



**ARIZONA TOWN HALL**  
**Remarks by Gov. Jan Brewer**  
Monday, November 2, 2009

Thank you very much.

I am delighted to be with you this morning, and I thank you all for taking valuable time away from your businesses and families for the next few days to be here to discuss what should be Arizona's flight plan into the future.

What better place than the Grand Canyon to discuss where the GRAND CANYON STATE is headed.

It is probably a more perfect setting than you realize.

Because, if you will take a moment to step to the edge of the Canyon, peer in and beyond, you will get a sense of how deep and vast Arizona's financial troubles really are.

And, allow me to put some real numbers to that sobering scene.

To date, the State faces an ongoing deficit of about \$500 million from fiscal year 2009.

Yes, it is absolutely astonishing that the state has carried forward a deficit, but, in addition, a budget gap of approximately \$400 million remains to be resolved for fiscal year 2010.

And, despite what we thought were rather pessimistic projections, revenues are significantly below projections for the first quarter of FY 2010.

Combined with anticipated continued growth in caseloads for health and human services, as well as the need for other mid-year budget adjustments, the state faces an operating deficit of at least \$1.75 billion for the current fiscal year.

And, without intervention, the deficit is likely to recur by the same amount each year for the next several years.

While the state budget has been fundamentally unbalanced for several years, this deficit is not merely academic. The state now faces significant shortfalls in cash flow, as sufficient revenue is not readily available to meet obligations.

We're cutting -- and cutting -- and we're not done yet.

Since I became Governor in January, I have already instituted the largest spending cuts of any Governor in Arizona history. Over \$700 million in permanent cuts have already been implemented. We have already furloughed over 15,000 state employees.

Meanwhile, I will be calling the Legislature back into session later this month to eliminate at least one-third of the current year's deficit.

While the Grand Canyon provides a sobering metaphor for our economic crisis -- with its breadth and depth -- it also reminds us of something else.

Its uncommon beauty reminds us of the unique opportunity we have to make things right for our families, for our future.

It reminds us that we are on the edge of opportunity with exhilarating vistas showing us the way, inspiring our steps into the next century.

But, as you all know -- it's the reason you're here -- we cannot manage our budget crisis or the long-term needs of the state by pretending we can cut our way out of this problem.

Milton Friedman said, "The government solution to a problem is usually as bad as the problem."

So, let's be Milton Friedman's exception.

Here are a few compass headings for charting a flight path to our second century in a thoughtful way:

First, let us all agree that our future pivots on our ability to create jobs – better jobs, permanent jobs, and more of them.

And, the way to do that is create an economic environment that is stable, predictable and dependable. And a big part of that is the tax code with which we expect employers to comply.

Let us consider all new ways of doing business here, providing the right incentives.

I am talking about viewing our tax system as a way to aid our recovery in two ways -- in the short term -- and the long term.

In the short term, we need an infusion of revenue to stabilize the General Fund for the essential needs of the state.

We will need the help of the voters to do that.

And, again, we need to cut spending more, we need to reform state government so that it makes do with less – and, for that matter DOES less – and raise revenues on a temporary basis.

Just because the topic today is revenues, let there be no doubt that I am focusing on ALL pieces of the puzzle – not just revenues –including PERMANENT spending cuts and government reform efforts.

Also in the short term, our revenue solution has FIVE requirements –

First, any proposal needs to be able to pass the Legislature, or the voters. Proposals that increase taxes to avoid any substantial budget cuts may sound good to some, but they are unrealistic. I support, and I believe the public wants, a balanced approach of budget cuts and a modest temporary tax increase.

Second, it needs to generate revenues IMMEDIATELY. The crisis is upon us now. Proposals that involve totally upending our current tax system to produce extra revenues will take too long to address our cash emergency.

Third, any tax proposal needs to be simple and clear for the voters so it CAN pass. Voters want a clear choice and they should have it. One of the lessons from California's failed ballot effort earlier this year was to KEEP IT SIMPLE.

Fourth, it needs to be dedicated to education and critical health and public safety needs because that is what the public wants -- and we need.

and Fifth, it needs to be fair by not placing an undue burden on any particular group or business.

In the long term, we must build a tax system that rewards those industries that create high wage jobs – the industries that could locate anywhere in the world.

For example, we must win more Solar projects like Albiasa (All-bee-ah-sah) Solar in Kingman.

We must win more projects such as Shutterfly – which wants to grow its engineering talent at its new Phoenix facility.

And, all too often overlooked – we need to continue to take care of the small and medium-sized businesses ALREADY HERE!

More than 90 percent of Arizona's businesses are classified as small – these are a critical economic engine for Arizona.

We also need to nurture and not take for granted Arizona's larger enterprises. We must win more investments such as Intel's \$3 billion decision to expand its Chandler operations.

A necessary part of Arizona's move toward the future with a high-tech economy is our sustaining and further developing those high-skilled, high paying jobs created in the aerospace and defense industries.

The aerospace and defense industries account for 57,000 jobs in Arizona with a total industry payroll of over \$3 billion. With the recent creation of the Arizona Aerospace Institute, we are on the right path to expanding this critical component of Arizona's economy.

It is important to keep Luke Air Force Base and secure its long-term future by encouraging the Department of Defense to select Luke as a training site for the F-35 Lightning II -- Joint Strike Fighter.

And, I am pleased that recently the Air Force announced Luke is on the short list of bases to be selected.

Protecting, maintaining and expanding Luke's missions are critical to Arizona's long-term viability as our military installations generate more than \$9 billion in economic impact annually to our state.

Given our state's current economic condition, this stable, recession-proof industry needs to be maintained and strengthened.

To do this, we must re-think areas of our tax structure that unduly burden our employers, particularly those who require large capital investments, such as manufacturing.

We must examine how we treat them in property taxes – in business personal property taxes -- and in capital gains taxes.

Government must move aside, and let the creators of jobs and wealth, energize the market place.

That includes the hidden taxes of regulation.

My first act as Governor included issuing a directive freezing all new agency rules and rulemaking, because we do not need new and burdensome regulations that only serve to strangle businesses and add needless costs and frustrations to people who are simply trying to make an honest living, or get into business for the very first time.

We cannot quash the next generation of entrepreneurs with petty rules and fines.

But, as we prepare for the future and carefully consider all worthy tax reform options, let's make sure we're RIGHT.

My concern is that in considering all of the marvelous plans, proposals and suggestions to re-engineer the tax code – from the VAT TAX to the FLAT TAX  
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What if it's wrong?

What if the timing is bad?

What if, for Arizona, the theory is flawed?

How do we change the system, once we've committed millions of dollars to redevelop and re-program -- and we really don't know if it will fly?

I am reminded that in the Hollywood film "The Flight of the Phoenix," the pilot, Frank Towns – played by Jimmy Stewart -- crash lands a plane in a Sahara Desert sand storm, carrying a group of oil worker passengers and a German aeronautical engineer.

The survivors wait for rescue but begin to worry as the storm has blown them far off course, away from where searchers might look for them. Under the direction of the German engineer they begin to rebuild a new aircraft from the wreckage, using the only working engine and adding skids to take off.

Only when the reconstructed plane nears completion, does Towns find out that the aeronautical engineer's job was designing MODEL airplanes, NOT REAL ONES. So, I am not about to design and build an EXPERIMENTAL tax model for Arizona.

Instead, together, let's get off the drawing board and build a tax structure that can REALLY fly and deliver us from these challenging times, boldly heading into the future with a flight plan that is sustaining, and with a renewed sense of purpose.

Arizona is a wonderful treasure that we all love. Our mission is to nourish it, strengthen it, and ensure that it thrives.

Thank you for working together on what is best for the economy of our state – and, thank you, again, for the opportunity to speak with you today.