



Economic Development Essentials

Strengthening the State's Economy

Presented to:

Tucson Regional Economic Opportunities

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Synopsis: We have benefited greatly from past actions but...

Unless we diversify our economic base the future will be at risk.



**“Base” (or export) sector
companies drive the economy.**





Why do ghost towns exist?





Flow of a Region's Economy

Base Industries

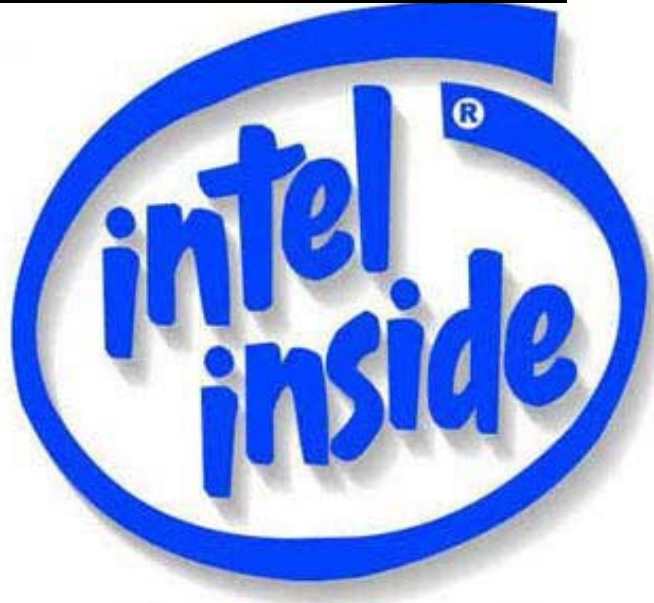
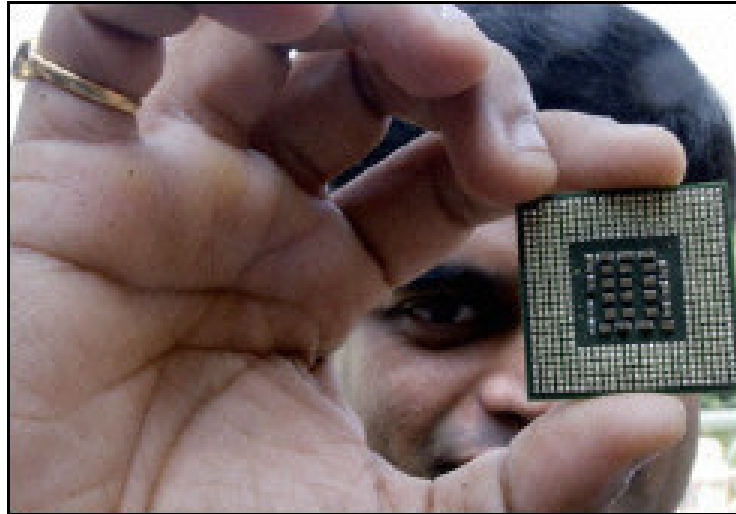
Manufacturing, Tourism, Export-Related Business Services,
Retirement, Etc.

Spending
by
Base
Industries

Local Market Industries

Retail, Construction, Local Business Services, Banks,
Local Government





**The health
of an
economy is
a function
of its
export, or
“base”
industries.**





Most businesses and jobs within an economic region are dependent upon the success and growth of a smaller number of businesses that import wealth into that region.

THESE ARE BASE INDUSTRIES.





Arizona Economic Drivers:

- **Manufacturing**
- **Tourism**
- **Advanced business services**
- **Federal government**
- **Retirement & second homes**





“Base” Industry Facts

1. Demand for their product is primarily from outside the local market area. They are NOT just chasing \$\$\$ already here.
2. They can produce anywhere. (So they are at risk of leaving)





The Effect of Base Industries on the Local Economy

- **Goods or services are sold outside the local economy;**
- **Money is imported into the region;**
 - **These monies circulate;**
 - **Leakage eventually occurs;**



Average Annual Wages v. Multiplier Effects

Industry	Average Annual Wages	Job Multiplier
Base Industries		
Computer & other electronic equipment	\$111,524	3.2
Chemical manufacturing	\$105,340	4.7
Federal government	\$78,820	1.6
Machinery manufacturing	\$69,197	2.7
Advanced business services	\$69,539	2.1
Local Industries		
Educational services	\$33,643	1.4
Health care	\$33,491	1.4
Retail sales stores	\$29,381	1.4
Real estate	\$26,451	1.8





And the healthier
your **base**
industries are, the
healthier your
local industries
will be.



(and vice versa!)





Examples of Base Industry Activity

- **Raytheon adds new jobs**
- **A tourist comes to the region**
- **A retiree lives here during winter**
- **A new manufacturing company moves to town**





Economic Impact on the Region

- **Raytheon pays a salary to its employees.**
- **The company buys goods & services within the region.**
- **This creates demand for local goods & services from within the region**





Economic Impact on the Region - Indirect

- **Raytheon buys local goods & services such as:**
 - **Office supplies from Staples**
 - **Cleaning supplies from Wal-Mart**
 - **Office / industrial buildings**
 - **Air conditioner repairman**





Economic Impact on the Region - Induced

- **Raytheon employees spend their salaries on items such as:**
 - **House**
 - **Car from the Chevrolet dealer**
 - **Suit from Dillard's**
 - **Thirstbuster from Circle K**
 - **Plumber**
 - **Haircut**





Economic Impact on the Region – Cycle Continues

- **In turn, employees at Dillard's and Circle K receive salaries.**
- **They spend money on local goods & services.**





“Local Market” or “Domestic Sector” Industries

- **These industries exist because of demand created within the local market**
- **These industries are chasing \$\$\$ brought in by export related industries.**
- **What happens in these industries is a function of what happens to “export” or “base” sector industries.**



Average Annual Wages v. Multiplier Effects

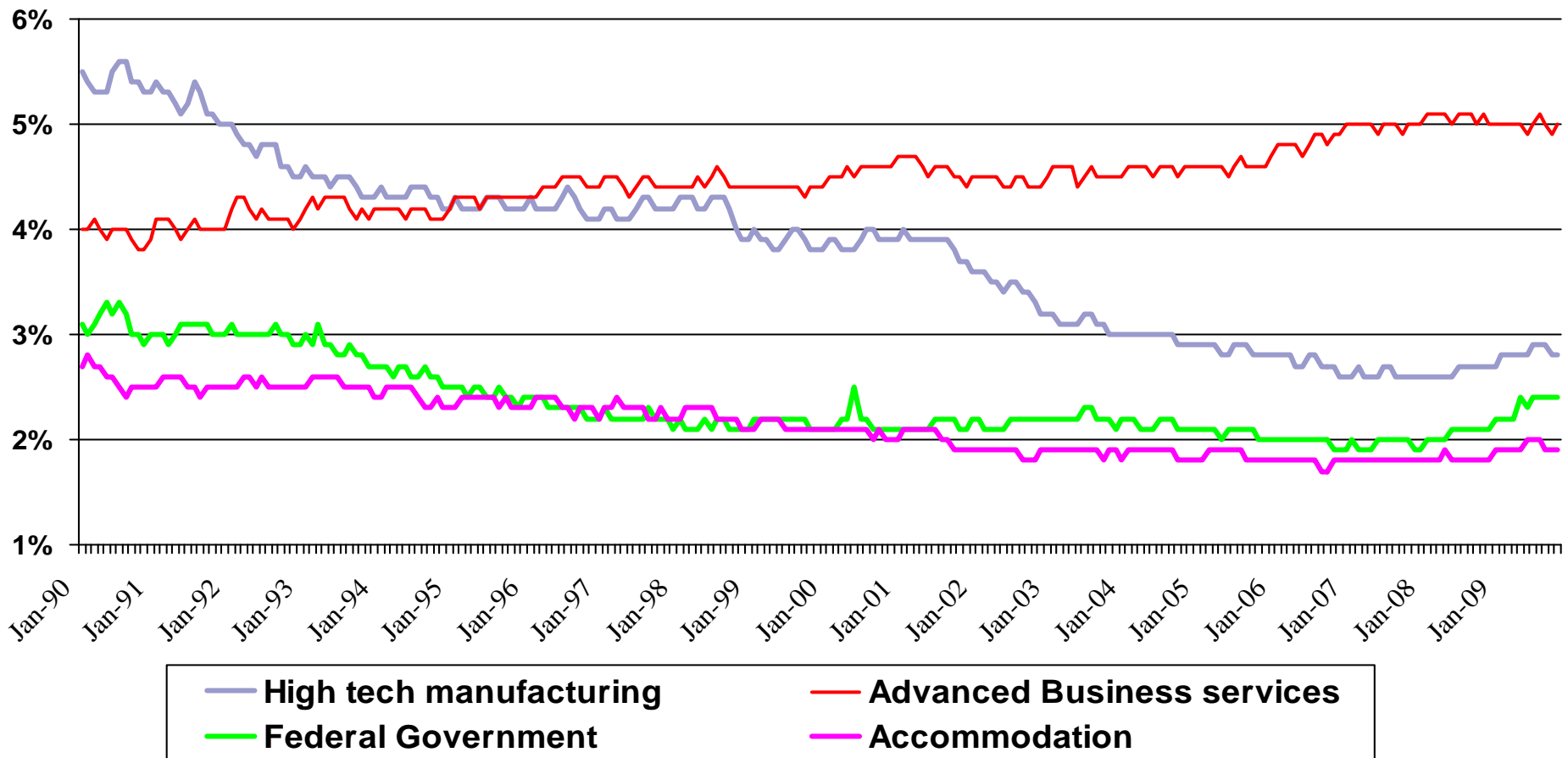
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What's Happening to our Base Industries?

Employment by Industry as a Percent of Total Employment

Source: ADOC; Research Administration





WHY ARIZONA GROWS...


- **PEOPLE**
- **RESOURCES**
- **GOVERNMENT**





**People and
companies vote
with their feet...**





**...People have
been voting for
Arizona for
decades.**





**But to keep them
voting for AZ we
need to diversify
our economic base.**





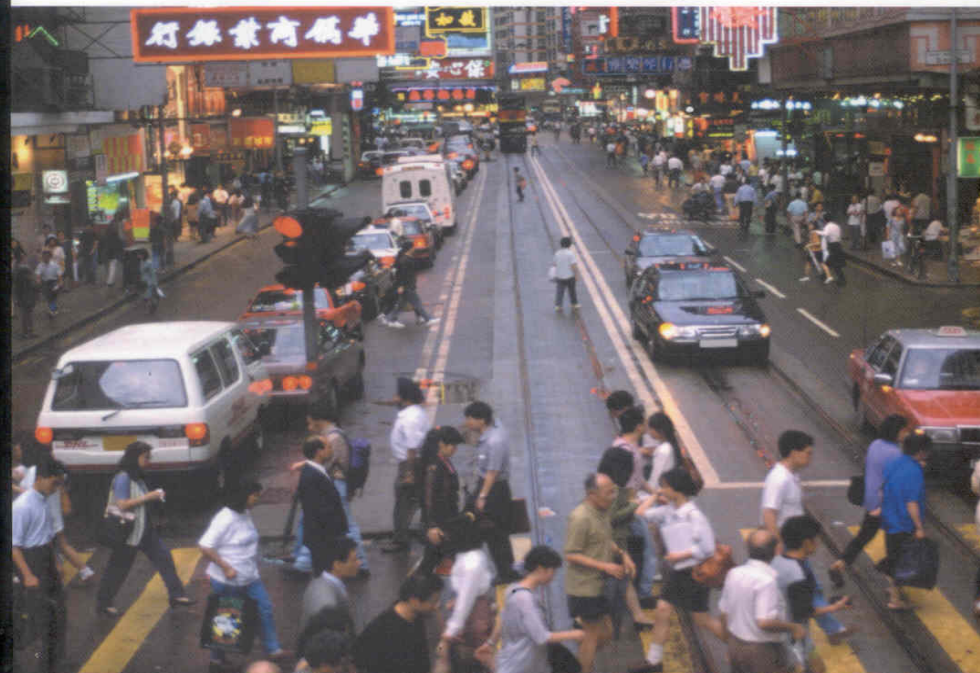
NOTE:

The current economic cycle illustrated the dangers of being overly reliant on growth.





Barriers to Riches



Stephen L. Parente and Edward C. Prescott





At the state level this also means:

- A. Businesses making a reasonable return on investment;**
- B. Minimizing bureaucracy.**
- C. Utilizing the latest technology.**





Things that prevent the use of latest technology?

- A. Support of monopolies;**
- B. Barriers to intl. trade;**
- C. Restrictive workforce rules;**
- D. Burdensome regulation;**
- E. Tax policy.**






At the State level:

- A. Livability – People WANT to live here**

- B. Government – Doesn't get in the way (i.e. few constraints put on a company and its ability to make a profit).**





**The good news for our State is
that we have control over our
destiny and it is within our
power to improve our
competitive position.**





We have been lucky...

**Our existing base has held us
in good stead. We have been
benefiting from actions that
occurred decades before.**





**What happens when job
growth slows?**

**The current cycle
highlighted our problem.**





We need **new economic drivers.**

**Also, the semiconductor base has
been shrinking.**

**The aerospace and defense industry
could be in danger.**





**Need to diversify the
export-related base,
especially the manufacturing
base, by being competitive in
areas where we can excel.**





**Build on our strengths in
areas such as aerospace
and defense.**





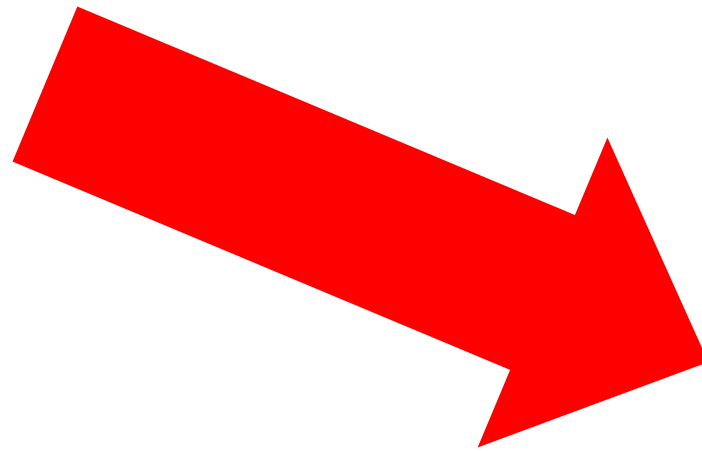
Is the State at a Crossroads?

- Economic development decisions.
- State has opportunity...time is **now**.
- Need to create higher paying jobs.
- Up to State policymakers.



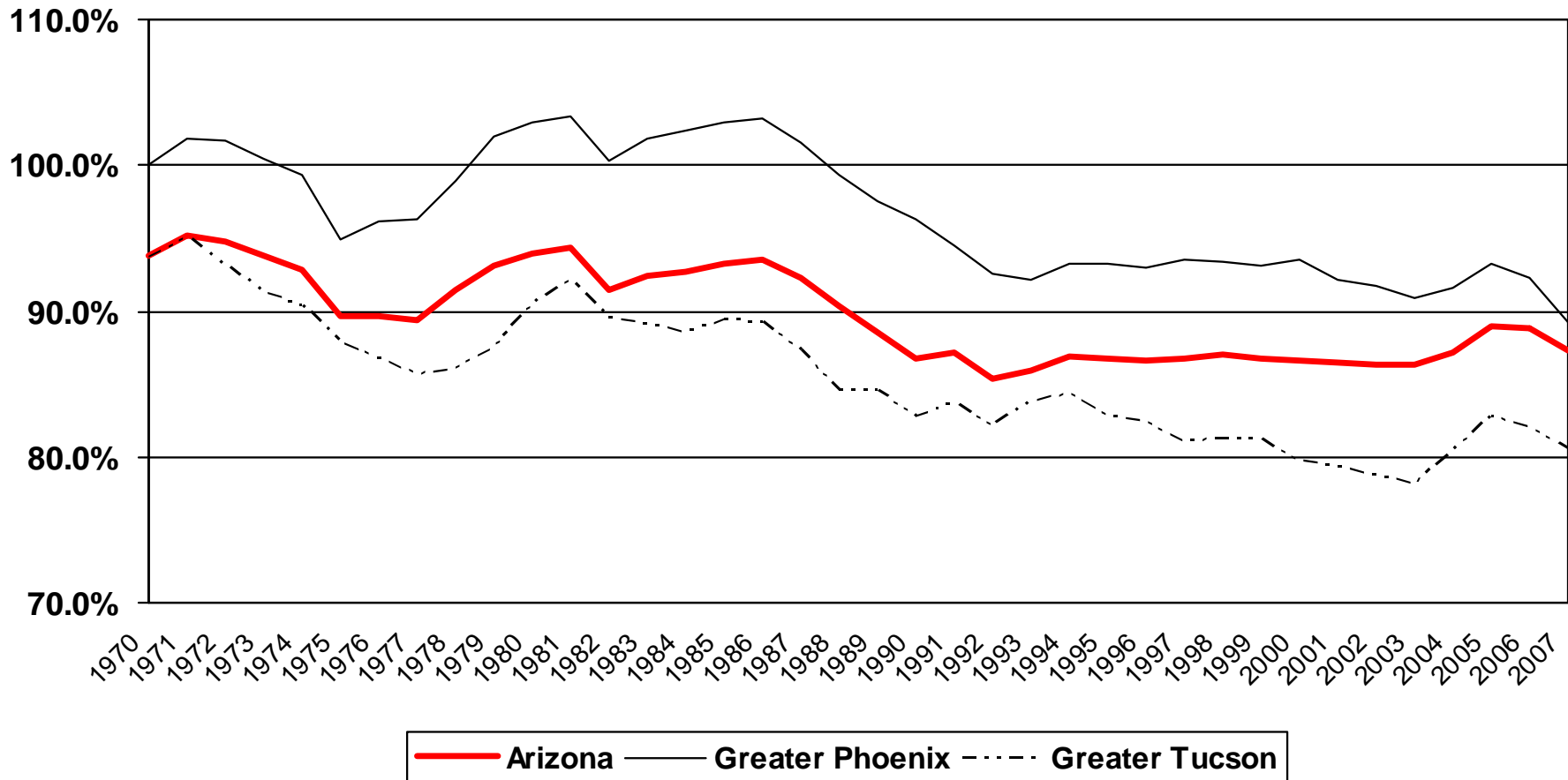


**If not, per capita personal
income will...**



Per Capita Personal Income as a Percent of U.S. Arizona and its Metro Areas

Source: Bureau of Labor Statistics





Defining Areas of Policy Focus:





Underlying Principle:

DO NOT focus on local market industries.

Focus **ONLY** on base industries.





Areas of Focus:

- More outreach by leadership.
- Efficient levels of regulation.
- **More competitive overall tax policy** (for companies that could move elsewhere).
- **Focused incentives** when necessary.
- Physical and intellectual infrastructure.
- *But, remain focused on base industries and on areas where we have a competitive advantage.*





Outreach:

- **Communicate, communicate, communicate.**
- **The Governor calling an export business CEO about what AZ can do to be more competitive only costs 15 minutes of time.**
- **More focused and aggressive expansion & retention.**





Outreach:

- **Combination of approaches:**
 - **ADOC (state) administering programs;**
 - **TREO et al lobbying businesses/programs;**
 - **Support from local business leadership. How though?**





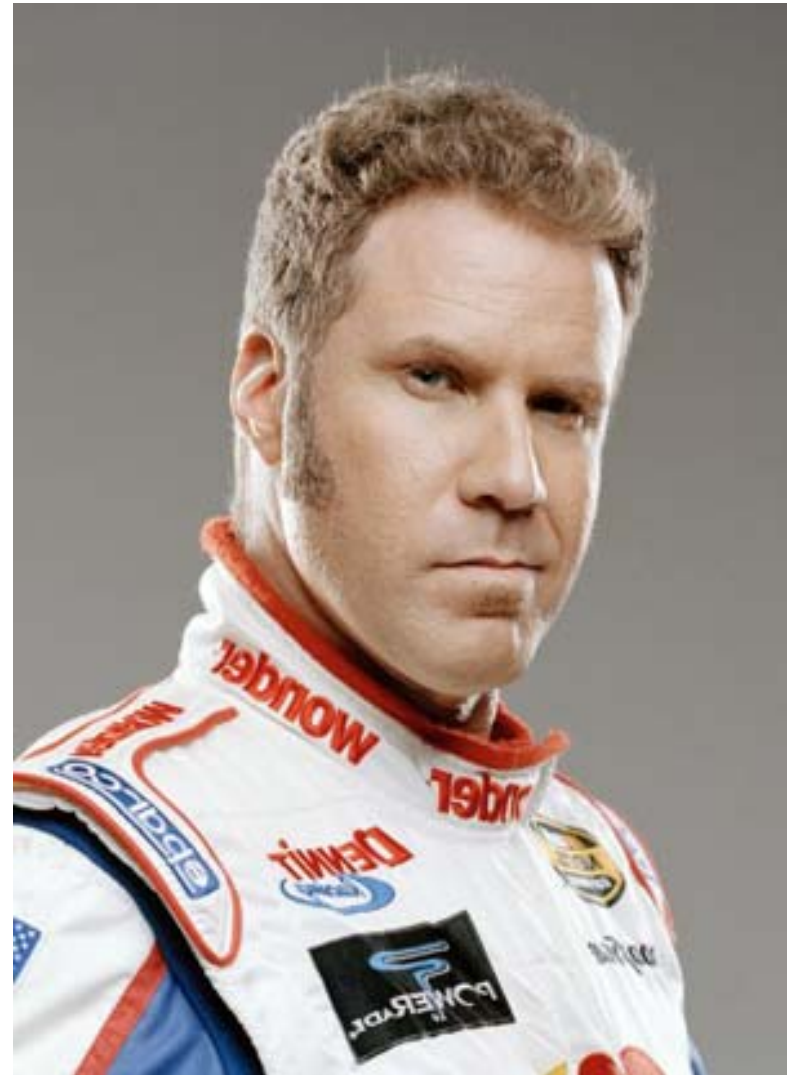
Regulation:

- **Can a company come here and operate efficiently and make a normal return?**
- **Removing inefficient and unnecessary regulation also has no or limited cost.**



Competing for Business:

**If you're not
first you're
last.**





Overall Tax Policy:

- **Are we competitive?**
- **Perceptions vs. reality?**
- **What can we do to address high tax burden on base industries?**





Overall Tax Policy:

**We are relatively kind to
households and tough on
businesses.**





Overall Tax Policy:

- **Corporate income tax rate:**
 - **In reality**, with credits, base industries pay little in corporate income taxes.
 - Based on **perception**, we have a relatively high tax rate (6.968%; double Colorado).
 - So, should it be cut? Yes (for base industries that could move elsewhere).





Overall Tax Policy:

- **Personal property taxation:**
 - A tax on equipment.
 - Manufacturers are heavy users of equipment.
 - Manufacturing is a base industry.
 - So why tax this area?





Overall Tax Policy:

A competitive tax structure gets us in the ballpark. Specific incentives and quality business inputs may be necessary to land the deals.





Focused Incentives:

- **No opportunity cost incentives!!!**
- **Focus on where we have a competitive advantage.**





Focused Incentives:

- “Penny saved” principle (i.e. business retention as well as location & expansion).
- Again, aerospace is likely to concentrate even further.
- This means some communities will see an expansion and some will see a contraction.
- What else should we aggressively protect?





Focused Incentive Examples: **(for base industry operations only)**

- **Deal Closing Fund** (to provide \$\$\$ incentives and to pay for some relocation costs);
- **Job Training Program** (to train employees, sometimes require specialized skills);
- **Quality Jobs Program** (reimbursement for creation of high wage jobs);
- **Etc.**





Basic Business Inputs:

In addition to competitive tax policies and tax incentives we need:

- **Quality (educated) workforce;**
- **Affordable workforce;**
- **Adequate infrastructure;**
- **Etc.**

None of these matter without a competitive tax and economic development policy.







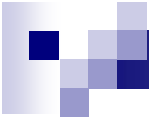
Final Thoughts:

There is no silver bullet.





**We will only be successful if commitment is
made at all levels.**

**Don't give away more than we will receive
in return.**






At the local level, competitive tax policies, limited yet responsible regulation, and policies that allow export related companies (i.e. companies that could locate elsewhere) to earn a competitive rate of return are the key factors in regional development.



Yes, it is that simple.





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