

COVER STORY

What to expect

ECONOMY

Watch for tepid hiring, more casino controversy, M&As

BY MIKE SUNNUCKS
msunnucks@bizjournals.com
602-308-6507, @PhxBizMike

Economists are predicting another tepid year of job growth and population gains as Arizona continues trying to get back to prerecession levels.

Local economists Lee McPheters and Elliott Pollack project it may be at least 2016 before the market regains all 314,000 of the jobs lost during the recession.

"We're still several years from full recovery," said McPheters, the research professor of economics at the W.P. Carey School of Business at Arizona State University.

Pollack said the state needs more population growth to spur job gains and a housing recovery.

"The problem is, you need people to fill houses," the CEO of Elliott D. Pollack and Co. said at a recent ASU economic forecast event.

He said the recession, lack of home equity and financial strains have reduced mobility for many U.S. households, noting that the number of Americans moving to new states is half what it was a decade ago.

While Arizona is expected to post its eighth consecutive year of below-average job gains, there could be some activity in mergers and acquisitions. Also, more fights may be brewing over Native American casinos.

The Tohono O'odham Nation might break ground this coming year on its controversial casino planned north of University of Phoenix Stadium. The Southern Arizona tribe has prevailed time and again in legal challenges brought against the casino by other American Indian communities and the city of Glendale. Opponents still hope to either delay or derail the development.

There could be even more stress over casinos if land owned by Barron Collier Co. at Central Avenue and Indian School Road goes into foreclosure. Barron spokesman Jay Thorne said the real estate company wants a new deal for the Phoenix land and is talking to federal agencies about a restructuring.

"The original terms of the Indian School land exchange are unsustainable in 2013 from a private-sector perspective, so the Barron Collier Co. has been in discussions with the Department of Interior and others in the federal government for the past year in an attempt to restructure terms of the 1988 Exchange Agreement, which was



PROVIDED BY TOHONO O'ODHAM NATION

The proposed Tohono O'odham casino in Glendale finally could break ground this year, once all of the legal battles are settled.

"The expectation is to see a modest uptick in M&A transactions in 2014 when compared to each of 2012 and 2013."

TERRY THOMPSON, mergers and acquisitions attorney, Gallagher & Kennedy PA



Terry Thompson



Quinn Williams

"The technology, financial services and health care industries are prime targets for consolidation in 2014."

QUINN WILLIAMS, M&A attorney, Greenberg Traurig LLP

"I worry about the impact of the (Tohono O'odham Nation) casino and its accompanying resort and restaurants on surrounding small businesses in the area. Dollars spent on gambling or entertainment on the newly christened reservation generate no tax revenue for Glendale."

MAYOR JERRY WEIERS, city of Glendale



Jerry Weiers

finalized by federal legislation in 1996," he said.

Barron acquired the land in a 1992 federal land exchange that involved Florida Everglades preservation. The Phoenix parcels have not been developed, and the developer stopped making payments more than a year ago. Still, the U.S. government has not reclaimed the land.

If an Arizona tribe makes a claim on the land as a historical holding, things could get interesting. While unlikely, it could create a situation of a casino being proposed on Central Avenue.

Plenty of mergers, acquisitions and private equity remain on the sidelines, and some big deals could be made in energy and mining.

"The recession of the past few years made buyers cautious to identify potential purchases. That caution will likely continue into 2014," said Terry Thompson, an M&A attorney with the Phoenix law firm of Gallagher & Kennedy PA. But he expects more deals to be done in 2014 than in the previous two years.

Another local M&A dealmaker, Greenberg Traurig LLP attorney Quinn Williams, is more optimistic, especially in health care and financial services.

"Many companies have increasing cash reserves that need to be deployed either through stock buybacks or acquisitions," he said. "I suspect most new deals will be targeted for expanding a buyer's existing customer base and geographic reach."

M&A activity could have a big impact on Arizona's mining, energy and solar sectors. The state is the largest copper producer in the U.S. Phoenix-based mining giant Freeport-McMoRan Copper & Gold Inc. acquired Plains Exploration & Production in May in a \$6.5 billion deal.

Freeport also crafted a new employment agreement with CEO Richard Adkerson on Dec. 23. Adkerson will receive a \$36 million stock award in exchange for scrapping his salary, bonuses and a very lucrative golden parachute if Freeport is acquired. A company spokesman declined to comment beyond the new CEO pay deal and whether it indicated Freeport might be on the sales block in 2014.

On the energy front, Canadian energy distributor Fortis Inc. announced in December its \$4.3 billion purchase of Tucson-based UNS Energy Corp.

Tempe-based First Solar Inc. also could be in the M&A game, even as a potential acquisition target. If First Solar goes on the block, look for possible interest from General Electric.