or liability to Scottsdale or Phoenix.

RESOURCE IMPACTS

Available Funding

No funding is required for approval of this Resolution or Intergovernmental Agreement. All costs related to the Sub-zone site will be paid by Dillon Flight Test, Inc. per the Operating Agreement entered into by the City of Phoenix and Dillon Flight Test, Inc.

Staffing, Workload Impact

Staff workload will be extremely minimal, requiring only monitoring of the Intergovernmental Agreement as contract administrator.

Future Budget Implications

There are no future budget implications associated with this Resolution or Intergovernmental Agreement.

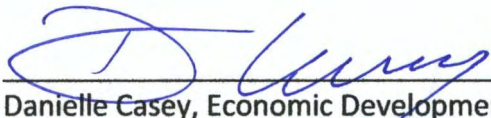
RESPONSIBLE DEPARTMENT(S)

Economic Development Department

STAFF CONTACT(S)

Danielle Casey, Economic Development Director, 480-312-7601, DCasey@scottsdaleaz.gov

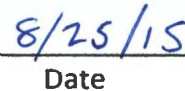
APPROVED BY



Danielle Casey, Economic Development Director
480-312-7601, DCasey@ScottsdaleAz.gov


Date

Brian Biesemeyer, Acting City Manager
480-312-5683, BBiesemeyer@ScottsdaleAz.gov


Date

ATTACHMENTS

1. Resolution No. 10228
2. Intergovernmental Agreement 2015-214-COS
3. FTZ Letter dated April 23, 2015
4. Dillon statement to Maricopa County Board of Supervisors dated August 18, 2015

RESOLUTION NO. 10228

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, SUPPORTING THE APPLICATION ON BEHALF OF DILLON FLIGHT TEST, INC. TO HAVE A PORTION OF THE PROPERTY LOCATED AT 8009 E. DILLON'S WAY DESIGNATED AS A FOREIGN-TRADE ZONE SUBZONE AND AUTHORIZING THE MAYOR TO EXECUTE AN INTERGOVERNMENTAL AGREEMENT WITH THE CITY OF PHOENIX RELATED TO SUPPORTING THE APPLICATION FOR ESTABLISHMENT AND OPERATION OF THE FOREIGN-TRADE ZONE SUBZONE

WHEREAS, Dillon Flight Test, Inc. ("Dillon") has expressed an interest in seeking to have a 160 square foot portion of its Scottsdale facilities located at 8009 E. Dillon's Way (the "Site") designated as a Foreign-Trade Zone, to facilitate promoting foreign trade and commerce; and

WHEREAS, the City of Phoenix has received a grant from the Foreign-Trade Zones Board (the "Board") to establish Foreign-Trade Zone No. 75; and

WHEREAS, the City of Phoenix is willing to submit an application to the Board on behalf of Dillon to establish a Foreign-Trade Zone subzone at the Site, which would allow merchandise to be moved into the Site without payment of certain duties and other import restrictions; and

WHEREAS, the City of Scottsdale desires to assist Dillon in obtaining approval from the Board to establish and operate a Foreign-Trade Zone subzone at the Site provided that Dillon does not seek reclassification for the Site under state tax law (A.R.S. §42-12006(2)); and

WHEREAS, Intergovernmental Agreement No. 2015-214-COS memorializes Scottsdale's and Phoenix's agreement to work together to assist Dillon in obtaining subzone designation for the Site at no cost to either of the cities.

NOW, THEREFORE BE IT RESOLVED by the Council of the City of Scottsdale as follows:

Section 1. The City of Scottsdale supports the application for establishment and operation of a Foreign-Trade Zone Subzone located at 8009 East Dillon's Way in Scottsdale as part of Phoenix's Foreign-Trade Zone No. 75; and

Section 2. The Mayor is hereby authorized to execute Intergovernmental Agreement No. 2015-214-COS with the City of Phoenix.

PASSED AND ADOPTED by the Council of the City of Scottsdale, Maricopa County, Arizona this ____ day of _____, 2015.

ATTEST:

CITY OF SCOTTSDALE, an Arizona
municipal corporation

By: _____
Carolyn Jagger, City Clerk

By: _____
W. J. "Jim" Lane, Mayor

Resolution No. 10228
Page 1 of 1

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APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

A handwritten signature in black ink, appearing to read 'W. Hylen', is written over a horizontal line.

Bruce Washburn, City Attorney

By: William Hylen, Senior Assistant City Attorney

WHEN RECORDED RETURN TO:

Deryck R. Lavelle, Esq.
City of Phoenix
200 West Washington Street, 13th Floor
Phoenix, Arizona 85003-1611

**INTERGOVERNMENTAL AGREEMENT
BETWEEN
THE CITY OF PHOENIX, ARIZONA
AND
THE CITY OF SCOTTSDALE, ARIZONA**

This Intergovernmental Agreement is entered into this ____ day of _____, 2015 by and between the City of Phoenix, Arizona, a municipal corporation ("Phoenix") and the City of Scottsdale, Arizona, a municipal corporation ("Scottsdale").

I. RECITALS:

A. Pursuant to A.R.S. §11-952, as amended, Phoenix is empowered to enter into this intergovernmental agreement and has, by resolution, a copy of which is attached hereto as **Exhibit A** and incorporated herein by this reference, authorized the undersigned to execute this Agreement on behalf of Phoenix. A fully executed copy of the authorizing resolution passed by the City of Phoenix City Council shall be inserted as Exhibit A upon approval.

B. Pursuant to A.R.S. §11-952, as amended, Scottsdale is empowered to enter into this intergovernmental agreement and has, by resolution, a copy of which is attached hereto as **Exhibit B** and incorporated herein by this reference, authorized the undersigned to execute this Agreement on behalf of Scottsdale. A fully executed copy of the authorizing resolution passed by the Scottsdale City Council shall be inserted as Exhibit B upon approval.

C. Phoenix has received a Grant (Board Order 185, dated March 25, 1982) from the Foreign-Trade Zones Board (the "Board") to establish FTZ No. 75, and the alternative site framework format for FTZ No. 75 was approved by the Board in a notice published on October 20, 2010 in 75 Fed. Reg. 64708.

D. Scottsdale does not have a grant of authority to establish a Foreign-Trade Zone ("FTZ").

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E. Dillon Flight Test, Inc. ("Dillon") leases certain real property within the City of Scottsdale located at 8009 E. Dillon's Way (the "Site") and desires to have a 160 square foot portion of the Site designated as a Foreign-Trade Zone subzone (the "Zone Site"). The Site legally described on **Exhibit C** attached hereto consists of approximately 1.5 acres and shall be utilized in the development, manufacturing and testing of military weapons including helicopter, naval and vehicle mounts, and related safety equipment for the U.S. Government and allied nations.

F. Scottsdale desires to assist Dillon in obtaining approval from the Board to establish, operate and maintain a subzone site at the Zone Site provided that Dillon does not seek reclassification pursuant to A.R.S. § 42-12006(2) (the "Reclassification Statute") as to any existing or new buildings or equipment at the site.

G. Phoenix is willing to submit an application to the Board on behalf of Dillon (the "Application") for a minor boundary modification to establish, operate and maintain a subzone site at the Zone Site to demonstrate its interest in a cooperative regional effort to encourage the retention and expansion of business in the greater metropolitan area.

NOW, THEREFORE, in consideration of the promises and mutual agreements contained and described herein, the parties agree as follows:

II. AGREEMENTS:

1. **PURPOSE**

1.1 The purpose of this Agreement is to memorialize Phoenix's and Scottsdale's agreement to work together to assist Dillon in its efforts to obtain subzone site status for the Zone Site and to assure Phoenix that the establishment, operation and maintenance of a subzone site status at the Zone Site, including any unsuccessful efforts made in respect thereto, shall be accomplished without any cost or liability whatsoever to Phoenix or Scottsdale.

2. **SCOTTSDALE'S RESPONSIBILITIES**

2.1 To facilitate the negotiation and execution of a Foreign-Trade Zone Operations Agreement ("Operating Agreement") between the City of Phoenix and Dillon.

2.2 To support the Application process.

2.3 To notify Phoenix if Scottsdale desires that Phoenix enforce its right to terminate the Operating Agreement, after notice and a 30-day cure period, if Dillon, without prior approval of Scottsdale, in breach of the Operating Agreement, either seeks and/or obtains property tax classification under the Reclassification Statute.

2.4 To take all action requested by Phoenix related to the enforcement of the provisions referred to in Section 2.3, above.

3. PHOENIX'S RESPONSIBILITIES

3.1 To conduct its operations in good faith with Dillon.

3.2 After filing the Application for the Dillon Site, to enter into an Operating Agreement with Dillon for the operation of the Zone Site.

3.3 To provide in the Operating Agreement that Dillon shall be responsible for all costs related to the Zone Site that are incurred by Phoenix and/or Scottsdale.

3.4 To provide in the Operating Agreement that Phoenix may terminate the Operating Agreement if Phoenix is advised by Scottsdale that Dillon has sought and/or obtained property tax classification under A.R.S. § 42-12006(2).

4. ADDITIONAL AGREEMENTS

4.1 The Parties acknowledge that 15 C.F.R §400.49 provides for monitoring and reviews of foreign trade zone operations and activity. Section 400.49(c) provides that the Board or the Commerce Department's Assistant Secretary for Import Administration may restrict or prohibit zone activity that it finds is no longer in the public interest and, pursuant to 15 C.F.R. § 400.61, the Board has the authority to revoke a grant of authority to operate a zone, for cause.

4.2 Scottsdale and Dillon have determined that if Dillon seeks and obtains property tax classification under the Reclassification Statute in breach of the FTZ Agreement, such action would be detrimental to the public interest.

5. INDEMNIFICATION

5.1 To the extent permitted by law, each party will indemnify and save the other party harmless, including any of the parties' departments, agencies, officers, employees, elected officials or agents, from and against all loss, expense, damage or claim of any nature whatsoever, including but not limited to any injuries or death of persons or damages to or destruction of property which is caused by any activity, condition or event arising out of the performance or non-performance by the indemnifying party of any of the provisions of this Agreement except such injury or damage occasioned by the negligence or willful misconduct of the other party. The damages incurred by the other party, its departments, agencies, officers, employees, elected officials or agents shall include in the event of any action, court costs, expenses for litigation and reasonable attorneys' fees.

6. DURATION

6.1 Term. The term of this Agreement shall begin on the date executed and approved by both parties and shall remain in effect for the same term as the Operating Agreement, unless terminated sooner pursuant to the terms of this Agreement.

7. GENERAL PROVISIONS

7.1 Conflict of Interest. This Agreement is subject to cancellation pursuant to the provisions of A.R.S. § 38-511.

7.2 Immigration Law Compliance Warranty. As required by A.R.S. § 41-4401, each party hereby warrants its compliance with all federal immigration laws and regulations that relate to its employees and A.R.S. § 23-214(A). Each party further warrants that after hiring an employee, it verifies the employment eligibility of the employee through the E-Verify program. If either party uses any subcontractors in performance of the Agreement, subcontractors shall warrant their compliance with all federal immigration laws and regulations that relate to its employees and A.R.S. § 23-214(A), and subcontractors shall further warrant that after hiring an employee, such subcontractor verifies the employment eligibility of the employee through the E-Verify program. A breach of this warranty shall be deemed a material breach of the Agreement subject to penalties up to and including termination. A party shall not be deemed in material breach if it and/or its subcontractors establish compliance with the employment verification provisions of Sections 274A and 274B of the federal Immigration and Nationality Act and the E-Verify requirements contained in A.R.S. § 23-214(A). Each party retains the legal right to inspect the papers of the other party and/or its subcontractor engaged in performance of this Agreement to ensure that the other party and/or its subcontractor is complying with the warranty. Any inspection will be conducted after reasonable notice and at reasonable times. If state law is amended, the parties may modify this paragraph consistent with state law.

7.3 Notices. All notices, demands and communications given or to be given, by either party to the other, shall be given in writing, by certified mail, and shall be addressed to the parties at the addresses hereinafter set forth, or at such other address as the parties may by written notice hereafter designate. All notices shall be deemed received upon actual receipt or three (3) business days after deposit in the United States mail, whichever date is earlier. Notices shall be addressed as follows:

Phoenix: Director
 Community and Economic Development Department
 200 West Washington Street, 20th Floor
 Phoenix, Arizona 85003-1611

and

City Clerk
City of Phoenix
200 West Washington Street, 15th Floor
Phoenix, Arizona 85003-1611

Scottsdale: Director
Economic Development
City of Scottsdale
3839 N. Drinkwater Blvd., 2nd Floor
Scottsdale, Arizona 85251

and

Scottsdale City Attorney's Office
3939 N. Drinkwater Blvd.
Scottsdale, Arizona 85251
Attention: City Attorney

7.4 Contract Administrator. The Contract Administrator for the City of Scottsdale is Danielle Casey or designee. The Contract Administrator will oversee the execution of this Contract.

7.5 Construction. Paragraph headings and captions appearing with this Agreement are for convenient reference only and in no respect define, limit or describe the scope or intent of this Agreement or the provisions of such sections.

7.6 Binding Effect. All terms, provisions and conditions hereof shall be binding upon and inure to the benefit of all parties hereto and their respective heirs, personal representatives, successors and assigns.

7.7 Severability. In the event any term or provision of this Agreement is held to be invalid or unenforceable, the validity of the other provisions shall not be affected, and the Agreement shall be construed and enforced as if it did not contain the particular term or provision that is deemed to be invalid or unenforceable.

7.8 Governing Law. This Agreement will be governed by the laws of the State of Arizona, both as to interpretation and performance.

7.9 Modification. This Agreement may be modified only by mutual written agreement of the parties.

[signature page follows]

IN WITNESS WHEREOF, the parties have executed this Agreement on the date first written above.

FOR CITY OF SCOTTSDALE:

FOR CITY OF PHOENIX:

ED ZUERCHER, CITY MANAGER

By: W. J. "Jim" Lane
Its: Mayor

By: Christine Mackay
Its: Community and Economic Development
Director

Date: _____

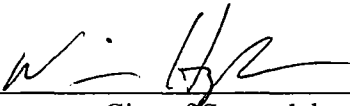
Date: _____

ATTEST:

Carolyn Jagger, City Clerk

ATTORNEY DETERMINATION

In accordance with the requirements of A.R.S. § 11-952(D), each of the undersigned attorneys acknowledge that (1) they have reviewed the above Agreement on behalf of their respective client(s) and (2) as to their respective client(s) only, each attorney has determined that this Agreement is in proper form and is within the powers and authority granted under the laws of the State of Arizona.



City Attorney, City of Scottsdale

City Attorney, City of Phoenix

Date: 8/25/15

Date: _____

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RESOLUTION _____

A RESOLUTION AUTHORIZING THE CITY MANAGER, OR HIS DESIGNEE, TO ENTER INTO AN INTERGOVERNMENTAL WITH THE CITY OF SCOTTSDALE IN CONNECTION WITH THE MINOR BOUNDARY MODIFICATION APPLICATION OF DILLON FLIGHT TEST, INC. TO THE FOREIGN TRADE ZONES BOARD OF THE U.S. DEPARTMENT OF COMMERCE.

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF PHOENIX as follows:

SECTION 1. That the City Manager, or his designee, is hereby authorized to enter into an intergovernmental agreement ("IGA") with the City of Scottsdale in connection with the Minor Boundary Modification Application of Dillon Flight Test, Inc. to the Foreign-Trade Zones ("FTZ") Board of the U.S. Department of Commerce.

SECTION 2. The City of Phoenix, as Grantee of Foreign-Trade Zone No. 75, has the right and authority to apply for foreign-trade zone site designations. Dillon Flight Test, Inc. (in association with its affiliate company Dillon Aero)("Dillon") develops, manufactures and tests military weapons plus helicopter, naval and vehicle mounts, and related safety equipment of the U.S. Government and allied nations. The company has requested a subzone FTZ designation for the 1.5 acres of property it leases at 8009 E. Dillon's Way in Scottsdale Arizona (the "Site") and has indicated that it shall not seek property tax reclassification of the Site under state tax law (A.R.S. § 42-12006(2)).

SECTION 3. The IGA shall memorialize and document the agreement of the City of Phoenix and the City of Scottsdale to work together to assist Dillon in obtaining subzone designation for the Site at no cost to either city.

PASSED by the Council of the City of Phoenix this ____ day of September, 2015.

MAYOR

ATTEST:

City Clerk

APPROVED AS TO FORM:

Acting City Attorney

REVIEWED BY:

City Manager

DRL:tml:1198499v1 (CM #__) (Item #__)

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RESOLUTION NO. 10228

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SCOTTSDALE, MARICOPA COUNTY, ARIZONA, SUPPORTING THE APPLICATION ON BEHALF OF DILLON FLIGHT TEST, INC. TO HAVE A PORTION OF THE PROPERTY LOCATED AT 8009 E. DILLON'S WAY DESIGNATED AS A FOREIGN-TRADE ZONE SUBZONE AND AUTHORIZING THE MAYOR TO EXECUTE AN INTERGOVERNMENTAL AGREEMENT WITH THE CITY OF PHOENIX RELATED TO SUPPORTING THE APPLICATION FOR ESTABLISHMENT AND OPERATION OF THE FOREIGN-TRADE ZONE SUBZONE

WHEREAS, Dillon Flight Test, Inc. ("Dillon") has expressed an interest in seeking to have a 160 square foot portion of its Scottsdale facilities located at 8009 E. Dillon's Way (the "Site") designated as a Foreign-Trade Zone, to facilitate promoting foreign trade and commerce; and

WHEREAS, the City of Phoenix has received a grant from the Foreign-Trade Zones Board (the "Board") to establish Foreign-Trade Zone No. 75; and

WHEREAS, the City of Phoenix is willing to submit an application to the Board on behalf of Dillon to establish a Foreign-Trade Zone subzone at the Site, which would allow merchandise to be moved into the Site without payment of certain duties and other import restrictions; and

WHEREAS, the City of Scottsdale desires to assist Dillon in obtaining approval from the Board to establish and operate a Foreign-Trade Zone subzone at the Site provided that Dillon does not seek reclassification for the Site under state tax law (A.R.S. §42-12006(2)); and

WHEREAS, Intergovernmental Agreement No. 2015-214-COS memorializes Scottsdale's and Phoenix's agreement to work together to assist Dillon in obtaining subzone designation for the Site at no cost to either of the cities.

NOW, THEREFORE BE IT RESOLVED by the Council of the City of Scottsdale as follows:

Section 1. The City of Scottsdale supports the application for establishment and operation of a Foreign-Trade Zone Subzone located at 8009 East Dillon's Way in Scottsdale as part of Phoenix's Foreign-Trade Zone No. 75; and

Section 2. The Mayor is hereby authorized to execute Intergovernmental Agreement No. 2015-214-COS with the City of Phoenix.

PASSED AND ADOPTED by the Council of the City of Scottsdale, Maricopa County, Arizona this _____ day of _____, 2015.

ATTEST:

By: _____
Carolyn Jagger, City Clerk

CITY OF SCOTTSDALE, an Arizona municipal corporation

By: _____
W. J. "Jim" Lane, Mayor

APPROVED AS TO FORM:
OFFICE OF THE CITY ATTORNEY

Bruce Washburn, City Attorney
By: William Hylen, Senior Assistant City Attorney

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Exhibit C

Lots 23, 24, 25 and 26, NORTH SCOTTSDALE AIRPARK UNIT
1, according to Book 327 of Maps, page 12, records of Maricopa
County, Arizona



April 23, 2015

BY ELECTRONIC COMMUNICATION

Ms. Denise Yanez
Program Manager/Foreign-Trade Zone Administrator
City Of Phoenix Community & Economic Development Dept.
200 W. Washington, St., 20th Fl.
Phoenix, AZ 85003

Re: Planned Business Expansion of Dillon Aero, Inc. and Dillon Flight Test, Inc. Through Establishment of a Foreign Trade Zone – Application

Dear Ms. Yanez:

This letter is in follow-up to our brief presentation to your office and the City of Scottsdale, as well as Customs and Border Protection, regarding the intentions of Dillon Aero, Inc. (“Dillon Aero”) and Dillon Flight Test, Inc. (“DFT”) for the establishment of a Foreign Trade Zone (“FTZ”) that would promote and expand the business model of both businesses. This letter is written in support of the FTZ application, which will be arriving shortly by separate cover. As you are likely aware, the Dillon family, and their businesses, which also comprise Dillon Precision Products, Inc. (“Dillon Precision”) (collectively “Dillon”), have been part of the Scottsdale community for decades, and are headquartered at the Scottsdale Airport.

Dillon Precision, the original Dillon Company, is primarily focused on the private sportsman’s market, manufacturing items such as reloading equipment and accessories. As operations evolved over the years, a new company, Dillon Aero, was formed to focus on military products for contracts with the U.S. government and allied nations. From early work on replacement parts for the U.S. military’s problem-prone GAU-2 Minigun, Dillon Aero eventually redesigned the entire gun system, creating the Dillon M134D, which was accepted into service with the U.S. Army in 2003 as a replacement for the GAU-2. Dillon Aero has a complete line of support products for the new Minigun, including helicopter, naval, and vehicle mounts, and related safety equipment. Creation

8009 East Dillon’s Way • Scottsdale, AZ 85260-1809
800.881.4231 • 480.333.5450 • Fax: 480.948.6616

of the new Minigun led Dillon to acquire land in a remote location south of Phoenix, known as the Flying Bucket Ranch, for testing their products and training government and law enforcement customers on the gun system.

Recent Department of Defense acquisition patterns and the desire to remain a viable company no matter the state of the market have lead Dillon to conclude a defense article-focused FTZ would be ideal for serving its customers, including the U.S. government. Creation of an FTZ, with the purposes outlined below, will help stabilize and diversify Dillon, growing the companies and allowing flexibility in meeting customer needs. In addition, it will provide benefits to Dillon and the local community, without adding any adverse impacts. These include:

1. Taxes: Dillon will not be seeking the tax benefits available to an FTZ operator under A.R.S. 42-12001, so the taxing jurisdictions will not lose any tax revenue as a result of the FTZ locations in Scottsdale and Maricopa County.

2. Increased Revenue: Creation of an FTZ will allow Dillon to increase its revenue and gross sales, with an estimated increase of \$2 million over the first two years.

3. Employment: With the additional work and additional revenue, Dillon will likely have need for additional professional, vocational, and supporting staff. Dillon has already hired one additional staff member since the FTZ project was commenced, and expects it will need to hire more in the foreseeable future.

4. Land Use: Any testing taking place at the Flying Bucket Ranch will not interfere with any other existing land uses, as the location is isolated, and all activities will be confined to the appropriate zoned area. Only inert (non-explosive) materials will be stored in the FTZ area at Dillon's primary facilities in Scottsdale. While the existing magazine at the Flying Bucket is approved for storage of high-explosives, Dillon does not intend to store or expend high-explosive rounds at the range. It only anticipates using training and practice rounds, which have propellant but are otherwise inert, to enable users to figure out the range and trajectory of a munition, as well as enabling users to evaluate how a weapon might be feasibly and safely integrated into a vehicle or aircraft. Both locations have stringent security, which must meet CBP standards and undergo CBP inspection prior to activation of the FTZ. Due to the sensitive nature of some of the products that may be held in the FTZ, Dillon is also in the process of adding security measures that go beyond CBP's requirements.

5. Entry into U.S. Commerce: Under U.S. law, certain import provisions such as payment of duty are deferred when articles remain in an FTZ. In addition, provisions of the Gun Control Act and the National Firearms Act are deferred, including some registration and recordkeeping requirements. This is of great advantage to interested U.S. government agencies, as it would allow Dillon to maintain securely an inventory of items that are hard to obtain, especially on short notice. These advantages to Dillon will not create any additional safety concerns, as Dillon will maintain detailed records of all items in the FTZ as well as carefully monitor the FTZ locations. Additionally, both CBP and

ATF conduct strict reviews of firearms and FTZ operations, and have full authority to suspend or revoke such operations.

In addition, the increase in training activities will have beneficial effects for local service industries in particular, as any customers coming in for testing or training at the FTZ will need accommodations and food during their stay.

The proposed FTZ subzone will be operated by DFT, and is comprised of the following parcels:

- 1) Dillon Aero North (“Dillon Aero North”)- 8009 E. Dillon’s Way, Scottsdale, Maricopa County, AZ. 85260 (the actual FTZ site will be 159.2 square feet, however the total area of the building is 65,000 square feet); and
- 2) Dillon Aero Flying Bucket (“Flying Bucket”)- Parcel 300-32-001-D: 50820 S 99th Ave., Maricopa County, AZ. 85537 – Parcel 300-32-001-A: Street address not available (the actual FTZ site will be 26.3 acres).

Overall, the plan is to utilize the Dillon Aero North portion of the FTZ subzone situated in an industrial park area directly adjacent to the Scottsdale Airport for import/export logistics with some minimal explosives storage capacity as well. We do not anticipate any public safety/nuisance issues arising from DFT’s proposed (and primarily administrative) use of the Dillon Aero North portion. As discussed in greater detail below, we believe that most of Phoenix CEDD’s public safety/nuisance review will focus on the Flying Bucket portion of the proposed FTZ subzone as per the proposed equipment, testing, research & development, demonstration, and training activities envisioned to take place in this remote, undeveloped, and unpopulated area.

Dillon values its ability to remain in full compliance with federal and state law, continually strives for safety, carefully trains all employees, and performs periodic internal reviews to check for any accidental errors or omissions. To this end, DFT has recently completed an analysis of Arizona and federal laws relating to its flight, testing, manufacturing, and range operations, assuring that the company’s operations comply with Arizona’s firearms and explosives laws, as well as state and federal laws limiting low-level flights and private range operations. DFT holds a Type 10 (manufacturer of destructive devices) federal firearms license (“FFL”), a Type 11 (importer of destructive devices) FFL, and a Type 23 (importer of explosives) federal explosives license (“FEL”), all being issued to DFT by the Bureau of Alcohol, Tobacco, Firearms, and Explosives (“ATF”). DFT also hold a Special Occupational Taxpayer (“SOT”) stamp. Dillon Aero is already registered with the Directorate of Defense Trade Controls (“DDTC”) at the Department of State, and DFT is in the process of becoming registered with DDTC as a defense article manufacturer. DFT of course also maintains the appropriate state and local business licenses.

We note overall that some of DFT’s United States Government (“USG”) customers (which include a variety of USG military entities and other agencies (collectively “USG Entities”)) have been supportive of DFT developing a means to more

efficiently address certain equipment, testing, research & development, demonstration, and training needs of these USG entities. Upon reviewing the potential options to meet those needs, DFT has determined the establishment of an FTZ subzone is the best option.¹ This FTZ will be unique among FTZs in the United States, as it will allow Dillon to acquire and store certain foreign weapons for which the U.S. government or allies have a special need to access, often on short notice, but that can take months if not years to acquire and import, which would often be far too late for government purposes where national security is at stake. Various U.S. government agencies or other customers so authorized under U.S. law will thereby have access to these weapons for testing, training, and the ability to evaluate for purposes of developing appropriate countermeasures.

Considering the foregoing, we note that there may be some concerns by the Phoenix CEDD regarding public safety or public nuisance issues that may arise particularly from some of the proposed aircraft and munitions related testing/training/R&D/demonstration uses within the FTZ subzone, particularly at the Flying Bucket portion. While the provision of these uses by DFT to USG Entities and other USG-approved customers is important to the interests of the United States and its allies, we are pleased to also note that DFT's operations are carefully and expertly designed and executed to safely meet the needs of these important official entities and personnel while at the same time, preventing damage, injury, or nuisance to adjoining parcels/persons.

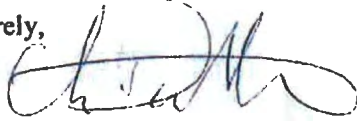
Specifically, the relevant DFT staff are experts in their respective roles with most coming from distinguished military and special operations backgrounds. Further, the proposed testing/training/R&D/demonstration uses within the remote, isolated, and unpopulated, portion (Flying Bucket) of the proposed FTZ subzone will be conducted under precise standard operating procedures ("SOPs") designed to minimize and eliminate any risk of unintended harm to personnel or property. Finally, as noted above, the proposed Flying Bucket portion of the proposed FTZ subzone is located in a remote, undeveloped, and sparsely populated area. Considering the expert and experienced DFT staff, the strict operations SOPs, the training, expertise and professionalism of the relevant official entity customers, and the lack of population or developed property near the Flying Bucket property, we respectfully submit that the proposed testing/training/R&D/demonstration uses of the proposed FTZ subzone can and will be accomplished with no resulting nuisance or harm to personnel or property.

We look forward to discussing these issues and the attached FTZ application in greater detail with you and your team and would be happy to provide any supporting

¹ DFT has determined that that some potential future uses of the proposed FTZ subzone at the Flying Bucket location are not authorized by the current zoning designations. Accordingly, DFT will need to seek a rezoning of the Flying Bucket portion of the proposed FTZ subzone from Rural 190 to Ind. 3 so that the needs of the USG Entities can be met within the FTZ subzone. Dillon will be submitting the FTZ application while the rezoning is pending, but will advise CBP that activation of the zone must wait until the rezoning is approved.

evidence that may be required. DFT would of course be pleased to host you and your team to review the proposed FTZ subzone properties and proposed uses in person so that any public safety or nuisance concerns can be addressed fully.

Sincerely,



Chris Dillon
CEO
Dillon Flight Test, Inc.



MB: ct: mab



August 18, 2015

BY ELECTRONIC COMMUNICATION

The Hon. Steve Chucri
Chairman
Maricopa County Board of Supervisors
Supervisor, District 2
301 W. Jefferson, 10th Floor
Phoenix, Arizona 85003

Re: Dillon Application for Foreign Trade Zone

Dear Mr. Chairman:

As you know, Dillon Aero, Inc. ("Dillon Aero") and Dillon Flight Test, Inc. ("DFT") are applying for the establishment of a Foreign Trade Zone ("FTZ") that would promote and expand the business model of both businesses. On August 10, 2015, we had the pleasure of meeting with the District 5 Supervisor Mr. Steve Gallardo, his staff, and the staff of all Districts except District 3, which had been previously briefed on the same by Ms. Scharbach. We wish to offer this statement to the entire Board of Supervisors in support of our application for the FTZ.

In particular, this statement addresses the following topics suggested by the county officials: the company background; the purpose and benefits of the proposed FTZ, including the economic benefit to the state of Arizona; the federal regulators involved in overseeing the FTZ operations; and safety measures and protocols in place to secure the FTZ.

I. Company Background

The Dillon family, and their businesses, which also comprise Dillon Precision Products, Inc. ("Dillon Precision") (collectively "Dillon"), have been part of the Scottsdale and Phoenix communities for decades, and are headquartered at the Scottsdale Airport.

Dillon Precision, the original Dillon company, is primarily focused on the private sportsman's market, manufacturing items such as reloading equipment and accessories.

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As operations evolved over the years, a new company Dillon Aero was formed to focus on military products for contracts with the U.S. government and allied nations. From early work on replacement parts for the U.S. military's problem-prone GAU-2 Minigun, Dillon Aero eventually redesigned the entire gun system, creating the Dillon M134D, which was accepted into service with the U.S. Army in 2003 as a replacement for the GAU-2. Dillon Aero has a complete line of support products for the new Minigun, including helicopter, naval, and vehicle mounts, and related safety equipment. Creation of the new Minigun led Dillon to acquire land in a remote location south of Phoenix in the unincorporated Maricopa County, known as the Flying Bucket Ranch, for testing their products and training government and law enforcement customers on the gun system.

DFT is another Dillon family entity established especially for the purposes of conducting testing of and providing training in weapon systems and platforms to Dillon's government and law enforcement customers and any other lawful users. DFT is the applicant for, and will be the operator of, the proposed FTZ.

The significant economic contribution Dillon has made to the region is demonstrated in the Economic Impact Analyses by the Greater Phoenix Economic Council. These analyses, requested by the City of Phoenix in July 2015, detail the economic value Dillon Aero has generated for the City of Scottsdale, the Greater Phoenix region, and Maricopa County over the past 10 years. Based on these analyses, Dillon Aero has generated estimated total tax revenues of \$3.1 million to the City of Scottsdale, \$7.9 million to the Greater Phoenix region, and \$1.5 to Maricopa County over the ten-year period. During this time, Dillon Aero created well over \$500 million in economic output, and employed a total of 73 individuals. The expansion of Dillon Aero and DFT's operations with the proposed FTZ will create additional impacts on top of these figures.

II. Proposed FTZ

The proposed FTZ subzone will be operated by DFT, and is comprised of the following parcels:

- 1) Dillon Aero North ("Dillon Aero North")- 8009 E. Dillon's Way, Scottsdale, Maricopa County, AZ. 85260; and
- 2) Dillon Aero Flying Bucket ("Flying Bucket")- Parcel 300-32-001-D: 50820 S 99th Ave., Gila Bend; Maricopa County, AZ.85537 – Parcel 300-32-001-A: Street address not available.¹

¹ DFT has determined that that some uses of the proposed FTZ subzone at the Flying Bucket location are not authorized by the current zoning designations. Accordingly, DFT is seeking the rezoning of the Flying Bucket by pending application to the County from Rural 190 to Ind. 3 so that the needs of the zone and the Flying Bucket can be met. Dillon submitted the FTZ application while the rezoning matter is pending, but Dillon has stipulated in its application to the Grantee (the City of Phoenix) that CBP activation of the zone must wait until the rezoning by the County is approved.

Overall, the plan is to utilize a very modest portion of the Dillon Aero North building and a small portion of the Flying Bucket for the proposed FTZ subzone. The two non-connected portions of the subzone include the small caged area in the Dillon high-security facility situated in an industrial park area directly adjacent to the Scottsdale Airport for import/export. This portion of the zone will store the inert defense articles, primarily military firearms. As discussed in greater detail below, the Flying Bucket portion of the proposed FTZ subzone will be devoted to testing, research and development, demonstration, and storage of munitions (training ammunition) and training activities envisioned to take place in this remote, undeveloped, and very sparsely populated area of the County.

III. FTZ Purpose and Benefits

Recent U.S. Department of Defense ("DOD") acquisition patterns and the desire to remain a viable company no matter the state of the market have led Dillon to conclude a defense article-focused FTZ would be ideal for serving its customers, including the U.S. government. Creation of an FTZ, with the purposes outlined below, will help stabilize and diversify Dillon, growing the companies and allowing flexibility in meeting customer needs. In addition, it will provide benefits to Dillon and the local community, without adding any adverse impacts. These include:

1. **Taxes:** Dillon will not be seeking the tax benefits available to an FTZ operator under A.R.S. 42-12001; so all local taxing jurisdictions will not lose any tax revenue as a result of the FTZ locations in Maricopa County and Scottsdale.

2. **Increased Revenue:** Creation of an FTZ will allow Dillon to increase its revenue and gross sales, with an estimated increase of \$2 million over the first two years.

3. **Employment:** With the additional work and additional revenue, Dillon will require additional professional, vocational, and supporting staff. Dillon has already hired one additional staff member since the FTZ project was commenced, and expects it will need to hire more in the foreseeable future.

4. **Land Use:** Any testing taking place at the Flying Bucket Ranch will not interfere with any other existing land uses, as the location is isolated, and all activities will be confined to the appropriate zoned area. Only inert (non-explosive) materials will be stored in the FTZ area at Dillon's primary facilities in Scottsdale in the already-approved high-security ATF magazine designed for that purpose. It only anticipates using training and practice rounds, which have propellant but are otherwise inert, to enable researchers and engineers to gather the range and trajectory data, as well as enabling users to evaluate how a weapon might be feasibly and safely integrated into a vehicle or aircraft platform. Both locations have stringent security, which must meet U.S. Customs and Border Protection ("CBP") standards and undergo CBP inspection prior to activation of the FTZ. The site will also be subject to full Bureau of Alcohol, Tobacco, Firearms, and Explosives ("ATF") inspections for compliance with applicable laws administered by the Bureau.

5. Entry into U.S. Commerce: Under U.S. law, certain import provisions such as payment of duty are deferred when articles remain in an FTZ. In addition, provisions of the Gun Control Act ("GCA") and the National Firearms Act ("NFA") are deferred, including some registration and recordkeeping requirements. This is of great advantage to interested U.S. government agencies, as it would allow Dillon to maintain securely an inventory of foreign defense articles that are hard to obtain, especially on short notice. These advantages to Dillon will not create any additional safety concerns, as Dillon will maintain detailed records of all items in the FTZ as well as carefully monitor the FTZ locations. Additionally, both CBP and the ATF conduct strict reviews of firearms and FTZ operations, and have full authority to suspend or revoke such operations.

6. In addition, the increase in training activities will have beneficial effects for local service industries in particular, as any customers coming in for testing or training at the FTZ will need accommodations and food during their stay.

IV. Regulation and Compliance

Dillon values its ability to remain in full compliance with federal and state law, continually strives for safety, carefully trains all employees, and performs periodic internal reviews to check for any accidental errors or omissions. As required under the GCA and NFA, the FTZ operator DFT holds a Type 10 (manufacturer of destructive devices) federal firearms license ("FFL"), a Type 11 (importer of destructive devices) FFL, and a Type 23 (importer of explosives) federal explosives license ("FEL"), all issued to DFT by ATF. DFT also holds a Special Occupational Taxpayer ("SOT") stamp. Dillon Aero is already registered with the U.S. Department of State, Directorate of Defense Trade Controls ("DDTC"), and DFT is in the process of becoming registered with DDTC as a defense article manufacturer. DFT of course also maintains the appropriate state and local business licenses.

In accordance with federal regulatory requirements, Dillon has a Type 2 Explosives Magazine located at the Dillon Aero Flying Bucket property to store the training ammunition used at the testing range. ATF, which oversees compliance with the relevant explosives regulations, has already inspected and approved the magazine and safety measures. Access to the magazine is restricted to authorized personnel only who are background screened by ATF. The magazine is locked and equipped with extensive electronic security measures that include 24 hour monitoring and a keypad for entry and deactivation of the security system. The magazine walls are armor construction, and a high security chain-link fence surrounds the magazine. In addition to these physical security measures, Dillon has standard security operating procedures and protocol in place to protect the magazine, as well as operations and handling of the munitions generally.

In addition to the security measures taken on the ATF-approved magazine for training munitions at the Flying Bucket, the other portion of the subzone will be also subject to stringent security protocols. The FTZ Site located at the Dillon Aero North (the headquarters facility in Scottsdale) is also highly secured. The facility itself has a 24 hour monitored security system and maintains standard operating procedures and protocol for security. The exterior walls of the entire building are made of thick concrete.

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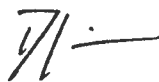
The FTZ Storage Conex itself, already inside the secure building, will also be equipped with appropriate electronic security measures, entry logs, and signage.

VI. Conclusion

We hope the Maricopa County Board of Supervisors find this statement valuable in addressing their questions about Dillon and the proposed FTZ. Should any of the Supervisors have remaining questions or concerns, we are happy to discuss the matter in greater detail and provide any supporting information that may be helpful to the Board. Also DFT would of course be pleased to host county officials to review the proposed FTZ subzone properties and proposed uses.

Please do not hesitate to contact me at greg.aguirre@dillonaero.com or (480) 333-5489, or Dillon's outside regulatory counsel Mark Barnes at mark.barnes@mbassociateslaw.com or (202) 626-0070.

Sincerely,



Greg Aguirre
Vice President of Operations
Dillon Aero, Inc.

MB:cw:mab