Economic Development Planning, Summary 2

Title: The Job Recovery Package for the State of Arizona
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Source: Elliott D. Pollack & Company, of Scottsdale
Prepared for: The Speaker of the Arizona House of Representatives
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Summary: With Arizona’s economy dragging, a slate of changes in tax policy and economic development is outlined for legislative consideration with the aim of enabling Arizona to not just grow, but grow well. The overall goal: diversify the economy, stabilize the revenue base and create quality, high-paying jobs.

Sectors: Economic development, tax policy and incentives.

Geographic impact: Arizona

**Major challenges:** Win legislative support for a variety of tax policy reform, economic development incentives and measures, and overhaul of state Department of Commerce.

**Progress to date:** This report was the centerpiece for legislation co-sponsored by House Speaker Kirk Adams and other Republicans that Gov. Jan Brewer signed into law in early 2011. The Arizona Competitiveness Package is a mixture of broad tax reforms and targeted business incentives. The package eliminated the Arizona Department of Commerce, which was replaced by Governor Brewer with the public-private Arizona Commerce Authority. Other components: phase-in of corporate tax relief, funding for creation of rural and urban jobs, reauthorization of job training program, and creation of a $25 million deal closing fund for the new ACA.

**Major implications:** The Arizona Competitiveness Package put Arizona on much-improved footing in vying with other states and countries for higher-value added businesses and improving the business climate for existing businesses to add jobs. The legislation provided key building blocks to diversify the state’s economy with the goal of creating higher-paying base industry jobs.

**Opportunities for alignment:** The tax reforms and regulatory changes provided such economic development organizations as the Arizona Commerce Authority, Greater Phoenix Economic Council, Tucson Regional Economic Opportunities and many others with much-needed tools to attract businesses to Arizona. As well, the package containing such provisions as tax relief and job training is of great assistance to businesses within the state. Among the sectors likely to benefit: manufacturing, export-related business services and higher-paying base industries.

**Background:** The Great Recession exposed glaring weaknesses in Arizona’s economy, notably an overreliance on growth, a relatively uncompetitive tax structure, and a lack of targeted economic development programs. For too long, Arizona’s economic development strategy has rested loosely on its quality of life, climate, transportation system, affordable workforce, and pro-business governments. The report examines what kind of tax policy modifications and economic
development programs should be considered during the 2010 legislative session to diversify the economy, stabilize the revenue base and create quality, high-paying jobs.

**What makes an economy tick:** It’s crucial to Arizona’s economic prosperity to attract and keep companies that import dollars into the state. These base (or export) industries are the engine that drives an economy. Base industries export products out of a region, thereby bringing money in that flows from person to person. Examples of base industries include manufacturing, export-related business services, tourism, retirement, and the federal government.

Base industries create demand for local goods and services that are provided by “domestic” sector companies. This sector includes most retail operations, construction and local service banks. “Indirect” jobs are those created by businesses that provide goods and services to the export-oriented companies. “Induced” jobs are created as a result of spending by direct and indirect employees on such things as food, housing and transportation.

It takes time for even a well-crafted public policy to change a large community's economic composition. But it’s possible to attract individual base industry companies rather quickly with the proper economic development and tax tools.

**Specific policy recommendations for the recovery:** The report examines two components to economic growth for consideration by the Legislature: a competitive tax structure and competitive economic development programs. The programs would not require an immediate appropriation except, in certain cases, for targeted job retention or possible management of a program.

In developing an economic development package that focuses on job creation via base industry growths, the state should consider these eight recommendations:

- Create a new business real and personal property classification with an assessment ratio equal to the residential ratio of 10
percent. This will be applicable only to select base industry operations.

- Create a “Quality Jobs” programs that provides incentives creating and retaining high-paying jobs at base industry companies. Typically, this is funded through withholding taxes that otherwise would not have been collected without creation of a job.

- Create a new Job Training program to replace the one that was recently suspended. This would also be funded through net new withholding taxes.

- Create a “deal closing” fund to provide financing/grants for investment that may be required to attract a particular base industry company.

- Reduce the corporate income tax rate to 5 percent from 6.968 percent to make the state more competitive.

- Modify the Enterprise Zone Program to be base industry-oriented and to better target new growth.

- Adequately fund a state entity that promotes economic development and serves as the point of contact for the state’s other economic development organizations.

- Commission a state economic development strategy that focuses on coordinated marketing and branding, telling the state’s economic story.

**A general comparison of economic incentives by state:** All 50 states offer a number of economic incentive programs. Six incentive programs available for general commercial and industrial businesses are examined here:

- Job tax credit: Thirty-eight states offer job tax credits, which offer corporate income tax credits based on job creation and/or retention. Arizona’s program is limited, consisting of the Enterprise Zone Program.
• Investment tax credit: Thirty-two states offer investment tax credits, which provide corporate income tax credits based on capital investment in real and/or personal property. Arizona’s program is limited, with renewable industries legislation.

• Job training grant: Forty-nine states offer grants to offer a portion of a company’s training costs. Arizona’s program is inactive. Iowa, Kansas and New Mexico have the most effective programs, according to CBRE.

• Payroll rebate: Nine states offer payroll rebates, which offer cash refunds of a proportion of new annual payroll generated by an approved business. Arizona does not have such a program. Arkansas, Kansas, Louisiana, Missouri and Oklahoma have the most effective programs, according to CBRE.

• Cash grant/closing fund: Nineteen states offer cash grants or closing funds to qualified businesses whose operations have a substantial economic and fiscal impact on a state. The Texas Enterprise Fund is the biggest and most active deal-closing fund.

• Sales/use tax exemption or rebate: Nineteen states offer tax exemptions for full or partial abatements of sales or use taxes due on purchases of construction materials, equipment, and/or utility usage.

**Final points:** Policymakers must address three competitive disadvantages regarding Arizona’s economic development programs. They are: a lack of strategic focus within its economic incentive programs, the marketing of these programs and location successes, and the perceived lack of leadership and overall economic governing strategies. New, self-supporting economic development programs are needed along with accompanying tax law modifications. With these must come a long-term commitment to quality growth in the state. Monitoring programs is critical to ensure they are working as intended and benefiting Arizona.