



Board of Supervisors Memorandum

November 22, 2016

Raytheon Expansion Economic Development Incentives

I. Background

The adopted Pima County Economic Development Plan contains, as a major policy component, assisting our existing employers with retention and expansion.

The largest single private employer in Pima County is Raytheon Missile Systems Inc., with regional employment of 9,600 as of 2015. In 2010, Raytheon made a decision to develop production facilities of their Standard Missile 3 product in Huntsville, Alabama. Since then, their employment in Pima County has been relatively flat.

The decision to expand in Huntsville was based on a number of factors; however, one critical factor was their inability to expand at their present location southwest of Tucson International Airport. Raytheon was space constrained with regard to production facilities due to a number of factors. Therefore, even if our region and state were able to compete with Alabama in offering equal or better economic development incentives, we could not overcome the fact that Raytheon did not have the required space to expand their operations in Tucson.

I, along with others, traveled to Huntsville for an economic development conference sponsored by Sun Corridor Inc. to learn firsthand what advantages Huntsville had over Pima County. Their advantages were significant, including a unified and active Congressional Delegation in support of economic development in Alabama. This support extended to and through the local level, including the Huntsville City Council, which enacted a sales tax or excise tax to support economic development infrastructure. After the site visit, it was clear Pima County and our region needed to take an entirely different approach to economic development other than hoping our favorable climate would give us a competitive edge. This meant significantly increased regional collaboration among governmental entities, increased infrastructure investments, and proactive advanced planning to ensure the region never again lost an opportunity to help the largest private sector employer in the region to expand.

II. Proactive County Actions to Provide for and Incentivize Raytheon to Expand Operations in Tucson

After losing the Standard Missile 3 employment opportunity, the County began a proactive approach toward facilitating a possible future Raytheon expansion. While the County cannot dictate market conditions or other conditions that would allow Raytheon to expand, we needed to address the factors that resulted in our region being uncompetitive with other locations, including the following:

- A. Eliminating Urban Encroachment. Over the years, Raytheon has been threatened with urban encroachment. This threat from residential development immediately south of Raytheon was removed by the County’s acquisition of 382 acres of property in 2012. Acquisition of this private property, which is now the County-owned Aerospace, Defense and Technology Business and Research Park, was the first step in protecting Raytheon’s existing business base, as well as facilitating possible Raytheon expansion in the future if such opportunities arise.
- B. Roadway Relocation. The relocation of Hughes Access Road, now known as the Aerospace Parkway, to buffer Raytheon’s production facilities. This roadway project was completed in December 2015. Without this relocation, Raytheon had no more space for manufacturing and integration facilities, and existing facilities were operating under US Air Force-imposed waivers that would expire in the near future.
- C. Land Buffer. A two-component land buffer to 1) provide necessary safety and operating arcs for existing Raytheon production facilities, and 2) provide an additional buffer to provide for significantly expanded production capability and the development of new operating production units.
- D. 46kV Electrical Power Line Relocation. Two 46kV electrical transmission lines provide electrical service to Raytheon and areas significantly beyond the Raytheon property. These 46kV transmission mains must be relocated to avoid required waiver by the US Department of Defense.

These steps have been taken over the last four years, and they represent execution of a strategic plan to facilitate Raytheon expansion that is now paying off.

The table below summarizes key activities the County initiated and completed to set the stage for the present Raytheon expansion.

Pima County Activities Related to Raytheon, 2012 through 2016.

Activity	Date	Cost
1. Purchase of 382 acres in Section 31 to prevent development/ encroachment in Raytheon radar testing area.	March 29, 2012	\$5,900,000
2. Development of a master plan for Hughes Access Road relocation and buffer concept with Raytheon, Tucson Airport Authority (TAA) and Arizona Air National Guard (AANG) to enable development of up to three additional Manufacturing/ Integration facilities and AANG munitions storage area.	July 2012	
3. Aerospace Parkway plan approved and funded by the Pima Association of Governments for funding.	December 2012	

Pima County Activities Related to Raytheon, 2012 through 2016.

Activity	Date	Cost
4. Design Aerospace Parkway as initial phase of Aerospace and Defense Corridor.	January 2013	
5. Develop concept and bond package for Aerospace and Defense Corridor between Tucson International Airport and UA Tech Park.	2011 through 2015	
6. Initiate and complete in record time (8 months) an Environmental Assessment for the Aerospace Parkway with TAA and Federal Aviation Administration (FAA) guidance.	February 2015	\$200,000
7. Acquire right of way for Aerospace Parkway from TAA.	March 16, 2015	\$740,098
8. Overhead Electrical Facility Relocation away from Hughes Access Road.	May 26, 2015	\$3,900,000
9. Incorporate Raytheon operational and development limitations into plan for Aerospace, Defense and Technology Business and Research Park.	June 2015	
10. Include Raytheon in site selection process for World View.	October 2015	
11. Complete 4.5 mile Aerospace and Raytheon Parkway in 8 months.	November 2015	\$12,700,000
12. Retain Hughes Access Road right of way and grant Raytheon right of entry.	December 2015	
13. Provide FAA with environmental, cultural, State Historic Preservation Office and all other pertinent data for Sections 32 and 33 captured as part of the Aerospace Parkway project.	February 2016	
14. Include Raytheon in site planning for Vector Space building and test facility.	August 2016	
15. United States Air Force, TAA and City of Tucson to provide appropriate siting for new Entry Control Facility. Offer to relocate Raytheon Parkway and necessary County land. Release right of way for Raytheon use. Research right of way history. Provide surveys and legal descriptions.	September 2016	
16. Pima Association of Governments Call for Projects: Highway Capacity Improvements Related to Aerospace Parkway.	September 2016	
17. Participate in FAA-led Environmental Impact Statement to ensure appropriate buffer space for Raytheon and the	September 2018	

Pima County Activities Related to Raytheon, 2012 through 2016.

Activity	Date	Cost
AANG is set aside per agreed upon Master Plan and Memorandum of Understanding.		
18. Pima Association of Governments approval of funding to expand the Aerospace Parkway to serve significant traffic growth due to expansion of employment.	October 27, 2016	10,000,000

III. Voluntary Restrictions on County Property for Sale or Lease Adjacent to Raytheon Missile Systems

In Item II.A above, I discussed the County’s purchase of 382 acres of adjacent property to buffer Raytheon. This property has been incorporated into the Aerospace, Defense, Technology, Business and Research Park, where Raytheon, World View and Vector Space are now being located. The County has agreed to certain land use restrictions regarding the northern portion of the County-owned property and that any future use or user of the property should conform with these land use regulations. To assure Raytheon these compatibility requirements will continue to be met, the County will, through Board of Supervisors action, voluntarily commit to these requirements for any future land use of the County property that could either be leased or sold to a third party.

The County will voluntarily commit to the following design parameters for this property to ensure compatibility with Raytheon operations:

- A. Line of sight interference from tall buildings.
 - 1. Buildings will not exceed 40 feet above ground level within the first one half-mile of the current Raytheon south property line (exceptions require review and approval by Raytheon).

- B. Interference caused by radar sources/reflective buildings.
 - 1. Facing walls of any structure shall not be within 15 degrees of perpendicularity to the west corner of Raytheon Building 849.
 - 2. Inside corners of structures shall face to the south (away from Raytheon facilities).
 - 3. Site radio frequency emissions must be approved by Raytheon’s review team.

- C. Security issues with visibility into Air Force Plant 44 operations.
 - 1. No structures will be permitted within 200 to 400 feet of the current Hughes Access Road.
 - 2. Buildings will not exceed 40 feet above ground level or have any elevated activities with extended lines of site into the Raytheon Facility.
 - 3. No Foreign-owned/Non-NATO country-based businesses/corporations will be permitted.

D. Site access/traffic interference.

1. Aerospace, Defense and Technology Research and Business Park facilities, parking lots and access points are to be fed off of the Aerospace Parkway or internal circulation roads.

E. Compatibility with Integration Test Facility Operations.

1. No structures or activities within 1,500 feet of any integration test facility and energetic storage structures on existing Raytheon property.

IV. Proposed Raytheon Expansion Improvements and Economic Impact

Raytheon has announced their employment expansion within the region by 2,000 employees. This expansion will globally solidify their leadership position in national and international defense and will link their expansion decisions for continued growth in Tucson and southern Arizona, building on their strength and innovation in aerospace and defense assets, economic development and job creation. This action will result in 2,000 additional, high-technology, high-wage direct jobs over the next five years at their Tucson Headquarters and will result in several billion dollars of additional positive economic impact over the next 10 years. Raytheon Missile Systems will build and equip significant new additional capital facilities at their Tucson site to support their national and international contract requirements. The expansion construction and employment growth ensure that Raytheon, as the largest single private employer in Pima County, will continue to be a major economic driver of our local economy. For a variety of reasons, detailed information regarding their expansion plans are not being released, but they are real and verifiable.

V. Pima County Incentives

It should be noted that Pima County has been laying the groundwork for a number of years for Raytheon expansion as discussed in this memorandum. Section II contains a list of those actions taken by the County in anticipation of facilitating a Raytheon Missile Systems expansion in Tucson.

The primary Pima County incentives offered are as follows:

- A. The County will support a Foreign Trade Zone (FTZ) application by Raytheon in order for the company to receive a property tax reduction from the traditional 18-percent assessed value assigned to commercial property to a 5-percent assessed value. This property tax relief will last for the 10-year term of the FTZ designation. The FTZ property tax exemption will apply to existing Raytheon facilities, as well as the new Raytheon facilities proposed to be built, which have significant capital value. It is anticipated that with an approved FTZ application, which can only be approved by the US Department of Commerce and consented to by the taxing jurisdictions of Pima

County, this economic benefit will be approximately \$16 million in foregone property taxes over 10 years. Raytheon has also agreed to pay the full property tax assessment (18 percent) for educational institutions, which are the Sunnyside Unified School District, Pima Community College District and the Joint Technical Education District. These taxing entities will receive the full value of property taxes as paid at the higher assessment ratio. Given the direct and indirect economic benefits of an additional 2,000 highly-compensated employees within the region, the property taxes paid by this economic activity will be dramatically more than the FTZ property tax relief incentive. Even with the FTZ designation, the tax base of Raytheon will more than double.

- B. Pima County will agree to voluntarily restrict the uses of property acquired by the County to those terms and conditions outlined in Section III of this memorandum. This ensures Raytheon will continue to have viability of their radar testing range and retain security provisions necessary for Raytheon operations.
- C. The County as a lead entity will make significant additional capacity improvements to both the Aerospace Parkway and Raytheon Parkway, improving access to not only Raytheon but the emerging Aerospace, Defense and Technology Business and Research Park south of Raytheon that now includes World View and Vector Space and soon to be populated by additional Raytheon-compatible companies and business enterprises.
- D. In the near future, the County will agree to sell at market value Pima County-acquired property to buffer Raytheon south of their existing boundary, north of the Aerospace Parkway and west of Raytheon Parkway. This property contains approximately 48 acres. A significant portion of the property will be used in the development of a new, state-of-the-art, secure South Entry Control Facility approved by Raytheon and the US Air Force. The land will be sold to the US Air Force through the City of Tucson Annexation Fund (taxes paid by Raytheon to the City of Tucson). Monetary compensation will be due to the County for the sale based on market value. This market value will be similar, if not identical, to the land value basis for market leases entered into between the Tucson Airport Authority and the US Air Force for existing Raytheon facilities and potentially expanded Raytheon facilities proximate to existing facilities. The direct sale of this County property is authorized by ARS 11-254.04.

VI. Recommendation

It is recommended the Board of Supervisors take the following actions to incentivize Raytheon Missile Systems to expand their Tucson operations:

- A. Approve the voluntary restrictions placed on County acquired property to buffer Raytheon as identified in Section III of this memorandum. These restrictions are to be placed on any proposed land use of the County property leased or sold to a third party for economic development purposes. These restrictions ensure continued compatibility of the future land uses with Raytheon operations.
- B. Approve and support a Foreign Trade Zone (FTZ) application for Raytheon's existing operations, as well as the expanding operations proposed by Raytheon through a significant capital facility expansion. The FTZ property tax reduction will be subject to US Department of Commerce FTZ requirements, eligibility of Raytheon for said designation, and approval by the US Department of Commerce as an FTZ eligible property for both existing and future expansion facilities. Educational institutions will receive their full pre-FTZ property tax payments.
- C. Affirm County initiated and managed transportation capacity improvements to the Aerospace Parkway and Raytheon Parkway to expand traffic capacity and accessibility to Raytheon facilities based on additional employment.
- D. Reaffirm and commit to all of the previous actions of the County to facilitate Raytheon expansion and new and increased employment at their Tucson facilities as identified in Section II of this memorandum.
- E. Pursuant to ARS 11-254.04, authorize the County Administrator to, at the appropriate time, negotiate the sale of the entire property described as County land lying north of the Aerospace Parkway and west of Raytheon Parkway to the City of Tucson. This property will be utilized by Raytheon for the South Entry Control Facility to Raytheon. The sale of the County-owned property will be at the appraised market value and will be funded by the City of Tucson Annexation Fund designed to provide buffer space for Raytheon.

Respectfully submitted,



C.H. Huckelberry
County Administrator