



Chairman's Report - Ad Hoc Committee on

Arizona's Business Climate

May 2002



Prepared by
**Ad Hoc Committee Chairman
State Representative Barbara Leff**



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Executive Summary

Mission

The mission of the Ad Hoc Committee on Arizona's Business Climate was to look at the critical issues of business development, retention and expansion in Arizona. Between the months of August 2001 and December 2001, the Committee met in various locations throughout the State to hear from those directly involved with business and economic development. The goal was to find what Arizona is doing right and to identify areas that need improvement to make this the best place in the country in which to do business.

Committee hearings were held in Phoenix, Scottsdale, Tucson, Flagstaff, Prescott, Yuma, Snowflake, Sierra Vista and Lake Havasu City.

Findings

Corporate Headquarters and Business Relocation

1. Corporate headquarters rarely move from the community where the business was founded.
2. The loss of banking corporate headquarters in Arizona was primarily caused by market conditions and industry changes.
3. Arizona needs to focus on "growing our own" corporate headquarters.
4. Arizona is a very young State and we must be realistic about the time frame required to develop a critical mass of corporate headquarters.
5. Policy makers must understand the key factors companies consider when starting up, expanding, or relocating:
 - Existing facilities and infrastructure
 - Friendly government with prompt and reasonable permitting processes
 - A stable state and local tax structure
 - A regulatory climate that is not oppressive
 - Good quality of life, especially good educational opportunities for their children and their workers' children
 - An educated workforce or a population that can be trained to work in their industry
 - Access to affordable and quality healthcare for themselves and for their employees

Education

1. It is critical that Arizona sustains the recent investments in K-12, community colleges and the universities and recognizes that education is the key factor in ensuring future success for individuals in our State as well as for our State economy.
2. Economic development professionals need to learn about these recent investments and emphasize the improvements that are being made to our educational system.
3. There are two fundamental aspects of K-12 on which we must focus:
 - Provide more funding to the classroom and less to administration; and
 - Ensure that all children are proficient in the basic skills of reading, arithmetic, spelling and grammar. Businesses need employees who can calculate and communicate.

Stability

The Legislature must be very careful about the message sent to business when taking actions that repeal tax credits, destabilize the unemployment tax fund, increase business' exposure to lawsuits, or undermine our right to work laws.

Healthcare

1. Most of the problems of small business affordability need to be addressed by Congress, through tax credits or by allowing small business groups to form insurance pools across state lines.
2. One solution may be for employers to offer vouchers to employees to purchase their own insurance so people can choose which benefits they need,
3. Policies with lower premiums and higher co-pays may be a way to allow more people to afford insurance. This would allow more people to have the safety net of basic coverage, while those who use more health services pay more.
4. The Legislature must work to save Healthcare Group, the only option for a small employer that has employees with chronic or pre-existing conditions.
5. Community health centers are a viable option for primary care in rural and underserved areas and should be expanded.
6. To address the shortage of nurses throughout Arizona, community colleges, in cooperation with local hospitals, should expand their RN programs.

Tourism

Tourism is fundamental to Arizona and brings substantial benefits to the State. The Legislature must continue to support the efforts of the Office of Tourism.

High Tech

Arizona's manufacturing, software and other high tech industries create high paying jobs and inject new dollars through exports.

1. The Legislature must continue to fund research and development (R&D) tax credits
2. The Legislature must also address the imbalance in our tax structure which can penalize capital intensive operations
3. Arizona needs to work on attracting R&D operations and federal research opportunities.

Venture Capital

Arizona is weak in attracting funds for very early stage companies. Investing in virtual incubators to help new start up companies may be an answer. We also need to work on establishing an infrastructure that generates “deal flow” to help lure venture capitalists to Arizona.

Increased commitment to our university R&D activities may be the catalyst to attract them. If more new technologies can be transferred to the private sector from the universities, venture capital firms will be more likely to establish operations in Arizona.

Taxes and Tax Policy

A complete study of Arizona’s tax code is needed before any substantial changes are made to the tax system. Making changes piecemeal, at this time, would create an unstable business environment for our current businesses as well as those looking to relocate in our State.

It is clear that raising taxes in any manner would be a detriment to our abilities to attract, retain and grow businesses. Businesses carry most of the burden of taxation in Arizona – adding additional burdens would be counterproductive.

Rural Infrastructure

Telecommunications and access to the Internet is critical and the Legislature needs to ensure that the APNE money for telecommunication infrastructure assessments is not lost.

Regulatory Burdens

Small businesses need relief from duplicative paper work. State and local governments must work together to coordinate and streamline their reporting requirements. All taxes and regulations hit small businesses harder than larger ones because it is more difficult for them to absorb the additional costs.

Conclusion

Arizona is a young state that is still forming and we have the unique opportunity to help shape its destiny. We must focus on developing and promoting policies that foster a strong economy and that ensure that all of Arizona's businesses have the opportunity to grow and prosper.