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**Ad Hoc Committee on Economic Competitiveness**

**Final Report**



December 2004

Members

Senator Jim Waring, Cochair

Senator Robert Blendu

Senator Jack Brown

Senator Victor Soltero

Senator Jay Tibshraeny

John Bowers

Bob Buns

Joe Carter

Representative Steve Huffman, Cochair

Representative Olivia Cajero Bedford

Representative Phil Hanson

Representative Robert Meza

Representative Michele Reagan

Jim Norton

Paul Ringer

## **Introduction**

The Ad Hoc Committee on Economic Competitiveness (Committee) was created in 2004. The Committee's purpose was to (1) examine Arizona's economic development incentives and efficiency of attracting and retaining key industries in the state; (2) compare Arizona in relation to competing states with respect to economic development incentives and their application; (3) determine how other states interact with local and regional economic development organizations in the application of incentives to attract and retain key industries; and (4) recommend long term policy changes with respect to incentives in Arizona to increase competitiveness in job retention and expansion of industry.

The Committee consisted of 15 members as follows: 5 members of the House of Representatives, 1 designated as Cochair, appointed by the Speaker of the House of Representatives; 5 members of the Senate, 1 designated as Cochair, appointed by the President of the Senate; and 5 members representing the business community, appointed by the President of the Senate and the Speaker of the House of Representatives [*charge included as Appendix A*].

## **Committee Meetings**

The Committee met three times during the 2004 interim. In its first meeting in October, the Committee heard from the Arizona Department of Commerce (ADOC) regarding the structure of ADOC and its interaction with statewide chambers of commerce, the process for attracting new businesses into Arizona and resources available to expand and retain existing business. The Committee also heard from representatives of the Greater Phoenix Economic Council regarding the economic development climate in Arizona and a representative from the Prescott Valley Economic Development Foundation.

In its meeting in November, the Committee discussed the Commerce and Economic Development Commission (CEDC) and the Arizona Job Training Fund. The Committee also heard presentations from Intel Corporation and the National Association of Industrial Office Properties. The Committee looked at the site selection process of businesses looking to come to Arizona and at the state's tax system as it effects economic development.

In the Committee's third and final meeting held in December, the Committee discussed and adopted recommendations [*Committee agendas and minutes included as Appendix B*].

## **Committee Recommendations**

The Committee adopted the following recommendations:

1. Arizona Department of Commerce
  - a. Re-evaluate incentives as well as internal processes in order to make the application/grant process less lengthy and time-consuming.
  - b. CEDC Funding – Realign the program with its original core purpose/mission. Stop the practice of utilizing CEDC Fund monies for

departmental administrative/personnel costs. Increase revenues by restoring the original contribution (changed by Laws 1997, Chapter 214, from 32.5 percent to the current 21.5 percent of revenues from the sale of two special lottery games). Expand the program to allow Arizona to become more competitive on future projects.

- c. Job Training Program – Restore the employer-funded Job Training monies that have been “swept” in recent years in order to resolve a budget crisis; further, enact legislation to prevent future sweeps.
  - d. Help educate legislators regarding current programs and establish a presence in the State Legislature.
  - e. Establish a better working relationship and more open communication with the Legislature in order to target the pertinent markets.
2. Identify target industries and priority jobs for Arizona and create a corresponding tax structure.
  3. Reduce the property tax burden for commercial/industrial business by lowering the property tax assessment ratio from 25 percent to 20 percent.
  4. Recommend that any future economic development tax incentive policy be linked to significant, verifiable job creation.
  5. Create an *Arizona Development Fund* to be used for economic development *deal closing* incentives. The fund should be discretionary in nature, allowing deposits from both private and public sources.

## Appendix A

### Committee Charge

**PURPOSE:** To: (1) examine Arizona's economic development incentives and efficiency of attracting and retaining key industries in the state; (2) compare Arizona in relation to competing states with respect to economic development incentives and their application; (3) determine how other states interact with local and regional economic development organizations in the application of incentives to attract and retain key industries; and (4) recommend long term policy changes with respect to incentives in Arizona to increase competitiveness in job retention and expansion of industry.

#### **MEMBERSHIP:**

House Five members of the House of Representatives, not more than three from the same political party and one designated as Cochair, appointed by the Speaker of the House of Representatives:  
**Cajero Bedford, Hanson, Huffman (Cochair), Meza, Reagan**

Senate Five members of the Senate, not more than three from the same political party and one designated as Cochair, appointed by the President of the Senate:  
**Blendu, Brown, Soltero, Tibshraeny, Waring (Cochair)**

Other Five members representing the business community, appointed by the President of the Senate and the Speaker of the House of Representatives:  
**Mr. John Bowers, Arizona Association for Economic Development**  
**Mr. Bob Buns, General Dynamics**  
**Mr. Joe Carter, Strategic Issues Management Group**  
**Mr. Jim Norton, Norton & Associates**  
**Mr. Paul Ringer, Greater Phoenix Economic Council**

**CONTACT:** Brandy Martin, Senate Research Staff; Diana O'Dell, House Research Staff

**REPORT DATE:** None

**EXPIRATION DATE:** 12/31/2004

**STATUTORY CITE:** Ad Hoc created by the Speaker of the House of Representatives and the President of the Senate

## **Appendix B**

### **Committee Agendas and Minutes**

Interim agendas can be obtained via the Internet at <http://www.azleg.state.az.us/InterimCommittees.asp>

## ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

#### AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS

**Date:** Wednesday, October 20, 2004

**Time:** 10:00 a.m.

**Place:** House Hearing Room 4

#### AGENDA

1. Call to Order
2. Introductions
3. Presentations:
  - a. Joe Yuhas, Deputy Director, Arizona Department of Commerce
    - Structure of the agency. Interaction with statewide chambers of commerce and other economic development agencies
    - Standard procedures for contacting businesses, tracking successful moves, and follow-up procedures when businesses do not choose Arizona
    - Resources available to expand and retain existing businesses
    - Measures to track Department's success, including follow-up dialogue with exiting businesses
  - b. Paul Ringer, Interim President and CEO, Greater Phoenix Economic Council
    - Economic Development Climate
    - Analysis of the State
  - c. Gary Marks, Executive Director, Prescott Valley Economic Development Foundation
    - Overview of economic development operations
    - Explanation of the interaction with the State
4. Public Testimony
5. Adjourn

#### Members:

Senator Jim Waring, Cochair  
Senator Robert Blendu  
Senator Jack Brown  
Senator Victor Soltero  
Senator Jay Tibshraeny  
John Bowers  
Bob Buns  
Joe Carter

Representative Steve Huffman, Cochair  
Representative Olivia Cajero Bedford  
Representative Phil Hanson  
Representative Robert Meza  
Representative Michele Reagan  
Jim Norton  
Paul Ringer

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**ARIZONA STATE LEGISLATURE  
AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS**

**Minutes of the Meeting  
October 20, 2004 – 10:00 a.m.  
House Hearing Room 4**

**MEMBERS PRESENT:**

Senator Waring, Cochair	Representative Huffman, Cochair
Senator Blendu	Representative Cajero Bedford
Senator Brown	Representative Meza
Senator Tibshraeny	Representative Reagan
John Bowers	Jim Norton
Bob Buns	Joe Carter

**MEMBERS ABSENT:**

Senator Soltero	Representative Hanson
Paul Ringer	

**STAFF:**

Brandy Martin, Senate Commerce Research Analyst  
Diana Odell, House of Representatives Commerce and Military Affairs Analyst

Cochair Huffman called the meeting to order at 10:15 a.m. and attendance was noted. Introductions of the Committee members took place.

Cochair Huffman cited that the Committee has been charged with reviewing the State of Arizona's economic competitiveness. He stated that today's meeting would focus on the groundwork; the second meeting would include consideration of proposals, and the third and final meeting would consist of voting on the recommendations.

**PRESENTATIONS:**

**Joe Yuhas, Deputy Director, DOC**, gave a slide presentation and overview of DOC's mission and challenges on a statewide basis. He explained how DOC is addressing those challenges by taking steps to improve economic competitiveness (Attachments A and B). He stated that everyone is optimistic that the work of the Committee will produce a product that will place Arizona in a more competitive situation. Mr. Yuhas commented that Arizona has a low industrial diversity in comparison with other states, which has a direct impact on Arizona's low per capita income. He noted that economists define job-creating opportunities in two areas. Base industries bring dollars into the State, such as aerospace or manufacturing, whereas serving industries move those dollars around, such as retail. He stated that it is non-productive to attempt to build an economy on local serving industries only. Arizona faces significant gaps in resources and opportunities, and does not offer the kind of incentives that other states offer.

Mr. Yuhas explained that successful economic development is characterized by four factors: globally competitive businesses, expansion of the tax base, per capita income that is on the rise, and a diverse industry base. He indicated that DOC is organized to meet challenges in four key areas:

- Planning, research and policy division
- Community development division
- Workforce development division

- Global business development

In response to Representative Cajero Bedford, Mr. Yuhas explained what is meant by quality of the workforce that companies pursue. He said a quality workforce is a broad application that includes universities, community colleges, and ongoing training with economic development partners and companies looking to locate or expand in Arizona.

In response to Cochair Huffman, Mr. Yuhas commented that companies do not make decisions to locate based on one factor, but rather on a matrix of factors. He said when companies are surveyed, the number one concern is a qualified workforce.

Mr. Yuhas highlighted some of the fiscal year 2005 strategic initiatives that DOC is using to approach economic development on a regional basis. He emphasized the importance of Arizona's small business community as the backbone of the State's economy, and the need to implement initiatives to protect Arizona's military bases.

Mr. Yuhas stated that economic development is a team sport, which requires local, regional and statewide leadership. He said DOC markets the State of Arizona through collaborative efforts with partners, and provided some examples. He commented on the teamwork DOC has had with the Greater Phoenix Economic Council (GPEC) in working with companies to locate or expand in Arizona. He indicated that DOC also works with local communities and chambers of commerce.

Mr. Yuhas commented on base industries and noted that Arizona does not have a strong foundation of base industries, and stressed the need to look at emerging sectors such as biosciences. He said DOC has conducted research activities to learn more about national and international trends, and he reported on those findings. He said in order to better understand emerging industry sectors, a statewide economic study was conducted, which is available on DOC's website.

Mr. Yuhas pointed out the global economic trends for the next decade and Arizona's regional economic opportunities. He commented on Arizona's "toolbox," and the State's economic development budget.

In response to Senator Tibshraeny, Mr. Yuhas commented that the rural areas or smaller communities do not have the same capacity to spend the funds to pursue economic opportunities as the larger cities. He stated that DOC does not pursue retail; however, retail locates in the State because per capita wages and high wage jobs are increasing and there is a stronger foundation of base industries. However, Arizona is not expending enough resources to attract those base industries. Senator Tibshraeny referred to other states and asked whether those types of expenditures are general fund expenditures from state budgets. Mr. Yuhas responded that in some cases it is a dedicated revenue stream, and in some cases states employ discretionary funding from a general fund. He said DOC could provide further information on that issue to the members.

Mr. Yuhas commented on the State's incentive program, and noted that Arizona has a very limited number of financial incentives directed to the attraction of base industries. He indicated that the incentives address the industries already in place in the State, but do not necessarily address the economic needs, such as venture capital. He said Arizona has failed to approach the emerging-based industry opportunities with equal zeal that has been offered in the past for existing companies. He commented on the research that DOC conducted in comparing Arizona's incentives with those of competing states. He said only five states spend fewer incentive dollars than Arizona. He said DOC learned from the study that Arizona does not have a "deal closing" fund that could provide flexible funds to meet unique strategic opportunities. He provided examples of "deal closing" funds utilized in other states.

Mr. Yuhas remarked that DOC works very hard to attract high wage jobs new base industries to our State six months a year. The other six months is spent defending the agency. He emphasized that Arizona

does not have the kind of tools and a long-term sustained commitment to attract base industries. Among DOC's recommendations are the following:

- Make a long-term commitment to economic development
- Realign the Commerce and Economic Development Commission (CEDC) for its legislatively intended purpose
- Support a comprehensive technology agenda
- Benchmark and measure performance

In summary, Mr. Yuhas stated that economic opportunities are missed in Arizona every day. He said that measuring economic development by the number of homes or new retail stores being built is not true economic development progress. Arizona needs to focus its efforts on new base industries.

Cochair Huffman thanked Mr. Yuhas for his presentation and opened the meeting for questions.

Senator Blendu commented that Arizona has lost opportunities in the past because of various reasons. He noted that Arizona needs to provide incentives for engineers graduating from our universities. He said that without the commitment or vision detailed today, base industries will not locate in Arizona.

Cochair Huffman agreed that Arizona needs to have a consistent focus and knowledge of what is being targeted. He asked Mr. Yuhas to describe the kinds of resources being considered for retention of existing jobs versus attracting new targets. Mr. Yuhas responded that every service of DOC is in some way geared to meeting the needs of the small business community. However, he explained that the best way to assist the small business community is to expand the market by attracting new base industries.

Cochair Huffman referred to the broad range of tax policies and asked Mr. Yuhas to comment on his recommendations to the Committee. Mr. Yuhas responded that there is no question that Arizona has a 2004 tax policy structure that is geared around the economy of the 1950's. He said the kinds of incentives offered in the past are not being offered today with equal zeal for opportunities in high tech, biosciences and aerospace. Mr. Yuhas strongly recommended that if the tax policy becomes the subject of the overall economic development competitiveness issue, he would suggest looking at the broader concept rather than only one or two items. He said that although Arizona compares favorably with other states in terms of the overall cost of doing business, the State is not being sufficiently marketed.

Cochair Huffman commented that there are certain areas to focus upon in order to be successful, such as:

- Workforce development
- Commitment to educational improvement and funding
- Tax Code

Mr. Meza commented that he likes the regional approach to this issue. He believes that Arizona could move forward and target both the property tax code and at the same time target certain industries to the State.

Representative Reagan referred to page 10 of the handout and the "IT Training Tax Credit" and said it would be helpful if DOC would help to educate the legislative members other than this Committee regarding the tax credits listed in the handout.

Senator Waring asked Mr. Yuhas to comment on competition within regions of the State. Mr. Yuhas responded that DOC's responsibility and purpose is to serve all areas statewide and he explained how DOC assists the various regions. He said the needs in communities differ and sometimes communities compete for a particular business; however, generally the business attraction process is not a process of selection but rather a process of elimination.

Mr. Norton referred to page 4 of the handout regarding declining ratio to United States average per capita income and asked Mr. Yuhas to comment on whether DOC has any projections on that data. Mr. Yuhas responded that a study is being conducted, but he does not have the final report. Mr. Norton referred to the list of incentives and programs in the past and suggested that perhaps the Committee should look at those programs and get them back to their intended purpose.

Mr. Bowers suggested that the Legislature and DOC need to work closely together to produce the results expected.

Cochair Huffman asked Mr. Yuhas to comment on the percent of resources are aligned with attraction versus retention efforts and how he sees DOC functioning in terms of being proactive versus reactive. Mr. Yuhas responded business retention tends to be more of a focus on the local level, and he explained the procedures involved with this process.

In response to Mr. Buns, Mr. Yuhas commented on the incentive program in place. He said incentives are important in "deal closing," and DOC is constantly researching new data with other states.

Mr. Carter commented that he was formerly a county manager and responsible for economic development in southeast Arizona. He said he hopes that the recommendations include the restoration of tools that have been taken away and then to build on that program. He said he was directly involved in the creation of the CDEC fund and it worked at the time. He indicated he was also involved in a low-interest loan package that today has resulted in 700 jobs in rural Arizona. He suggested that as the Committee moves forward with its recommendations that the members not "reinvent the wheel." He said he also has concerns with the job training program and the personal property tax issue and believes those items need to be reviewed. Mr. Carter commented that bipartisan support is also needed to close a deal because of the flexibility required in closing a deal.

**Tina Valdecanas, Vice President, Product Improvement, Greater Phoenix Economic Council (GPEC)**, gave a presentation on "Competitiveness in Greater Phoenix" (Attachment C). She provided an overview on GPEC's mission and composition. She indicated that GPEC works with DOC and economic development directors in all communities to attract quality businesses. She said that the ability to work together will define Arizona's success as a globally competitive region. Other issues presented include the following:

- Marketing Greater Phoenix and relationship marketing
- Earned media program
- Sales missions
- Trade shows and industry conferences
- Advertising
- Product improvement
- IBM global marketing project
- Methodology within targeted industries
- Advanced business services
- Rankings by subsector

Ms. Valdecanas remarked on lessons learned and noted that Greater Phoenix must:

- Concentrate on short and long term development of industry presence and talent base
- Reshape perceptions through targeted marketing and communications
- Understand the nuances of the global changes underway and how to best position the region in

light of heightened competition

Cochair Huffman thanked Ms. Valdecanas for an interesting presentation.

**Gary Marks, Executive Director, Prescott Valley Economic Development Foundation (Foundation),** provided an overview of economic development operations. He explained that economic development is a team sport. He stressed the importance of a qualified quantified workforce, job training and higher education. He pointed out that smart economic development means the job base is growing as fast as the population base. He stated that the Foundation is a non-profit membership Foundation, and it obtains funding through public and private sector contractual agreements. He said he would be willing to meet with the Committee to provide greater detail on specific issues.

In response to Mr. Norton, Mr. Marks commented that one of the top issues is property tax. He stressed that economic development is a long-term process and commitment. He said that most projects take years before coming to fruition.

In response to Mr. Buns regarding the IBM study, Ms. Valdecanas responded that one of the recommendations in the study was to strengthen the education system and to continue working with the community college system to anticipate the needs of industries and skills needed.

Cochair Huffman referred to the IBM study and asked Ms. Valdecanas whether perception is a major problem or whether the property tax code is the major problem. Ms. Valdecanas responded that there are definitely structural issues, but perception issues as well from other states.

In response to Cochair Huffman regarding attracting people to Arizona, Mr. Kevin Johnson (GPEC) responded that property tax seems to be an issue and also closing dollars. He said generally all states have job training and enterprise zones, and Arizona does not have much beyond those incentives to offer. He said Arizona needs to devise creative ways to attract different types of businesses.

Mr. Carter suggested that when we look at competing states, perhaps DOC could provide the tools that they use that are unique.

Cochair Huffman thanked everyone for participating in this discussion. He said tentatively the next meeting would take place on Wednesday, November 17 at 10:00 a.m. He said if there are any specific recommendations for the Committee, he would like to have them forwarded to Diana prior to the next meeting. He said the next meeting would discuss the recommendations, and voting on those recommendations would take place at the third meeting.

There being no further business, the meeting was adjourned at 12:50 p.m.

Respectfully submitted,

Nancy L. DeMichele  
Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)

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Ad Hoc Committee on Economic Competitiveness  
October 20, 2004  
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## ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

#### AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS

**Date:** Wednesday, November 17, 2004

**Time:** 10:00 a.m.

**Place:** House Hearing Room 4

#### AGENDA

1. Call to Order
2. Presentations:
  - a. Joe Yuhas, Deputy Director, Department of Commerce
    - 1) Commerce and Economic Development Commission and Fund – History of Program, Statutory Mandates and Monetary Awards to Businesses
    - 2) Arizona Job Training Program – History of Program, Statutory Requirements and Grants Awarded to Businesses
    - 3) Impact of Sweeping Funds
  - b. Mike Edwards, Global Program Director, Site Selection and Property Development, Intel Corporation
  - c. Jim Lentine, President, NAIOP
  - d. Kendall Bert, Director of the Office of Economic Development, City of Tucson
3. Public Testimony
4. Discussion
5. Adjourn

#### Members:

Senator Jim Waring, Cochair  
Senator Robert Blendu  
Senator Jack Brown  
Senator Victor Soltero  
Senator Jay Tibshraeny  
John Bowers  
Bob Buns  
Joe Carter

Representative Steve Huffman, Cochair  
Representative Olivia Cajero Bedford  
Representative Phil Hanson  
Representative Robert Meza  
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ARIZONA STATE LEGISLATURE  
Forty-sixth Legislature – Second Regular Session

AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS

Minutes of Meeting  
Wednesday, November 17, 2004  
House Hearing Room 4 -- 10:00 a.m.

Cochairman Waring called the meeting to order at 10:11 a.m. and attendance was noted by the secretary.

**Members Present**

Senator Jack Brown  
Senator Tibshraeny  
John Bowers  
Mark Henry for Bob Buns  
Joe Carter  
Senator Jim Waring, Cochair

Representative Olivia Cajero Bedford  
Representative Robert Meza  
Representative Michele Reagan  
Paul Ringer  
Representative Steve Huffman, Cochair

**Members Absent**

Senator Blendu  
Senator Victor Soltero

Representative Phil Hanson  
Jim Norton

**Speakers Present**

Joe Yuhas, Deputy Director, Arizona Department of Commerce (ADOC)  
Kendall Bert, Director, Office of Economic Development, City of Tucson  
Michael L. Edwards, Global Program Director, Site Selection & Development, Intel Corporation  
Jackie Norton, Executive Director, National Association of Industrial Office Properties (NAIOP)  
Jim Lentine, President, National Association of Industrial Office Properties (NAIOP)  
Fred Stiles, representing EJM Development Co.  
Doug Barkdull, Principal, Buzz Oates Enterprises Arizona  
Tom Browning, President, Greater Phoenix Leadership  
John MacDonald, representing America West Airlines

**Presentations:**

**Commerce and Economic Development Commission**

Joe Yuhas, Deputy Director, Arizona Department of Commerce (ADOC), made a PowerPoint presentation about the Commerce and Economic Development Commission (CEDC) division of

the Arizona Department of Commerce. He introduced CEDC Executive Director, Lisa Danka, and reviewed the CEDC since its inception in 1989, under the following topic headings:

- Mission
- Composition – 8 members appointed by Governor
- History – created by the Legislature in 1989
- Representative projects and initiatives, including America West, University of Arizona Research Park, and statewide military facility planning
- Funding process
- Primary investment categories
  - Strategic research and initiatives
  - Technology sector project capital
  - Direct assistance to business
  - Intermediary participation program
- Total invested by funding category
- Jobs created or retained
- Total awards – \$25,021,962 has been distributed statewide since inception
- Average annual awards
- Statutory mandates
- Four revenue sources:
  - Capital markets securities fees (annual average: \$580K)
  - Lottery revenues (annual average: \$2.06M)
  - Loan principle and interest (annual average: \$51K)
  - Interest income on investments (annual average: \$48K)
- Funding Issues:
  - Fund is over-appropriated
  - Percent of lottery receipts was reduced in 1997 from 32.5% to 21.5%
  - Lottery funding is unknowable and erratic
  - Loan portfolio is paying off
- Appropriations exceed revenues – projected income to CEDC \$2.75 million annually; \$3.01 million is appropriated out of the fund. The program will be insolvent in fiscal year 2008.
- Implications for Arizona – may have to scale back programs; not competitive
- Proposed Solution:
  - Move \$3 million in appropriations back to the general fund
  - Restore lottery percentage to 32.5%
  - Combined, will provide approximately \$4 million annually

Mr. Yuhas pointed to the success of the Texas Opportunity Fund, currently at \$200 million, and expected to be increased. A copy of Mr. Yuhas's presentation, including the statutory authority, names of commissioners and an application package, is appended hereto as Attachment 1.

### **Arizona Job Training Program**

Mr. Yuhas continued his presentation with an overview of the Arizona Job Training Program, and introduced Paula Burnam, ADOC Workforce Development. The Job Training Program is

funded by the business community with a job training tax of one-tenth of one percent on the first \$7,000 of an employee's wages. The program helps businesses create and retain jobs and meet specific demands, as well as develop transferable skills. He noted that Arizona's two primary business attractions are:

- Enterprise zone program
- Job training program

He discussed strategic investment and eligibility for grants, and pointed out that sweeping the fund means that funds may not be available when a new business expresses an interest in locating in the state. Mr. Yuhas emphasized that the program, which is designed specifically for the private sector, takes the limited funds available and uses them in the widest way possible.

Information on the Job Training Program, statutory authority, awards as of 10/31/04 and a copy of the grant application are included in Attachment 1.

Kendall Bert, Director, Office of Economic Development, City of Tucson, said he believes the Workforce Training Program is one of the most important programs in Arizona in retaining and expanding local businesses and in recruiting business into the state. He recognized others present from the southern Arizona business development community, and distributed a handout (Attachment 2). He pointed to the importance of quality jobs to the state's companies and residents, and said his office works with businesses to help them access the funds available. Since 1996 one hundred grants have been made, with seven more in process. Mr. Bert called attention to the fact that funds have been swept from the fund and used for other purposes, and said he believes this sends the wrong message to businesses and citizens, in addition to creating problems in delivering the program. He noted that capital investments from 2001 to the present total almost \$340 million. He called attention to Exhibit D of the handout, which details grant information for six companies, and emphasized the results of a U.S. Department of Education and Conference Board of Canada report that makes it clear there are significant payoffs to both workers and employers from participation in workplace education programs (Exhibit E, Attachment 2).

In conclusion, Mr. Bert emphasized that the Workforce Training Program is paid for by businesses, matched by businesses, and they have to perform to get the money. He urged a halt to the transfer of money out of the program.

In response to a query by Ms. Cajero Bedford regarding the sweep of funds, Mr. Bert said approximately \$3.8 million goes to the Department of Economic Security and in 2003 approximately \$3 million was swept to the general fund, which has made it very difficult for Arizona to compete. He responded to further questions.

Cochairman Huffman said he understands \$5 million was swept from the job training fund statewide in 2003.

Cochairman Waring asked Mr. Yuhas if he wishes to add to the report on the impact of sweeping the funds. Mr. Yuhas said the issue was covered by Mr. Bert.

## Site Selection and Property Development

Michael L. Edwards, Global Program Director, Site Selection & Development, Intel Corporation, distributed a handout (Attachment 3) and described the site selection process followed by a multinational company considering various locations. He noted that the preliminary analysis is internal and typically takes three to four months, during which time a location will not be aware that it is on the list. The second phase requires site visits of the short-listed locations and due diligence, that typically may take as short as two to three months or, for more risk-averse companies, six to seven months. Project criteria include sales and marketing, operations, and research and development. Enterprise considerations focus on strategy, costs and risk mitigation. Mr. Edwards pointed out that although Intel considers Arizona low risk, it is not low cost. He discussed the key assumptions and drivers based on a ten-year projection, and emphasized that while capital costs tend to be fixed throughout the world, local costs such as taxes, incentives and labor costs drive the difference.

Mr. Edwards compared the “toolkit” used by Intel to compare U.S. and international projects, noting differences and similarities (Attachment 3, page 6), and reviewed examples of three recent major international deals made by IBM in New York, Texas Instruments in Texas and AMD in Germany (Attachment 3, page 7). He concluded his remarks by emphasizing the following four points:

- Project competition is global in nature
- Decisions have to stand up to board, shareholder and external review
- Arizona has a cost disadvantage to U.S. and international benchmarks
- Arizona can compete and win on a global basis

Mr. Ringer asked if Arizona’s competitors are becoming more aggressive. Mr. Edwards said competition has become much more aggressive because it is now global, and includes southeast Asia and eastern Europe as well as western Europe. He added that it is necessary to compete in the microelectronics and biotechnology arenas globally. Competitors are no longer adjacent western states, but Shanghai, Singapore and Bangalore, India.

Cochairman Huffman called attention to the chart on page 2 of the handout (Attachment 3) and pointed out that the initial period of the site selection process is internal; hence, Arizona’s policymakers are not aware if the state is, or is not, on the short list. Mr. Edwards concurred that only when a company moves beyond the short list is the interest known. Mr. Huffman observed that the state has only two to four months to put together a package to be competitive, and said he believes it is important to start that process now because there is no way to know which short lists Arizona may be on. Mr. Edwards agreed, and pointed out that for research and development the process could be cut in half.

Mr. Carter inquired as to Arizona’s competitiveness in terms of research and development. Mr. Edwards said Arizona is known and on the scene, but it is important to take it to the next level and a state the size of Arizona needs to be selective.

Mr. Bowers asked if Intel would locate in Chandler if the decision was being made today. Mr. Edwards described the unique characteristics of the site and said the company is happy with it. He explained that the physical site is important, and all the incentives in the world will not overcome a location that is not economically viable.

Mr. Henry asked the most effective way to get out the message that metropolitan Phoenix is a good place to locate. Mr. Edwards observed that success tends to breed success, and there is communication within the industries.

Jackie Norton, Executive Director, National Association of Industrial Office Properties (NAIOP), a national trade organization dedicated to representing developers, owners, investors and asset managers in industrial, office and related commercial real estate, testified that the industry contributes more than \$1 billion in property taxes annually in Maricopa County alone. Reviewing a handout (Attachment 4) she pointed out that Arizona's tax system serves as a disincentive to economic development because commercial and industrial property is taxed at a rate 2½ times that of residential property of identical value. As an example, a Minnesota Taxpayers Association study found that Arizona's effective property tax rates are:

- 6<sup>th</sup> highest in the U.S. for large office properties – 65% above national average
- 3<sup>rd</sup> highest for large industrial properties – 78% above national average
- 31<sup>st</sup> in property taxes on higher value homes – 23% below national average

Ms. Norton noted that Arizona's property taxes are three times higher than those in Las Vegas and twice as high as Denver, and pointed out that property taxes are the largest share of the operating expenses of an office or industrial building. NAIOP proposes a reduction in the commercial and industrial assessment ratio from the current 25 percent (national average is 16 percent). While the debate over incentives will continue, she emphasized that a property tax reduction is across the board and a direct reduction in the cost of doing business.

Jim Lentine, President, National Association of Industrial Office Properties (NAIOP), pointed out that job growth is being created by small businesses, and NAIOP members are very concerned about taxes and their effect on the bottom line. He distributed a handout (Attachment 5) and reiterated that Arizona has the highest commercial property taxes in the region. He called attention to a flyer prepared by the Reno Sparks Tahoe Economic Development Authority that unfavorably compares Phoenix taxes with those in other western cities, and pointed out that if NAIOP's members cannot pass on the costs they must be absorbed, and the flow of capital will dry up in the state.

Mr. Lentine said members of NAIOP believe a reduction in the property tax rate from 25 percent to 20 percent will be more than offset by high quality jobs in Arizona.

Fred Stiles, representing EJM Development Co., said his company leases approximately 4.8 million square feet in Arizona, providing workspace for 2,000 employees, most of whom work for small businesses. He compared the cost of doing business in Arizona with Nevada (see Attachment 6) and called attention to an example of an Arizona property that pays \$461,293 in property taxes per year, while a similar property in Nevada pays \$176,910.

Mr. Meza pointed out that Nevada has gambling revenues. Mr. Stiles noted that a majority of EJM's tenants in Nevada are not involved in gambling, and that gambling subsidizes income taxes, not property taxes. He reviewed the increases in property taxes on an EJM property in Maricopa County (Attachment 6, second page) and pointed to the uncertainty in budgeting for a cost over which the company has no control.

Doug Barkdull, Principal, Buzz Oates Enterprises Arizona, a developer and builder of large warehouse distribution buildings, said his company competes regionally. He said metropolitan Phoenix makes most lists of potential sites, and prospective tenants are usually aware of the property tax issue when they consider the area. He confirmed that although Arizona may offer a land cost advantage, the overall rent structure, which is an ongoing cost, is lower in Southern California and Dallas.

### Public Testimony

Tom Browning, President, Greater Phoenix Leadership, formerly Brigadier General at Luke Air Force Base, spoke in support of continued funding for the CEDC. He reviewed his involvement in a task force to find a strategy to preserve military bases (a \$6 billion industry in Arizona) that qualified for a grant through the CEDC. The effort was a success and the program is now considered a model for other states. Joint land use studies were also funded. In addition, he was interviewed for development of the Arizona Advanced Communications and Information Technology (ACIT) Roadmap to incorporate military installation capacity into the statewide roadmap, an ADOC sponsored report through CEDC.

John MacDonald, representing America West Airlines, noted that America West is a major employer with its corporate headquarters located in the area. Nine thousand employees work for the airline and an additional 60,000 jobs are created indirectly, resulting in an annual economic development of approximately \$5.2 billion to the state. He cited the two instances in which the airline sought CEDC support:

In 1992, America West filed for Chapter 11 bankruptcy. CEDC provided a \$1 million loan, which was leveraged to an extraordinary degree. The loan was repaid with interest within two years.

In 2002, mainly as a result of the terrorist attacks of September 11, 2001, the airline industry, including America West, was in dire straits. The CEDC responded quickly with \$1.25 million in training funds, and an additional \$1.5 million loan which leveraged a \$429 million grant through the federal government, thus allowing the airline to remain in operation and competitive. The loan is currently being repaid with interest.

In summary, Mr. MacDonald said without help from the CEDC the airline may not be operating today, and he urged continued and improved funding.

Cochairman Waring announced that another meeting will be scheduled in early December. Committee Members and the public are encouraged to submit their input and recommendations to legislative staff.

Without objection, the meeting adjourned at 12:10 p.m.

  
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Carole Price, Committee Secretary  
November 19, 2004

(Original minutes, attachments and tape are on file in the Office of the Chief Clerk.)

## ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

#### AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS

**Date:** Wednesday, December 15, 2004

**Time:** 10:00 a.m.

**Place:** Senate Hearing Room 109

#### AGENDA

1. Call to Order
2. Discussion of Recommendations
3. Public Testimony
4. Adoption of Recommendations
5. Adjourn

#### Members:

Senator Jim Waring, CoChair  
Senator Robert Blendu  
Senator Jack Brown  
Senator Victor Soltero  
Senator Jay Tibshraeny  
John Bowers  
Bob Buns  
Joe Carter

Representative Steve Huffman, CoChair  
Representative Olivia Cajero Bedford  
Representative Phil Hanson  
Representative Robert Meza  
Representative Michele Reagan  
Jim Norton  
Paul Ringer

12/7/04

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ARIZONA STATE LEGISLATURE  
Forty-sixth Legislature – Second Regular Session

**AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS**

Minutes of Meeting  
Wednesday, December 15, 2004  
Senate Hearing Room 109 -- 10:00 a.m.

Chairman Waring called the meeting to order at 10:06 a.m. and attendance was noted by the secretary.

**Members Present**

Senator Soltero  
John Bowers  
Bob Buns  
Joe Carter  
Senator Waring, Cochair

Representative Meza  
Representative Reagan  
Jim Norton  
Paul Ringer  
Representative Huffman, Cochair

**Members Absent**

Senator Blendu  
Senator Brown  
Senator Tibshraeny

Representative Cajero Bedford  
Representative Hanson

**Speakers Present**

Joe Yuhas, Deputy Director, Arizona Department of Commerce  
Brandy Martin, Research Analyst, Senate Commerce Committee

**Discussion of Recommendations**

Senator Soltero asked if the #3 recommendation would raise residential property taxes (Attachment 1). Mr. Huffman noted that the recommendation is not tied to specific legislation. Testimony was given about problems with the business property tax and ways to deal with it. He plans to introduce legislation next session that is meant to address the issue without increasing residential property taxes, but the recommendation only states that the issue needs to be dealt with.

Senator Soltero acknowledged that the business property tax is a problem in attracting businesses, but he wants to make sure there will not be a shift to homeowners.

Mr. Carter echoed the concern about shifting responsibilities, adding that he hopes there will be an opportunity to focus on some of the complexities of the personal property tax, which is one of

the areas that several people spoke on. He fully supports the recommendations, but is concerned about the examples in #2 because examples sometimes become the focus. He would like to see an expansion to include the optics industry or something like that.

Senator Waring suggested that the examples could be eliminated.

Referring to the #1b recommendation on Commerce and Economic Development Commission (CEDC) funding, Mr. Carter asked what level of funding would then be available for the program.

Joe Yuhas, Deputy Director, Arizona Department of Commerce, related that he presented the figures during a presentation at the first meeting, and the recommendation is a huge step in the right direction. He will generate the numbers by day's end for legislative staff to forward to Mr. Carter.

**Mr. Huffman moved that the Committee adopt all of the Department of Commerce #1 recommendations as written. The motion carried.**

**Mr. Huffman moved that the #2 recommendation, with specific examples deleted, be adopted by the Committee. The motion carried.**

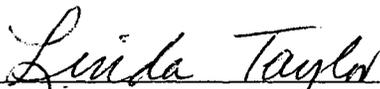
**Mr. Huffman moved that the #3 recommendation regarding business property taxes be adopted by the Committee. The motion carried.**

**Mr. Huffman moved that the #4 recommendation regarding tax incentive policy be adopted by the Committee. The motion carried.**

**Mr. Huffman moved that the Committee adopt the #5 recommendation as written. The motion carried.**

Brandy Martin, Research Analyst, Senate Commerce Committee, advised that staff will prepare the final report, which will include the recommendations, and Members of the Committee will receive a copy.

Without objection, the meeting adjourned at 10:16 a.m.

  
Linda Taylor, Committee Secretary  
December 17, 2004

(Original minutes, attachment, and tape are on file in the Office of the Chief Clerk.)

AD HOC COMMITTEE ON ECONOMIC COMPETITIVENESS  
Final Recommendations for Consideration

1. Department of Commerce

- a. Re-evaluate incentives as well as internal processes in order to make the application/grant process less lengthy and time-consuming.
  - b. CEDC Funding – Realign the program with its original core purpose/mission. Stop the practice of utilizing Fund monies for departmental administrative/personnel costs. Increase revenues by restoring the original contribution (changed by Laws 1997, Chapter 214, from 32.5% to the current 21.5% of revenues from the sale of two special lottery games). Expand the program to allow Arizona to become more competitive on future projects.
  - c. Job Training Program – Restore the employer-funded Job Training monies that have been “swept” in recent years in order to resolve a budget crisis; further, enact legislation to prevent future sweeps.
  - d. Help educate legislators regarding current programs and establish a presence in the State Legislature.
  - e. Establish a better working relationship and more open communication with the Legislature in order to target the pertinent markets.
2. Identify target industries and priority jobs for Arizona and create a corresponding tax structure. (aerospace; bioscience; high-tech)
3. Reduce the property tax burden for commercial/industrial business by lowering the property tax assessment ratio from 25% to 20%.
4. Recommend that any future economic development tax incentive policy be linked to significant, verifiable job creation.
5. Create an *Arizona Development Fund* to be used for economic development *deal closing* incentives. The fund should be discretionary in nature, allowing deposits from both private and public sources.