



**COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT**

**APPROVED SUMMARIZED MINUTES**

Thursday, October 25, 2018

3:30 P.M.

Community Services Conference Room

7447 E. Indian School Road, Suite 300, Scottsdale, AZ 85251

**PRESENT:**

Mayor W.J. "Jim" Lane  
Councilman David Smith  
Councilwoman Linda Milhaven

**STAFF:**

Rob Millar, Economic Development Acting Director  
Karen Churchard, Tourism and Events Director  
William Hylan, Senior City Attorney  
Mark Paratore, Economic Development Program Manager  
Josh Utterback, Economic Development Specialist

**GUESTS:**

Shannon Scutari, President - Scottsdale Industrial Development Authority  
Jay Berens, Executive Director – Scottsdale Industrial Development Authority  
Shawn Neidorf, Sr. Vice President – Arizona Commerce Authority  
Travis Okamoto, Managing Director - Caliber  
Scott Celley, Government Relations Liaison - Caliber

**Call to Order/Roll Call**

Mayor Lane called the regular meeting of the Council Subcommittee on Economic Development to order at 3:35 p.m. A formal roll call confirmed members present as stated above, noting the presence of a quorum.

**1. Approval of May 10, 2018 Minutes**

COUNCILWOMAN MILHAVEN MOVED TO APPROVE THE MINUTES OF THE MAY 10, 2018 MEETING AS PRESENTED. COUNCILMAN SMITH SECONDED THE MOTION, WHICH CARRIED 3-0 WITH MAYOR LANE, COUNCILWOMAN MILHAVEN AND COUNCILMAN SMITH VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

**2. Scottsdale Industrial Development Authority Update**

Shannon Scutari, President of the Scottsdale Industrial Development Authority (IDA), introduced Executive Director, Jay Berens. Mr. Berens stated that the Authority has over \$1 million in the bank and has been profitable each year. Operational changes include the hiring of attorney Roxann Gallagher. The IDA has switched to a QuickBooks bookkeeper, saving \$7,000 per year. In terms of activity, HonorHealth is the only outstanding bond at this time.

In response to a question from Councilman Smith, Mr. Berens stated that the average life of bonds is 15 to 20 years, however they can be refinanced.

A total of \$75,000 in grants has been issued in the last few months, including: South Scottsdale Alliance, CoHoots Youth Changemaker Summit and 2019 Wings & Wheels. The focus in terms of strategic planning is a focus on nexus to Scottsdale, staying with healthcare (and broadening), schools and workforce housing.

Mayor Lane commented that the list of qualifying projects varies and is fairly extensive. To the public benefit of any particular project, the IDA might lend Scottsdale's tax exemption for interest. In terms of focus on particular areas, there should be care to not bring something forward that will not qualify under the criteria. Ms. Scutari agreed, noting that infrastructure projects very much fall under the criteria. There are other opportunities to align around education and workforce training.

Mayor Lane addressed the need to define the separation between the City and the Authority in order to avoid, "jumbling up," the risk element within financing versus the passage of the use of the tax exempt status on interest income to the bondholders.

### **3. Opportunity Zones**

Shawn Neidorf, Senior Vice President, Research, Arizona Commerce Authority (ACA), stated that Scottsdale has two opportunity zones. The ACA has three missions: Attract, expand and create. ACA administers a number of programs that can be combined with opportunity zones. In terms of opportunity zones and funds, the ACA has four roles, including:

- Identify: Solicit local input, finalize tract list, submit nominations
- Communicate: Share information with stakeholders around Arizona
- Connect: Bring investors, economic developers and community leaders together to maximize impact
- Measure: Identify opportunity zone projects and funds, share data and successes

Every state received 25 percent of its qualifying census tracts. Tracts qualified by either having 20 percent poverty level or having a median family income that was no more than 80 percent of MSA. In Maricopa and Pima Counties, any community with 10,000 or more people was eligible to make recommendations on its own territory. Communication efforts have included a call-in session on May 1st and a conference at ASU in September and a conference call scheduled for the end of the month. The Governor has charged ACA with measuring the impacts, which is challenging particularly because there is no mandatory reporting.

A census tract is an administrative unit for census, and is intended to have approximately 4,000 people in it, however this can vary as a function of density. There are 1,526 total tracts in the State, of which 671 qualified and 168 which were ultimately nominated and approved.

Mayor Lane asked what percentage are located on tribal lands. Ms. Neidorf acknowledged the difficulty in answering the question, as tracts do not respect tribal land. The term census tract is defined as a piece of geography intended to represent 4,000 people. It recognizes county and state boundaries and ignores city and tribal boundaries. One must use the mathematical center of the tract in order to determine the community or tribe to which it will be attributed. Eleven Arizona tribes were eligible to recommend tracts and eight ultimately did so. The Salt River-Pima

Indian Community was approved for a large tract. The income measurement used was total family income.

Next effort steps include:

- Treasury guidance
- Support & assistance
- Data collection

On October 19, 2018, the U.S. Department of Treasury issued proposed regulations and revenue ruling for opportunity funds. Opportunity funds are invested in the zones. Those who invest in the funds receive tax benefits, both in terms of deferred taxations and no capital gains on funds remaining invested for ten years. Taxpayers should use Form 8949 to let the IRS know they plan to defer tax payment on capital gains invested in opportunity funds. The IRS is releasing draft Form 8996 to set up opportunity funds and submit annual reporting. Investors have 180 days after liquidating an investment in order to move the capital gain into an opportunity fund. The fund itself is measured every six months in the tax year and must show that 90 percent of capital has been deployed into acceptable assets in an opportunity zone. To establish a working capital safe harbor for an exemption of the requirement that 90 percent of a fund's capital must be deployed within six months for capital that will be used in 31 months, funds must have:

- A written plan for developing the property
- A written development schedule
- Adherence to the plan and schedule

A provision of the statute requires that if a property is purchased and is being used for its original purpose, it must be substantially improved. Substantial improvement means that the buyer must spend more money on improvements than they spent acquiring the property. Upon clarification, it was explained that if, for example, 70 percent of the purchase price is attributed to the building and 30 percent to the land, the rehab only has to total 70 percent plus one dollar. There is a question as to what happens in the case of a purchase of raw land. The Treasury Department is taking comments on the proposed regulations and will conduct a hearing in January 2019.

The guidance is intended to do the following:

- Provide investors and fund sponsors with the paperwork and details needed to get going
- Make multiyear projects feasible
- Make rehabilitation projects more desirable
- Make investing in businesses that are largely, but not wholly in opportunity zones feasible

Questions/guidance is still needed from Treasury on the following:

- The meaning of substantially all as it applies in several areas
- Guidance on the included phrase, "Transactions that may trigger the inclusion of gain that has been deferred"
- The reasonable period to reinvest proceeds from a sale without penalty
- Administrative rules regarding what happens when a fund fails the 90 percent assets test
- Reporting requirements

The ACA will host a 90-minute webinar to discuss the new Treasury guidance on Tuesday, October 30th. They will continue to support efforts to develop opportunity funds and opportunity zone projects with partners across the state. They will continue to build expertise on opportunity

zone and funds to better assist the state's businesses, landowners, developers, investors, philanthropists and communities. ACA will collect, analyze and share data regarding projects and funds so all my have a better understanding of how opportunity zones and funds are working in Arizona. They will look to the City of Scottsdale as one partner in collaboration.

Travis Okamoto with Caliber Wealth Development provided the next portion of the presentation. Caliber is a locally-based real estate private equity firm, formed about ten years ago, currently with \$400 million in assets, including ten hotels, most in Arizona.

Mayor Lane noted the reference to partnership with the City and asked how this portion of the presentation relates to Scottsdale. It is important to exercise care in using this type of terminology without definition. Mr. Okamoto clarified that a partnership was not implied, and that the presentation title, Caliber & Scottsdale is simply in reference to the presentation contents.

Mr. Okamoto stated that currently, there is over \$6 trillion annually shielded in paper capital gains. From Caliber's perspective, opportunity zones are seen as rushing funds which would have traditionally been infrastructure from the federal government now being beefed up and privatized, which will open up significant opportunities both publicly and privately. In response to a question from Mayor Lane, Mr. Okamoto clarified that infrastructure does not apply to municipal or government level, but private improvements. Mayor Lane summarized that the opportunity zones are providing tremendous impetus to developers to take advantage of significant potential tax breaks.

Mayor Lane asked about further explanation of benefits for Scottsdale as opposed to simply providing a tremendous opportunity for Caliber and its investors. Mr. Okamoto stated that the program will benefit Scottsdale dramatically. Caliber has demonstrated leadership in this area and is interested in working with Arizona cities. Mayor Lane noted that there are businesses and entities that have redeveloped a good portion of Scottsdale. The opportunity zones bump right up against these multiple areas of free-standing capital investments which are funded at full tax rates, and there is a question as to how the program will affect them. Most of the opportunity zones will have increased value already by virtue of surrounding development. The program will accelerate redevelopment, even in surrounding areas.

Scott Sealy, also with Caliber, noted that there is not a great a challenge in Arizona as in other states in terms of impacts on affordable housing and those already in located in affected areas. The ACA has been meeting for a period of months in terms of opportunities for affordable housing projects, low income health clinics and other projects. There may be more likelihood that investors will go into a lower profit project, because of the long-term payoff related to taxes. Mayor Lane commented that one concern is how it may change the marketplace in some areas. Heretofore, free clinics and similar projects have not been a major interest in Scottsdale. Ms. Neidorf clarified that cities will retain zoning and permitting authority. The program is just designed to draw capital into areas that have been overlooked.

Councilwoman Milhaven asked if investors will invest in specific projects or in a Caliber fund, with Caliber then investing in projects. Mr. Okamoto stated that investors will have the ability to do both. The majority of people will invest in the fund and allow Caliber to control it. For larger investments, such as \$25 million, Caliber may set up a specific limited partnership just for this capital. It was also noted that businesses can be bought and sold as part of the program as well.

Ms. Neidorf summarized that opportunity funds have three options for investing:

- Purchase of property and equipment

- Invest in a business through partnership interest
- Buying stock in a business as a majority or minority shareholder

Mayor Lane thanked the presenters.

#### **4. Tourism Department Update**

Karen Churchard, Tourism Department Director stated that the Department just posted its 2017 visitor study information. There were 8.9 million domestic visitors in 2017, up by 100,000. There were 4.5 million overnights, the same as 2016. There were 4.4 million daytrips, up from 4.3 million in 2016. It is notable that the Department lost the ability to track international travelers, due to the changes at U.S. Chamber Travel and Tourism Office. However, the Arizona Office of Tourism has worked with Visa View, which allows states to buy international credit card data information. The information is now available to the City and within the next year, the Department should be able to provide a full international and domestic picture on visitation. The economic impact of all visits was \$2.4 billion, up from \$2.3 billion in 2016.

Current projects include:

- Proforma and carryover: Report to be provided to TDC next month related to the stadium moving through the budget process
- Scottsdale Arts: Bringing a new management service agreement to City Council in January or February, 2019
- Events on the Plaza: Working with Scottsdale Arts particular in regards to bridge construction and closure, ADA crossover and signage
- CIP Projects: Ten projects have been submitted, primarily in the Downtown area
- Public Outreach: Outreach on Main Street was performed this week

Goals for the Downtown Awareness Campaign include:

- Being top of mind among residents
- Increase traffic to website
- Timing of campaign during non-tourist season (April – September)

There was a media mix push including digital and print media. The goal for total paid impressions was 41 million and 49 million were delivered. There were 170,466 clicks with a 0.59 percent click-thru rate at cost per click of 0.27 cents versus the benchmark click-thru rate of 0.10 percent with an average cost of 0.58 cents. Paid advertising resulted in 184,367 website sessions with an average duration of 1 minute. Visitors were 64 percent female and 37 percent male. The largest category in terms of age was 65 plus, followed by 55 to 64.

In terms of events, Scottsdale Contemporary month kicked off on October 21st and runs through November 21. This is a new promotion for all of Scottsdale. The One-Eyed Jack celebration is today October 25th. Local Light also kicks off on October 25th and runs through December 31st. Can Convergence begins November 8th and runs through November 18th. Scottsdazzle runs from November 24th through January 1, 2019. Sing-Along and Tree Lighting takes place November 24th at the Waterfront. Feliz Navida Fiesta takes place December 1st in Old Town.

Mayor Lane asked whether the City is installing permanent bases for light poles. Ms. Churchard acknowledged that installation has begun and unfortunately, a storm drain was punctured in the process. There has been a struggle with public art on some installations. Discussions are

underway regarding possible training sessions for the various aspects of the installation process, including site visits with inspectors and public outreach. Councilwoman Milhaven said that historically, public art, project management and public outreach was done by the City. Approximately ten years ago, there was a renegotiation, with Scottsdale Arts taking over project management and public outreach. The City increased the budget provided for these functions. There is significant opportunity to do a better job with public outreach as well as increasing the variety and style of art commissioned.

**5. Economic Development Department Report**

Rob Millar noted that the first quarter has been strong, with 465 new net jobs in the first quarter, average salary of \$64,000 and capital investment of approximately \$86 million. The Mayor and Council Economic Development breakfast was a great success. There were 25 survey responses, each saying they were satisfied or very satisfied. Enhancements were made to the ChooseScottsdale.com property search tool. Small business training support continues. This includes working with sponsors, APS and SRP as well as the Scottsdale Chamber. Additional classes and outreach will be performed beginning in January. The Department received two awards from the International Economic Development Council last month. The Sixth Annual Cure Corridor Luncheon will take place on December 7th and is expected to sell out. The Department office is moving in order to accommodate a collaborative work space with the Tourism Department. The move will be complete mid-December.

**6. Open Call to the Public (A.R.S. §38-431.02)**

There were no public comments.

**7. Future Agenda Items**

None.

**Adjournment**

With no further business before the Subcommittee, the meeting adjourned at 5:00 p.m.

AYES: Mayor Lane, Councilwoman Milhaven, Councilman Smith

NAYS: None

Respectfully submitted,  
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