



Board of Supervisors Memorandum

November 22, 2016

Pima County Economic Development Plan – Update through 2018

Introduction

As a component of our ongoing efforts to promote economic development, job growth, higher wages and increased wealth within our region, Pima County has updated the enclosed Pima County Economic Development Plan through 2018. This plan is a midterm update of the previous economic development plan adopted by the Board of Supervisors in August 2015.

The recommendations and action steps presented in this updated plan are ones the County can take and is taking in the near term to provide a foundation for long-term economic growth and stability. We will continue to revise and update the Plan to maximize a steady and prolonged recovery in the community's economic conditions; including increasing the number of jobs available, increasing the average wage, compensation and benefits – particularly for new jobs in the region – and increasing the positive economic outcomes of tourism. The plan also recommends fostering a collaborative environment in which the private sector, local governments, educational institutions and nonprofit organizations work together to stabilize and expand the local economy. Key areas where such collaboration can reap significant rewards for the community include education/workforce development and combating poverty.

This Economic Development Plan midterm update is designed to continue guiding the County's investments and policy actions to grow the local economy, increase jobs and income, and increase overall community wealth. The plan consists of the same 14 chapters created for the 2015 through 2017 update; each of which focuses on an area of economic development and job creation/growth where the County can lead, directly affect and/or influence progress and outcomes.

The discussion below highlights successes and positive progress on a number of actions to increase employment and improve the economic wellbeing of our community, as well as position our region for continued economic expansion. The attached *Pima County Economic Development Plan – Update through 2018* discusses these activities and others in which the County is currently engaged.

Aerospace Parkway Completion and Pending Expansion

The relocation of Hughes Access Road was completed by the County in December 2015 to allow Raytheon to achieve the full benefits of both an existing and expanded buffer. This project was a nearly \$14 million investment by the region to not only protect the region's largest employer, but lay the groundwork for future aerospace, manufacturing and defense-based primary employment in the region. The Hughes Access Road relocation to a new roadway alignment named the Aerospace Parkway

significantly increased buffering benefits to Raytheon, as well as added to accessibility of the County-owned Aerospace, Defense and Technology Business and Research Park. Development of the Business Park, as well as other building activities in the area, mean traffic demand on the Parkway is growing rapidly, resulting in planned expansion through the Business Park to four lanes.

On October 27, 2016, the Pima Association of Governments authorized an amendment to the current five-year Transportation Improvement Plan, as well as \$10 million in funding, to widen and expand the Aerospace Parkway from Old Nogales Highway easterly, including expansion and improvement of the south access to Raytheon and local public highway service to tenants now beginning to locate in the Business Park.

World View and Vector Space in the Aerospace, Defense and Technology Business and Research Park

World View Enterprises is the first occupant of the Aerospace, Defense and Technology Business and Research Park. Their manufacturing and headquarters facility is located on 12 acres adjacent to the Aerospace Parkway and Raytheon Parkway. World View plans to launch high-altitude balloons that can perform some functions that normally require satellites, but at substantially less cost. The balloons, known as stratollites, are the first foray into commercial activity in the Earth's stratosphere. When fully operational, World View will employ 500 employees and manufacture balloons carrying scientific payloads.

In addition, the construction of SpacePort Tucson has been completed near World View's manufacturing site in the Park. SpacePort Tucson will be the first licensed spaceport in Arizona, and it will be owned by Pima County and operated by World View.

World View's impact on the near space industry has not gone unnoticed and has resulted in inquiries about the Park from other space-oriented companies. World View projects its employment will grow from 25 to more than 400 within the next five years. Annual salaries will average \$55,000, which is 150 percent above the current annual wage in Pima County. A professional analysis estimates World View's economic impact in the region at \$3.5 billion over the next 20 years.

Vector Space Systems recently announced its decision to expand its rocket manufacturing facility on a 15-acre site within the Park. Vector Space offers reduced cost rocket launch capability for micro-satellites and other virtual satellite technologies. Over the next two to three years, Vector projects a total of 200 fulltime employees earning an average salary of more than \$70,000 annually.

Caterpillar Relocation

Sun Corridor, the Arizona Commerce Authority, Rio Nuevo, the City of Tucson, and Pima County all worked together to assemble a package of economic incentives that ultimately induced Caterpillar to select Tucson as the site for its reorganized Surface Mining and Technology Headquarters. This consolidated operation is expected to grow to include nearly 1,000 jobs within five years, which means this action will result in 650 new highly-skilled jobs with an average annual salary of \$90,000.

Although it intends, with the assistance of Rio Nuevo and the City, to build a large new facility in downtown Tucson valued at up to \$50 million, designing and constructing such a facility will take several years. Caterpillar therefore needed office space for short- and long-term lease until its new permanent facility is ready for occupancy. The County was ideally positioned to offer Caterpillar a four-year lease in the County-owned building located at 97 E. Congress Street. Once Caterpillar moves into its newly constructed facility, 97 E. Congress will be available for sale or lease to another primary employer.

An economic impact study commissioned by Sun Corridor has estimated Caterpillar's operation in Pima County would generate a total economic impact during its first five years of almost \$600 million.

HomeGoods Opening

Recently, HomeGoods completed an 800,000 square foot, \$79 million facility just north of Tucson International Airport that will employ nearly 900 residents. FedEx Ground and Old Dominion Freight Lines have also located new logistics facilities adjacent to the HomeGoods site. This area is beginning to be recognized for its strategic advantage as a logistics center for the Southwest. Discussions are underway with Union Pacific Railroad regarding relocation of the Nogales Line in a planned utility corridor along the Old Vail Connection alignment to connect to the Sunset Line with the goal of adding rail service to this area. This will be a major attraction for additional logistics-focused employers.

The County worked with Sun Corridor Inc. and other jurisdictional partners in HomeGood's successful Foreign Trade Zone designation

Completion of the TIGER Grant Expansion Project at the Port of Tucson

The Port of Tucson is a long-established, privately held rail/truck intermodal facility operated, built and constructed by a local family. The operation is now beginning to reach its potential as a significant inland port facilitating both rail and truck interchanges, as well as integrating product, storage and distribution.

The County and the Port of Tucson cooperated to receive a TIGER Grant, and this grant has been implemented, creating a major offloading point from the intercontinental Union Pacific Railroad. The Port of Tucson is now able to accept significantly larger train capacity, further emphasizing its importance in the national and international rail/freight distribution network.

New Direct Air Service from Tucson to New York City and Tucson to Mexico Destinations

In 2015, the Tucson Metro Chamber formed an Air Service Task Force that is attempting to secure direct flights from Tucson to New York City/Newark with an approximately \$3 million revenue guarantee. This effort has been successful as American Airlines began nonstop daily service from Tucson to New York on October 7, 2016. Also in October 2016, direct flights from Tucson to Hermosillo and Mazatlán were added. Efforts to add additional direct flights to locations in Mexico, Canada and possibly Washington DC are underway. These communitywide efforts will continue to be encouraged and assisted by Pima County.

Continued Growth and New Manufacturing Facility for Accelerate Diagnostics

The County assisted in the relocation of biotech startup Accelerate Diagnostics to the Abrams Public Health Center, and the company has grown significantly since relocating to Tucson. In the future, it will occupy the entire fourth floor of the Abrams Public Health Center for a total of 45,000 square feet. The economic development incentive originally provided by the County required 30 employees at an average annual wage of \$65,000. Accelerate Diagnostics began with 10 employees; they now have over 120 fulltime employees, and the 2016 120-employee average annual wage is over \$80,000.

Accelerate's manufacturing facilities are initially located proximate to the Abrams Public Health Center. This manufacturing component will be expanded in 2017 and add another 30 employees to Accelerate's total employment over the next two years.

Successful Legislation to Include the Sonoran Corridor in the Interstate Highway System

In June 2015, Senators John McCain and Jeff Flake and Congresswoman Martha McSally cosponsored successful legislation to designate the Sonoran Corridor as part of the interstate highway system. This legislation was cosponsored by the entire Arizona Congressional Delegation and received Arizona Governor Doug Ducey's support, as well as that of local business leaders.

The Sonoran Corridor and its many job and economic development benefits have been part of the County's economic development plan since 2012. Designating the Sonoran Corridor as an interstate highway will enhance and emphasize the international trade

aspects of this corridor with Mexico and will add to the benefits of the CANAMEX and future Interstate 11 Corridors.

Progress on Acquisition of Leased Lands within Davis-Monthan Air Force Base

There are currently 99 acres of private property and 133 acres of State Trust land inside the boundary of Davis-Monthan Air Force Base (DMAFB) that are leased on an annual basis to the US Air Force. The annual cost of these leases to the Air Force exceeds \$380,000. These leased properties should be purchased and leased at no cost to DMAFB to continue their operations. This action would lower the operating cost of keeping DMAFB open for military uses; When contacted to discuss purchase of this property on behalf of the USAF, the Arizona State Land Department recognized the need to lower the annual lease cost and converted this \$54,000 annual commercial lease to a Special Land Use permit that now costs the USAF just \$2,400 per year.

In addition, the County has worked with the Governor's Office and the Arizona Department of Emergency and Military Affairs to secure funding to purchase certain private properties inside the boundaries of DMAFB. A \$250,000 grant from the Military Installation Fund has been approved for this purpose. The County hopes to complete acquisition of these properties by fall 2017 and lease them to DMAFB at the nominal rate of \$1 per year. We hope to expand funding by reapplication for additional funding to the Military Installation Fund for the purchase of the private properties. The first priority area for these purchases is land within the Quantity Distance Arcs related to the DMAFB Munitions Storage Area.

Kino Stadium, Major League Soccer and Mexican Professional Baseball

Pima County invested more than \$3 million in FY 2012/13 to transform the northern half of Kino Sports Complex from baseball fields into a 2,360-seat pocket stadium and four multipurpose fields that can be used for soccer, lacrosse and other grass sports. FC Tucson is established as the anchor tenant at the Kino North Sports Complex. FC Tucson has also taken the lead in bringing Major League Soccer (MLS) spring training to the Kino North Sports Complex annually from late January through early March.

Pima County invested an additional \$190,000 in FY 2013/14 to bring in MLS spring training and a professional soccer team from Mexico to compete in the February 2014 Desert Diamond Cup. The County made similar investments to bring back MLS spring training in 2015 and 2016. Visit Tucson has helped the County leverage its investment by entering into \$50,000 sponsorship agreements annually with FC Tucson in FYs 2013/14 and 2014/15. The majority of these investments are passed through to MLS to secure advertising used to attract fans of incoming MLS teams to Tucson.

Kino Sports Complex is also the site for what has become the annual Vamos a Tucson Mexican Baseball Fiesta each October. The sixth annual Vamos a Tucson Mexican Baseball Fiesta was held at the County-owned Kino Stadium in fall 2016. The tournament included some of the most popular teams in Mexico; and over the four-day event, attendance was nearly 12,500, despite inclement weather.

Colossal Cave Mountain Park Revitalization

Colossal Cave Mountain Park's first year under the new operator, Ortega National Parks, has been very successful. Attendance and revenues have increased dramatically, with attendance increasing 323 percent and overall revenue exceeding over 200 percent, over Fiscal Year 2014/15. Attendance and revenue growth is attributed to several factors, including the complete remodeling of the gift shop, the opening of a new restaurant, campsite renovations and improved cave tours and more improvements to the ranch house area, trail systems, and campground areas are scheduled for 2017.

Ending Poverty Now Initiative

Pima County is engaged in examining more closely how we can reduce both the direct cost of incarceration to the County and the larger indirect impact of incarceration on the economic wellbeing of the community. Since 2015, the County has been one of only 20 jurisdictions nationally participating in the MacArthur Foundation's Safety & Justice Challenge, which is a \$100 million initiative to reduce over-reliance on incarceration. Pima County is one of only 10 Safety & Justice sites that received grant funding to implement plans to divert low-risk offenders from jail, improve treatment for substance abuse and mental health problems to reduce recidivism, and reduce arrests related to failure to appear in court by improving court reminder systems and holding weekend and night courts.

In addition, Pima County is one of approximately 50 communities in the United States to investigate Pay for Success as a way to address social issues. Pay for Success projects involve public-private partnerships in which it is possible to invest in innovative best practices. In 2015, the County initiated a contract with the Sorenson Impact Center to conduct a Pay for Success "readiness assessment" for Pima County. This work led to the 2016 award of \$1.3 million by the US Departments of Housing and Urban Development and Justice to the Sorenson School and Pima County to develop a Pay for Success model to provide permanent supportive housing for the chronically homeless, who are generally users of costly services such as jails and mental health and housing services.

In fall 2016, Pima County was awarded a grant by the US Department of Labor to provide workforce services to individuals serving out their sentences at the Minimum Security Facility of the Pima County jail and preparing to re-enter the community. Nearly

\$500,000 will be earmarked for training and career counseling, and other employability skills efforts for inmates – both in-jail and post-release.

Diversifying County Revenue Sources to Lower the Property Tax

Pima County's strategic economic development efforts have led, and will continue to lead, to increased capital investment that serves to expand the tax base. The attraction of new businesses adds to the tax rolls and is a very important component of our economic development strategy. Growing the tax base means taxable income of the County increases; hence, other taxpayers will bear less of the tax burden.

The County has been the subject of a number of State cost transfers that artificially increase the County's primary property tax rate. The single largest transfer was attempted by the Arizona Legislature beginning in Fiscal Year 2015/16 when the Legislature transferred a portion of the funding obligation for education in Arizona to other taxing districts. Pima County believed this transfer was unlawful and filed suit; and this proposed cost transfer was declared unconstitutional. This successful litigation saved the County \$32 million during the time period the obligation would have been imposed and allowed Pima County to lower the primary property tax rate.

As can be seen from the successful outcomes discussed above and the additional positive activities that are occurring as described in the *Economic Development Plan – Update through 2018*, the strategies being employed by the County are yielding measurable results in the form of employment expansion, capital investment within the community, and expansion of the tax base.

Recommendation

I recommend the Board of Supervisors accept the Pima County Economic Development Plan Update through 2018 and use the Plan to guide future budget allocations and policy decisions to foster economic development opportunities in Pima County.

Respectfully submitted,



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County Administrator