

Chairman O'Halleran called the Higher Education Committee to order at 10:37 a.m., and attendance was noted.

Chairman Allen called the Health Committee to order at 10:37 a.m., and attendance was noted.

Senator O'Halleran announced that Senator Burns, Appropriations Committee Chairman would be sitting in on the meeting.

PRESENTATIONS

Fred Duval, Arizona Board of Regents, distributed a booklet titled "SPEED" (Attachment A) and noted that a list of supporters of the University Stimulus Package was enclosed. He claimed that there is a way to accelerate our recovery, invest in the diversification of our economy long-term and improve the quality of our workforce, all simultaneously. There is a way to implement this plan and to invest in the construction and rehabilitation of higher education research buildings. He explained that there are three essential components to this proposal; deferred maintenance at the biomedical campus in downtown Phoenix and research building construction at all campuses. This plan has a three part impact: it puts people back to work in the construction industry immediately, it creates intermediate term research return on investment; and for long-term, it builds the facilities that anticipates our growth and produces the brain power that Arizona needs to compete in the global economy. The proposal is \$1.4 billion in construction for the first few years by the universities and then phasing back to an 80/20 split between the State and universities for the remaining years of the bond repayment package. The annual cost of the financing would be approximately \$100 million. He stated that we have used bond financing for long term fixed asset research facilities on many occasions and the Bio-Five example at the University of Arizona shows that it pays off. The universities will find a way to afford it until the State's revenues return and the State can compensate. Without this, the State would fall further behind in the global economy that is increasingly driven by knowledge, research and degree production. This is a bold and far reaching idea that is being put before the committee, but Arizona has been here before. Arizona's history is marked by similar moments and similar proposals.

Senator O'Halleran said that he would like some of the guest speakers to give some thought to identifying the important role that this stimulus package would play. He said what we are talking about right now is a \$1.2 billion stimulus package for transportation, a tax increase and we are talking about the need for what growth is going to cost our society.

Dennis Hoffman, Economist, Arizona State University, distributed "Economic Implications of the Stimulus Package" (Attachment B) and explained the information in his handout. The stimulus package begins with a short term impact which is measurable in terms of job creation. The National Architect's Report for commercial real estate is at historic lows for orders. There is an impending problem in commercial real estate and a very real problem in residential real estate. There is clearly a need for these jobs. Undertaking the projects sooner rather than later, ends up saving the State money, if the cost of financing turns out to be less than the inflation. Some themes that he was asked to review as a professor of economics in terms of measuring the economic impact of the greater role of higher education in the State, begins with a very simple analysis that college educated people earn higher wages. If we can increase the number of college educated people in the Arizona workforce the Arizona economy will prosper, wages will be higher. It has been found that if you drop greater numbers of college educated people into metro economies, wages of all people go up. This would be

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a short term stimulus. You match the benefits and costs over the life of the construction projects. If the State does not spend the money now, in the future it will not have the expenditures but it also will not have the expected revenue the projects will generate.

Senator Leff asked for a real-time example of revenues generated by a project such as this.

Mr. Hoffman stated that he does not have exact numbers due to his lack of access to pertinent information. If the State could increase the labor force share of college graduates by one per cent, that is 30,000 graduates, it would add to the wages of the income and salaries of the people in this State \$2.1 billion and that would be per year.

Senator O'Halleran asked for the dollar amount to be gained in the short-term from construction projects.

Mr. Hoffman said that the simulation that was undertaken in growing the labor force share of college graduates is marching towards the one per cent included net in-migration and net out-migration of those graduates.

Senator Burns, Appropriations Committee Chairman, said that the State of Arizona is in serious financial stress. The State has a \$2 billion deficit currently and looking forward it is said that the economic recovery will be coming, but at a slower than historical rate. The State's average revenue growth, historically, is about seven per cent which generates about \$700 million. The State has a budget structure that is automatically spending between \$500 million and \$600 million on an annual basis. That is the growth in spending without the Legislature ever coming into session. The State just added \$40 million a year to that for ELL. The State is going to end up having to pay back a roll-over by the time we work our way through these next two years of structural deficit. The State is going to have a budget stabilization fund that is empty and there will be pressure to restore some of those funds. The State has raided dedicated funds to solve the 2008 budget problem, which is believed to be a wrong move, but it is a necessary move in order to get through this crisis. He said the direct beneficiaries of this plan would be the cities. He said that part of the tax policy in the State of Arizona is a revenue sharing plan where the State provides income tax revenue to the cities. The current benefit of that revenue to the cities is around \$685 million. If the State does not make a change in policy this year, next year it will probably go to around \$717 million that is flowing to the cities from our tax policy. Senator Burns suggested that this plan be taken to the cities instead of the State. He said that the State may not be able to make the payments for the amount being proposed.

Senator Tibshraeny said that he can see the short-term benefit of the proposed plan without looking at the repayment issue. He asked why the Arizona economy is so dependent on the housing market despite all the discussion about bringing high tech business to the State.

Mr. Hoffman explained that the Arizona economy does have its share of export based businesses and from an economic perspective they drive the long run growth. He said those would be the aerospace industry, the high tech industry, the burgeoning science and health industry. The challenge with housing is that Arizona is one of the nation's leaders in population growth. It is unavoidable that if you lead the nation in population growth that you will be subject to the whims of housing cycles. This plan would help build the educated work force that will continue to attract firms that see us, not as a housing boom State, but see us for the knowledge and skills in our work force.

Senator Verschoor asked for examples of Arizona's inefficient infrastructure funding.

Mr. Hoffman said that it is a fundamental point. Infrastructure expenditure yields long term benefits, 20 or 30-year benefits. You need to match the benefits of the expenditure, benefits from school buildings, from roads, from university buildings with taxpayer payments, so that the people reaping the benefits at that point in time are also contributing to the costs. The State financing school buildings out of cash when historically they were bonded for, with no dedicated mechanism to finance those expenditures, is an egregious inefficiency. It is putting the burden on today's taxpayers, making them pay the whole burden, when the benefits accrue over the life of the project.

Governor Janet Napolitano, State of Arizona, emphasized the necessity of investing in education and its infrastructure. She said that the building renewal and building construction will have to be done at some point, therefore we might as well start building it now. She stated that it is a good package and the State cannot afford not to do it.

Senator Aguirre said it is critical that Arizona decide what road to take in fixing the budget and whether that includes taking the revenue sharing. She asked the Governor what her position is on that.

Governor Napolitano said that the '09 budget can be balanced without touching the urban revenue sharing. The University Stimulus Plan not only protects the status quo but also keeps Arizona on the path to continue building and growing.

Senator O'Halleran stated it is not the cities responsibility to provide all the doctors for the State of Arizona; this plan has a medical piece to it. It is not the cities fault that the State has consistently under-funded building renewal for two decades.

Senator Gray asked the Governor if turning over the expense of prisoners to the cities and counties is not revenue sharing.

Governor Napolitano said that it would be low-level, non-violent, less than one-year offenders and until the 1980s those offenders were kept in jails. In most States, those offenders never enter the State prison system. It is considered a cost shift from the counties to the State.

Mayor Phil Gordon, City of Phoenix, explained that the City Council of Phoenix unanimously voted to support this stimulus package. He told the committee that the City of Phoenix is committed to holding the property in downtown Phoenix for the Bio-medical campus. He stated that the City of Phoenix has passed by vote of the citizens, close to a \$3 million bond package for the universities presence on that Bio-medical campus. He said some of the benefits have been the construction sales tax income for those bond packages. It has also helped private individuals who can now sell their property for profit.

Senator Allen asked how long the discussion on planning has taken place with the business community, the Board of Regents and the universities. She wanted to know why the Legislature was not contacted before now.

Mayor Gordon stated that he was asked to support this package about 60 days ago and he signed on to the project. The next he heard about it was the night before it was printed in the paper. He said

some of the reasons he would support this package is the economic benefits to the State, the crisis we have economically been through, the investment in the future and for the expansion of jobs throughout the State.

Senator Gray stated that the handout received at the beginning of this meeting has a date on it of March 10, 2008. She said that it would have been nice to be able to read through the handout prior to scanning it today. She asked why the committee did not receive the information before this morning.

Senator Verschoor questioned the status of the return the State is supposed to receive from the Civic Plaza project.

Mayor Gordon stated that the agreement on the Civic Plaza was, if the new sales tax was not generated for the service, the City of Phoenix would pick up that differential so there would be no risk to the State. He said that according to the State auditors, the State is ahead and the City of Phoenix is booking larger and larger conventions. He said that under a State formula roughly 65% of a project is taxable material.

Senator Verschoor stated that the incentives are lowering the tax burden for new projects. The Chamber of Commerce has talked about income tax and business property tax. He said that if you want economic incentives, in this State, lower the taxes not raise them and not create a higher debt service burden.

Barry Broome, Greater Phoenix Economic Council, explained that about two technology companies a day are birthed out of a university. In California about 66% of their technology economy directly correlates to a spin out or license technology out of their university labs. He gave numerous examples across the country of changes in economics brought on by university investments. He said universities drive higher and better economies. The State universities are more often being recognized around the world. The State of Arizona is in competition to be a major economic player. Arizona needs to find ways to continue to move forward in this economic downturn. He said that building great universities is something we are going to be proud of and will provide us with a great economic future in Arizona.

Senator Verschoor asked which path would be better: a.) reduce taxes to stimulate the economy and invite businesses into the State; or b.) increase our debt base and end up having to raise taxes to balance the budget.

Mr. Broome said that a middle ground needs to be found.

Senator Leff asked how the construction school fits in with the research and bio-med.

Mr. Broome explained that the research and technology comes up with a design and then needs someone to construct it. Arizona is becoming a leader in the construction of green buildings.

Senator O'Halleran explained that a good construction school in this State, with the amount of construction we have today and the kind of complexities some of the infrastructure type construction have, the value engineering aspects of that alone by having appropriate project managers and

appropriate people in the construction industry that can save you 10% or 15% on a project are going to be well worth the cost of any construction school we can do.

Mayor Hugh Hallman, City of Tempe, said that this type of program is consistent. It is consistent for this State to invest in important infrastructure and recognize that we can improve our fiscal policy. The way one pays for this is through the expansion of the economy and the best way to do that is to cut taxes. He said that cities should not be able to pick their favorite company among their least favorite company and hand them a handful of money. He explained that some of the buildings at the universities were built with money invested up to 50 years ago, but nothing has been invested in those buildings since then. He said the universities are an infrastructure that supplies our State with graduates of universities that can add to our economy. It also helps overcome a current hurdle, when businesses look for places to land; one of the things they are looking at is the educated population. We are sorely lacking in that as a percentage. He said that graduates are imminently mobile but they are significantly more likely to stay here if they were born, raised and went to school here. Mayor Hallman said that the State has failed in the past to live up to about 40% of its obligation, to maintain buildings that the State already owns. Mayor Hallman explained that the Memorial Union building caught fire which is partially due the State's failed obligation to maintain the buildings.

Senator Leff questioned if the Memorial Union had been recently remodeled before the fire had taken place.

Mr. Hallman stated that it was remodeled but not the portion of the building where the fire started. That portion of the building did not have a sprinkler system.

Senator Leff asked if restoring and maintaining the buildings are part of this stimulus package.

Senator O'Halleran stated that the type of infrastructure that goes into maintaining the buildings is part of the package.

Senator Gray asked what caused the fire in the Memorial Union.

Michael Crow, President, Arizona State University, explained that the fire in the Memorial Union building started in a rear area of the facility constructed in 1950 which was never renovated to include a sprinkler system. He said that officially the source of the fire is unknown.

Senator Verschoor asked if Mayor Hallman believes that the State can pay for additional debt without raising taxes.

Mayor Hallman said that it is his contention that the best way to pay for that debt is to reduce taxes.

Senator O'Halleran asked how the State will pay for the roads, sewers, the infrastructure of this State as we continue to cut taxes.

Mayor Joe Donaldson, City of Flagstaff, recognized Bob Millis of the Flagstaff Forty in Flagstaff. Mayor Donaldson said that in the last five years the City of Flagstaff and Northern Arizona University (NAU) have worked together on a number of issues including attracting TGEN North to the community, supporting the premier hotel and restaurant management program at Northern Arizona University in collaboration with the City's tourism industry through the development of the High

Country Conference Center and developing a rural policy institute to provide research and solutions for the issues facing rural communities. Additionally, as a partner in the economic development of northern Arizona, NAU prepares graduates to enter critical fields such as teaching, physical therapy, nursing, business administration, social services and so on. These programs are offered on a campus that is 109 years old and often in buildings that were built that many years ago. The City was recently faced with losing Nestle Purina. The City allowed the company a \$1 million tax benefit over 13 years. The alternative was to turn Nestle Purina into a warehouse and lose 150 jobs that pay on average about \$60,000 a year plus benefits. The City of Flagstaff and the City Council support this Economic Stimulus Package.

Michael Crow, President, Arizona State University, asked the committee members to momentarily put aside the operating stresses that the State is under and separate the tactical engagement used in trying to adjust the budget relative to the '08 and '09 expenditures and the broader question of the positioning of the State for its best competitive position moving forward in the future. He brought up three fundamental questions:

1. Is the economic competitiveness that lies ahead based on everything that you know, will it be more or less challenging for Arizona going forward than what we have been through in the last few decades? Are we prepared to be economically competitive with the new emerging global economy and all of its features; stresses related to energy use and energy costs, stresses related to competitiveness, stresses related to new competitors beginning to emerge. Do you think, and ask yourself from everything that you know, are we more prepared, are we prepared enough for the competitiveness that lie ahead?
2. For this State to be productive and competitive, we believe that we need about 60,000 college graduates per year. That is actually only to get to the average level of production for a State of this size. Right now we do about half that. Is this important?
3. Clearly the State has been on a significant population growth trajectory for the last few decades. Every indicator that we have says that is likely to occur. The economic premise of the State is based on the assumption that it will occur. If you think about the movement in the State from our present six million people to ten million people, are we prepared?

President Crow said that he could list a litany of indicators that should give pause. The fastest growing separation of all 50 States, between those making the lowest quintile of income and those making the highest quintile of income, Arizona is one of a handful of States with no positive measurable growth in personal income.

Senator Burton Cahill asked for a brief summary of President Crow's experience in Ireland.

President Crow stated that Ireland is an important example of a turn around, of a place that decided it wanted to be more competitive and made a series of investments including greatly reducing taxes, changing tax policy, significant new investments in education, new investments in science and they transformed everything. They went from being last in the European Union in per capita income to being first in the European Union in per capita income. They went from being last in the European Union in research expenditures to being first in industrial research expenditures as a percentage of the economy.

President Crow stated that out of the facilities, the State gets four types of economic return. The State gets construction taxes back, the State gets 30,000 new jobs, construction and support jobs and all that it generates within the economy, and the State gets the deferred maintenance taken care of. The State gets an expansion of the economy by \$2.1 billion per year. This investment merits very significant attention on the part of the Legislature because it is not an investment that is going to pull us down, it is an investment that is going to push us up.

Senator Leff asked when and how much will the universities be paying and when will the State's payments start.

President Crow explained that the projects would begin immediately, costs are obviously incurred immediately, and the universities would pay the interest costs on debts incurred along the way until such time as resources could be available to cover the costs from the State for retiring these bonds. That is what we did with the research infrastructure investments earlier. The other thing that we have is that one could delay payments from the State, certainly to 2010 perhaps to 2011. Every indicator that we have is that, including very recent economic analysis, the State's economic return will be on the upswing by that point.

Senator Leff asked what percentage is private dollars, because the non-private dollars are still State dollars.

President Crow said the specific amount to be paid by the State is \$80 million per year. The universities from various sources to be determined at the time would have to make the payments of roughly \$20 million per year. That is the split. The universities will acquire those resources from various means, not State resources but other resources.

Senator Leff said that if it is appropriated resources then it is still State resources.

President Crow stated that the \$20 million are other dollars not appropriated dollars.

Senator Gray said that someone indicated that with the \$1.4 billion the universities would be able to increase graduation rates by one per cent. Is that correct?

President Crow stated that it is not graduation rate improvement by one per cent. The one per cent number that we are using is the amount of additional college graduates as a percentage of the labor force. The numbers are much greater than a one per cent graduation rate improvement. For the universities to produce enough new graduates to go into the labor force to increase college graduates by one per cent that is tens of thousands of additional people per year and for the universities to do that, they would have to improve graduation rates and improve college recruitment rates. The universities would have to expand. It is both graduation rates and growth together.

Senator Gray asked how much of an increase was seen from the \$440 million the Legislature gave the universities.

President Crow stated that the \$440 million investment the Legislature made several years ago was a research infrastructure investment. It has had an impact on the institution. All of the universities graduation rates have gone up.

Senator Gray asked why, when the State is in desperate need of nurses, is there not enough room in the nursing program for new students to enroll. What is ASU doing to improve the situation?

President Crow said several years ago the need to double the production of BSRNs, bachelor RNs, from ASU was discussed. He said he is happy to report that ASU has accomplished that task. ASU is now the largest producers of BSRNs in the United States. Still demand for what is offered exceeds capacity.

President Crow said that Prop 301 provides roughly slightly less than \$30 million a year to ASU. ASU is limited by capital investments that can be made. He said investments are made in research stimulation related activities. They have proven to be very successful.

Senator O'Halleran discussed the level of frustration with the lack of legislative input into this process. He said that the members have been working all session without any real input into this process. The business community has been sending signals to make sure that an estimated \$100 million is cut to make the equalization tax permanent, which would more than pay for this, then we hear that same business community come to us and say that they need this. While we want those taxes cut, we want the citizens to vote to raise \$1.2 billion a year for transportation. There is no coordinated process there for sucking all that money out of the revenue process because the pots are only so big. They say we want the Legislature to build transportation but we also want you to spend \$1.4 billion on our university system. This is not even including education. Senator O'Halleran asked what message is there for the leaders as far as how we need to deal with these types of issues.

President Crow Stated that Arizona's direct, sort of personal approach of politics that has worked so well for decades is under stress as complexity continues to grow and outside competition becomes more meaningful as the investments required for a 21st century competitive economy and a higher quality of life infringe on us. He said that the Legislature needs more analytical input and more option development.

Senator O'Halleran stated that the names of those who signed Senate Speaker Forms showing their support are as follows:

- Beth Siarnano, Mortenson Construction & Development
- Jason Baran, City of Tucson
- Johnnie Ray, Arizona State University
- Stuart Flynn, M.D., Faculty at College of Medicine
- Phillip Moore, Arizona State University Alumni Board of Directors
- Chris Bavasi, Coalition for Solutions through Higher Education
- Sarah Smallhouse, Coalition for Solutions through Higher Education
- Harry Hengl, Coalition for Solutions through Higher Education
- Daniel Perez, representing himself
- Rick McGee, representing himself
- Mark Wilhelm, representing himself
- Theresa Alvarado, City of Flagstaff
- Joanne Keene, Coconino County
- Robert Millis, Flagstaff Forty
- Christian Clemens, Sunland Asphalt
- Nathan Durham, Sunland Asphalt

Bruce Nordstrom, Flagstaff 40
Brian Campbell, East Valley Partnership
Marilyn Joyce, Tempe Chamber
Janet Krejcel, representing herself
Joseph Gervasio, representing himself
Marty Olson, representing himself
Claudia See, representing herself
Sean Rosenbaugh, representing himself
Fred Boice, President, Arizona Board of Regents
Ernest Caleron, Vice President, Arizona Board of Regents
Beatrice Perry, representing herself
Gene Sander, Vice President, University of Arizona
Tim Kinney, representing himself
Mark Minter, Arizona Builders' Alliance
Brigitte Jordan, representing herself
Janet Krejci, representing herself
David Martinez III, Arizona Board of Regents
Steve Padilla, Hunter Contracting
Sarah Morgan, Associated General Contractor
Jennifer Holsman, Arizona State University Alumni Association
Tara Plese, Arizona State University Alumni Association, Advocacy Committee
David Martin, Associated General Contractors
Steven Jordan, representing himself

There being no further business, the meeting was adjourned at 12:55 p.m.

Respectfully submitted,

Shelley Ponce
Committee Secretary

(Audio recordings and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115. Audio archives are available at <http://www.azsenate.gov>)