



COUNCIL SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

APPROVED SUMMARIZED MINUTES

Thursday, June 13, 2019

4:00 P.M.

Administrative Conference – Scottsdale Airport
15000 N. Airport Dr., Suite 100., Scottsdale, AZ 85260

- PRESENT:** Councilwoman Suzanne Klapp, Chair
Councilwoman Solange Whitehead (telephonic)
- ABSENT:** Vice Mayor Linda Milhaven
- STAFF:** Brent Stockwell, Assistant City Manager
Rob Millar, Acting Director
Gary Mascaro, Scottsdale Aviation Director
Mark Paratore, Economic Development Manager
- GUESTS:** Jim Keeley, Colliers International
Brad Smidt, Greater Phoenix Economic Council (GPEC)
Shawn Neidorf, Arizona Commerce Authority (ACA)

Call to Order/Roll Call

Chair Klapp called the regular meeting of the Council Subcommittee on Economic Development to order at 4:00 p.m. A formal roll call confirmed members present as stated above, noting the presence of a quorum.

1. Approval of October 25, 2018 and March 14, 2019 Minutes

COUNCILWOMAN WHITEHEAD MOVED TO APPROVE THE MINUTES OF THE OCTOBER 25, 2018 AND THE MARCH 14, 2019 MINUTES AS PRESENTED. CHAIR KLAPP SECONDED THE MOTION, WHICH CARRIED 2-0 WITH CHAIR CLAPP AND COUNCILWOMAN WHITEHEAD VOTING IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

3. Airpark Overview

Jim Keeley, Colliers International, stated that when he began working at the Airpark in 1981, there was 400,000 square feet of buildings. There are now 40 million square feet. In 2011, during the recession, building rates dropped from \$250 per square foot down to \$100. The rates have risen back to above \$250, but not quite back to the 2008 peak. Investors price buildings based upon a capitalization (CAP) rate. The CAP rate went quite high in 2011, which makes buildings worth less. The current rate is approximately 7 percent. Industrial values fell similarly, from \$145 at the peak down to \$60 per square foot, before recovering back to \$160. Many older buildings were purchased and refurbished. Retail has risen back to over \$300 per square foot on average with some revitalization, particularly in the Northsight Boulevard area.

Factors that allow the Airpark to flourish include:

- The land is fee simple land
- High density development
- Major events occurring in the vicinity
- Communication (Scottsdale Airpark News)
- The “Bob Parson’s effect” (GoDaddy, golf courses, motorcycle dealership, philanthropist)
- Transportation (Airport and 101 Freeway), surface streets and roundabouts
- Mixed use developments

Councilwoman Whitehead commented that there is a chipping away of industrial space that limits bringing in California companies. She asked about industrial capacity. Mr. Keeley said they have been avoiding using the term industrial for 20 years, because people perceive the Airpark as old industrial, which it is not. Better terminology is employment-based, including light manufacturing, warehouse space and flex space. Building old industrial space is prohibitive, because land is so expensive.

4. Greater Phoenix Economic Council

Brad Smidt, Senior Vice President Business Development, Greater Phoenix Economic Council (GPEC) stated that the Council’s mission is to attract and grow quality business and advocate for Greater Phoenix’s competitiveness. GPEC is supported by Maricopa County, 22 cities and towns and more than 160 private sector investors.

Historical details include:

- Helped over 800 business expand to the area
- Brought more than 135,000 jobs in the last 30 years
- Brought \$15 billion capital investment

Services include:

- In-depth market data & analysis
- Operational cost analysis
- Connectivity to key resources
- Speed to market support
- Site selection assistance
- Economic impact analysis
- Economic policy competitiveness

In response to a question from Chair Klapp, Mr. Smidt stated that they do not do lobbying, however they do provide information to legislatures and government offices.

Councilwoman Whitehead inquired as to current trends in terms of what companies are looking for. Mr. Smidt stated that labor is of utmost concern to many companies. Tax incentives also rate high.

In terms of regional results, Mr. Smidt reported an increase of approximately 8,300 leads with 47 assisted locates, 254 qualified prospects this fiscal year. Approximately 3,737 jobs have been created specifically for City of Scottsdale residents.

Five-year trend on revenue return details include:

- For every dollar that Scottsdale puts in, it receives an estimated \$66 in direct revenue
- For direct and indirect revenue, the total rises to \$116
- Approximately \$295 million in consumer spending generated
- Approximately \$33.8 million in new Scottsdale direct revenues

In response to a question from Councilwoman Whitehead, Rob Millar, Acting Economic Development Manager, confirmed that the City tracks companies that relocate to Scottsdale through economic development. Businesses services tracks business licenses.

Notably active companies for 2019 include:

- Nationwide Insurance
- Zillow
- Spring Venture Group
- Universal Electronics
- Sendoso
- Frank Recruitment Group
- Lemonade
- Diabnext
- IMNA Systems

For Fiscal Year 2019, nearly \$441 million in payroll has been generated. Average high wage salary is approximately \$65,000, nearly 8,000 jobs and 254 prospects this fiscal year with 350 in the active portfolio.

Chair Klapp inquired as to the timeline for prospects to reach locate status. Mr. Smidt said some cases are a two to three month process. Some require up to two to three years. Approximately 30 percent of locates originate from California. Discussion ensued regarding the factors that attract employers to Arizona from California.

International prospects represent 19 to 20 percent of the total and there are currently 46 active international prospects.

The major 2019 prospects by operation type include:

- 76 Advanced administration
- 37 warehouse/distribution
- 83 manufacturing

5. Opportunity Zones

Shawn Neidorf, Senior Vice President, Research, Arizona Commerce Authority (ACA), stated that the measure provides capital gains benefits to investors, who must do the following: Sell off an investment, take the capital gains and put the money into a business or property in an Opportunity Zone. They must utilize an intermediary called an Opportunity Fund. There no immediate benefits. The plan was modeled after the New Markets Tax Credit. 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 Arizona, 671 tracts meet the requirements. The government was eligible to nominate 25 percent or 168 total. They were submitted on March 21, 2018.

In Maricopa and Pima Counties, any community with 10,000 or more people was eligible to make recommendations on its own territory. One complication is that census tracts cross over city boundaries. Tracts are located in urban, suburban rural areas and tribal areas, which each county having at least one qualifying tract. A census tract is intended to have approximately 4,000 people in it, however this can vary as a function of density. If a capital gain is realized and reinvested, the tax payment may be deferred on that capital gain until December of 2026. If the investment is held for ten years, the capital gain on the subsequent investment includes an election to have the basis move up to fair market value with no capital gains on cash-out.

ACA launched the Arizona Opportunity Zone Network website available for the following purposes:

- Post Opportunity Zone properties for sale or lease
- Businesses seeking investments
- Experts, who wish to share expertise regarding law or accounting
- Soliciting investments for funds.
- Searchable component

The Opportunity Zone legislation is only a few pages long, requiring reliance on Treasury guidance. It makes multiyear projects feasible by creating a safe harbor for cash use for development. Investors have 180 days from cash-out of investment to deposit into a fund. The fund is assessed and the mid and end point of its tax year and must show that 90 percent of the funds are in acceptable assets. There is a 31-month safe harbor for cash for use in development. There is a requirement that equal amounts of funds are spent on acquiring the property and improving it. This requirement is based solely on the value of the existing structure.

A second round of guidance provided key provisions and rules for operating businesses, including how to invest in projects on leased land. Qualified leased properties must have their lease begin after December, must be market rate. All of the lease property must stay in the zone for the duration of the period.

Also discussed was interim gains and rules for reinvestment. A hearing is scheduled on this guidance for July, 2019. Also addressed was reasonable working capital, including development of a business in terms of payroll, inventory and rent. There was a clarification regarding inventory in transit. In addition, the statute states that "A substantial portion of the intangible property of a qualified business entity has to be used in active conduct of a trade or business in the qualified Opportunity Zone to be a qualify Opportunity Zone business." The substantial threshold is 40 percent.

Original use is defined to begin when the property is placed in service for purposes of depreciation or amortization. Buildings that have been vacant for five years may be repurposed under original use rules. Undeveloped land does not need to be substantially improved, but guidance warns against buying with the intent not to improve the land by more than an insubstantial amount within 30 months of purchase. Rules regarding land banking are expected to be discussed during the July hearing and in the third guidance issuance. The 31-month safe harbor for development may be extended if there are issues beyond the owner's control, such as government permitting delays. There may be multiple overlapping 31-month safe harbors for the same project.

Owning and managing rental real estate qualifies as operating a trade or business. Triple net leases do not qualify, as there is no management. In terms of properties straddling zones, as long as the majority of the property is in the Opportunity Zone, it qualifies.

There will be tax implications for interim gains. The fund may reinvest and has 12 months to do so. In response to a question from Chair Klapp, Ms. Neidorf clarified that it is possible to roll from one opportunity fund to another. It is anticipated that Treasury will be providing rules for interim gains at the fund level, specifically whether or not the fund itself will be taxed. Rules for reporting requirements and anti-abuse rules are also awaited.

6. Scottsdale Airport Activities and Impacts

Gary Mascaro, Scottsdale Aviation Director, stated that the Airport's primary focus is a safe operating environment. However, they also want to ensure that they serve the greater good of the customer base by providing enhanced amenities. There has been a focus on business attraction and retention. Corporate activity has increased significantly over the last five years. There is a challenge with very limited parking and storage. The new hangars have made a significant difference, having been completely leased by October 2018. There is very high demand for corporate aircraft based in Scottsdale, predominantly coming from California.

The Airport currently has approximately 360 based aircraft. There is less than five percent vacancy with regards to aircraft parking in the Airpark area; the Airport itself is at capacity. A third FBO is investing \$30 million on Airport property with a goal for construction in the fall and opening around September 2020. They will locate at the south end of the Airport. It will include construction of a 30,000 square foot hanger and terminal space for the FBO operation, including two underground fuel farms. Jet Aviation (owned by General Dynamics) purchased a stake in the new Scottsdale Jet Center.

Another area of growth is on the south side of the Airpark and connecting taxiway. A German owner of the property is redeveloping the area for aviation use, hangar space. Other potential development areas were discussed.

Staff have generated an economic impact study for just the Airport and aviation uses within the Airpark. The last available information was from 2015. Updates are ongoing and the new report should be available in September 2019. Data from 2015 showed that the total economic benefit was \$536 million. There were approximately 3,400 jobs specific to aviation in the region, which is set to increase.

In response to a question from Chair Klapp, Mr. Mascaro discussed that international visitors are coming to Scottsdale as their destination. In the past, they would land in Tucson or Phoenix and leave their aircraft in those cities. When Scottsdale added customs services to the airport, they were able to attract that business to the City.

7. Economic Development Overview

Mr. Millar stated that an annual report will be provided to City Council in early August. There was a strong third quarter with 170 direct new jobs. A business appreciation event was held at Scottsdale Stadium for the second year with 30 companies represented. Staff conducted the second ten-week small business training series, which was very successful and focused on technology. It was picked up by ABC, who did a morning show segment on the program. In March, the City launched the weblink, scottsdale.jobs. It is a simple, navigable site, which has received considerable traffic. The site links to the ChooseScottsdale.com job board.

Councilwoman Whitehead suggested that there be a link for apprenticeship opportunities through the State apprenticeship program. Mr. Millar said he will have the team look at this.

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

There were no public comments.

9. Future Agenda Items

None.

10. Adjournment

COUNCILWOMAN WHITEHEAD MOVE TO ADJOURN. CHAIR KLAPP SECONDED. THE MOTION CARRIED BY A VOTE OF TWO (2) TO ZERO (0). CHAIR KLAPP AND COUNCILWOMAN WHITEHEAD VOTED IN THE AFFIRMATIVE WITH NO DISSENTING VOTES.

Being duly moved and seconded, with no further business to discuss, the meeting adjourned at 5:33 p.m.

Respectfully submitted,
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