Economic Development Planning, Summary 3

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Summary: Arizona is at its most serious economic crossroads in recent history. The economy is lagging, the state lacks a clearly defined economic development vision and the state Department of Commerce has become politicized, endured significant funding cuts, has suffered a heavy turnover of directors (seven in a 10-year period) and has lost sight of its mission. The agency is weighed down by 57 statutorily mandated initiatives and 16 Executive Order assignments. Many in the business and economic development communities have lost confidence in the Department of Commerce.

Arizona should create a quasi-public state organization, the Arizona Commerce Authority, to lead the state’s economic efforts with the aim of growing and diversifying the economy. ACA would be charged with supporting and attracting business in targeted, high-growth clusters,
with an emphasis on attracting base industries and serving rural communities. The organization would be governed by a board of directors, with the governor serving as its chairman. The speaker of the House and president of the Senate would serve as ex-officio members of the board.

**Sectors:** Economic development, renewable energy, aerospace, defense, semiconductors, manufacturing, distribution, optics/photonics, bioscience and healthcare.

**Geographic impact:** Arizona

**Key actors:** Arizona Gov. Jan Brewer, Jerry Colangelo (chairman of Governor’s Commerce Advisory Council), state Senate and state House of Representatives, Arizona Department of Commerce Director Don Cardon, Governor’s Commerce Advisory Council, Sara Dial, and business community.

**Challenges:** Win the support of the governor, Legislature, business community and public to replace the Arizona Department of Commerce with a more business-minded, public-private Arizona Commerce Authority. Secure funding from the private sector to support the ACA’s marketing efforts.

**Progress to date:** By Executive Order on June 29, 2010, Gov. Jan Brewer established the Arizona Commerce Authority, committing an initial $10 million to the organization and announcing a 35-member board that draws heavily on executives. Don Cardon, a businessman and director of the Arizona Department of Commerce, was appointed as CEO of ACA in November 2010. In June 2012, Cardon stepped down to return to the private sector. After serving as interim CEO, Sandra Watson officially took over the ACA helm in October 2012. Governor Brewer serves as co-chair with Colangelo, a Phoenix businessman.

**Major implications:** The creation of the Arizona Commerce Authority represents a major shift in economic development leadership and the structure in which this leadership operates. ACA is designed to make Arizona more competitive in the 21st-century economy. The public-private ACA has taken an aggressive, business-like approach in targeting
such areas as aerospace, defense, bioscience, and renewable energy to create more jobs and diversify Arizona’s economy.

**Opportunities for alignment:** The opportunities for alignment are far-ranging and almost unlimited, given the expansion of global trade. So, focus is important in aligning and leveraging ACA’s investments and partnerships in support of job retention and creation, and marketing the state’s highly educated workforce.

Among the strategic relationships close to home: the Greater Phoenix Economic Council, Tucson Regional Economic Opportunities and numerous other economic development organizations; Maricopa Association of Government and councils of government, cities and towns across the state; Science Foundation, science and technology groups; Arizona State University, University of Arizona, Northern Arizona University, and other institutions of higher education and research and development; the Arizona Office of Tourism; Arizona-Mexico Commission; Arizona Board of Regents; state Department of Education, as well as building relationships with such trade partners as Mexico, Canada and England.

**Background:** The Arizona Department of Commerce was formed in 1985, when it was moved out of the Governor’s Office and became a standalone agency. Within a few years, the privately funded Arizona Economic Council was created after business leaders expressed concern about the commerce department’s effectiveness. The Department of Commerce’s power ebbed and waned over the years, as a series of governor-appointed directors came and went (including seven in a 10-year span). Similarly, levels of funding rose and fell, dropping to $6 million in fiscal 2010 from $9.2 million in fiscal 2008. Over the years, the organization underwent through several reorganizations, but its structure remained the same even as new responsibilities were added by successive governors and Legislatures, and its national counterparts were evolving to meet the demands of a changing economy and stakeholders.

As part of this study, focus groups and stakeholder meetings were held around the state. The views of more than 320 Arizona leaders representing 180 public and private groups were solicited.
Asked what was working at the Department of Commerce, participants cited strong strategic planning efforts (with limited execution due to budget constraints), new business lead generation and an unbiased role in projects, knowledgeable staff members, a strong resource center with quality research, workforce development programs, rural programs and a focus on industry cluster areas.

Asked what was not working, participants pointed to a highly politicized culture resulting in inconsistent leadership and policies, short-term directors who are politically appointed and lacking in qualifications, no demonstration of the agency’s value, not enough private sector engagement and partnership, too bureaucratic, lack of stable funding and economic development tools, no unified marketing/communications program, and too many mandated programs that are not properly funded.

Participants recommended a number of changes in forming a new economic development organization, including creating a collaborative culture in which state leaders show public and financial support of the organization; a governor who leads or is highly engaged with the agency; a qualified economic development executive heading the organization; public and private sectors at the table, acting independent of election cycles; a focus on the three primary economic development missions of business retention, expansion; accountability and transparency critical; a clear strategic focus, serve as economic ambassador to the world; and assist rural communities as needed.

**State and Global Economic Development Models:** The states that typically do the best in business climate rankings also have successful statewide economic development models.

A review of such top states as Georgia, North Carolina, Texas, Florida, Utah and Virginia, as well as South Eastern England (selected for its overall characteristics and similarities to Arizona), Singapore (high level of economic development activity), and Ireland (a globally recognized innovative structure) identified nine key elements of an effective statewide economic development organization.

The nine key elements were:
• **Collaborative culture:** A culture that recognizes that investing in a results-oriented and focused economic development program is an appropriate use of funds.

• **Leadership:** A highly engaged governor that acts as the state’s CEO and the formal engagement of legislators and business leaders.

• **Structure:** An organization that operates outside of political influence but is still accountable to the legislature.

• **ROI:** An accountable and transparent demonstration of a return on investment of state dollars.

• **Clear strategic focus:** Statewide vision and strategic plans supported by statewide interests.

• **Innovation focus:** Partnerships with higher education, science and technology groups, and R&D institutions.

• **Domestic and global marketing:** State leader in marketing and communications strategies to advance the state’s strategic vision.

• **Public policy and global competitiveness:** State leader in public policy to assure state is competitive.

• **Rural programs:** Special emphasis on providing support to rural communities through economic development programs.

**Recommendations:** Take politics out of the Arizona Department of Commerce and create a professionally run, quasi-public organization to lead Arizona’s economic development efforts. The Arizona Commerce Authority should serve as the state’s lead economic development organization, and be governed by a board of directors appointed by the governor and confirmed by the state Senate. The governor will serve as chairman, and the House Speaker and Senate president as ex-officio members of the board.
ACA’s mission is to diversify Arizona’s economy and create quality jobs by supporting, attracting and helping businesses in targeted, high-growth clusters, with an emphasis on base industries.

The board should hire the president of the Authority under a long-term contract. The president and employees of ACA should be paid commensurate with economic development professions at similar organizations.

ACA is charged with business retention/expansion/recruitment, strategic planning and public policy, management of financial programs, and marketing and communications.

Funding for ACA should come from state and private sector funds. To focus on its mission of economic development, such Arizona Department of Commerce functions as the Energy Division, Research Division, and Forest Health Oversight Council should be moved to other state agencies.