



# FACT SHEET

## ARIZONA HOUSE OF REPRESENTATIVES

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**The Honorable Kirk Adams, Speaker of the House**

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### **Arizona Economic and Job Recovery Bill FACT SHEET**

The Arizona Economic and Job Recovery Bill will create a more business-friendly climate, attract and retain base industries, create jobs with good pay and benefits, and provide needed tax relief to businesses and citizens. The bill will be introduced in the Legislature on January 11, 2010.

This bill includes legislation focused on four specific areas: job creation and training programs, incentives to attract new and retain existing base industry companies in Arizona, tax relief for small and large businesses and economic development programs.

Provisions of the bill are the direct result of recommendations from research performed by Elliot D. Pollack and Company. The firm conducted Arizona's first extensive review of the State's economy, with a focus on both its current tax policy and economic development practices, both of which are critical to improving the State's economy. Also analyzed were other states' successful, proven economic development programs to determine best practices for diversifying Arizona's economic base and raising the overall standard of living.

A major focus of the Arizona economic and job recovery legislation is on base industries, which include those in high-wage sectors such as manufacturing, research and development, and high-tech companies. In addition, each base industry job creates additional jobs in local businesses throughout the state. For example, every 10,000 jobs in Aerospace manufacturing in Arizona create 22,000 more jobs in other industries across the state. A base industry is defined as:

- Exports 75 percent of its goods and/or services outside the State
- Creating jobs with gross wages at 125 percent of the median county wage
- Pays 50 percent of employee health insurance

Provisions of the bill contain the following:

#### **A. Job creation and training programs**

- The **Arizona Quality Jobs Program** will provide cash rebates to new and existing base industry companies that create good, high-paying jobs in Arizona. These rebates will require no funding from the State, but will be paid by rebating back to the base industry company a proportion of each new employee's withholding taxes.
  - Qualifying base industry companies must have payrolls at \$2 million or above, roughly equivalent to 50 jobs, which must be maintained annually for a minimum of five years.

Companies will only receive the rebate when the total payroll thresholds, wage requirements, and health insurance requirements are met.

- Of the new jobs created by the Arizona Quality Jobs Program, 50 percent of the value of the withholding taxes is rebated back to the company, while the state receives the remaining 50 percent.
  - This program reduces the cost for base industry companies to do business in Arizona by offsetting their annual payroll costs.
  - The program includes clawback provisions to ensure participating companies meet their obligations to the state. Otherwise future rebates are forfeited and the company repays back to the state the withholding taxes already rebated to it pursuant to the program.
  - The State benefits since the Arizona Quality Jobs Program requires no commitment of General Fund appropriations. Each grant is self-funded and paid through a diversion of a proportion of withholding taxes from the employees of the company.
  - The Arizona program is based on successful Quality Jobs Programs in Arkansas, Kansas, Louisiana, Missouri, and Oklahoma.
  - The Oklahoma Quality Jobs Program, for example, has enrolled 491 companies, creating more than 339,000 new jobs, with a payroll of more than \$11 billion since 1993.
- The **Arizona Job Training Program**, which was suspended during the 2009 Legislative Session, will be reinstated and enhanced to be more robust and responsive to new and existing base industry companies in Arizona. Funding for this program will come from a percentage of withholding tax revenue and is based on successful programs in Iowa and Kansas. The program benefits all businesses in Arizona since it will repeal the existing Job Training Tax currently being applied to the payroll and paid by every employer in the State, even though they may not participate.
    - The Arizona Job Training Program is voluntary, and provides flexibility to the base industry company depending upon its training needs.
    - This program reduces the on-going cost for base industry companies doing business in Arizona by offsetting costs for job training.
    - The State benefits since the Arizona Jobs Training Program requires no commitment from General Fund appropriations because each grant is self-funded and paid through a diversion of a proportion of withholding taxes from the new jobs created by the participating company.
    - Clawback provisions akin to the Quality Jobs program apply to ensure companies live up to their obligations to the state.
    - Every employee and employer in Arizona will benefit from the repeal of the Job Training Tax, which collected \$15 million in additional payroll taxes from employers in fiscal year 2009.

#### **B. Incentives to attract new base industry companies to Arizona**

- The **Arizona Deal Closing Fund** will provide incentive funds to attract much needed, high-impact base industries to the State, but will not add to Arizona's budget deficit. Seeding of this fund would come through a use of existing Arizona Federal Stimulus proceeds, and maintained through a percentage of withholding tax revenue generated from the newly-created quality jobs and job training programs at base industry companies.
  - This fund will help all of Arizona due to the multiplier effects of bringing base industry companies to the State. In addition to its jobs, base industries generate "indirect" jobs created by businesses that provide goods and services to the export-oriented business/industry, and "induced" jobs created as a result of the spending by direct and

indirect employees in the local economy on such things as food, housing, and transportation.

- At least 19 states have a Deal Closing Fund, with at least two adding more monies to their funds amid the economic downturn.
- Provided clawback provisions, performance milestones, and fiscal and economic modeling are in place, such a tool enhances Arizona's ability to compete for major employers that could provide significant impacts in terms of new Arizona jobs and increased tax revenues to the state.

### **C. Tax Relief**

- The **Corporate Income Tax Reduction** is critical to attract and retain businesses in the State, as well as make Arizona competitive with other states on corporate income tax assessments. A phased-in reduction of the corporate income tax rate from 6.968% to 4.5% over four years will create a more business-friendly environment, making Arizona more competitive for businesses to locate and operate here.
  - The Corporate Income Tax Reduction will begin in Fiscal Year 2012
  - When selecting a state to move into or expand in, site selectors and CEOs must take into account many factors, corporate tax burden being a significant factor.
- **General Reductions in Business Property Taxes** are needed since Arizona is not currently business-friendly in regards to these taxes. Most businesses must pay the higher assessed rate on not only property but land and capital. This includes most commercial real estate property, including land, buildings, and improvements to land, as well as business personal property, such as office furniture, business equipment and tools. The bill will reduce the business property class assessment ratio from 20% to 15%, positively affecting all businesses in Arizona.
  - The five year phase down would begin in 2012 and would decline by one percentage point per year until it reaches 15% in 2016.
  - This phase down extends the ongoing reduction in the business property assessment ratio. In 2005, the assessment ratio began being reduced from 25% to 20%.
  - Arizona has one of the most punishing business property tax systems in the nation, which is a severe handicap to business growth in the state, particularly in high-wage, capital-intensive base industries.
- **Repeal of the State Equalization Tax** provides broad-based property tax relief to Arizona homeowners and businesses. From 2006 to 2009 this property tax had been suspended, but will return in 2010. Permanent repeal would be phased in over four years starting FY 2012.
  - Repeal of this tax in no way reduces K-12 funding. The state's K-12 funding obligation for schools remains whether the tax is assessed or repealed.
- **Small Business Income Tax Relief** is needed to help grow the State's small business sector and to spur investment and job creation. This bill will provide for across-the-board reductions in the individual income tax, which is paid by a majority of Arizona businesses owners and individuals in the state.
  - Many small business owners in Arizona pay the individual income tax rate, except "C" corporation owners.

- Business owners of “S” corporations, for example, find the profits generated from their businesses flow through to their individual income taxes, substantially boosting their tax liabilities.
- As a result of the income tax relief, every single taxpayer in Arizona will receive a rate reduction.

#### **D. Economic Development**

- **Modify the Arizona Enterprise Zone Program** to revise and expand the current program and allow base industry companies to take part in the program, bringing with them high-quality, good paying jobs.
  - This modification of Arizona’s Enterprise Zone Program will provide base industries with an assessment ratio at 5%, which is crucial in attracting new businesses to Arizona.
  - The community benefits from this program since when a base industry moves into a depressed/blighted area, it creates not only higher quality jobs, but also indirect and induced jobs in the area.
  - In addition to the Enterprise Zone program’s 5% assessment ratio, a qualifying business will also receive a tax credit for each job it creates, which is already part of the existing Enterprise Zone program.
  - If a base industry qualifies for this expanded portion of the Enterprise Zone Program, it may be eligible for the revised Job Training Programs
- **Consider Commissioning a State Economic Development Strategy and Funding an Effective Agency.** States most successful in recruiting new base industry companies have a specific focus on targeted economic development policy. While not currently part of the bill, further work is needed on developing a focused State economic strategy, along developing a branding and marketing focus to attract high-impact employers, as well as re-engineering the state’s economic development agency to execute it.

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