



ARIZONA
COMMERCE
AUTHORITY

BUSINESS PLAN

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The Arizona Commerce Authority will highlight Arizona's existing assets and advantages, focus on facilitating growth of high-wage jobs in targeted industries and coordinate statewide economic development efforts.



Special thanks to the members of the Arizona Commerce Authority's Business Plan Committee for their leadership: Mr. Craig Barrett (Chairman), Mr. Michael Bidwill, Mr. Drew Brown, Mr. Philip Francis and Mr. Mike Ingram.

I. Purpose

This plan was created using a data-driven, quantitative process, supplemented by research, input from subject matter experts and working sessions with the Arizona Commerce Authority's (ACA) staff, advisors and stakeholders. This plan delineates the ACA's goals, strategies and actions, and it will guide key activities and demonstrate how the ACA is organized to achieve its mission.

Simply encouraging growth is not enough. To strengthen the state's economy, economic development organizations must encourage *quality growth*. Furthermore, simply developing economic development programs and incentives is not enough. The programs must be managed properly and implemented with full coordination among all the relevant economic development entities throughout the state.

Success is dependent on the ability of all economic development efforts in the state to be strategically coordinated. This includes cities, counties, the ACA and all economic development partners working together. For the process to be efficient there must be: 1) properly designed economic development tools; 2) an effective and efficient economic development entity; and 3) a well-considered plan or blueprint for advancing the state's economy.

II. Mission of the Arizona Commerce Authority

The mission of the ACA is:

To grow and strengthen Arizona's economy and facilitate the creation of quality jobs for its citizens by supporting and attracting businesses in targeted, high-value base sectors throughout the state.

Context:

Arizona has enjoyed a long history of growth. This growth accelerated after World War II and the economy strengthened as the state's economic base diversified. Expansion into higher, value-added sectors, such as manufacturing, began as early as the 1950s and continued for most of the remainder of the 20th Century. High-value job creation expanded into even more industries and incomes improved as the state moved away from its dependence on extraction-based operations (the classic five "Cs" – copper, cattle, cotton, climate, and citrus).

Arizona's economic diversification and expansion into these higher, value-added sectors produced more than just growth; it produced *quality growth*. A focus on this basic economic premise of economic diversification is the central theme for the Arizona Commerce Authority.

Arizona's favorable economic fundamentals remain in place. As the economic recovery continues, the state will maintain its status as a national leader in population and employment growth. The challenge for the ACA is ensuring Arizona's ability to *continue to grow* in a manner that will create long-term economic vitality.

Growth states such as Arizona tend to produce a disproportionate share of jobs in growth-supporting sectors (construction, business services and retail). And while not a negative factor, growth in these industries can cause constraints. Also challenging, Arizona’s quality of life attracts those who want to live and work in the state, which supports further business development and attraction, but because the growth portion of the economy tends to be very cyclical, growth slows when population inflows slow.

This relationship between growth and economic cycles is why the broad-based recession starting in 2007 significantly impacted Arizona’s economy. Population inflows stalled, the national housing market collapsed, and more than 300,000 jobs were lost between 2008 and 2010. Many of those jobs were directly involved in construction and its supporting industries. For the first time in the state’s modern history, the economy performed below the national average during a recession.

Most of the 300,000 jobs lost are expected to be replaced by approximately mid-decade, as the national recovery continues, thereby offsetting the losses that occurred during and following the recent recession. Proper perspective and effective economic development planning can positively impact future growth and economic conditions. The ACA’s focus is to support the creation of *higher-wage jobs*. This focused and well-planned effort can indeed enhance and accelerate the economic recovery.

Arizona’s economic history and the reasons its economy has excelled or stalled at different times offer valuable lessons for the future. Most importantly, policies that promote improving job quality result in the highest return on the state’s investment. The ACA’s target industries include those where the state has existing economic strengths, including aerospace and defense, semiconductors, optics, bioscience and renewable energy. Other higher, value-added industries will also be pursued and evaluated based on opportunities for expansion.

Broad-Based Support:

Governor Jan Brewer created the Governor’s Commerce Advisory Council in 2010 to recommend a new statewide economic development approach to advance Arizona’s global competitiveness. The Governor also worked with the Arizona Legislature to develop the Arizona Competitiveness Package: legislation focused on job creation throughout the state, intended to make Arizona a preferred location for business relocation, growth and development. The Council recommended the creation of the Arizona Commerce Authority (ACA), an innovative public-private partnership to lead Arizona’s statewide economic development efforts.

Shortly after its creation, the ACA looked to refine its mission and detail its business plan. The ACA evaluated Arizona’s current competitive position on key indicators against peer states, refined its industry strategies and identified a list of both near- and long-term actions to attract companies to Arizona, grow and expand existing Arizona businesses, and assist entrepreneurs in the creation of new, high-value businesses.

The resulting five-year strategy of the ACA builds on the following guiding principles: transparency; accountability; return on investment; long-term vision/immediate action; collaboration and public/private engagement.

The ACA intends to play a pivotal role in fulfilling Governor Jan Brewer’s vision of making Arizona even more attractive and responsive to business needs.

Arizona’s Value Proposition:

Arizona ranks among the leaders in a wide range of economic performance measures, largely as a result of its growth and diversification during the past half century. While some states may achieve higher rankings in one or two measures, Arizona has reached the “top tier” in several key areas. Thus, the state’s fundamental

strength – *its true value proposition* – is its favorable ranking on a broad spectrum of key economic and business characteristics, not its superlative position in just one area.

This has direct implications for marketing the state’s assets and coordinating economic development efforts. Since many national publications select only a handful of key economic measures, the value proposition message will occasionally be difficult to convey. This means that internal marketing efforts and outreach to target companies will remain critical. This exercise is part of the evaluation of the state’s key opportunities and constraints and informs the development of broader strategies as well as the development of more specific goals and objectives. The value proposition is summarized in the following chart.

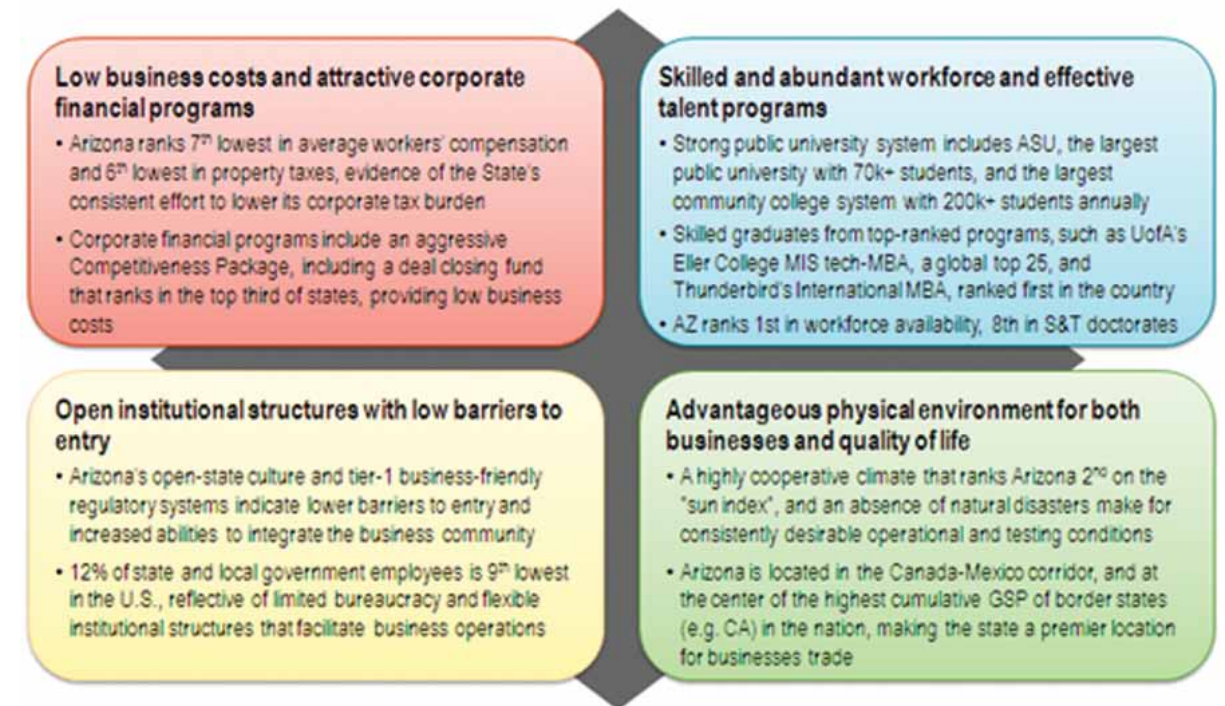


Figure 1 - ACA's Value Proposition

Generate a Measureable Increase in Economic Activity in Arizona:

The ACA, along with Arizona’s elected officials and business leaders, is committed to robust, high-value growth and economic vitality in all regions across the state. This common goal is the foundation of the state’s aggressive economic development agenda. Emphasis will be focused on creating higher-wage jobs that bring with them additional indirect and induced employment.

Such focus and understanding is essential to efficient economic development planning and public policy development. Local market industries depend on the local population and incomes to be viable. Basic economic principles will dictate the expansion and contraction of these sectors and no special effort is needed. Base sectors, or those that export their products, can locate anywhere. An economic development effort focused on higher, value-added “base sectors” will add quality to the current employment base, resulting in the creation of additional local market job opportunities for state residents. If economic development efforts are instead focused on job quantity at lower wage levels, the quality of the employment base could actually weaken. The ACA recognizes this as a core principle for how an economy functions. *High-wage jobs in high-value industries are critical to growing Arizona’s Gross State Product (GSP) and building long-term economic vitality.*

The ACA's focus is based on the principles of how an economy functions, how the state will grow in coming years, how that growth can be enhanced, and how public policy can play an efficient role in encouraging job creation. The ACA's goals and strategies are also based on an economic evaluation of Arizona's strengths. This same evaluation also allows for the identification of weaknesses that can be remedied through policy changes.

The primary objective of the ACA is to generate measurable improvements to Arizona's economy. This will be accomplished by facilitating and promoting the creation of higher-wage jobs, which raise household incomes and drive the overall economy.

Quantity Versus Quality Trade-offs – The Value of Base Industries:

Base industries are industries that export goods and services to out-of-state customers, thereby bringing new money into the state. If Arizona expands its base industries, all sectors of employment benefit.

The positive economic impact of job creation increases if those jobs are in well-established, high-value base industries in Arizona. These industries develop local supplier networks, creating a greater proportion of business spending on materials and supplies within Arizona. In turn, that spending creates jobs. Additionally, employees of both the base and supplier businesses spend significant portions of their income in the state, driving consumer spending and benefiting retail and related businesses. As this business and employee spending circulates through the economy, the impact of the initial job creation effort is "multiplied."

High-value industries that serve national or global markets bring sales revenues into the state and typically present greater expansion opportunities. As these businesses "export" their goods and services to customers outside Arizona, they "import" sales revenues that drive employee wages and local business spending. This, in turn, also benefits the state's overall economy.

By emphasizing job creation in high-value, established, export-based industries, the ACA will increase economic activity.

More specific job creation, wage threshold and capital investment goals are detailed in the following sections.



III. Goals of the ACA

- Create 75,000 Higher-Wage Jobs
- Increase Average Wages of all Jobs Created
- Increase Capital Investment to \$6 Billion Over Five Years

Create 75,000 Higher-Wage Jobs:

Higher-wage jobs are the foundation of economic prosperity. They drive the broader economy through higher household incomes and higher discretionary spending.

Over the next five years, the ACA plans to contribute to the creation of 75,000 higher-wage jobs in Arizona. The ACA's goal is that approximately two-thirds of those new jobs will be *high-value jobs*.

High-value jobs have an average wage substantially above the median wage. Such high-value jobs will be the primary focus of the Arizona Competes Fund that permits flexibility in when and how it is used. The ACA will use the Arizona Competes Fund to ensure the State of Arizona receives the highest return on its investment as measured in economic benefit to the state. It is important to note, in this context, that the ACA also manages many of the state's economic development incentive programs. Many of these programs' wage eligibility thresholds are at or only slightly above median wage. Jobs created as a result of these programs are expected to contribute about one-third of the expected 75,000 new jobs. The ACA will make every effort to utilize and leverage these programs to supplement discretionary funding as well as evaluate opportunities for improvement.

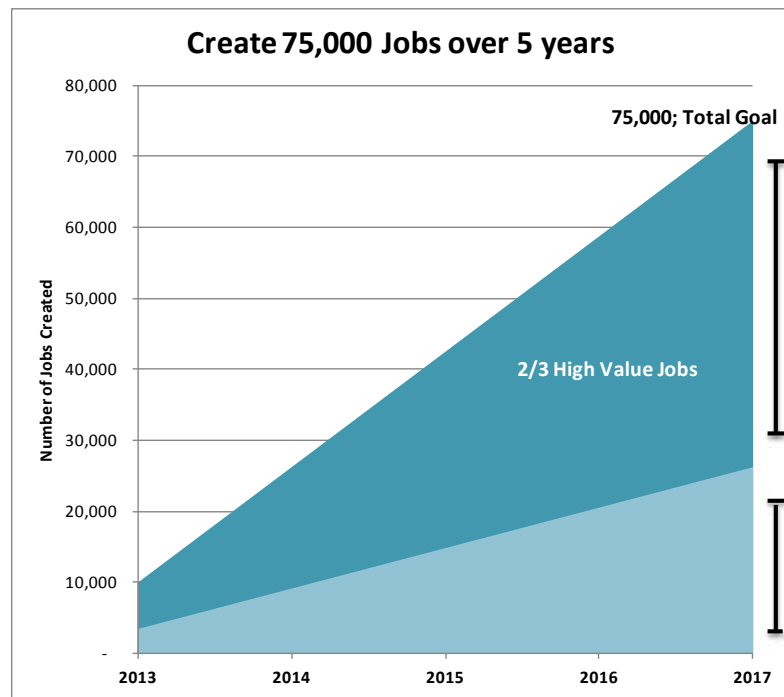


Figure 2 - ACA's Job Creation

Increase Average Wages of Jobs Created:

Over the next five years, the ACA plans to increase the average wage of all the jobs it helps create.

The ACA will increase the average wage for high-value jobs from approximately 150 percent of the median wage to 175 percent of the median wage over the next five years. The ACA will accomplish this, in part, by promoting jobs in key, high-paying industries. The ACA's target industries, such as aerospace and defense, semiconductors, optics, bioscience and renewable energy have wages that range between \$63,000 and \$104,000 on average, more than double than the state's median wage of \$34,110¹. Other potential base-

sector industries also pay higher wages, well in excess of the state's median wage. These high-value jobs will represent two-thirds of the total jobs created.

The ACA will also increase the average wage for the remaining jobs it helps create from approximately 125 percent of the median wage to 150 percent of the median wage over the next five years. As mentioned, state law specifies the wage threshold for many existing programs. The ACA will strategically utilize existing programs to focus its efforts on attracting high-value jobs and evaluate opportunities to enhance these programs in order to fulfill its mission.

The ACA will monitor and evaluate the effectiveness of those programs and offer recommendations for improvements to maximize the economic benefit to the state. It is important to note that any changes to statutorily mandated programs will require changes to state law. In past years, the jobs the ACA has helped create have been, on average, above minimum thresholds; for example, averaging approximately \$45,000 through the better part of FY 2012.

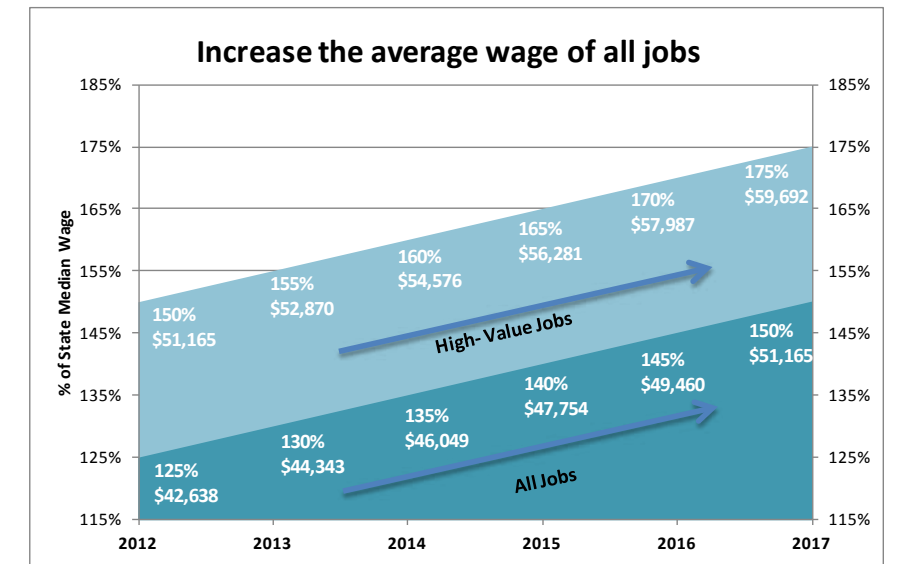


Figure 3 - Average Wages of all Jobs

Increase Capital Investment to \$6 Billion Over Five Years:

Investment in Arizona will increase the Gross State Product (GSP) and increase long-term economic stability. The ACA's focus on targeted investments will catalyze high-quality job creation and the development and promotion of Arizona's competitive advantages both nationally and internationally. Figure 4 (below) identifies the capital investment goals by year one through year five. Beginning in FY 2013, a goal of \$1 billion is established. This number increases to \$1.4 billion by year five, with a cumulative capital investment target of \$6 billion.

The ACA is committed to the performance-based metrics identified in this plan; however, conditions in the national and global economies have a great affect on the overall economic impact of the ACA's programs and efforts. Effective programs will have a greater impact in vibrant economic periods and will be hampered by economic slowdowns. Consequently, any measurable objectives must be viewed in the context of the national and global economic trends.

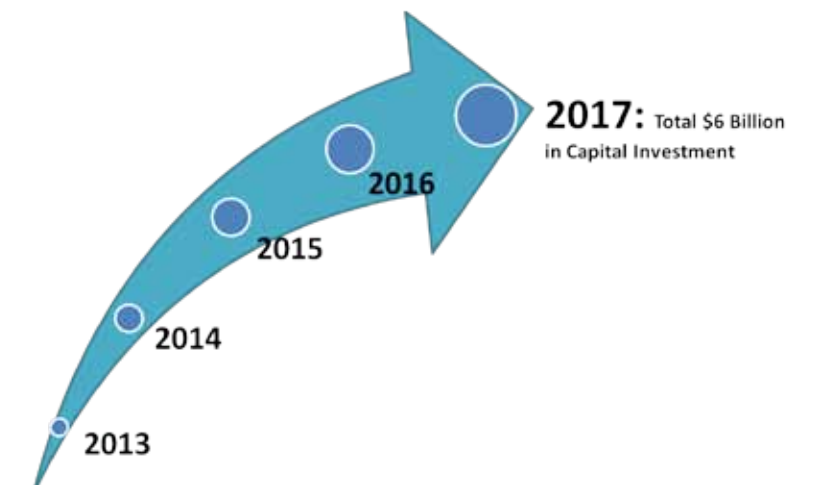


Figure 4 - Capital Investment Target

¹ 2011 OES—Arizona Department of Administration



IV. Strategies Employed to Achieve Goals

This section delineates the strategies of the ACA to achieve its goal of 75,000 new jobs, describes its responsibilities as the state's lead economic development agency and lists the currently available economic development programs.

- 52,500 Higher-Wage Jobs From Business Attraction
- 18,750 Higher-Wage Jobs From Business Growth
- 3,750 Higher-Wage Jobs From Business Creation

Strategy I – Recruit Businesses to Arizona:

Arizona's ability to recruit businesses enables the state to enrich and diversify the existing business community and enhance the state and local economies through job creation and investment.

Since 2003, more than \$28 billion in capital investment for all business activity and nearly 50,000 jobs have moved to Arizona from national and international locations. This demonstrates the fundamental attractiveness of Arizona to relocating businesses. *The ACA estimates that the attraction of relocating or expanding businesses to Arizona will contribute to 70 percent (52,500 jobs) of the higher-wage jobs created over the next five years. Ninety percent will come from U.S. and 10 percent from international relocations.*

The ACA will focus business attraction and recruitment efforts on companies that satisfy at least one of the following requirements

- Companies operating in the target industries planning to expand their operations;
- Companies doing business with Arizona companies in target industries that are seeking to relocate closer to their clients' operations and access additional markets; or
- Companies supporting high-quality manufacturing or advanced business and financial services that support headquarters' operations.

Strategy II – Grow Arizona Businesses:

Growing Arizona businesses expands and strengthens the state's economy because it utilizes existing infrastructure and existing assets and advantages. Arizona is a preferred location to expand businesses with its skilled and abundant workforce, low cost of operations, high quality of life and its proximity to major markets in California, Texas and Mexico. The ACA will leverage existing financial incentives and economic development assets and create technical assistance programs and strategic partnerships to help Arizona companies grow their revenue, create jobs and increase capital investment in the state.

The ACA estimates that the growth of existing Arizona businesses of all sizes, will contribute to 25 percent (18,750) of the higher-wage jobs it helps create over the next five years.

Strategy III – Create New Businesses in Arizona:

By supporting entrepreneurship and the creation of new businesses in Arizona, the ACA promotes the state's position as a hub of innovation. Over the past decade, Arizona experienced one of the largest increases in



entrepreneurial activity and has achieved excellent national recognition:

- 2012 Kauffman Index ranks Arizona #1 in the nation in entrepreneurial activity;
- Milken Institute's 2010 State Technology and Science Index ranks Arizona 9th in risk capital and entrepreneurial infrastructure; and
- Arizona has ranked in the top 10 for small business lending in the U.S.

The ACA recognizes the critical need to support and enable entrepreneurship in Arizona and estimates that new business creation will contribute to five percent (3,750) of the higher-wage jobs it helps create over the next five years.

Entrepreneurs need mentoring, management talent and risk capital to expand and fully capitalize on market opportunities. The ACA offers mentoring, training and financing programs across the state to assist in the creation and development of start-ups—from idea generation to prototyping, and from prototyping to a stable, growing company. The ACA will therefore help start and grow start-ups, ultimately creating high-wage jobs, increasing supply opportunities for Arizona companies, and strengthening Arizona's position as a recognized leader for entrepreneurs.

Managing the State's Economic Development Efforts & Incentive Programs:

In addition to the three strategies outlined, the ACA will act as the state's leading and coordinating economic development agency and administer state incentive programs.

Service Provider to Businesses:

The ACA is the frontline response for new, relocating and expanding business inquiries. As the welcoming agency for the state of Arizona, the ACA constantly provides information, referrals and assistance to businesses. This role is an essential part of the ACA's public service. Some inquiries lead to major business relocations or expansions, while others simply require a referral to the appropriate local economic development partner. All inquiries and requests are welcomed and fully vetted, regardless of the size or nature of the inquiring business. The approach is to treat all callers as clients of the ACA. In an economy that identifies success and failure at the margin, the ACA will welcome every opportunity to excel.

Manager of State Economic Development Programs:

The ACA manages almost two dozen economic development incentive and grant programs beyond the \$25 million Arizona Competes Fund. Each program has its own eligibility criteria, application process, review and award process, and funding. Most of the program characteristics are established in law and administrative procedure. These programs include:

- **Angel Investment Tax Credit (Small Business Capital Investment)**
Gives qualified investors an income tax credit of up to 35 percent of an investment for a qualified small business
- **Arizona Innovation Accelerator Fund (Federal)**
A loan participation program which stimulates financing to small businesses and manufacturers, in collaboration with private finance partners, to foster business expansion and job creation in Arizona
- **Arizona Innovation Challenge**
Provides \$3 million in grants yearly to talented entrepreneurs with the most promising technology ventures

- **AZ Fast Grant**
Provides up to \$7,500 in assistance to enable Arizona-based technology companies to initiate the commercialization process
- **AZ State Trade and Export Promotion Grants: STEP (Federal)**
Provides grant funding from the U.S. Small Business Administration (SBA), with matching funds contributed by the ACA, to Arizona small businesses expanding globally through sales or when entering new, international markets
- **Commercial/Industrial Solar**
Provides businesses installing a solar energy device at an Arizona facility an income tax credit of up to \$50,000 per tax year
- **Healthy Forest Initiative**
Provides harvesters, initial processors and transporters of small diameter timber Transaction Privilege Tax Exemptions, Use Tax Exemptions and New Job Income Tax Credits
- **Job Training Program**
Provides reimbursable grants to employers that implement job-specific training plans for new jobs or for training that increases the skill level of current employees
- **Military Reuse Zone**
Provides companies located in a zone benefits of a Transaction Privilege Tax Exemption, Tax Credit for net new jobs and Property Tax Reduction
- **Quality Jobs**
Provides income tax credits of up to \$9,000 for each new quality job created
- **Qualified Facilities**
Provides up to a 10 percent refundable tax credit on capital investment for manufacturing-related facilities, including corporate headquarters and R&D
- **Research & Development Tax Credits**
Provides refundable income tax credits for investments in research and development activities conducted in Arizona; tax credit starts at 22 percent of qualified R&D expenses for incremental amounts in excess of the previous year. Recent legislation enhances the tax credit amount up to 34 percent if increased R&D expenditures are made in conjunction with an Arizona public university
- **Renewable Energy Tax Incentive**
Provides companies engaged in the solar, wind, geothermal and other renewable energy industries up to a 10 percent refundable income tax credit and up to a 75 percent reduction on real and personal property taxes
- **Private Activity Bond**
Facilitates federally tax exempt bond financing as an alternative financing mechanism for certain qualified projects
- **Qualified Energy Conservation Bonds (QECCB)**
Provides for tax credit bonds as an alternative financing mechanism for certain qualified projects

A critical objective of the ACA is to regularly review the effectiveness of these programs and make recommendations for modification based on a quantitative and qualitative assessment of each. Ongoing review by the ACA will ensure that policy makers have the necessary feedback required to develop economic development tools consistent with the overall mission of improving the state's economy.



V. The Target Industries

The best opportunities for business recruitment and expansion will arise in industries where there is already a local presence. Opportunities will also come from tangential industries (i.e. industries that utilize similar inputs to those already located in the state). Furthermore, entrepreneurship opportunities will more likely arise out of “spin offs” from local companies. The following represents a high-level overview of the state’s current economic base along with the identification of ACA’s key target sectors.

- Aerospace & Defense
- Semiconductors
- Optics/Photonics
- Bioscience
- Renewable Energy

Sector Opportunities for Arizona:

When executing the strategies of recruiting businesses to Arizona, growing Arizona’s existing businesses, and creating new businesses in Arizona, the ACA will focus on key sector opportunities. Strengthening the state’s industrial portfolio is critical to economic growth and stability as it balances advanced industries, which strongly contribute to employment and Gross State Product, and nascent industries with strong growth potential.

The ACA targets industries that:

- Grow in output and employment throughout the economic cycle;
- Create high-wage jobs;
- Provide a competitive advantage for Arizona and U.S. companies;
- Generate significant exports and encourage capital in-flows;
- Have strong supply chains and robust multiplier effects;
- Generate research and development (R&D) funding; and
- Generate greater tax revenues that support public services.

Based on these desired impacts, the ACA has targeted five industries, divided in two categories: advanced industries (historically strong in Arizona) and nascent industries (offering strong potential growth opportunities).

A) Advanced Industries:

Advanced industries have been growing faster than the overall economy and contribute significantly to the state’s economy, both in terms of employment and GSP. The ACA is focused on the *aerospace and defense* and *semiconductors* industries, which currently contribute to more than 165,000 direct and indirect jobs and 26 percent of the state’s exports².

Aerospace & Defense:

The aerospace and defense (A&D) industry represented a one trillion dollar global market as of 2011. A&D in Arizona currently contributes \$9 billion to the state’s economy. Arizona ranks fifth in the U.S. in terms of A&D

² EMSI, Bls.gov, worldtradestatistics.com, Sia-online.org

employment with 94,000 direct and indirect jobs.³⁴ Arizona A&D salaries average 83 percent higher than the average Arizonan wage.⁵

There are more than 500 direct and indirect A&D companies in the state. They all benefit from:

- Arizona's restricted airspaces, open spaces and ideal desert climate conditions for advanced testing, training and R&D;
- Arizona's core A&D competencies including national defense, cyber warfare, intelligence and surveillance, special operations, counter terrorism and border security; and
- Arizona's partnerships with the Department of Defense, including working to maintain and grow the state's position as a leader in defense contracts.

The ACA remains focused on boosting retention at a corporate level, growing second-tier suppliers, championing investment by the Department of Defense and facilitating the creation of a consortium to align R&D across the state.

Semiconductors:

Semiconductors form the foundation for electronics technology. As they sit at the beginning of the IT value chain, they affect all subsequent products, software and services. *Global revenue from the semiconductor market exceeded a record \$300 billion in 2010, a 32 percent increase from 2009 revenue of \$228 billion.*⁶ The forecasted growth rate going forward is promising as advances in high-tech devices, media tablets and smart phones in particular will continue to rapidly fuel worldwide demand, establishing the industry's strong potential for job growth, research advances and expansion. The semiconductors market is forecasted to grow at 10 percent annually until 2014. Within the industry, communications, automotive, and data processing will be the fastest growing segments.

Arizona semiconductors represent six percent (\$3 billion) of the U.S. market and 23,000 jobs.⁷⁸ Intel, Arizona's leading semiconductor employer, was first in semiconductor sales worldwide as of 2010, with nearly 16 percent of global market share.⁹ Along with the presence of leading semiconductor companies, research advancements and support for innovation in Arizona are key strengths:

- Arizona State University, the University of Arizona (UofA), and Intel are members of the Semiconductor Research Corporation, the world's leading non-profit technology research consortium; and
- The UofA is the lead institution for Environmentally Benign Semiconductor Manufacturing.

With the global semiconductor market forecast to grow by 10 percent annually and annual revenue exceeding \$370 billion in 2014, Arizona's position in the industry will increase by attracting high-quality manufacturing companies and capital investment, targeting semiconductor supply-chain relocation opportunities, increasing exports to key markets such as China, Hong Kong and Thailand and promoting science and engineering education.

B) Nascent Industries:

The ACA's focus on nascent industries will diversify Arizona's economy, foster innovation and entrepreneurship and position the state for the future. Nascent industries represent a smaller contribution to Arizona's economy, yet they are great opportunities for growth. They include *optics, biosciences and renewable energy*. All have

3 The Aerospace and Defense Industry in the U.S., Aerospace Industries Association, March 2012
4 Aerospace and Defense in Arizona 2011, Seidman
5 BLS.gov
6 Industry Research – Accenture, 2011
7 Sia-online.org, worldtradestatistics.com/state
8 BLS.gov
9 IHS iSuppli December 2011

experienced recent growth and are forecasted to be strong industries globally.

Optics / Photonics:

Since the boom of high-speed data transfer, the role of optics and photonics has evolved from pure science to application-oriented technologies. In 2009, the U.S. represented 56 percent of the global photonics product market, with eight major geographic clusters, including Tucson, AZ. The average wage in the industry is \$75,000, almost 50 percent higher than the U.S. median household income¹⁰ and more than double the state's median wage.

In Arizona, employment in optics-related organizations reached 5,500 direct jobs in 2010, with 361 companies.¹¹ Optics wages in Arizona averaged \$50,000 in 2010.¹² The Arizona Optics Industry Association, a widely recognized industry organization, has successfully attracted optics-related companies including manufacturing, prototype development, consulting services, software development and hardware manufacturing firms.

The ACA will position the state as a leading player in the optics/photonics industry by encouraging optics cluster services, supporting current businesses, emphasizing incentives to foster new business creation, facilitating research funding and encouraging additional graduates prepared for the industry.

Bioscience:

Driven by increasing demands from biomedical applications, agricultural, renewable energy and industrial biotechnology, the bioscience industry has grown during the past decade and now represents 112,000 direct jobs in the U.S.¹³ The industry is fragmented in multiple locations across the nation, providing an opportunity to attract multiple companies to relocate adjacent to key clusters.¹⁴

Flagstaff, Phoenix and Tucson are growing bioscience hubs in the state. In 2012, the industry contributed 15,000 jobs in Arizona, an increase of seven percent from 2009. This was the same period when overall U.S. growth in the industry was flat, illustrating the level of activity in the state.¹⁵

The ACA can increase Arizona's position in the bioscience industry by working with Arizona's organizations to increase infrastructure and research investments, encourage commercialization of innovative bioscience products, ensure a friendly business climate and support education that encourages industry activity and talent growth.

Renewable Energy:

In 2009, renewable energy supplied an estimated 16 percent of global energy consumption.¹⁶ The industry is manufacturing- and export-intensive, with roughly 26 percent of all clean economy jobs in the renewable energy manufacturing establishments, compared to just 9 percent in the broader economy.¹⁷

The U.S. solar industry employs 100,000 workers and is forecasted to increase 24 percent in 2012.¹⁸¹⁹

10 BLS.gov, 2010
11 Ibid
12 Ibid
13 Global Biotechnology Report 2011, Ernst and Young
14 Ibid
15 Battelle analysis of Bureau of Labor Statistics, QCEW data from MIG, Inc
16 Renewables 2011, Global Status Report
17 "Investing in the Clean Economy", Brookings Institution
18 Solarfoundation.org: National Solar Jobs Census 2011
19 U.S. Department of Energy

There were more than 4,700 direct solar jobs in Arizona as of October, 2011, accounting for about five percent of the total solar jobs in the country. Annual capital investment in solar is forecasted to increase in Arizona from \$84 million in 2010, to \$404 million in 2015, and \$1.4 billion in 2020.²⁰ Additionally, Arizona consistently ranks among the top five states in photovoltaic energy generation.

To capitalize on its existing position, the ACA will facilitate the growth of Arizona's solar energy cluster, encourage funding for solar research, promote funding to foster innovation, help commercialize new technologies and focus on identifying manufacturing and energy supply opportunities.

²⁰ US Solar Market Insight: 2010 Year in Review, Solar Energy Industries Association



VI. The Target Markets

- California
- Canada
- Mexico

Current Target Markets:

In addition to focusing on a sector approach, the ACA will engage in both a national and international campaign to increase Arizona's visibility outside of its borders to expand exports and attract new businesses and investment. The ACA international and national strategy will complement the growth within the state, bring more high-wage jobs, and increase the state's overall average wage and capital investments.

The ACA is focused on key target geographies to maximize its impact in select locations. These locations reflect Arizona's current exports and business relationships within the location, proximity and connectivity, and target industries strengths.

In addition to the ACA's national strategy and emphasis on *California (as outlined below)*, the Authority's target international geographies include *Canada and Mexico*. The ACA will focus on these locations to attract new companies to the state, relocate operations of existing Arizona companies from these areas, increase trade and foreign direct investment activity from international efforts, assist Arizona companies to expand their market span in these markets, and launch brand marketing campaigns.

Internationally, the ACA will strategically target the following business development opportunities:

- Foreign businesses with some operations in Arizona that are considering relocating some of their foreign operations in/to the U.S.; and
- Foreign suppliers of Arizona businesses that are considering relocation as a way to improve their competitiveness and expand their operations.

The following section provides additional details on the ACA's strategy in California, Canada and Mexico.

A) California:

California presents a strong market expansion opportunity for Arizona given the state's size, wealth and proximity. California's GDP, the eighth largest in the world, allows Arizona access to capital investment and export opportunities. In addition, California's export markets of electrical machinery and medical and optical equipment align with Arizona's target industries and provide market expansion opportunities for Arizona companies.



Aerospace and defense, science and technology and

renewable energy are leading industries in California in both size and investment:

Aerospace and defense: California is a global aerospace leader, representing the industry's largest U.S. concentration, holding approximately 16 percent of total U.S. A&D revenues and 15 percent of total A&D employment. The California aerospace industry had an estimated value of \$30 billion and directly employed approximately 162,000 people in 2010.

Science and technology-related industries: There are 3,192 bio development companies in California, employing more than 20,000 people.²¹ California Institute of Technology produces skilled graduates in key fields of engineering and biosciences and has a strong R&D footprint. The U.S. invested more than \$100 million in the optics/photonics industry in California in 2010 and more than \$2.5 billion annually in biosciences (11 percent of the total market for research).

Renewable energy: California captured an estimated 30 percent of the solar market in energy production.²² In 2010, California solar companies employed an estimated 26,000 people.²³

With its proximity to California and its strong core industry alignment, Arizona is positioned to establish a strong in-market presence in California. The ACA will open offices in the greater Los Angeles and San Jose regions, given their proximity to semiconductors, optics and A&D clusters. From these opportunities, the ACA will attract businesses by marketing Arizona's comparatively lower operating costs and competitive incentive programs. In addition, the ACA will help expand exports for Arizona's businesses in target industries and help grow small businesses by providing them access to markets and capital.

B) Canada:

Canada had \$458 billion in exports in 2011. The U.S. is Canada's main trading partner, exporting 72 percent of goods to the U.S. Canada's imports come in vast majority from the U.S. and represent trade of machinery and equipment, chemicals, electricity and durable consumer goods.²⁴

Aerospace and defense: Canada has the fifth-largest aerospace market in output in the world. It is a world leader in key sectors such as business, regional and commercial jets. Canada has more than 400 aerospace firms, employing more than 83,000 skilled professionals. A majority of aerospace firms are located in Quebec, while 29 percent are located in Ontario. Canada imports 50 percent of its A&D products from the U.S., presenting an export opportunity for Arizona.²⁵

Science and technology-related industries: Photonics generate \$4.5 billion in revenue, 85 percent of which comes from exports.²⁶ The photonics industry is home to 450 companies and provides an estimated 20,300 jobs.²⁷ In addition, the Canadian government invests more



²¹ www.allbusiness.com

²² EuPD Research, July 2011

²³ Solarfoundation.org: National Solar Jobs Census 2011

²⁴ Statistics Canada, 2012

²⁵ Invest in Canada Group

²⁶ Illuminating a World of a World of Opportunity. Canadian Photonics Consortium, 2009

²⁷ Photonics in Canada- National Innovation Strategy- Robert Corriveau, 2010

than \$850 million annually in biosciences.²⁸

Renewable energy: Canada is a significant producer of hydropower, with 475 hydropower plants contributing 97 percent of the renewable energy generated in the country. The wind industry is an additional renewable energy sector that has seen explosive growth and has the most upside potential in Canada.²⁹ It is expected to meet 20 percent of the country's demand for energy by 2025, and it is the fastest-growing renewable energy source in the country.³⁰

The opportunities of increased exports and an international presence for target industries make Canada an ideal location. The ACA will establish a presence in Canada with the help of local contractors. The ACA will centralize its Canadian operations in Toronto, develop a presence in Montreal and evaluate the opportunity to capitalize on the country's recent western growth by establishing relationships with western Canadian locations such as Vancouver.

C) Mexico:

Mexico is an export-oriented economy with more than \$300 billion in exports, 81 percent of which are directed to the U.S. Mexico has a growing presence in two of the ACA's target industries:



Aerospace and defense: Aerospace exports in Mexico increased from \$270 million in 2001 to \$5 billion in 2010 and are expected to double within five years.³¹ There are more than 200 A&D companies in Mexico that employ more than 27,000 people.³² Of those 200 companies, 80 percent are manufacturing firms, while 20 percent are maintenance shops/engineering firms.³³

Science and technology-related industries: The Mexican electronics industry generated \$71 billion in exports in 2010. The country is currently the second-largest electronics supplier to the U.S., behind China.³⁴ Mexico also has the largest medical device market in Latin America.

Mexico has a growing presence in target industries in Arizona and can provide the possibility of economic development through trade and foreign investments. The ACA will capitalize on a proactive presence in Mexico to help develop exports, promote its capital resources and business service capabilities to attract further foreign direct investments in the state, and facilitate interactions between Arizona businesses and their suppliers in Mexico to help Arizona companies grow.

28 *The \$86.5 Billion Canadian Bio-Economy*

29 *A Renewable Energy Powerhouse-Overview of Canadian Capabilities- 2010 Reasons to Do Business in Canada*

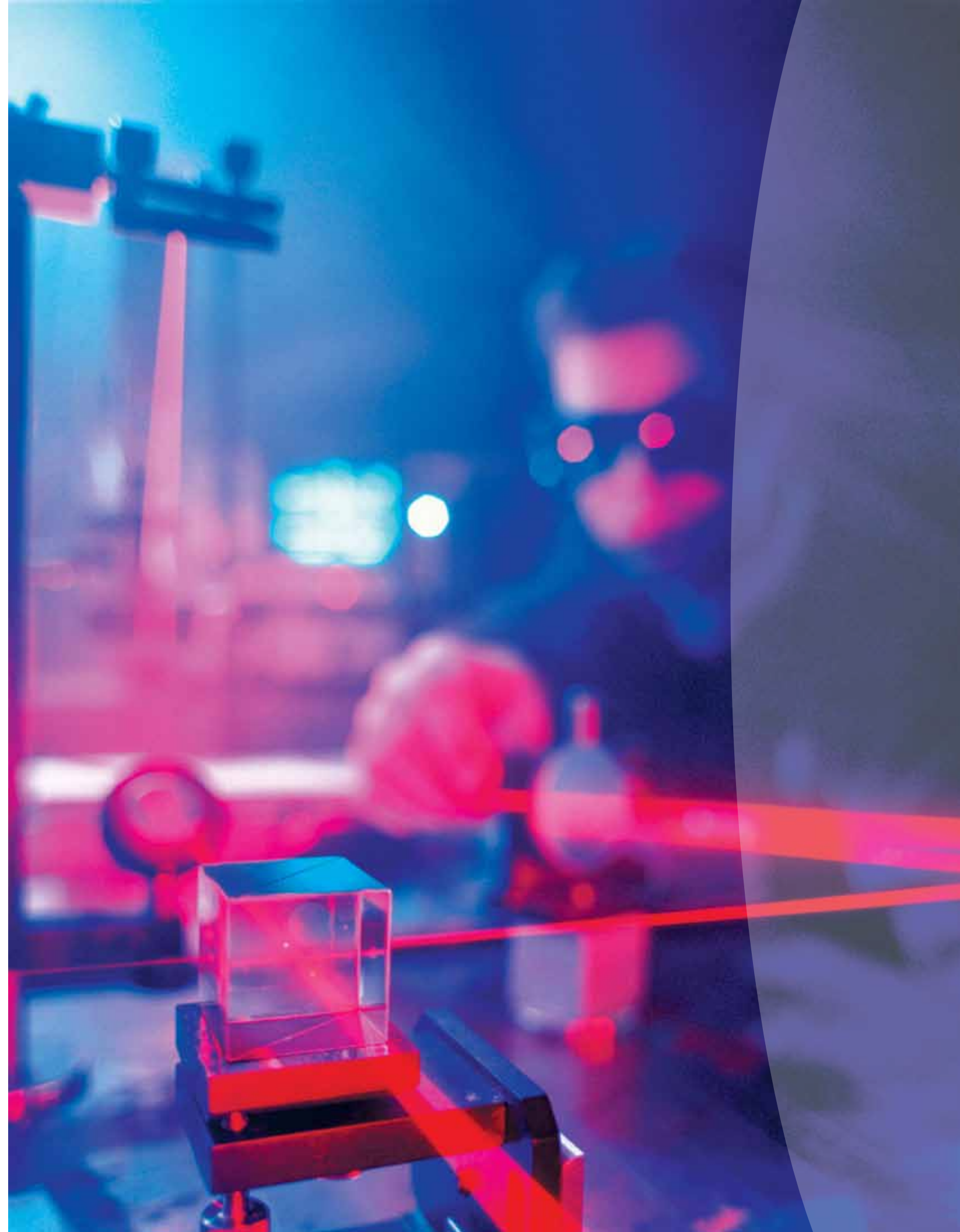
30 *Windvision 2025: Powering Canada's Future- Canadian Wind Energy Association*

31 *Baja Aerospace. <http://www.bajaaerospace.com/>*

32 *Aerospace Industry Overview. Global Trade*

33 *Outlook: Aerospace Manufacturing in Mexico: Maquila Reference*

34 *Mexican Consumer Electronics Industry Second Largest Supplier of Electronics to the U.S. Market. Pais, Marca*



VII. Plan Implementation – ACA Actions That Will Achieve Goals & Yield Results

To attract, grow and create high-wage jobs, the ACA must execute a series of specific actions to strengthen Arizona's competitiveness, promote the state's economic advantages and deliver on Arizona's promise of a stable economy for years to come. The ACA's strong Board of Directors, experienced and knowledgeable staff and reliable funding all support these efforts. The ACA will build on its foundation by collaborating with public and private organizations to develop and implement programs, incentives and messaging campaigns to execute the ACA's mission and achieve its goals.

The ACA has identified 10 actions as mission critical. These actions will be supported by detailed work plans. These plans will include specific projects to be completed over the next 24 months that will further the ACA's mission.

- Action 1. *Increase Awareness of the State's Existing Assets*
- Action 2. *Enhance Arizona Competitiveness*
- Action 3. *Coordinate Arizona's Economic Development Efforts*
- Action 4. *Make Arizona a Preferred Location for Companies Operating in Target Industries*
- Action 5. *Become a Leading Hub in High-Quality Manufacturing and Advanced Business Services*
- Action 6. *Foster Innovation and Support Entrepreneurship*
- Action 7. *Make Arizona a Preferred Trading Partner with Mexico and Canada*
- Action 8. *Support the Development of a more Employer-Focused, Demand-Driven Workforce System*
- Action 9. *Encourage the Development of an Infrastructure that Supports Economic Growth*
- Action 10. *Integrate All Areas of Arizona into the State's Economic Success and Growth*

Action 1: Increase Awareness of the State's Existing Assets & Advantages: Despite the state's numerous assets and advantages, Arizona lacks a unified branding strategy.

Regional and statewide organizations developed marketing and branding strategies in isolation. The ACA is partnering with economic development organizations across the state to create a single, collaborative brand and marketing strategy that will increase awareness of Arizona's assets and advantages.

Additionally, Arizona's true assets and advantages are often inaccurately reflected in national economic and business climate rankings. For example, the ACA's assessment places the state among the top 10 for real estate costs, taxes and regulations, and current workforce availability. However, many published rankings reflect assessments that do not accurately reflect these strengths. These discrepancies are primarily attributable to inaccurate information, inconsistent marketing, an uncoordinated messaging campaign or the use of old or incomplete data. The state has made substantial strides in improving its overall competitiveness and the use of obsolete data or five-year historical trends fails to reflect that progress.

To mitigate these inconsistencies and to increase awareness of the state's attractiveness, the ACA will:

- Work with publishers of national business indicators to ensure the most accurate data is being used;
- Provide accurate data to positively revise obsolete or incorrect rankings;
- Consistently promote the state's assets and advantages and highlight the state's value proposition; and
- Leverage a network of public and private ambassadors to promote the state's assets

The ACA's communications, marketing and research department will coordinate the activities related to this strategic action.

Action 2: Enhance Arizona's Competitiveness:

Arizona's unique combination of attractive business costs, skilled and available workforce, low barriers to business entry and growth, and favorable natural environment form the basis for a strong business case for the state. However, Arizona under performs in several areas that are important to businesses and entrepreneurs. These areas include capital resources, education, economic stability, entrepreneurial support and R&D collaboration.

A dedicated ACA team will monitor the state's competitive position relative to its peers and identify specific approaches to improve under performing areas and strengthen the state's position.

Additionally, the team will monitor foundational assets such as the education system, infrastructure and capital availability. Strengthening the link between employers' workforce needs and the education system, improving access to investment capital, and ensuring necessary infrastructure investments for long-term economic development are key to Arizona's success.

The ACA's executive team, supported by the communications, marketing and research sections, will coordinate efforts for this strategic action.

Action 3: Coordinate Arizona's Economic Development Efforts:

Arizona's successful economic development requires the involvement of multiple organizations, agencies and groups. However, there have been challenges in coordinating the various economic development, research and market expansion efforts throughout the state. Duplication of effort and disjointed communication have

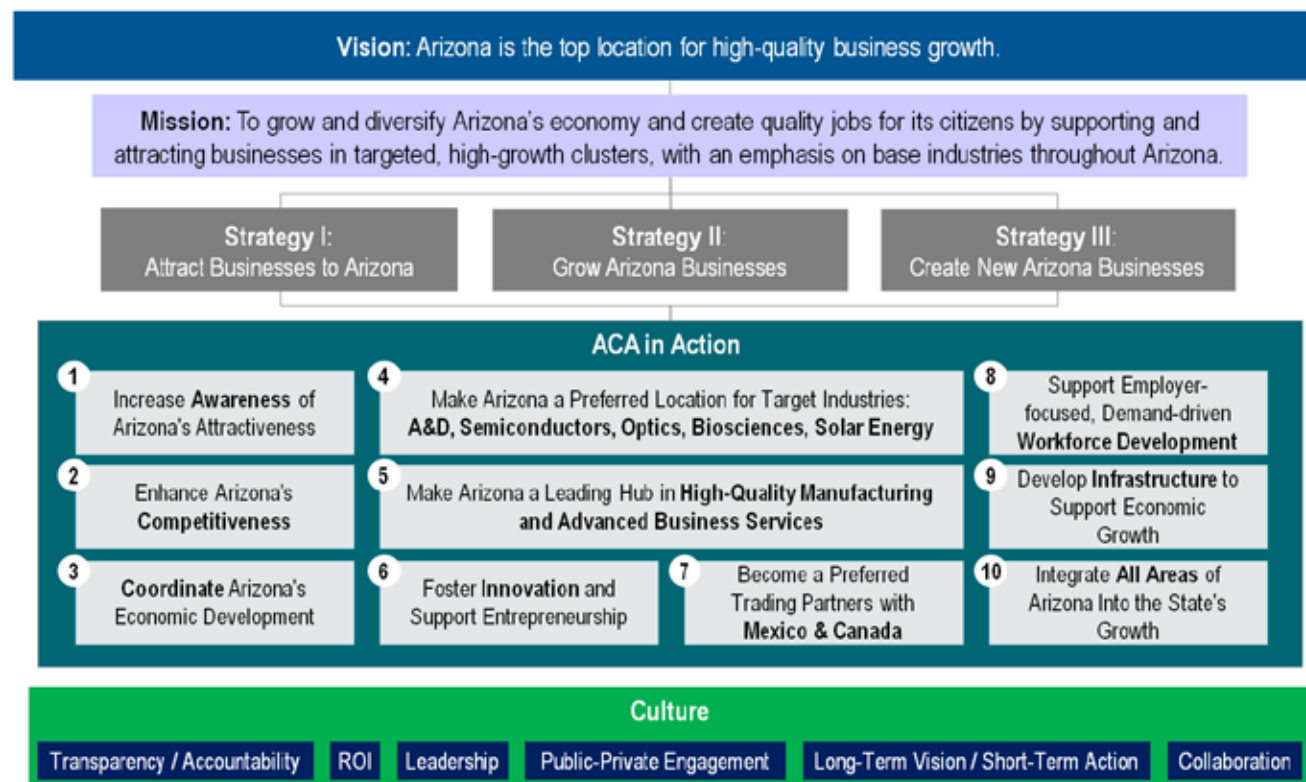


Figure 5 - The ACA's Strategic Framework

wasted resources and limited effectiveness.

The ACA will promote coordination and alignment among public and private organizations regionally, nationally and internationally by establishing relationships and ensuring consistent focus on Arizona’s economic development priorities.

To orchestrate statewide economic development efforts and ensure coordination and consistent communication among its partners, the ACA will:

- Match partners to different aspects of economic development based on their missions, strengths and strategic fit;
- Engage with partners for greater impact and efficiency;
- Lead and coordinate joint responses to business relocation opportunities to ensure seamless coordination and maximize success;
- Focus on high-wage job creation opportunities;
- Convene business leaders and build dedicated teams to address ongoing issues;
- Ensure all of the ACA’s partners promote the state’s value proposition; and
- Take a leadership position in the support, development and coordination of entrepreneurship programs and resources.

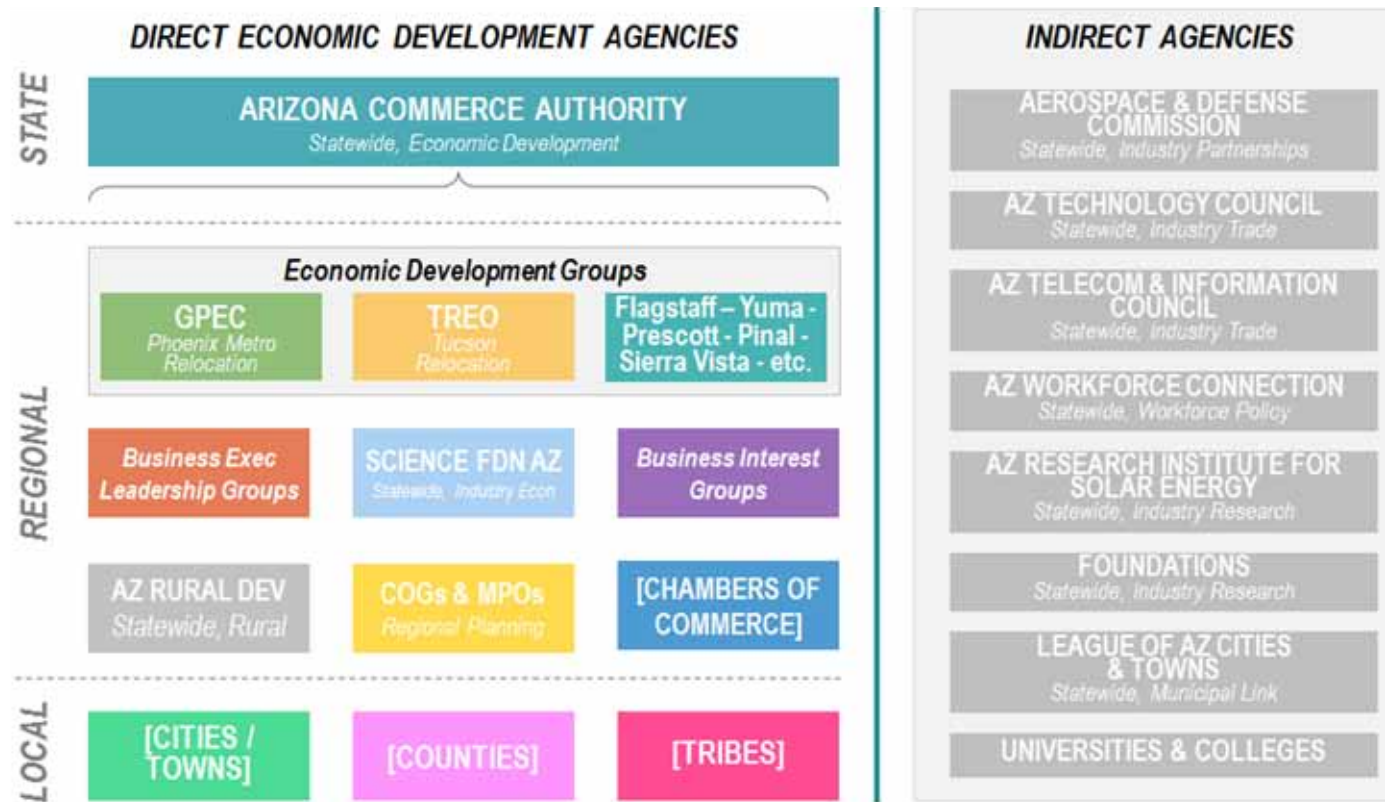


Figure 6 - General map of Arizona’s economic development landscape

Action 4: Make Arizona a Preferred Location for Companies Operating in Target Industries:

Arizona has the capabilities and assets needed to attract and grow companies in the identified target industries based on existing strength and success these sectors have demonstrated for many years. (See section V for

additional details on target industries descriptions and opportunities).

To make Arizona a location of choice, the ACA will:

- Focus a dedicated team on each target industry and consistently approach that industry across the ACA’s various departments;
- Proactively reach out to companies and site selectors in target industries both nationally and internationally to identify relocation opportunities;
- Strengthen relationships with existing Arizona companies to encourage growth and retention; and
- Engage government leaders and key businesses in support of industries critical to Arizona’s economic vitality.

Industry leads will be part of the business development department and will work with the technical advisors to coordinate specific projects and efforts for each industry across the organization.

Action 5: Become a Leading Hub in High-Quality Manufacturing & Advanced Business Services:

High-quality manufacturing and advanced business services provide high-wage jobs and contribute to strengthening Arizona’s economy.

Manufacturing: Manufacturing provides high-wage jobs and commercial innovation, which contribute to trade deficit reduction. While U.S. manufacturing performs well compared to the rest of the economy, it compares poorly to manufacturing in other high-wage countries. Arizona compares poorly, relative to the nation as a whole, based on average incomes of manufacturing employees, the wage premium relative to other states’ employees, and the share of manufacturing employment per capita. However, Arizona has several key manufacturing companies, including Intel, Raytheon, IBM and Honeywell, which provide opportunities for growth and manufacturing supply-chain development. Additionally, Arizona’s pro-business environment should attract high-quality manufacturers.

Business services and headquarters: Advanced business services such as finance, supply network activity, data centers, energy-efficient building management and logistics technologies firms are critical to global companies. Headquarter operations offer high-wage jobs and promote broader investment in the state.

To attract and retain business services companies and headquarters, the ACA will:

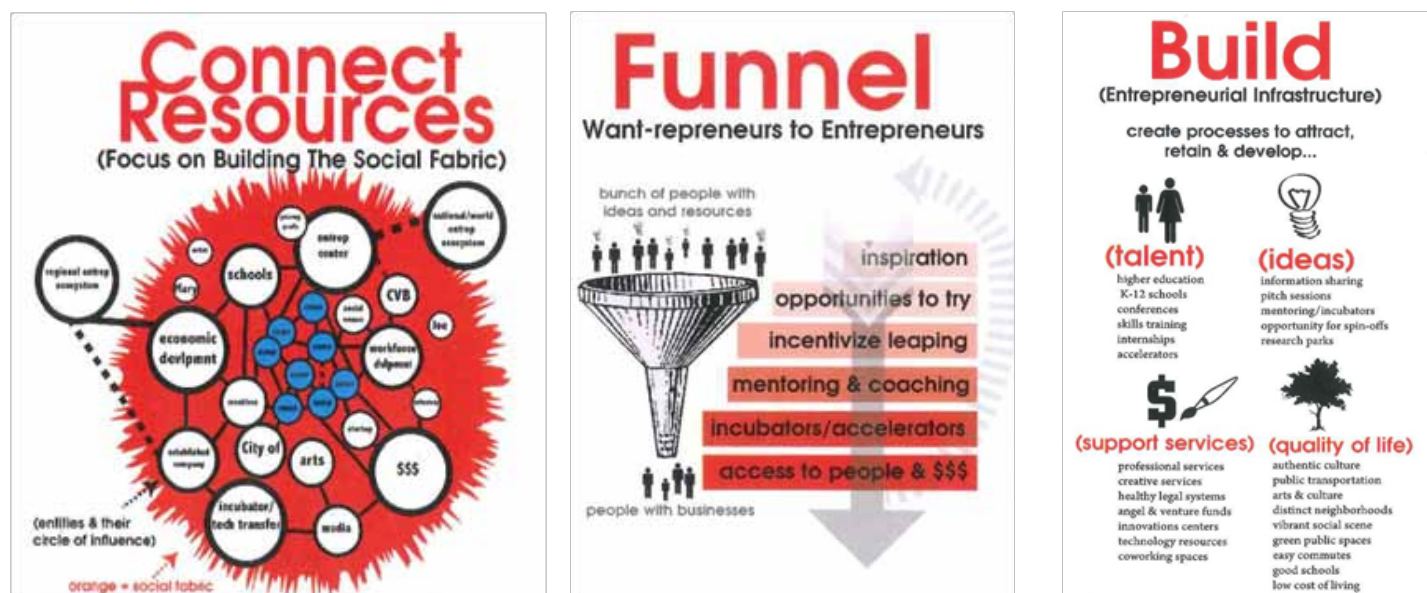
- Promote Arizona’s assets, advantages and experience to build clusters in high-value manufacturing and advanced business services;
- Strengthen relationships with site selectors and expand Arizona’s visibility internationally, targeting advanced business services and high-value manufacturing;
- Foster and incubate companies to contribute to the growth of high-value manufacturing and advanced business services; and
- Emphasize high-value manufacturing across the state and build on each region’s manufacturing base, while increasing average wages.

Action 6: Foster Innovation & Support Entrepreneurship:

Long-term economic vitality relies on entrepreneurship, the creation of new businesses and the commercialization of ideas and products. Arizona ranks first in the U.S. for overall entrepreneurial activity, but lacks access to venture capitalists.³⁵ For instance, about 99 percent of the venture capital contributed to Arizona companies

35 Kauffman Index of Entrepreneurial Activity – March 2012

comes from out of state.³⁶ Arizona ranks 20th for revenue generated by ventured-backed companies and 22nd for jobs created by headquartered venture-backed companies.³⁷



Figures 7, 8, 9 - Graphics created by Andy Stoll and shared under Creative Commons Attribution/Non-Commercial License

Arizona has significant gaps in the development and coordination of its startup ecosystem. To help eliminate that gap, the Arizona Innovation Challenge (AIC) – the largest monetary competition of its kind – is a catalyst to build the ecosystem from its substantial, but fragmented base of entrepreneurial talent, disruptive technology and intellectual property, world-class universities, and nascent startup incubator and accelerator community. The AIC is a business plan competition to select the best entrepreneurial plans and provide \$3 million in annual funding to help launch and grow new technology ventures. Grants will be awarded twice per year, allowing the ACA to assist 12-20 early-stage companies financially and many more through mentoring and business development support.

The competition has attracted more than 400 applicants in less than 18 months and has the potential of exceeding 1,000 start-ups in the next 12 months. In addition to the winners, the AIC reveals many other excellent business plans (there are 25 semi-finalists every six months, for example) which, with additional refinement and mentoring, could become viable companies.

The key additions to the program, which would provide the highest leverage in business creation, include:

- Developing a robust mentor network of:
 1. Experienced CEOs;
 2. Entrepreneurs in Residence; and
 3. Content experts in the various technical disciplines.
- Establishing review panels of experienced entrepreneurs and executives to refine the business plans and make them ready for venture capital reviews/funding; and
- Facilitating direct interaction between qualified companies and venture capitalist to accelerate funding of those companies.

³⁶ Ibid
³⁷ National Venture Capital Association: *Venture Capital Entrepreneurship in Arizona*

In the ecosystem model above, the ACA must focus on ideas and support services. While the other areas are critical for building businesses, the ACA will need to work through other groups that can more effectively or directly influence talent and quality of life, such as the Arizona Ready Education Commission for talent.

A strong start-up environment is critical to the state and will promote a robust and relevant talent pool for high-wage positions, a strong supply chain for companies expanding and relocating to Arizona, attractive employment for university graduates and a long-term quality jobs engine.

Action 7: Make Arizona a Preferred Trading Partner With Mexico & Canada:

A strong economic development presence in key markets will help develop exports and attract new investments and businesses. Arizona is located along the Canada-Mexico corridor and benefits from a strong relationship with both countries. Arizona’s trade with Mexico (\$5 billion) and Canada (\$2 billion) represents roughly 45 percent of the state’s total exports. Mexico is the second-largest electronic supplier to the U.S. after China.³⁸ Additionally, both countries play a role in Arizona’s target industries.

Canada ranks fifth in aerospace and defense output in the world. Its A&D companies are expansion targets for the ACA. The ACA will primarily focus on traditional locations such as Toronto and Montreal, as well as growing locations in western Canada such as Vancouver to identify export opportunities for Arizona businesses and target relocation prospects.

Mexico is an export-oriented economy with more than \$303 billion in exports, 81 percent of which are to the U.S. and include electronic equipment, motor vehicle parts and chemicals.³⁹ While Arizona has a large share of exports, Arizona can capture opportunity for additional exports and investments by maximizing relationships among Arizona companies and smaller suppliers in industries such as semiconductors. In addition, Arizona can market itself as the gateway to the Southwest and the U.S. as a whole for foreign-owned companies in Mexico trying to expand their presence in the U.S.

To become a preferred trade partner with Canada and Mexico, the ACA will:

- Increase the state’s visibility in both countries by establishing virtual offices using contractors in Toronto and Montreal and dedicating specific resources for Mexico;
- Work closely with business development and business attraction teams to establish relationships in Mexico and Canada and identify prospect leads and trade opportunities in target industries; and
- Facilitate access to services for Arizona businesses working with those countries.

Action 8: Support the Development of a More Employer-Focused, Demand-Driven Workforce System:

The growth of high-wage employment is dependent upon Arizona having the correct workforce – a continued supply of skilled Arizonans – ready and able to fill jobs. A high-quality workforce supports the ACA’s strategy in two ways:

- A high-quality education system and a motivated and skilled workforce are key tenets of competitiveness that make Arizona an attractive place to create, locate and grow a business; and
- High-wage jobs must be filled by high-quality workers possessing the correct skills to do the job and further business growth. Unfilled job positions are wasted opportunities in the short- and long-term, causing employers to look outside of Arizona for talent.

Providing a well-educated, skilled workforce is the shared responsibility of institutions involved in K-12, higher

³⁸ Mexican Consumer Electronics Industry Second Largest Supplier of Electronics to the U.S. Market. Pais, Marco
³⁹ US-Mexico at a Glance. US Embassy

education and continuing workforce development in Arizona. Just as the *Arizona Competitiveness Package* is shaping ACA and the business environment, Arizona's Education Package is setting new goals and expectations on the education system.

The ACA will:

- Inform and align institutions and workforce development organizations on economic development strategies, curricula and programs (particularly STEM education) to provide a skilled workforce relevant to the needs of growing industries and businesses;
- Leverage statewide workforce resources by integrating workforce experts into the deal teams for business attraction, expansion and creation projects;
- Identify and facilitate programs that address specific economic development opportunities such as internships, training programs, employee placement and job matching programs; and
- Coordinate with education institutions to improve and market the education system and workforce to prospective businesses.

Together, the education system, the ACA and Arizona workforce development and education organizations will work to provide and connect the skilled workforce needed to attract and grow businesses.

Action 9: Encourage the Development of an Infrastructure that Supports Economic Growth:

Sufficient infrastructure is essential for economic growth and prosperity. Global competition for business investment and job creation demand a robust system of infrastructure assets that enables companies to move goods and information efficiently and effectively. Physical infrastructure, including rail, air and surface transportation must improve at the same pace as growth in residential and business populations. What may seem adequate at present can quickly become outdated as population and job growth accelerate. Given the long lead time involved to plan and implement infrastructure updates, improvements need to be addressed and prioritized well in advance. Arizona's development and recent progress have been defined by bold investments in infrastructure, notably the Salt River Project in the early 20th Century, and more recently, the Central Arizona Project and the new Mike O'Callaghan-Pat Tillman Memorial Bridge over the Colorado River. Freight movement is a key component of infrastructure, which is an important component to economic development through value-added activities such as manufacturing, distribution, warehousing and transporting of products. One of the most promising avenues for infrastructure investment is the development of multimodal logistic centers (inland ports) that permit containerized freight to be shipped from the port terminals to an inland facility for trade processing, sorting and other value-added services. As a model of success for inland port development, AllianceTexas attracted more than 200 companies with a combined economic impact of \$33.8 billion within 15 years of its establishment. During this time, job creation exceeded 28,000 and nearly \$22 million in property tax was generated annually. The initial public investment of \$100 million yielded more than \$6.5 billion in private investment.

Arizona has many advantages in attracting potential inland port/logistic facilities, including several multimodal transportation junctions, sufficient proximity to the West Coast to handle "spill over" freight needs from ports in California and Mexico, no state inventory tax for distribution facilities, possible property tax relief from designating Foreign Trade Zones, and the low cost of doing business relative to California.

The composition of freight movements in Arizona emphasizes the need for a strategy that adds value to the estimated 62 percent of the commodities which pass through for destinations in the Midwest and East Coast. As a primary consumer of freight, Arizona draws in container traffic, which, once unloaded, returns to its original destination empty. This imbalance in the supply chain could be addressed by increasing exports from Arizona's producers and attracting freight-related businesses to the state.

The ACA will build on CANAMEX, an initiative to advance strategic infrastructure investments and aimed at increasing competitiveness in global trade, job creation and economic potential. The ACA will facilitate the completion of the corridor to gain access to Nevada and onward toward Canada. The ACA, in cooperation with Arizona's Department of Transportation, will marshal the capacity of local and regional economic development and transportation stakeholders to improve the performance of the state's high priority corridor improvements, international gateways and economic hubs to meet modern economic demands.

The ACA will:

- Support economic growth and enhance the safety, security and the efficiency of Arizona's trade corridors through strategic investments in transportation, telecommunications and economic infrastructure;
- Work with Arizona's Congressional delegation to identify funding sources for high-priority projects;
- Recommend and advance alliances among American and Mexican states and Canadian provinces to increase trade and exports;
- Assist with the identification of transportation assets to better market supply chain capacity and expertise; and
- Position Arizona as a gateway for Asian and international trade with the public and private sectors..

Action 10: Integrate All Areas of Arizona into the State's Economic Success & Growth:

To recover from the recent recession, job creation across the state is a priority. Rural areas often under perform metropolitan areas across multiple areas of competitiveness. That gap is widening.⁴⁰

Currently, Arizona's rural population represents about 10 percent of the state's total population, an average per capita income 20 percent lower than the state's average, and an unemployment rate of 12 percent compared to Arizona's average 9.7 percent.⁴¹

Lower population density limits the potential for positive externalities among companies and increases the costs for providing infrastructure and support services. While economic development of rural areas is acknowledged as lagging, current policies to improve disappointing economic performance are under performing, resulting in additional costs for the state.⁴²

Activities that could be performed efficiently in rural locations migrate offshore or are added to existing urban areas. Recent research revealed certain factors that were consistently linked with rural growth: low initial labor costs (earnings per job); retirement county status; high education spending per pupil and the presence of a passenger airport within 50 miles.⁴³ Other factors positively associated with rural growth included right-to-work laws, the percentage of adults who had completed high school, and access to the interstate highway system.⁴⁴ Research has also shown that rural regions perform better when geographically near economically stronger metropolitan regions.⁴⁵

Additionally, rural regions with successful clusters enjoy higher average wages, productivity, rates of business formation and innovation. However, demonstrating favorable circumstances does not necessarily ensure strong economic growth, and the ACA will initiate measures to ensure Arizona's rural communities progress at pace on par with urban success in the coming years.

40 *Competitiveness in Rural U.S. Regions; Harvard Business School Institute for Strategy and Competitiveness*

41 *USDA Economic Research Service*

42 *Competitiveness in Rural U.S. Regions; Harvard Business School Institute for Strategy and Competitiveness*

43 *Rural Economic Development: What Makes Rural Communities Grow?; United State Department of Agriculture*

44 *Ibid*

45 *Competitiveness in Rural U.S. Regions; Harvard Business School Institute for Strategy and Competitiveness*

Arizona has already established its first Rural Business Advisory Council that provides direct assistance to rural communities in organizing, coordinating and implementing business development strategies to diversify economies by bringing in new business. The Council engages hands-on experts from rural areas with one representative from each Arizona county and one representative of Arizona's tribal nations serving on the Council.

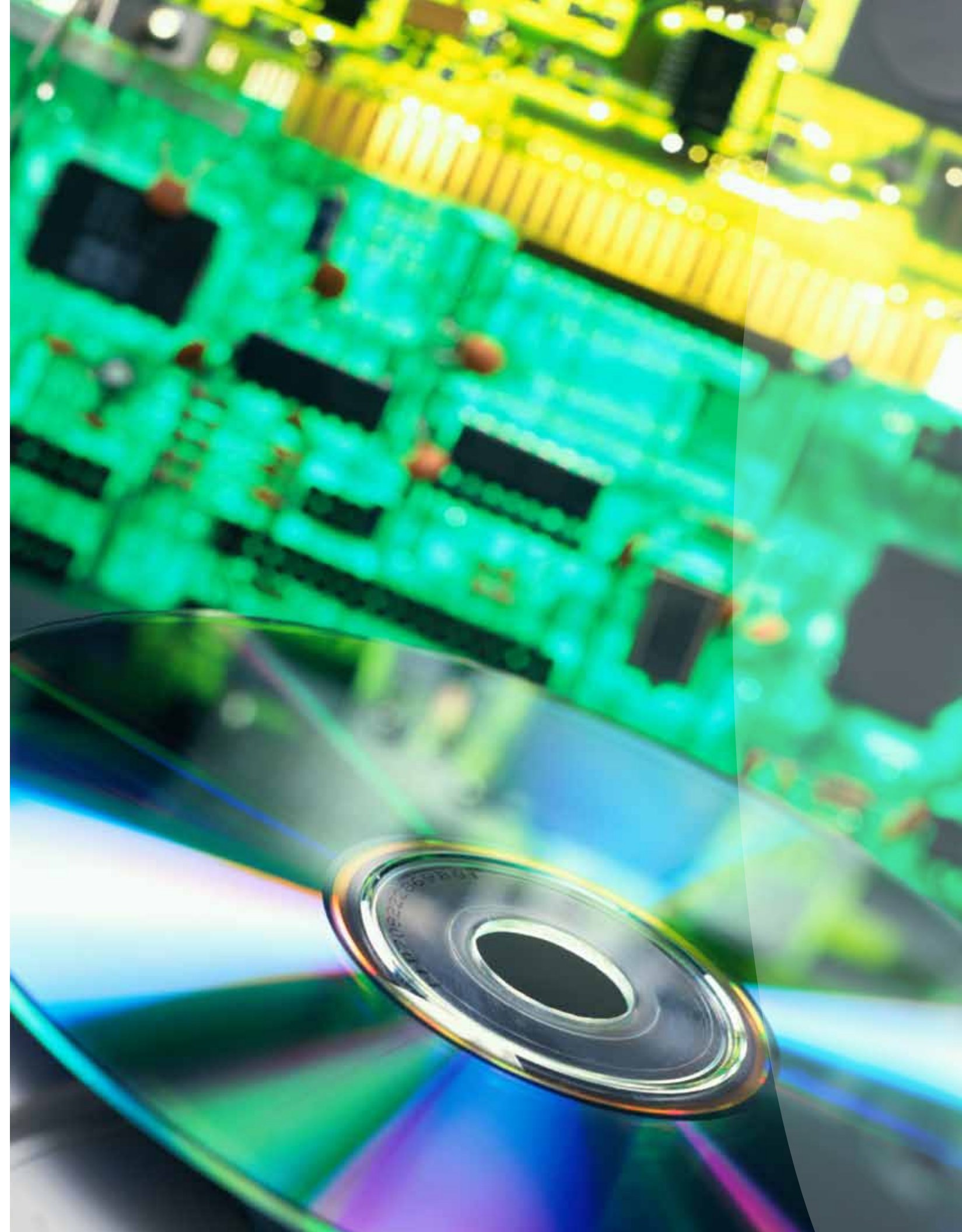
To further engage Arizona's rural communities and promote rural economic development, the ACA will:

- Collaborate with rural partners to leverage the existing networks, ensure adequate funding and efficient disbursement of grants to rural organizations and businesses, and coordinate the federal initiatives;
- Coordinate regional branding to improve awareness and the visibility of Arizona's many varied regions;
- Promote activities to encourage cooperation and partnerships among local and regional areas;
- Encourage retiring military workforce to remain near military bases to build skilled workforce;
- Develop strategies to promote ecotourism and retail sales of handmade craft that highlight Arizona's human cultural and natural assets; and
- Improve key connectivity and infrastructure in rural regions such as broadband telecommunication services and water and wastewater systems to ensure communities are positioned for business success and connected to the global economy.

Although rural communities are already incorporated into Arizona's statewide scope for economic development, the ACA will allocate dedicated resources to ensure the appropriate level of communication and involvement on an ongoing basis.

Continuous Improvement:

The ACA operates in an aggressive, dynamic environment. Changing economic circumstances, competitive pressures and business and industrial innovation require continuous monitoring, adaptation and improvement. The ACA operates dozens of programs designed to strengthen and advance the state's economy. Every program must be continuously reviewed to ensure it is as efficient and effective as possible. Given the legal structure of most of the ACA's programs, revisions must often be formulated as legislative initiatives.



VIII. The ACA's Organization

The ACA is organized in a strategic manner to efficiently execute its mission. The ACA will operate under a matrix-oriented operating model, an internal organization structure, and a collaborative effort with external parties.

- ACA Operating Model
- ACA Internal Organization
- External Agencies and Partners

A) The ACA's Operating Model:

The ACA has developed a matrix-oriented operating model to achieve its goals and create jobs in target industries.

Executive Management and Operations (Board of Directors, CEO, COO, CAO, CFO, Communications, Marketing, Research) lead and support the job creation departments by providing them with the direction, tools and operational support to achieve the ACA's ambitions.

The Job Creation Departments, namely Business Attraction (Recruitment), Business Development (Expansion and Growth), Business Creation, International and Rural Development are performance-driven departments and are managed by department leads.

The Industry Leads set the direction for industry-focused activity and operate across departments to provide strategic support to accomplish ACA's mission.

B) The ACA's Internal Organization:

The ACA's target organization structure comprises of a Board of Directors, an Executive Management team, Technical Advisors and eight departments.

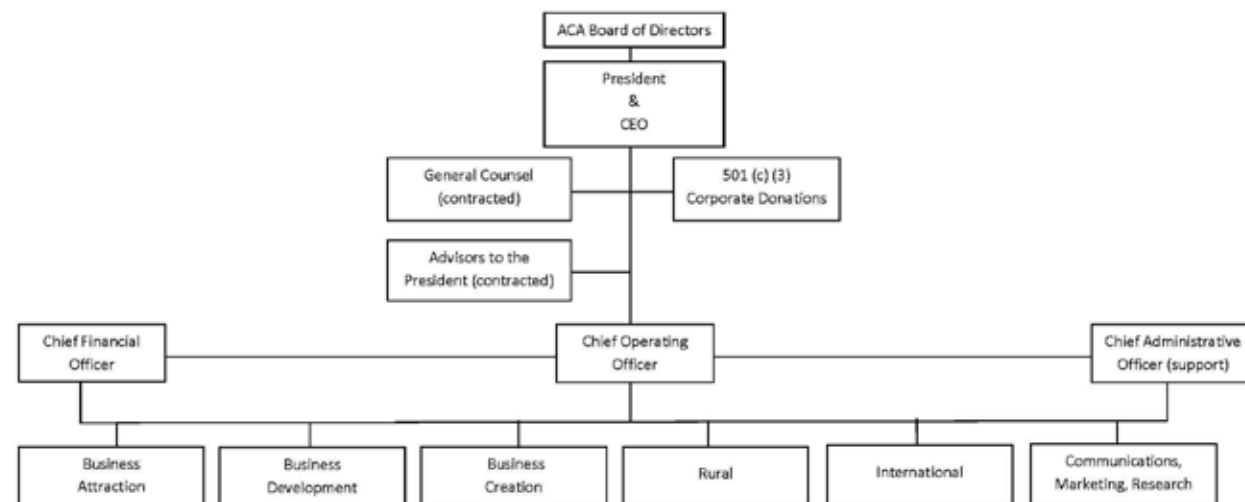


Figure 10 - The ACA's organization structure

The ACA Board of Directors: Key business leaders and executive members of Arizona's community, along with key elected officials, comprise the ACA's Board of Directors to provide the necessary expertise, business experience, corporate weight and social influence and provide direction and help execute operations. The Board jointly oversees the ACA's activities and provides the high-level direction, policies and objectives.

General Management: The ACA's president and CEO, with the help of the COO, establishes the strategic direction of the ACA, manages the organization's performance and is the link between the Board of Directors and ACA staff.

Technical Advisors: Industry and sector experts assist the ACA with policy advisement, industry advocacy and general guidance in aerospace and defense, science and technology-related industries and entrepreneurship. The advisors work in conjunction with the ACA's management to leverage an industry and sector network to accelerate the ACA's strategies.

CAO: The Chief Administration Officer supports the ACA's operations by providing IT, HR, facilities, procurement and contract support. Additionally, the CAO manages the ACA's incentive programs to support business attraction, business development, business creation teams and International and Rural Development teams.

CFO: The Chief Finance Officer is in charge of supporting the ACA's finance operations by ensuring consistent accounting and management of the ACA's budget.

Communications, Marketing and Research: The Communications, Marketing and Research department analyzes Arizona's economic environment, crafts key messaging for the ACA to promote the organization and the state and ensures consistency in communication. The department is divided into three main teams: Communications; Marketing and Economic Research.

The Communications team focuses on internal and external campaigns that highlight the ACA's initiatives and successes. This includes campaigns around programs such as the Arizona Innovation Challenge. The team also focuses on promoting the state's competitive advantages through effective messaging and public venues such as speaking opportunities, earned media and community involvement.

The Marketing team analyzes Arizona's ecosystem and creates marketing support materials for the ACA and the state. The Marketing team often works with contractors to create campaigns around the ACA's target industries and competitiveness factors. It also ensures that consistent branding standards are consistently used when promoting Arizona.

The Economic and Market Research team assesses the state's competitiveness and supports the research needs of Business Attraction, Development, Creation, International and Rural teams. The team also conducts market assessment studies to provide additional data for companies looking to relocate and expand.

Business Attraction (Recruitment): The Business Attraction team's primary goal is to attract new companies and investments to the state. The team establishes relationships with site selectors to continuously identify companies considering relocation of their activities. The team builds relationships with prospective leads and pursues and closes deals using the ACA's resources and incentives.

Additionally, the team works with Business Development teams to address Arizona companies' needs to relocate suppliers to Arizona, and it works with International and Rural teams to also identify relocation opportunities.

Business Development (Expansion and Growth): The Business Development department is focused on growing and retaining businesses in Arizona. The department is comprised of two main teams: Business Expansion and Workforce Development.

The Business Expansion team helps Arizona businesses to expand by assisting them with services and tools such as additional space identification for new locations, licensing assistance, diversification strategies and/or merger opportunities.

The Business Expansion team also focuses on understanding unmet business needs and helps avoid out-of-state relocation scenarios by building strong relationships with local and regional businesses.

The Workforce Development team targets policies and programs to ensure companies in Arizona have adequate skilled workers to meet employment demand. The team provides and coordinates job services and training programs and offers assistance to match companies and individuals for employment opportunities.

The Business Development teams also works closely with International and Rural teams to identify business expansion opportunities for Arizona businesses.

Business Creation: The Business Creation team is focused on helping the creation and incubation of businesses within the state, and is comprised of two teams: the Small Business Services and the Innovation teams.

The Small Business Services team supports and provides services for small businesses, which have a unique set of needs including real estate and legal guidance, data and technical infrastructure, financial consultations, federal and state taxation policies and leadership.

The Innovation team is responsible for supporting the creation and incubation of technology-oriented, high-growth companies.

International: The International team's role is to expand international market access for Arizona companies, promote the state outside of its borders and attract new companies to the state. The department will also proactively monitor operations in the target geographies of Canada and Mexico to build local relationships and identify prospects for relocation and export opportunities.

The International team also pursues opportunities in additional locations, depending on the needs of Arizona businesses operating in target industries, both in term of expansion of their business and in relocation opportunities for their suppliers. The international team will additionally focus on helping foreign companies already operating in Arizona expand their operations.

Rural Business Development: The Rural Business Development team engages with rural communities in Arizona to understand their specific needs, ensures that the ACA's overall agenda encompasses rural regions and supports economic development efforts across rural areas in the state. The Department will also collaborate with the Rural Business Advisory Council, established by the Governor, to provide direct assistance to rural communities.

C) External Agencies and Partners:

The ACA is also actively engaged in the greater economic development ecosystem that exists in the state, working to ensure the necessary resources are available to help businesses at all stages.

The ACA's spectrum of partners include university science and technology organizations such as Science Foundation Arizona; leadership groups such as Greater Phoenix Leadership, Flagstaff Forty, Southern Arizona Leadership Council and others; Chambers of Commerce at local and regional levels; and industry trade associations, such as the Arizona Small Business Association, AZBio and Arizona Technology Council. These partners will interact with the ACA through a holistic approach to ensure all sides are kept abreast of information on economic development needs and actions to fulfill them.

