

**Report of the  
96<sup>th</sup> ARIZONA TOWN HALL  
“BUILDING ARIZONA’S FUTURE: JOBS, INNOVATION & COMPETITIVENESS”  
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*\*Note: This is a working draft subject to further grammatical changes and clarification.*

Two and a half years into the worst economic downturn since the Great Depression, Arizona’s economy—and its residents—continue to struggle, even while other areas of the country, including a few neighboring states, show signs of recovery. Over the last 25 years, Arizona has grown increasingly dependent on population growth and the attendant growth in housing construction and service industries. This dependence has rendered the State particularly vulnerable to the mortgage and consumer credit crises of the last two years.

Construction jobs and home equity can no longer support consumption as Arizonans continue to lose their homes and jobs in alarming numbers. Numerous tax cuts during the boom years and voter-approved spending increases have created a long-term structural deficit in the State’s budget. Declining tax revenues since the bust have had a disastrous effect on the budget. Arizona’s response to this budget crisis has been to reduce social services and education spending at precisely the moment that both are needed to help weather the downturn and to prepare for a recovery.

In these challenging times, a diverse cross-section of Arizona residents came together in Tucson to look beyond the present crisis, to seek consensus on what the State’s post-recession economy should look like and to identify the best means for achieving that desired economic future. This report is the result of their efforts. While not all Town Hall participants agree with each of the conclusions and recommendations, this report reflects the overall consensus achieved by the 96<sup>th</sup> Arizona Town Hall.

## **Factors Shaping Arizona’s Current Economy**

Historically, the “Five C’s” of climate, copper, cotton, citrus and cattle have been the primary factors shaping Arizona’s economy. In recent years, Arizona’s primary economic driver—particularly in the State’s metropolitan areas—has been population growth, which results largely from the quality of life that Arizona’s climate and natural beauty make possible. The Central Arizona Project and Salt River Project, as well as investment in highway development, have concentrated the infrastructure to accommodate Arizona’s growing population in selected, and primarily metropolitan, regions. And, until the recent economic downturn, new home construction had been a leading source of employment.

As Arizona’s population has grown, it has also become more diverse demographically. For example, while retirees remain a significant percentage of the population, the percentage

of families with school-aged children also has increased. Arizona, however, has not planned adequately for that demographic shift, particularly with regard to educating the upcoming generations of Arizonans who will shape our economic future.

Arizona's higher education system includes three public universities and numerous public and tribal community colleges throughout the state, as well as a variety of private post-secondary schools. Although Arizona's higher education system has grown and has contributed to the State's economy, Arizona has not fully capitalized on technology and other knowledge sources developed in our higher education centers.

## **Strengths of Arizona's Current Economy**

Despite the recent downturn, Arizona's economy has multiple sources of strength, many of which relate to the State's physical attributes. Arizona's climate, unparalleled natural beauty, cultural amenities, world-class resorts, and year-round sports and recreation opportunities are the basis for its tourism industry and contribute to a quality of life that attracts and retains residents. Arizona also has significant natural resources, including copper and other minerals, of course, but also sun and wind—which are potential sources of sustainable, clean energy. Arizona's extensive open spaces make possible industries like agriculture, ranching, timber, and military installations, while our shared borders with Mexico and California facilitate trade.

Another strength of Arizona's economy is our promotion of and capacity for technological innovation. Owing partly to the State's higher education system, which promotes cutting edge technology and workforce development, Arizona's high-tech industries include healthcare, bioscience/biotechnology, semi-conductor manufacturing and aeronautics. New technologies are also improving agricultural practices in Arizona, which now include wine production, sustainable agriculture and hydroponics.

But Arizona's greatest economic strengths are the diversity and entrepreneurial spirit of its people. Arizona attracts many people, including new arrivals from different cultures, demographics and walks of life, all of whom have the opportunity to achieve success in our communities, start new organizations and businesses, and create change.

## **Regional Differences in Arizona's Current Economy**

Important differences between Arizona's rural, tribal and urban areas mean that Arizona's "economy" is better described by the plural term "economies." Economic drivers like transportation, telecommunications, broadband and educational opportunities are often weaker (and are sometimes absent) in rural and tribal areas as compared to urban areas. For instance, the State's universities create unique strengths in our urban areas that are not broadly shared with the rural parts of our State. Pre-K-12 education also struggles more in rural and tribal communities than in urban centers because of difficulties attracting and retaining excellent teachers from our own universities as well as nationally. On the other hand, agriculture and mining, which remain significant components of the statewide economy, are

primarily concentrated in rural and tribal areas, where these industries are often central economic drivers. Casinos provide unique opportunities for tribal communities that also benefit and may challenge surrounding communities.

## **Weaknesses of Arizona's Current Economy**

Arizona's economy is weakened by several key factors -- primarily the lack of strong, visionary political leadership and the failure to fund Arizona's educational system adequately.

Strong, visionary leadership is needed to create the comprehensive and effective statewide economic strategy that Arizona needs to succeed. Our political leaders are underpaid and, because of term limits, generally under-experienced and lacking in institutional memory. Term limits also hinder the development of true statesmen able to effect meaningful policy change and shield politicians from accountability for their failures and misguided policies. This is particularly troublesome when the policies create negative perceptions about living and doing business in Arizona.

Arizona likewise lacks consistent business leadership. Because few corporate headquarters are located in Arizona, we do not have enough business leaders with statewide and national influence. This situation is only exacerbated by the "brain drain" that results when our educated professionals leave Arizona for places with better opportunities and a higher quality of life. Although Arizona's rural communities have long experienced this type of human capital loss, it is now a statewide problem that prevents Arizona from growing new business leaders at home.

Arizona's leadership void results in the adoption of statewide economic policies that are often inadequate, unfocused and contradictory. For instance, Arizona's funding for economic and workforce development initiatives has long trailed that of other states, yet it continues to be cut. Arizona is one of the few states in the nation that does not provide direct funding of the small business development centers. In addition, Arizona consistently fails to collaborate with local and regional economic development efforts and, worse yet, it sometimes fails to communicate at all with communities about initiatives that negatively affect local economies. Other policies, such as education funding cuts, directly counter the desires of a majority of Arizona's residents.

Another fundamental weakness of our economy is Arizona's failure to adequately fund and administer its preschool through secondary education system. Arizona has not invested adequately in teachers and does not have a curricular structure that produces graduates with the skills needed to succeed in Arizona's workforce. High school drop-out rates are abysmal, particularly among Hispanic and Native American populations. And Arizona provides insufficient vocational education options and has had few lower cost alternatives to university education. As a result, Arizona's work force is insufficiently qualified to attract many desirable employers. Arizona's under-funded education system also creates the perception that Arizona is a bad place to raise and educate a family, which harms our recruitment efforts. Last, our education system, which inhibits us from attracting and maintaining desirable employers, also limits our ability to provide high-quality jobs for the educated professionals

we do produce. Thus, we create a devastating cycle of losing and being unable to attract high-quality jobs and workers.

Another key weakness of Arizona's economy is insufficient funding for government and business. Arizona's structural budget deficit cannot be remedied by our current tax structure. Arizona's budget is also hampered by spending obligations created in referenda and federal mandates. Similarly, not enough start-up capital is available in Arizona to support the development and growth of high-tech and other businesses that produce desirable, high-paying jobs.

### **Actions Taken to Reduce Weaknesses**

Arizona stakeholders have taken various actions to address the State's economic weaknesses. Public/private partnerships such as the Biotechnology Corridor, the Power Knowledge Corridor, the ASU Polytechnic Campus, the Phoenix-Mesa Gateway Airport, the Discovery Triangle, NAU Ventures, Northern Arizona Center for Emerging Technologies, University of Arizona's Science and Technology Park, and the Arizona Fund of Funds are attempting to create various economic drivers. Purely private organizations have also played an important role in focusing Arizona's economy on the future and promoting the development of civic skills and understanding in Arizona's citizens. The State Legislature has adopted or is working to adopt renewable energy tax credits, improved enterprise zone legislation and changes in the Arizona Department of Commerce. Other actions addressing weaknesses in Arizona's economy include greater collaboration among our higher educational institutions and between higher education and industry; downtown revitalization efforts; and expanding sports facilities and developing light-rail in the Phoenix metropolitan area. Medical services to areas outside of the Phoenix metro area are severely lacking. We must develop incentives to encourage primary care physicians and support staff to locate and stay in rural areas.

### **Effect of National and International Economic Conditions on Arizona**

Arizona's economy is inordinately affected by national and international economic conditions. The international mortgage and credit crises have virtually shut down construction, Arizona's primary economic driver in recent years. At the same time, diminished disposable income nationally and internationally has adversely affected Arizona's tourism industry. The stock market plunge has particularly harmed fixed-income, investment-reliant retirees who play a substantial role in our economy. Some of Arizona's service-related jobs, such as call centers, have been particularly vulnerable to international competition, while offices of businesses headquartered out of state, as many are, are the first to close. Because of a structural budget deficit tied to earlier tax cuts and diminishing income and sales tax revenues, the State's debt is growing every year.

## **Arizona's Competitive Assets in the Global Economy**

Arizona has many unique assets that may enhance its competitiveness. Arizona's climate and natural beauty, including internationally known attractions like the Grand Canyon, Monument Valley and the red rocks of Sedona, draw tourists from around the world. Arizona's climate also provides the opportunity to develop alternative energy sources, such as solar and wind. Our excellent climate and lack of natural disasters may be marketed to businesses as creating a safe location for data storage and technology, and reducing "down times," such as travel delays, resulting from weather conditions. Arizona's clear skies have also drawn opportunities in astronomy and optical sciences. Its virtually unrestricted airspace attracts global civil and military aviation activity.

Arizona's higher education system also offers unique opportunities that can be promoted globally. TGen and other bioscience entities and our world-renowned health care facilities are significant resources. Arizona's proximity to California and Mexico provide the potential for cross-border energy development and transmission. Arizona's proximity to Mexico provides an opportunity for cross-border cooperation in developing regional industries and markets. Arizona has unique agricultural assets, including Pima Cotton and a vertically integrated produce industry. Copper remains an important contributor to Arizona's global competitiveness, especially given the development of copper-dependent technologies like hybrid vehicles and solar.

## **How Arizona's Economy Compares to Others**

Arizona has the opportunity to be innovative in future economic development programs. Although Arizona's economy is not locked into smokestack industries, idle factories and legacy programs, it suffers from a lack of research and development and manufacturing, particularly in the high-tech sector. Arizona lags behind not only high-tech leaders like Silicon Valley, Boston and North Carolina's "Research Triangle," but also our western-state competitors like Colorado, Utah, Oregon, New Mexico and Texas (particularly Austin, the "new Silicon Valley"). None of these states has been affected by the economic downturn to the extent that Arizona has, and our State does not compete well when it comes to government efforts to recruit and attract businesses.

## **Barriers to the Optimal Economy**

A key barrier to Arizona developing an optimally functioning, vibrant and competitive statewide economy is the lack of sustained implementation of a statewide vision for economic development. Without such a vision or plan, economic development activities in Arizona are implemented on an ad hoc basis. This hinders Arizona's ability to address complex issues. It also fosters wasteful competition for resources between urban and rural regions of the state, as well as between municipalities and communities within the same region.

Arizona's structural deficit, fractured tax structure and certain provisions of its Constitution also impede economic development by preventing the State from funding economic development initiatives and restricting Arizona's ability to compete for economic development opportunities. For instance, the gift ban in Arizona's Constitution prevents the State from providing incentives to companies seeking to relocate to Arizona. Arizona law also limits financing options that are available to attract businesses to Arizona, such as tax increment financing. Arizona's tax structure's sensitivity to business cycles causes uncertainty and hinders long-term financial planning. Furthermore, Arizona's structural tax deficit makes it difficult to implement incentives without exacerbating the State's other budgetary problems.

A third barrier is Arizona's lack of capital and lack of funding for economic development activities, new company formation and growth of existing companies. Businesses in Arizona are currently unable to create new jobs because of a dearth of capital, in both the lender and venture capital markets, available for private sector growth in Arizona. Moreover, Arizona's communities are perpetually seeking new ways to develop the funds and resources needed to conduct economic development activities, which is particularly difficult in Arizona's rural areas. Unfortunately, the State is in no better position to conduct these activities or provide the funds needed for the communities to undertake them. Yet our inability to bring incentives to the bargaining table puts Arizona at a distinct disadvantage when companies are shopping for locations among states like South Carolina and Texas, which have the resources to "buy" jobs. Additionally, Arizona needs to acknowledge retention, expansion, incubation and entrepreneurship as viable and strong economic development drivers and fund them accordingly.

Another key barrier is Arizona's inadequate funding for education, including pre-kindergarten, primary, secondary, and traditional higher education, as well as technical training and adult re-education. Failure to adequately fund and manage Arizona's educational systems has contributed to unacceptably high rates of adult illiteracy and an unskilled workforce that inhibits growth statewide. Our education shortcomings also hurt Arizona's ability to attract educated workers and jeopardize Arizona's federal funding.

The availability of resources, including water, waste management and recycling, energy generation and quality air may also present a barrier to Arizona achieving its optimal economy. Insufficient infrastructure, particularly technology infrastructure in rural communities and transportation infrastructure, is another barrier. Arizona's complicated and inefficient regulatory processes can also be a barrier to businesses. Finally, negative perceptions about Arizona, perhaps exacerbated by recent legislation, can be a barrier to developing Arizona's optimal economy.

Although these barriers apply in some respect in all communities across Arizona, economic development issues in general affect rural and tribal areas more severely than urban areas because of the relative lack of resources in those areas. In addition, geography produces climatic differences and differing access to resources and infrastructure, which influences the regional effect of the barriers. For border communities, proximity to Mexico also affects the impact of these barriers.

While Arizona does not currently have a cohesive, statewide strategy to create, retain, grow and attract businesses, jobs and people, a number of organizations, utility companies and other stakeholder groups have generated economic development strategies for Arizona. In addition, other organizations are working collaboratively to attract out-of-state companies and jobs and forestall competition between neighboring communities. These include a number of public/private technology incubators. Similar efforts have also been developed for cross-border (both international and domestic) collaboration.

## **Guiding Principles for Arizona's Economic Future**

To grow, change or sustain Arizona's economic activity, we must focus on long-term planning, not just short-term solutions. We must be good stewards of our natural resources, and think about sustainability in economic and societal as well as environmental terms. For instance, Arizona should consider implementing a more innovative regulatory and marketplace framework to provide cost-effective energy and smart grid technologies while ensuring the reasonable management of water and other natural resources.

Diversification is central to a sustainable economy. Efforts at attracting business, large and small, should be focused on those that export goods and services but Arizona must be open to innovations that provide opportunity and access in businesses of all types and sizes. For instance, Arizona should not focus solely on attracting large companies. Smaller boutique-style businesses may do a great service—and present a smaller exit risk—to the Arizona economy. Our business development strategies should recognize the reality of the global, knowledge-based economy in which Arizona is currently competing, but also respect Arizona's historical strengths. Arizona must foster the perception and reality of participating fully in the domestic and global economies.

Arizona should grow and attract export oriented companies and jobs that import dollars and attract talent. Currently there is insufficient venture capital, angel investment and debt capital. Creation of a fund of funds and other capital sources, as similarly used in other states, is necessary to growing and sustaining Arizona's economy.

As a state we must recognize that educational attainment and economic development are closely interrelated. To grow and sustain its economy, Arizona must develop its human capital through early childhood, K-12 and higher education; secondary training and lifelong learning. Educational institutions are critical partners for innovation, tech transfer and the invention of products. They support business incubators, research and development and a skilled workforce, thus improving our global competitiveness. Arizona educational institutions need to work cooperatively with industry to ensure that we are preparing the kind of workforce that industry can rely on—and that industry in fact relies on that workforce Arizona prepares.

Commitment to community development, both in how we deal with one another and in how we design our communities, is another fundamental principle. Support for the arts and

culture, social and human services, sports and recreation, and historic and natural preservation are crucial to creating the “sense of place” and quality of life that promote our communities to Arizona residents and visitors. Developing and sustaining our communities will help us attract and retain young people and families to Arizona and encourage investment from our retiree population.

Sustainable economic activity also requires a predictable, rational framework of legislation and regulation. This includes a comprehensive, integrated and balanced tax structure and a clear, reasonable and efficient regulatory system.

## **How Stakeholders Influence Arizona’s Economic Development**

Arizona stakeholders work together through a variety of organizations to influence economic development. These efforts often include participants from government, community organizations, higher education, and business and industry. The most successful of these organizations have been public/private partnerships that bring together diverse perspectives. Generally, they are either between higher education and non-profit entities or between government agencies and regulated industries. In particular, the agency/industry efforts have been quite successful at improving trust and mutual understanding of common issues through regular, structured interaction. Other successful public/private partnerships include regional entrepreneurial blueprints, technology parks, and technology corridors, all of which facilitate the development of emerging technologies and foster start-up companies.

Other mechanisms by which stakeholders collaborate include state and local stakeholder groups, citizen advisory committees, intergovernmental collaboration efforts, regional planning processes, and private industry groups such as the Chambers of Commerce. Non-profit think tanks can also influence economic development by promoting policies, information and ideologies and lobbying groups influence through lobbying the legislature and government. Lastly, community groups work together to encourage new programs, to change public perceptions and to provide opportunities for community discussion, all of which can influence economic development even if they do not directly create any jobs.

Optimizing stakeholder collaboration efforts requires statewide long- and short-term economic development plans that recognize the varied needs of Arizona's urban, small town, rural and tribal communities. Such plans must focus on diversifying Arizona's economy and preserving our cultural, historical and scenic assets and be routinely updated. Compliance with such plans should be regularly monitored. The plans should also contain metrics by which their success will be measured. Then, the plans should be used to direct local and regional efforts in developing action agendas and sharing best practices. Such efforts should be coordinated to ensure achievement of the statewide vision, to foster communication and cooperation across the State, and to minimize competition for resources within the State. If restructured, the Council of Governments could potentially serve this coordination function.

## **The Effect of Fiscal Challenges on Arizona's Economy**

In the recent economic downturn, the interaction of government activity and market forces has created numerous challenges for Arizona's economy. The loss of tax revenue means that, at the state and local level, only very basic government services are being provided. Additionally, as Arizona residents experience the results of the economic downturn in job, healthcare and home loss, municipalities must provide more services to more people with less state funding. Such unfunded mandates result in inconsistent service delivery. Reduced funding to state regulatory agencies has made it difficult to do business in Arizona and has inhibited government from performing its own mandates. Moreover, as government is one of the predominate employers in the state, reductions in this labor force have ripple effects throughout the economy by increasing the ranks of the un- (or under-) employed. Reduction in government programs and services appears to be reactive rather than proactive—the result of budget decisions driving policy as opposed to policy driving budget decisions.

Many community organizations have been forced to close, and the ability to take steps to improve quality of life is severely limited. Arizona municipalities are eliminating positions related to economic development, while the State has cut the Department of Commerce and funding to Science Foundation Arizona. Reduced funding to educational institutions adversely affects the skill level of the State's potential workforce as well as research and development and technology incubators. Arizona needs to be forward thinking about funding opportunities and be prepared to exploit funding opportunities as they arise. By failing to maintain our current investments in certain programs, such as Kids Care, adult basic education, graduate medical education, and career and technical education, Arizona jeopardizes additional or continued federal funding, thus multiplying the negative impact on Arizona's economy.

Arizona's economy is also vulnerable to federal fiscal challenges and priorities that uniquely effect our state, including immigration policy and border control issues, health care reform, the future of Social Security, Medicare and other entitlements for the United States' aging population, the level of defense spending and national debt financing. As the country emerges from the recession, federal priorities may shift to debt reduction and away from spending. To the extent that Arizona lags behind the national recovery, as it is predicted that it will, Arizona's previous reliance on federal funding may create additional economic challenges.

## **Strategies for Implementing Arizona's Economic Goals**

Considering the challenges affecting the development of Arizona's economy, Arizona should implement the following strategies to meet its economic goals. Strategies that require additional funding should not be rejected out of hand where the potential benefits outweigh the costs.

First, Arizona should make legal and policy changes needed to improve economic stability and increase Arizona's opportunities to grow its economy. In particular, if laws or policies needlessly obstruct economic growth, they should be revised. The Gift Clause of the Arizona Constitution, for instance, impedes Arizona's ability to provide incentives to attract new businesses. If this law is no longer serving the State's best interests, Arizona should explore the possibility of changing it. Similarly, Arizona should implement state trust land reforms that will allow flexibility in the management, conservation and development of state trust land while protecting the rights of existing agricultural and grazing users. Arizona should also consider implementing new funding sources that reduce the vulnerability of our revenue stream to economic fluctuations. Such new funding sources might include a combination of property taxes, increased income taxes, toll roads and other revenue sources. Moreover, Arizona should strive to make government more transparent so that citizens understand the need for and benefit realized from adequately funding government. However, Arizona should also explore ways to reduce government spending, including an examination of privatizing certain government services and functions.

Second, Arizona should revamp its educational systems from pre-kindergarten through higher education. As part of this effort, the efficiency of existing funding allocations should be maximized and the adequacy of the school equalization funding formula and other funding sources should be evaluated. Arizona should also adopt internationally competitive education standards to ensure that students emerge from high school prepared with the skills they need either to go to work or to continue their education. Additionally, Arizona should continue to market its existing community college technical programs, career and technical education (CTE), and job training programs. Lastly, Arizona's universities should be encouraged to continue and expand their efforts in technology transfer and are encouraged to take an interest, either direct or indirect, in the intellectual property developed on campus and transferred to industry.

Third, Arizona should adopt as statewide vision for economic development and coordinate state, regional and local economic development efforts, including international and interstate economic development, in coordination with that vision. In developing a statewide vision, Arizona should evaluate the economic development strategies of states that have been affected less severely by the recession to determine whether parts of their strategies could also be successful here. Then, in coordinating development efforts, Arizona should implement aggressive, new, non-capital intensive methods to accommodate business needs. One option might be to create a statewide rapid response team to react quickly and nimbly to emerging opportunities. Another option is to create a fund of funds that can provide capital or incentives for new business without relying on public funding. In addition, Arizona's economic development vision should focus on public/private partnerships and other efforts that focus on business creation, growth of existing local businesses, promotion of entrepreneurship, diversification of the economy, and attracting and leveraging private investment.

Finally, Arizona should recognize Mexico's importance as a trading partner and source of labor. As such, trade with Mexico should be facilitated, a guest worker program instituted, and a federal solution to illegal immigration should be sought. In the meantime, recent

legislation that appears to be detrimental to the continued development of our state should be reexamined. Relations between Arizona and Mexico must be repaired.

## **Jobs to Provide Arizona's Ideal Economy**

The jobs that will promote Arizona's ideal economy are in diverse industries that capitalize on the strengths of Arizona's communities, are sustainable—both financially and environmentally—and produce a high quality of life in their communities. Diversity is important because Arizona's communities vary so greatly that no one-size-fits-all jobs solution will produce Arizona's ideal economy. Thus, no industry should be uniformly dismissed as undesirable, unless it is not compatible with the state economic plan, because even if an industry is incompatible with one community, another community would likely welcome it. However, Arizona should grow, retain and attract those businesses, jobs and people that export goods and services in order to increase wages across the state. In whatever industries Arizona seeks to develop jobs, those jobs should be at all levels of our target industries, including the highest-levels of corporate management. These are the jobs that will attract business leaders to our communities and retain newly-educated future leaders produced at our schools.

Given the diversity of our state, Arizona can benefit most from jobs in value-added agricultural, mining and forestry industries, tourism (including destination, cultural and eco-tourism), call centers and warehouse and distribution centers. Also important for Arizona are jobs in traditional agricultural markets and in emerging agricultural markets like specialty farming and ranching, grow-local initiatives, and agro-tourism. Arizona also has the potential to develop jobs in import substitution and local fulfillment industries. Finally, despite the inconsistent distribution of technology infrastructure across the state, technology-based jobs, such as internet-based micro-businesses, are another part of Arizona's job solution.

The most lucrative jobs in Arizona are in emerging skills- and knowledge-based industries. These industries provide higher than average wages, build on the strengths of our universities, draw capital into the state, and produce a high proportion of subsidiary benefits in the form of spin-offs, boutique industries, support jobs and service jobs. For instance, the renewable energy industry encompasses the manufacturing, installation and maintenance of distributed and utility-scale power generation facilities, installation and maintenance of transmission and retail distribution infrastructure, and on-going research and development. Given the variety of jobs produced by this industry, together with Arizona's abundant sunshine and proximity to California's growing demand for renewable energy, Arizona should continue to pursue jobs in the solar industry. Arizona should also pursue jobs in green industries, such as those working on efficiency improvements and developing new recycled products. These jobs are particularly desirable because they are sought by many of the newly-educated professionals Arizona seeks to retain.

Jobs in other high-tech industries should also be a focus for Arizona because of the opportunities created by our universities. Arizona's universities are particularly strong in the fields of optics, engineering, medicine, computer science, aerospace, planetary sciences, water

resources and bioscience. Arizona should maximize partnerships with high-tech industries that can apply technologies developed at our universities to create jobs in emerging fields. Other important jobs for Arizona are in the health care sector, including those for health care providers, health-related information technology professionals, and manufacturers of medical devices. The health care industry is particularly important because it both meets the needs of Arizona's population and adds to Arizona's reputation as a health care destination.

## **Key Factors Driving Arizona's Ability to Attract and Retain the Companies, Jobs and People We Want**

Education, infrastructure, capital, quality of life, and barriers to market entry are the four main factors driving Arizona's ability to attract and retain the companies, jobs and people we want.

Arizona needs an adequately-funded and highly-functioning educational system at all levels in order to attract and retain the employers we seek and to train and educate the workforce we need for the companies and jobs we want. Our educational system must also embrace the creative workforce of the future, producing graduates prepared to compete in an innovation and knowledge-based economy. In addition to science, technology, engineering and math (STEM), our Pre-K through 12 education must include an emphasis on the arts, humanities, sustainability and economics to help our children successfully compete in a global economy. Currently, however, Arizona is not focused on education and cuts to our education budgets are causing Arizona to develop a national reputation for poor education. This severely handicaps our ability to incubate, grow, attract and retain the companies and jobs Arizona wants.

Infrastructure is another key consideration for attracting and retaining the jobs Arizona wants. In particular, transportation and data transfer infrastructure are especially important. The businesses whose jobs we are seeking require connectivity for their workforce, products and services. This includes physical connectivity through an efficient and interconnected transportation network, as well as data connectivity through broadband. Particularly in rural Arizona, access to broadband is a major problem. Arizona's lack of regional transportation corridors is also a particular problem for rural Arizona. Access to efficient public transit, on the other hand, is a problem throughout almost all of Arizona and improvements are needed across the state to create an integrated multimodal transit system. The Smart Grid is another important infrastructure for Arizona and should be supported. Again, Arizona is not currently focusing adequate resources on infrastructure issues. Although the metropolitan Phoenix area has made significant progress with its freeway system and light rail and many areas of Arizona have improved access to broadband, there are infrastructure issues in some areas of the state.

A key factor lacking to create new companies that can scale rapidly is venture capital. Arizona individuals, businesses, foundations and pension funds should make it a first priority to support the current Fund of Funds initiative to create a \$100 million fund that will invest in approximately ten venture funds that will invest in Arizona companies.

Quality of life is a broad category of factors that are important because they determine whether people want to live in Arizona. Businesses are, after all, merely collections of people. Thus, important quality of life factors for Arizona are the ones that are important to the people comprising the businesses whose jobs we want. Primary among those factors are access to the arts, museums, sports, and other cultural opportunities, availability of parks and recreation, efficient mass transit, access to affordable housing and utilities, a vibrant community or urban center, and access to quality health care and education. Other quality of life factors are as important but less tangible. One is a sense of place or feeling of belonging in the community. Another is a feeling that the community is safe, inclusive and tolerant of all people, cultures, view-points and life styles. Arizona's track record in this area is uneven and needs to be improved.

## **Arizona's Job Growth Incentives**

Arizona and its local communities have little experience implementing job growth incentives. This is largely because, until the current recession hit, Arizona has had little need to provide incentives. As a consequence, Arizona lacks a basis for determining which incentives will be the most effective or whether incentives can provide measurable results.

To the limited extent that incentives have been used in Arizona, workforce training programs seem to produce good results. Private incentives, such as angel tax credits, also appear to work. Certain tax incentives have also been successful, including targeted and limited-duration tax credits designed to recruit specific industries and professions, angel investor tax credits, film tax credits, and job training tax credits. Business incubators and research parks associated with Arizona's universities have also been successful at encouraging technology transfers and supporting university entrepreneurial programs. Lastly, enterprise development zones and small business development centers have been successful in supporting job creation and retention as well as job training.

Other incentives have not been widely implemented in Arizona but would be likely to produce benefits. For instance, scholarships and student loan forgiveness programs could be used to encourage young professionals to stay in Arizona once they complete their higher education. Tax incentives such as payroll tax rebates, research and development tax credits, education tax credits, tax credits for employers who hire local graduates, and tax abatement programs, including for private equity and venture capital company investments in Arizona, could be tailored to apply only to target industries without impacting state revenues too severely. State and local procurement policy should be changed to recognize the inherent benefits of awarding resident bidders special preference as a means of increasing economic impact for towns, cities and the State. Arizona universities should offer resident tuition to relocating professionals and their families in high tech industries. In addition, Arizona's universities and community colleges could partner with industries to train students specifically for industry jobs, thus reducing industry training costs. Arizona could also ensure that adequate statewide assistance is provided to start-ups and existing businesses. Arizona could also provide funding for its own competitive small grant program to start ups and existing businesses. Other potentially helpful incentives include a state deal closing fund

(although this requires a change to the Gift Clause of Arizona's Constitution) and direct public investment in industry.

Incentives at the city and county level can also provide meaningful benefits. For instance, deferrals of local impact fees, creation of enterprise zones, support for industrial development authority bonds, provision of below market rents in community revitalization zones, and working with ADOT to diminish bureaucratic hurdles in securing access to business property could all be beneficial incentives. Cities and counties could also provide incentives by assisting businesses to obtain permits, licenses and entitlements.

## **Opportunities and Challenges for Improving Arizona's Use of Incentives**

Arizona has many opportunities to improve our use of incentive programs. However, the most important opportunity at this time is continuing to support programs that are already under development or in operation. Recently a national audit of state incentives was completed for the State. The audit included the identification of a set of incentives appropriate for use in Arizona based on best practices. Arizona should evaluate and seriously consider adopting these incentives and develop a performance based monitoring system. Arizona must enable and empower all local governments to equitably utilize competitive economic development incentives such as tax increment financing and sales tax rebates.

The primary challenge Arizona faces in improving our use of incentives is the State's budget deficit. Another challenge is the lack of strategic plans for state and local communities to guide the implementation of incentives.

## **Resources and Strategies for Getting the Jobs We Want**

Some public and private resources currently are available for economic development that leads to creating, retaining and recruiting preferred jobs. But these resources are not plentiful, and expanding them is challenging given current economic conditions, fiscal constraints and other limitations. Available economic and job development resources include:

- small business administration programs like the Women's Business Center, Arizona Small Business Development Centers Network and Service Core of Retired Executives Association (SCORE), which are supported by federal funds and cash matching;
- local zoning and/or tax incentive programs like overlay districts, enterprise zones, tax increment financing (TIF) zones, community facilities district (CFD), foreign trade zones and military reuse zones, industrial development authority, industrial development districts (IDDs) and government property lease excise tax (GPLET) programs, as well as innovative applications of impact and other fees to incentivize business;
- private industry trade associations and cluster groups;

- career and technical education (CTE) programs and community college workforce programs, which may be funded by federal block grants or state funds, as well as training programs and scholarships supported by private corporations;
- federal economic stimulus funds controlled by the Governor that she has committed to use for economic development and job training;
- non-profits and community development organizations;
- early stage capital, bond financing, out-of-state venture capital and angel investment, though these are available in insufficient quantities; and
- developing angel investor groups to support start-ups.

Strategies for increasing resources to support economic development and job growth include:

- creating a statewide, long-term economic development plan based on input from as many Arizona stakeholders as possible;
- creating potential sources of revenue for development activities by eliminating the downward bias in tax policy resulting from the supermajority required to increase taxes but the simple majority required to lower taxes, and broadening and balancing the types of State taxation;
- creating a state “fund of funds” for business investment;
- leveraging private capital to support infrastructure projects;
- encouraging private sector organizations, including trade organizations, to support economic development in the absence of or to supplement public support;
- supporting state funding for education; and
- pursue and support applications for federal research and development programs administered by universities, community colleges, and organizations like Science Foundation Arizona.

## **Priority Actions for Arizona to Sustain and Develop Our Economy**

Arizona should consider taking all of the following actions to sustain and develop the statewide economy and position Arizona to compete for jobs in the global marketplace. These priorities are so closely interrelated that they must be pursued simultaneously for Arizona to achieve its desired economic future.

- Education. Arizona must improve the state of our educational systems at all levels, but particularly pre-kindergarten through high school. In order to make these improvements, Arizona should implement the recommendations of the Governor's P-20 Council to emulate the best practices of the world's education systems. Education is inextricably linked to economic development and Arizona must recognize the role of education in developing one of our greatest resources: our human capital. Education is also important in attracting and retaining workers concerned with educating their children. Primary among Arizona education needs are improved

funding and rigorous statewide standards that will prepare students for higher education or to meet the workforce needs of business and industry. Therefore, Town Hall supports Proposition 100 with the caveat that the portion of the revenue generated from the one percent sales tax devoted to education shall be used to supplement, rather than supplant, the current education allocation. Arizona must also take action to ensure that students, once educated, have a place in Arizona's economy and a reason to stay. Arizona's universities should develop partnerships with industry, perhaps through incubator projects, to create these types of opportunities as well as to promote technology transfer and innovation. Other important education initiatives include workforce training and retraining programs, adult literacy education and improved civic, leadership and economic education.

- Strategic Planning. Arizona must create both statewide and regional or community-based strategic plans to guide economic development activities in urban, rural and tribal areas under a shared vision supported by Arizona's leadership. These plans must be comprehensive, sustainable, and marketable; they must identify Arizona's core competencies and weaknesses; and they must set a path to a diversified economy for Arizona with clear implementation goals, actions and accountability, generating new wealth creation in the economy of Arizona. The plans should also address such issues as infrastructure, workforce and capital development for businesses large and small. Finally, the plans must provide for both recruitment of new businesses and retention of businesses and talent already present in Arizona. With an expedited sense of urgency, Arizona's universities, in collaboration with the State's commerce and economic development entity should facilitate the development of a comprehensive statewide economic development plan with the engagement of both the public and private sectors.
- Changes in Governmental Structures and Political Ideologies. A number of changes are needed to Arizona's governmental structures and political ideologies. First, Arizona's political leaders must abandon the hands-off approach to economic development that has dominated the State for the last several decades in favor of a proactive approach that brings to Arizona particular, target industries and jobs. Arizona can no longer be a bystander in its own economic development. Part of this process may necessarily be the promotion of a more moderate and stable political environment composed of a more diverse set of leaders. Second, the role of the State's commerce and economic development entity must be clarified and its focus expanded to address both the urban and rural areas of the state. The entity should also promote communication and collaboration between the disparate economic development interests in Arizona. In addition, Arizona's legislature must commit to supporting the entity in order for it to succeed. Third, the Arizona legislature should create and fund a rapid response team with the authority to react quickly and decisively to bring economic development opportunities to Arizona. Next, Arizona must undertake a comprehensive evaluation of its laws to identify changes that are needed to remove impediments to economic development. As part of this effort, Arizona should consider eliminating the Gift Clause. Finally, Arizona needs to develop a mechanism to facilitate communication between the legislature, community and economic

development organizations and business leaders. This mechanism could be used to educate Arizona's political leaders about current public policy issues and community concerns.

- Capital Formation. Arizona's capital markets are wholly inadequate to support the types of business development we need. Therefore, Arizona should make every effort to increase the availability of capital of all types to support economic development. Among these efforts, Arizona should provide public backing to outside capital and promote public/private partnerships to bring capital into the state. Arizona should also consider making changes to the statutes governing the charter of financial institutions in order to encourage capital infusion into Arizona companies. Lastly, Arizona individuals, foundations and industry should be encouraged to invest in an Arizona fund of funds to provide venture capital for the early-stage development of new companies.
- Reputation Management. In light of Arizona's economic difficulties and some recently enacted legislation, Arizona is experiencing a negative impact on its reputation. To manage this situation, Arizona should implement a public relations strategy to control damage to the state's reputation and brand and promote a positive state image regionally, nationally and internationally.
- Infrastructure. Arizona cannot create sustainable economic growth without an enabling infrastructure. We need to create a networked business environment, through advances in our transportation system and data connectivity. Our essential services (water, power, waste management) need to be sufficient to allow growth in all of our communities. Our power grid needs to be modernized through the implementation of a smart grid.
- Broadening the Tax Base. In order to compete for economic development opportunities, Arizona must have revenue to fund the programs it deems most important and a broad based, diversified and stable tax structure that does not rely disproportionately on a narrowly applied sales taxes. Achieving this is imperative and must be done even if it requires significant restructuring. The Arizona Legislature must consider increasing revenue to enable Arizona to pursue virtually any additional economic development activities. One possible component of a new tax structure is a state property tax, which would be a more stable revenue source in good economic times and bad. Another component of this effort requires considering changing the State's constitution to raise the State's debt limit and expanding the amount of revenue that can be collected from property taxes. Additionally, Arizona should eliminate the downward bias in tax policy that results from the super-majority required to raise taxes when taxes can be lowered with a simple majority. Arizona must adopt a tax strategy that does not rely disproportionately on sales taxes that are particularly sensitive to economic downturns. This strategy will nurture an environment that encourages private sector jobs.

- Preserve Quality of Life. Arizona must act to preserve and enhance our quality of life and the very "Arizonaness" of Arizona. This means cultivating the arts, sports and other recreational amenities and preserving our natural and cultural resources. It also means developing a strong sense of place in our communities. These features are critically important to retaining business and attracting new industries because they make Arizona a place that people want to live.
- Pursue Jobs in the Renewable Energy Industry. Arizona should take a number of actions to develop opportunities in the renewable energy industry. In particular, Arizona should pursue international investment capital to fund development activities. The Arizona Corporation Commission and other utility regulators should continue to set renewable energy goals and prices that promote renewable energy production. It should also establish a regulatory framework that encourages renewable energy development. Arizona should also adopt a renewable energy stimulus agenda that creates a roadmap for developing the renewable energy industry in Arizona, which could include provisions such as distributed generation utilizing a smart grid. Lastly, Arizona should consider encouraging development of renewable energy generation facilities in airport accident potential zones.
- Job Training Programs. Arizona should fund and promote job training programs and other skill-specific educational programs through Arizona's higher education systems that are aligned with the industry clusters Arizona wants to retain and attract.
- Other Economic Development Actions. Other economic development activities Arizona should consider funding include business incubators, a competitive small grant program for start ups and existing small businesses, and other small business assistance programs to create a more favorable business climate in Arizona. Arizona should consider a tax abatement program for companies that hire new employees and companies that relocate to Arizona. Arizona should actively work to ensure the siting of the F-35 training program to all Arizona sites. Arizona should also consider working to improve our strategic alliance with Mexico, particularly in the realms of energy, commerce and tourism. As part of this effort, Arizona should lead a national effort, with the support of Arizona's political leadership and in collaboration with other states, to establish a guest worker program for which Arizona should offer to act as a pilot state.
- Other Activities that Influence Economic Development. Arizona should also consider taking actions that indirectly influence economic development, such as pursuing comprehensive, multimodal transportation planning. Arizona should also consider programs designed to encourage new university graduates to stay in Arizona. Through such programs, universities could pair graduates with existing Arizona businesses or the State could reimburse student tuition or forgive student loans for graduates with "hot skills" who agree to work in Arizona or provide service to their communities. Similar programs could also apply to military personnel with desirable skills who have served in Arizona and have recently separated from military service.

## **Promoting the 96<sup>th</sup> Arizona Town Hall Recommendations**

To ensure our recommendations are implemented, members and participants in the 96<sup>th</sup> Arizona Town Hall have made a personal commitment to communicate these recommendations to the various decision makers identified in this report. Participants will communicate directly with State legislators, or organize “house parties” inviting other members of their communities to present the Town Hall report and discuss the issues with their senators or representatives. Participants will share the report with any community or professional organizations with which they are affiliated, and leverage their personal influence to enlist the organizations in advancing the Town Hall’s proposals. Participants will use social media and personal networks to get the message out.

This Town Hall has addressed ongoing challenges, and many of the issues raised by it merit further consideration in public forums statewide. To facilitate such presentations, the Town Hall will prepare communication materials summarizing the 96<sup>th</sup> Arizona Town Hall’s recommendations. Town Hall will also consider holding a candidate’s forum on plans for economic development and job creation in Arizona.