

The Four Cornerstones of Reform

Armed with a clear sense of purpose, meaning and mission, Arizona will again be a magnet for business relocation, formation and growth; capital formation and investment; employment and personal income growth; and prosperity for all Arizona businesses and citizens

GOVERNOR JANICE K. BREWER

January 18, 2011

AS AMERICA ENTERS the fifth year of the most devastating economic downturn since the Great Depression, Arizona is party to a vital national debate focusing on how state governments can most effectively enhance quality job creation and personal income growth.

In pursuit of that objective, the leaders of some large states – principally in the Northeast and Midwest and on the West Coast – have chosen a perilous path that calls for dual expansion of the public sector and the regulatory supremacy of state government, while undermining and, in too many instances, scorning the principles of free enterprise that for more than two centuries have made America the envy of the world. This reckless strategy mirrors the model of irresponsibility that Congress and the White House have exhibited with uncommon zeal during the last two years.

In contrast, other states are pursuing a more prudent approach that limits the growth of the public sector and restrains unnecessary regulatory encroachment upon areas that are outside the rightful scope of state government, with the affirmative goal of stimulating free enterprise.

As to which economic model is superior, the verdict is in: With few exceptions, states that have a strong private sector enjoy a more robust level of job growth than Big Government states that deny the central role of the free market in putting people to work.

Faithful adherence to limited government and populist virtues is a hallmark of Arizona's first hundred years, and it is a quality to which we must remain steadfast if Arizona's second century is to build on its first.

During the next four years, Arizona will reclaim its historic position as a national leader in population growth, job growth and economic energy, propelled by the FOUR CORNERSTONES OF REFORM on which my policies are built. We will fight for reforms in:

- Economic Competitiveness
- Education
- State Government
- Renewed Federalism

The result will be a vibrant Arizona: a magnet for business relocation, and capital formation; a catalyst for the creation of new business and new jobs; a breeding ground for intellectual and educational achievement; a welcome home for future generations of committed Arizonans seeking to build their dreams; and a safe environment where families and individuals can enjoy life without undue fear for their personal security.

FIRST CORNERSTONE OF REFORM

ECONOMIC COMPETITIVENESS

The only jobs that government can create are government jobs. While they are necessary for delivering State services, they do not provide a foundation for economic growth.

Government's most productive roles in job creation are to:

- remove unnecessary barriers that impede economic growth, and
- provide a stable, predictable, business-friendly environment in which private employers can grow.

In response to the economic downturn, since my first full day in office the State of Arizona has operated under a moratorium on non-essential new State regulations. That moratorium must continue until circumstances dictate a change in policy, and, looking forward, we must continue to streamline and expedite the State's regulatory process.

In the coming month, working with Legislative leadership, we should convene a special session of the Legislature for the purpose of enacting an economic competitiveness package. This package should consist of three parts: a new Arizona Commerce Authority, job-based tax incentives, and tax reforms.

Commerce Authority. The states with which we vie for business relocations have two competitive advantages over Arizona: the existence of dynamic economic development agencies and access to deal-closing funds. To compete, Arizona must eliminate that competitive gap.

In contrast to the Arizona Department of Commerce, which has over 50 statutory duties, the new Commerce

Authority will be exclusively focused on business attraction, retention and expansion in Arizona's strongest economic sectors. As part of this reinvention, the Office of Energy (currently part of the Department of Commerce) should become an independent agency within the Governor's Office, to allow for a focus on statewide energy policy, including the need for more nuclear and renewable power. The Arizona Commerce Authority will carry to the nation and to the world a vital message: *Come to Arizona – We Are Open for Business.*

Tax Incentives. Arizona's enterprise zone tax incentive program is outdated and should be replaced with a statewide program of tax incentives that reward companies for creating high-quality jobs.

Tax Reforms. We need to phase-in reforms to our tax structure that will attract businesses from outside Arizona and encourage business creation and expansion from employers already here. Tax reform should include: (a) reducing the corporate income tax rate to a regional average just below 5%; (b) reducing the business personal property tax, which discourages capital investment; and (c) increasing from 80% to 100% the sales factor in calculating income taxes, to encourage more export-based industries in Arizona.

While paying careful attention to these reforms' immediate impacts on the General Fund and on Arizona homeowners, we can create conditions under which our employers can take Arizona to the top tier of states in quality job creation.

SECOND CORNERSTONE OF REFORM

EDUCATION

Employers need a skilled workforce, and employees want a good school system for their children. Achieving a strong economy for Arizona's second century requires that we act now to strengthen our education system. While that assertion echoes the statements and sentiments of many other Arizona governors, recent achievements and other changes in circumstance cast it in a somewhat different light.

Education Reform Plan. For the first time in Arizona's history, we have an education reform plan that reaches every student, in every classroom – from preschool to college – in every part of Arizona, en route to a future in which all Arizona students are prepared to succeed in college and careers and to lead this state in the next 100 years and beyond. Children will learn if we expect them to – and we expect them to learn in Arizona.

Plan Development and Goals. Under my direction, Arizona's new education plan was developed during the last year by the P-20 Education Council, with statewide input and support from educators, business leaders and

community organizations, in conjunction with State policy makers. It is a sound plan with yearly benchmarks that will put us on the path to achieve specific goals by 2020, including:

- improving our high school graduation rate to 93%, from a starting point of 75%;
- enabling at least 94% of third graders to meet State reading standards, in contrast to our baseline of just 69%; and
- doubling the number of college students who complete their studies and receive a four-year degree.

Reform Plan Implementation. Arizona's education reform plan is by no means gathering dust on the shelf; we are taking action now.

- In 2009, Arizona became the first state to abolish teacher tenure laws so that schools would keep their best teachers based on achievement, not seniority.
- In 2010, the State Board of Education adopted, with my support, internationally competitive academic standards to take effect in the 2013-2014 school year.
- Arizona is one of 11 governing members in a consortium of 26 states to develop new tests – to replace the AIMS test – based on our new standards starting in 2013.
- The new labeling system for schools – the “A through F” legislation passed last year – will be implemented for schools and school districts.
- To help school districts reward performance, new teacher and principal evaluation systems are being developed based on legislation passed in 2010.

Data System Replacement. The State's education data system is unreliable and out-of-date. To reward our best teachers and best principals, to ensure that *resources* follow *success*, and to reward schools and colleges for *graduating* students instead of just *enrolling* them, Arizona needs a data system that accurately reports the performance of students, teachers and schools. The Executive Budget Recommendation for FY 2012 includes a plan to fund this system and oversee its development.

Enhancing the Role of Parents. There is no denying that active involvement of parents is one of the keystones of children's academic success. Better information from the new data system will allow for better decision-making by parents seeking safe and effective learning environments for their children's academic growth.

Arizona leads the nation in school choice, and during the next four years we will enhance parents' rights to enroll their child in a district school, charter school, private school or home school. In the near future, I will announce further “tools” to assist parents in making

more informed choices regarding their children's education.

Repurposing the P-20 Education Council. The existing P-20 Education Council has served Arizona well in coordinating our various education systems. But the new, overhauled P-20 Council will be dedicated to driving results and increasing transparency, while respecting local control. The new P-20 Council will be comprised of top leaders of Arizona's various public education agencies along with business and civic leaders.

Recognizing the business axiom "What gets measured gets done," the Council will meet semi-annually to measure and track progress of established performance goals and outcome expectations for preschools, K-12 schools, community colleges and universities.

Higher Education Reform. Our colleges and universities serve as a key asset to State economic development and as a gateway for individual economic and social improvement. Higher education has taken its share of cuts during this economic downturn, despite significant increases in enrollment. As a result, the university presidents and regents are already realigning operations. We know more reductions will be made in the coming months.

When it comes to higher education funding, the choices are difficult. We must discern between worthy and unworthy options and reject the latter. Most notably, in higher education the prevailing cost structure is not sustainable, and we must rebuild it.

There must be more options than simply raising tuition or eliminating programs. We must continue to encourage efforts that allow our universities to be strong, focused enterprises with more graduates with higher skills, more choices in ways to learn, less dependency on buildings and less bureaucracy.

While these goals are ambitious, they are attainable. To that end, the State must continue to explore lower-cost higher education models, including expansion of Two-Plus-Two programs, more regional campuses with differentiated tuition options, online education, a State College system, and four-year degrees offered by community colleges.

THIRD CORNERSTONE OF REFORM

STATE GOVERNMENT

To consistently rank among America's top economic-growth states, Arizona needs a modern State Government. Creating such a government requires a series of reforms in budgeting, programs and operations.

STATE BUDGET REFORMS

Arizona's economic competitiveness and education reform efforts depend on State Government getting and

keeping its fiscal house in order. Fiscal stability at the State level encourages private-sector job growth, economic vitality, higher State revenues, and improved opportunities for the State to provide appropriate support for its core functions: public safety, education, and assistance for the truly needy.

As was discussed in detail in the FY 2012 Executive Budget Recommendation, State Government needs a series of common-sense budget reforms – e.g., a statutory spending limit, an enhanced "rainy day" fund, and greater executive authority to reduce expenditures – so that the promiscuous State spending of the mid-2000s and the resulting budget shortfalls never recur.

- **Spending Limits.** The State needs a statutory spending limit that allows for natural budget growth but bars State Government from making reckless decisions based on short-term, abnormal or illusory "bubble" revenues. We also need a plan to pay down the State debt, resolve the rollover payments and other budget-balancing "fiscal bridges" that the State was forced to employ during the recession, and invest in improvements to State Government operations during the good times.
- **Improved Budget Stabilization Fund.** I repeat my call for a new and improved Budget Stabilization Fund, established with constitutional safeguards, to ensure that our "rainy day fund" will be there when it is "raining."
- **Executive Authority to Reduce Expenditures.** In recognition of the deliberative nature of legislative bodies, the Constitution should be amended to allow Arizona governors to reduce existing expenditures to balance the budget during a fiscal emergency and to reduce expenditures through the current line-item veto authority.

STATE OPERATIONAL REFORMS

State budget reforms are not enough; a top-performing state economy must have state government operations that are cost-effective and nimble. The Governor's Commission on Privatization and Efficiency will continue its work on improving government efficiency. In addition, Arizona needs to modernize its State personnel and retirement systems and reinforce its status as a right-to-work state.

Together, the following operational reforms will ensure that the State of Arizona has a limited, efficient, and nimble government.

Personnel System. Arizona is saddled with an overly bureaucratic State personnel system from a bygone era. Our personnel system should help State Government attract and retain the best employees, and it should increase employee accountability and agency efficiency.

Under our proposed new system, the vast majority of State employees – those who do their jobs well and are committed to effectively serving the public – will have nothing to fear.

As of a specific date, the new plan will apply to all State employees in supervisory positions, to newly hired employees, and to covered employees being promoted or otherwise voluntarily changing jobs. The plan will also allow for existing covered employees – not yet subject to the required changes – to opt into the new system. This modern personnel system will be a strong selling point for business attraction, retention and expansion that require a nimble and responsive state government.

Retirement System Reform. While we greatly value our State, county and municipal employees, we must ensure that their entitlements are not greater than those of other large employers – or more than Arizona taxpayers can support.

We will continue and accelerate the retirement benefit reforms that began last year to ensure the solvency of our retirement systems while keeping our commitment to those who have played by the rules.

Right-to-Work Protections. Arizona needs to strengthen the right of every employee to have an individual relationship with his or her employer, and Arizona must remain a strong right-to-work state. The imposition of any meet-and-confer process should be enacted in statute and not simply by a Governor’s command, and I recommend that the Legislature prohibit in statute any such future action by a Governor.

FOURTH CORNERSTONE OF REFORM

RENEWED FEDERALISM

The United States has a *federal* government, not a *national* government. For the next four years, Arizona will continue to pursue a policy of “Renewed Federalism” that protects the State of Arizona and its citizens against an over-reaching federal government.

Never during our nearly 100 years of statehood has federal interference in Arizona’s affairs been more blatant than in 2010. We must demand that the federal government:

- secure our international border;
- overturn the 2010 health care reform and its unconstitutional mandates on states, employers and citizens; and
- free local jurisdictions from unnecessary federal oversight of local elections.

In addition, we must defend Arizona’s vital interests in other areas from any unwarranted federal intrusion.

Border Security. The federal government must fulfill its constitutional and statutory duties to secure the border and restore integrity to our immigration system. Washington has failed to gain “operational control” of the border as required under the Secure Fence Act of 2006, failed to enforce federal immigration laws as enacted by Congress, and failed to reimburse the State of Arizona for hundreds of millions of dollars in costs incurred in trying, convicting and incarcerating criminal aliens. The State must pursue all legal remedies to make the federal government live up to these responsibilities and to defend Arizona’s right to cooperatively enforce federal immigration laws. We can do no less.

Health Care Reform. Arizona will continue to work in partnership with the growing number of states in challenging the legality and constitutionality of the 2010 federal health care reform act. The federal government must remove the Medicaid-related fiscal handcuffs that prevent Arizona from balancing its budget without raising taxes and that force Arizona citizens and employers to pay for Washington’s unfunded health care mandates.

Like all states, Arizona must be allowed to design a fiscally sustainable Medicaid program that helps those who need it most. In redesigning the program, Arizona needs to reaffirm the fundamental principles of personal responsibility and reject the chimera that government “help” is the solution to all problems. Growing dependence on government in health care and other areas is the wrong direction for Arizona and for our nation.

Federal Oversight of Local Elections. The U.S. Supreme Court recently ruled that local governments may petition to remove themselves from Section 5 of the Voting Rights Act – the federal pre-clearance process. Over 60 local jurisdictions in other states have done so successfully. Qualified local Arizona jurisdictions should file similar petitions with the U.S. Department of Justice and be freed of the unnecessary, burdensome and expensive federal oversight of Arizona elections.

CONCLUSION

Over the next four years, Arizona will be a leader among the states pursuing shared principles of a limited public sector, regulatory restraint, and a vibrant private sector. With this vision being implemented in Arizona through the FOUR CORNERSTONES OF REFORM FOR BUILDING A MORE PROSPEROUS ARIZONA, and with a clear sense of purpose, meaning and mission, the youngest of America’s 48 contiguous states will be, as it was prior to the recent national recession, an irresistible magnet for business relocation, business formation and growth, capital formation and investment, employment and personal income growth, and prosperity for all Arizona businesses and citizens. Φ