8.J

TOWN OF QUEEN CREEK ARIZONA

TO: HONORABLE MAYOR AND TOWN COUNCIL

THROUGH: BRUCE GARDNER, TOWN MANAGER

FROM: DOREEN COTT, ECONOMIC DEVELOPMENT DIRECTOR

RE: CONSIDERATION AND POSSIBLE APPROVAL OF RESOLUTION 1594-24 APPROVING A DEVELOPMENT AGREEMENT BETWEEN THE TOWN, PINAL COUNTY AND LG ENERGY SOLUTION ARIZONA ESS, INC., FOR THE DEVELOPMENT ON A 90-ACRE SITE LOCATED WITHIN THE CORPORATE LIMITS OF QUEEN CREEK, ARIZONA AND OWNED BY LG ENERGY SOLUTION ARIZONA, INC., AND AUTHORIZING AND DIRECTING THE MAYOR, TOWN MANAGER, TOWN CLERK, AND TOWN ATTORNEY TO NEGOTIATE, FINALIZE AND EXECUTE THE DEVELOPMENT AGREEMENT AND ALL OTHER DOCUMENTS AND INSTRUMENTS AND TO TAKE SUCH ACTIONS AS NECESSARY OR APPROPRIATE TO CONSUMMATE THE TRANSACTIONS CONTEMPLATED BY THIS RESOLUTION.

DATE: May 15, 2024

Suggested Action:

Move to approve Resolution 1594-24 approving the Development Agreement among the Town, Pinal County and LG Energy Solution Arizona ESS, Inc., and authorizing and directing the Mayor, Town Manager, Town Clerk, and Town Attorney to do all acts and execute all documents to finalize such agreement, as more fully set forth in the Resolution.

Discussion:

After an extensive search, LG Energy Solution Arizona ESS, Inc., has selected the Town of Queen Creek to build and operate a 1,500,000 square foot advanced manufacturing facility bringing approximately 850 new full-time jobs and a $2.3 billion-dollar capital investment to the community. Production is slated to start in 2026. The development agreement outlines the Town's, Pinal County's and the Project's obligations related to the development of the selected site.

The Town did commission an analysis, prepared by Rounds Consulting Group, Inc., that summarizes the economic impact and public benefits of the project in Queen Creek.

Town Obligations

- Town will clear vegetation/existing structures from the Site.
- Town will expedite approvals/permitting for the Project.
- Town will defer all building/permitting fees for the Project. The deferral is tied to the expectation that LG Energy Solution Arizona ESS, Inc., completes construction, commences manufacturing operations at the site, and meets the employment requirement of over 850 benefitted employees. Upon meeting the Employment Objective the Town will waive the payment of the deferred fees.
- Town will pay all development impact fees relating to the development of the site providing the Employer meets the Employment Objective.

- Town will work cooperatively with LG Energy Solution Arizona ESS to negotiate and enter into one or more separate utility agreements to establish water and wastewater delivery, wastewater treatment, water recharge and infrastructure rates and costs for water acquisition, wastewater treatment, water recharge and additional water and wastewater infrastructure needed to provide capacity for the Project.
- If Foreign Trade Zone ("FTZ") criteria are met, Town will support the application to have the Site treated as a Federal Foreign Trade Zone FTZ.
- Town will provide a $250 per employee reimbursement for employee education and training assistance annually, upon receipt of the Annual Employment Certification for employees paid an annual wage as determined by the Arizona Office of Economic Opportunity (subject to a $250,000 cap).
- Town will assist Employer in identifying temporary office space and corporate housing within Queen Creek during construction of the facility.
- Town will assist local and state educational institutions with respect to applicable job training programs.

Pinal County's Obligations:

- County will expedite air quality permitting for the Project.
- If FTZ criteria are met, County will support the application to have the Site treated as a FTZ.
- County will facilitate workforce development for the Project through ARIZONA@WORK-Pinal County.
- County will reimburse Employer up to $3000/employee (if a Pinal County resident) or $1500/employee (if not a County resident) for a training assistance program if certain criteria (to be set forth in more detail in the agreement) are met. Current estimated value up to approximately $2.6M.

Town and County Joint Obligation:

- Town and County agree to perform their respective obligations under the German Road IGA and construct the improvements associated with the approve Germann Road alignment.
- The Town will make reasonable efforts to complete the construction of all improvements outlined in the IGA by June 30, 2026 and no later than the outside date of April 19, 2027.

Employer Obligations:

The Development Agreement provides specific requirements that the Employer must meet, including:

- Commence construction on or before November 1, 2024 and complete construction on or before sixty (60) months after commencement.
- Begin manufacturing operations on or before six (6) months after completion of construction of the required improvements.
- Required Improvements include an approximate 1,500,000 square foot manufacturing plant, with management, distribution, offices and administration facilities at a projected construction cost of $2.3B.
- Employment Objectives of at least 850 new, high income jobs in the Town.
- Obligated for the acquisition, treatment, recharge and infrastructure costs being those attributable to the Project as reasonably determined and agreed to in utility agreements.

Fiscal Impact:

The fiscal impact assessment relates to activities included in the referenced Development Agreement, exclusive of the entire project.

Revenues. This is the largest manufacturing development in the history of the Town. As a result, it will have significant, positive economic and fiscal impacts. These impacts include economic output, labor income, new jobs, and new state, county, and Queen Creek tax revenues.

To develop estimates of these impacts, many assumptions were made including construction costs, utility operating costs, employee wages, etc.

Tax revenue impacts are measured as either direct, indirect, or induced.

Direct impacts are the results of the project's primary activities. For example, direct jobs that build the facilities and workers employed at the site. Direct tax revenues are specifically measurable such as the sales tax on the construction of the facility, sales tax paid on electricity, natural gas, and water used in the manufacturing process, and property taxes.

These revenues are either one-time (i.e. construction sales tax) or ongoing (sales taxes from electricity usage). Specific to the Town, one-time revenues are estimated to be about $28M and annual revenues of $900K (once the site is fully operational).

"The assessed valuation of general property taxes" to include real/personal/property is estimated to result in annual revenues of approximately $703,500 by 2031. This amount considers the FTZ designation."

Indirect impacts are the additional effects that result from increased demand the supplier industries which provide services or products that directly support the construction and operations of the facility. For example, the new workers employed by suppliers who will provide construction materials.

Induced impacts capture further activity generated as a result of the increased spending by the households of the direct and indirect employees. For example, restaurant employees that are supported by the local spending of the direct construction workers.

Expenses

This Development Agreement requires the Town to construct additional road and utility improvements on the LG site, land adjacent to the LG site, and Germann Road. These improvements, referred to as the Germann Road Alignment, will be constructed by the Town and include the terms of an IGA with Pinal County outlining costs and general responsibility. While aspects of this roadway project were contemplated previously, the project was enhanced through this development agreement, causing modifications to cost components and physical placement. The Town had $14M assigned to this project and the modified costs are defined in the IGA with Pinal County. Pinal County has agreed to an additional contribution of $9.8M, which is expected to offset the upward revision in the project cost. If the total cost for this project exceeds the new estimate, Pinal County will be responsible for those costs.

Additionally, subject to the achieving the hiring of 850 new employees, the Town will pay an estimated $15M in building permit and impact/capacity fees.

Finally, the Town will pay up to $250K as a partial reimbursement for employer training costs, based on the number of new employees hired.

These costs will be paid for by various sources such as construction sales taxes, impact fees, capacity fees, and general taxes of the Town.

Alternatives:

Direct staff to change one or more of the items in the Development Agreement.

Attachment(s):

1. Resolution 1594-24
2. Development Agreement