
**Update on the State of the Arizona Economy
Tuesday, December 6, 2011**

Paul Ahern:

I'm absolutely and Wealth Trust is absolutely delighted to see all of you again. Many of you I know were at our event about a year ago now with Greg Valliere was here and we talked a lot about the economy and certainly the economy is still a challenge, we know that, and we were doing, you know - that's basically how we spend our days, just trying to continue to work with the financial side of the business and the wealth information side of it, and doing the very best we can in managing your portfolios. One of things we've done since we were last together is to get more involved in the Greater Phoenix Economic Council, known as GPEC. GPEC is an organization that represents the Greater Phoenix area and one of our partners at the firm, Ben Wilson, has been involved with the GPEC for several years and the firm, overall, is getting more involved within and we've had a wonderful opportunity to get to know Barry Broome who is our guest speaker tonight. Barry is the President and CEO of the Greater Phoenix Economic Council and he has just done marvelous things for the city and for the surrounding areas around public and private partnership development, all in the spirit of developing commerce and business that comes to the valley. Obviously, that is very, very connected to job growth and job growth fuels the economy and it fuels success in our society. We feel very strongly with Phoenix and Arizona being one of the largest states and one of the largest economies in the country, that it's important as financial advisers and wealth managers that we have a good understanding of what's going on in the economy and as many of you know who have been at many of our workshops this year, we believe strongly in educating and working with our clients to provide educational events and seminars that are not only about investments, which of course is our most important item, but also about other things that play a role in our lives. The development, and the progress, and the success of Arizona and Phoenix and the overall state is just so very important. Barry has been very, very instrumental in the development and has twenty plus years experience in leading this effort. He's brought together jobs over the last many years, tremendous growth in the state. We're very fortunate to have him with us tonight. Barry is going to talk about what's going on in the economy,

what's going on in the state, and how and what were seeing to continue to grow the state and our economic environment. So, with that I welcome, Barry Broome.

Barry Broome:

Thank you for the wonderful words. So, you know when someone invites you to speak to other investors, the way you can make them nervous, they'd say, "Can it get you anything?" I said, "Yes, can I get a few shots Jack Daniel's before I start my talk?" I think you know what I'm saying, maybe you know that Chicago fights on it's because I know there are some Chicago people here. Well, thanks for having me and, of course, it's a really interesting period, I think in the United States from an economic standpoint, what's really challenging economically is the translation to just how hard it is to build an economy. I think that's probably the biggest challenge right now in the United States. So, whether you're watching a president operate or whether you're watching the Speaker of the House operate, the dialogue about how to fix the economy is really nothing more than a toe in the water. There's really not a lot of deep meaningful discussions about the type of systemic and rapid change that has to occur in the U.S. economy for us to come out on the other side and be the economic super power that we're accustomed to. I just know generationally from talking to people in the room, I mean I kind of like it when I watch Boehner and I watch the President, you know like, "The kids are running the company now and they're running it into the ground." You know what it's like? It's like, "Hey, dad figured out how to get the first truck, and then dad figured out how to get 50 trucks, and then son took over, he's never seen it with anything less than 50 trucks, and now that the trucks need repair, he's not really sure how to do that or she's not really sure how to do that." The analogy I was using before is when you look at Arizona's history or you look at the United States' history, you can relate to this because my dad was a World War II veteran, as you go in to Japan, you go in to Germany you lose a million Americans fighting this battle with Japan and Germany. Then when you're done you go back, rewrite their constitutions, right? Rewrite their systems of government, then you go to congress and what do you need? You need a hundred billion dollars to rebuild Japan's economy. I mean if you think these

political hurdles were complex, can you imagine what would these guys do? Of course, that's why you know historically, you know Winston Churchill was turned out and Harry Truman barely hung on in '48 it's because we - but we have a whole generation of leaders that was used to making really serious, significant decisions because they had no choice. Yes, the Marshall Plan.

Male: In Europe.

Barry Broome: I mean yes, I mean one of the things we do here in Arizona if you go down and talk to the United States member of your Congress and you'd say, "Hey I'd like to work on Department of Energy on getting a federal lab placed in the market, you know you get a lot of church dogma from that elected official. [Unintelligible]. Probably someone might say, "Hey, you know just in case you're wondering, the Central Arizona Project, it came to the valley in 1968. Carl Hayden started working on that in 1920 and in today's dollars in the Central Arizona Project it's forty billion dollars of federal money. Could you imagine if we needed a forty billion dollar infrastructure improvement in Arizona so that we could thrive, I mean it would be tough to get done? This is really - and the guys that were doing this in Arizona, I think Barry Goldwater was a big player in this. So, even the most conservative libertarian people whatever their view of the world was when it came to building the economy there was a practicality. One of the things - I didn't get to do this, but I was going to be one of the four panelist on the federal government's review of Solyndra loan scandal. Yes, I was looking forward to that. Yes, and so I got on the phone to the energy committee and I talked to a couple of U.S. Senators and I said, "You know you've been giving out federal loans since 1918 and if you look at our market Boeing, Honeywell, and Raytheon were all built with federal loan guarantees. In 2001 after 9/11, U.S. Airways, which is was then America West got a four hundred million dollar loan guarantee to be stabilized. I say it's really tough to get in and out of Sky Harbor flapping your arms. If you go back to the Eisenhower building, the infrastructure, with what we have for the U.S., or the Marshall Plan, or all these things, all throughout history we had people that had these major systemic moves to make us to world power and

now we're watching China, you know China has the appetite to make these major moves. One of my favorite movies is *The Right Stuff* and I was watching it the other day - and you know how you have kids, you get your kids to do things and they ignore everything you say or do, so my kids are 14, 17, and 18 so I'm glad to be here because I don't normally feel like I'm very smart about anything anymore. And so, I'm watching *The Right Stuff* and they're showing all these scenes where Neil Armstrong, and John Glenn, and Alan Shepard are there and they're watching all these missile launches, full-blown missile launches you know explode and blow up in mid air and then they're making notes and they go back to Houston and figure out what they did wrong. Then they come back and another missile launches and blows up in thin air, oh, darn it, I gotta go back and figure out what I did wrong. [Unintelligible]. I'm sitting there thinking, "I wonder what each one of those cost?" If you launched one of those things today and it blew up between C-SPAN was down [unintelligible] and CNN and everybody, everybody would be thrown out of office. And so, you know, we've kind of lost its bold and it should have to be great. I think one of the things that we need to reconnect to is just how much oomph it took; you know, we've always heard the Thomas Edison story, "I found out the ten thousand ways to do the light bulb wrong before I did it correctly." So, I think there has been a cultural disconnect maybe over the last 30 years, certainly, over what it takes to be a world power to what we are today. The depth and intensity it takes to be successful and accomplished to be a world leader. And we're now watching other people start to crowd into that space. I can assure you that China is very dedicated. China is - the happiest people about the Solyndra story are the Chinese because they are going to deliver on solar. There's no doubt about it. It's impossible for solar energy not to make it. The question is who's going to lead it and own it? That's one of our objectives here in Arizona is to be one of the leaders of it because of every single economic outcome becomes a commodity play, I mean we're going to run out - that's exactly where we got in to trouble. We're living off of credit, consumer leverage growth, the whole country was, and we're all waiting for these very predictable certain economic trends to occur, so we know when to step in the market and get a benefit. But if you know how the economy's built just like

many of you in here built your own company, I mean it wasn't very certain when you started of. Most of us who have accomplished careers didn't have a lot of certainty starting off. It was our ability to believe in what we were doing to move forward. One of the funny things that I learned - we do a lot of business in China, we do a lot of business in Germany, we've been more successful in China and Germany, but one of the misnomers about the U.S. is all during the end of Bush and the beginning of Obama spending a lot of time in the Middle East and Middle Easterners love Americans, they really do. Maybe their government doesn't, maybe there's some pocket of ideological people emerging there that doesn't, but if you interface in and out of the Middle East, they're pretty high on you. Because actually I thought we were least liked in Western Europe, I felt like more people came up and asked me questions about our country in the Middle East in other words. I sat in the room in Dubai and Abu Dhabi, pretty sharp people, right there in the [unintelligible] of that, and I gave a lecture on how to build and start enterprises and things like that. They brought their best people in. I mean, you would have thought I was Warren Buffet. I mean they had so much respect for American knowhow and on how to form an enterprise, they kept copious notes and these were the best people they had. Pakistan was in there too and North Africa. So, we still have an enormous edge on ingenuity, enormous edge on enterprise formation and it's probably enterprise formation is probably the last real edge we have, because I think some of the science and technology that's coming out of China is going to be very compelling. It might even outpace the U.S. So, we might get down to the point to where our efficiency and effectiveness on how to convert ideas into market opportunities is really going to be what we're going to leverage in the next twenty years. Of course, we have to revisit the appetite of what it takes to be a leader and a lot of that is getting your nose broke. Some of you are following Dr. Michael Crow, I'm a huge Dr. Michael Crow fan, and the other day I was with him because I want to put together two million dollar science initiative. He said, "Barry you know what I like about you?" I said, "What's that, Dr. Crow?" He says, "You're a homerun hitter. Yes, we need more homerun hitters in Arizona." I said, "Oh, thanks that's a pretty good compliment, doctor," but he goes, "Yes, you never mind striking out." I

thought that was a compliment and then he gave me, “Yes, you got to strikeout once in a while, it never bothers you.” So, I guess I have a high strikeout rate, but I do try to hit some homeruns. So, what do we do at GPEC? Well, GPEC, we’re basically 76% of Arizona’s economy. We have twenty cities, two counties, and a 155 companies operating as a single unit to build an economic strategy. So, if you’re making investments, I can say with total confidence, anything in real estate buy as much of it as you can in this community because it’s going to come back in favor of you, whether it’s a land, building, or housing, this market’s going to add a million people no matter how we look at it over the next ten years. And when you’re adding people, it gives you an upside. We’re the third youngest region in the United States. We have plenty of water. Well, actually we have a bigger threat to electrical power than we do water and so this move towards solar renewables is not only about an economic opportunity, but it’s going to be about sustaining ourselves from a pure energy standpoint. This is still a very strong market with a very big upside. But the warning I give a lot of people in Arizona is we’re going to get one shot, two at the most, of reaching our potential in this town. Part of the translation of helping people in Phoenix understand is, you know, we’re not going to get the Chicago shot, we’re not going to get the New York City shot, we’re not going to get the burned to the ground because the cow kicked over the lantern and start over. We’re not going to get all these shots because the global market is a lot more disciplined, is a lot more efficient, there’s a lot more foreign competition than there ever was in the history of the United States. So, a market like this, isn’t going to get 1, 2, 3 chances to grow and learn, and one of the mistakes I think people make in Greater Phoenix is, “We’re young.” It took Chicago forever to figure this out. It took this city forever to figure this out. Yes, well we’re not going to get that many swings, I’m guessing two at the most. To be honest with you, I’m saying one. We got about the next five to ten years to really establish ourselves as an elite market and that’s what I’m committed to do as the President of GPEC and my conversation with Greg Stanton, our next mayor, and whoever the next governors the next two or three years, these are going to be our version of legacy leaders, because we’re not going to get a lot more shots. The opportunity in this market is it’s young and growing, but if it

ceases up and fails to be sustainable over the next five to ten years, what's going to come in behind it again. And we're starting to replace our demographics here from this immigration discussion is so important in Arizona because 50% of the kids under eighteen descend from Mexico in this state. So, we are now going to be, you know if you go back 10, 15, 20 years in Arizona, the educated leadership of this community, it came from Chicago, it came from Los Angeles, it came from San Francisco, but pretty much it came from Chicago to the west, mostly from California. Yes, we got a good, sturdy crowd from Nebraska, and Iowa, and Ohio, and Michigan and it was pretty much who migrated to this community and, because it was an open community, people immediately got on the ground and became leaders and we indoctrinate the culture. If you go through North Central Phoenix it looks a lot like Chicago in some places. There's other part of our towns that look a little bit more like L.A. and that's been kind of our culture. We now are going to have this organic growing South Western culture and our ability to manage immigration and educate people organically is going to replace the brainpower in this community with the old school, which is if you moved here they had a lot to offer and immediately moved up. So, Motorola was launched by Chicago guys and we have all these...you know, Hughes Aircraft was launched by people from California. Our next generation of really cool companies are going to have to come out of the raw materials we recreate in a stable market. So, that's kind of a big objective for us. We're considered one of the top regional economic global organizations in the country. We're actually named number one out of New York City to the International Economic Development Conference about two months ago, but I don't consider - I consider that a nice compliment, but I don't consider the economic development leadership in the United States be very good. So, we try to push ourselves to a high standard and I always refer to that award as like getting all A's at a community college and, you know, it's not a good thing to do, but nobody should be - well, it isn't a Harvard deal; we're up against basically slugs and we try to set a standard all by ourselves. We try to set standards like Steve Jobs and Bill Gates and people like that because we really don't have a lot of peers to measure ourselves to because the entire U.S. is suffering from the exact same thing you've seeing in

Washington, D.C. Our leaders are sitting around and trying to find out what's politically palatable. They're trying to get through some type of short circle and then they're trying to come out on the other side just before reelection. They're not sitting around and thinking about how we change the future of the state or the region. There are very few places in the United States that are sitting around with the deep intention to change their future. So, our goal is the Brookings Institute, which is really one of the premier thought leaders in the United States and basically what has emerged, if you follow any of Michael Porter's work, is out of hard work and competitiveness and most of the competitiveness principles in the last twenty years of business and communities have kind of come out of that Porter's notion was you've got 50 state economies that networked together to make a U.S. economy and really what's happened in this downturn, the State of Illinois, I talked to some Chicago people, the State of Illinois is in unbelievably deep systemic trouble and it could be in a situation that's less manageable than the United States. I mean I think the U.S. Federal Government has a chance to recover easier than California. Okay and if you look at Illinois and you look at California, and most of us are familiar with those two states, I mean they're really trapped in their own political agenda. Every time you sit down and try to find a solution, people tell you what they won't do, not what they will do. And so, the end result is that's being permeating across the country where Boehner sits on one side and Obama sits on the other and there's no solution in between. That's really where that downgrade came from on our bond rating. It was ironic we got a downgrade on our bond rating not because of our fundamentals, because of political uncertainty. It's almost like a third-world downgrading. So, that's an amazing event in American history and so as a region, the Brookings Institute has now come out with this kind of a new way of looking at this now as U.S. economy is really a series of metropolitan economies tied together because they're watching states fail. So, Illinois is failing as a state, but Chicago isn't. Okay, if you've been to San Francisco there's a lot of action in San Francisco, there's still a lot of action in San Diego, so these metropolitan areas that have these ecosystems that are still thriving and yet states are collapsing. But I think what's going to happen in California is I really think what's trending in

California right now, is we just had a company called Maxwell Technologies that relocated from San Diego to Peoria, Arizona, and they're bringing their intellectual property and their top 200 researchers from San Diego in Arizona. And that is a good sign for us, but that is a really bad sign for California. Now, I'll tell you why that's bad sign for California. California is [unintelligible] just like the National [unintelligible] has always been, we produce so much organic technology, so much organic talent and our universities are so high-powered that all these sociopolitical behaviors that we'd like to have, like social screens on investment, eighteen months of planning exercises before you get a permit; we're able to manage those politically from the leadership standpoint because as a matter of fact is that Stanford's and the Cal. Tech's are still going to bail us out. Those universities aren't going to be able to bail California out; it's not going to happen. There's a major threat to the higher education system in California. California, as a state budget, puts more money in underwriting the public employees' union pension obligation than they now put in higher education. So, if you think about the California economy, the UCLAs, Cal. Techs, whatever role they play with Stanford and public research, that is now getting less investment than with the police, and fire, and state employees' union.

Audience: Are we having the same problem here with legislature...?

Barry Broome: Which one? Well, first...

Audience: About not supporting higher education?

Barry Broome: Higher education? Yes, that's a problem here, but the good news is their problem is systemic so we don't have the public pension problem. So, everybody's got problems. Our problem is a lot more fixable because even though we've suffered through some tough cuts, the state legislature has not kicked the can down the road. Now, we've suffered through those fiscal exercises, but ASU right now, the ASU Honors College is considered consistently the top Honors College in United States and Dr. Crow's delivered that during

these cuts. The truth of the matter is I don't know how many states are going to be able to really maintain these state universities the way that they are. So, even states like Minnesota, Illinois, and Wisconsin that have long histories of center-left, policy makers, new dealers that are emotionally and personally committed to this higher education basis, they're not investing in them like they used to. The number one issue right now on higher education is how do we maintain this higher educational system with the dramatic reduction in public dollars. Michigan, where I came from to here, Rick Snyder, the Governor of Michigan, I think he's a great governor, and he's delivering educational cuts now to the higher education system in Michigan. It's one of the few anchors they can pull themselves out of. That's the challenge in D.C. right now. The first thing you have to do is you can't be insolvent fiscally no matter what your personal professional objectives are. You can't be insolvent fiscally and then from a civics and policy standpoint, we've got to figure out a way to deliver outcomes in educational services for less money than we're currently investing at. Yes ma'am?

Audience: To go to the gentleman's question up there, our legislature is not looking primarily at higher education, they're looking at education as a whole and I guess where I take an exception and we no longer have children in school, but we have grandchildren in school, we need to look at our general education, our high schools.

Barry Broome: Yes.

Audience: Because these are the children that are going to go on to college and these are the children that we need to groom and educate properly. If our legislature is not funding high school education, they're cutting the budgets for all education across the board as we've seen in our most recent election, how many cities had bond issues going up. What's going to happen? There won't be a need for funding higher education because there won't be a higher education.

Barry Broome: Yes, well, let me give you a couple of comments on that. First off, I'm not here to endorse all behaviors of our elected officials.

Audience: I understand. I agree with that, thank you.

Audience: [Laughter].

Barry Broome: Like I probably wouldn't give guns to everybody under the age of twelve, I mean.

Audience: [Laughter].

Audience: Oh, thank you very much.

Barry Broome: I grew up in Ohio, so you know when you said, "Gun" around us we hit the ground. When you say, "Gun" around here, people you know, woo, salute you.

Audience: [Laughter].

Barry Broome: Yes, so it's a little different culture out here. I have no idea with all those guns out there why we're not shooting each other, but I always tell you the gun thing you know. My kids graduated the guns because we started in Cleveland where guns are bad and then I moved to West Michigan to run a science strategy in Michigan and went to a guy's house and he had all these hunting guns out and my kids were like six and seven and they were in the hallway while I was at this business event where we brought our families. My kids were in the hallway going, "Dad, we got to get out of here, dad."

Audience: [Laughter].

Barry Broome: "This guy's got a whole room full of guns. We've got to get out of here."

Audience: [Laughter].

Barry Broome: [Unintelligible]“That’s okay, we’re not in Cleveland anymore.” Now, you come out here and I’ll never really be honest, but to tell you I’ve never - I shot a hunting rifle once in my life. I’ve never shot a gun in my life, but I kind of feel like I should have one now that I’ve been here for seven years.

Audience: [Laughter].

Barry Broome: It’s amazing [crosstalk].

Audience: [You can go and fire one].

Barry Broome: Yes, why don’t I have a Glock? And you know I should have a 9mm. So, it’s a little bit of a different culture and I don’t know that I can defend or describe every element of it, but I will say this about the education outcomes in Arizona, which I think are really important. I’d rather have Arizona’s educational system even at the K-12 level than Illinois’, Minnesota’s, or California’s. Okay. Now, Minnesota - let me finish, Minnesota has about the fifth highest educated workforce in the United States, Minneapolis-St. Paul. I spent a little bit of time up there. Okay. Their state government is not sustainable, alright? They’re now becoming the California of the Upper Midwest.

Audience: Oh my God.

Barry Broome: That is exactly where Minnesota is in. And just like California, unbelievable medical device, unbelievable science and technology, Mayo’s leverage, going broke’s gone broke, okay, paying out more than you’re taking in is paying out more than you’re taking in and that’s where Minnesota’s heading. Now, what’s happening in Minnesota right now, as their cost of education continues to rise, what’s happening in Minneapolis-St. Paul’s educational outcomes? Ooh, they’re starting to slide now. Okay. So, all these great - again, one of the things that Minnesota found out is when you have these monolithic societies their just a

heck - it's a lot easier to educate everybody from Western Europe in German backgrounds. But as these cultures shift and change, educational delivery system has to adjust. One of the things that you learn - I served on a school board four years back in Ohio and I have probably a lot of experience around education for a guy who works on the economy, but when you build these large educational institutions they get taken over by administrators and then those administrators end up managing the teachers' union - I don't have anything against teachers' union, you know I'm Irish Catholic boy, lots of union people in my family including myself, but what happens is when you're gonna move and turn to be flexible, these systems aren't allowing that. So, the big advantage in Arizona's educational system is we have the number one school choice in educational system in the United States of America. I will tell you, charter schools in Arizona are working. They're not a solution for everyone, okay, but if you go to basis that's the school system that's working. Veritas is a school system that's working, alright? We have Phoenix Bioscience High School in Downtown Phoenix; there is a long waiting list for that school, its working. What is happening in those charter schools is those charter schools are starting to change the culture of the public schools. So now, Camelback High School, which is a school system that you think might not be successful, but there is a young principal there about 31 years old that is building a state and national reputation as an educational innovator and he doesn't seek funding as his solution because it isn't coming anyway. And so now, what you have in all these different places in Arizona, which is not an endorsement for underfunding the educational system, we need to increase funding at that. We do have this revolutionary set of behaviors around STEM education, around curriculum, around voc-ed, you know 62% of the jobs are going to go to people who aren't going to go to college. So, we're going to need to train and educate people differently. You're having this educational revolution and even though Arizona has been, I consider shamelessly I'm committed to its educational system. We didn't end up - it's almost like being too heavily invested in the market right now. Okay. We're not so heavily invested in this educational system that we don't have the breathing room around the economic recovery package to reshift its educational system to a modern model. One of the things

that's very prevalent in Arizona that I'm not a super fan of is the move towards proprietary education at the college level, but the fact of the matter is in a market that needs to add higher education system to one hundred thousand more college students in the next ten years is not going to get picked up in a state public funded system. So, there's going to have to be an innovation on that. Some of the innovations that occurred in Thunderbird School is essentially a proprietary school now, the number one international business school in the United States, some say in the world, and its really a proprietary school now. I mean they basically make most of their money now in a consulting practice, and they've converted themselves and that their faculty are essentially running this branded consulting network called Thunderbird School for International Business, but they're making their money doing work for Kellogg; they're making their money doing the work for Pfizer and Merck, and then of course their graduate program is primarily for people out of Asia, so they have this very happening graduate school with this great reputation, but when you look inside the model it's a business. I tell you another school that is really amazing is Grand Canyon. So, four or five years ago, Grand Canyon was almost ready to close. Now, Grand Canyon University is going to twelve thousand students in the next five years and they're putting a full line division [unintelligible] sports program on. They have moved to a proprietary education model and online I think they're educating eighty thousand students. It's a very different kind of culture and I'm not sure how sold I am on everything, but I like what Grand Canyon is doing, I like what Thunderbird and the bottom line is as much as I wish I went to a Jesuit school, as much as I would love to see, I'm from Ohio with seventy colleges and universities, I'm not going to see that in Arizona and a lot of people are going to get access to their education [unintelligible] to a laptop, not in a classroom. And the quicker we figure that out and connect people to that, and of course if you have...my kids, right? I mean I can barely spell if I have an iPod in my ear. I have no idea how you write the most important term paper for you at college while they're listening to, you know *2 Live Crew* or whatever the hell is in your ear.

Audience:

[Laughter].

Barry Broome: I can't do - I'm either listening to that or I'm not. Maybe I can get on a treadmill, but that's it. So, these kids have different ways to connect and pick up information differently and I think it's a fascinating period. The point being is, we have a much cleaner landscape on education and I think our higher education output is a good example of that. My daughter goes to Barrett, it's an honors college, it's an amazing school, it's costing me twelve thousand bucks year. To send my - my daughter goes to the number one honors college in the United States that produces more Fulbright scholars than any university in the United States for twelve thousand dollars a year.

Audience: Where is that?

Barry Broome: It's Barrett, it's at ASU [crosstalk].

Audience: At ASU.

Barry Broome: It's its honors college [crosstalk].

Audience: [Crosstalk].

Barry Broome: So, I'm not encouraging - she wanted to go to California and I was like, "Great, well let's see that school [unintelligible]...

Audience: [Laughter].

Audience: I guess where you're going.

Barry Broome: Now, let me give you some advice.

Audience: [Laughter].

Barry Broome: I was more clever than that because I work closely with Crow, I knew Barrett out - she's a chemistry major, so I knew Barrett outranks about everybody in science unless you got into Stanford. So I was like, "The first science school that's better than Barrett, I'm paying." And fortunately, the really good school she got into was Harvey Mudd, which is in the Claremont schools and that is the highest concentration of nerd guys in the United States.

Audience: [Laughter].

Barry Broome: We went there on one weekend and we found out that isn't worth fifty grand a year.

Audience: [Laughter].

Barry Broome: And then we went to check out some Pac-ten football and we were all back on Sunday.

Audience: [Laughter].

Audience: [Unintelligible].

Barry Broome: Exactly. So it's [unintelligible] Avenue and you'll never know your car might break down it might not be a bad idea I'm 30 minutes away. So, this is kind of a simple business model on how we're working on building an economy. I think this is probably a best practice for standard and this is kind of a dividing line right here. And to your right you have business attraction, retention, expansion and innovation, and I think this is one of the real flaws in the U.S. economy building when it comes to enterprise formation and job creation. The U.S. Government thinks attracting companies into the U.S. market is one set of exercise, and then how do we help U.S. companies kind of maintain themselves and grow, well, that's another set of exercise, and then how do we leverage innovation over here so that we got the next Steve Jobs online, that's a completely distinct set of exercises. Okay. Markets in the United States have

the exact same attitude. I talked to you a little bit about California. They made their living on the innovation exercise, but what they found out is ignoring the core principles on what it took to continue to have companies come to California or stay and grow, now their innovation platform is being totally disrupted. Okay. My goal in the next five years is upgrading Phoenix to replace Silicon Valley. Believe it or not that's doable. Now, whether or not [unintelligible] behave themselves and function as a unit, hey, I'm not making any promises. But anyway, so this is one set of exercise. I'd always bring companies into the valley, how do we keep them and this is really nothing more than a capital greater return exercise for companies. If a company is coming here, the real question is, is this a great place to do business, is this a place where the employees are going to be happy? These are the last things they think about. So, a lot of times when people are building economies and they're focused on quality of life, of course you want to do that. No one's going to go to Siberia, but let me tell you about quality of life. I was the head of Economic Development in Toledo, Ohio. There are eight hundred thousand people in that region. Evidently, they thought that was a pretty good place to live.

Audience: But they didn't know any better.

Barry Broome: They didn't know any better.

Audience: [Laughter].

Barry Broome: But the truth of the matter is if you were like me, I'm Irish Catholic, you're like [unintelligible], it was about as damn good as any place I was at, right? I mean, they have as good a bowling alley as I've ever seen.

Audience: [Laughter].

Barry Broome: And so, you know what, I didn't care. I mean the stakes [unintelligible] [laughter] were about four inches thick and fifteen bucks. I could stay there my

whole life. So, everyone's got their own set of objectives and want a quality of life. Me, like Arizona, obviously a great outdoor recreational environment. Bottom line is if someone's put a hundred million dollars in capital on the ground, they're not really interested in much but how quick I can return that capital. And there are two kinds of capitals that a company's got to return. They got the fixed asset capital, which is like a plant, machinery equipment investment and then they have the capital on innovation. One of the challenges in California is they're starting to disrupt. They've never been a good place to put fixed asset capital, but they're now starting to become less efficient on return on capital of innovation. This gets really important into the role of federal government, which is why political dogma is very tough because if you want to know where innovation comes from, it really comes from a public objective. Most innovation is a public objective that gets converted into some type of commercial viability. I mean we know where nuclear energy came from, alright? We were thinking of national security when we were doing it. The chip technology that most people enjoyed in the semiconductor space was a Bell Lab, Sandia Lab objective, Motorola, which was then the Paul Galvin Manufacturing Company out of Schaumburg, Illinois came down here, why? They came down here because they were going to check out this defense industry and they thought they can do some electronics work with Hughes Aircraft and Goodyear Aerospace out in the West Valley. So, they came down here strictly as a consumer radio brand morphing into a defense industry opportunity. If they wanted a defense contract led by guys like Barry Goldwater, you know they wanted to see him down here. So, what Motorola was doing while they were down here working on the defense side, they had this unique access in the federal labs. While they were looking for federal labs, they were looking for the ability to go from AM and FM in radio and that's when they found the solid state chip. So Motorola, when it was originally the Paul Galvin Company, but Motorola was formed in Downtown Phoenix with four guys, somebody from Purdue, somebody from Cal Tech, somebody from MIT, and I think somebody from the University of Illinois, and University of Chicago. But really that whole industry was really a technology that came out of the federal government. We now have this disconnect, again kids are running the

shop, “Gee, where’s technology coming from?” All the private sector does say, “Yes, sure.” 55% of all novel drugs in the United States of America are discovered inside the university, 55%. Okay? 55% of novel drugs come out of a higher education research space.

Audience: What is a novel drug?

Barry Broome: Novel drug means I’m not just tweaking it so I can keep my IP in selling it to you. So, I’m not selling you Vioxx-2; I’m actually doing something that impacts dementia or impacts health. So, it’s an achievement, it’s a novel achievement. It meets an unmet need in biotherapies. When you look at this in innovation base, it’s tied to all these things, but if you look at where innovation comes from and where innovation goes upscale, it’s been largely the role of federal government in the last 50 years. This whole Solyndra discussion is very interesting because there wouldn’t be all these other large scalable industries that certainly breakaway from their dependency on the government, become more commercially viable over time, but their scalable activity comes from federal objectives to change the U.S. economy and understanding where the public purpose is in that. And obviously, there’s a tremendous public purpose in having aviation and aircraft technology become viable. The national defense objective and of course the big part of the ingress and egress of our economy in moving around, but it turns out to be a big play for Doug Parker of U.S. Airways produced for Doug. If the Boeing guys figure out what to do with it or the Bombardier guys figure out what to do with it and converts into products for them, great for them, but the people aren’t going to have the patience to burn through the tens of millions or hundreds of millions of dollars to wash out the risk of technology. That’s only going to happen with the public purpose, which is why three hundred billion dollars in coal-powered plants have to be replaced in the United States. Japan is just starting to communicate the impact of the nuclear disaster from the earthquake and hurricane, and I assure you those of you that remember Three Mile Island, I tell all my republican buddies who say I’m a nuclear guy, I say, “I want to be around when you site the first nuclear power plant” because we haven’t sited one since 1975, 1976 and we haven’t

sited one since Three Mile Island. I don't know if you've ever caught hell for siting a RiteAid, I have,

Audience: [Laughter].

Barry Broome: I was almost beaten to death when I was younger because I sited a RiteAid at an historic district.

Audience: [Laughter].

Barry Broome: I don't want to be around for the nuclear plant being sited. But of course next to the Central Arizona Project in between the Whitecaps Mountain, you what? You're putting in a nuclear power plant. Once you measure the subsidies on these anyway, by the time you're done, trust me, the subsidy market for energy is being held by the incumbents. There are more subsidies going in oil and coal and traditional electric than there is right now, and the solar space. Right now solar's fourteen cents per kilowatt unincentivized and the national average per kilowatt price is around 11.6% incentivized. Those things are intersecting fast. So, 2013, 2014, and 2015 you're going to see grid parity in the price of solar renewables, but if we sit around and choke on the Solyndra deal, and we don't keep building on the innovation platform, I can tell you I've been to [unintelligible] China, I was there a year and a half ago, and I watched it break ground on a twelve billion dollar solar plant and they're not going to stop. My federal testimony, I'll run it by you guys first so listen to it, the Chinese are not going to let us own solar renewable. Wind turbines, I mean they're targeting GE's turbine business right now. I mean these guys are planning on crashing us. That's their view of the United States. Okay. This guy it's not Japanese view, it's not the view of Germany. There's not a trade view in China. By the end of this week, I'm going to come out and oppose the trade tariffs that are coming down the pike by the Department of Commerce against China over the illegal dumping of solar panels in the U.S. market, and we have a big Chinese platform going out of Shanghai. And I will tell you, you want to know how close their watching us? You know this little comment came out of

Oregon by a German company called Solar World, it got picked up by a U.S. senator from Oregon, I got a team of people flying to China to meet with all these solar renewable companies we've been working with, I get a phone call from them, they canceled all of our meetings for the next ten days. I said, "Over what?" Over this comment by the United States Senator from Oregon on backing Solar World on the tariff request of the U.S. Government. I said, "Well, tell them I'm against it." So, they worked it out, now I'm against it, but I didn't really think about it that long because I have three guys over there. But I mean that's literally - I mean who thinks right there where you received with some guys from Arizona you've been talking it for two years, that's how close they're paying attention to it. So, the inversion of that on the federal government is, okay its solar renewable, what technology do you think the Chinese Government expects to let us own. Do you think they're going to let us own flexible displays and you think they're going to let us own storage technology? Do you think they're going to let us exactly? This is the browbeating and the butt whipping they're planning on doing, "Hey, you think you're going to get the battery storage, electric car play out of China?" This is how they're going to do business. Unfortunately, for people who think the goal of the economy is to make the federal government disappear, our federal government is going to have to be an active-aggressive player in innovation and when these new technologies turn into commercial viability, they're going to have to find some comfortable space to playing the game. I'm not the picking winners and losers guy, I don't like the Solyndra loan, but they probably should have been putting five hundred million dollars into the technology achievements not Solyndra's cutbacks from manufacturing. His question and then yours, go ahead.

Audience:

Well, my comment would be that Bill Gates and Steve Jobs, you know, they didn't get direct loans from our federal government. It was just a platform that they could work and achieve. I think what makes a cause into it like California company bunch of cheaters, all kinds of people involved from our government okaying their big loans and so on, now they're bankrupt for six hundred million dollars. They stick their paws in it the wrong way. That's my comment.

Barry Broome: Yes, right I mean they should have been working on very...

Moderator: Hey Barry?

Barry Broome: Yes?

Moderator: Could you kindly repeat the flavor of that so that so we can hear the thought back here.

Barry Broome: Yes, I mean basically what he was saying is he brought up Steve Jobs and Bill Gates as example of non-federal incentivized ingenuity, okay, and I'm going to comment on that because I think that's an interesting comment and secondarily he talked about Solyndra's probably being and example of the government engaged in inappropriate behavior, a lack of transparency, and then shouldn't have made a direct investment to the company. So, I agree with the second part, but I don't agree with the first parts and I'll tell you why I don't agree with the first part. Steve Jobs created 64,000 jobs in China. He ain't created hardly any jobs in the U.S. and so here is the problem, this is what I tell every business leader or policy maker and this comes from a Cleveland, Ohio-trained economic developer; when you live in Cleveland, Ohio, and I did some work in Detroit, okay? Tough, you got a backache just saying it, so you knew then Cleveland, Ohio you have one reality. Well, the free market has spoken and boys I've got some bad news what they've said about us, so you can sit here and either take the beat down and the grind down if you're in Cleveland, Ohio, and by the way there's some core threats to West Chicago, mighty Chicago, and there are some core threats in Minneapolis-St. Paul, definitely St. Louis isn't far behind. These folks that are stranded in the middle of the United States that aren't on coast that don't have a natural ingress and egress lifting them up, they got to rethink all their economies all the time, these places are under real threat. So, the challenge for us is this is how I think the market should work, oops, there's how the market does work. Now, when you get down to where you're astute in how the market works, just like

McArthur, I mean McArthur was the champion of rebuilding Japan's economy. One minute General McArthur wanted to go into China and Russia and finish everybody off and the next minute they turned him into a diplomat and a trade expert. So, those are the challenges for us. The challenges in - you know Craig Barrett is the chairman of Intel? He's a great guy. He kind of kicks me in the butt all the time. He gives me a hard time because I put so much emphasis on manufacturing and his philosophy is cut that out, all that stuff off shores and blah, blah, blah. I said, "Okay, well I'm in Arizona." And someone's going to have to tell me how Steve Jobs and Bill Gates can put a million Hispanic kids gets to work. Because if I'm going to live in this state and run this market strategy, well, I got to put a million Hispanic kids to work and 65% of them are going to have to work with these. So, until we figure out - and I think the manufacturing model will be different, but if you're in Cleveland its African-American kids, if you're in Detroit its African-American kids with a ninth-grade education.

Audience: It's too much...

Audience: Because the educational system has let those kids down.

Barry Broome: They have let them down and but part of it is hope. I did work several years in inner-city in Cleveland and I worked deeply on youth empowerment issues because if you know anybody in my field you do - if you worked in the Central and Eastern part of the United States, I mean you got to be an expert on everything to try and fix these places because their problems are so systemic, but most of these inner-city African-American kids, they're reading the same thing you're reading. So, you wonder why 16, 17, 18 year-old kid isn't going down the right path in Chicago, Detroit, or Cleveland? He knows his odds, in jail by 26, dead by 30, and 12% of us are going to get a college education and I'm the 12% that gets a college education, you know 80% of us are going to be employed. I mean they read that model and then, unfortunately, it becomes a self-fulfilling prophecy. What I'm looking at, so the advantage in Arizona around these Hispanic kids, this isn't scientific, these are just street smarts.

We're all culturally and racially a little ignorant depending on where you come, so my favorite comment from my Cleveland pals and Detroit pals is, "Hey, what's the deal with the Hispanic community out there?" I mean, and then invariably someone eventually gets me and says, "Hey they're kind of like the Black community here, here it's just a big complex problem for you." I said, "No, this is a little bit different because the Hispanic community that migrates here in Arizona comes from a country where they run it." And actually they see millionaires and billionaires on their - I think soaps are very effective in the Hispanic community because they have their own movie stars and millionaires. Well, what's the projection African-Americans in the United States? Still not very good. I think a lot of these Hispanic kids; we work with them all the time. Right now, in this immigration issue which we want to talk about that. The number one student that Arizona State University, did you hear this, is an illegal immigrant.

Audience: [Laughter].

Barry Broome: And when she graduates, we're going to make her go back to Mexico.

Audience: Right.

Barry Broome: Because who wants here around here, right? What do we need a scholar for? But is the kind of complexity that we're going in. But the top kid in ASU is an illegal immigrant, I love it. But she's still sitting around going, "I have to go back." So, anyway there's just so much complexity in this you can slice it. [Unintelligible], you had a question and I know Lyle did, so real quick.

Audience: Well, just a comment. I think with all those China stuff with solar cells dumped with the GE who's a big fan of Obama and all that, their moving all their medical electronics to China. They've been in Wisconsin for 105 years since they started and they sent everything to China. It is what it is, but it's a hell of a mess and all these things that I'm hearing are just band aids.

Barry Broome: You see I think we can compete with China and there's a couple of things that I - I mean there's like nine hundred million people in China working for a dollar an hour. I mean there's a problem in there somewhere. It's really interesting when I travel internationally, one of my core competencies is to spend my entire time, as soon as I figure out I'm not getting a deal out of a guy, I go down a series of really inappropriate questions, "So, what's the deal with communism? Is that worth it?" You know, it's really interesting to have these conversations because, you know, a lot of people in this room never even have a dialogue with the Chinese and I get to go to Shanghai and Beijing three to four times a year and spend a lot of time and develop relationships with them, but I don't think China is going to - if we do the things we need to do, I think it's going to be an opportunity for the United States because I don't think they've got the sustainability in their own country to really make a long-term run at us. The trick for us is to kind of think like a company market share, you know [unintelligible] own over the next ten or fifteen years and there's going to be an amazing revolution in China. What is really amazing in China is if you ever interface with women consistently between the ages of 21 and 24 that is an amazing dynamic class of people. It's an incredibly gifted, engaged talent. There's something which you learn over there that the Chinese have a certain type of enamored respect for women and it's not observed like we do here because of some of the horrible things we've heard about euthanasia and what they've done with invents and maybe it's because of that if you're standing at 22 or 23 years old, you must be made of something really special, but I don't love that China is going to be that bad of a deal for us unless we crawl into a hole and don't step up. Lyle, you had a question or comment.

Audience: I think that you have just mentioned 60,000 jobs...?

Barry Broome: Sixty-four thousand.

Audience: That went over to China?

Barry Broome: From Apple.

Audience: Yes, and I wonder, how do you compete with this? I can't understand why they went over there. It's a matter of profit loss I suppose.

Barry Broome: Yes.

Audience: But how do we compete with those guys over there?

Barry Broome: Maybe with [unintelligible].

Audience: [Unintelligible].

Barry Broome: Do you want me to repeat the questions?

Moderator: Yes.

Barry Broome: Okay. So Lyle's question is, since 64,000 Apple jobs went to China and it's a profit loss question to [unintelligible] models, how do we compete with that? I think there's a couple of things, I'll give you an example about just renewable energy because I've worked a lot on that. The cost of shipping glass from China is more expensive than the cost of labor for the glass in the United States of America. So, as long now that doesn't mean that the glass substrate won't be replaced with something cheaper and lighter over time, but a lot of these material plays - there's going to have to [unintelligible] for these. We're going to have to observe value differently as a society. Everyone of us in here probably could afford to pay \$5.00 or \$6.00 more for a shirt and \$7.00 or \$8.00 more for our pants. So, the reason - we don't have clothes made in the United States and textile produced in the United States is really a margin of probably \$5.00 or \$10.00 an item. That's why we're buying this stuff from Taiwan in different parts of the United States. Some of this is going to have to be a cultural change in the U.S. We do a lot of business with the Canadians. The Canadians got a pretty healthy economy and if you want a see some cool economies go to the Toronto region, the Montreal region, the Vancouver

region, don't kid yourselves; Canadians are incredibly nationalistic in their economic interest, and they are extraordinarily parochial. If they're down here and put money into our community, they had figured out how that benefits Canada and themselves. You try and get a company to move out of Canada to Phoenix, good luck. That is an unpatriotic thing to do in the Canadian market and somebody will stay behind and actually pay a couple of nickels more to stay in Canada versus skipping over the border. A lot of this is going to be value proposition. So if you look at many of you in here are successful executives, many of you came up from traditional American companies that had great reputations, what did you want when you founded your company or what did you want when you were a founding executive? You wanted to do well for yourself, but you kind of wanted everybody else to do well too. When you were done you had a value to where you wanted something you were proud of. We lost that. All of our young business slaves in the last 30 years have been guys who have flipped [unintelligible], pushed money around. They're not people who create value. And so, I think with starting the - so, some of these are going to be a value discussion. My daughter is going to study chemistry. My son's going to be an engineer. You know, I was a deal guy, it was useless. If engineers and scientists weren't around, I'd starve to death and to wait tables. So, we're kind of - you know and I will tell you when I talked to a lot of young people in our community now, what are you studying, I hear a lot on science and engineering. So, I think you're going to see a wave of science and engineering objectives, you're going to see STEM education in the U.S., and you're going to start to see some corporate values, I think, change over time. I think that's the beauty of the Wall Street collapse. One of my mentors was a guy named John Brown and he was really the guy who built Stryker Corporation. One of the things that John Brown did is - I don't know what John Brown's network is today, but three, four, five billion l and one of the things that made Wall Street collapse was this need to be a blue chip stock at all times. So, you had to have a double-digit growth or you get downgraded. Well, there's a lot of people who would like to have a company that grew successfully at 6 or 7%, year in and year out, manage their cash. So, John Brown from Stryker, I worked with him for almost five and a half years and

moved into this community in Michigan and I told somebody where I lived, and he said, “Where do you live? And I told him, “And so you live across the street from John Brown.” Well, his network was worth four or five billion dollars at that time. I said, “No, because there was like a really great development about a mile down.” “You must mean that old place.” “No, you live here a year you have red brick house, you know that white brick house?” “Yes.” “That’s where John Brown lives.” And John was on my board, he was one of the people that chaired the search committee and hired me. So, John Brown was worth four or five billion dollars and he lived in a house worth about two hundred thousand dollars in Michigan. The same house he bought when he got married, he had a ’96 Buick.

Audience: [Laughter].

Barry Broome: Okay and he worked his own yard and this was a relatively small community and if you know anything about South West Michigan, that the DeVos/Van Andel, there’s an incredible amount of super successful people that live in this little culture. So, one of the things I would tell my employees, “Hey, when you’re out and about and you run in to Dick DeVos, don’t go up and hang on his arm because he’s a billionaire, but don’t ignore him either, you go up and say, ‘Mr. DeVos, I just want to tell you I work [unintelligible], you’re on our board, thanks for your support’ and get away from him and leave him alone.” So, one of my employees came to me on this after I’ve been on this work from John Brown, I’ve worked for about nine months and she said, “You’re going to be really mad at me.” I said, “What’s that?” She goes, “I was - I ran into John Brown.” And this was when John Brown like ten years in a row was named one of the top five CEO’s from Wall Street. She goes to me, “He saw me and I knew he knew who I was, but I didn’t come up to him and I wanted to let you know now, here we’re working around the super wealthy and you kind of got to shine your shoes a little bit. So, I hope I didn’t [unintelligible] him.” I was like, “Oh, don’t worry. John is [unintelligible] but I’m just curious, why didn’t you come up to him?” She said, “Well, I was in Wal-mart”

Audience: [laughter].

Barry Broome: And I thought he might have been embarrassed that I recognized that John Brown is in Walmart. I said, "Oh, he wouldn't have mind." She said, "Yes, but he was really dirty, he was in a t-shirt and he had dirt from head to toe." And I said, "Well, you know he works in his yard and he lives right across me, he'd have been okay with that, you could have went up and said hello to him." She goes, "Yes, but it was even worse because he was wearing sweatpants and he was on the express line." I said, "What was he buying?" She said, "Ten ties." John Brown, money, buying ten ties at Walmart in line and he's worth four or five billion dollars. I mean I don't buy my ties at Walmart, you know, so I mean that's what the kind of guy he was. So, John Brown has this core value about what he was going to do and that's how he built the company. I think you're going to see a generation of people do that. We've already seeing that around here now. I know there was a question in the back.

Audience: Yes, I think earlier you indicated that you were not really for tariffs, but I do not understand how we can possibly compete without these tariffs. You gave the example about the shirts and the pants.

Barry Broome: Yes.

Audience: But yes, how in the world can we compete why at buying more expensive brands, more expensive shirts while we can still get much cheaper while the foreign countries are importing them and we're not exporting anything?

Barry Broome: But you know there's a lot of companies that are - there are a lot of countries, maybe not a lot, but there are number of countries I used Canada as an example, which is thriving that has its very self-fed organic economy. Have you ever heard anyone give you - have you ever heard of tutorial on the ethnic culture? One of the things and this is a little bit racially insensitive, but it's actually been documented, so when you work in the inner-city the reason Jessie Jackson and everybody that's in that city talking about black, black,

black, when after American consumer gets a hold of a dollar, what's the first thing they do? They released it from their community. What do you think a Jewish guy does with his dollar?

Audience: He will save that.

Barry Broome: It's not going out of his community...he goes to the Jewish deli who hires the Jewish lawyer - you guys get this, you know, I can't say it to too many crowds, but you know.

Audience: [Laughter].

Barry Broome: And I - right, who's doing your masonry work? It's an Italian guy, right?

Audience: Right.

Barry Broome: They're not going to have, who's going to do your work, right? Italians do it, right? If you go in to Canada, trust me I worked in Montreal and in Toronto hard. It finally got down to me, "Wait a minute, they're not really going to do business with me." I think they sound like they're going to do business with me. They even look and sound like us and some of them went to graduate school. They're not - there is not going to be. I'll give you an example what we did with Montreal, we worked two years with Montreal, so one of the things that goes on in U.S. Government is this reciprocal relationships on aerospace and defense contracts. So, if you're a Montreal Aerospace and Defense contractor and you get a U.S. contract, you have to enter into some type of reciprocal agreement, you're going to work with U.S. suppliers or you're going to have a U.S. presence. The same thing with Boeing and Honeywell does something for the Canadian Government, they got to reciprocate. I spent two years on a reciprocal agreement with Montreal. Montreal has a very similar technology footprint as we do and it [unintelligible] a relationship. We brought everybody and their mother down here from Montreal. Set up beings we spent a lot of money, they brought one of their former prime ministers, two weeks, I

introduced them to everybody in town, cooked them up with business relationships and now eight weeks later we're supposed to go to Montreal and get the same reciprocation. Didn't even get our phone call returned. I mean I took that all the way through the consulate and, of course, ended the relationship. They had no problem, I thought some of them because they are French, but I don't know if that even counts.

Audience: [Laughter].

Barry Broome: But, these guys had no intention of doing business with us and if you do business in the Middle East, you know I'm watching all these people go to the Middle East and call on sovereign wealth funds, unless you're planning on being swallowed by those sovereign wealth funds, that is not going to be a reciprocal relationship. So those sovereign wealth funds in the Middle East will over invest in their own country to [unintelligible] their absolute capital position dramatically, which is what happened in Dubai, but they're not going to plow that money into the U.S. or Russia and lose their advantage as a country. That is a value decision. So, my point back to everybody in this room could afford to buy clothes made from an American manufacturer and it probably wouldn't even be something that would impact your bottom line over time, but it's not something that we've made a priority. What I'm saying as a country, that's got to be a cultural value change and I will tell you, I picked that up in the German markets. If you go to Munich, it's a very dynamic market. People in Munich they're doing business one way.

- End of Recording -