



CAAG Economic Adjustment Strategy

Major Findings & Strategic Elements

CAAG POPTAC Summary
February 23, 2010

Project Purpose

- ◆ CAAG is designated as an ***Economic Development District*** by the US Economic Development Administration (EDA) to help improve economic conditions in Pinal & Gila Counties
- ◆ ***Employment Centers***, such as business & office parks or other facilities where businesses can cluster, are generally lacking in the area
- ◆ We want to recommend both the ***type*** of economic activities that are feasible & desired in an area and ***where*** they may be located to help foster the projects that are needed for success

Economic conditions & outlook

Short Term: Where are the jobs?

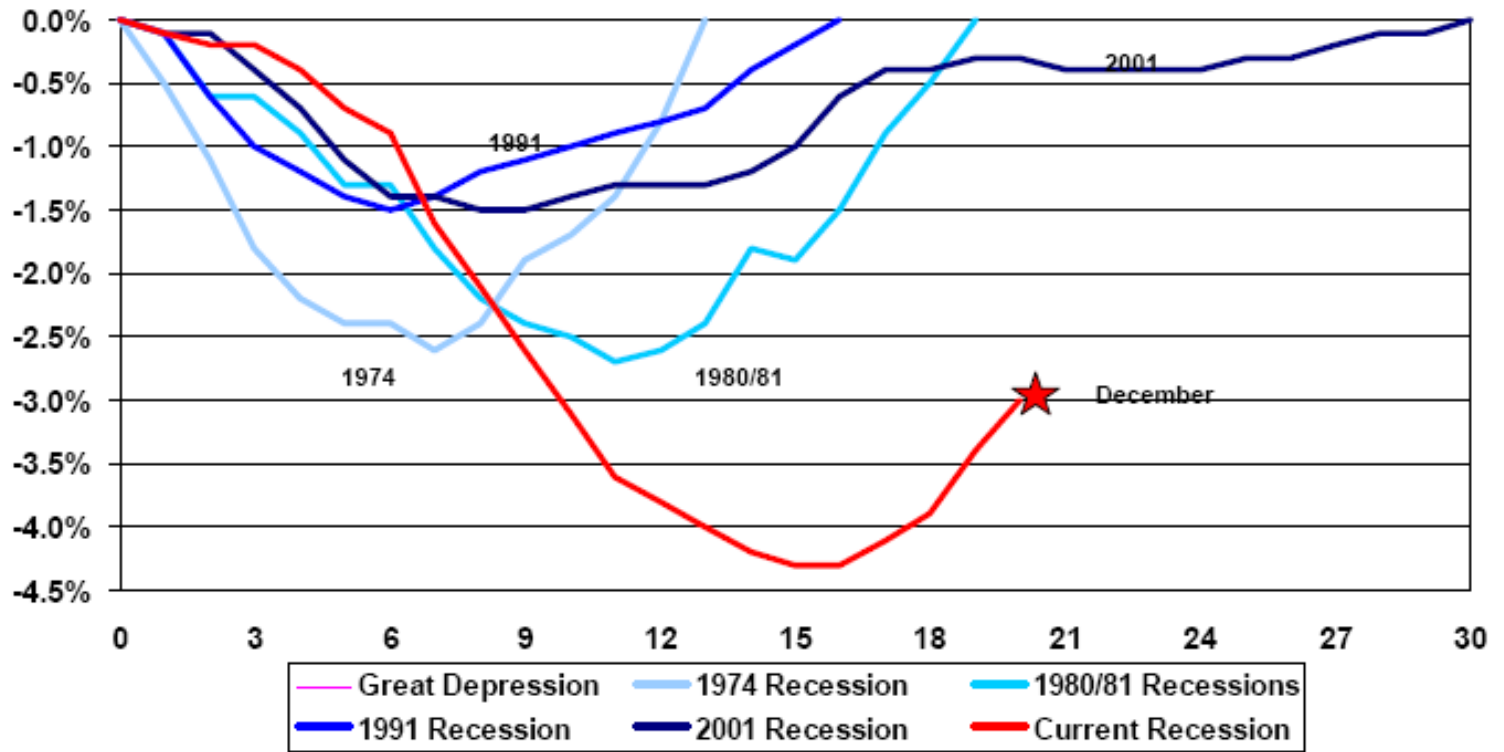
Longer Term: Structural change?


Worst Post War Recession Ever

- ◆ US & Global economies beginning to recover; each contracted about 2%
 - ◆ Peak to trough drop of 3.8% from Q2:08
 - ◆ 11/09 UE Rate 10% for US; about 9% for AZ
- Recession Over; Tough Times Ahead
- ◆ GDP projected to grow about 2.8% in 2010; well below trend of 4% or 6% in recovery yr 1
 - ◆ Best bet is a long **U** shaped recovery; risk of a hard **W** is uncomfortably high”
 - ◆ Structural loss of jobs; high UE rate could last decade

U.S. Y/Y Job Losses - Recent Recessions

Duration in Months - BLS



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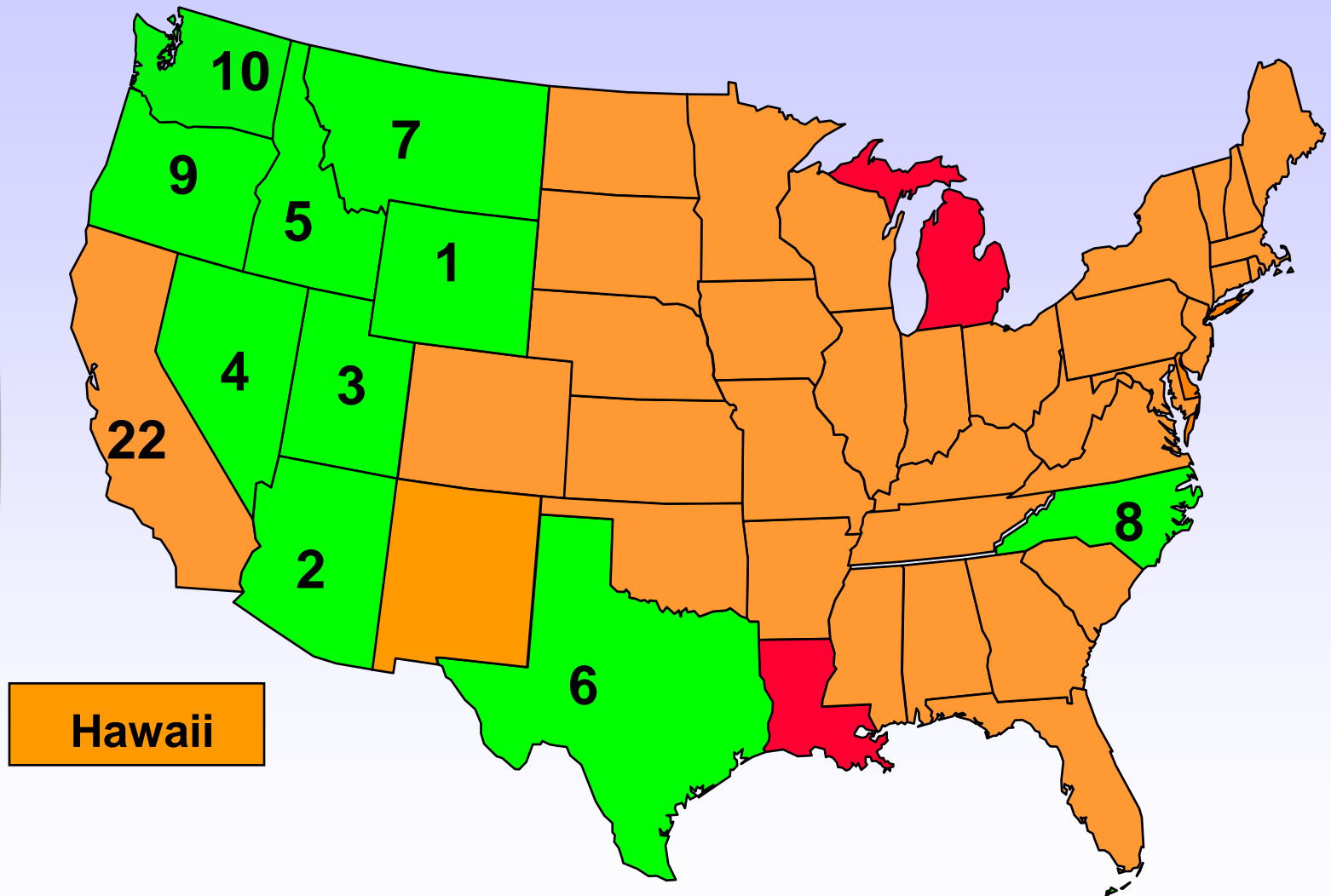
How About Arizona?

◆ *“Arizona could be called ‘ground zero’ of the worst recession since World War II. The hard economic fact is that Arizona depends on immigration to keep its economy vibrant, and the state is not exactly a people magnet right now.”*

Dennis Hoffman, University Economist, ASU

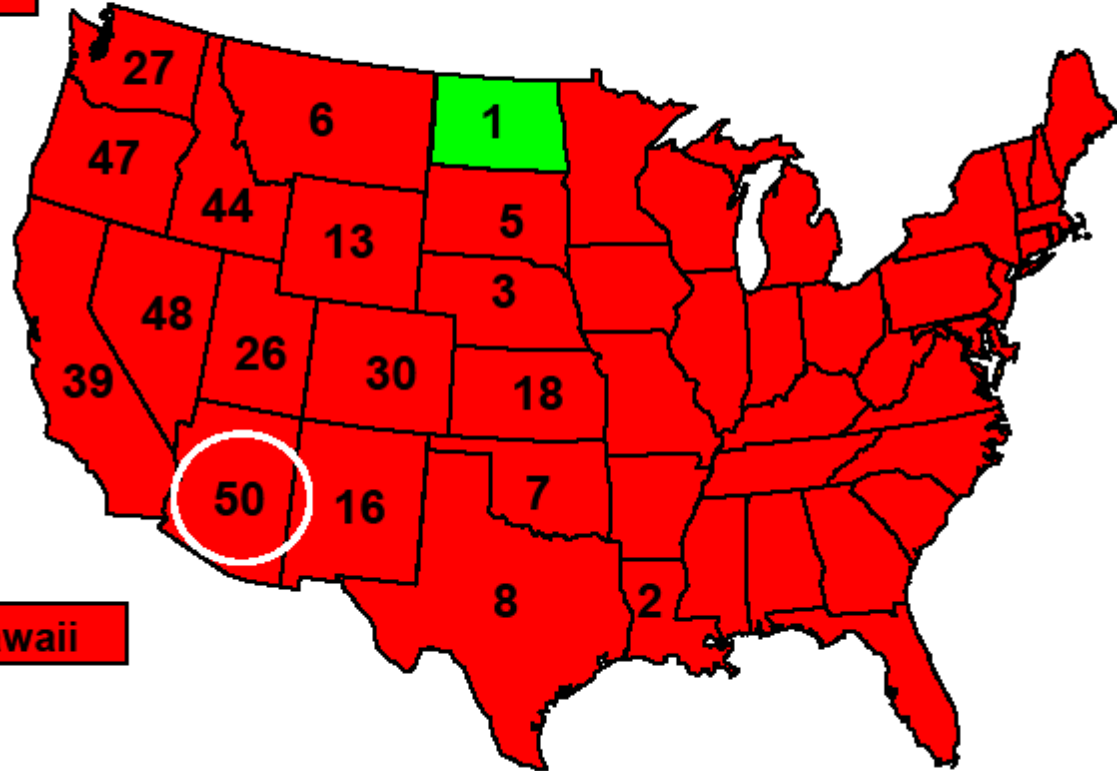
Job Growth 2006

Source: US BLS




Job Growth Update: Arizona Falls to 50th YTD September 09 v YTD September 08

Alaska
4

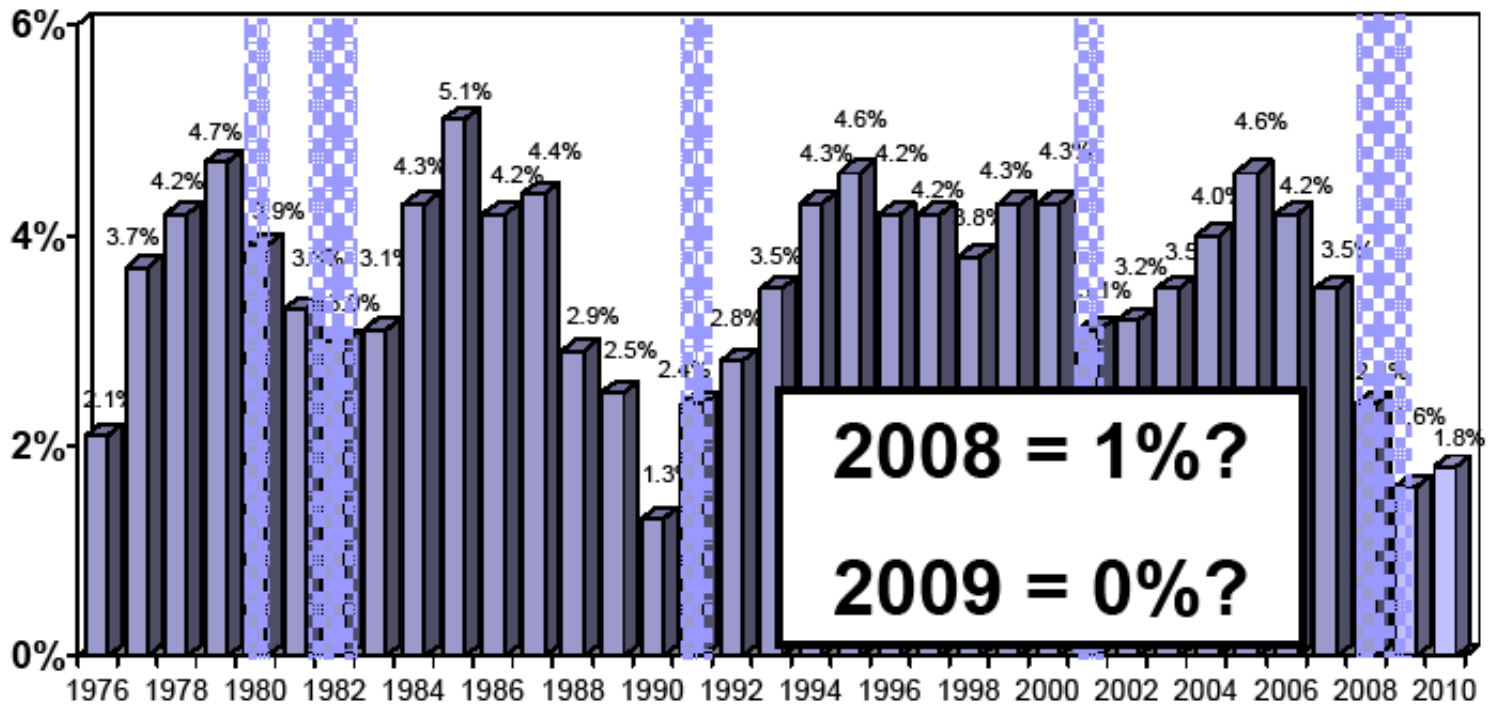


Hawaii

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Greater Phoenix Population Annual Percent Change 1976–2010*


Source: Arizona State University & Department of Commerce, Research Administration



2007 and 2008 are estimates put out by ADES and may be subject to substantial revision.

* 2009 & 2010 forecast is from *Elliott D. Pollack & Co.*

 Recession Periods

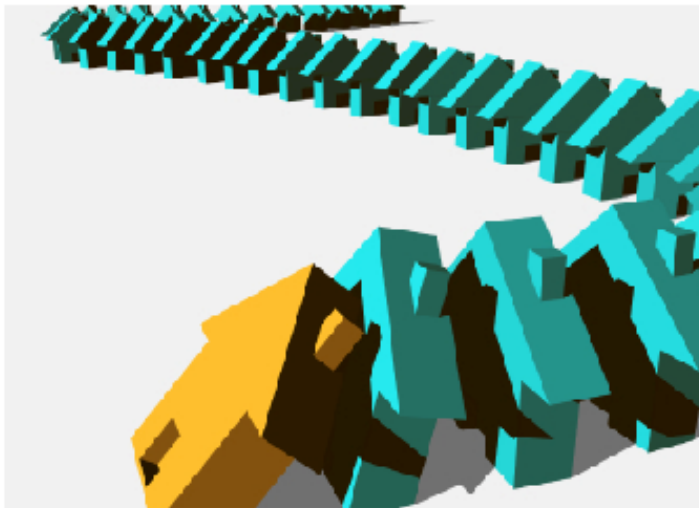
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How did we go from 2nd to 50th?

Housing boom turns into bust.

Housing permits nationally down -75.3%

Housing permits in AZ down -92.3%



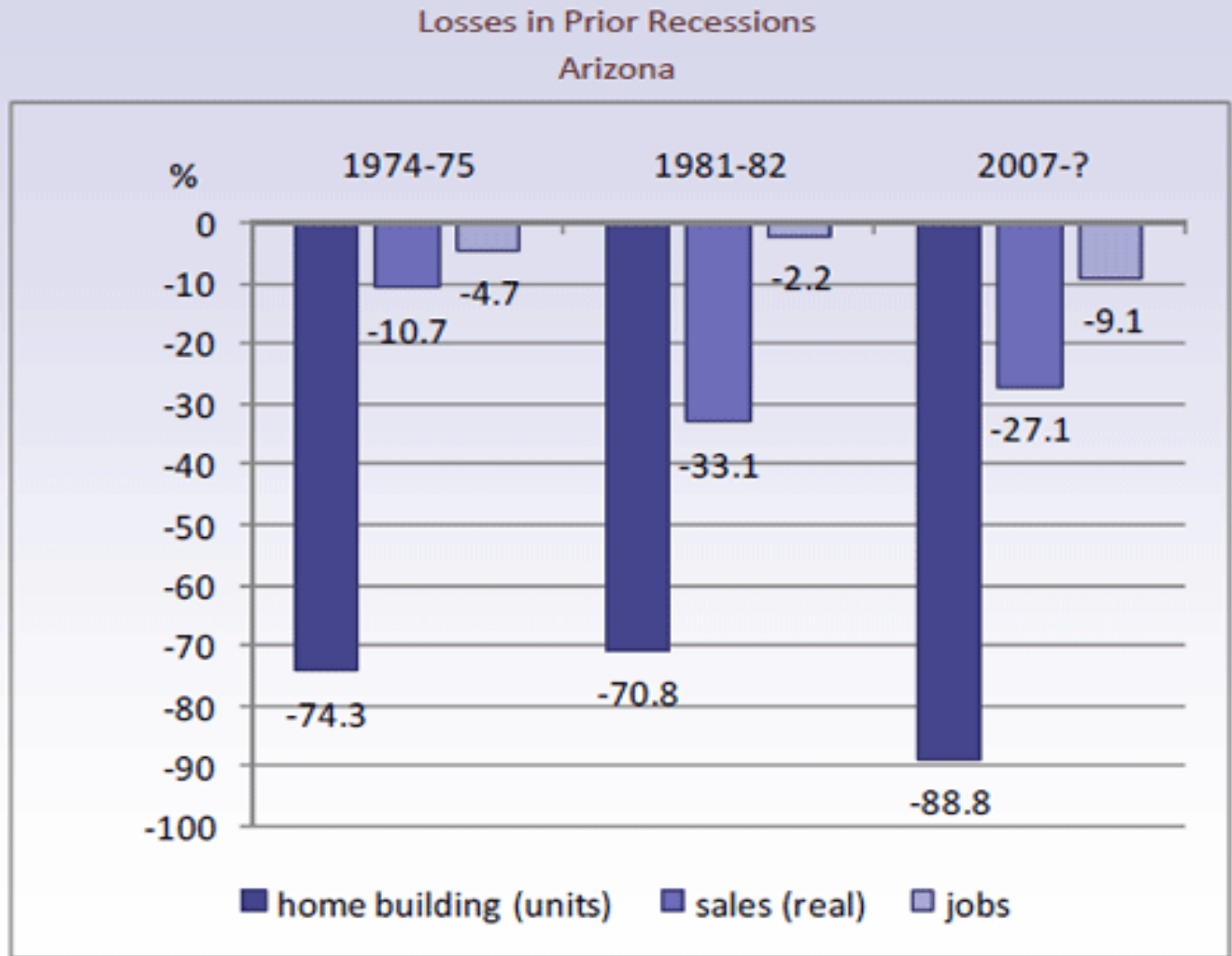
*Based on adjusted annual rates
as of June 2009 decline from peak



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Arizona in a Deep Economic Hole



Economic Losses Mean Fiscal Impacts

- ◆ At \$1.6 billion, Arizona's 2009 budget gap is equal to nearly 16% of the FY2009 budget
- ◆ This is greater than any other state including California whose budget gap is 13.6%
- ◆ Arizona's budget gap grows to nearly 30% of the FY2010 state budget; roughly tied with Nevada for the 2nd worst state in the Nation after California with a 33.5% gap

Dennis Hoffman, University Economist, ASU; 5/2009

While Economic Indicators Have Stabilized, Recovery Could Take 3 to 5 Years

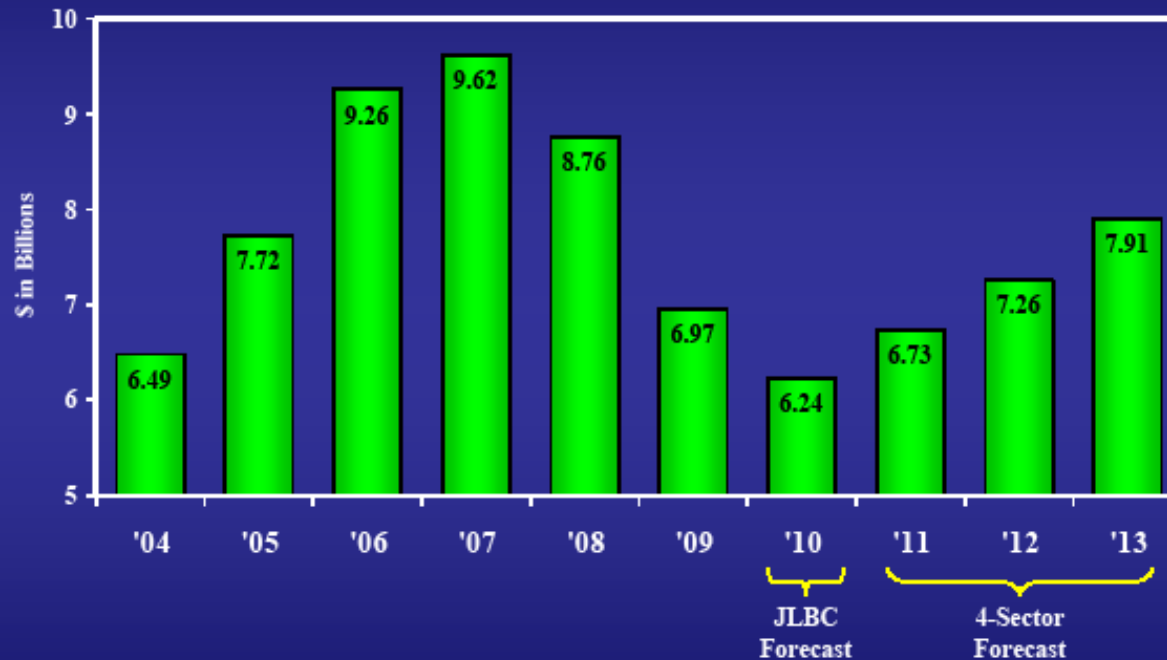
	<u>Stabilized</u>	<u>Long Recovery</u>
Jobs	– Total employment	– 276,500 job loss since 12/07
Housing	– Home prices	– 50,000 surplus homes, 80 M sq. ft. surplus commercial space
Sales	– 3-month tax collections	– 48% of mortgages “underwater”

JLBC

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While Moderate Recovery, Revenues Far Below '07 Level

- Would Take 4 Years of 11% Growth to Reach FY '07 Level



- Excludes balance forward and other one-time revenues

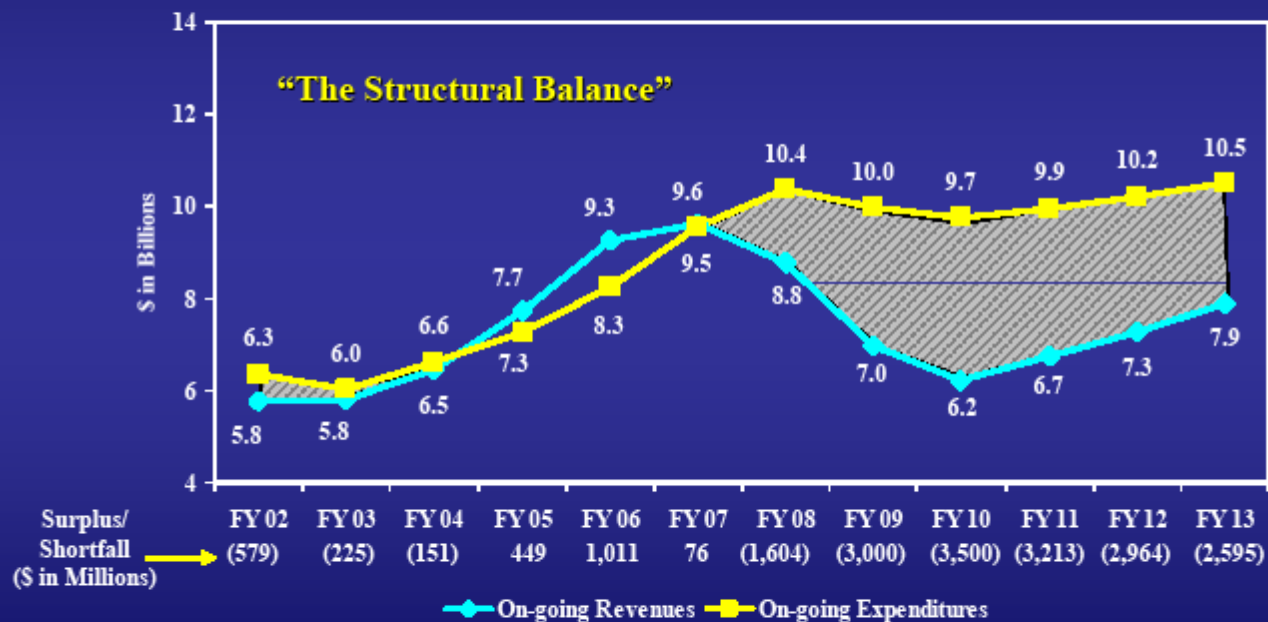
- Urban Revenue Sharing drops from \$629 M in '10 to \$474 M in '11

JLBC



Structural Shortfall Remains Above \$2.5 B through FY '13

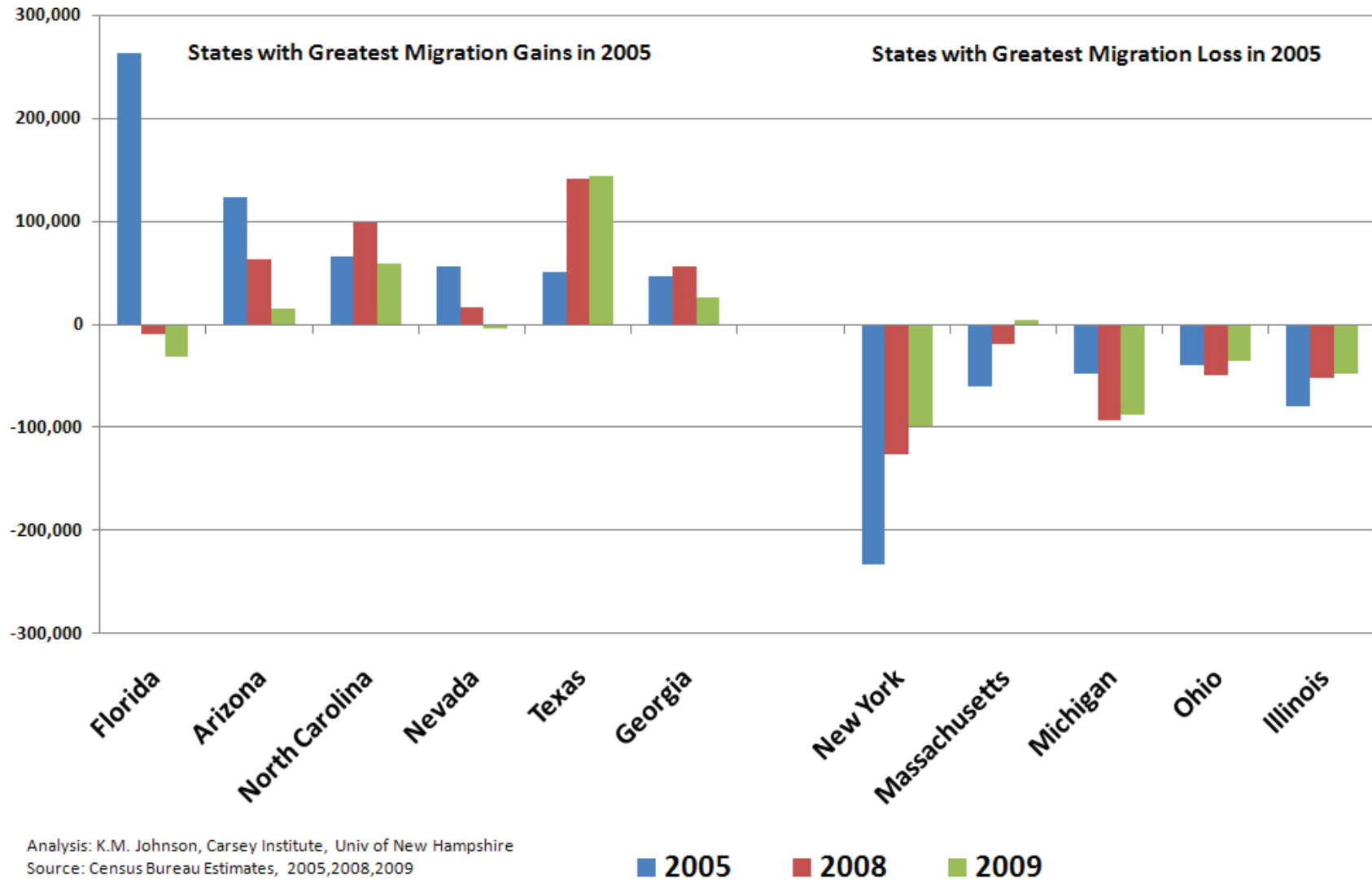
- Fiscal Condition Also Measured by On-Going Revenues vs. Spending



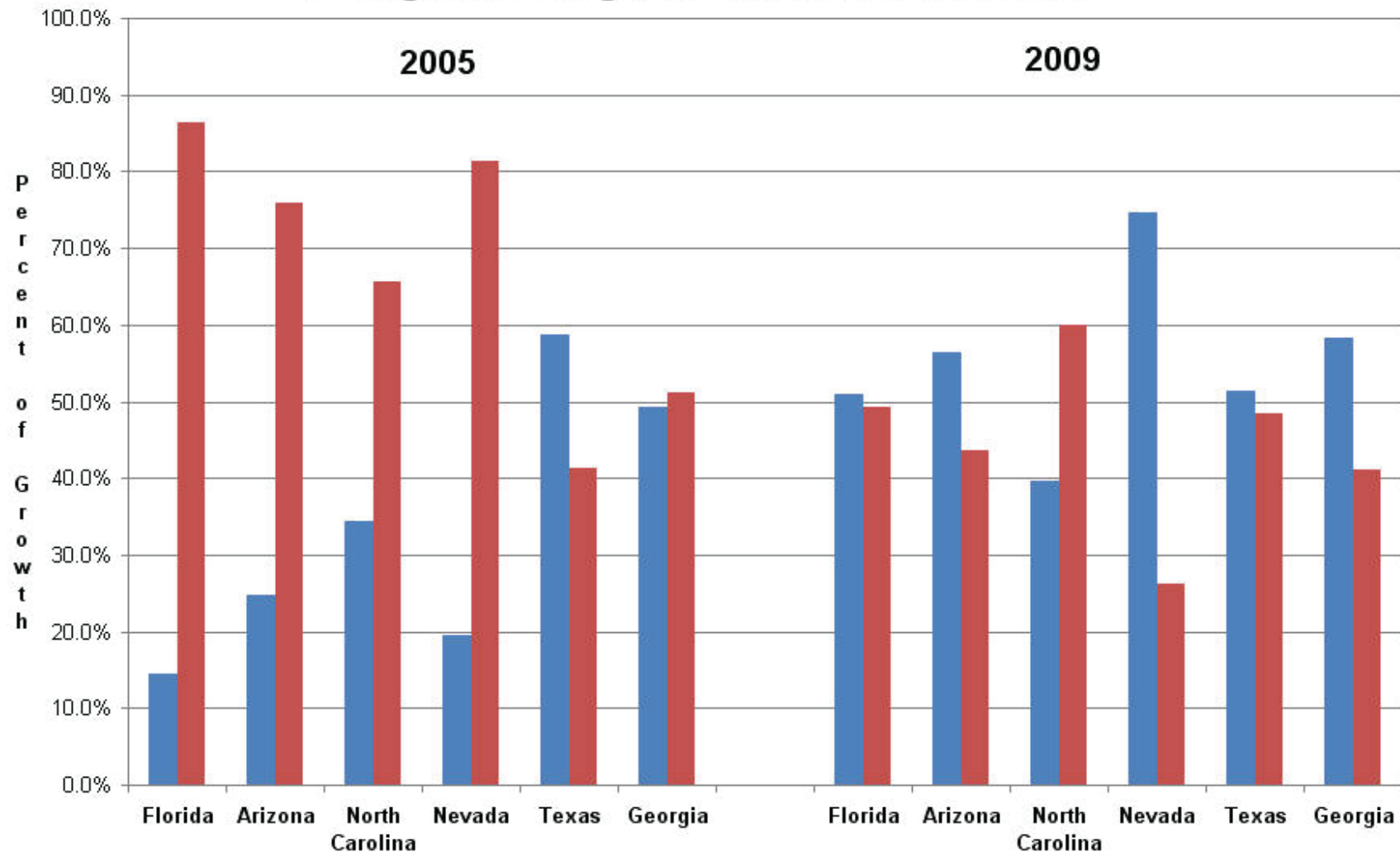
Changing Migration Patterns?

- ◆ Arizona has become the “Detroit” of residential development oriented economies
- ◆ Many people link returning to 4% annual average population growth with economic recovery for Arizona
- ◆ That means depending on residential construction and population growth driven jobs
- ◆ Are migration patterns changing?

Migration Trends Differ for States with History of Migration Loss or Gain



Natural Increase Now Accounting for Larger Share of Growth in Migration Magnet States, 2005 and 2009



Analysis: K.M. Johnson, Univ. of New Hampshire
 Source: U.S. Census, FSCPE, 2005,2009

■ Natural Increase ■ Net Migration



How Does Arizona Compare?

- ◆ *“In Arizona, natural increase accounted for 25% of the growth during the boom years but 56% in 2008.”*
- ◆ *“Arizona’s inflow dropped from 124,000 to only 15,000 in 2008.”*

Carsey Institute; Fall, 2009

Time to Diversify Our Economy?

- ◆ Population & residential development driven growth may be slow to return and different
- ◆ Expanding & diversifying our economic base can help create “Basic Jobs” for new residents
- ◆ In the 70’s we used to think in-migration of new residents was driven by job availability
- ◆ We lost sight of that in the 90’s as our **basic** job base began to deteriorate and we failed to replace the high-tech jobs we lost with new jobs

The New Normal

- ◆ Consumers won't soon spend us out of this
- ◆ Global economic growth will be lower
- ◆ US unemployment will be higher
- ◆ Financial system will be
 - De-leveraged
 - De-globalized
 - Re-regulated
- ◆ Business models will have to be re-tooled

Fundamental Shift in US Economy

- ◆ Drop in consumer spending; increased savings
- ◆ Consumer no longer engine of growth
- ◆ Structural loss of jobs to overseas
- ◆ Need more high-skilled employment in the US to offset low-skilled imported products
- ◆ Need to employ low-skilled in US
- ◆ More innovation and entrepreneurship likely
- ◆ Increased technology and productivity likely

Questions Loom Over US Economy

- ◆ Uncertainty hangs over the timing of US economic recovery, measured by jobs (2013? 2014? 2020?)
- ◆ If consumer spending doesn't lead us out of this economic downturn, what does?
- ◆ Bursting of the tech bubble & the housing bubble combined with off-shoring of US jobs suggest the future won't be like the past

Shaping the Next Economic Expansion

- ◆ In fact, the Obama Administration appears intent on making sure the economic recovery does not resemble past recoveries
- ◆ *“Our single most important priority is bringing about economic recovery and ensuring that the next economic expansion, unlike its recent predecessors, is fundamentally sound and not driven by financial excess.”* Lawrence Summers, Director of the National Economic Council

1. Obama Admin: Strategy for American Innovation

- ◆ The Obama Administration hopes to shape the economic recovery so it is more sustainable than past recoveries, in part, through a ***Strategy for American Innovation***
 - ◆ Catalyze breakthroughs for national priorities
 - ◆ Clean Energy
 - ◆ Advanced Vehicle Technology
 - ◆ Breakthroughs in Health related Information Technology

2. Obama Admin: Promote competitive markets that spur productive entrepreneurship

- ◆ Promote American exports
- ◆ Support open capital markets that allocate resources to the most promising ideas
- ◆ Encourage high-growth and innovation-based entrepreneurship
- ◆ Improve public sector innovation and support community innovation

3. Obama Admin: Invest in the building blocks of American innovation

- ◆ Restore American leadership in fundamental research
- ◆ Educate the next generation with 21st century knowledge and skills while creating a world-class workforce
- ◆ Build a leading physical infrastructure
- ◆ Develop an advanced information technology ecosystem

4. Obama Admin: Place-Based Policies

- ◆ Federal Agencies were asked in an 8/11/09 memo from OMB to develop “Place-Based” policies that promote economic and environmental sustainability in the nation’s cities and rural communities
- ◆ *Economic Competitiveness* was among the factors to be considered including which communities have attained an economic advantage and what policies underlie success

Size Matters for Economic Recovery

- ◆ Hiring by big firms won't anticipate demand
- ◆ 64% of new jobs are in small business (>500)
- ◆ Nearly 9% of job seekers started their own business in Q2:09 vs 2.7% in Q4:08
- ◆ 52% of small businesses are home-based

Strategy Implications for CAAG Region

Short Term: ***Prepare for Better Times***

Longer Term: Focus on Diversifying the
Economy by Growing Sectors for which
the Area has a real
Competitive Advantage

CAAG Region ED: “Hitch Your Wagon to a Star”

- ◆ Challenge now is to **understand & anticipate trends** in order to benefit from new opportunities
- ◆ **Link to national initiatives, emerging industries** to be positioned to capture new economic growth
- ◆ **Respond nimbly to opportunities** that come within reach; don't get passed by due to in-action
- ◆ It is easier and more realistic to **obtain a share of a growing economic sector** than a declining sector

Where to Look for Opportunities?

- ◆ **Sectors related to what you already have**
 - ◆ *Existing Workforce & Skills; Vendors; Key Assets*
- ◆ **Growth sectors where you have an Edge**
 - ◆ *Distribution; Mfg & Food Processing; Creative Class*
- ◆ **Cultural/Historic Visitors; Retirement**
 - ◆ *Requires Suitable Facilities to Gain Economic Impact*
- ◆ **Quality of Life Focused Entrepreneurs & Start-ups**
 - ◆ *Especially Seeking Urban Access from Smaller Place*

Potential Economic Sectors & Clusters for CAAG

Two important caveats exist:

- ◆ Industry forecasts, uncertain at best, are even more unclear at this time due to global economic shifts and the recent recession; so caution is in order.
- ◆ Given the size and diversity of the district, a wide range of future economic possibilities exist; so, of the opportunities identified, not all will be realistically feasible for every CAAG community.

Possibly Feasible Industries

- ◆ *Existing industries* (demonstrated suitability, existing workforce, forecast growth or decline, etc)
- ◆ *Transportation and market access* related economic activities
- ◆ *Natural resource* driven opportunities (including mining, forestry and tourism)
- ◆ *“Experience industry”* including tourism and visitor related activity
- ◆ *Emerging technologies and R&D* spin-outs; including Phoenix & Tucson
- ◆ *“Knowledge industries”* and University related opportunities at Biosphere II, CAC, ASU and U of A
- ◆ *Entrepreneurship and innovation* related activities (including National Innovation Strategy)
- ◆ *Policy priorities* of local, state and national governments (such as alternative energy)
- ◆ *Sun Corridor growth related future support sectors*

CAAG Economic Adjustment Implementation Strategy -- For Uncertain Times

Several factors have combined and add greatly to the complexity of recommending a realistic economic adjustment strategy to CAAG. Among them:

- ◆ Uncertainties over the timing and nature of an economic recovery and key future sectors
- ◆ Shifts in global economic fundamentals including the location of future production capacity
- ◆ Emerging US economic policy priorities focusing on Place, Innovation and Entrepreneurship
- ◆ Changes in Arizona's approach to economic development brought on by the state budget crises

Flexibility Needed; Anything Goes?

- ◆ Especially in an environment where constrained resources severely limit local, regional EDO, CAAG District and state capabilities it is critically important to have a focused, disciplined, clearly thought out and measurable implementation process focused on results.
- ◆ Flexibility is needed, but a “Smart Strategy”
- ◆ Not anything goes

Elements of a Smart Strategy

- ◆ **Placed-based policies** that build on comparative advantage, existing community assets and a community's economic development advantages
- ◆ **Support for entrepreneurship and regional innovation clusters** that leverage a region's strengths to boost job creation and economic growth
- ◆ **Promote community innovation** thru transparency and accountability, public participation and collaboration as well as public/private partnerships that help achieve priority investments
- ◆ **Manage risk** thru coordinated strategies that
 - ◆ identify incremental needed investments,
 - ◆ seek lower cost/higher return approaches,
 - ◆ provide intermediate "off-ramps" in the event of changed or unexpected circumstances,
 - ◆ evaluate probable outcomes against projected risk/return,
 - ◆ recognize existing equity by project participants

Surprised by Opportunity

- ◆ “Instead of setting goals first it is better to watch for opportunities with large payoffs at low costs and only then set your goals. That is what innovators throughout history have done.”
- ◆ “Progress in human affairs comes through opportunity; when someone sees it, seizes it, and turns it into reality.

Strategic Intuition; William Duggan, Columbia Business School

Controlling Economic Destiny

- ◆ Implicit to the strategy is the ability of communities within the CAAG District to control their own economic destiny
- ◆ Obtaining funding from EDA and other outside sources is an important element to the strategy
- ◆ But, communities within the District must increasingly rely on resources and approaches that are more within their direct control

1. Key Elements: Do your Homework

- ◆ Gather and make available **information** on community assets, current economic conditions and economic needs/opportunities
- ◆ **Convene** community leadership and interested citizens and keep them aware of economic conditions, possible projects and economic development program results while maintaining a dialogue on the community's future economic vision of itself
- ◆ **Define possible economic development projects** and prepare background/feasibility information as time/resources allow; provide available information for the CAAG "Project Investment File"
- ◆ **Maintain interaction** between community, regional, CAAG District and other economic development leadership and staff to support collaboration, share information on what works and provide an established forum with channels of communication to aid economic progress

2. Key Elements: Be Open for Business

- Economic development is a contact sport. Make sure someone is consistently available to coordinate action, respond to inquiries, track results and sustain progress; observe professional standards and maintain economic development client confidentiality
- Maintain contact with state, regional and utility site selection process groups; maintain directory listings; make sure website information is current and available, etc
- Establish active contact with developers, property owners and others involved in developing, leasing and selling space for office, industrial or commercial use in the community; obtain information on currently available space, planned space and potential development plans; seek opportunities for public/private partnerships
- Celebrate success and periodically report to community on results and conditions

3. Key Elements: Be Alert for “Game Changing” Opportunities

- ◆ In collaboration with CAAG, educational institutions and others, establish a network to monitor potential opportunities that align with community economic vision, goals, objectives
- ◆ Maintain the local network of decisions makers needed to respond nimbly to potential opportunities

4. Key Elements: Support Business Development (Grow your Own)

- ◆ Determine Business Development program dimensions, assign responsibilities and make contact information available
- ◆ Consider opportunities for Incubators or Business Development Centers including availability of suitable no-cost space; business information, counseling and consulting; business resources and supplies; assistance in business financing; etc
- ◆ Conduct workshops, to disseminate information on business development opportunities, market characteristics, operating tips, etc
- ◆ Identify and seek to resolve common problems, barriers or other issues inhibiting business development or expansion
- ◆ Host business fairs, marketplaces or other events to attract customers
- ◆ Celebrate the successes of businesses and recognize economic impact on community; measure results of program activities and track business conditions

5. Key Elements: Tourism & Experience

- ◆ Determine Tourism & Experience Cluster program elements, assign responsibilities and create task force to review CAAG Tourism Strategy, develop work program, host events, conduct common marketing tasks
- ◆ Disseminate program information, schedule, opportunities, etc within community; host activities and events per schedule
- ◆ Connect and coordinate with County, regional & state Tourism entities
- ◆ Market the area to travel industry groups, tour operators, travel writers, Williams Gateway Airport, Gaylord Resort and other related interests
- ◆ Assess Tourism & Experience Cluster business opportunities such as Bed & Breakfast, jeep tours, guiding bird-watching tours, etc and inform those in area interested in developing a business
- ◆ Identify Tourism & Visitor Cluster investment needs such as museums, galleries, visitor centers, event plazas, etc and seek funding as appropriate
- ◆ Celebrate success, track visitation, measure results and regularly report to community

Strategy Portfolio

- ◆ Diverse strategy options are key to seeking economic development in tough times
- ◆ Uncertainty over timing & nature of future economic growth opportunities calls for pragmatic and flexible but structured approach
- ◆ Do what you can now; Seek initial, low-cost, active possibilities consistent with goals
- ◆ Build for the long run; Be alert for “Big Deals” and create positive environment for desired economic growth opportunities

Strategy Implementation Project 1a

Identification & Development of potential employment centers (incl. Business Parks) with:

- The most immediate development opportunities including needed backbone infrastructure to meet the critical needs of identified target economic sectors
- ◆ Immediate development opportunities but where further analysis is needed to define critical infrastructure development needs, estimated costs and funding options
- ◆ Intermediate or long-term potential that may require further economic strategy development or analysis by the community

Strategy Implementation Project 1b

Experience & Tourism Cluster

Identify Experience & Tourism Cluster opportunities in the District in conjunction with CAAG Tourism Strategy

- Create potential projects
- Formalize network based on CEDS Tourism Committee
- Establish coordination mechanism
- Identify business development opportunities
- Identify needed facilities and investment

Strategy Implementation Project 1c

Knowledge, Innovation, Entrepreneurship & the Creative Class

- ◆ Seek approaches to stimulating entrepreneurship in the District
- ◆ Encourage regional knowledge & innovation based clusters in the District in cooperation with Biosphere II, ASU, UofA, CAC
- ◆ Build on Creative Class opportunities

Strategy Implementation Project 2

Regional network for community innovation: Foster economic development partnership between CAAG and regional or local EDOs to:

- ◆ Support community innovation in such areas as expanded citizen and stakeholder participation in formulating economic policy and creating public/private partnerships to implement E.D. goals & objectives
- ◆ Encourage effective place-based policies that strengthen competitiveness of market-area economies and provide environmental sustainability

Strategy Implementation Project 3

- ◆ Establishment of a **Project Investment File** (PIF) to provide a means of adding and updating potential implementation projects identified in the ECAS and augment the listing of potential projects in the CAAG Comprehensive Economic Development Strategy (CEDS)
- ◆ This is expected to be a computerized database with fields for project name, sponsor(s), purpose, location, economic impact/benefit, level or readiness, leverage/other parties involved, endorsements and links to supporting studies and other information.

Strategy Implementation Project 4

Support regional economic clusters & business development incubators:

- Create of a network of regional/local business assistance centers & incubators in the CAAG District to support existing business retention/expansion, entrepreneurship development and business creation aligned with regional/local ED strategies and provide links to needed resources
- Creation of a revolving loan fund and other financial tools in the CAAG District to support the implementation of the *Employment Center Adjustment Strategy*

Strategy Implementation Project 5

Target Industry Analysis

- Identification of potential economic development target sectors or clusters with future growth potential that are feasible for the communities in the District to foster and/or attract including:
 - Alternative energy related activities
 - Entrepreneurship and innovation oriented activities
 - Experience Cluster economic activities

Strategy Implementation Project 6

Economic Development Tool Kit

- Expand the economic development “tool kit” framework from this study by drawing from previous studies by EDA and other Federal or State agencies with basic information for community level economic development practitioners, volunteers and others on basic community and economic procedures or techniques and best practices

Strategy Implementation Project 7

Creation of a **CAAG District internet portal** and related programs containing:

- ◆ A website providing public access to economic development related information on the District
- ◆ Links between the District website and regional/local economic development websites and programs
- ◆ Support for preparing initial content and other information for the website, such as Asset Inventories, and marketing programs to drive inquiries to the websites
- ◆ An access point limited to economic development practitioners to provide professional interaction among CAAG District staff and regional/local economic development staff in the District

Strategy Implementation Project 8

Labor Force Information Program

- Establish a systematic approach for gathering and making available current workforce information within the District's labor sheds for use by
- businesses seeking information on available workforce size, skills and other characteristics
- workforce training providers, Community Colleges and others needing to track workforce data.

Strategy Implementation Project 9

Consider state economic policy available or needed to implement strategy

- ◆ Link available AZ incentives to location in designated Employment Center?
- ◆ Expand GADA to include bonds needed to build infrastructure in designated Employment Centers?
- ◆ Encourage residential developer participation in designated Employment Center improvements?

Dual-Track Implementation Policy

- ◆ Implementation will be handled on a Dual-Track basis due to the differing situations found in the CAAG District
 - ◆ *Track 1* will include **specific projects** such as brick & mortar backbone infrastructure projects, feasibility studies for specific employment center sites, workforce analysis for specific market areas, etc.
 - ◆ *Track 2* will be oriented toward **helping create, maintain and achieve a shared vision of the economic future for the District and regional/local EDOs** including activities that support consensus formation in CAAG communities, economic strategy development and other on-going implementation support

Next Steps

- ◆ Draft *Employment Center Adjustment Strategy* reviewed by CAAG's Comprehensive Economic Development Strategy (CEDS) Committee on March 2, 2010 at 10 AM in CAAG Offices
- ◆ Action by CAAG Management Committee and Economic Development District Board in March
- ◆ Submitted to EDA by March 30th
- ◆ Potential projects submitted to EDA by both CAAG and Local Governments for implementation funding consideration



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