

**COMMUNITY DEVELOPMENT ASSESSMENT  
FOR  
THE STATE OF ARIZONA**

**A GUIDE TO ARIZONA'S  
COMMUNITY DEVELOPMENT ENVIRONMENT**

COMMUNITY DEVELOPMENT DEPARTMENT  
FEDERAL RESERVE BANK OF SAN FRANCISCO

**FOREWORD**

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December 2004

The Community Affairs Department of the Federal Reserve Bank of San Francisco has developed a new series of reports for the nine states in the Twelfth District that both detail the demographic, economic, governmental, and institutional underpinnings of each state and provide an analysis of the various community development needs within each state. These reports, which we are calling “Environmental Assessments,” are meant to provide a framework for the array of community development activities that the department undertakes across the District. The hope is that the reports will not only provide a helpful compilation of existing community development needs and resources for each state, but will also allow us to target our time and resources to those areas that both show the greatest need and offer the opportunity for the most meaningful role.

We hope that you will find these Environmental Assessments useful and that the information presented will enhance your understanding of the state of community development in each location.

We look forward to your comments and suggestions.

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## METHODOLOGY

In an attempt to provide a framework for performing our own community development work, the Community Affairs Department of the Federal Reserve Bank of San Francisco has produced separate reports entitled “environmental assessments” for each of the nine states which comprise the Federal Reserve’s Twelfth District: Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, Washington, and Utah. Each report is divided into two sections: one covering the overall “Community Development Environment” in the state, and the other covering the “Community Development Needs and Resources” in the state. These environmental assessments are intended to bring together available research and information in both of these areas.

Specifically, the chapters in the “Community Development Environment” section cover the demographic, economic, governmental, and institutional underpinnings in each state, providing detail such as each state’s industrial structure, economic outlook, banking system, nonprofit groups, and government departments involved in community development. In the second section, each report delves into four separate areas of “Community Development Needs and Resources:” affordable housing, small business, poverty and asset accumulation, and issues specific to native people and immigrants.

A key resource for both the data and the approach taken in this effort was the *2002 State Asset Development Report Card*, published by an influential research and advocacy organization, CFED (formerly known as the Corporation for Enterprise Development). CFED’s report analyzes a great deal of data on a range of factors affecting asset accumulation and poverty for each state in the nation. The CFED report divides its analysis into separate evaluations of “Asset Outcomes” and “Asset Policies” for each state, producing an overall grade (A, B, C, D, or F) for each. Not only do our reports reference virtually all of the individual rankings which feed into CFED’s two overall grades, but they also follow a somewhat similar approach in dividing each of the community development areas in each state (affordable housing, small business, poverty and asset accumulation, and native people and immigrant issues) between “needs” and “resources” in a manner similar to CFED’s “Asset Outcomes” and “Asset Policies.”

The reports then build on these CFED comparisons by drawing on the considerable resources already produced by a variety of national and local organizations in these subject areas for each state, pulling together their major data, analyses, and conclusions into one single report. The reports were designed by Scott Turner, who managed the project, with additional oversight and editing by Jack Richards. This Arizona Environmental Assessment was written by a second year student from the Goldman School of Public Policy at the University of California, Berkeley, Anne McDonough-Hughes. The Arizona Environmental Assessment was also supported by significant data and material gathering by a member of the Community Affairs Department’s field staff, Lena Robinson. Websites referenced in this report were accessed between September and December of 2004, and we have attempted to provide accurate links to content referenced, although content and/or location may change over time. We should note here

that while the Federal Reserve Bank of San Francisco sponsored these environmental assessments, they reflect only the views of the author.

We gratefully acknowledge the community development practitioners in each state who agreed to review drafts of these reports and provide helpful feedback. In addition, we have attempted to ensure there are no errors or omissions in this report, but encourage you to contact us if you believe important changes are warranted. Please contact us by the end of February 2005, and we will be pleased to make appropriate revisions and post an edited version of the reports on our website in March 2005.

## CONCLUSIONS

### COMMUNITY DEVELOPMENT ENVIRONMENT

#### 1. Demographics

Arizona is the sixth largest state in the U.S. in total area,<sup>1</sup> and its population of 5.58 million made it the **18th largest in terms of population as of 2003.**<sup>2</sup> The state's **population has grown rapidly**, with an 8.8% increase between 2000 and 2003 following a **40% increase between 1990 and 2000.**<sup>3</sup> In terms of race and ethnicity, Arizona has much lower proportions of Black/African-American and Asian residents and much higher proportions of Native American residents and residents of Hispanic origin than the U.S. overall.<sup>4</sup>

#### 2. Economy

Arizona's **economy is dominated by services**, although manufacturing and construction also play important roles in the state. The state's manufacturing sector is heavily concentrated in high-technology industries, which provide more than half of all manufacturing employment.<sup>5</sup> Arizona **was especially hard hit by the recession of 2001-2002**, during which its unemployment rate increased by two percentage points.<sup>6</sup> In the past few months, however, the state **has shown some of the strongest job growth in the nation.**<sup>7</sup> Recent economic improvement has been driven largely by continued strong population growth, with demographic-based industries such as construction, retail, and real estate playing a major role in the upswing.<sup>8</sup> Nevertheless, while the overall economic outlook for Arizona is strong, **its per capita income growth continues to lag that of the nation**, indicating a need to attract better-paying jobs in sectors such as healthcare, technology, and defense.<sup>9</sup>

#### 3. Governmental and Financial Sectors

**Arizona has relatively low state debt levels and enjoys strong credit ratings.**<sup>10</sup> After weak revenue performance in FY 2002 and FY 2003, the state's financial position has improved during FY 2004.<sup>11</sup> In the financial sector, there are 78 separately-chartered banks and in Arizona, although more than two thirds of the FDIC-insured deposits in the

<sup>1</sup> Netstate.com, *The Geography of Arizona*, [http://www.netstate.com/states/geography/az\\_geography.htm](http://www.netstate.com/states/geography/az_geography.htm).

<sup>2</sup> U.S. Census Bureau, *Statistical Abstract of the United States: 2003*, <http://www.census.gov/statab/www/ranks.html>.

<sup>3</sup> U.S. Census Bureau, *Arizona QuickFacts*, <http://quickfacts.census.gov/qfd/>.

<sup>4</sup> U.S. Census Bureau, Census 2000 Data, <http://www.census.gov/main/www/cen2000.html>.

<sup>5</sup> Arizona Department of Commerce, *Arizona Economy*, <http://www.commerce.state.az.us/business/economy.asp>.

<sup>6</sup> Economy.com, *Arizona's Economic Future*, August 2002, p. 3.

<sup>7</sup> FDIC, *Arizona State Profile*, Fall 2004.

<sup>8</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>9</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>10</sup> Standard and Poor's, *Arizona Tax Secured, General Obligation Credit Profile*, August 2004.

<sup>11</sup> Ibid.

state are controlled by three of them.<sup>12</sup> There are also 65 credit unions, which together control almost 14% of combined bank/credit union assets, more than twice the national average.<sup>13</sup> Finally, Arizona also has 10 certified Community Development Financial Institutions,<sup>14</sup> which combined had \$32.3 million in financing outstanding to more than 12,000 customers in the state at the end of FY 2002.<sup>15</sup>

## COMMUNITY DEVELOPMENT NEEDS AND RESOURCES

### 1. Affordable Housing

Arizona faces a shortage of affordable housing. The state is **ranked relatively poorly in the affordability of its rental housing and in its homeownership rate**. An estimated 44% of renters and 20% of homeowners are experiencing either housing affordability or quality problems, and **the growth in the number of housing units in the state, particularly affordable units, is constrained by the limited availability of private land available for development**.<sup>16</sup> The degree of affordability problems varies by region, and in the most expensive areas, including the Flagstaff MSA and Coconino, Pinal, and Mohave Counties, nearly 60% of renters are unable to afford the two-bedroom fair market rent.<sup>17</sup> However, despite its low housing affordability, the state can be credited for a number of homeownership assistance programs, including a state housing trust fund, property tax circuit breaker programs, and first-time homebuyer assistance programs.<sup>18</sup> Overall, **the availability of affordable housing has clearly not kept pace with the state's rapid growth and needs additional support**.

### 2. Small Business

**Small business in Arizona lags somewhat behind the rest of the nation**. Businesses with fewer than 10 employees account for only 10% of employment in the state, the seventh-smallest share in the country. In addition, Arizona has a relatively low entrepreneurship level, and also **ranks very low in the level of private loans to small business**. The state is seen as having below-average overall business development capacity and business vitality,<sup>19</sup> but has been praised for its transformation toward a "new economy."<sup>20</sup> While a number of small business assistance programs are available from both governmental and nonprofit sources, **local entrepreneurs assert that the state lacks many of the elements necessary for the success of small businesses**, such as early-stage venture capital and educational opportunities.<sup>21</sup>

<sup>12</sup> FDIC, *Deposit Market Share Report: Arizona*, June 2004.

<sup>13</sup> Arizona Credit Union League, *Credit Union Fact Sheet*, [http://www.cuna.org/download/arizona\\_fs.pdf](http://www.cuna.org/download/arizona_fs.pdf).

<sup>14</sup> CDFI Fund, U.S. Department of the Treasury, *Certified CDFI's – Alphabetical by State and County*, November 2004.

<sup>15</sup> CDFI Coalition, *CDFIs in Arizona: 2004 Fact Sheet*, <http://www.cdfi.org/states/Arizona2004.pdf>.

<sup>16</sup> Arizona Housing Commission (AHC), *The State of Housing in Arizona 2000*, pp. 4-5.

<sup>17</sup> National Low Income Housing Coalition (NLIHC), *Out of Reach 2003*, Arizona state data.

<sup>18</sup> CFED, *State Asset Development Report Card (SADRC)*, 2002, p. 34.

<sup>19</sup> CFED, *2004 Development Report Card for the States*, <http://drc.cfed.org/grades/arizona.html>.

<sup>20</sup> Robert Atkinson, Progressive Policy Institute, *The 2002 State New Economy Index*, June 2002, tables.

<sup>21</sup> Dee Power and Brian Hill, *Arizona Entrepreneurs: Critical Factors to Success*, April 2002, <http://www.capital-connection.com/azsurveyprinter.html>.

### 3. Poverty and Asset Accumulation

Approximately 14% of Arizona's population lives in poverty, making Arizona's **poverty rate 14<sup>th</sup> worst among all the states**. Even more significantly, the state **has low rankings in the area of asset accumulation**, with large percentages of its households having zero net worth or otherwise considered asset poor.<sup>22</sup> However, Arizona ranks first in the country in terms of having the smallest difference between asset poverty of male- and female-headed households, and fourth in terms of the difference between white- and non-white headed households. **The state also can be credited with a number of supportive asset accumulation and preservation policies**, especially in the areas of workers' compensation and health insurance.<sup>23</sup> In addition, IDA programs are supported by both state policy<sup>24</sup> and a statewide alliance, which has set a goal of opening 10,000 IDA accounts in the state over the next five years.<sup>25</sup>

### 4. Native Americans and Immigrants

Arizona **has the third-largest Native American population in number and the sixth largest in terms of percentage of population in the nation**.<sup>26</sup> However, Native Americans in the state face higher-than-average unemployment<sup>27</sup> and more than 35% of them live below the poverty level. While there are a number of supportive institutions in the state serving this population, **the problems faced by Native Americans in areas such as affordable housing are significant**.

**An even larger percentage of the state's population is foreign born (12.8%), ranking Arizona eighth highest on this measure**. The bulk of the state's foreign born hail from Latin America, with the largest percentage born in Mexico. Eighty-five percent of the foreign-born residents speak a language other than English at home,<sup>28</sup> and **one quarter of this immigrant population lives below the poverty level, compared to only 17.9% of immigrants nationwide**. Again, a number of resources are available to serve the foreign-born population, but as with Native Americans, **additional support is critical**.

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<sup>22</sup> CFED, *SADRC*, p. 34.

<sup>23</sup> *Ibid*, p. 34.

<sup>24</sup> *Ibid*, p. 121.

<sup>25</sup> Assets for Arizona Alliance, *IDAs in Arizona: A Case Statement*, September 2003, p. 1.

<sup>26</sup> U.S. Census Bureau, *Statistical Abstract of the United States: 2003*.

<sup>27</sup> Arizona Department of Economic Security, *2003 Special Unemployment Report*, June 2003.

<sup>28</sup> U.S. Census Bureau, Census 2000 Data.

**STATE OF ARIZONA**  
**SELECTED COMMUNITY DEVELOPMENT INDICATORS**

<i>Affordable Housing</i>	<i>Rate</i>	<i>State Rank</i>
Homeownership Rate <sup>29</sup>	65.9%	43 <sup>rd</sup>
Rental Affordability Rate <sup>30</sup>	--	43 <sup>rd</sup>
Severely Cost-Burdened Renter Households <sup>31</sup>	23.8%	40 <sup>th</sup>
<hr/>		
<i>Small Business</i>		
Small Business Employment Rate <sup>32</sup>	9.8%	44 <sup>th</sup>
Entrepreneurship Rate <sup>33</sup>	11.1%	35 <sup>th</sup>
Level of Private Loans to Small Businesses <sup>34</sup>	--	46 <sup>th</sup>
<hr/>		
<i>Poverty and Asset Accumulation</i>		
Poverty Rate <sup>35</sup>	13.9%	37 <sup>th</sup>
Households with Zero Net Worth <sup>36</sup>	16.3%	42 <sup>nd</sup>
Personal Bankruptcy Rate <sup>37</sup>	14.2	28 <sup>th</sup>
<hr/>		
<i>Native Americans and Immigrants</i>		
Native American Population <sup>38</sup>	5.0%	6 <sup>th</sup>
Native American Poverty Rate <sup>39</sup>	37.3%	--
Foreign-Born Population <sup>40</sup>	12.8%	8 <sup>th</sup>
Foreign-Born Poverty Rate <sup>41</sup>	25.0%	--

<sup>29</sup> U.S. Census Bureau, *U.S. Statistical Abstract 2003*; represents the percentage of housing units that are occupied by owners, ranked from highest percentage (1<sup>st</sup>)

<sup>30</sup> NLIHC; rank is calculated based on a weighted average of the state's median gross rent, renter market affordability ratio, and percent of severely cost-burdened renters, ranked from most affordable (1<sup>st</sup>)

<sup>31</sup> NLIHC; *Up Against a Wall*, November 2004; represents the percentage of renter households in the state spending more than 50% of their income on rent in 2003, ranked from lowest percentage (1<sup>st</sup>)

<sup>32</sup> U.S. Census Bureau, *County Business Patterns 2001*; represents the share of total state employment attributable to firms with fewer than 10 employees, ranked from highest share (1<sup>st</sup>)

<sup>33</sup> CFED, *SADRC*; represents the percentage of the labor force that owns employer and non-employer firms as of 2000, ranked from highest percentage (1<sup>st</sup>)

<sup>34</sup> Ibid; represents the dollar amount of private business loans under \$1 million per worker, ranked from highest amount (1<sup>st</sup>)

<sup>35</sup> U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2003*; represents the average percent of people living below the federal poverty level during the period from 2001 to 2003, ranked from lowest percentage (1<sup>st</sup>)

<sup>36</sup> CFED, *SADRC*; represents the percentage of households with zero or negative net worth, ranked from lowest percentage (1<sup>st</sup>)

<sup>37</sup> American Bankruptcy Institute; represents personal bankruptcy filings in 2003 per thousand households in the state, ranked from fewest filings (1<sup>st</sup>)

<sup>38</sup> U.S. Census Bureau, *Census 2000*; represents the percentage of the state's population composed of Native Americans and Alaska Natives (only), ranked from highest percentage (1<sup>st</sup>)

<sup>39</sup> Ibid; represents the percentage of Native American/Alaska Native (only) individuals living below the federal poverty level at any time in 1999

<sup>40</sup> Ibid; represents the percentage of the state's population composed of foreign-born individuals, ranked from highest percentage (1<sup>st</sup>)

<sup>41</sup> Ibid; represents the percentage of foreign-born individuals living below the federal poverty level at any time in 1999

## I. DEMOGRAPHICS

### 1. Geography

Arizona has a land area of 113,635 square miles,<sup>42</sup> making it the **sixth-largest state in the U.S. in size**. It shares borders with Utah, Mexico, New Mexico, Nevada, and California. Although there are several major rivers and lakes in the state, including the Colorado River, Lake Mead, and Lake Havasu, Arizona has only 364 square miles of water area, making it a relatively dry state.<sup>43</sup>



Source: Infoplease.com

<sup>42</sup> U.S. Census Bureau, *Arizona QuickFacts*, <http://quickfacts.census.gov/qfd/>.

<sup>43</sup> Netstate.com, *The Geography of Arizona*, [http://www.netstate.com/states/geography/az\\_geography.htm](http://www.netstate.com/states/geography/az_geography.htm).

## 2. Population

**Arizona has grown rapidly over the past decade**, now ranking 18<sup>th</sup> in the U.S. for size of population.<sup>44</sup> In 2003, the state's **population was 5,580,811, up 8.8% from 2000** (as compared to a 3.3% increase in the U.S. overall). The increase during that time period **came on top of a 40% increase in state population between 1990 and 2000.**<sup>45</sup> The growth from 1990 to 2000 was led by Mohave County (66% increase) and Pinal County (54% increase), although, as the table below indicates, all counties in the state saw an increase in population during that time period.<sup>46</sup> **Much of Arizona's population growth has been the result of in-migration from surrounding states, particularly California.** In the first six months of 2004, an average of 8,800 California residents migrated to Arizona each month, and the monthly average number of migrants from California has been steadily increasing since at least 2001.<sup>47</sup>

### 1990 and 2000 Population by County

<i>County</i>	<i>1990 Population</i>	<i>2000 Population</i>	<i>% Change</i>
<b>Statewide</b>	<b>3,665,228</b>	<b>5,130,632</b>	<b>40.0%</b>
Apache	61,591	69,423	12.7%
Cochise	97,624	117,755	20.6%
Coconino	96,591	116,320	20.4%
Gila	40,216	51,335	27.7%
Graham	26,554	33,489	26.1%
Greenlee	8,008	8,547	6.7%
La Paz	13,844	19,715	42.4%
Maricopa	2,122,101	3,072,149	44.8%
Mohave	93,497	155,032	65.8%
Navajo	77,658	97,470	25.5%
Pima	666,880	843,746	26.5%
Pinal	116,379	179,727	54.4%
Santa Cruz	29,676	38,381	29.3%
Yavapai	107,714	167,517	55.5%
Yuma	106,895	160,026	49.7%

Sources: Arizona Department of Economic Security and U.S. Census Bureau.

**The population of Arizona is slightly younger than that of the U.S. as a whole**, with a median age of 34.2, compared to 35.4 for the U.S. Individuals aged 0-14 account for 23.6% of Arizona's population, compared to 21.4% of the U.S. overall. Despite perceptions that Arizona is a haven for retirees, the proportion of Arizona's population that is 65 and over (13.2%) is only slightly higher than that of the U.S. (12.7%), meaning that the bulk of Arizona's population is in their working years.<sup>48</sup>

<sup>44</sup> U.S. Census Bureau, *Statistical Abstract of the United States: 2003*, <http://www.census.gov/statab/www/ranks.html>.

<sup>45</sup> U.S. Census Bureau, *Arizona QuickFacts*.

<sup>46</sup> Arizona Department of Commerce, *Arizona Population and Demographics*, <http://www.commerce.state.az.us/prop/eir/popanddemo.asp>.

<sup>47</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>48</sup> Arizona Department of Commerce, *Arizona Population and Demographics*.

### 3. Metropolitan Statistical Areas

Based on the federal guidelines published by the White House Office of Management and Budget (OMB) in 2003, **Arizona has five metropolitan statistical areas (MSAs)**.

MSAs are areas that are made up of one or more whole counties with at least one urbanized area of 50,000 or more population. Arizona's MSAs are now wholly comprised of counties within the state, unlike the previously-defined MSAs, which had Arizona sharing one MSA with Nevada and one with Utah. The only Arizona counties that are not part of a metropolitan or micropolitan statistical area are Apache, La Paz, and Navajo.<sup>49</sup>

#### **Arizona's Metropolitan Statistical Areas**

<i>MSA</i>	<i>Counties Included</i>	<i>2003 Population</i>
Phoenix-Mesa-Scottsdale	Maricopa & Pinal	3,593,000
Tucson	Pima	893,000
Prescott	Yavapai	184,000
Yuma	Yuma	171,000
Flagstaff	Coconino	121,000

Source: U.S. Census Bureau, *Statistical Abstract of the United States: 2004-2005*.

### 4. Race and Ethnicity

When it comes to the racial and ethnic composition of its population, **Arizona varies substantially from the U.S. as a whole**. Although the percentage of the population that identifies as White is the same, Arizona has **much lower proportions of Black/African American residents and Asian residents, and much higher proportions of American Indian residents and residents of Hispanic or Latino origin than the U.S.**, as shown in the table below. While 12.8% of Arizona residents are foreign born, compared to 11.1% of U.S. residents, **25.9% speak a language other than English at home, compared to only 17.9% in the U.S. as a whole**.<sup>50</sup>

#### **Race and Ethnicity in Arizona**

<i>Race</i>	<i>Number in Arizona Population</i>	<i>% of Arizona Population</i>	<i>% of U.S. Population</i>
White (only)	3,873,611	75.5%	75.1%
Black/African American (only)	158,873	3.1%	12.3%
Asian (only)	92,236	1.8%	3.6%
American Indian/Native Alaskan (only)	255,879	5.0%	0.9%
Native Hawaiian/Pacific Islander (only)	6,733	0.1%	0.1%
Some other race (only)	596,774	11.6%	5.5%
Two or more races	146,526	2.9%	2.4%
Persons of Hispanic or Latino Origin*	1,295,617	25.3%	12.5%

Source: U.S. Census Bureau, Census 2000 Data.

\*Persons of Hispanic or Latino Origin may be of any race

<sup>49</sup> Arizona Workforce Informer, *Arizona's New Metropolitan and Micropolitan Statistical Areas*, [http://www.workforce.az.gov/admin/uploadedPublications/1346\\_MSAarticle.pdf](http://www.workforce.az.gov/admin/uploadedPublications/1346_MSAarticle.pdf).

<sup>50</sup> U.S. Census Bureau, Census 2000 Data, <http://www.census.gov/main/www/cen2000.html>.

## 5. Educational Attainment

**Educational attainment for adults in Arizona is relatively average;** 83.5% of state residents aged 25 and over have completed high school and 24.3% have a bachelor's degree or higher, compared to 83.6% and 26.5%, respectively, for the U.S. as a whole. Arizona ranks 33<sup>rd</sup> in the country in the percentage of adults who have completed high school and 28<sup>th</sup> in the percentage of adults with a bachelor's degree or higher (with first being the highest).<sup>51</sup>

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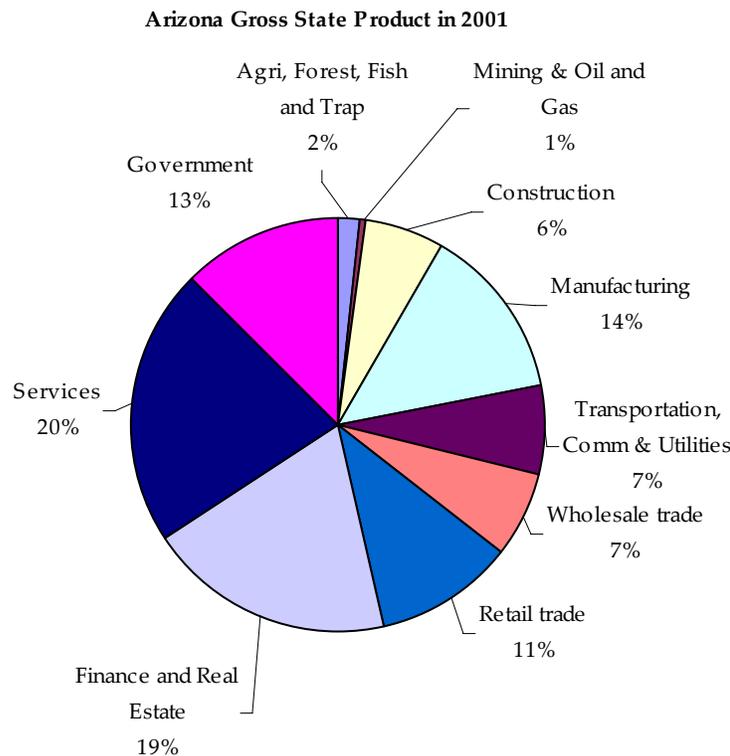
<sup>51</sup> U.S. Census Bureau, 2003 American Community Survey Data, <http://www.census.gov/acs/www/>.

## II. ECONOMY

### A. ECONOMIC STRUCTURE

#### 1. Major Industries

Gross state product (GSP) is one of the most-frequently used comprehensive measures of an economy. It is defined as the value added in production by the labor and property located in a state, and is derived as the sum of the GSP originating in all industries in the state. The Bureau of Economic Analysis (BEA) reports GSP estimates approximately 18 months after the end of each year. **Arizona's GSP for 2003, the most recent year available, was \$182.2 billion, ranking the state 22<sup>nd</sup> in the nation.** The state's per capita GSP for the same year was \$32,649, less than the U.S. average of \$36,376, ranking the state only 36<sup>th</sup> highest in the U.S. on that measure.<sup>52</sup> The chart below shows the breakdown of Arizona's 2001 GSP by sector.



Source: Bureau of Economic Analysis

Leading sectors in Arizona's economy include services, manufacturing, government, tourism, and construction, each of which is explained in more detail in the following pages.

<sup>52</sup> Bureau of Economic Analysis, *2003 and 2001 Gross State Product*, <http://www.bea.doc.gov/bea/regional/data.htm>.

## a. Services

**Arizona's single largest economic sector is services**, which employed more than 883,000 people in 2003.<sup>53</sup> In its 2002 study of Arizona's economy, consulting firm Economy.com included three service sub-sectors (amusement and recreation services, transportation services, and management and public relations services) among Arizona's most dynamic industries, indicating that these industries had employment growth exceeding an 8% annualized rate between 1991 and 2001 and a location quotient (a measure of concentration within the state relative to other states) that had risen by more than 3%.<sup>54</sup>

While services dominate many state economies, **what stands out about services in Arizona is the importance of administrative support services to the state's economy.** This is partially because many call centers and other back-office operations are located in Arizona, allowing the state to export business services, and partially because businesses in the state are heavier-than-average users of temporary and contract workers, who are included in the administrative services sector. In addition, the Arizona climate induces businesses to spend above-average amounts on climate-related services such as pest control and landscaping.<sup>55</sup>

However, although administrative support services, and particularly call centers, are an important part of Arizona's service sector, they are also vulnerable to offshore outsourcing. Predictions from Economy.com are that 600,000 U.S. jobs will be outsourced internationally in 2005, a trend that could negatively impact this sector of Arizona's economy. The sector could also potentially be harmed by the federal do-not-call list.<sup>56</sup>

## b. Manufacturing

In Arizona, manufacturing accounted for 7.6% of employment in 2003, below the national average of 11.2%.<sup>57</sup> This is **a substantial decline in manufacturing employment for the state**, which has historically relied on manufacturing to provide almost 15% of wages and salaries.<sup>58</sup> However, because Arizona's dominant manufacturing sectors are relatively high value, **manufacturing in Arizona accounts for a proportion of GSP on par with the national average, despite lower-than-average manufacturing employment.**<sup>59</sup> Durable goods dominate manufacturing in the state,

<sup>53</sup> Arizona Department of Commerce, *Workforce and Labor Market Information*, <http://www.commerce.state.az.us/prop/eir/workforceandemployment.asp>.

<sup>54</sup> Economy.com, *Arizona's Economic Future*, August 2002, <http://www.commerce.state.az.us/pdf/prop/sesreports/AZEconFuture.pdf>, pp. 7-8.

<sup>55</sup> Arizona Department of Commerce, *Arizona Economic Base Study 2002: Final Report*, July 2002, <http://www.commerce.state.az.us/pdf/prop/sesreports/EBSfinal.pdf>, p. 6.

<sup>56</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>57</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>58</sup> Arizona Department of Commerce, *Arizona Economy*, <http://www.commerce.state.az.us/business/economy.asp>.

<sup>59</sup> Economy.com, *Arizona's Economic Future*, p. 7.

accounting for 78.3% of manufacturing employment and 84.0% of manufacturing's contribution to the state's GSP, compared to only 21.7% of employment and 16.0% of GSP for non-durable manufacturing. Arizona's concentration in durable manufacturing is much higher than that of the U.S. as a whole.<sup>60</sup>

**Manufacturing in Arizona is driven by high-tech manufacturing activities**, which account for 56% of all manufacturing employment.<sup>61</sup> In 2003, Arizona's manufacturing outlook improved when the state saw increased demand both from Asia and the United States for its technology products as a result of improvements in the national and international tech sector and in national defense spending. However, more recently, in the first quarter of 2004, high-tech exports fell sharply, suggesting that demand in Asia and domestically was slowing and spelling potential trouble for Arizona's manufacturing sector.<sup>62</sup>

As indicated above, **defense manufacturing is also important in Arizona**. In 2002, defense dollars coming in to Arizona's economy increased by 40%, with the state setting a record of over \$6 billion in defense orders. The defense sector is expected to continue to grow at least in the near future, as Raytheon and Honeywell both announced large contracts with the Pentagon in 2003 that will be fulfilled at least partly in Arizona.<sup>63</sup>

### c. Government

**Federal government employment in Arizona is relatively high**, with Arizona ranking 20<sup>th</sup> in the nation in the number of federal jobs,<sup>64</sup> **primarily due to the fact that the state has a high proportion of federal lands and Indian-related federal programs**. In addition, some Indian tribal economic activity is classified as government activity, which increases the employment count.<sup>65</sup> Federal government is considered to be a stable industry for Arizona, meaning it has had employment growth of less than 6% annualized and a stable location quotient (measuring the concentration of the industry within the state). In addition, **government employment and government procurement in Arizona is particularly beneficial to the state's economy** because it can be considered an inflow to the state of money from outside sources since federal government spending is primarily financed by tax revenue collected outside of Arizona.<sup>66</sup>

### d. Tourism

While tourism is not directly included as a part of GSP because it is divided into a number of different sectors that are measured (e.g. trade, services, and transportation) estimates by the U.S. Travel Data Center suggest that tourism in Arizona accounts for

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<sup>60</sup> Ibid.

<sup>61</sup> Arizona Department of Commerce, *Arizona Economy*.

<sup>62</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>63</sup> Ibid.

<sup>64</sup> U.S. Census Bureau, 2002 Census of Governments, *Compendium of Public Employment: 2002*, Table 9, <http://www.census.gov/prod/2004pubs/gc023x2.pdf>.

<sup>65</sup> Economy.com, *Arizona's Economic Future*, p. 7.

<sup>66</sup> Ibid, pp. 7-9.

between 6% and 7% of the Arizona economy. While this proportion is above the U.S. average,<sup>67</sup> it indicates that **tourism is in fact only a moderate portion of Arizona's economy**.<sup>68</sup> In 2003, Arizona hosted 27.8 million domestic overnight visitors, who spent an average of \$106 per person per day,<sup>69</sup> and 544,000 international visitors, who spent an average of \$84 per day.<sup>70</sup> The top manmade and natural tourist attractions in 2003 were BankOne Ball Park and Grand Canyon National Park, respectively.<sup>71</sup>

The Arizona tourism industry was negatively impacted somewhat by the beginning of the Iraq war, but visitation has picked up again. As of December 2003, improved tourism numbers had increased revenues from tourism and sales tax collections by 4% through the first three quarters of 2003.<sup>72</sup> Current indicators, including Arizona State University's seasonally adjusted measurement of the health of the tourism industry called the Arizona Tourism Barometer, suggest that the improvement is continuing.<sup>73</sup> As of September, the barometer was at 96.9, up from 90.8 in September 2003.<sup>74</sup>

A 2002 report, *The Tourism Industry in Arizona*, written as part of the state's *Statewide Economic Study*, stresses the importance to the tourism industry of Arizona's climate and geography. Overall, Arizona's most popular tourist activities are visits to national and state parks, visits to historic sites, and outdoor activities, including hiking and biking. The report concludes that in order for Arizona to continue to enjoy a strong tourism industry, the state must ensure that it preserves its unique environment and local cultures.<sup>75</sup>

#### e. **Construction**

The construction sector, which is also very important to Arizona's economy, accounted for 7.7% of the state's employment in 2003.<sup>76</sup> The majority of these jobs (68%) were with special-trade contractors, with the remainder in heavy construction (12%) and building, development, and general contracting (19%).<sup>77</sup> **Construction's key role in**

<sup>67</sup> The BEA estimates that tourism accounted for approximately 4.7-5.6% of U.S. GDP in 1997, the last year for which data is available. More detail can be found at [http://www.bea.gov/bea/about/AcctIntros/Industry\\_tourism.pdf](http://www.bea.gov/bea/about/AcctIntros/Industry_tourism.pdf).

<sup>68</sup> Center for Business Research, L. William Seidman Research Institute, Arizona State University, *Arizona Economic Profile*, November 2002, <http://wpcarey.asu.edu/seidman/cbr/PDFs/econprofile.pdf>, p. 20.

<sup>69</sup> Arizona Office of Tourism (AOT), *Total Domestic Overnight Visitors to Arizona, Year End 2003*, <http://www.azot.com/research/data/AZ%20Visitor%20Profile%202003.pdf>.

<sup>70</sup> AOT, *Overseas Visitors to Arizona Summary*, July 2004, <http://www.azot.com/research/data/Total%20Overseas.pdf>.

<sup>71</sup> AOT, *Arizona Tourism Statistical Report 2003*, <http://www.azot.com/research/data/2003%20Statistical%20Report%20BlkWht.pdf>, p. 3.

<sup>72</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>73</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>74</sup> Bank One Economic Outlook Center at Arizona State University's W. P. Carey School of Business, *Arizona Tourism Barometer*, <http://wpcarey.asu.edu/seid/eoc/atb/>.

<sup>75</sup> Arizona Department of Commerce, *The Tourism Industry in Arizona*, July 2002, <http://www.commerce.state.az.us/pdf/prop/sesreports/Tourism.pdf>.

<sup>76</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>77</sup> U.S. Census Bureau, Statistics of U.S. Businesses 2000, *Arizona: Construction by Employment Size of Enterprise*, <http://www.census.gov/epcd/susb/2000/az/AZ23.HTM>.

**Arizona's economy stems from the fact that it is tied to growth in population and businesses,** both of which have been increasing in the state over the past decade. The **construction sector has picked up substantially in recent quarters, and continues to be the main element driving the state's improving economy.**<sup>78</sup>

## 2. Labor Force and Employment

As of 2000, Arizona had approximately 2.4 million residents in its labor force, with 99% of those in the civilian labor force and 1% in the armed services. Men outnumber women in Arizona's labor force, accounting for 55% of workers. Median earnings reported in Census 2000 for male full-time, year-round workers were \$35,184, and for female full-time, year-round workers, \$26,777.<sup>79</sup>

**No single industry dominates employment in Arizona,** as shown in the table on the following page. As of 2003, the industry with the largest percent of total employment was government (17.2%), followed fairly closely by professional and business services (14.0%), retail trade (12.0%), education and health services (10.8%), and leisure and hospitality services (10.1%). Arizona's largest employers include Wal-Mart Stores, Inc., Banner Health System, Honeywell, Inc., the Kroger Company, and U.S. Army Fort Huachuca.<sup>80</sup>

### **Industry Employment (% of total employment, 2003)**

<i>Sector</i>	<i>% of AZ Employment</i>	<i>% of U.S. Employment</i>
Construction	7.7%	5.2%
Manufacturing	7.6%	11.2%
Transport/Utilities	3.3%	3.7%
Wholesale Trade	4.1%	4.3%
Retail Trade	12.0%	11.5%
Information	2.2%	2.5%
Financial Activities	7.0%	6.1%
Professional & Business Services	14.0%	12.3%
Education & Health Services	10.8%	12.8%
Leisure & Hospitality Services	10.1%	9.3%
Other Services	3.8%	4.2%
Government	17.2%	16.6%

Source: Economy.com, *Arizona State Profile*, August 2004.

## 3. Economic Diversity

In 2002, the Arizona Department of Commerce commissioned consulting firm Economy.com to analyze the state's economy and provide a summary of growth opportunities for the state. One of the key conclusions from the report was that **Arizona's economy was lacking in diversity.** On its index of industrial diversity, Economy.com ranked Arizona's economy 11<sup>th</sup>-least diverse in the nation and last among those states considered to be its competitors. Although the state has diversified its

<sup>78</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>79</sup> U.S. Census Bureau, Census 2000 Data.

<sup>80</sup> Economy.com, *Arizona State Profile*, August 2004.

economy somewhat over the past 15 years, it has not kept up with the increasingly diversified U.S. economy, and so its economic diversity has not improved relative to the rest of the country. The report concludes that **the lack of relative diversity could leave Arizona in a situation where the state is unable to take advantage of emerging trends** in the U.S. economy that would otherwise allow it to improve its own economy.<sup>81</sup>

#### 4. Trade

**In 2003, Arizona exported \$13.3 billion worth of goods outside of the U.S., accounting for 1.84% of U.S. total exports.** Arizona's top export was digital monolithic integrated circuits (comprising 29.8% of the state's exports), followed in importance by airplanes and airplane parts and non-digital monolithic integrated circuits.<sup>82</sup> Mexico was the top destination for Arizona's exports in 2003, accounting for 24.2% of the state's exports. Rounding out the top five export countries for Arizona were Malaysia (12.2%), Canada (8.5%), the United Kingdom (5.6%), and China (5.6%). Since 2000, Mexico's share of exports has dropped from 32.5% to 24.2%, while China's has increased more than five-fold, from 1.1% to 5.6%.<sup>83</sup>

Although **Arizona and Mexico have a substantial trade relationship, Arizona has not taken advantage of its border relationship to the same degree as have Texas and California**, its competitors. The state's trade position should be enhanced somewhat by the initiation of the Central American Free Trade Agreement (CAFTA) and the Free Trade Area of the Americas (FTAA), but Arizona will also need to improve the infrastructure at its border crossings if it wants to substantially improve its trade position with Mexico.<sup>84</sup>

### B. ECONOMIC PERFORMANCE

#### 1. Historic Economic Performance

**Arizona's economy has traditionally been structured around the "Five C's" – cotton, cattle, citrus, copper, and climate.** However, while these industries still play a role in the state's economy, they no longer drive it, and their slow growth rates suggest that they will continue to decline in importance.<sup>85</sup> In the state as a whole, mining and agriculture together now account for only 3% of the economy, a share roughly equivalent to their average share nationwide. The dominance of agriculture and mining began to decline during the 1930s, and the decline continued through World War II, when government's share of the state's economy increased substantially, accounting for more

<sup>81</sup> Economy.com, *Arizona's Economic Future*, pp. 5-6.

<sup>82</sup> U.S. Census Bureau, Foreign Trade Division, *Total U.S. Exports (Origin of Movement) via Arizona Top 25 Commodities Based on 2003 Dollar Value*, <http://www.census.gov/foreign-trade/statistics/state/hs/2003/az.pdf>.

<sup>83</sup> U.S. Census Bureau, Foreign Trade Division, *Total U.S. Exports (Origin of Movement) via Arizona Top 25 Countries Based on 2003 Dollar Value*, <http://www.census.gov/foreign-trade/statistics/state/country/2003/az.pdf>.

<sup>84</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>85</sup> Economy.com, *Arizona's Economic Future*, p. 5.

than 33% at its peak. After the war, government's share dropped drastically, and Arizona's economy became increasingly industrialized. Between the 1950s and 1980s, manufacturing, construction, government, and finance, real estate, and insurance all played important roles in the economy. Starting in the late 1980s, services' share of the economy grew considerably until 2000, mirroring the growth of services nationwide.<sup>86</sup>

Arizona's economy flourished up until the mid 1980s, when a crash in the real estate market and events in other sectors cause a recession that resulted in layoffs due to decreased government contracting and overbuilding. Poor economic conditions lasted through the mid-1990s, when the economy again began to improve.<sup>87</sup>

## 2. Recent Economic Performance

**Arizona was particularly hard hit by the recession of 2001-2002.** Between spring 2001 and summer 2002, the state lost approximately 38,000 jobs and its unemployment rate rose by two percentage points,<sup>88</sup> as compared to an increase of approximately 1.5 percentage points nationally during the same time period.<sup>89</sup> The state's reliance on tourism made it particularly vulnerable in the months after September 11<sup>th</sup>, when areas in the state that relied on visitors arriving by air saw a sharp decline in visitor traffic. Additionally, the state was hurt by its reliance on high-tech manufacturing when demand for high-tech products fell substantially during 2001.<sup>90</sup> **More recently, however, Arizona's economy has picked up steam. Much of the state's economic growth has been driven by its dramatic increase in population,** with demographic-based industries such as construction, retail, and real estate playing an important role revitalizing in the state's economy.<sup>91</sup>

By late 2003, employment levels in Arizona had surpassed their previous peak in 2001, and they have continued to increase since that time.<sup>92</sup> **In the second quarter of 2004, Arizona ranked third among all states in job growth,** with the Phoenix and Tucson MSAs ranking 18<sup>th</sup> and 76<sup>th</sup>, respectively, among the 281 MSAs. Jobs were added in the construction, education and health services, professional and business services, and retail trade sectors, while jobs were lost in the information, manufacturing, and wholesale trade industries.<sup>93</sup> In October 2004, unemployment in Arizona was reported to be 4.8%, better than the national average of 5.5%.<sup>94</sup>

<sup>86</sup> Center for Business Research, Arizona State University, *Arizona Economic Profile*, p. 99.

<sup>87</sup> Arizona Department of Commerce, *ASPED to GSPED*, <http://www.commerce.state.az.us/pdf/miss/aspedGSPED.pdf>.

<sup>88</sup> Economy.com, *Arizona's Economic Future*, p. 3.

<sup>89</sup> U.S. Bureau of Labor Statistics, Archived Unemployment Data, [http://www.bls.gov/schedule/archives/laus\\_nr.htm](http://www.bls.gov/schedule/archives/laus_nr.htm).

<sup>90</sup> Economy.com, *Arizona's Economic Future*, p. 3.

<sup>91</sup> Arizona Department of Commerce, *Arizona Economic Base Study 2002*, p. 2.

<sup>92</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>93</sup> FDIC, *Arizona State Profile*, Fall 2004, <http://www.fdic.gov/bank/analytical/stateprofile/>.

<sup>94</sup> The Federal Reserve Bank of San Francisco, *Twelfth Federal Reserve District Regional Economic Briefing*, December 2004, <http://www.frbsf.org/publications/economics/briefing/reb.pdf>, p. 8. For up-to-date unemployment data in Arizona, please visit the Federal Reserve Bank of San Francisco's Economic Research website at <http://www.frbsf.org/economics/index.html>.

Growth in number of businesses is also on the upswing in Arizona. **The state ranked 11<sup>th</sup> highest in the country in 2003 in business growth**, with the number of firms increasing by 1.7%. At the same time, **the number of business bankruptcies in Arizona has been falling since 1990**. The state had about 700 firms file for bankruptcy in 2003, down nearly 30% from the number that filed for bankruptcy in 1990.<sup>95</sup> Increases in commercial lending suggest that business growth is likely to continue; the median annual commercial and industrial loan growth rate and the rate of small business lending in Arizona had both increased on a year-over-year basis as of September 2004.<sup>96</sup>

However, despite impressive job growth in Arizona, **the poverty rate continues to be high and per capita income growth continues to be below the national average**. This disparity suggests that the jobs being created in Arizona are not the well-paying jobs the state may desire and that it will need to continue to work to attract better-paying jobs in healthcare, technology, and defense in order to translate job growth into per capita income growth.<sup>97</sup>

### 3. Economic Outlook

**The outlook for Arizona's economy going forward is generally positive**. The state is expected to **continue to capitalize on its strong population growth** and the resulting boom in the finance, retail, and construction sectors, and on the increase in federal defense spending in order to expand its economy. There is also potential for the state to attract substantial biotechnology-related companies and economic activity in the future.<sup>98</sup> Not surprisingly, job growth is expected to come through increases in employment in population-related industries, such as education and health services, retail trade, financial activities, and construction.<sup>99</sup> **Economy.com reported in August 2004 that it expects Arizona to be one of the top three performers in the U.S. in the long term.**

However, according to Economy.com's 2002 analysis in *Arizona's Economic Future*, **there are significant challenges that Arizona must address if it wishes to continue growing its economy**. For example, the state will likely need to invest in its workforce more substantially in the future in order to continue attracting employers. Arizona spending on education ranks near the very bottom for K-12 and post-secondary education, and its lack of emphasis on education is evident in its low academic achievement results as early as eighth grade. Arizona also will need to address its relatively high crime rate, poor-quality water and telecommunications infrastructure, lack of venture capital, and business tax structure in order to attract businesses.<sup>100</sup>

<sup>95</sup> FDIC, *Arizona State Profile*, Fall 2004.

<sup>96</sup> Ibid.

<sup>97</sup> Economy.com, *Arizona State Profile*, December 2003.

<sup>98</sup> Economy.com, *Arizona State Profile*, August 2004.

<sup>99</sup> Eller College of Business and Public Administration, The University of Arizona, *2004-2005 Annual Forecast*, <http://ebr.eller.arizona.edu/Publications/Outlook/Outlook4-5.pdf>, p. 6.

<sup>100</sup> Economy.com, *Arizona's Economic Future*, p. 1.

### III. STATE AND LOCAL GOVERNMENT

#### A. STRUCTURE

##### 1. State and Local Governments

As of June 2002, Arizona had 638 active local governments, ranking it 39<sup>th</sup> among all states in the number of local governments (with first being the highest number of local governments). Arizona is subdivided into 15 counties, each of which elects a board of supervisors to carry out a variety of state-mandated functions. The state also has 87 municipal governments that provide direct services to city or town residents. In addition, the Arizona State Constitution provides for special purpose governments, which provide a specific service to a designated area or population. Among these special purpose governments are 245 public school systems, governed by elected boards, and 305 special district governments, including such agencies as active management area water districts and community park maintenance districts, among many others. Arizona also has numerous subordinate agencies and special areas, which possess some governmental features but are not counted as separate government agencies, such as natural resource conservation districts, housing authorities, and municipal airport authorities.<sup>101</sup>

Further, Arizona has regional government in the form of six Council of Governments (COG) associations. The functions of the COGs vary by location, but generally the organizations provide a way for regions to address cross-cutting issues such as intercommunity disparities, regional economic development, and balanced growth. In some rural areas, COGs also perform direct services such as operating housing programs and programs for seniors.<sup>102</sup>

##### 2. Educational System

Arizona's public primary and secondary education system is divided into 221 school districts, which together serve 762,000 students.<sup>103</sup> Additionally, there are 495 charter schools in Arizona, which combined serve 73,542 students. Arizona has the second highest number of charter schools nationally, behind only California.<sup>104</sup> Arizona also has a wide range of post-secondary educational offerings. The state is home to nearly 250 post-secondary institutions, including three state universities, 19 community colleges, approximately 20 accredited degree-granting private colleges and universities, and about 180 trade and technical schools.<sup>105</sup> Arizona's largest universities include Arizona State University (enrolling more than 57,000 students), the University of Arizona (enrolling

<sup>101</sup> U.S. Census Bureau, 2002 Census of Governments, *Preliminary Profile of Arizona*, <http://ftp2.census.gov/govs/cog/gc0212az.pdf>.

<sup>102</sup> Northern Arizona Council of Governments, *The COGs*, <http://www.nacog.org/cogs/default.htm>.

<sup>103</sup> Arizona Department of Commerce, *Quality of Life*, <http://www.commerce.state.az.us/business/quality.asp>.

<sup>104</sup> U.S. Charter Schools, *State by State Numbers*, <http://www.uscharterschools.org/cs/sp/query/q/1595>.

<sup>105</sup> Arizona Department of Commerce, *Quality of Life*.

more than 34,000 students), and Northern Arizona University (enrolling more than 18,000 students).<sup>106</sup>

## B. GOVERNMENT FINANCES

State revenue receipts in Arizona derive primarily from taxes (49%), grants and contributions (38%), and charges for services (10%). Breaking down taxes further, sales tax accounts for the largest proportion of tax revenues (50%), with the other taxes contributing substantially small proportions as follows: income tax (26%), motor vehicle and fuel taxes (17%), and other taxes (7%).<sup>107</sup> Arizona is tied for having the 17<sup>th</sup>-highest state and local tax burden, with its average state and local tax burden equal to the national average of 10%.<sup>108</sup>

**Arizona has relatively low state debt levels**, with a total debt burden of only \$324 per capita (including state certifications of participation (COPs), school board COPs, and sales tax bonds).<sup>109</sup> **In 2002, Arizona ranked 39<sup>th</sup> (with 50<sup>th</sup> being the lowest) in state and local government debt per capita.**<sup>110</sup> Arizona's constitution does not allow it to issue General Obligation Bonds, so the state debt consists of \$350 million in state COPs, \$800 million in certificates of deposit used for new school construction, \$250 million worth of state school trust revenue bonds, and \$700 million in school improvement revenue bonds. **Standard & Poor's has given Arizona a strong issuer credit rating of "AA,"** which reflects the state's growing economy, improving financial position, and low debt burden.<sup>111</sup>

**After two years of relatively weak revenue collections in FY 2002 and 2003, Arizona saw its financial position improve in FY 2004.** Recurring revenues, including sales tax and individual and corporate income taxes, increased 11.9% over FY 2003, and Standard & Poor's estimated that the state would end FY 2004 with twice the balance in its general fund operations that it had at the beginning of the year. Standard & Poor's prediction for FY 2005 is that recurring general fund revenue collections in Arizona will increase by 8.3% over FY 2004 levels, further improving the state's financial position.<sup>112</sup>

## C. MAJOR GOVERNMENT AGENCIES INVOLVED IN COMMUNITY DEVELOPMENT

**The Community Development Division at the Arizona Department of Commerce** takes the lead on statewide community development issues in Arizona. The division's responsibilities include working with cities, towns, counties, and tribal communities on

<sup>106</sup> Data obtained from university websites in November 2004.

<sup>107</sup> Arizona Department of Administration, General Accounting Office, *Arizona Financial Highlights for FY 2003*, April 2004, <http://www.gao.state.az.us/financials/highlights/FinHighLight03.pdf>, p. 4.

<sup>108</sup> The Tax Foundation, *Tax Burdens by State in 2004*, <http://www.taxfoundation.org/statelocal04.html>.

<sup>109</sup> Standard and Poor's, *Arizona Tax Secured, General Obligation Credit Profile*, August 2004.

<sup>110</sup> The Public Policy Institute of New York State, Inc., *State and Local Government Debt Per Capita: 2002*, <http://www.ppiny.org/reports/jtf2004/stlocaldebt.htm>.

<sup>111</sup> Standard and Poor's, *Arizona Credit Profile*.

<sup>112</sup> Ibid.

community planning, encouraging efficient use of energy in Arizona, assisting local communities with the development and financing of public infrastructure projects, and advising rural communities on matters of sustainable economic development. Some state and local government agencies are also members of the **Community Development Coalition of Arizona**, a membership organization that seeks to educate legislators and the public about community and economic development issues and advocates for increased funding for affordable housing programs.

The **Arizona Department of Housing (ADOH)** is responsible for establishing policies, procedures and programs to address affordable housing issues confronting this state. Among other things, the Department is required to provide financial, advisory, consultative, planning, training and educational assistance for the development of safe, decent and affordable housing for low-and-moderate income households. ADOH does not directly own, construct, operate, or rehabilitate any housing units. The primary function of the Department is to facilitate the development of housing through financial and technical assistance. ADOH is a non-general fund agency, whose state funding comes from a portion of unclaimed property proceeds. Funding received from unclaimed property is placed into the Housing Trust Fund administered by ADOH. In addition to state programs, ADOH oversees and administers many federal housing programs from the U.S. Department of Housing and Urban Development (HUD). These include the Home Investment Partnership Program (HOME), the Community Development Block Grant (CDBG), Section 8 Housing Choice Voucher Program for Graham and Yavapai counties, Housing Opportunities for People with AIDS (HOPWA), Shelter Plus Care and Supportive Housing Programs. Communities in Maricopa and Pima Counties receive federal housing funds directly from HUD, as do the cities of Yuma, Flagstaff and Prescott in the case of CDBG. ADOH is also the statutorily designated federal housing credit agency and is responsible for allocating federal Low Income Housing Tax Credits (LIHTC) throughout the state.

ADOH also provides staff support to the **Arizona Housing Commission (AHC)** and the **Arizona Housing Finance Authority (AzHFA)**. The AHC is a statutorily created body comprised of representatives from private industry, community-based nonprofit housing organizations, and state, local and tribal governments. It is charged with recommending affordable housing strategic planning and policy and advising the governor, the legislature, state agencies and city, county and tribal governmental bodies on the public and private actions that affect the cost or supply of housing.

The **AzHFA** promotes affordable housing opportunities in the 13 rural counties (outside of Maricopa and Pima counties) of the state through the issuance of private activity bonds. The issuance of private activity bonds allows the AzHFA to provide financing for reduced interest mortgages (through the Mortgage Revenue Bond program) for first-time homebuyers and Mortgage Credit Certificates (MCCs) that reduces the federal tax liability for first-time homebuyers, thereby qualifying them for an increased mortgage amount. Both programs have down payment and closing cost assistance available (maximum \$20,000) through the Homes for Arizonans Initiative. The AzHFA also issues private activity bonds for affordable multifamily development in rural Arizona.

**The Office of Small Business Services**, housed in the Global Business Development Division at the Arizona Department of Commerce, is the primary government agency responsible for supporting small business in Arizona. The office positions itself as a one-stop center for information about Arizona small business resources. Other divisions within the Department of Commerce also provide small business-related resources, including the **Business Attraction and Development Division**, which is responsible for marketing Arizona nationally and internationally and for promoting other economic development initiatives, and the **International Trade Division**, which is responsible for helping Arizona's businesses navigate the international marketplace. Additionally, **the Governor's Council on Small Business**, an appointed group of 25 small business owners and advocates, addresses topics of particular concern to small businesses, such as health insurance, licensing issues, and supply chain issues, and makes recommendations to the Governor on these issues.

**The Arizona Department of Economic Security** handles poverty and income support activities for the state. Services provided by the agency include administering financial assistance, food stamp benefits, and medical benefits to those who qualify, determining eligibility for SSDI and SSI programs, administering unemployment and job rehabilitation programs, providing administrative support for child and family services throughout the state, enforcing child support laws, administering programs for aging and vulnerable adults (including homeless and refugee programs), and providing services to those with developmental disabilities.

The **Arizona Commission on Indian Affairs (ACIA)** is the state's liaison with its 22 federally-recognized Indian Tribes/Nations. ACIA is tasked with a variety of activities, including making recommendations to the Governor and Legislature on issues of importance to the Native American community, creating an awareness of the needs of Indians in Arizona, assisting in the development of more effective tribal governments, and promoting increased participation by Indians in state and local government.

## IV. NONPROFITS AND FINANCIAL INSTITUTIONS

### A. NONPROFITS

As of November 2002, the Arizona State University Center for Nonprofit Leadership and Management estimated that **Arizona had approximately 18,950 nonprofit organizations operating within the state.** At the time of the last published U.S. Economic Census, the Arizona nonprofit sector paid annual wages of \$2.7 billion, representing **approximately 6% of the total wages paid in the state.** The vast majority of these wages were paid by nonprofit health care organizations.<sup>113</sup>

The Center looked in depth at charitable nonprofits (those designated as 501(c)3 nonprofits) in a study released in May 2003 and found that these nonprofits account for 61% of all nonprofits in Arizona. Although most of Arizona's nonprofits are small in terms of revenue size, all together, Arizona's 501(c)3 organizations raised almost \$9 billion in revenue and maintained assets of nearly \$8 billion in 2000. Of those that file tax returns—which many small nonprofits are not required to do—more than half indicated that they had revenues of less than \$200,000 per year.<sup>114</sup>

The Center also studied foundations in Arizona. It estimated that as of 2000, there were 151 public foundations and 535 private foundations operating within the state, an increase of 57% since 1993. Assets of private foundations totaled approximately \$1.5 billion, while assets of public foundations totaled slightly more than \$489 million. The state's largest foundations include the Virginia C. Piper Charitable Trust, the Arizona Community Foundation, the Nina Mason Pulliam Charitable Trust, and the Flinn Foundation.<sup>115</sup>

Nonprofits and foundations serving charitable purposes in Arizona are also aided by charitable donations and volunteer participation by Arizona residents. A June 2002 survey conducted by the Center found that 87.3% of Arizona households had made a financial contribution to a charitable organization in the past year, donating an average of \$1,572 annually. In addition, Arizona residents participated heavily in informal giving, with 69.1% of respondents reporting they had given money directly to someone in need. The survey also found that 55.5% of Arizona residents had volunteered time with a charitable organization in the past year, averaging 3.74 hours per week.<sup>116</sup>

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<sup>113</sup> William A. Brown, Arizona State University, Center for Nonprofit Leadership and Management, *Arizona Nonprofits: Scope of the Sector in Brief – Edition III*, May 2003, <http://www.asu.edu/copp/nonprofit/res/Scope503.pdf>.

<sup>114</sup> Ibid.

<sup>115</sup> William A. Brown, Arizona State University, Center for Nonprofit Leadership and Management, *Profile of Charitable Foundations in Arizona*, October 2003, [http://www.asu.edu/copp/nonprofit/res/foundationprofile\\_ver6.2.pdf](http://www.asu.edu/copp/nonprofit/res/foundationprofile_ver6.2.pdf).

<sup>116</sup> Arizona State University, Center for Nonprofit Leadership and Management, *Arizona Giving and Volunteering*, 2003, <http://www.asu.edu/copp/nonprofit/res/Arizona%20Giving%20and%20Volunteering.pdf>.

## B. FINANCIAL INSTITUTIONS

CFED's data on bank access reveals a relatively weak position for Arizona. Specifically, only about one third of the state's households have a checking account and only 55% of households have a savings account. These percentages yield national rankings on these measures of 31<sup>st</sup> and 40<sup>th</sup> lowest, respectively.<sup>117</sup>

**The number of banks in Arizona has decreased over the last several years.**<sup>118</sup> As of June 2004, the state was served by 78 FDIC-insured banks and thrifts, which together held \$61.8 billion in deposits in the state.<sup>119</sup> As of the third quarter of 2004, the year-to-date industry-wide median return on assets (ROA) for banks headquartered in Arizona was 0.86%, well below the 1.03% national median ROA.<sup>120</sup>

As of June 2004, **more than two thirds of the deposits in Arizona were controlled by three banks:** Bank One (27%), Bank of America (21%), and Wells Fargo (20%).<sup>121</sup> **There are also 65 credit unions active in Arizona, which together control 13.7% of total credit union/bank assets in the state,** more than twice the market share of all U.S. credit unions (6.5% of total assets).<sup>122</sup>

## C. CDFIs

**Eleven Arizona organizations have been certified by the Community Development Financial Institutions (CDFI) Fund as of November 2004.** To achieve certification, an entity must have a primary mission of promoting community development, principally serve and maintain accountability to an eligible target market, be a financing entity, provide development services, and not be either a government entity or controlled by a government entity.<sup>123</sup> CDFIs in Arizona serve primarily low-income and minority individuals, and provide much-needed funding to rural areas. At the end of FY 2002, CDFIs in Arizona had \$32.3 million in financing outstanding to more than 12,000 customers in the state.<sup>124</sup>

The 11 certified CDFIs in Arizona as of November 2004 are:<sup>125</sup>

- Hopi Credit Association
- Neighborhood Economic Development Corporation

<sup>117</sup> CFED, *State Asset Development Report Card (SADRC)*, 2002, pp. 114-115.

<sup>118</sup> U.S. Small Business Administration, *2003 State Small Business Profile: Arizona*, <http://www.sba.gov/advo/stats/profiles/03az.pdf>.

<sup>119</sup> FDIC, *Deposit Market Share Report: Arizona*, June 2004.

<sup>120</sup> FDIC, *Arizona State Profile*, Fall 2004.

<sup>121</sup> FDIC, *Deposit Market Share Report*.

<sup>122</sup> Arizona Credit Union League, *Credit Union Fact Sheet*, [http://www.cuna.org/download/arizona\\_fs.pdf](http://www.cuna.org/download/arizona_fs.pdf).

<sup>123</sup> CDFI Fund, U.S. Department of the Treasury, *CDFI Fund Overview*, <http://www.cdfifund.gov/overview/index.asp>.

<sup>124</sup> CDFI Coalition, *CDFIs in Arizona: 2004 Fact Sheet*, <http://www.cdfi.org/states/Arizona2004.pdf>.

<sup>125</sup> CDFI Fund, U.S. Department of the Treasury, *Certified CDFI's – Alphabetical by State and County*, November 2004.

- Arizona Multibank, CDC
- Neighborhood Housing Services of Phoenix, Inc.
- Prestamos CDFI, LLC
- Raza Development Fund, Inc.
- Self-Employment Loan Fund, Inc. (SELF)
- Arizona Family Housing Fund
- Navajo Partnership for Housing, Inc.
- PPEP Microbusiness and Housing Development Corporation
- Rural Community Assistance Corporation

Certification as a CDFI also enables entities to apply for various awards from the CDFI Fund. Recent awardees in Arizona include the following:<sup>126</sup>

- The **Hopi Credit Association** has received three awards. Most recently, in 2000, the institution was awarded a \$500,000 loan to expand housing-related lending and to increase its work with small business borrowers.
- The **Arizona MultiBank Community Development Corporation** won a 2002 Core grant to enable it to enlarge its Affordable Housing Loan Pool.
- **Northern Trust Bank of Arizona** received awards through the BEA program in 1999, 2000, 2001, and 2003. Its most recent award was to allow it to increase financing activities in economically-distressed areas in Arizona and Colorado.
- **Wells Fargo Bank Arizona** received an award in 2001 through the BEA program for its support of three Arizona CDFIs: the Local Initiatives Support Corporation, Neighborhood Economic Development Corporation of Mesa, and the Self Employment Loan Fund of Phoenix.
- **Economic Development Authority of the Tohono O’odham Nation** received an award in 2002 to help it develop a new CDFI to address the financial distress in the Tohono O’odham Nation of Sells, AZ.
- **Navajo Partnership for Housing** received a technical assistance award in 2002 to develop a capitalization strategy and improve organizational efficiency, as well as to educate other lenders about lending on or near the Navajo Nation.
- **PPEP Microbusiness and Housing Development Corporation** received a technical assistance grant in 2000 to improve the design and delivery of its loan products and development services.
- **The Neighborhood Economic Development Corporation** received its first CDFI award in 2001, and was most recently funded again for \$199,950 in September 2004.

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<sup>126</sup> CDFI Fund, U.S. Department of the Treasury, *Awardee Profiles by State – Arizona*, <http://www.cdfifund.gov/awardees/pdf/states/arizona.pdf>.

## V. AFFORDABLE HOUSING

Arizona faces a shortage of affordable housing. The state is ranked relatively poorly in the affordability of its rental housing and in its homeownership rate. An estimated 44% of renters and 20% of homeowners are experiencing either housing affordability or quality problems, and the growth in the number of housing units in the state, particularly affordable units, is constrained by the limited availability of private land available for development.<sup>127</sup> The degree of affordability problems varies by region, and in the most expensive areas, including the Flagstaff MSA and Coconino, Pinal, and Mohave Counties, nearly 60% of renters are unable to afford the two-bedroom fair market rent.<sup>128</sup> However, despite its low housing affordability, the state can be credited for a number of homeownership assistance programs, including a state housing trust fund, property tax circuit breaker programs, and first-time homebuyer assistance programs.<sup>129</sup> Overall, the availability of affordable housing has clearly not kept pace with the state's rapid growth and needs additional support.

### A. AFFORDABLE HOUSING NEEDS

#### 1. Overall Housing Market

As of 2003, Arizona had a total of 2.4 million housing units, of which 14.4% were vacant. Arizona's 2003 vacancy rate was high compared to that of the U.S. as a whole, where only 10.3% of housing units were vacant. **The majority of Arizona's housing units (65%) are single-unit structures**, although 22% are located in multi-unit structures and 13% are mobile homes. Perhaps not surprisingly, given Arizona's rapid population increases over the past decade, **slightly more than one third of the state's housing units were built since 1990.**<sup>130</sup>

As of 2003, **the median value of owner-occupied units with a mortgage in Arizona was \$146,124, the 20<sup>th</sup>-highest value nationally.** The median monthly housing cost for mortgaged owners was \$1,146, nonmortgaged owners, \$284, and renters, \$662. **A substantial portion of Arizona residents, renters in particular, spend more than 30% of their monthly household income on housing**—as of 2003, 31% of owners with mortgages, 9% of owners without mortgages, and 49% of renters in the state fell into this category.<sup>131</sup>

**Arizona's Department of Economic Security estimates that there may be as many as 22,000 homeless people in Arizona on any given day** and cautions that the state's

<sup>127</sup> Arizona Housing Commission (AHC), Arizona Department of Commerce, Office of Housing and Infrastructure Department, *The State of Housing in Arizona 2000*, <http://www.housingaz.com/UPLOAD/HsgReprt.pdf>, pp. 4-5.

<sup>128</sup> National Low Income Housing Coalition (NLIHC), *Out of Reach 2003*, <http://nlihc.org/oor2003/>.

<sup>129</sup> CFED, *SADRC*, 2002, p. 34.

<sup>130</sup> U.S. Census Bureau, 2003 American Community Survey Data.

<sup>131</sup> *Ibid.*

relatively high poverty rate means that there is sizable part of the non-homeless population that may be at risk of homelessness in the future.<sup>132</sup>

## 2. National Low Income Housing Coalition's Analyses of Rental Housing Affordability

The National Low Income Housing Coalition (NLIHC) has for several years produced a report entitled *Out of Reach* that analyzes the country's wage-rent disparity. Specifically, the NLIHC calculates the amount of money a household must earn in order to afford a rental unit in a range of sizes at the area's Fair Market Rent (FMR), based on the generally-accepted limit of paying no more than 30% of income for housing costs. The required income is then compared to the Area Median Income (AMI), the minimum wage, and the incomes of extremely low-income households (less than 30% of AMI). In addition, in 2004, the NLIHC released a report entitled *Up Against a Wall: Housing Affordability for Renters*, analyzing rental-housing related data from the 2003 American Community Survey.

Taken together, the reports indicate that **Arizona suffers from a serious lack of affordable rental housing**. Using an index that takes into account the state's median gross rent, a ratio of rental costs to incomes, and the percentage of renter households in the state spending more than 50% of income on rent, **the NLIHC ranked Arizona as having the eight-least affordable rental housing in the country**. Looking at the individual measures, Arizona's median gross rent in 2003 was \$662, ranking the state as only the 19<sup>th</sup>-most expensive state, but its renter affordability ratio rank was lower, at 11<sup>th</sup>-least affordable. And, nearly one quarter of renters in the state spend more than 50% of their income on rent, ranking the state 11<sup>th</sup> worst on that measure as well.<sup>133</sup>

In Arizona, the **"housing wage,"** which is **the amount a full-time (40 hours per week) worker must earn in order to afford a two-bedroom unit at the area's FMR, is \$14.93**. This wage is nearly triple the state's minimum wage of \$5.15 per hour. Put differently, based on the FMR, a minimum-wage worker **must work 116 hours per week in order to afford the rent on the average two-bedroom unit** in Arizona.<sup>134</sup> Comparing the FMR to the wages of renters in Arizona, an estimated **50% of renters were unable to afford the two-bedroom FMR as of 2003**. In the most expensive locations in the state, this figure rises even higher, coming in at 58% in the Flagstaff MSA, and Coconino and Pinal Counties, and at 59% in Mohave County.<sup>135</sup>

<sup>132</sup> Arizona Department of Economic Security (DES), *The Current Status of Homelessness in Arizona and Efforts to Prevent and Alleviate Homelessness*, December 2003, <http://www.de.state.az.us/csa/pdf/FinalAnnualReport2003.pdf>.

<sup>133</sup> NLIHC, *Up Against A Wall: Housing Affordability for Renters*, Ranking Tables, 2003 ACS Renter Affordability Measures, November 2004, <http://nlihc.org/pubs/uaw04/newrankingtables.pdf>.

<sup>134</sup> NLIHC, *Out of Reach 2004*, <http://nlihc.org/oor2004/>.

<sup>135</sup> NLIHC, *Out of Reach 2003*.

### 3. Homeownership Statistics

Arizona ranks somewhat below average in its rate of homeownership. **As of 2002, 65.9% of Arizona households owned their own homes**, down from 68.0% in 2000.<sup>136</sup> **Arizona's current homeownership rate places it eighth worst in the nation.**<sup>137</sup>

Arizona fares somewhat better in rankings of disparity of homeownership rates among race, gender, and income. Specifically, Arizona has the **11<sup>th</sup>-smallest gap between rates of homeownership among white-headed households and non-white-headed households** in the nation. However, the state ranks only **in the middle in terms of homeownership gaps by gender and income, with the 27<sup>th</sup> and 28<sup>th</sup> smallest gaps in these categories**, respectively.<sup>138</sup>

### 4. The State of Housing in Arizona 2000 Report

In 2000, the Arizona Housing Commission (AHC) and the Arizona Department of Commerce, Office of Housing and Infrastructure Department, released their report entitled *The State of Housing in Arizona 2000*, which analyzed housing data and policies in Arizona and provided policy recommendations for easing the state's affordable housing crisis. **The study found that the problem of affordable housing in Arizona was worsening as a result of the combination of Arizona's continued population growth and stagnant income levels.**

Specifically, the study reported that the number of households grew by 31% between 1990 and 1998, and was predicted to grow another 14.5% between 1998 and 2003. Between 1990 and 1998, the number of new housing units grew at a rate of 22.5%, but this growth tended to be in the high-income household category. In the third quarter of 1998, fewer than 6% of new homes sold for less than \$95,000, while nearly 20% sold for \$200,000 or more. The impact of this increase in prices on the ability of Arizona residents to own their home is demonstrated by the fact that in 1970, 64% of Arizona households could afford to purchase the median-value home, while by 1999, only 43% of households could afford the same. Similarly, 73% of Arizona households could afford the median rent in 1970, while by 1999, only 62% could afford the same.

The report also highlights the fact that **growth in the number of housing units, particularly affordable units, is constrained by the limited availability of land for development in the state.** Private land is estimated to account for between 13% and 17% of land in the state, with the remainder owned by city, state, tribal, and federal government entities. The AHC noted that the small proportion of private land increases land and development costs and makes affordable housing less attractive from a tax-base perspective.

The study estimated that, as of 2000, there were then 70,000 rental units subsidized by the government (including units located on Native American reservations), but that these units were not nearly enough to meet the needs of Arizona's low-income population. An

<sup>136</sup> U.S. Census Bureau, Census 2000 Data and *Statistical Abstract of the United States: 2003*.

<sup>137</sup> U.S. Census Bureau, *Statistical Abstract of the United States: 2003*.

<sup>138</sup> CFED, *SADRC*, pp. 93-97.

estimated 44% of renters and 20% of homeowners in Arizona met the definition of experiencing a “housing problem” in 2000, meaning that they either paid more than 30% of their income for housing or lived in overcrowded or substandard housing.<sup>139</sup>

### 5. Arizona Affordable Housing Profile 2002 Report

As a follow up to the *State of Housing in Arizona* report, the Arizona Department of Housing requested additional research to examine the housing needs of individual communities. The *Arizona Affordable Housing Profile* was the fulfillment of that request, providing data on the housing inventory in the state’s incorporated communities and counties, the affordability of that housing, and each community’s efforts to address its housing challenges.

One of the study’s goals was to assess the state’s “affordability gap,” defined as the difference between the number of households within each income range and the number of housing units affordable to those households. **The study estimates the affordability gap in the state overall at 10.3% of all households** (including those on Native American reservations). The table below presents the breakdown by region:

#### **Households in Each Region in the “Affordability Gap”**

<i>County</i>	<i>Number of Households</i>	<i>Percent of Households</i>
Maricopa	108,500	9.6%
Pima	25,100	7.6%
Non-Metro	37,400	9.5%
Native American Reservations	23,700	56.7%

Source: AHC, Arizona Department of Housing, and the U.S. Department of Housing and Urban Development, *Arizona Affordable Housing Profile: Findings and Conclusions 2002*, p. 1.

The study also presented three primary findings about the state of housing in Arizona. First, **the income levels of households in the affordability gap differ in different regions of the state**. In larger, more established communities, the gap tends to occur at income ranges less than 50% of median income. This results from a stock of older housing that is generally more affordable than newer housing. Conversely, in newer communities, where older, more affordable housing is not available, there is not a predictable income range for the affordability gap, and the authors suggest that the needs of every community be considered individually in order to devise the most effective strategy to improve affordability of low-income housing.

Second, **mobile homes and manufactured housing are very important sources of affordable housing in non-metro areas** of the state. Census 2000 figures reveal that mobile homes account for 13.8% of housing units in Arizona and 28.8% of housing units outside of Maricopa and Pima counties.

Third, **the state should pay particular attention to the lack of housing available for the lowest-income residents in Arizona, in part because of its effect on the**

<sup>139</sup> AHC, Arizona Department of Commerce, Office of Housing and Infrastructure Department, *The State of Housing in Arizona: 2000*, pp. 5-6.

**affordability gap for moderate-income residents.** The study found that the lowest-income residents occupy housing that is out of their affordability range that would otherwise be occupied by higher-income residents, exacerbating the shortage of affordable homes for moderate-income, working families in Arizona.

The study also included a survey of public officials, city staff members, and real estate and housing professionals regarding their perceptions of barriers to affordable housing. The top barriers mentioned by those surveyed were high land cost/limited land affordability (47.5%), lack of infrastructure (29.4%), wage gap (28.6%), lack of employment opportunities (27.0%), and zoning (20.0%).<sup>140</sup>

## B. AFFORDABLE HOUSING RESOURCES

### 1. CFED's Affordable Homeownership Program Rankings

Arizona received **recognition from CFED for its recent efforts to put in place homeownership assistance programs.** The state has a **state housing trust fund**, which provides it with a dedicated source of funds for housing activities. It also has a **property-tax circuit breaker program** to provide property tax relief to elderly homeowners and renters, and a **variety of first-time homebuyer assistance programs**, including: direct lending for homeownership, homeownership counseling, funds for second mortgages, and direct grants for down payments. Arizona also **ranks fairly high (16<sup>th</sup>) among states on its percentage of state allocations of private activity bonds for mortgage revenue bonds.**<sup>141</sup>

### 2. Supply of Public and Affordable Housing

The table below provides a breakdown by type of the available affordable housing units in Arizona as of 1998.

#### **Affordable Housing Units in Arizona by Type**

<i>Program</i>	<i>Number of Units</i>
HUD Section 8 Certificates and Vouchers	16,079
HUD Public Housing	6,944
HUD Project Based Section 8	9,847
USDA Rural Development Section 515	3,722
Arizona Low-Income Housing Tax Credit Program	10,615
Other	8,000
HUD-Assisted Low Rent Indian Housing	15,214
Total	70,421

Source: AHC, Arizona Department of Commerce, Office of Housing and Infrastructure Department, *The State of Housing in Arizona 2000*, p. 29.

<sup>140</sup> AHC, the Arizona Department of Housing, and the U.S. Department of Housing and Urban Development, *Arizona Affordable Housing Profile: Findings and Conclusions 2002*, pp. 1-2, 43.

<sup>141</sup> CFED, *SADRC*, pp. 129-133.

HUD's *Resident Characteristics Report* summarizes general information about households in the state that reside in Public Housing, Indian Housing, or who receive Section 8 assistance. According to the report, **Arizona has 27,340 units that fit this description**, of which 25,676 were occupied. The average annual income for residents in these units is \$10,253, with 66% of occupants qualifying as "extremely low income" (below 30% of median income). The majority of units are occupied by people who identify as White (77%), with the remainder of units occupied by individuals who identify as Black/African American or American Indian/Alaska Native. Forty-five percent of residents reported Hispanic/Latino origin.<sup>142</sup>

The Arizona Department of Housing (ADOH) reports in its *2003 Consolidated Annual Performance and Evaluation Report (CAPER)*, that in 2003, all sources combined in Arizona increased the supply of affordable housing by:

- constructing 2,765 new affordable rental homes;
- rehabilitating 2,289 existing rental homes and making them available to low-income households;
- constructing 36 units of permanent housing for seriously mental ill patients;
- constructing 139 transitional SRO's for homeless individuals;
- constructing 40 units of transitional housing for pregnant women;
- constructing emergency shelter space for 100 homeless victims of domestic violence; and
- constructing nine units of transitional housing for victims of domestic violence.<sup>143</sup>

### **3. Arizona Department of Housing Five-Year Strategic Plan**

ADOH acknowledges that Arizona has a lack of affordable housing, and pledges in its Five-Year Strategic Plan for 2000-2004 to increase the supply of affordable housing by "providing leadership and seeking new resources." Specifically, its objectives for rental and homeownership housing are to:

- augment rental affordability;
- increase the number of affordable rental units to meet demand;
- increase rehabilitation of affordable rental stock;
- promote homeownership affordability;
- increase the number of for-sale affordable units to meet demand;
- promote rehabilitation of existing owner-occupied stock; and
- implement a homebuyer assistance program that provides down-payment and closing cost assistance using American Dreams Downpayment Initiative funds and other resources.<sup>144</sup>

<sup>142</sup> HUD, *Resident Characteristics Report for Arizona, as of December 31, 2004*, <http://www.hud.gov/offices/pih/systems/pic/50058/rcr/index.cfm>.

<sup>143</sup> ADOH and DES, *Consolidated Annual Performance and Evaluation Report (CAPER)*, 2003, [http://www.housingaz.com/UPLOAD/Final\\_2003\\_CAPER%20.pdf](http://www.housingaz.com/UPLOAD/Final_2003_CAPER%20.pdf), p. 9.

<sup>144</sup> ADOH and DES, *FY 2004 State of Arizona Annual Action Plan*, May 2004, [http://www.housingaz.com/UPLOAD/2004\\_Con\\_Plan.pdf](http://www.housingaz.com/UPLOAD/2004_Con_Plan.pdf), p. 5.

By actual unit numbers, ADOH indicates in its five-year plan that **between FY 2000 and FY 2004, it will augment rental affordability for 1,700 households, increase the number of affordable rental units by 1,500, rehabilitate 200 units of rental stock, promote homeownership affordability for 1,000 households,** increase the number of for-sale affordable units by 150, and promote the rehabilitation of 750 existing own-occupied units.<sup>145</sup>

The state also has **a series of goals to increase housing for homeless individuals and individuals with special needs during the same five-year period,** including providing emergency shelter for 14,000 families and individuals, developing 4,500 units/beds of transitional and supportive housing, promoting 950 units of permanent housing, and increasing housing opportunities for persons with a wide range of special needs.<sup>146</sup>

#### **4. Affordable Housing Programs Using Federal Funds**

ADOH administers a wide range of federal and state affordable housing programs in conjunction with the state's Department of Economic Security and Public and Indian Housing Authorities, which directly manage the state's public housing units.

The **ADOH and Public and Indian Housing Authorities administer the tenant-based rental assistance (Housing Choice Voucher) programs and oversee the 111 federally-subsidized properties** that make up the state's project-based Section 8 affordable housing.

**ADOH also applies for and distributes federal housing grants for most of the state's rural areas.** For these areas, ADOH expected to receive \$23.4 million in funding from HUD in FY 2004, including funding for the following programs: CDBG (\$13.6 million), HOME (\$8.9 million), Emergency Shelter Grant (ESG) (\$711,000) and Housing Opportunities for Persons with AIDS (HOPWA) (\$128,000) program funds.<sup>147</sup>

The state expected to distribute the funds as follows:

- HOME funds were to be distributed statewide through a competitive application process, with the exception of about \$540,000 set aside for its American Dream Downpayment Initiative. At least 25% of the HOME funds received were to be set aside for projects and programs that serve special needs populations.
- ESG funds are administered through the Department of Economic Security, and the state planned to use these funds in FY 2004 to continue its existing contracts with grantees from FY 2003. The bulk of these funds (70%) were to go to Maricopa County.
- CDBG funds were to be made available to units of local government for a wide range of activities, including public improvements, housing, and public services.

<sup>145</sup> Ibid, pp. 12-15.

<sup>146</sup> Ibid, pp. 19-20.

<sup>147</sup> ADOH and DES, *FY 2004 State of Arizona Annual Action Plan*, p. 12.

Each regional Council of Governments (COGs) has its own method of distribution for the funds, which is detailed in the State's FY 2004 Annual Plan.

- HOPWA funds were to be distributed by a competitive application process on an on-going basis until all funds are distributed.<sup>148</sup>

In addition to federal funds received by the State of Arizona, **there are also entitlement areas in the state that receive HUD funding directly based on their population size**, including the counties of Maricopa and Pima and the cities of Chandler, Flagstaff, Gilbert, Glendale, Mesa, Peoria, Phoenix, Scottsdale, Tempe, Tucson, and Yuma.<sup>149</sup>

In addition to federal HOME, ESG, CDBG, and HOPWA funds, Arizona utilizes a variety of other federal funds to address the need for affordable housing including **Section 184 loans, Section 8 Vouchers, and Section 202/811 Capital grants**, among others. The state also benefits from the **federally-funded Low-Income Housing Tax Credit (LIHTC) Program**, which provides an incentive for the production of affordable housing by providing federal income tax credits to owners of qualifying residential rental projects. Since its inception in Arizona in 1987 to the end of FY 2003, the program has assisted in the development of more than 20,000 units of low-income housing and allocated more than \$100 million in annual tax credits.<sup>150</sup>

Arizona also receives funds through **USDA Rural Development**, a branch of the U.S. Department of Agriculture dedicated to serving the needs of rural America. USDA Rural Development administers a variety of programs, including those aimed at improving conditions for housing, businesses, community facilities, and utility systems.<sup>151</sup> **Within the housing arena, most of the USDA's rural housing programs including direct assistance by USDA**, while others work through local partnerships. Housing loans and grants offered by USDA Rural Development in Arizona include the following:

- single family housing direct loans;
- single family housing participation loans;
- single family housing guaranteed loans;
- single family housing repair loans & grants;
- self-help technical assistance grants;
- multi family housing direct loans;
- multi family housing guaranteed loans;
- farm labor housing direct loans & grants; and
- housing preservation grants.<sup>152</sup>

## 5. State-Funded Affordable Housing Programs

<sup>148</sup> Ibid, pp. 32-60.

<sup>149</sup> ADOH and DES, *CAPER*, p. 10.

<sup>150</sup> ADOH and DES, *FY 2004 State of Arizona Annual Action Plan*, p. 64.

<sup>151</sup> Arizona Rural Development, U.S. Department of Agriculture, *Creating New Opportunity for Rural Arizona*, <http://www.rurdev.usda.gov/az/>.

<sup>152</sup> Arizona Rural Development, U.S. Department of Agriculture, *Rural Housing Programs*, <http://www.rurdev.usda.gov/az/RHousing.htm>.

**Non-federal affordable housing programs in Arizona include the state's Housing Trust Fund, the Homes for Arizonans Initiative, and the Governor's Tribal Housing Initiative.** Arizona's State Housing Trust Fund is funded through the state's Unclaimed Property Fund, and provides resources for a variety of activities throughout the state. In FY 2004, the bulk of planned distribution was to go to rental housing (\$6.4 million), the Homes for Arizonans Program (\$3.0 million), HFA Special Initiatives (\$3.0 million), the Governor's Tribal Housing Initiative (\$2.5 million), and Owner-Occupied Housing Rehabilitation (\$2.1 million).<sup>153</sup>

**The Arizona Housing Finance Authority (AzHFA) and the ADOH have established the Homes for Arizonans Initiative, which is intended to increase the number of first-time homebuyers in Arizona.** The Initiative combines several sources of funding to assist homebuyers, including a Mortgage Revenue Bond program with a low interest rate for qualifying buyers, down payment and closing cost assistance, and a Mortgage Credit Certificate program to provide a federal tax credit for first-time homebuyers equal to 20% of their annual mortgage interest.<sup>154</sup>

## **6. Other Sources**

The **Federal Home Loan Bank of San Francisco (FHLB)** also contributes to affordable housing in Arizona through several programs, including its **Access to Housing and Economic Assistance for Development Program (AHEAD)**, **Community Investment Program (CIP)**, and **Affordable Housing Program (AHP)**.

The AHEAD Program provides grants to support economic development and housing projects during the conception and early development stages. The new recoverable grant program will fund projects that provide housing, services, or other benefits to low- to moderate-income households, that result in the creation or retention of jobs in the community, or that facilitate public or private infrastructure projects. Lists of recent grant recipients are at [http://www.fhlbsf.com/ci/grant/ahead/gp\\_recipients.asp](http://www.fhlbsf.com/ci/grant/ahead/gp_recipients.asp).

The CIP provides FHLB members with lower-cost funding for a variety of uses, including first-time homebuyer programs, small business loans, community and economic development loans, and affordable housing. CIP is designed to support FHLB members' efforts to undertake community-oriented mortgage lending and economic development in the communities they serve.

The AHP provides competitive grants and subsidized loans to create affordable rental and homeownership opportunities. The Bank holds AHP funding competitions twice a year, with deadlines in April and October. Grants are often used to fill a gap in available financing. AHP funds may also be used to provide downpayment or closing cost

<sup>153</sup> ADOH and DES, *FY 2004 State of Arizona Annual Action Plan*, p. 62.

<sup>154</sup> ADOH, *Homes for Arizonans*, <http://www.housingaz.com/homes/default.asp>.

assistance or to cover the cost of homebuyer pre- or post-purchase counseling. Lists of recent grant recipients are at <http://www.fhlbsf.com/ci/grant/ahp/grantrecipients.asp>.<sup>155</sup>

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<sup>155</sup> The Federal Home Loan Bank of San Francisco, *Community Investment*, <http://www.fhlbsf.com/ci/default.asp>.

## VI. SMALL BUSINESS

**Small business in Arizona lags somewhat behind the rest of the nation.** Businesses with fewer than 10 employees account for only 10% of employment in the state, the seventh smallest share in the country. In addition, Arizona has a **relatively low entrepreneurship level**, and also **ranks very low in the level of private loans to small businesses**. The state is seen as having below-average overall business development capacity and business vitality,<sup>156</sup> but has been praised for its transformation toward a “new economy.”<sup>157</sup> While a number of small business assistance programs are available from both governmental and nonprofit sources, **local entrepreneurs assert that the state lacks many of the elements necessary for the success of small businesses**, such as early-stage venture capital and small business-related educational opportunities.<sup>158</sup>

### A. SMALL BUSINESS NEEDS

#### 1. General Background

As of 2001, Arizona was estimated to be home to 67,928 firms that employed fewer than 10 workers, accounting for 74% of all firms in the state. This proportion is lower than the national average of 78%, with **Arizona having the 12<sup>th</sup>-smallest proportion of small firms in the country**. **Businesses with fewer than 10 employees employed 9.8% of Arizona’s employees in 2001**, also below the national average for small firms, **ranking Arizona seventh-lowest nationally on this measure**.<sup>159</sup> However, this is not to imply that small business is not important in Arizona; **between 1999 and 2000, businesses with fewer than 500 employees were responsible for 61% of the increase in net non-farm employment in the state**, hiring a net total of 49,746 employees.<sup>160</sup> Small businesses are also an important source of income for minorities and women in Arizona, as **minority and women-owned businesses account for more than 50% of small business activity within Arizona**.<sup>161</sup> Additionally, non-employer businesses and self-employment account for a substantial and growing portion of wages in the state; as of 2003, Arizona had 161,000 self-employed individuals, up 2.9% from the prior year.<sup>162</sup>

In 2003, Arizona had 13,322 formations of new employer firms, down 6.8% from 2002, but at the same time, it had only 15,488 employer firm terminations during 2003, down 12.2% from 2002. **Business bankruptcies in the state were also down in 2003**; the state had 701 business bankruptcies in 2003, a 7.3% drop from 2002.<sup>163</sup>

<sup>156</sup> CFED, *2004 Development Report Card for the States*, <http://drc.cfed.org/grades/arizona.html>.

<sup>157</sup> Robert Atkinson, Progressive Policy Institute, *The 2002 State New Economy Index*, June 2002, <http://www.neweconomyindex.org/states/2002/index.html>.

<sup>158</sup> Dee Power and Brian Hill, *Arizona Entrepreneurs: Critical Factors to Success*, April 2002, <http://www.capital-connection.com/azsurveyprinter.html>.

<sup>159</sup> U.S. Census Bureau, *County Business Patterns 2001*, <http://censtats.census.gov/cbpnaic/cbpnaic.shtml>.

<sup>160</sup> SBA, *2003 State Small Business Profile: Arizona*, <http://www.sba.gov/advo/stats/profiles/03az.pdf>.

<sup>161</sup> Arizona Department of Commerce, *Minority-, Women-Owned, and Small Businesses*, <http://www.azcommerce.com/mwbedir/default02.asp>.

<sup>162</sup> SBA, *Small Business Economic Indicators for 2003*, August 2004, <http://www.sba.gov/advo/stats/sbei03.pdf>, p. 16.

<sup>163</sup> *Ibid*, pp. 18-20.

## 2. CFED's Entrepreneurship Data from their Asset Development Report Card

Arizona **ranks relatively low in its entrepreneurship rate, at 35<sup>th</sup> in the nation**; only 11% of the labor force in Arizona owns employer and non-employer firms, compared to 20% in Montana, the highest-ranked state. When the entrepreneurship data is cut by race and gender, **the state ranks near the top, at 13<sup>th</sup>, in its minority entrepreneurship rate**, but ranks **much lower, at 37<sup>th</sup>, in its women's business ownership rate**.

However, businesses owned by minorities and women in Arizona are on average relatively small, as the state ranks 42<sup>nd</sup> and 30<sup>th</sup> in the nation, respectively, in average sales for these businesses. These relatively lackluster entrepreneurship statistics are perhaps not surprising in light of the fact that **Arizona ranks 46<sup>th</sup> in the nation in the level of private loans to small businesses**, indicating comparatively poor access to credit through private loans.<sup>164</sup>

## 3. CFED's Data from the 2004 Development Report Card for the States

CFED's other report that ranks the 50 states, the *2004 Development Report Card for the States*, examines each state's "Performance," "Business Vitality," and "Development Capacity." While not explicitly focused on small business, this CFED report does provide insight into the health and vitality of the overall business sector in the state. In 2004, **Arizona received below-average marks on the Report Card, earning a "D" in all three categories**. Notable in the 2004 rankings were **Arizona's declines from "C"s to "D"s in the Performance and Development Capacity categories**. The drop in Performance was a result of several factors, including the state's large number of working poor residents, inadequate employer health insurance coverage, high crime rate, and low homeownership rate. The drop in Development Capacity resulted from poor marks in human resources, financial resources, and amenity resources. On a positive note, the *Report Card* indicates that Arizona has several strengths, including solid employment growth potential in the long term, low per capita energy consumption, and positive net migration.<sup>165</sup>

## 4. Progressive Policy Institute's 2002 State New Economy Index

Another report, *The 2002 State New Economy Index*, released by the Progressive Policy Institute, attempts to use a relatively new set of economic indicators to measure the transformation of a state from a traditional manufacturing economy to a newly emerging economy based on ideas, innovation, and technology. The index is composed of 17 economic indicators summarized under five primary categories: Knowledge Jobs, Globalization, Economic Dynamism and Competition, the Transformation to a Digital Economy, and Technological Innovation Capacity. In the Progressive Policy Institute's index, **Arizona ranks relatively highly at 16<sup>th</sup> best overall**, earning a score of 67.22, compared to a U.S. average score of 60.32. Among the specific rankings which contributed to Arizona's relatively high overall ranking were Arizona's **top five ranking**

<sup>164</sup> CFED, *SADRC*, pp. 107-112.

<sup>165</sup> CFED, *2004 Development Report Card for the States*.

**in the following categories: jobs in “gazelle companies”** (companies with annual sales revenue that has grown 20% or more for four straight years) as a share of total employment, **job churning, online agriculture, and commercial internet domain names.** However, **Arizona ranks in the bottom quintile (42<sup>nd</sup>) in both workforce education and foreign direct investment.**<sup>166</sup>

## **5. Arizona Entrepreneurs: Critical Factors to Success Survey**

In 2002, 403 entrepreneurs throughout Arizona were surveyed to determine their satisfaction with resources for small business development in Arizona. Resources evaluated in the survey included media, availability of funding, and local and state-sponsored assistance programs. **Overall, the survey indicated that Arizona entrepreneurs believe the state lacks many of the elements necessary for the success of small business.** Access to early-stage venture capital was ranked the most important factor for success of small businesses in the survey, yet 71% of those who had looked for capital said finding it was “very difficult” or “difficult,” and only 2% of respondents believed that there was substantial capital available in Arizona. Another critical factor for success listed was small business-related educational opportunities. While there are many educational resources for small businesses in Arizona, it appears from the survey that they are not being utilized. Only 26% of those surveyed said they had used any state- or city-supported program targeted to entrepreneurs, with 47% saying that it was not worth the effort to participate, and 41% saying they were unaware of the programs. Participants also expressed some dissatisfaction with Arizona’s media coverage of entrepreneurs, with almost half responding that the media was “not at all” or “not very” supportive of entrepreneurs.

When asked what Arizona state government could do to improve conditions for entrepreneurs in the state, the top responses (in order of frequency) were:<sup>167</sup>

- bring more corporate headquarters to the state;
- provide more information and assistance to entrepreneurs;
- implement changes to the taxation system and simplify business regulations;
- offer incentives for starting and investing in companies;
- change the focus of economic development efforts;
- step up public relations/media activity; and
- improve the educational system.

## **6. Small Business Survival Index**

Each year, the Small Business & Entrepreneurship Council publishes its *Small Business Survival Index*, which ranks each state on its policy environment for entrepreneurship. In the most recent report, released in October 2004, **Arizona ranked 17<sup>th</sup> best among the states, meaning it was judged to have the 17<sup>th</sup> most entrepreneur-friendly policy**

<sup>166</sup> Robert Atkinson, Progressive Policy Institute, *The 2002 State New Economy Index*.

<sup>167</sup> Profit Dynamics, Inc., Dee Power and Brian Hill, *Arizona Entrepreneurs: Critical Factors to Success*.

**environment.** On individual categories provided in the appendices to the report, Arizona's rankings were as follows:<sup>168</sup>

- Top personal income tax rate: 20<sup>th</sup> lowest (best)
- Top capital gains tax rate: 23<sup>rd</sup> lowest (best)
- Top corporate income tax rate: 25<sup>th</sup> lowest (best)
- Property tax as a share of personal income: 25<sup>th</sup> lowest best
- Sales, gross receipts, and excise tax: 6<sup>th</sup> highest (worst)
- Adjusted unemployment tax rate: 2<sup>nd</sup> lowest (best)
- Per capita health care spending: 3<sup>rd</sup> lowest (best)
- Electric utility costs: 16<sup>th</sup> highest (worst)
- Workers compensation premiums: 6<sup>th</sup> lowest (best)
- Crime rate: highest (worst)
- Number of state and local government employees: 4<sup>th</sup> lowest (best)
- State gas tax: 13<sup>th</sup> lowest (best)

## **B. SMALL BUSINESS RESOURCES**

### **1. CFED's Small Business Development Policy Rankings**

On the policy side of small business development, Arizona received mixed ratings from CFED. The state **ranks very highly at 10<sup>th</sup> in the amount of small business investment company (SBIC) financing provided to business.** However, it is **criticized for not having in place several key programs and policies to encourage the development of small businesses**, including: a) a capital access program; b) a state microenterprise policy; c) a state CDFI program; d) a self-employment option for unemployment insurance; or e) an employee ownership policy.<sup>169</sup>

### **2. The Small Business Development Center (SBDC) Network**

**Arizona's Small Business Development Center (SBDC) Network is a partnership between the state's community college districts and the U.S. Small Business Administration (SBA).** It provides services to businesses around the state with fewer than 200 employees through 11 geographically-dispersed locations. These services include one-on-one counseling, trainings and seminars on various business-related topics, and assistance in areas such as accounting, marketing, business startup, and cash flow management. The organization served 3,641 clients in 2003. Arizona's SBDC network is funded through the U.S. SBA and the community college districts, and is one of the few SBDC networks nationwide that does not receive direct state funding.<sup>170</sup>

<sup>168</sup> Small Business & Entrepreneurship Council, *Small Business Survival Index 2004*, [http://www.sbse.org/Media/pdf/SBSI\\_2004.pdf](http://www.sbse.org/Media/pdf/SBSI_2004.pdf).

<sup>169</sup> CFED, *SADRC*, pp. 143-149

<sup>170</sup> Arizona Small Business Development Center Network, Maricopa Community Colleges, <http://www.dist.maricopa.edu/sbdc/>.

### 3. **The Arizona Department of Commerce**

**The Office of Small Business Services**, housed in the Global Business Development Division at the Arizona Department of Commerce, is the primary government agency responsible for supporting small business in Arizona. The Office positions itself as a one-stop center for information about Arizona small business resources. Other divisions within the Department of Commerce also provide small business-related resources, including the **Business Attraction and Development Division**, which is responsible for marketing Arizona nationally and internationally and for promoting other economic development initiatives, and the **International Trade Division**, which is responsible for helping Arizona's businesses navigate the international marketplace.<sup>171</sup>

### 4. **Service Corps of Retired Executives (SCORE)**

The SCORE Association is a nonprofit organization dedicated to providing counseling to individuals interested in starting a small business. The organization partners with the SBA to provide its services. The Arizona SCORE district has approximately 200 volunteer counselors organized into five chapters around the state (Phoenix, Tucson, Mesa/East Valley, Lake Havasu City, and Northern Arizona). Services provided include seminars and workshops on various business topics, as well as free one-on-one counseling with business professionals.<sup>172</sup> Some chapters of SCORE in Arizona have also been designated by the SBA as the local technical assistance organization for providing pre-qualification for SBA loan guarantees.<sup>173</sup>

### 5. **Self Employment Loan Fund (SELF)**

The Self Employment Loan Fund (SELF) is a nonprofit organization dedicated to providing services to low-income women and minorities who are interested in starting their own businesses but who would most likely not receive funding through traditional channels. The organization assists individuals by providing training, technical assistance, and lending. SELF has been designated by the SBA as an SBA Women's Business Center, and is funded through the SBA's Office of Women's Business Ownership.<sup>174</sup>

### 6. **The Center for the Advancement of Small Business**

The Center for the Advancement of Small Business (CASB) is housed at Arizona State University's W.P. Carey School of Business and provides one-on-one counseling and advice to students and other entrepreneurs within the community. It also partners with Chambers of Commerce throughout Arizona to help those interested in starting a business find the resources they need, and conducts research specifically focused on Hispanic and

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<sup>171</sup> Arizona Department of Commerce, Small Business Services, *Entrepreneur's Edge 2004*, <http://www.commerce.state.az.us/doclib/ABC/2004EntrprnrEdgeEng.pdf>.

<sup>172</sup> Arizona SCORE District, *Frequently Asked Questions*, <http://www.scorearizona.org/index.html>.

<sup>173</sup> Phoenix SCORE Chapter, <http://www.scorearizona.org/phoenix/index.html>.

<sup>174</sup> Self Employment Loan Fund, <http://www.selfloanfund.org/>.

family-owned businesses. The Center provides services to approximately 1,000 people annually.<sup>175</sup>

### **7. The Microbusiness Advancement Center of Southern Arizona**

The Microbusiness Advancement Center of Southern Arizona is a nonprofit organization that provides training, resources, referrals, support, and advocacy to those seeking to create, sustain, or grow microbusinesses in Southern Arizona. The Center particularly targets its services to individuals from groups that have specialized needs or face particular barriers to microbusiness success, including women, low-income clients, and non-English speakers.<sup>176</sup>

### **8. U.S. Small Business Administration**

Within Arizona, the SBA maintains a District office that provides startup and operational assistance through services such as small business training and counseling, financial assistance for startups, and operational and disaster help. The District office also helps small businesses in Arizona take advantage of government-related business opportunities such as government contracting, subcontracting, and procurement. The SBA also partners with the SCORE Association, the SBDC Network, and SELF, among other organizations, to reach entrepreneurs throughout the state.<sup>177</sup>

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<sup>175</sup> W.P. Carey School of Business, Arizona State University, Center for the Advancement of Small Business, [http://wpcarey.asu.edu/seid/casb/sig\\_programs.cfm](http://wpcarey.asu.edu/seid/casb/sig_programs.cfm).

<sup>176</sup> Microbusiness Advancement Center of Southern Arizona, [http://www.charityfinders.com/cf/servlet/SIGenerateSite?action=home.jsp&charity\\_id=122903CHA001](http://www.charityfinders.com/cf/servlet/SIGenerateSite?action=home.jsp&charity_id=122903CHA001).

<sup>177</sup> SBA Arizona District, *About Us*, <http://www.sba.gov/az/aboutus.html>.

## VII. POVERTY AND ASSET ACCUMULATION

Approximately 14% of Arizona's population lives in poverty, making the state's **poverty rate 14<sup>th</sup> worst among all the states**. Even more significantly, the state **has low rankings in the area of asset accumulation**, with large percentages of its households having zero net worth or otherwise considered asset poor.<sup>178</sup> However, Arizona ranks first in the country in terms of having the smallest difference between asset poverty of male- and female-headed households, and fourth in terms of the difference between white- and non-white headed households. **The state also can be credited with a number of supportive asset accumulation and preservation policies**, especially in the areas of workers' compensation and health insurance.<sup>179</sup> In addition, IDA programs are supported by both state policy<sup>180</sup> and a statewide alliance, which has set a goal of opening 10,000 IDA accounts in the state over the next five years.<sup>181</sup>

### A. POVERTY AND ASSET ACCUMULATION NEEDS

#### 1. Poverty Statistics

**Approximately 14% of Arizona's population lived in poverty during the years of 2001 to 2003**, a higher percentage than the U.S. average of 12.1%. Using the three-year average for 2001-2003, **Arizona had the 14<sup>th</sup>-highest percentage of residents at or below the poverty level in the U.S.** Additionally, **17.3% of Arizona residents, on average, lacked health insurance during the same time period**, compared to 15.1% of the U.S. population. Based on the 2001-2003 three-year average, **Arizona had the 10<sup>th</sup>-highest percentage of residents with no health insurance coverage.**<sup>182</sup>

As illustrated by the table on the following page, **poverty levels vary widely between counties** in Arizona, ranging from 37.8% of individuals living below the federal poverty level in Apache County to just 9.9% living below the federal poverty level in Greenlee County.

If low-income individuals are defined as those living below 200% of the Federal Poverty Level (FPL), estimates by the Urban Institute and Kaiser Commission on Medicaid and the Uninsured suggest that an additional 20% of Arizona's population would have qualified as low income during 2002-2003.<sup>183</sup>

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<sup>178</sup> CFED, *SADRC*, p. 34.

<sup>179</sup> *Ibid.*

<sup>180</sup> *Ibid.*, p. 121.

<sup>181</sup> Assets for Arizona Alliance, *IDAs in Arizona: A Case Statement*, September 2003, <http://www.assetsaz.org/PDF/IDA%20Case%20Statement.pdf>, p. 1.

<sup>182</sup> U.S. Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2003*, pp. 23, 25, 68-69.

<sup>183</sup> Henry J. Kaiser Family Foundation. *Distribution of Total Population by Federal Poverty Level, State Data 2002-2003, U.S. 2003*, <http://www.statehealthfacts.kff.org>.

### Poverty Levels by County in Arizona During 1999

<i>County</i>	<i>% of Individuals</i>	<i>% of Families</i>
Apache County	37.8%	33.5%
Cochise County	17.7%	13.5%
Coconino County	18.2%	13.1%
Gila County	17.4%	12.6%
Graham County	23.0%	17.7%
Greenlee County	9.9%	8.0%
La Paz County	19.6%	13.6%
Maricopa County	11.7%	8.0%
Mohave County	13.9%	9.8%
Navajo County	29.5%	23.4%
Pima County	14.7%	10.5%
Pinal County	16.9%	12.1%
Santa Cruz County	24.5%	21.4%
Yavapai County	11.9%	7.9%
Yuma County	19.2%	15.5%

Source: U.S. Census Bureau, Census 2000 Data.

## 2. Personal Bankruptcy Filings

**On measures of personal bankruptcy, Arizona ranks slightly worse than average nationally.** For the 12-month period ended March 31<sup>st</sup> 2004, the state's personal bankruptcy rate was 14.2 filings per thousand households, compared to a national average rate of 13.7 filings per thousand households. During this time period, **Arizona had the 23<sup>rd</sup>-highest rate of filings.**<sup>184</sup>

## 3. CFED Asset Outcome Ranking

In CFED's *State Asset Development Report Card*, Arizona **ranked extremely poorly in asset outcomes, receiving a grade of "F" and a rank of 49<sup>th</sup> overall in the U.S.** While CFED looked at a variety of data in reaching its "F" grade for Arizona, including the homeownership and small business indicators detailed in the previous chapters, the state's grade is primarily brought down by a **particularly high level of asset poverty**

<sup>184</sup> American Bankruptcy Institute, *Households Per Filing, Rank During the 12-Month Period Ended March 31, 2004*, <http://www.abiworld.org/statcharts/HouseRank.htm>.

**and a large number of households with zero or negative net worth**, as detailed below.<sup>185</sup>

**a. CFED’s Net Worth and Asset Poverty Statistics**

Arizona has particular trouble in comparison to the rest of nation on two important indicators of asset poverty, the specific level of asset poverty and the percentage of households with zero net worth. Arizona’s **asset poverty level** (i.e., the percentage of the population without sufficient net worth to subsist at the poverty level for three months without other support) is 28.8%, which **gives the state a ranking of 48<sup>th</sup>, or third worst, in the nation.** Similarly, **the percentage of households in the state with zero net worth, 16.3%, gives Arizona a ranking of 42<sup>nd</sup> in the nation.** Relative to most other states, this means that Arizona has a high share of vulnerable households. Additionally, Arizona does not fare much better on the broader measure of mean net worth, with its level of \$98,641 giving it a ranking of only 34<sup>th</sup> highest in the nation.<sup>186</sup>

However, it is important to highlight that in comparing the gaps in asset poverty between race and gender groups, **Arizona has the smallest asset poverty gap in the nation between male- and female-headed households**, and the **fourth smallest gap between white- and non-white-headed households.**<sup>187</sup>

**b. CFED’s Human Capital and Insurance-Related Statistics**

Overall, Arizona’s performance on human capital and insurance-related measures is mixed. Most positively, the state’s **college attainment rates are in the top half in the nation**, with Arizona ranking 22<sup>nd</sup>-highest in the percentage of the population with associate’s degrees (6.9%), and 25<sup>th</sup>-highest in the percentage of the population with at least four years of college (23.3%). Breaking the college attainment data down by income, race, and gender, the state has the **11<sup>th</sup> smallest gap by income**, but ranks only 38<sup>th</sup> in terms of the gap by race and 37<sup>th</sup> by gender. Arizona also ranks close to the bottom in the nation (43<sup>rd</sup>) in the percentage of children in poverty that are served by a Head Start program.<sup>188</sup>

**Arizona has very low rankings in insurance-related comparatives.** The state is ranked fourth worst in the percentage of non-elderly covered by employer-based health plans. It is also ranked third worst in both the percentage of low-income children without health insurance and in the percentage of low-income parents without health insurance.<sup>189</sup>

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<sup>185</sup> CFED, *SADRC*, p. 34.

<sup>186</sup> *Ibid.*, pp. 85, 88, 91.

<sup>187</sup> *Ibid.*, pp. 89-90.

<sup>188</sup> *Ibid.*, pp. 99-105.

<sup>189</sup> *Ibid.*, pp. 117-119.

#### 4. The Asset Development Institute's Asset Index

In September 2002, the Asset Development Institute at Brandeis University published a report entitled *The Asset Index: Measuring The Progress Of States In Promoting Economic Security And Opportunity*. The report presents state-by-state data on individual outcomes for job-based and related income assets, human capital, and financial assets. These outcomes are the primary indicators of the economic security people have and the opportunity they enjoy. For each of these three categories, the report presents a cluster of indicators that point to important related asset-based outcomes and provides the numerical outcome for residents on each indicator as well as a national rank on each indicator (for all indicators, 1<sup>st</sup> is “best” and 50<sup>th</sup> is “worst”).

For Arizona, the research indicates that **the state ranks among the top 10 best states for none of the 39 measured indicators, but ranks among the worst 10 states on 11 of the indicators**, representing more than one quarter of indicators. The state's **worst rankings are in the areas of asset inequality, housing insecurity, and education (dropping out of high school)**. The study's authors conclude that “residents of Arizona, compared to those of other states, have had relatively much less success in gaining job-based and related income assets, building human capital, and accumulating financial assets.”<sup>190</sup>

### B. POVERTY AND ASSET ACCUMULATION RESOURCES

#### 1. State Income Support Program

**The poor in Arizona are served primarily by the Temporary Assistance to Needy Families (TANF) program, known in the state as EMPOWER** (Encouraging and Moving People Off Welfare and Encouraging Responsibility). **During 2002-2003, Arizona's TANF caseload rose substantially**, increasing more than 20% from December 2001 through December 2003.<sup>191</sup> **During 2004, however, caseloads began to drop**. As of July 2004, 50,696 families were receiving assistance, down 5% from the level six months prior and 3.7% from the level 12 months prior. Among the states, Arizona has had one of the smallest decreases in caseloads since 1994, with its caseload decreasing only 29% between March 1994 and March 2004. Additionally, Arizona has had the largest increase in caseloads since its lowest caseload month, with levels rebounding 55% over its lowest month in the past ten years.<sup>192</sup>

<sup>190</sup> The Asset Development Institute, *The Asset Index: Measuring The Progress Of States In Promoting Economic Security And Opportunity*, September 2002, <http://www.centeronhunger.org/pdf/ASSETINDEX.pdf>, pp. 22-23.

<sup>191</sup> U.S. Department of Health & Human Services, Administration for Children & Families, *Change in Numbers of TANF Families and Recipients from December 2002 to 2003*, [http://www.acf.hhs.gov/TANF\\_data.htm](http://www.acf.hhs.gov/TANF_data.htm); and *Total Number of Families and Recipients for 1st Quarter FY 2002*, <http://www.acf.dhhs.gov/news/stats/tanf.htm>.

<sup>192</sup> National Conference of State Legislatures, *Welfare Caseload Watch*, October 2004, <http://www.ncsl.org/statefed/welfare/caseloadwatch1004.htm>.

## 2. MesaCAN's Assets for Arizona Institute and Assets for Arizona Alliance

MesaCAN's *Assets for Arizona Institute* was founded as a joint venture of Mesa Community Action Network, Inc. (MesaCAN), Neighborhood Economic Development Corporation (NEDCO), and NewTown Community Development Corporation of Tempe (NewTown) to expand Individual Development Accounts (IDAs) and to establish IDA programs and collaborations in Arizona and the Southwest. The Institute works in collaboration with the Assets for Arizona Alliance, an informal, statewide association whose members are IDA program operators, representatives of banks, credit unions, foundations, and businesses interested in expanding IDA opportunities in Arizona.

The Institute's technical assistance initiatives support the creation and expansion of infrastructure in organizations, employers, and agencies that operate IDA programs, and the development of regional capacity for the growth of IDAs. Currently, the Institute provides training and data management to 21 of the 25 IDA programs and collaborations in Arizona, including the first two employer IDA programs in the state.

As of August 2004, there were 407 active IDA accounts and 392 cumulative asset purchases with a market value of over \$15 million, including 125 homes, 231 vehicles, 27 education-related purchases, and nine small business-related purchases. As shown in the following table, as of December 2004, there were 24 active IDA programs in the state, with three operating statewide and the remainder operating in various regions of the state.<sup>193</sup>

### **IDA Programs in Arizona as of December 2004**

<i>Program</i>	<i>Geography Served</i>
Arizona Quest for Kids	Phoenix
Both Hands	Flagstaff
Catholic Social Services of Southern Arizona	Southern Arizona
Central City South Partnership – Phoenix Revitalization Corporation and Hope VI	South Phoenix
Chicanos Por La Causa	Tucson
City of Avondale/Neighborhood Housing Services Southwestern Maricopa County	Avondale
Comite de Bienestar, Inc.	San Luis/Yuma County
Community Services of Arizona	Statewide
FIBCO Family Services	Phoenix
Homeward Bound	Phoenix
Hualapai Tribe	Peach Springs
Indigenous Community Enterprises	Northern Arizona/Native American Communities
International Rescue Committee	Statewide
John C. Lincoln Hospital	Phoenix
Mesa Community Action Network (MesaCAN)	East Valley
Native American Connections	Phoenix

<sup>193</sup> Assets for Arizona, <http://www.assetsaz.org/Institute.htm>.

Navajo Partnership for Housing	St. Michaels
Neighborhood Economic Development Corporation	Mesa
New Town Community Development Corporation	Tempe
Safe Haven, Inc.	Phoenix
Salt River Pima Indian Community	SRPMIC
Southern Arizona Community Land Trust	Southern Arizona
The Centers for Habilitation	Statewide
Tucson Learn2\$ave Program	Tucson/South Tucson

Source: The Assets for Arizona Alliance

### 3. CFED's Asset Policy Rankings

In contrast to its failing grade for asset outcomes, **CFED gives an overall grade of “B” to Arizona for asset policies, ranking the state 19<sup>th</sup> best in the U.S.** In assigning a relatively high grade to Arizona’s asset policies, CFED noted in particular the state’s efforts to improve its homeownership rates and to ensure that all state residents have access to health insurance.<sup>194</sup>

#### a. IDA Policy

CFED credits Arizona with providing **both a state IDA program and an IDA program within the state TANF plan.** However, as of 2002, Arizona had not appropriated at least \$1 million dollars for IDAs, CFED’s third measure of a strong state IDA policy.<sup>195</sup>

#### b. Other CFED Financial Asset Building Policy Rankings

In other financial asset building policies, **Arizona is criticized for not having a state minimum wage higher than the federal level. In the area of public assistance, the state receives mixed ratings.** Arizona is praised for excluding the value of one vehicle for TANF and having no asset test for Medicaid, but CFED notes that, more negatively, the state has a low countable asset limit for TANF and does not exclude the value of all vehicles in determining the countable asset limit for food stamps.<sup>196</sup>

#### c. CFED's Human Capital Development Policy Rankings

**Arizona’s rankings in the CFED report for its human capital development policies are generally low.** Most negatively, **the state is ranked fourth lowest in per-pupil expenditures for K-12 education and 10<sup>th</sup> lowest in need-based aid to undergraduates.** Arizona ranks in the middle of the nation in school spending equalization (31<sup>st</sup>) and in its funding for customized job training (33<sup>rd</sup>). Arizona, along with 35 other states, does not provide supplemental funding for Head Start programs. However, Arizona does provide state funding for pre-kindergarten.<sup>197</sup>

<sup>194</sup> CFED, *SADRC*, p. 34.

<sup>195</sup> *Ibid*, p. 121.

<sup>196</sup> *Ibid*, pp. 125-126.

<sup>197</sup> *Ibid*, pp. 135-141.

**d. CFED’s Wage Protection Policy Rankings**

Arizona received mixed rankings in wage protection policies. **The state stands out in workers’ compensation-related areas**, ranking ninth best in the nation in its workers’ compensation coverage and 10<sup>th</sup> best in its workers’ compensation benefits. However, in contrast, Arizona is ranked **third worst in its unemployment insurance benefit levels** and has made only **one of three possible reforms made in other states to its unemployment insurance scheme** (eliminating the restriction on part-time work). Finally, **the state has only one of four family leave benefits** provided in certain other states (allowing public employees to use sick leave to care for sick family members).<sup>198</sup>

**e. CFED’s Health Insurance Policy Rankings**

In contrast to Arizona’s low rankings in health insurance outcomes, **CFED credits the state with having sound health insurance policies**. Arizona ranks 11<sup>th</sup> best for its eligibility level for publicly-provided health insurance. The state has also expanded Medicaid for low-income adults without children, provides extra time for transitional medical assistance, and has a state subsidy for small business health care coverage.<sup>199</sup>

**f. CFED’s Property Protection Policy**

Within the property protection policy arena, CFED finds **absent in Arizona both of the policies it included as measures of state success in this area**: a) anti-predatory lending legislation; and b) a state disclosure requirement for property insurers to guard against redlining.<sup>200</sup>

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<sup>198</sup> Ibid, pp. 154-160.

<sup>199</sup> Ibid, pp. 162-165.

<sup>200</sup> Ibid, pp. 167, 169.

## VIII. NATIVE AMERICANS AND IMMIGRANTS

Arizona **has the third-largest Native American population in number and the sixth largest in terms of percentage of population in the nation.**<sup>201</sup> However, Native Americans in the state face higher-than-average unemployment<sup>202</sup> and more than 35% of them live below the poverty level. While there are a number of supportive institutions in the state serving this population, **the problems faced by Native Americans in areas such as affordable housing are significant.**

An even **larger percentage of the state's population is foreign born (12.8%),** ranking Arizona eighth highest on this measure. The bulk of the state's foreign born hail from Latin America, with the **largest percentage born in Mexico.** Eighty-five percent of the foreign-born residents speak a language other than English at home,<sup>203</sup> and **one quarter of this immigrant population lives below the poverty level, compared to only 17.9% of immigrants nationwide.** Again, a number of resources are available to serve the foreign-born population, but as with Native Americans, **additional support is critical.**

### A. NATIVE AMERICAN NEEDS

#### 1. Statistics on Native Americans

Arizona ranks **third in the nation in total American Indian/Alaska Native population,** with a total population of 255,879 as of July 2000. Only California and Oklahoma have larger Native American populations in number.<sup>204</sup> **Native Americans in Arizona make up 5% of the state's population, ranking the state sixth nationally in terms of percentage of population,** behind Alaska, New Mexico, South Dakota, Oklahoma, and Montana.<sup>205</sup> Arizona's Native Americans are members of the state's 22 federally-recognized tribes.<sup>206</sup>

As the table below shows, **Arizona's Native Americans are widely disbursed around the state.** There are 21 reservations around the state, and nearly 28% of Arizona land is designated as Indian trust land. Sixty-three percent of Native Americans in Arizona live on reservations, substantially higher than the national average of 38%.<sup>207</sup>

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<sup>201</sup> U.S. Census Bureau, *Statistical Abstract of the United States: 2003*.

<sup>202</sup> Arizona Department of Economic Security, *2003 Special Unemployment Report*, June 2003, <http://www.de.state.az.us/links/economic/webpage/eaweb/spec03.html>.

<sup>203</sup> U.S. Census Bureau, Census 2000 Data.

<sup>204</sup> Ibid.

<sup>205</sup> Ibid.

<sup>206</sup> Arizona Commission on Indian Affairs (ACIA), *2002-2003 Annual Report*, <http://www.indianaffairs.state.az.us/aboutus/2002-2003%20Annual%20Report.pdf>, p. 1.

<sup>207</sup> Ibid, p. 8.

### Geographic Distribution of Arizona's Native American Population

<i>County</i>	<i>Total Native American Population</i>	<i>% On-Reservation</i>	<i>% Off-Reservation</i>
Apache	53,375	98.2%	1.8%
Cochise	1,350	0.0%	100.0%
Coconino	33,161	71.4%	28.6%
Gila	6,630	90.3%	9.7%
Graham	5,005	90.2%	9.8%
Greenlee	142	0.0%	100.0%
La Paz	2,470	91.2%	8.8%
Maricopa	56,706	12.0%	88.0%
Mohave	3,733	46.7%	53.3%
Navajo	46,532	88.9%	11.1%
Pima	27,178	42.3%	57.7%
Pinal	14,034	65.9%	34.1%
Santa Cruz	251	0.0%	100.0%
Yavapai	2,686	28.6%	71.4%
Yuma	2,626	20.1%	79.9%
<b>Total</b>	<b>255,879</b>	<b>62.9%</b>	<b>37.1%</b>

Source: Commission on Indian Affairs, *2002-2003 Annual Report*, p. 13.

## 2. Poverty and Economic Opportunities for Tribes

**Tribes in Arizona engage in a variety of business enterprises, including gaming, agriculture, and development of shopping centers, business parks, resorts and other tourism enterprises.** Specific examples of revenues sources include the following:

- Big game hunting is relied upon heavily as a source of revenue by tribes including the San Carlos Apache, Whitemountain, Hualapai, and Kaibab tribes.
- The Hualapai Tribe, which borders 108 miles of the Grand Canyon's South Rim, is the only Indian-owned river company that acts as a concessionaire in the Grand Canyon.<sup>208</sup>
- Within Arizona, there are 10 reservations/nations that have 18 combined improved industrial development sites available for immediate occupancy. These nations include: Ak-Chin Indian Community, Colorado River Indian Tribes, Gila River Indian Community, Hopi Tribe, Navajo Nation (eight industrial parks), Salt River Pima Maricopa Indian Community, San Carlos Apache Tribe, Tohono O'odham Nation, White Mountain Apache, and Yavapai-Prescott.<sup>209</sup>

However, **these economic activities have not been enough to adequately support most tribes.**<sup>210</sup> This is evident in the poverty statistics for Native Americans in the state. **One third of Native American families and 37.3% of Native American individuals were living below the federal poverty level in 1999.**<sup>211</sup> Those living on reservations exhibit an even higher level of poverty—the average household income on all reservations and

<sup>208</sup> Michael Vaughn, Arizona Department of Housing, information provide via email, December 2004.

<sup>209</sup> ACIA, *Map of Industries*, <http://www.indianaffairs.state.az.us/busdev/industmap.html>.

<sup>210</sup> ACIA, *2002-2003 Annual Report*, p. 9.

<sup>211</sup> U.S. Census Bureau, Census 2000 Data.

trust lands was \$23,289 as of 1999, with **42.1% of households below the poverty level.**<sup>212</sup> Unemployment statistics for June 2003 indicate that average **unemployment on Native American reservations for the first half of 2003 was 22.5%**, compared to 5.5% for the balance of the state.<sup>213</sup>

Not surprisingly, **Native Americans on reservations also face severe difficulty in locating affordable housing.** The *Arizona Affordable Housing Profile*, published in 2002, estimated **the affordability gap for Native Americans living on reservations in Arizona at 56.7%** (compared to 9.2% for Arizona residents in non-reservation areas), meaning that more than half of this population must pay more than 28% of their income towards shelter or live in substandard and/or overcrowded conditions.<sup>214</sup>

## **B. NATIVE AMERICAN RESOURCES**

### **1. Arizona Commission on Indian Affairs**

The **Arizona Commission on Indian Affairs (ACIA)** serves as the state government's **primary liaison with Indian Tribes/Nations** in the state. ACIA's legislatively mandated activities include:

- assembling facts needed by tribal, state, and federal agencies to work together effectively;
- assisting the state in its responsibilities to tribes by making recommendations to the Governor and Legislature;
- conferring and coordinating with other governmental entities and legislative committees regarding Indian needs and goals;
- working for a greater understanding and improved relationships between Indians and non-Indians by creating an awareness of the needs of Indians in the state;
- promoting increased participation by Indians in state and local affairs; and
- assisting tribal groups to develop increasingly effective methods of self-government.

### **2. Arizona Department of Housing**

The **Arizona Department of Housing (ADOH)** has been involved in a number of efforts to increase the availability of decent, safe and affordable housing on tribal land.

#### ***Tribal Liaison***

In an effort to target resources to areas with the greatest need, ADOH created a Tribal Liaison position in 2003. A Tribal Liaison position in most state housing agencies is a rarity. Only a few other states have a position dedicated solely to providing technical

<sup>212</sup> ACIA, *2002-2003 Annual Report*, p. 14.

<sup>213</sup> DES, *2003 Special Unemployment Report*, June 2003.

<sup>214</sup> AHC, the Arizona Department of Housing, and the U.S. Department of Housing and Urban Development, *Arizona Affordable Housing Profile: Findings and Conclusions 2002*, p. 14.

assistance to tribes for housing related activities. Since the creation of the Tribal Liaison position, ADOH has seen an increased interest in and knowledge of the programs offered to tribal governments.

### ***Low Income Housing Tax Credit (LIHTC) Program***

Arizona is one of only a few states in the nation that provides a set-aside of LIHTCs for developments on tribal land. Of the 40-plus developments awarded Low Income Housing Tax Credits by ADOH in 2003 and 2004, six were located on tribal lands. Two additional developments will assist various urban tribal members in the Phoenix-metro area.

### ***Tribal Housing Initiative***

Another recent endeavor undertaken by ADOH is the creation of the Governor's Tribal Housing Initiative Task Force. The Task Force is the product of several meetings between tribal and State officials prompted by Governor Janet Napolitano. During such meetings, tribal officials noted four major policy areas to be addressed in order to increase housing opportunities on tribal land, including: financial education, needs assessments, infrastructure, and legal framework for private finance on tribal trust land. Four subcommittees were formed to study these issues and make recommendations. Participants in the working groups include representatives from tribes, funding partners such as HUD, the Federal Reserve Bank of San Francisco, Fannie Mae and several Arizona banks. These groups will be working to suggest policy changes and develop strategies in their broad areas. One particularly exciting development by the Task Force has been to take existing legal instruments in use by tribes to finance housing throughout the country and to meld both bank and tribal perspectives into revised templates to meet the needs of both an individual tribe's legal structure and tradition, and the needs of the Arizona banking industry on a tribe-by-tribe basis. It is believed that this will be the first time in Arizona that specific legal issues relating to access to capital will be undertaken and addressed for any interested tribe. Another major accomplishment of the Task Force has been the creation the *Arizona Tribal Resource Guide to Financial Education*.

The Governor's Tribal Housing Initiative also targets \$2.5 million of State Housing Trust Fund dollars for housing in tribal communities. This Initiative will support the creation or rehabilitation of housing units on tribal land by leveraging additional resources, including private and federal.

### **3. Other State Agencies in Arizona**

Many state agencies within Arizona provide assistance to tribes on all aspects of development on tribal land. Assistance is provided in various capacities, including training and technical assistance. Currently, numerous agencies have tribal liaisons that work directly with tribes, including the Arizona Department of Commerce, Arizona Game & Fish Department, and the Arizona Office of Tourism. The Governor also has a policy advisor that acts a conduit between her office and tribal leaders.<sup>215</sup>

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<sup>215</sup> Michael Vaughn, Arizona Department of Housing, information provide via email, December 2004.

#### **4. Inter Tribal Council of Arizona**

The Inter Tribal Council of Arizona (ITCA) is a membership organization of the highest elected officials from each tribe in Arizona. Its goal is to improve the lives of Arizona's Indian tribes by enabling them to participate in the formation of public policies within the state that impact their lives. ITCA provides a wide range of services to tribes, including technical assistance and training in program planning and development, research and data collection, resource development, management, and evaluation. ITCA also conducts seminars, workshops, conferences, and public hearings on relevant policy issues.<sup>216</sup>

#### **5. Arizona Indian Town Hall**

Each year in June, ACIA sponsors an Indian Town Hall to allow representatives of tribal governments to come together for three days of discussion on topics of importance to the state's tribes and nations. Over the course of the three days, participants draft a report reflecting their ideas for addressing the topics discussed at the meeting. After the Town Hall sessions, ACIA sponsors a series of post-Town Hall meetings around the state to discuss the results of the report and educate tribal communities about legislative processes. These meetings provide an opportunity for a wider range of community members to learn about and participate in advocating on issues of concern.<sup>217</sup>

#### **6. Resources for Native American Entrepreneurs**

There are several organizations in Arizona that provide targeted counseling and technical assistance for Native Americans interested in starting a business, including:

- the Center for American Indian Economic Development at Northern Arizona University;
- the Greater Arizona Development Authority within the Arizona Department of Commerce;
- the Arizona American Indian Tourism Association;
- the Arizona American Indian Chamber of Commerce; and
- and the Arizona Native American Economic Coalition.<sup>218</sup>

#### **7. HUD's Section 184 Indian Housing Loan Guarantee Program**

Several Arizona tribes are active participants in HUD's Section 184 Indian Housing Loan Guarantee program, which provides loan guarantees for home ownership, property rehabilitation, and new construction opportunities for eligible tribes and members seeking to own a home on their native lands. The program primarily serves higher-income families, and allows for private finance mortgages. In order to participate in the mortgage process, tribes must adopt codes and ordinances that incorporate foreclosure,

<sup>216</sup> Inter Tribal Council of Arizona, Inc., *About Inter Tribal Council of Arizona, Inc.*, <http://www.itcaonline.com/about.html>.

<sup>217</sup> ACIA, *Arizona Indian Town Hall Process*, <http://www.indianaffairs.state.az.us/townhall/process.html>.

<sup>218</sup> ACIA, *2002-2003 Annual Report*, p. 9.

land lease agreements, and eviction through tribal courts. **Half of Arizona's 22 tribes are currently active in the program,<sup>219</sup> and HUD lists 10 participating lenders in Arizona as of October 2004.** As of December 2004, **Arizona had the third-largest number of Section 184 loans in the nation, 363,** with a total dollar value of over \$30 million.<sup>220</sup>

## **8. Passage of Proposition 202**

**Proposition 202 was passed by Arizona voters in 2002, codifying tribal gaming compacts in the state.** It requires that tribes contribute a portion of their revenues to the state, and also solidifies gaming as a source of revenue for the Native American community that provides money for a variety of programs, including education, hospital emergency services, tourism, and local community economic development. The proposition was sponsored by 17 of Arizona's 22 tribes.

## **9. Native American Connections**

Native American Connections was founded in 1972 by Indian elders to provide a drug-free safe haven with support services. The organization serves the urban Indian population and tribal communities throughout the Southwest, providing comprehensive behavioral health services and transitional and permanent affordable housing to low-income individuals and families. Native American Connections' facilities are located in the Phoenix metropolitan area.<sup>221</sup>

## **10. Phoenix Indian Center**

The Phoenix Indian Center was established in 1947 to serve the needs of the American Indians who came to downtown Phoenix to sell their arts and crafts or shop for their families. Until 1954, the Center relied on volunteers to maintain its downtown location on Wall Street. In 1954, the Center received funding and incorporated with the State of Arizona as a private non-profit "501(c)(3)" status. Today, the Center is the primary resource of social, economic, educational, leadership, employment, and training for urban American Indians of Maricopa County.<sup>222</sup>

## **11. Native Americans for Community Action**

Native Americans for Community Action (NACA) was founded in 1971 to address the growing need for alcohol abuse prevention services among urban Native Americans. NACA now provides a wide array of services including: adult basic education; career counseling/job training (WIA); diabetes education and case-management; economic development; emergency needs and supportive services; mental health counseling;

<sup>219</sup> Michael Vaughn, Arizona Department of Housing, information provide via email, December 2004.

<sup>220</sup> HUD Office of Native American Programs, *Section 184 Loans Across the Nation*, [http://www.codetalk.fed.us/OLG\\_184\\_stats.htm](http://www.codetalk.fed.us/OLG_184_stats.htm).

<sup>221</sup> Native American Connections, *About Us*, <http://www.nativeconnections.org/about.html>.

<sup>222</sup> Phoenix Indian Center, Inc., *About Us*, <http://www.phxindcenter.org/index2.htm>.

primary health care; substance abuse education and prevention for youth (Pathways); substance abuse intervention/treatment for adults; tobacco education/cessation; and, a vendor project that assists Native American artisans in economic development ventures. Most of the programs are either free-of-charge or are offered at a low cost to clients. Thousands of individuals and their families receive services from NACA each year.<sup>223</sup>

## C. IMMIGRANT NEEDS

### 1. Immigrant Totals

According to Census 2000 data, **12.8% of Arizona's population is foreign born**, which translates into 656,183 foreign-born residents. **Arizona ranks eighth nationally in the number of foreign-born residents and ninth nationally in the proportion of foreign-born residents in its population.** Forty-eight percent of these residents entered the U.S. between 1990 and 2000. Just fewer than 30% of Arizona's immigrants are naturalized citizens, a percentage substantially lower than the U.S. average of 40.3%.<sup>224</sup>

**INS also estimates that Arizona had 283,000 illegal immigrants within state borders as of 2000, more than three times the number it estimated were in the state in 1990.**<sup>225</sup> Arizona has also had sizable numbers of refugees during its recent history, although the number of refugees arriving in the state has declined dramatically since September 11, 2001.<sup>226</sup> In FY 2002, there were 1,119 new refugee arrivals in Arizona.<sup>227</sup>

### 2. Origin of Immigrants

**The bulk of Arizona's foreign-born residents (71.5%) were born in Latin America,** with the next largest groups coming from Asia (11.8%) and Europe (10.9%).<sup>228</sup> **By country, 66% of foreign born were born in Mexico,** with the next largest group born in Canada (4%).

Arizona's foreign born reported their race on the 2000 Census as follows: 49.9% white, 1.3% Black/African American, 0.6% American Indian/Alaska Native, 9.5% Asian, 0.2% Native Hawaiian/Other Pacific Islander, 34.3% some other race, and 4.2% two or more races. **Hispanic or Latino origin was reported by 70.5% of Arizona's foreign born,** compared to 45.5% of foreign-born residents nationally reporting Hispanic/Latino origin.

<sup>223</sup> Native Americans for Community Action, Inc., *NACA History*, [http://www.nacainc.org/NACA\\_History.htm](http://www.nacainc.org/NACA_History.htm).

<sup>224</sup> U.S. Census Bureau, Census 2000 Data.

<sup>225</sup> U.S. Immigration and Naturalization Service, Office of Policy Planning, *Estimates of the Unauthorized Immigrant Population Residing in the United States: 1990-2000*, January 2003, [http://uscis.gov/graphics/shared/aboutus/statistics/Imm\\_Report\\_1211.pdf](http://uscis.gov/graphics/shared/aboutus/statistics/Imm_Report_1211.pdf).

<sup>226</sup> DES, *Rapid Refugee Services Assessment*, April 2003, <http://www.de.state.az.us/csa/pdf/BARA%20Final%20Report.pdf>.

<sup>227</sup> DES, *Mission of the Arizona Refugee Resettlement Program (RRP)*, <http://www.de.state.az.us/csa/programs/refugee/default.asp>.

<sup>228</sup> U.S. Census Bureau, Census 2000 Data.

**Eighty-five percent of Arizona’s foreign-born residents report speaking a language other than English at home** and of this 85%, 42.5% report speaking English “not well” or “not at all.”

### **3. Poverty Levels Among Immigrants**

According to Census 2000 figures, **25% of Arizona’s foreign-born population has incomes that put them below poverty level, above the national average for immigrants.** Among non-citizens, this figure rises to 29.9% (compared to only 13.5% of foreign-born citizens in Arizona).<sup>229</sup> While specific data on housing affordability for immigrants in Arizona is not available, the state notes in its *2004 Annual Action Plan* that minorities in the state, a group which includes large numbers of the foreign-born population, are disproportionately likely to be living in crowded or substandard conditions or to be spending more than 30% of their incomes on housing.<sup>230</sup>

### **4. Proposition 200**

In the November 2004 election, Arizona residents passed Proposition 200, known as the “Arizona Tax Payer and Citizen Protection Act,” which changed state law to require:

- proof of U.S. citizenship of every person who registers to vote;
- every voter to show identification at the polling place prior to voting;
- state and local governments to verify the identity and immigration status of all applicants for certain public benefits; and
- government employees to report United States immigration law violations by applicants for public benefits.<sup>231</sup>

Supporters of the proposition argued that it would reduce the economic hardship to the state that illegal immigration causes by requiring the applicants for benefits to prove their legal status and eliminate fraudulent voting by non-citizens. Opponents of the proposition argued that the proposition solved non-existent problems, and was on the ballot only to feed anti-immigrant sentiment within the state.<sup>232</sup>

## **D. IMMIGRANT RESOURCES**

### **1. Arizona Refugee Resettlement Program**

The Arizona Refugee Resettlement Program (RRP)’s goal is to enable refugees to achieve social and economic self-sufficiency after arriving in Arizona. The program assists refugees in the state by providing direct services and helping them to receive

<sup>229</sup> Ibid.

<sup>230</sup> ADOH and DES, *FY 2004 State of Arizona Annual Action Plan*, p. 2.

<sup>231</sup> Arizona League of Women Voters, *Voter’s Guide*, <http://www.azvoterservice.org/guide.htm>.

<sup>232</sup> Ibid.

assistance through social services formula and discretionary, targeted assistance, and cash and medical assistance grants.<sup>233</sup>

## **2. Arizona Hispanic Chamber of Commerce**

The Arizona Hispanic Chamber of Commerce was founded in 1948 with a goal of keeping Hispanic-owned businesses strong and progressive. In order to achieve its goal, it provides a variety of services to the state's Hispanic entrepreneurs, including seminars, marketing consultations, leadership development, and networking opportunities. It also has programs to support statewide economic and business development efforts.<sup>234</sup>

## **3. Community Housing Resources of Arizona**

Community Housing Resources of Arizona (CHRA) is a nonprofit, HUD-approved housing counseling agency established in 1987 specifically to promote fair housing and equal housing opportunities for residents of Phoenix. CHRA provides services that are of particular help to immigrants looking to purchase a home, including bilingual, one-on-one pre-purchase counseling, educational workshops and seminars, and direct-to-client downpayment and closing cost subsidies.<sup>235</sup>

## **4. Corazon de Oro Community Services**

Corazón de Oro is a nonprofit community development and health care organization that ensures proper medical care and injury/disease prevention by educating the most vulnerable communities in the region. The mission of the organization is to provide linguistically and culturally competent health services and access to health care to the diverse communities of Maricopa County. The organization also provides services in housing development, ensuring that fair housing practices are followed as described by the U.S. Department of Housing and Urban Development.<sup>236</sup>

## **5. Comite de Bienestar, Inc.**

Comite de Bienestar serves recent immigrants to Yuma County, a county with a high volume of immigrants arriving from Mexico. The organization's goal is to empower Mexican American citizens and immigrants to overcome the barriers that they face to achieving success in the United States. The organization develops affordable housing,

<sup>233</sup> DES, *Mission of the Arizona Refugee Resettlement Program (RRP)*.

<sup>234</sup> Arizona Hispanic Chamber of Commerce, *About the AZHCC*, <http://www.azhcc.com/business/main.asp>.

<sup>235</sup> Community Housing Resources of Arizona, *What is CHRA?*, <http://www.communityhousingresources.org/>.

<sup>236</sup> National Council of La Raza, *Corazon de Oro Community Services*, <http://www.nclr.org/content/affiliates/detail/1032/>.

and also provides counseling and financing for homebuyers and technical assistance for homebuilders.<sup>237</sup>

## **6. Chicanos Por La Causa**

Chicanos Por La Causa, Inc. (CPLC) is a statewide community development corporation committed to building stronger, healthier communities as a lead advocate, coalition builder, and direct service provider. CPLC promotes positive change and self-sufficiency to enhance the quality of life for the benefit of those it serves. From the Nogales office, certified staff assists families in securing citizenship and legal residence in the United States. Clients are represented in immigration courts and all required immigration forms are completed for both adults and children. In addition, there is a Notary Public on site to notarize and translate for clients. As part of the South Yuma County Consortium, CPLC is involved with offering citizenship classes, GED, ESL, and basic adult education classes.<sup>238</sup>

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<sup>237</sup> Rural Local Initiatives Support Corporation, *Comite de Bienstar, Inc.*, [http://www.ruralisc.org/pdf/comite\\_pdf.pdf](http://www.ruralisc.org/pdf/comite_pdf.pdf).

<sup>238</sup> Chicanos Por La Causa, Inc., <http://www.cplc.org/>.