



MEMORANDUM

Date: April 25, 2016

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Leveraging the Intellectual Capacity of Our University and Community College Systems to Grow Our Own Employment**

Attached is a recent whitepaper I presented to the Green Valley Council explaining the County's Economic Development Plan and one of our strategies to grow both employment and wealth within the community. The strategy relies on leveraging and taking advantage of the intellectual capacity of our university and community college systems to grow startup companies (Economic Development Plan Chapter 5). In a sense, growing our own base employment or export-based employment.

The County has been and will continue to be a leader in promoting startup companies. In the whitepaper, I explain the success we have had with Accelerate Diagnostics, and I expect similar success with World View Enterprises. We continue to work with startup organizations through Startup Tucson, and we are now attempting to foster a relationship with Startup Mexico.

Job growth and the resulting expansion of the tax base has been, is and will continue to be our primary objective. Through our efforts, as well as those of the Arizona Commerce Authority, Sun Corridor and the City of Tucson, I expect we will continue to make job-generating announcements.

CHH/lab

Attachment

c: Dr. John Moffatt, Director, Strategic Planning

Growing Our Own: Pima County Business Development in the Post-Recession Era
By Chuck Huckelberry, Pima County Administrator

April 20, 2016

INTRODUCTION

In the midst of the economic recession that ravaged the growth-dependent economies of Arizona, leaders throughout the state began adopting economic development strategies to diversify their regional economies and attract new industries and jobs to their communities. In Maricopa County, civic leaders launched a number of initiatives to reposition their economic development planning efforts with programs such as the Brookings Global Cities initiative, new foreign investment strategies and concerted expansion of business attraction incentives. Pima County leaders also launched a number of initiatives to expand and diversify our economy, including the Pima County Economic Development Plan and the creation of new business incentives in the County and municipalities. The Phoenix area has recently seen success with its economy as it emerged from the recession and much of that economic expansion is due to the widespread support their initiatives received from local governments, the business community and the public at large. In Pima County, many of our business development initiatives have also experienced success. Unfortunately, politics has frequently been injected in too many of the economic development projects and strategies that are crucial to our region's success in the new post-recession economy.

As a matter of public policy, business retention and expansion is a vital component of our economic future and it requires us to recommit to assisting our local businesses and entrepreneurs as they lead our economy toward a robust and diversified recovery. Job creation is not a political football and diversifying and expanding our economy is a difficult task that requires planning, collaboration and vision. Making matters more difficult is the fact that state and federal economic assistance has been significantly reduced in the new post-recession landscape. In fact, the increase in federal mandates and continuous financial cost shifts from the Arizona Legislature have only made our economic development goals more difficult to achieve. Clearly, our path to regional economic success is ours to chart alone. Pima County must reassert its work with our local government partners, educational institutions and the local business community to create an environment that fosters economic growth, expands existing businesses, develops new companies and attracts new business to our region. Simply put, we must recommit to growing our own prosperity.

ECONOMIC DEVELOPMENT PLANNING

The County's Economic Development Plan, first released in 2012 and updated in 2015, lays out the roadmap for the expansion and diversification of the regional economy. The Plan provides strategies for increasing primary employment, investing in infrastructure to spur job growth, protecting and aiding existing employers and employment sectors, capitalizing on the state's university system, increasing foreign investment and developing a skilled workforce.

Creating an environment that attracts, develops and fosters startup companies is among the job growth strategies included in the plan. More than 400,000 new businesses launched in the United States in 2015. By 2020, 9 out of 10 of them will have failed, according to historical trends. Of the 40,000 that will still be going, one or two will be the next Apple or Google, but most will be your new neighborhood dry cleaner or your latest favorite coffeehouse. A few will be companies like the next Mr. Car Wash, which is a Tucson-grown national car wash chain that recently built its new headquarters near downtown and that employees 5,000 people nationwide. With a little help, some will be the next Ventana Medical Systems, which got its start at the University of Arizona with a couple of researchers and is now one of the county's largest employers with 1,200 employees and part of the massive pharmaceutical company Roche, which merged with Ventana in 2008.

Small businesses – which the U.S. Small Business Administration defines as companies with fewer than 500 employees – employee half of the U.S. working population and since 1995 have represented 65 percent of net new jobs created in this country. Creating a startup culture and fostering new and promising businesses is one of the County's job growth strategies. There is no denying that starting a business a new business that survives, thrives and adds jobs is exceedingly hard. Pima County has a vested interest, however, in creating a business climate and culture that fosters innovation and nurtures news businesses to give them every possible chance for success. And when warranted, to give promising new businesses with potential for strong job growth in targeted high-wage industries strategic assistance that will pay dividends to the economy of the region and to the County taxpayer.

Our startup assistance, as outlined in the Economic Development Plan, includes:

Incubators and Business Expansion Programs

Business growth incubators are a fast-growing economic development trend across the country in which the public and private sectors work together to foster new business growth. There are all types of incubators and business expansion programs but the County's primary model focuses on using public infrastructure investments that allow companies in high-wage industries to use their early investment cash in product development rather than building and facility construction. This model allows the assisted businesses to achieve success and job growth sooner. Pima County embarked on this new policy direction in 2012 when it attracted Accelerate Diagnostics from Denver by leasing it space in the County's new Public Health Center and agreeing to construct labs and other amenities the company needed to develop its ground-breaking drug-resistant pathogens diagnostic systems. The latest incubator assistance occurred this year when the County began construction of a light manufacturing building that it will lease to World View, an innovative Tucson-based space technology company.

The County has made infrastructure investments at the University of Arizona Tech Park and at the UA's Bridges Tech Park and is seeking funding options to develop a biotech incubator facility in Oro Valley.

Business Park Development

Growing companies in specific industries like to cluster together where they can realize cost savings through sub contractor supply chain efficiencies. The County supports the two UA tech parks and is developing two new business parks to serve the aerospace and defense industries and to meet demand for Class A office space.

The County is master planning the Aerospace, Defense, High Tech and Manufacturing Business Park south of Tucson International Airport. The park will likely attract existing businesses however the area is well sited for startup businesses in these industries. World View is an example.

Master planning also is underway for nearly a million square feet of Class A office space called the Sunset Road Professional Campus that will fill the growing need for new commercial space in the region and help facilitate the growth of a shovel-ready primary employment center. There is existing demand for 20,000, 40,000 even 100,000 square-feet of commercial office space to meet prospective company relocation or expansion needs, but the region lacks the supply to serve that demand.

Incentives

- Employers, including startups, that are able to meet job growth and average salary goals can qualify for incentives from the County, including:
- Workforce Recruitment and Training
- Planning, Zoning and Permitting Assistance
- Financing
- Foreign Trade Zone
- Location assistance

Public Library Entrepreneur Education and Assistance

The Library *"Acceleration Room"* initiative at the Main Library offers startup and start-over help. Classes on exports and imports, a Laid Off Camp, lean startup workshops, classes on personal finance and effective brainstorming, feasibility workshops, business planning, grants and contracting workshops, job and career counseling, and social media walk-in help will be regular features of the Acceleration Room initiative. Partnerships with SCORE, Microbusiness Advancement Center, Women's Business Center, CoLab Workspace, YWCA, Lead Local and local chambers of commerce have created the foundation for a sustainable program. Library spaces, facilitated gatherings and staff development opportunities focus on economic development and a growing network of community organizations and business startup experts.

PIMA COUNTY SUCCESS STORIES

Accelerate Diagnostics

Pima County signed Accelerate to an economic incentive agreement in 2012 after the then Denver-based biotech firm conducted a national search for a new business headquarters.

The County competed with multiple locations, including California, the Midwest and Denver. All of the competing locations offered financial incentives, including discounted or no-cost infrastructure assets. The most significant infrastructure assets included vacant or underused "wet-lab" space essential for the operation of the firm. The Pima County space identified by Sun Corridor Inc. in its comprehensive regional search included two empty furniture stores and a former supermarket. The lack of appropriate lab space and the related cost to convert the available space into lab space put the region at a significant competitive disadvantage. If Pima County was to win the relocation, the company's cost gap of \$1 million needed to be closed. The County closed the \$1 million gap by offering a below-market lease rate and tenant improvements to Accelerate if it relocated to Pima County's Abrams Public Health Center.

The initially discounted rental rate and provided tenant improvements were sufficient to tip the balance in this region's favor, and Accelerate began operations in January 2013 in 15,000 square feet of space at Abrams. All total, the County invested nearly \$2 million in the startup company. The City of Tucson and the Arizona Commerce Authority also provided a number of incentives. Other factors that led Accelerate to choose our region included our ability to attract and provide the necessary workforce and talent, the presence of a major research university, and an existing biotech community.

Since then Accelerate has expanded its use of Abrams three times. It now occupies over 45,000 square feet there, as well as an adjacent 6,207 square foot startup manufacturing facility for their medical devices. Accelerate's annual lease rate has increased in accordance with the lease agreement., Accelerate is now paying market lease rent, as well as paying its utility bills. In addition to taking over an additional building, they also invested \$1.2 million of their capital funds in expanding the building for their use.

Accelerate will have fully repaid the nearly \$2 million front-end capital cost provided before the end of this calendar year. It also has fully paid its operating and maintenance cost for use of the building. Accelerate has grown from 20 employees to now over 120; and its average employee annual salary is \$79,000. In addition, the company was recently very successful in a public stock offering that raised \$109 million for commercialization of its medical devices.

World View

Tucson-based World View is an innovative space technology company developing high-altitude balloons capable of lifting various types of payloads to the stratosphere. Similar to Accelerate, World View is a startup company ready to take the next step in its business plan – manufacturing – and it entered a national search in 2015 for a community to host its headquarters, manufacturing facility and launch pad for its unique product and service.

The Arizona Commerce Authority, which is the state's economic development agency, contacted Pima County and asked if the County could assist the state in retaining this growing company in Arizona.

Pima County, as outlined in the Economic Development Plan, had an interest in retaining the company here so that our region benefited from the company's growth, especially job growth, and entered negotiations with the company and the Arizona Commerce Authority.

Florida and New Mexico were both campaigning hard for World View, offering existing buildings and spaceport amenities to the company. Spaceport America in Truth or Consequences, New Mexico, is a \$220 million facility built specifically to attract new space technology, travel and exploration companies like World View. Florida's Space Coast is the new public-private partnership that is capitalizing on NASA infrastructure and the national space agency's new, more privatized business model. Both regions were offering ready-to-go facilities to entice World View.

However, the company's founders have strong ties to Tucson and wanted to stay here if possible. But they needed a building and as soon as possible so the company could start delivering on contracts with NASA, defense contractor Northrop Grumman and several universities.

To close the deal with World View, Pima County took the lesson it learned from Accelerate and decided to build two public amenities, a 130,000 light manufacturing and headquarters building and a balloon-certified Launch pad to be called Spaceport Tucson. The publicly owned building will be completed by November, which is the deadline World View requires to meet its contractual deadlines. The County will lease the building to World View and the company will manage Spaceport Tucson for the County. The public and other companies will be able to use the Spaceport for its certified uses.

The County signed the agreement with World View because of the immense benefits to the county's economic development efforts and because of the economic impact the deal will have on the region.

- The growing company will provide as many as 400 jobs in as soon as five years, with average salaries greater than \$50,000. Adding high-wage jobs in export industries is one of the goals of County's Economic Development Plan.
- The company will create an estimated \$3.5 billion in economic activity over the 20 years of the agreement.
- The manufacturing building balloon launch pad is being built south of Tucson International Airport in the Sonoran Corridor, the development of which is a high priority of the Economic Development Plan.
- By being its first tenant, World View activates the County's Aerospace, Defense, High Tech and Manufacturing Business Park, a key component of the Sonoran Corridor master plan.

- World View is a high-profile aerospace company, which is one of the targeted industries of the Economic Development Plan; and it will attract ancillary aerospace companies, contractors and subcontractors to the Sonoran Corridor.
- Spaceport Tucson establishes Pima County and Arizona as among the states able to compete for companies in the burgeoning space and near space research, travel and exploration industries.

At the end of their lease, World View will have paid the County nearly \$24 million in lease rent. The total cost to the County for land, building and financing totals just over \$19 million. This economic development agreement is good for both World View and the County.