

MINUTES OF THE
MARICOPA ASSOCIATION OF GOVERNMENTS
ECONOMIC DEVELOPMENT COMMITTEE

June 7, 2011

Greater Phoenix Chamber of Commerce
201 N. Central Avenue, 27th Floor
Phoenix, Arizona 85004

MEMBERS ATTENDING

Mayor Thomas L. Schoaf, Litchfield Park,
Vice Chair

Steven Betts, GPEC

Dr. Joseph Cavinato, Thunderbird

Mark Dreher, East Valley Partnership

#Thomas Franz, Greater Phoenix Leadership

Mayor Hugh Hallman, Tempe

Jim Kenny, El Dorado Holdings, Inc.

Mayor Jim Lane, Scottsdale

Mayor Michael LeVault, Youngtown

Mayor John Lewis, Gilbert

Mayor Marie Lopez Rogers, Avondale

John McGee, ADOT

*Mary Peters, Mary Peters Consulting

*Jim Rounds, Elliott D. Pollack & Company

*Todd Sanders, Greater Phoenix Chamber
of Commerce

Mayor Jay Schlum, Fountain Hills

Jeffrey Simmons, Ryley Carlock &
Applewhite

*Mayor Scott Smith, Mesa

Sandra Watson, Arizona Commerce
Authority

*Candace Wiest, WESTMARC

*Supervisor Mary Rose Wilcox, Maricopa
County

Vice Mayor Thelda Williams, Phoenix

* Not present

Participated by video or telephone conference call

Others Present (from sign-in sheet(s)):

Eric Anderson, MAG

Roc Arnett, East Valley Partnership

Sherief Ayoub, Emerald Contracting

Anubhav Bagley, MAG

Cassidy Campana, DMB Associates

Ryan Cook, Parsons Brinckerhoff

Cheryl Covert, Buckeye

Dan Davis, Avondale

Jenna Goad, Glendale

Michelle Gramley, Gilbert

Shirley Gunther, Avondale

Bob Hazlett, MAG

Chad Heinrich, Tempe

Darren Henderson, Parson Brinckerhoff

Sintra Hoffman, ADOT

Mike Hutchinson, East Valley Partnership

Patrice Kraus, Chandler

Jeff Kros, Triadvocates

Beth Lewallen, Maricopa County

Brad Lundahl, Scottsdale

Walter Morlock

Jennifer Pena, Litchfield Park

Karen Peters, Phoenix

Scott Powell, Gilbert

Nathan Pryor, MAG

Tom Remes, Phoenix

Rick Stephenson, Canadian Consulate

Brent Stoddard, Glendale

Tim Strow, MAG

Kelly Taft, MAG

1. Call to Order

The Economic Development Committee (EDC) meeting was called to order by Vice Chair Schoaf at 12:11 p.m. Vice Chair Schoaf noted that Mr. Tom Franz was participating by telephone conference. Vice Chair Schoaf thanked Todd Sanders and the Greater Phoenix Chamber of Commerce for the use of the meeting room today. He noted that public comment cards were available for those members of the public who wish to comment. Transit tickets were available from Valley Metro for those using transit to come to the meeting. Parking validation was available for both parking facilities for those who parked in the parking garages.

2. Call to the Audience

Vice Chair Schoaf stated according to the MAG public comment process, members of the audience who wish to speak are requested to fill out the public comment cards. He stated that there is a three-minute time limit. Public comment is provided at the beginning of the meeting for items that are not on the agenda that are within the jurisdiction of MAG, or non-action agenda items that are on the agenda for discussion or information only. Vice Chair Schoaf noted that no public comment cards had been received.

3. Approval of the May 3, 2011 Economic Development Committee Meeting Minutes

Vice Chair Schoaf asked if the members had any questions on the May 3, 2011 meeting minutes. There were none. Mayor Hallman moved to approve the May 3, 2011 Economic Development Committee meeting minutes. Mr. Jim Kenny seconded the motion and the motion carried unanimously.

4. Report on the Aerospace and Defense Industry in Arizona

Vice Chair Schoaf thanked and introduced the panel of speakers; Lieutenant General John Regni, Dennis Hoffman, Alex Castelazo, Tod Brindlinger, Martin Martinez, and Vicki Panhuse.

Dennis Smith stated that at the March 1, 2010 Economic Development Committee (EDC) meeting, members received a presentation from Rick Stephenson, Consul & Senior Trade Commissioner from the Consulate of Canada. He noted that also at the March meeting, Mr. Stephenson introduced Glenn Williamson from the Canada Arizona Business Council, who is also in the aerospace and defense industry. Mr. Smith stated that on April 8, 2010, the EDC chair and vice chair were invited to the Canada Arizona Business Council meeting to discuss the EDC and future engagement with Canadian business interests. He noted that at this meeting, Tod Brindlinger, General Manager of Hamilton Sundstrand, an aviation and aerospace company in Phoenix, provided an overview of his company. Mr. Smith noted that one of the interesting parts of Mr. Brindlinger's presentation was how ubiquitous his company was in providing components to the aviation industry.

Mr. Smith stated that in discussing the topic of today's EDC meeting, MAG staff contacted Glenn Williamson regarding the advisability of having an aerospace topic on the agenda. He stated that Mr. Williamson noted the importance of discussing the industry and the need to discuss the supply chain for the industry. Mr. Smith explained that today's agenda provides several components of the aerospace industry to discuss their role and how the components are related.

Mr. Smith stated that it is important to take advice from a noted author, Jim Collins, who wrote the book *Good to Great*. He noted that all economic studies in Arizona, indicate that aerospace and defense are a primary sector. He commented that Arizona is good at aerospace and defense, but is Arizona great at aerospace and defense? Mr. Smith then provided an audio clip from Jim Collins on moving a company from good to great. Mr. Smith then played a video clip regarding a concept from *Good to Great* called the flywheel. He asked the members to be thinking about the Arizona aerospace and defense industry.

Mr. Smith then displayed a map of the aerospace and defense industry in this region. He noted that the map does not include other pockets of excellence in the state, such as Tucson, Emery Riddle and Sierra Vista. Mr. Smith then took the flywheel concept and applied it to aerospace and defense highlighting the components of industry, research, supply chain and network. He noted that each push of the flywheel builds momentum. Mr. Smith stated that the components of the flywheel are here, but the question is how the flywheel is put into motion for the greater good of Arizona. He then introduced General John Regni to begin the presentations.

Lieutenant General Regni thanked the Committee for inviting him today. He noted that this is a great panel of speakers here today. General Regni provided a presentation on Building Upon Arizona's Legacy in Aerospace and Defense. General Regni stated that the state of Arizona does not have seven years to go from good to great. He noted that there are some growth areas in Arizona and the state needs to position itself now. General Regni began by explaining what the Science Foundation has been working on building upon Arizona superb legacy in aerospace and defense. He noted that the Governor's Office of Economic Recovery provided a grant of \$1.3 million to the Science Foundation. A major piece of this grant went to build the Research and Collaboratory Foundation at Arizona State University. This Foundation includes ASU, University of Arizona and Emery Riddle, as well as many others. General Regni noted that a piece of the grant also went to fund the Arizona Aerospace and Defense Initiative. He noted that this initiative should be ready to move to an Arizona Aerospace and Defense Enterprise by the second quarter of fiscal year 2012. General Regni stated that Arizona has a long and strong history in aerospace and defense (A&D), and presented a map of the military restricted zones. He noted that the annual impact of defense in Arizona today is \$18 billion and generates 191,000 jobs.

General Regni presented the vision and goals of the Arizona Aerospace and Defense Initiative. He noted that the first is to sustain and build upon Arizona's rich legacy in aerospace, defense and security; second is to transform Arizona into the location of choice

for research, testing and technology and manufacturing; and third is to increase state revenues and jobs, which is the real bottom line. General Regni noted some immediate items in the initiative's scope include the F-35 at Luke, Yuma and Tucson; top secret research lab in the City of Mesa; continue 612th AOC at Davis-Monthan; and border security. He finished by explaining the output of this initiative is a synergistic network that focuses on increasing state revenue and jobs. General Regni then introduced Dennis Hoffman from the Seidman Research Institute who completed a paper on the Aerospace and Defense Industry in Arizona with one of the focuses being on supply chain.

Dennis Hoffman thanked General Regni. He noted the importance of A&D industry to Arizona with \$8.8 billion in gross state product; 93,800 private industry jobs; 96,328 jobs generated by military installations; and salaries 52 percent higher than the average wage in Arizona. He stated that Seidman was asked to do this report based on the previous studies and research done in the A&D industry. Dr. Hoffman noted the products of the report that include summarizing the current state of the A&D industry within Arizona; identifying key players and developments that could yield growth; an overview of best practice in other states; evaluating threats, opportunities, weaknesses and strengths; identifying a range of strategic choices open to the A&D industry; and recommending a plan to enable the industry to maximize its opportunities.

Dr. Hoffman stated the importance of a statewide and regional strategy. He noted that the participants of this industry are naturally competitive with one another, as well as the states. He stated that Arizona needs to be coordinated and needs much greater support from its congressional delegation. He also noted that dollars will be increasing scarce and Arizona will need to specialize. Dr. Hoffman stated that Arizona's universities must work closely with the business development teams at very large manufactures, such as Boeing and Raytheon. He noted the importance of closely aligning the collaborative efforts of research and industry around established themes in A&D. He also noted that further analysis is required to account for the lack of second-tier suppliers within the state and the industry needs to be smarter about procurement. Dr. Hoffman then introduced Alex Castelazo to provide a short summary of the report.

Alex Castelazo stated that the relevant themes include the business environment; the supply chain; research competitiveness; workforce and STEM education; and aerospace institute. He noted that the research included interviews with several industry leaders ranging from private industry to research. Mr. Castelazo stated they wanted a structured interview, and provided the interview questions used. He noted the key messages from the interviews included a focus on small businesses and entrepreneurs; established operations and competencies; Arizona's Congressional delegation; an Arizona Aerospace & Defense Institute (ADI); STEM education; taking an intelligent approach and leverage strengths. Mr. Castelazo then discussed the threats, opportunities, weaknesses and strengths (TOWS). He noted that TOWS provides a focus on threats and opportunities, which are external factors of the environment instead of strengths and weakness that are internal. He then noted the challenges identified through this research that included missing links in supply chain;

STEM education; lack of interaction between industry stakeholders and competition from other states. Mr. Castelazo stated the strengths identified include restricted airspace; military bases and testing ranges; military population in Arizona; established manufacturers; Arizona's economic incentives and the weather. He noted the strategies include a focus on core competencies and established firms; seed intermediary entities to assist with collaboration, and leverage assets like restricted air space. Mr. Castelazo stated that concluded his summary of the report and thanked the Committee.

Martin Martinez, president of Engineering Science Analysis (ESA), provided a presentation on Arizona's supply chain from a small company perspective. He noted that when it comes to supply chain, most consider manufacturing and product assembly operations. He noted the way to look at a supply chain is the movement of materials that flow from source to the end customer. But the supply chain is also made up of people, activities, information and resources involved in moving a product from its supplier to customer. Mr. Martinez stated that from a small company perspective, a company must also look to outside resources, such as universities, to find those pockets of knowledge. He noted that some of the resources in place are grants from the state, such as Arizona Fast Grant. Teaming with partners like other industries and universities is key to a small businesses success. He stated that small companies will need test facilities and labs, as well as commercialization avenues, such as licensing.

Mr. Martinez reviewed the Arizona supply chain challenges when it comes to a small company. He noted that research and development and product development environment is dynamic. He noted that companies much adapt and redevelop the supply chain. He stated that information on Arizona resources is fragmented. Small businesses must rely on their own developed contacts, industry and universities. He noted if small businesses do not have resources, the next step is to search to find contacts relevant to opportunities. This cost time and money for a small company. Mr. Martinez stated that the fastest and least expensive way that he has found is Google "GOOS" - Go Out Of State - select a company or university on the top of the search list. He noted that Tucson developed a "Tucson Aerospace Cluster" that provides names of organizations in different sectors, as well as workforce needs. He suggested that Arizona develop an inventory and classification, an Arizona Cluster, to include research and development and assistance centers. He noted that this inventory should be readily available on the web and maintained and updated regularly.

Mr. Martinez summarized that small businesses bring research and development money to Arizona performing product development and utilizing a dynamic supply chain. He noted that this involves many steps and many types of suppliers. He stated that a one-stop Arizona resource website would streamline the process and enhance chances of winning more money. He then thanked the Committee for their time.

Tod Brindlinger, General Manager of Hamilton Sundstrand, thanked the Committee for the opportunity to tell the companies story. He noted that Hamilton Sundstrand has a global presence, including Texas, California, England, France, Germany and China. He stated that

sales in 2010 for aerospace were approximately \$4.5 billion. Mr. Brindlinger stated that the company has consolidated over the years, going from six facilities to two facilities. He noted that the Arizona facility has held strong through this consolidation. He stated what helped the company through this consolidation was the availability of technical talent in the Valley and the availability of grants and tax credits. Mr. Brindlinger stated that the company recently hired 40 new associates and will continue to hire in the future. He noted the Hamilton Sundstrand offers higher education fully covered by the company.

Mr. Brindlinger reviewed Hamilton Sundstrand's customers and major platforms supported. He noted that nearly every company in the aircraft business has a Hamilton Sundstrand product. He stated that Hamilton Sundstrand Phoenix has electronic controls on over 60,000 aircrafts. Mr. Brindlinger discussed the detail of Hamilton Sundstrand products, including electronic controls, and engine and control systems. He then discussed the company's value chain. He noted that the design, supply chain and final assembly and testing is done out of the Phoenix office. Mr. Brindlinger stated that the future of Hamilton Sundstrand relies on supporting the aerospace industries with electronic controls. He noted that advanced technology enables future growth for both the company and the state. Mr. Brindlinger thanked the Committee for their time.

Vicki Panhuse, Chair of the Arizona Aerospace and Defense Commission, stated that the flywheel is in motion. She noted that the Arizona Aerospace and Defense Commission (AADC) was established about six years ago. The Commission had its sunset review with the legislature in December 2010. She stated that when the Commission was established, it was difficult to bring partners and others together to talk about aerospace, and difficult for the Commission to be heard. She noted that today is certainly a testament that the flywheel is moving.

Ms. Panhuse noted that every year the AADC publishes a report, a strategic plan with progress. She noted that the Commission has four basic strategies that are very much in line with the Arizona Aerospace and Defense Initiative. She noted the first strategy is to improve the business environment for aerospace and defense. The Commission has been instrumental with the new jobs bill and a focus around economic growth. She noted that the jobs bill is a critical component to move forward in aerospace and defense within Arizona.

Ms. Panhuse stated the second strategy is regarding research competitiveness. She noted that one component of the research competitiveness is to partner with the universities to identify centers of excellence and research assets relative to A&D. She then stated the third initiative is around the supply chain and building the pipeline of entrepreneurs and businesses. Ms. Panhuse noted that it is extremely critical to understand that pipeline of entrepreneurs and businesses. She noted that the Arizona Technology Council (ATC) is organizing the first annual requirements conference in January 2012. This conference will bring together industries and small business, which Martin Martinez indicated was needed. She stated that the ATC has a very active association and is a way to build that momentum around small business. Ms. Panhuse also noted that a website will be launched in the next

30 days to assist in building that momentum.

Ms. Panhuisse stated the fourth and final strategy is about attracting, educating, retaining and retraining Arizona's skilled workforce. She noted that this is about making sure that the best and the brightest stay in our state. It is also about retraining our workforce. She noted that Arizona has a wonderful workforce development. She then stated that it is also about retaining our great workforce.

Ms. Panhuisse stated the AADC is working very hard to make sure all partners are in sync and that all partners come to the table together. She noted that is the major difference between Arizona and other states when it comes to A&D. Ms. Panhuisse stated that the Commission would like to team with the MAG Economic Development Committee more actively. She thanked the Committee for their time.

Vice Chair Schoaf thanked the excellent panel of speakers for their presentations and information. He noted the purpose of this agenda item was to sustain information about the A&D industry. He also stated that this information was to generate discussion on the two topics. The first is whether it is appropriate for some group to form a trade association for the aerospace and defense industry, and if so, what group. Vice Chair Schoaf asked if there were any thoughts from the Committee members.

Vice Mayor Williams stated that she recently attended a function on A&D and the attendees mentioned that Arizona did not have an Association for the A&D industry. She stated that she believes it is important to establish an association if Arizona wants to be a global player.

Vice Chair Schoaf asked that given the competition that exists between the various companies in the aerospace industries, is it likely that the various organizations will come together to form a trade association? Mr. Brindlinger stated that he believes they would. He noted looking at the various A&D industries, they share the same type of talent and the products are very complementary. Ms. Panhuisse stated she believes there is a lack of communication of what is available in the state, and she recommended looking at what the state already has available. She noted her concern that companies are already members of other organizations and the dollars available to join another organization may be limited. She suggested using the strength of those organizations, such as the Arizona Technology Council or the AIA, to get the benefit of a trade association. Vice Chair Schoaf asked who the appropriate agency would be to take a look at what is already available. Ms. Panhuisse stated that her recommendation would be for the Arizona Aerospace and Defense Commission along with the Arizona Technology Council.

Mayor Hallman stated that MAG is probably not the organization that would move this forward very far, but most members around the table are part of other organizations that are the right partners. He noted that Greater Phoenix Economic Council (GPEC) and the Greater Phoenix Chamber of Commerce are the first two agencies that come to mind that should be part of this discussion, whether that means starting a new organization or using an existing

organization. Vice Chair Schoaf stated that he agrees that MAG is not the appropriate organization, but there may be agencies around the table that may be appropriate to assist.

Mark Dreher stated that the East Valley Partnership has formed an alliance with the Mesa Chamber of Commerce regarding the A&D industry. He asked Roc Arnett from the East Valley Partnership to provide a brief update on the East Valley Aviation and Aerospace Alliance. Mr. Arnett stated that the EVP and the Mesa Chamber of Commerce realized the need for advocacy and networking in the A&D industry. He noted that over the last year, the Alliance started bringing those people together in the east valley. He stated that he would like to have this model replicated or expanded. He noted that with each discussion there are numerous leads, and he and Mike Hutchinson are following up on these leads. He also noted that the Alliance improved on the "Support Sky Harbor" model and is making very good progress. Mr. Arnett thanked the Committee for the opportunity to explain the East Valley Aviation and Aerospace Alliance.

Mayor Hallman stated that there are three economic development organizations in the Valley covering three different regions - WESTMARC, GPEC and East Valley Partnership. He noted that these agencies, pulling together, can provide assistance in the A&D industry. Sandra Watson stated that the Arizona Aerospace and Defense Commission was statutorily established, a state mandate made up of industries that are brought together to talk about advancing the aerospace and defense industry in the state. She stated that she would like to offer up some assistance in working with the statewide area as this committee works with the Maricopa region. She noted that there are many organizations involved in this effort. She also noted that a GAP analysis is needed and believes that many of these organizations have already started this independent of each other. Ms. Watson stated that in talking with Mr. Arnett, she believes that the Alliance has started a really solid strategy. She noted the importance of additional dialogue among all organizations and how we work together and collaborate. Vice Chair Schoaf stated that it would be beneficial if the ACA and AADC could facilitate getting that conversation started.

Vice Chair Schoaf stated the second purpose of this agenda item is for possible action to recommend conducting a supply chain study, in cooperation with the Arizona Aerospace and Defense Commission, MAG, ADOT and PAG, for the aerospace and defense industry. Dennis Smith stated that he had discussions with John Halikowski from ADOT and Gary Hayes from PAG regarding their involvement in this supply chain study. He noted that they both agreed to help fund their portion of this study.

Sandra Watson stated that the initial economic impact study done by Dennis Hoffman and his group identified some serious issues in Arizona regarding supply chain and that those dollars are leaving Arizona. She noted that it is an important next step and an area in which we need more information. Ms. Watson stated that the ACA would be a willing participant in the supply chain study. Vicki Panhuise suggested understanding the outcome and identifying what will be done with the data collected.

Mayor Schlum stated that he would like to learn more about the Arizona Congressional delegation and how to address that issue. He also asked if there were any areas that need to be addressed to ensure that our freeway and Interstate systems retain viability.

Vicki Panhuse stated that there are areas not addressed and one of those being the dark sky issues. She noted that this includes not only aerospace and defense, but also space, exploration, and satellites. Mr. Smith replied that MAG does have a dark sky working group. He noted that a final report will be given to the MAG Management Committee in September.

Mayor Lewis stated that General Regni mention an event that took place at the Gateway Airport. He noted that at this event, someone mentioned that a final decision has not been made on the F-35. Mayor Lewis asked if there is anything that the jurisdictions and citizens can do to assist in the final decision. General Regni replied that the reason for the delay is current data regarding noise contours. He noted the Environmental Impact Statement (EIS) will be completed in December. General Regni stated that when the EIS goes public, that is the time to engage. He noted that the record of decision should be in spring of next year.

Vice Chair Schoaf stated that it is absolutely critical that there is a good turnout for the EIS hearings that will be held in various places across Maricopa County. He also noted that one of the things that we know from the initial public hearings across the United States was that the Air Force was impressed with the level of support and interest the F-35 had in Maricopa County and the State. Vice Chair Schoaf stated that the west valley formed a group called Move Forward with over 100,000 members. He encouraged this type of support for the EIS public hearing.

Mayor Lewis asked if the Maricopa region has an aerospace cluster, something like the Tucson Aerospace Cluster. Mr. Smith replied that it does not. Martin Martinez mentioned the group that provided the Tucson Aerospace Cluster did disband and joined the Arizona Technology Council.

Dennis Smith summarized the action requested from the committee members. He stated that the Arizona Commerce Authority will take the lead and meet with other economic development organizations regarding forming a trade association. He noted that MAG staff will take the lead to meet with funding partners for the supply chain study to discuss the scope. The committee agreed.

5. Request for Future Agenda Items

Vice Chair Schoaf asked if there were any requests for future agenda items. There were none.

6. Comments from the Committee

Vice Chair Schoaf asked if there were any comments from the committee members. There were none.

Adjournment

There being no further business, the Economic Development Committee meeting was adjourned at 1:55 p.m.

Chair

Secretary