

## ARIZONA

## Republic's investigations show there's a cost to Gov. Ducey's conservative tax and regulation cutting agenda

**Craig Harris, Anne Ryman and Andrew Ford** Arizona Republic

Published 8:02 a.m. MT Dec. 31, 2021

California revoked the registration of Uber's 16 self-driving test vehicles in December 2016, after several were spotted running red lights in San Francisco.

In response, Uber loaded the cars onto flatbed trucks and rolled them up to the front lawn of the Arizona state capitol where Gov. Doug Ducey welcomed them "with open arms and wide open roads."

Just over a year later, one of those cars struck and killed 49-year old Elaine Herzberg, who had stepped out of the darkness and into the street with her bicycle just past the bridge over Tempe Town Lake.

Ducey was quick to suspend Uber's self-driving operation in Arizona after the crash.

"We had a bad actor and we acted forcefully," Ducey explained several months later.

But the damage was done.

The governor's mission to open Arizona for business with a conservative playbook of cutting taxes and regulations has had consequences beyond the fatal crash.

The Arizona Republic, in 2021, set out to examine the wide-ranging impacts of Ducey's business-first approach. That reporting revealed efforts that focused on directly enriching Ducey's supporters — such as when Ducey's former and current top aides pushed to change tax rules to hand money to a political contributor and his clients. But it also revealed a broader push to reduce taxation and regulation, even when that push had negative ramifications.

"There seems to be a general theme where Ducey has been able to use his position as governor to implement a number of changes in state policy that raise questions about whether the public interest is being served or whether narrower private or political interest are being served," said John Pelissero, the senior scholar in government at the Markkula Center for Applied Ethics of Santa Clara University. "What the government should be doing is looking out for the public interest — the citizens and the taxpayers — not private interests more specifically."

Ducey throughout 2021 declined repeated interview requests from The Republic to comment on the stories and to defend his policies. On Thursday, his spokesman C.J. Karamargin said "we completely reject the premise of these stories and we know Arizonans will too."

To be sure, many of Ducey's business-friendly policies have been a success.

His office boasts that Arizona and Montana tied for the fastest rate of growth in personal income at 8.4% in 2020.

Under Ducey, Arizona recovered over 100% of private sector jobs after less than a year and a half of the initial economic disruption from the COVID-19 pandemic that began in March 2020. Arizona is the third-fastest in total jobs recovery, with 97% recovered from the pandemic when including government jobs.

Arizona also has emerged as a leading hub for new semiconductor investments and was recently dubbed by Forbes as "U.S. Semiconductor Central."

What's more, the governor helped the state convert its budget from a \$1 billion deficit in 2015 to a \$1 billion surplus in 2019, and his administration says he has succeeded in simplifying and reducing taxes each year he's been in office.

In 2020, Ducey signed a 13 percent tax reduction, according to figures provided by Karamargin. In 2021, Arizona passed the largest tax reform package in state history.

Still, Ducey's tax reforms benefit the wealthiest Arizonans far more than those of more modest means.

According to the Arizona Center for Economic Progress, the top 5% of taxpayers, who make more than \$224,000 a year, will receive anywhere from \$2,700 to \$30,000 in savings from Ducey's flat tax proposal, while 60% of taxpayers, those earning \$64,000 or less, will receive \$47 or less.

Similarly, The Republic's investigations found, some of Ducey's actions and policies have generated a bigger benefit for key groups than for the general public.

Currently, the chairman of the Republican Governors Association and a prodigious fundraiser, Ducey is believed to have his eyes on higher office. When a Dallas businessman and kingmaker in Texas and national politics needed help getting a tax refund for a client that sold diesel fuel to mining companies, Ducey and current and former staffers went out of their way to assist even though the assistance could have cost the state more than \$100 million.

**More:** Series suggested former Ducey attorneys violated conflict of interest law. That's unfair

The tax refund was opposed by top officials at Arizona's Department of Revenue.

Despite three top former Ducey aides and at least one top staff member pushing for the refund, the Department of Revenue appealed an initial court ruling and prevailed. Ducey and the Texas businessman — G. Brint Ryan — lost the effort to secure the refunds. But the two Department of Revenue officials who thwarted their intentions soon lost their jobs. Ducey fired them around Christmas of 2020.

Spokespeople for Ducey said the terminations had nothing to do with Ryan and the campaign for tax refunds. The fired officials said they believed otherwise.

The Republic's investigation into the matter has since triggered an FBI investigation.

Meanwhile, policies pushed by Ducey have come with different kinds of costs.

Take universal licensure.

One of Ducey's most prized initiatives, it allows professionals moving to Arizona from other states to start up again without having to pass through a gauntlet of expensive and time-consuming educational and financial requirements.

**More:** Arizona opened professional licenses to less qualified workers. Gov. Ducey's office made sure they were granted

Arizona became the first state in the country to adopt universal licensure in summer 2019 and more than 4,000 professionals have taken advantage of the law and moved to Arizona since then. But Arizona's version of the law allows some professionals to enter the state with lower standards, giving them an unfair advantage over Arizona professionals who put more time and effort into meeting more stringent requirements.

The new rules also put Arizonans at risk.

A California veterinarian was permitted to operate on a kitten with a temporary license while her universal license application was under review. The kitten died because of alleged mistakes made during surgery. The state's veterinary board later said it was unable to discipline the veterinarian because her temporary license expired before action could be taken.

In the meantime, other professionals have been permitted to enter the state in spite of problems in their past. They include a dentist, who took out two of a 12-year-old's teeth from the top row instead of the bottom and a chiropractor who pleaded guilty to fraud.

It's too early to tell what other problems universal licensure has caused.

Some professional boards have not provided The Republic with lists of states where applicants have migrated from, so it's impossible to know which applicants obtained licenses based on lower standards.

Karamargin, the governor's spokesman, objected to the inclusion of the kitten example in the story about universal licensure. He said the veterinarian who operated on the animal was allowed into the state under a temporary license that had been on the books in Arizona since 1967 and he demanded a correction.

But the universal license application includes the option for professionals to seek a temporary permit. The veterinarian who operated on the kitten checked "yes" she would also be seeking a temporary permit while her universal license was being processed. As The Republic's original report described, some professionals can work under temporary licenses while awaiting a universal license.

In an interview with The Republic, the veterinarian said she was using the temporary license while she awaited a copy of her birth certificate from another state. Though the licenses may be authorized under different statutes put into place in different years, applicants are able to use them in tandem.

Karamargin, however, still believes a correction is needed.

"The Republic has deliberately published things it knows to be false," he said, "and even when those errors have been pointed out it has refused to correct them."

As with universal licensure, Ducey was also instrumental in making it easier for companies to finance development projects with tax-free bonds issued by the Arizona Industrial Development Authority.

**More:** Under Ducey, Arizona issued bonds that got bigger, riskier, farther-flung. Now some of them are in trouble

By facilitating the financing process, Arizona has issued bonds for projects all over the country, even in cases where those projects later caused problems in their local communities. Seven of the more than 110 bonds issued by Arizona's IDA are now in trouble and two of the bonds have fallen into default.

One of the bonds currently in default was issued to a company that projected millions in profits from the conversion of mine waste into plant food at a goldmine in Congress, Arizona. The CEO turned out to have a history of securities actions filed against his companies. Instead of profits, his operation has lost more than \$9 million over the past two years and has stopped making interest payments to bondholders.

**More:** Arizona issued John Owen's company \$22 million in bonds. Here's what they didn't know.

To increase fees flowing into the bonding authority, Patrick Ray, the program manager, has funded increasingly large and risky projects, many of them out of state. His rationale: Arizona needs the revenue.

State legislators, including senior Republican lawmaker Rep. John Kavanagh are already calling for reform, saying the Arizona Industrial Development Authority should concentrate more on Arizona projects and that the bonding process should have more oversight.

Using the issuance of bonds as a way to diversify revenues is just one way in which Ducey's tax cuts have affected Arizona during his first two terms in office. They have made the Arizona Industrial Development Authority's bond portfolio riskier – more prone to default.

Tax cuts also have made the state more reliant on proceeds from gambling.

For five years, Ducey's chief of staff — Kirk Adams — worked to renegotiate gaming compacts with the state's Indian tribes and professional sports teams. Like with fees from the issuance of bonds, the goal was to raise revenues: Ducey had entered office facing a budget shortfall yet promising to cut taxes.

Adams — who would later advocate for the tax refunds sought by GOP supporter G. Brint Ryan — was instructed by Ducey not to let gambling change the culture of Arizona, but to maximize revenues for the state.

**More:** Through 5 years, 22 tribes and 90 lawmakers, how sports betting became reality in Arizona

The result is that Arizona may not look like Nevada — with casinos dotting the major thoroughfares of Phoenix and Tucson — but pretty much everything you can do in Vegas with regard to gambling can be done in Arizona. If you want to bet \$100,000 on the roll of a dice or the turn of a card, you can. And the consequences are the same.

State residents can lose their homes and turn their families onto the streets in an instant.

"Gambling is an addiction," according to Rep. Pamela Powers Hannley, a Democrat representing Tucson. "People lose their homes and livelihood from gambling."

Wanted or not, there has been a culture shift in Arizona as a result of the transition to a more professional form of gambling, according to Pelissero of the Markkula Center for Applied Ethics.

"The question is whether the cultural shift is something that the public wanted," Pelissero said, "or whether it was driven by private or political interests."

*Arizona Republic investigations editor Michael Braga contributed to this report.*