

SPECIAL REPORT

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STUDIOS

ARIZONA: STATE OF BUSINESS



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INTRODUCTION



Silicon Valley may be the technology capital of the world, but Gigya wanted more. The rapidly growing company, which helps businesses access, consolidate and manage social login data, was expanding operations and looking for a suitable place to build a new sales office. In need of access to a skilled labor market, premier universities and a business climate friendly to high-tech businesses, the company embarked on an exhaustive cross-country search for the ideal location.

A visit to Arizona yielded a clear winner. “We were blown away,” says Gigya Marketing Director Victor White.

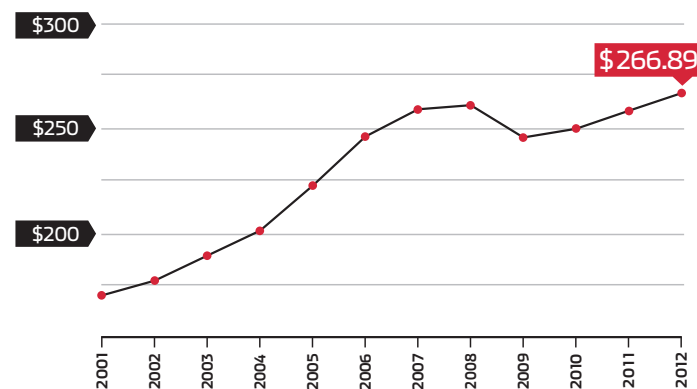
Companies like Gigya are contributing to a diversified state economy poised to outpace US economic growth over the next several years. Arizona’s population, employment and personal income

are projected to increase faster than the national average. With a favorable tax and regulatory climate, abundant talent and an ideal location, Arizona is actively pursuing a pro-business growth agenda.

“We’re a state that can be described as both cost-effective and high-quality,” says Jim Rounds, senior vice president and senior economist at Elliott D. Pollack & Co. in Phoenix.

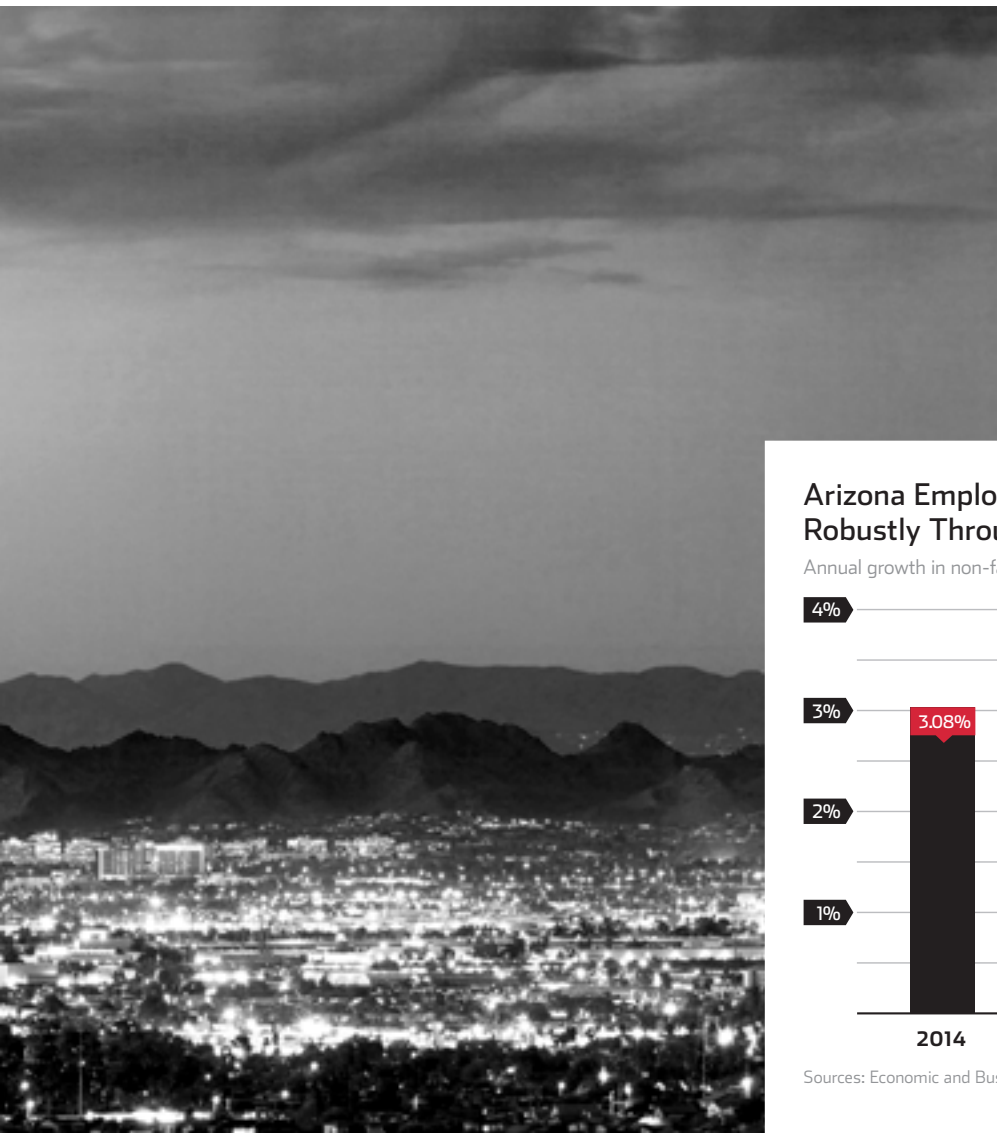
Arizona GDP Growth Accelerates

Historical State GDP (in billions)



Source: US Bureau of Economic Analysis

LOWER TAXES, ABUNDANT TALENT



Businesses relocating to Arizona will find a low-cost tax structure, less regulation and a higher-education system focused on stocking talent pipelines. The state's growth agenda includes tax and economic development incentives and programs to assist with job training, job creation, research and development, facilities construction and expansion, energy conservation and capital investment.

"We've consciously modeled our economic development tools, tax reform, regulatory reform and tort reform on best practices developed across the country," says Glenn Hamer, president and CEO of the Arizona Chamber of Commerce and Industry. "The state is a friendly place with a friendly business environment."

Notable among Arizona's competitive assets:

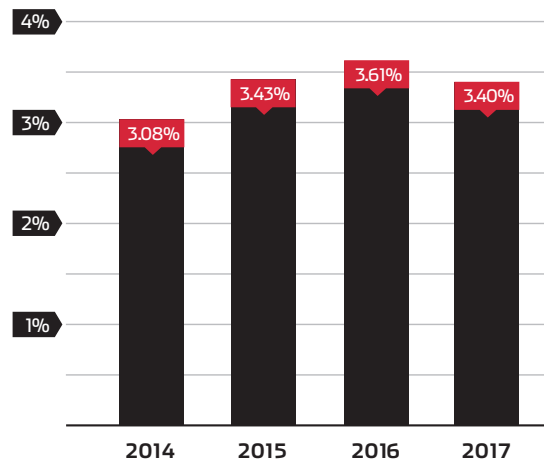
A high-quality labor force

Forecasts call for Arizona job growth to exceed 3% in 2014. With an increasing number of technology, aerospace and defense, and bioscience companies making Arizona their home, science, engineering, mathematics and technology jobs are projected to number 166,000 by 2018.

Gene Abernethy, senior vice president of Human Resources for Progrexion, a rapidly growing financial services firm that recently expanded into Arizona, believes the size and quality of the state's labor market will meet the company's needs for years to come.

Arizona Employment Projected to Grow Robustly Through 2017

Annual growth in non-farm employment



Sources: Economic and Business Research Center, University of Arizona; Forbes

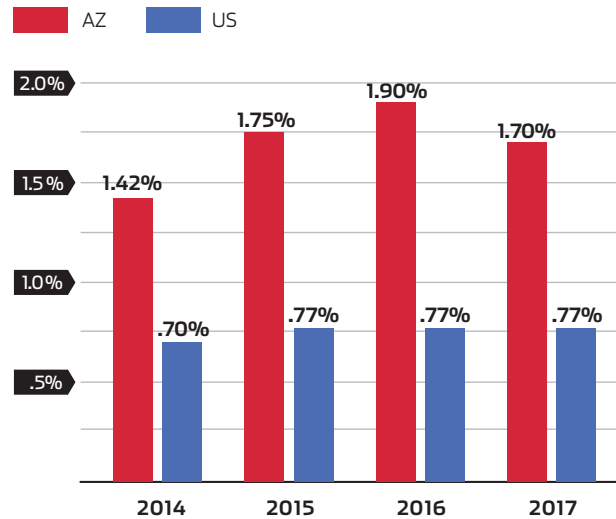
“The labor market is large and growing, and the applicants we’re encountering are high-quality,” he says. “We’re growing at a rate of 20 - 30% a year, and it can be a challenge to ensure that we have enough employees and facilities. The applicants we’re encountering are high-quality. [Arizona] is a dynamic market that’s ideal for us.”



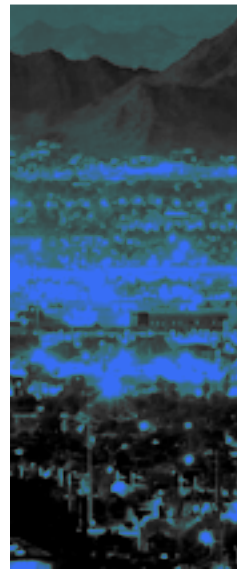
To meet the needs of an accelerating job market, Arizona offers a wide variety of skilled workers and a growing influx of talent. “Most states focus on job seekers; in Arizona, workforce development is focused on the skills businesses need now and in the future from their employees,” says Mary Ann Lawrence, president and CEO of The Center for Workforce Learning. “The state works closely with community colleges, universities and training programs to prepare employees and match them with [job] openings.”

National rankings place Arizona second in workforce quality and availability, and first in higher-education degree output. Among the state’s differentiators is an integrated approach to developing talent for employers in need of specialized skills. “Arizona offers a comprehensive and cooperative job training and placement approach at the state and local level that recognizes that businesses are the most important consumers of workforce development and placement efforts,” says

Arizona Population Growth Projected to More than Double that of US



AZ Source: Economic and Business Research Center, University of Arizona
 US Source: US Census Bureau



Lawrence. “There’s an alignment among economic development, workforce development and education that’s highly effective.”

In addition to “home-grown” talent, Arizona’s quality of life and rapidly growing employment market attract workers from around the country. In 2012, the state ranked third in terms of population migrating into the state from the other 49 states. “We’ve always been a state that has the ability to draw talent,” Pollack & Co.’s Rounds says.

Strategic, high-value location

The only state immediately accessible to Mexico, Texas and California — three of the world’s largest economies — Arizona is ideally situated for export-oriented companies. Truck routes originating in the state can reach markets with upward of 65 million people within a day’s drive, while shipping access to markets around the world is only hours away via California’s coastal ports. The state fosters cross-border relationships through organizations such as the Arizona-Mexico Commission, a strategic partnership with Sonora, Mexico, to facilitate cross-border trade, business and networking.

Underscoring this commitment to export-oriented business is the nearly \$500 million in recent infrastructure improvements to facilitate trade. Notable among these investments is a complete overhaul of Mariposa Port, making it the most modern land port along the entire US-Mexico border. Scheduled for completion later this year, the improvements will more than double Arizona’s capacity to move traffic and goods between the two countries.

Favorable tax structure

Arizona imposes no franchise or business inventory taxes. Arizona’s corporate tax rate will shrink to 4.9% by 2017. Further, its commercial property tax rates will decline by an additional 10% by 2016, placing them among the lowest in the country.

ARIZONA POWER RANKINGS

1st

IN THE NATION IN
PROJECTED JOB
GROWTH

Top 10

 STATE
IN:

ENTREPRENEURIAL
ACTIVITY

INFRASTRUCTURE

BUSINESS CLIMATE

HIGHER EDUCATION
DEGREE OUTPUT

Sources: Forbes; US Chamber
of Commerce 2013 Enterprising
States report

Significant among Arizona's latest efforts to reduce corporate tax rates is a recent change that effectively lowers taxes on exports. As of 2017, a corporation without sales in Arizona will have no Arizona income tax liability — irrespective of the value of the corporation's property in Arizona, or the number of people employed by the corporation in Arizona.

"This change applies not only to manufacturing companies, but also to service-oriented companies," says Hamer of the Arizona Chamber of Commerce and Industry. "It's a very competitive tax environment for high-tech businesses selling products and services outside the state's borders."

Arizona's favorable tax environment is not confined to businesses. Individuals pay a maximum income tax rate of 4.54% — placing Arizona among the top third of the most favorable states for personal income tax rates. Additionally, no state estate tax is levied in Arizona.

Reduced regulatory burden

In an effort to streamline the regulatory environment, the state in 2009 enacted a rulemaking review and moratorium process to prevent additional regulatory burdens on Arizona's private sector employers.

"When you think of the costs of regulation... in many cases they are just another way to tax," Hamer says. "Here, there is no reason to

be concerned that a state agency will promulgate a regulation that might cause economic hardship. Those types of regulations don't even get proposed."

The regulatory landscape includes right-to-work laws, a streamlined tax-collection system and simplified processes for tax licenses, returns and audits. Ongoing tort-reform initiatives restrict class-action lawsuits and ban certain types of punitive damages.

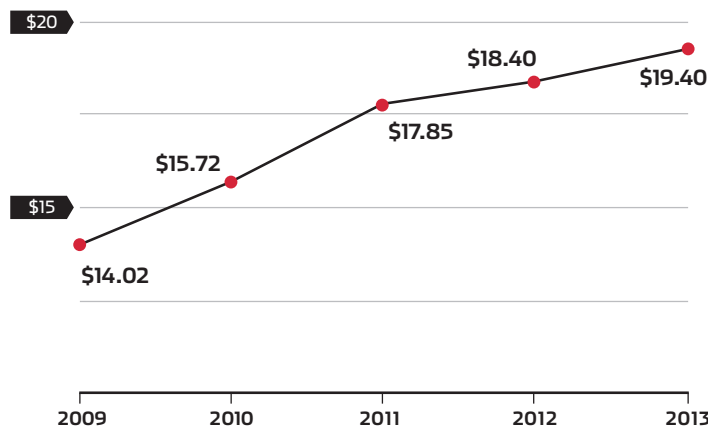
Targeted economic incentives

The state overhauled its economic development programs and incentives in 2011 through the Arizona Competitiveness Package, which includes a variety of tax credits, exemptions and incentives. Arizona offers up to \$70 million in total annual refundable income tax credits under the state's Qualified Facility Tax Credit program, and up to \$90 million in total annual tax credits under the state's Quality Jobs Tax Credit program. The state's Job Training grant has been ranked among the best in the nation in terms of training

flexibility and ease of access to funds.

Arizona Exports Continue to Grow

(in billions)



Source: US Bureau of Labor Statistics

WHO & WHAT DRIVES ARIZONA'S ECONOMY?



Arizona's highly diversified economy includes a vibrant mix of new and established companies in growing industries such as technology, photonics, optics and advanced manufacturing. Apple, Asurion, Garmin, GoDaddy, GM and Intel have recently expanded or relocated to the state.

Arizona's most important and fastest-growing sectors include:

Technology & Innovation

Arizona's technology sector comprises a wide variety of companies employing technology in cutting-edge ways. The state is home to a number of specialized IT clusters, including educational software, nanotechnology and photonics.

R&D is critical to technology innovation. In Arizona, the state's three leading public universities invested more than \$3.5 billion in research from 2008 to 2011 and plan to double annual R&D investment by 2016.

Aerospace and Defense

Despite cuts to the national defense budget, the aerospace and defense industry is growing in Arizona, with employment projected to increase by 10% annually through 2018. Major defense contractors, including Raytheon, Boeing, General Dynamics and Honeywell have received more than \$6 billion in defense contracts for work being undertaken in the state, while Arizona's universities conferred more than 3,200 undergraduate degrees and 1,600 graduate degrees in A&D-related fields in 2012.

Bioscience and Health Care

Already ranked among the best in the nation for research and primary care, the University of Arizona's College of Medicine will open a

\$100 million cancer center expansion in 2015. The school also maintains clinical partnerships with area health care providers such as Phoenix Children’s Hospital and the Maricopa Integrated Health System.

Scottsdale’s evolving “Cure Corridor,” designed to support bioscience research and health care advances, features 37 employers seeking to treat patients with life-threatening diseases. It is also home to the Mayo Clinic’s medical school in conjunction with Arizona State University.

The state’s thriving bioscience landscape features in-depth collaboration between public and private entities. This approach extends across the state’s strengths in biotechnology, medical research laboratories, and medical device and equipment companies.

In all, more than 900 bioscience companies employ nearly 100,000 people across the state. These include multinationals such as AstraZeneca, Medtronic and Sanofi-Aventis, and research and treatment facilities such as the Translational Genomics Research Institute and the Banner M.D. Anderson Cancer Center.

Optics and Photonics

With one of eight major photonics clusters located in Tucson, Arizona is on the leading edge of the evolution of application-oriented technologies in optics and photonics. As an emerging field, these industries possess wide-ranging applications for telecommunications, defense, medicine, robotics and IT. Global industry growth in this sector is expected to exceed 6.5% annually through 2020.

ARIZONA: STATE OF INNOVATION

Arizona ranks among the top 10 states as an employer in the most advanced industries:

**HIGH-TECHNOLOGY
MANUFACTURING**

AEROSPACE & DEFENSE

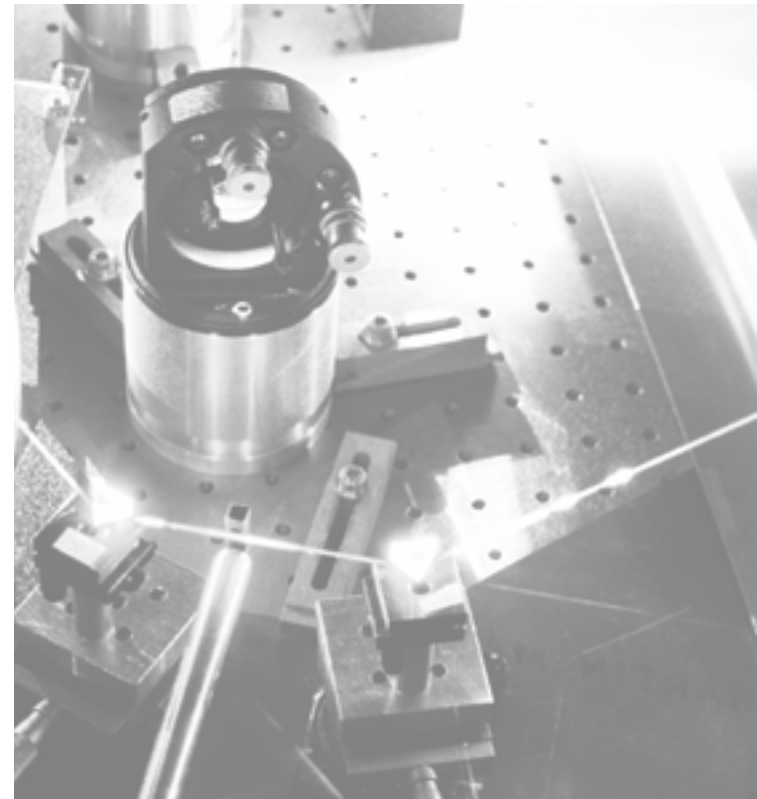
**SPACE & DEFENSE SYSTEMS
MANUFACTURING**

**SEMICONDUCTOR
MANUFACTURING**

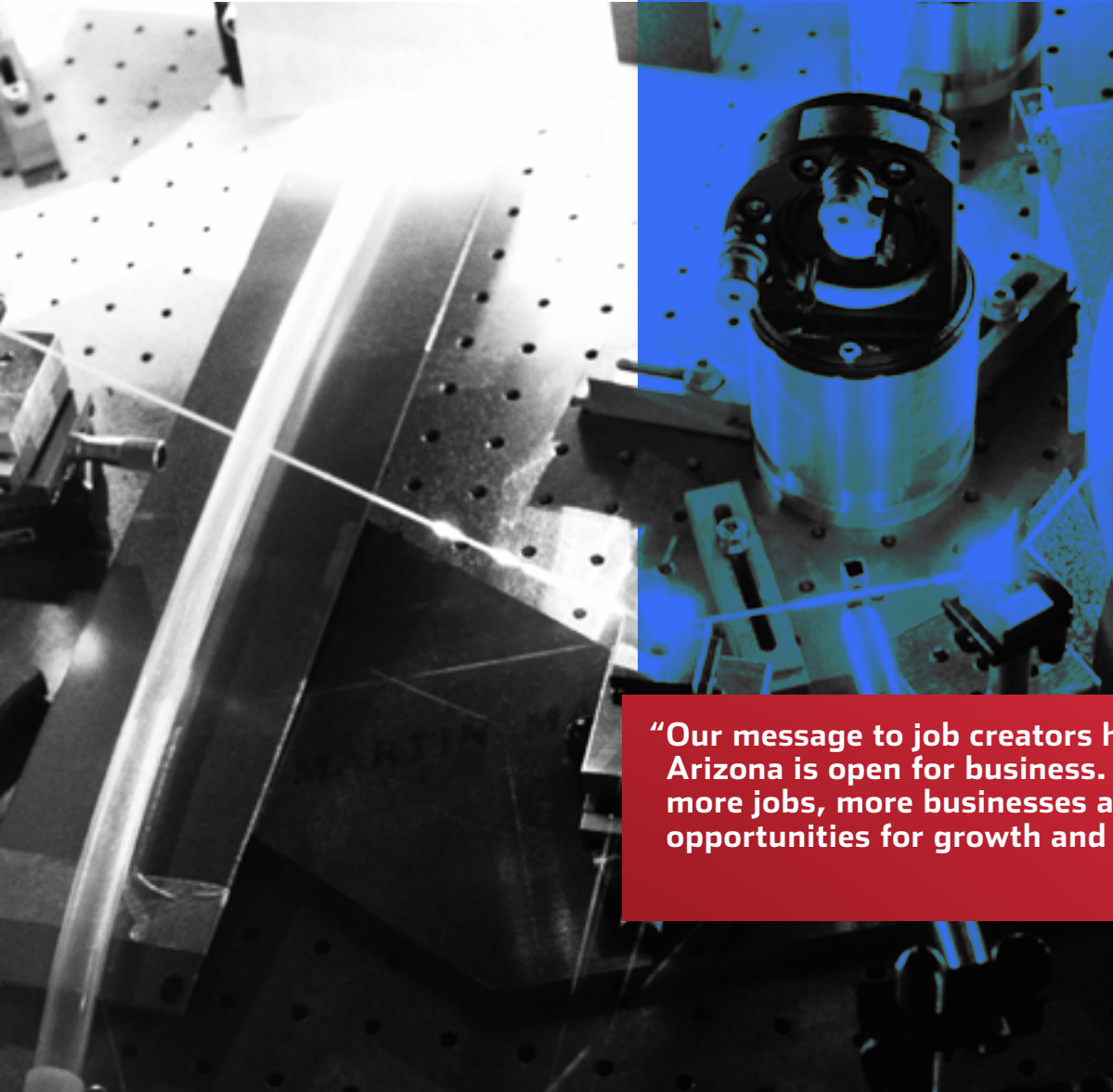
**PHOTONICS
MANUFACTURING**

Advanced Manufacturing

Apple recently joined the growing list of companies planning to expand to Arizona with the opening of a cutting-edge facility that would manufacture next-generation glass for its renowned consumer products. Characterized as a “huge investment in Arizona” by CEO Tim Cook, the plant would add to a manufacturing employment base that exceeded 154,000 jobs in 2013 — many geared toward advanced, high-tech manufacturing. Reflecting the high multiplier effect of these jobs, advanced manufacturers supported nearly 200,000 additional jobs in the state.



LOOKING TOWARD THE FUTURE



“Our message to job creators has been heard: Arizona is open for business. We now have more jobs, more businesses and more opportunities for growth and prosperity.”

—Gov. Jan Brewer

Arizona’s economic forecast is bright: While many others struggle to attract highly trained, well-educated talent, Arizona ranks among the foremost states in producing, developing and attracting the workforce needed to compete in the New Economy. As other states have raised taxes on business, Arizona continues a long-term focus on reducing tax burdens. As other states struggle with growth, Arizona is forecast to outpace the country as a whole throughout the rest of the decade.

“Our message to job creators has been heard: Arizona is open for business. We now have more jobs, more businesses and more opportunities for growth and prosperity,” said Arizona Gov. Jan Brewer in her 2014 State of the State address, citing rankings that place Arizona among the best in projected job growth, as well as CEO rankings of state business climates.

The steady influx of new businesses relocating to the state would seem to support the governor’s assertion. For Progrexion’s Abernethy, who logged thousands of miles visiting and assessing dozens of sites across the country before finding a suitable location

in Arizona, the state is an employer-friendly location for current and future expansion.

“I’ve visited a lot of sites in a lot of states over the years, and some states really scare you off,” he says. “There aren’t a lot of states that do it right, that have... figured out the formula [like Arizona].”

ARIZONA: STATE OF BUSINESS

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