

Investing in Education is Good for Business and Arizona's Economy

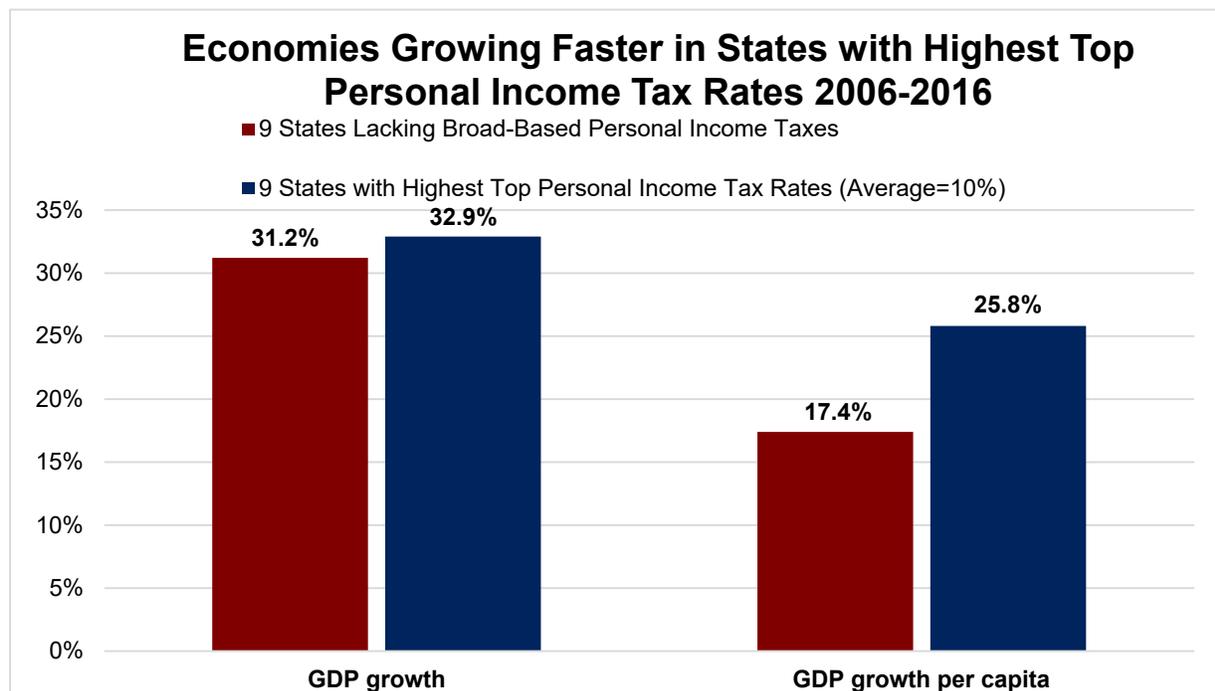
Arizona's top business leaders have consistently said that the keys to improving Arizona's business climate and economy are increased funding for Arizona's K-12 public education system and developing a more skilled workforce.¹ It is not surprising that they view those two issues as the greatest needs considering Arizona's public schools have less in annual state per pupil funding today than they had a decade ago. More than a decade of underfunding the institutions that are responsible for educating our future workforce have resulted in one of the worst teacher-shortage crises in the nation, overcrowded classrooms and students learning from insufficient and outdated learning materials and supplies.

Raising revenues to make significant new investments in public education is a strategy that many states, including most of Arizona's neighbors, are employing to attract better jobs and enable more of their residents to move up the economic ladder. Raising income taxes on Arizona's highest earners remains a good option for increasing investments in Arizona's schools while making our tax system more balanced and fair.

"Providing expanded access to high quality education will not only expand economic opportunity for residents, but also likely do more to strengthen the overall state economy than anything else a state government can do." "A Well-Educated Workforce is Key to State Prosperity," Berger and Fisher, 2013, Economic Analysis and Research Network.

States levying personal income tax rates in the top range are experiencing faster economic growth than states without income taxes.

States levying the highest top personal income tax rates are experiencing faster economic



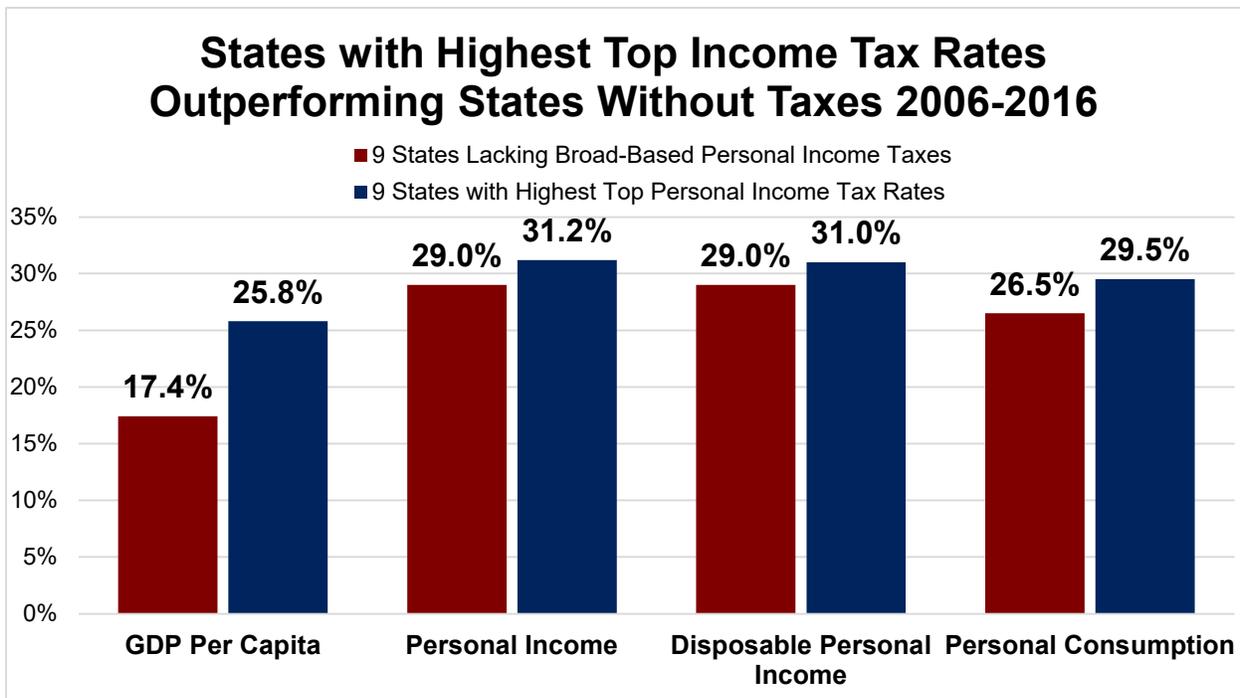
"Trickle-Down Dries Up;" Institute on Taxation & Economic Policy, October 2017. Gross domestic product (GDP) measures the value of goods and services produced in the state.

¹ 2016 and 2017 Alliance Bank of Arizona Survey of Arizona Business Leaders

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growth than states with no income taxes at all. This is true of growth in the overall size of those states' economies, and more importantly, of economic growth per person over the last decade.

Average incomes are also growing more rapidly in the states with the highest top income tax rates, as measured by per capita personal income. Even after considering the impact of income and property taxes on residents' take-home pay, the states with the highest top income tax rates are seeing faster income growth than the states without income taxes; per capita disposable personal income and per capita spending are also growing more quickly in the nine states with the highest top tax rates.



"Trickle-Down Dries Up;" Institute on Taxation & Economic Policy, October 2017

Most small business owners in Arizona will continue to be taxed at some of the lowest personal income tax rates in the nation.

The \$940 million in new annual investments into Arizona's public education system will be a significant benefit to most Arizona small businesses who currently employ 45 percent of all Arizona private sector jobs but face a critical shortage of skilled

Nevada has zero state income tax, but...

"Of the 251 companies who came through my door last year, not one said I'm here because of your tax structure." But more than a third told him they wouldn't move to Nevada because of the state's poor education system, said Tom Skancke, executive director of the Las Vegas Global Economic Alliance speaking in support of a tax increase to fund public education.

— Foxnews.com, April 29, 2015

workers.² Most small business owners do not have income anywhere near the amount needed to be impacted by the proposed income tax surcharge. The median income for Arizona small business owners is \$48,898, according to the U.S. Small Business Administration. For those small business owners making less than \$250,000 per year as individual filers or \$500,000 per year as married filers, they will continue to be taxed under the current rates which range from 2.59% to 4.50% of taxable income. Rates which are the fourth lowest of the 43 states with an income tax.

Small business owners with taxable income large enough to be in the top 1% of income earners will still have the first \$250,000 they earn as individual filers or the first \$500,000 they earn as married filers taxed at some of the lowest individual income tax rates in the nation. It is only the amount those small business owners earn in excess of \$250,000 (individual) or \$500,000 (married) that may be subject to the proposed new surcharge. Even then, the effective tax rate for these individuals who fall within the top 1% of earners – the only ones who will be impacted by Invest in Ed - will still be less or the same as the effective tax rate of those in the top 1% in 25 other states and below the national average. The business owners that fall in these upper income brackets are not your typical “mom and pop” businesses and the larger businesses they own will likely be the ones that gain the most from the increased investments in Arizona’s public schools and the skilled workforce such investments can produce.

Top 1% of Earners in Arizona Will Still Pay Among the Lowest State Taxes in the Nation

Rank	State	Effective Tax Rate
1	California	9.8%
26	Arizona (with Invest in Ed)	4.4%
34	Arizona (Currently)	3.1%
--	U.S. Average	4.6%

Source: Institute on Taxation and Economic Policy using 2018 “Who Pays” data

Increasing educational attainment is good for the economy.

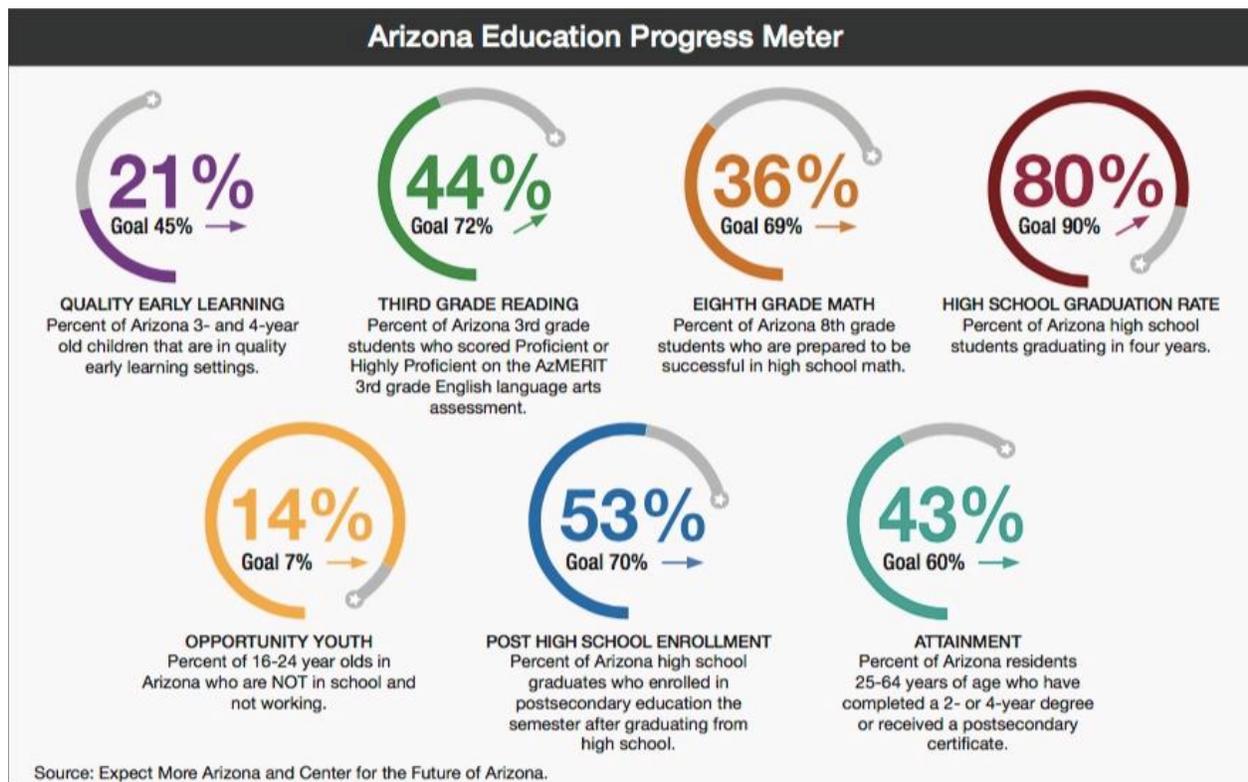
Increasing educational attainment for all Arizona children so that we are building a highly skilled workforce should be one of our state’s highest priorities. Studies have shown that states that focused on improving public education spurred higher economic growth for their population and that improved schools lead naturally to higher skilled workforces.³ That is why so many leaders in business, education and government have come together to adopt the Arizona Education Progress Meter. The Education Progress Meter is a series of metrics

“The quality of education is extremely important to companies like Intel. If you want those high-paying jobs – the jobs that pay two to three times the average – look for your educational infrastructure to be the key.”

- Craig Barrett, former Chief Executive of Intel Corp. Arizona Daily Star, March 30, 2011

² “Small Business Optimism Index – July 2018 Report,” National Federation of Independent Business.

³ “The Education Growth Relationship: Evidence from Real State Panel Data,” *Contemporary Economic Policy*, vol 22, no 2, Bensi, Black and Dowd, 2004. “Economic Gains from Educational Reform by US States,” Hanushek, Rubose and Woessmann, 2017. *Journal of Human Capital*, 2017, vol 11, no. 4, 2017.



that measure where our education system currently stands, and how far we need to go to ensure that we are providing every child in the state with an excellent education.

There are many effective strategies being put forward to achieve these educational attainment goals set by Arizona’s leaders, but nearly all of those strategies will require new investments into public education. That is a significant barrier, considering Arizona’s public schools began this school year with less funding than a decade ago. Arizona’s business leaders have played a significant role in developing the Education Progress Meter because they know that increasing educational attainment is the key to a more skilled workforce and that leads to greater economic growth. The more we empower Arizonans to move up the economic ladder through increased educational attainment the more money they will spend in the economy and the more jobs they will create. Increasing income taxes on high earners remains a reasonable and effective option for providing the strategic investments Arizona needs in its public schools to achieve these education attainment goals, which will attract new businesses and jobs to our state and boost long term economic growth, and that is a pro-business strategy.

“Education has elevated itself as one of the primary factors that companies analyze. It’s not just how many workers you have in your environment to work in industries that are our target interest, but what does the pipeline entail? This measurement is critical for companies analyzing the market.”

- Chris Camacho, President and CEO of the Greater Phoenix Economic Council. AZ Big Media, February 15, 2016