



# MAYOR & COUNCIL COMMUNICATION

August 5, 2009

**Subject:** Approval of First Amendment to Pre-Annexation Agreement Page 1 of 3  
Between the City of Tucson and Raytheon Missile Systems,  
Tucson, AZ (Outside City -Ward 5)

Issue –The attached Resolution approves an amendment to the Pre-Annexation Agreement executed in 1995 by and between the City of Tucson and Hughes Missile Systems Company [now, Raytheon Missile Systems, Tucson, AZ (“Raytheon”)]. This First Amendment to the Pre-Annexation Agreement establishes the terms and conditions under which Raytheon agrees to annex into the corporate limits of the City.

Recommendation – It is recommended that Mayor and Council adopt the attached resolution approving the First Amendment to the Pre-Annexation Agreement between the City of Tucson and Raytheon Missile Systems, Tucson, AZ.

Background – Raytheon Missile Systems has a long history in Tucson, a history that started in 1951 with an announcement by the late Howard Hughes that a facility for Hughes Missile Systems (HMS) was going to be constructed on city owned land adjacent to the Tucson International Airport. Over the next 58 years the operation has grown to be the largest employer in the Tucson area. In 1997, Raytheon and Hughes merged and the local operation became Raytheon Missile Systems Tucson (RMST). RMST has grown to encompass three employment centers, the company’s divisional headquarters, the original facility adjacent to Tucson International Airport, the Rita Road Facility and the properties on or near Hemisphere Loop. The Hemisphere Loop properties are already located within the City of Tucson, while the Airport and Rita Road properties are located in unincorporated Pima County.

In 1995, the City of Tucson and HMS jointly executed two agreements: an Incentive Agreement and a Pre-Annexation Agreement. Under the Incentive Agreement, the City provided \$1.5 million dollars per year for five (5) years in consideration for Hughes’ addition of qualified high quality and high paying jobs at its facility. As a condition of the agreements, Hughes (now, Raytheon) agreed to sign an annexation petition when presented with one by the City. In turn, the City committed to exercise its best efforts, upon annexation of the Hughes property to ensure that Hughes would not be subject to additional costs as a result of annexation for a period of ten (10) years from the date of annexation. The 1995 agreements provided a fifteen (15) year period for the annexation to be completed.

Over the intervening years meetings were held between the City and RMST, but the annexation did not progress towards adoption. In 2008, the Mayor, City Manager, City Attorney and annexation staff met with senior management from RMST to initiate annexation talks once again. During the course of the subsequent negotiations, the parties focused upon the additional costs that RMST would face as a result of annexation, and specifically the City taxes that RMST would be subject to upon and after annexation. These taxes included lease, utility, franchise and use taxes.

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The attached First Amendment to the Pre-Annexation Agreement represents the negotiated resolution of these additional costs, in a manner consistent with the agreements executed in 1995. Specifically, the projected additional costs to RMST during the first 10 years following annexation are projected at \$16.8 million. Under the terms and conditions of the attached First Amendment, the City shall use its best efforts to mitigate these additional costs by:

- 1) executing an Automatic Aid Agreement with RMST for Fire Protection and Hazardous Materials Incident Response;
- 2) agreeing to establish a reserve account (the "Annexation Account") into which up to \$8 million of the additional tax revenues shall be deposited for the purpose of funding public projects that inure to the mutual benefit of the City and Raytheon. Examples of appropriate expenditure of monies from the Annexation Account include, without limitation:
  - (a) design, construction and maintenance of public infrastructure such as roadway improvements, traffic signals and other traffic control devices. The first such project shall be the design and construction of a span wire traffic control signal at the intersection of South Hughes Access Road and the entrance to Plant 44;
  - (b) design, construction and maintenance of public water delivery infrastructure;
  - (c) enhanced transit services and facility improvements;
  - (d) additional or enhanced bicycle paths or trails, or park improvements;
  - (e) acquisition of property rights or property interests that result in conservation, preservation of open space or other public purposes, including encroachment prevention;
  - (f) funding of job training and education efforts, including education and training in technical and scientific fields, that may benefit both parties;
  - (g) other capital improvements or projects that benefit both parties.

Per the attached Amendment, any expenditure of the Annexation Account monies will be subject to appropriation by the City's Mayor and Council. Per the Amendment, the City will set aside the revenues pursuant to an approved schedule, under which \$400,000 would be set aside in the first year; no revenues would be set aside in years 2 through 4 following the annexation; and all use taxes, together with all sales taxes and public utility taxes associated with Raytheon's

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electricity usage will be set aside in years 5 and subsequent after annexation (capped at \$8 million).

The Amendment also provides that if the City annexes the Raytheon facility located at 9000 S. Rita Road during the term of this First Amendment, then the amount of monies to be deposited into the Annexation Account will be reduced by an amount of \$200,000.00 for each fiscal year following that annexation. The Amendment also provides that if the City is able to create a "buffer" preventing encroachment of development in the area (of approximately 200 acres) south of Raytheon's final assembly and checkout (FACO) facility, the City's obligations to set aside the described tax revenues terminates.

Legal Considerations –The City Attorney prepared the attached Resolution for your consideration and approval. Annexation of the Raytheon Annexation District under the terms of the attached amendment will complete the condition specified in the Pre-Annexation Agreement originally approved by Mayor and Council under Resolution #17102 in 1995.

Financial Considerations – Annexation of the Raytheon Annexation District under the terms of the attached Amendment will result in additional tax revenues collected from within the annexation district. The proposed annexation is projected to generate approximately \$16.8 million in additional tax revenues for the City over the next ten years, of which \$8 million will be set aside in the reserve account described above to fund public projects that will benefit both Raytheon and the City of Tucson.

Respectfully submitted,



Mike Letcher  
City Manager

MH/MR/  
City Attorney's Office

Attachments: Resolution with attached Exhibit 1:  
First Amendment to Pre-Annexation Agreement