

THE ARIZONA REPUBLIC

Ariz. GOP outlines tax-cut plan as strategy to spur job growth

by **Betty Beard, Mary Jo Pitzl and Erin Zlomek** - Jan. 6, 2010 12:00 AM

The Arizona Republic

Arizona House Republicans hope to jump-start the state's economic recovery with a job creation and business tax-relief bill that they say will encourage creation of quality jobs in key industries.

The goal is to use a variety of tools, including tax incentives, to entice new and existing businesses to add jobs.

The bill includes a proposed "Arizona deal-closing fund" to pay for special requests to seal a company's move to the state.

House Speaker Kirk Adams, R-Mesa, said the bill will be introduced Monday. How it will play out in a state Legislature that must close multibillion-dollar budget shortfalls is unknown. Arizona's deficit is expected to be about \$4.7 billion between this fiscal year and next.

Many of the bill's recommendations are based on a \$65,000 report that House Republicans commissioned last month from Scottsdale economist Elliott Pollack. His company surveyed the 50 states for best practices in economic development and suggested the creation of programs already proven successful in other states.

The bill is lean on upfront incentives, instead focusing on giving companies tax rebates after they begin operations or add to their existing operations.

Cutting business taxes also would make the state more competitive in attracting companies, lawmakers said.

The proposed Arizona Economic and Job Recovery Bill focuses on retaining and attracting "base industries" - manufacturing, high-tech and research-and-development companies such as Boeing, Intel Corp. and Raytheon Missile Systems - that pay employees well, bring in dollars from out of state and generate three or four indirect jobs for each one of theirs.

Adams unveiled the plan in front of the Boeing plant in Mesa, while planes and helicopters passed noisily overhead, because he said it illustrated the kind of company Arizona needs to keep and attract. Boeing has about 4,500 employees and an average salary of \$70,000.

Tax-reduction efforts

The tax-cut components of the bill are nearly identical to a plan that passed the House in July, only to die in the Senate.

At the time, the package of income- and property-tax cuts was tied to approval of the temporary sales-tax increase that Gov. Jan Brewer has been promoting to ease the state's deficit.

This year, Adams said, the House leadership will not tie the tax increase to tax cuts. That's because he wants the broader package - tax cuts, as well as other policy moves that he believes will attract good-paying jobs to the state - to stand on its own merits as a long-term, economic-development policy.

However, Adams said many members of his Republican caucus will want to see tax cuts if they are also asked to vote for a tax referral.

Adams emphasized that the tax-cut portions of the plan would be phased in over four years, starting in July 2011, so they would not further affect state tax collections in the recession.

The plan envisions more than \$600 million in tax relief by June 2016:

◆◆\$200 million in individual income-tax relief by reducing rates 10 percent.

◆◆\$200 million in corporate income-tax relief by reducing the rate to 4.5 percent from 6.97 percent.

◆◆\$250 million in property-tax reductions by eliminating the state equalization rate.

Barbara Leff, chairwoman of the Senate Commerce and Economic Development Committee, said she is encouraged by the emphasis on job creation.

The high-wage manufacturing jobs that the bill seeks to attract are out there, said Leff, R-Paradise Valley. She pointed to the bill she championed last year that provides incentives for renewable-energy firms. It's already helped attract several solar firms, she said.

House Democrats panned the Republican plan, saying it would benefit businesses while hiking taxes on residential-property owners.

A cut in the business-property rate would push the burden onto residential rates, said House Minority Leader David Lujan, D-Phoenix.

Adams said he believes homeowners will approve. "The citizens of Arizona understand more than ever the importance of jobs because there isn't a person in the state who has not been affected by a job loss or knows someone who has lost a job or has lost a significant portion of their income," he said.

Several economic-development experts say Arizona will fall behind in luring businesses without better incentives, particularly because of its severe budget issues.

One of its major existing incentives, job-training funds, was suspended last year by the Legislature to try to close the deficit.

Advice to be careful

Jack Boyd, a Princeton, N.J., consultant, said he and other consultants are telling clients looking for new sites to be careful about locating in states with high deficits.

"What concerns me is who is going to put the fiscal houses in order for states like Arizona, California and New Jersey. Our concern is that it will be on the backs of the business community," he said.

He also said that Arizona's property taxes are high by Western standards, another disadvantage, and that it is one of few states to separate business from residential-property taxes.

Ioanna Morfessis, a Phoenix-area economic-development consultant, said that offering incentives have become more important because of globalization and the recession.

"Other states and other governments have beefed up incentive programs tremendously in the last two years even in the face of enormous fiscal and budgetary restraints," she said.

The proposed legislation primarily addresses job creation through three provisions.

The first would give cash rebates to qualifying employers that add \$2 million to their payrolls - roughly 50 jobs - and maintain those new jobs for five years. The rebates would be funded through withholding taxes, with 50 percent going back to the employer and the rest going to the state. If the jobs don't sustain, the employer would have to repay the rebates.

Such rebates have proven effective, according to Sujit CanagaRetna, senior fiscal analyst for the Lexington, Ky.-based Council of State Governments.

CanagaRetna cites Oklahoma, which he said used its rebate program to build a sizable wind-energy industry.

Another job-creation provision would create a "deal-closing fund" that would allow the state to offer out-of-state employers last-minute incentives, including tax breaks and infrastructure construction. About 20 states have similar funds, according to the governments council.

The structure of the fund is similar to the incentives in the renewable-energy bill passed last year. It hinges on feeding a portion of the dollars generated by new jobs, mainly in manufacturing, back into a fund that would help attract more good-paying jobs to the state, Adams said.

CanagaRetna said, "They are an effective way for the executive branch to move quickly on a project, but there is some controversy." Some say the fund gives its administrator too much power because the incentives aren't debated through the standard legislative process, he added.

Adams proposes seeding such a fund with \$25 million of unused federal stimulus money.

The bill's third job-creation provision involves tweaking Arizona's existing job-training program.

All state employers pay a job-training tax, which collected \$15 million in 2009. The fund helps companies pay for new employee training when a skilled workforce is not immediately available.

The program is often attractive to out-of-state employers looking to relocate, according to the Greater Phoenix Economic Council. However, not every company that pays the tax uses the program, House Republicans say.

The new bill proposes eliminating the job-training tax and instead funding the program via participating companies' withholding taxes.

Republic reporter Casey Newton contributed to this article.

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