

AZ MIRROR

Senate Republicans move to upend the Arizona Commerce Authority amid questions about its spending

It's unclear whether the agency tasked with luring corporate investment in AZ will be reauthorized

By: Jerod MacDonald-Evoy - January 18, 2024



The 2023 Super Bowl, the fourth held in Arizona, was a major opportunity for the Arizona Commerce Authority, which spent about \$2 million on tickets and gifts for CEOs to attend the game. That and other spending by the authority has come under fire by lawmakers and was said this week to be a violation of the Arizona Constitution's gift clause. Photo by Drake Presto | Cronkite News

After being grilled by lawmakers Wednesday, the Arizona Commerce Authority is facing an uncertain future in the wake of a determination by the attorney general that its efforts to woo CEOs with lavish junkets violate the state's constitution.

The ACA has come under increased scrutiny after a report by the Arizona Auditor General found that the agency lacked accountability and transparency related to events they hosted in order to lure companies to relocate or expand to Arizona.

Auditors found that the ACA spent \$2.4 million on travel, luxury hotel rooms, alcohol and tickets to events such as Super Bowl LVII and the Waste Management Phoenix Open.

The look at the ACA's spending was part of a regular evaluation known as a "sunset audit," during which legislators decide whether an agency should be reauthorized for up to 10 years. As part of the audit, they looked at five of the all-expenses-paid junkets — known as CEO Forums — between 2018 and 2023.

During a Senate Government Committee meeting Wednesday, lawmakers voted not to continue the agency but instead recommended revising or consolidating it.

Sen. Jake Hoffman, a Republican from Queen Creek who chairs the committee, verbally sparred with ACA President and CEO Sandra Watson, who said that the agency "respectfully disagrees" with the AG's opinion. She said that the ACA had hired a third party to evaluate their progress on the recommendations from the auditor general.

"Respectfully, that is great marketing language," Hoffman shot back at Watson when she said the agency is taking steps to verify documentation that auditors found to be lacking. Hoffman went on to say that the agency had "glaring issues of mismanagement."

Hoffman, the head of the far-right Arizona Freedom Caucus, has sponsored legislation that would repeal the ACA, which was created by lawmakers in the wake of the Great Recession as part of a push to create new tax incentives for corporate investment in the state.

Under state law, legislators can vote to continue an agency, terminate it or consolidate and revise. During Wednesday's meeting lawmakers voted along party lines to consolidate and revise the agency, with Republicans backing the move and Democrats opposing it.

"I am extremely alarmed that we are using this and we are essentially weaponizing the audit process as a way to go after state agencies," Sen. Priya Sundarashen, D-Tucson, said, adding that she shares the concerns about the auditors findings but does not want to see the agency eliminated before any reforms can be made.

The sunset review process almost always sees state agencies extended. State law limits extensions to 10 years, but lawmakers have historically reauthorized state agencies for eight years at a time — a figure that coincides with legislative term limits.

Sometimes, however, lawmakers opt to extend agencies for less time. Last session saw lawmakers upending that general practice for the Arizona School for the Deaf and Blind and reauthorizing the school for just two years.

During Wednesday's committee hearing, multiple other agencies were also only extended for two years, much to the chagrin of Democratic lawmakers.

"I am disappointed that we are operating with a two-year kind of flat across-the-board agency continuation process," Sundarashen said when voting on the continuation of the Governor's Office of Tribal Affairs. Sundarashen and her Democratic colleagues said they are worried about how this will impact the work done by these agencies.

Gov. Katie Hobbs similarly shot back at lawmakers for voting to not continue the ACA, saying in a press release issued after the hearing saying that the agency's work has directly led to "good-paying jobs for everyday Arizonans."

"Moving forward, I agree there is a role for improved guardrails to protect taxpayer dollars in the Arizona Commerce Authority processes," Hobbs' statement said. "I look forward to members of the legislature joining me to deliver that accountability across state government, including over the unaccountable and unsustainable ESA voucher program that allows taxpayers to fund luxury car driving lessons, ski trips, and water park passes."

Scrapping the ACA would 'send a very negative message' to businesses

John Boyd Jr. is the principal at a site selection company and has been helping businesses find a home in Arizona and other states for more than 35 years. His company's clients include major corporations like Boeing, Pepsi and Pratt & Whitney.

Several of his clients have a major presence in the state, and he said he works regularly with the ACA.

"We recommend revising the ACA, not abolishing it," Boyd told the Arizona Mirror, adding that "the ACA has really had its fingerprints in virtually every economic development achievement in the last decade or so."

Among those achievements, he said, is the integral role the ACA played in getting electronics giant LG to choose Arizona for North America's largest stand-alone battery plant, which will cost \$5.5 billion to create.

So, to people like Boyd, the need for an organization like the ACA is crucial in helping the state stay competitive.

He said he sees the utility in the ability for states to create forums where CEOs can interact with state business leaders and government officials so they can get a better understanding of the market they may be looking to invest in.

"Economic development success is all about relationship building," Boyd said.

Arizona isn't alone in having a statewide economic development team that invites CEOs to large events in the state. Florida's own program, Enterprise Florida, faced similar criticisms and issues as the ACA, and its work was eventually shifted into a new organization.

"I also recognize that it is politically contentious and the public has become very weary of these types of giveaways," Boyd said. "It is hard to put the genie back in the bottle."

Still, Boyd said there is a path forward for the ACA to operate and within the confines of the state's constitution. He pointed to the state of Indiana as a success story that Arizona could look to.

But doing away with the ACA entirely, particularly at a time when companies are leaving states like California, would put Arizona at a disadvantage, he said, because there would not be an organization that helps businesses navigate Arizona's tax law, markets and more.

"It would send a very negative message to the site seeking companies around the globe," Boyd said, adding that it would be akin to "biting the hand that you are trying to attract to the state."

Reforms increasing transparency on spending and guardrails on who incentives are given to should be implemented in order to make lawmakers and the public comfortable with the ACA's continued existence, Boyd Jr. said.

Lawmakers will present their plans for reform to the agency in the coming weeks as well as suggestions from staff at the Capitol.