Joint Legislative Budget Committee
Staff Memorandum

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DATE: June 22, 2012

TO: Members of Legislative Council

FROM: Richard Stavneak, Director

SUBJECT: FISCAL IMPACT ESTIMATES FOR 2012 BALLOT MEASURES

As the Council is considering the adoption of ballot analyses pursuant to A.R.S. § 19-124, we are providing for your information JLBC Staff's draft 300-word fiscal impact statements of possible voter-initiated ballot measures. If a voter-initiated measure qualifies for the ballot, A.R.S. § 19-123D requires the JLBC Staff to prepare a summary of 300 words or less on the fiscal impact of the measure for publication in the Secretary of State's publicity pamphlet. We will provide a full fiscal note for qualified measures at a later date.

While JLBC fiscal impacts of legislatively-referred measures do not appear in the publicity pamphlet, we have also included brief summaries of the 4 measures with a potential fiscal impact.

In addition, we are providing a 10-year chart of the proposed distribution of the 1-cent sales tax in initiative #I-16-2012. This chart will not appear in the publicity pamphlet, but we have received requests for our long term projections of the 1-cent distribution.

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Please let us know if you have any questions.

RS:lm
Attachments
xc: Mike Braun, Director, Legislative Council

JLBC

BALLOT PROPOSITION #C-03-2012
Open Elections/Open Government Act

Publicity Pamphlet Fiscal Impact Summary

State law requires the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition #C-03-2012 is expected to increase Primary Election expenses due to greater production and mailing of ballots to qualified voters and the possibility of an overall increase in ballot size. The additional net state and local government cost is projected to range from $275,000 to $1.6 million.

BALLOT PROPOSITION #C-04-2012
Checks and Balances in Government

Publicity Pamphlet Fiscal Impact Summary

State law requires the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition #C-04-2012 would amend the Arizona Constitution to provide that the United States Constitution may not be violated by the federal, state or local government. The fiscal impact cannot be determined in advance.

BALLOT PROPOSITION #I-16-2012
Quality Education and Jobs Act

Publicity Pamphlet Fiscal Impact Summary

State law requires that the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition #I-16-2012 would enact a 1-cent per dollar transaction privilege and use tax ("sales tax") and allocate those monies to specified programs.

The 1-cent tax is projected to generate $971 million in revenue in its first year. Of that amount, $753 million would be distributed to education, $97 million to public infrastructure and $121 million to human service programs.

The proposition would also have the following fiscal impacts:

1) Specified funding levels for the state's kindergarten through 12th grade and state university systems cannot be reduced below the levels for fiscal year 2011-2012 or 2012-2013, whichever is greater.

2) Specific components of the K-12 school finance formula would be annually adjusted for inflation. This increase would initially be paid from the 1-cent sales tax. Given the proposition's allocation formula, the 1-cent is projected to fully cover the cost of the increases through approximately 2018 and partially cover the cost after that time.

3) The limits on school district bonds and overrides cannot be below those in effect for 2012.

4) Vehicle license tax and related highway user revenues cannot be transferred to any other fund. Highway user revenues may continue to fund the Department of Public Safety's Highway Patrol.

5) The sales tax base cannot be adjusted in a way that causes the amount of sales tax collected to be less than the amount collected in the prior year, plus six per cent, unless there is a corresponding change in the tax base that results in no reduction in the amount of sales tax collected.

BALLOT PROPOSITION #I-18-2012
Arizona Natural Resources Protection Act

Publicity Pamphlet Fiscal Impact Summary

State law requires the Joint Legislative Budget Committee Staff to prepare a summary of the fiscal impact of certain ballot measures. Proposition #I-18-2012 provides that students from pre-kindergarten through grade 12 must be admitted to state parks for free as part of a group educational trip.

The proposition would also allow individuals while registering a noncommercial motor vehicle to make a $14 donation to a new fund. The amount of monies to be collected from this donation cannot be determined in advance. The first $10 million of any of these monies would be used for grants to public and private entities for wildlife, archaeological sites, multi-purpose use of public lands, historic preservation, outdoor recreation, environmental improvement, trails and off-road vehicles. If donations exceed $10 million, the monies could be used to defray the free admission requirement and for other activities of the State Parks Board.

The other fiscal impact of the proposition is to eliminate the Legislature's authority to appropriate monies designated for various natural resources programs.

FISCAL IMPACT OF LEGISLATIVELY-REFERRED BALLOT MEASURES IN 2012

A.R.S. § 19-123(D) requires the JLBC Staff to prepare a summary of 300 words or less on the fiscal impact of voter-initiated ballot measures for publication in the Secretary of State's publicity pamphlet.

Unlike voter-initiated measures, legislatively-referred ballot measures do not require a fiscal impact statement in the publicity pamphlet. As a substitute, the JLBC Staff provides the following brief summaries for the 4 of the 7 legislatively-referred measures with a potential fiscal impact:

<u>Proposition 116 - personal property tax exemption amount</u>
Proposition 116 would amend the Arizona Constitution by increasing the exemption for business personal property initially acquired during or after Tax Year 2013 to an amount equal to the annual earnings of 50 workers in the state. Based on Federal Bureau of Economic Analysis data, the exemption would be approximately $2.4 million. Business personal property initially acquired before Tax Year 2013 would be subject to the current exemption of $68,079.

Based on data provided by the Maricopa County Assessor's Office and the Arizona Department of Revenue, Proposition 116 is estimated to have a direct General Fund cost of $8.2 million, beginning in FY 2015. The measure would reduce net assessed valuation, which would result in an increase of the Arizona Department of Education's K-12 school formula costs. Under the state's K-12 funding formula, any reduction in local property values results in an increase in the state share of school funding.

<u>Proposition 117 - property tax assessed valuation; limitation</u>
Proposition 117 would amend the Arizona Constitution by limiting the annual growth of locally assessed real property to 5%, beginning in Tax Year 2015. Current law limits annual valuation growth to the greater of: (1) 10% or (2) 25% of the difference between the parcel's full cash value in the current year and its limited value in the prior year.

Under the state's valuation calendar, the 5% cap would first apply to 2014 real property valuations, which are not subject to taxes until FY 2016. The fiscal impact of Proposition 117 would therefore not occur until at least FY 2016. The actual impact, however, would not occur until property valuation growth exceeds 5%, which cannot be determined in advance.

Proposition 117 would not generally have a General Fund impact. Currently, the state qualifying tax rate (QTR) rises or falls so that the statewide existing K-12 property tax collection remains unchanged. For example, if existing property values grow by 3%, the qualifying tax rate declines proportionately.

If the proposed 5% cap results in a lower assessed valuation growth than would be allowed under current law, some localities may choose to increase their local property tax rates. If that causes a jurisdiction to exceed the Constitutional 1% cap, the state would pay the local jurisdictions the difference.

<u>Proposition 118 - permanent state land fund; distribution</u>
Proposition 118 would revise the Permanent Fund annual distribution formula to be 2.5% of the average monthly market value of the fund for the preceding 5 calendar years and would be effective from FY 2013 through FY 2021. After FY 2021, the distribution would revert to the existing formula, which is determined by the average inflation-adjusted rate of return in the previous 5 fiscal years multiplied by the average market value over the previous 5 years. While the proposed formula requires an annual distribution, the current formula can result in distributions greater or less than 2.5% or no distributions.

Determining the fiscal impact of Proposition 118 requires the projection of the annual distributions and the market value of the Permanent Fund over time. The magnitude of the projected impact, depends in large measure on assumptions concerning the timing of the broader economic cycle and its resulting effect on investment performance.

A consultant for the State Treasurer estimated the potential impact of the current and proposed distribution formulas based on 5 economic forecast scenarios. The results were as follows under 3 of the scenarios:

1. In the most pessimistic economic scenario, total distributions from FY 2013 to FY 2021 would be $342 million higher under the proposed formula than under the current formula. In 5 of those years, the current formula would yield no distribution. At the end of the 9 year period, the market value of the fund would be $290 million lower under the proposed formula.

2. In the moderate economic scenario, total distributions from FY 2013 to FY 2021 would also be $342 million higher under the proposed formula than under the current formula. In 5 of those years, the current formula would yield no distribution. At the end of the 9 year period, the market value of the fund would be $286 million lower under the proposed formula.

3. In the most optimistic economic scenario, total distributions from FY 2013 to FY 2021 would be $449 million lower under the proposed formula than under the current formula. The current formula is estimated to produce 1 year with no distribution. At the end of the 9 year period, the market value of the fund would be $433 million higher under the proposed formula.

Proposition 120 - state sovereignty

Proposition 120 would declare state sovereignty over all lands and resources within the boundaries of Arizona. The measure would establish exclusive authority and jurisdiction over the air, water, public lands, minerals, wildlife and other natural resources within the state, with primary exceptions being Indian reservations and military installations.

The Governor's office has indicated that a similar bill, SB 1332, would have cost the state $23 million. This estimate assumes that this type of legislation would add 23 million acres to the Land Department's jurisdiction. This estimate also assumes that these federal lands would have the same cost to manage per acre ($1) as current state trust lands.

If the state were to take jurisdiction over federal lands, there would be a management cost to the state. However, without an extensive analysis of the specific management requirements for these lands, it is difficult to confirm the magnitude of the cost.

In addition to the costs of managing the acquired land, there would also be opportunities to generate revenue, potentially offsetting the management costs. The state could develop the land, providing revenue from both the sale of land and the subsequent property taxes assessed on that land. The state could also collect fees and rents.

Stefan Shepherd
Deputy Director

Draft Estimate of 10-Year Projected Distribution of Proposition #I-16-2012 Funding
Quality Education and Jobs Act 1/
$ in Millions

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Revenues										
Sales Tax Revenues (1.0% Tax)	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6
Expenditures										
1) Quality Education and Performance Fund 2/	508.4	425.4	320.9	211.8	97.7	0.0	0.0	0.0	0.0	0.0
2) Education Learning and Accountability Fund	9.7	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
3) Education Accountability and Improvement Fund	87.4	90.0	90.0	90.0	90.0	90.0	90.2	93.3	96.7	100.3
4) State Infrastructure Fund	97.1	102.2	107.8	113.7	119.9	126.3	133.4	144.7	156.8	169.4
5) Children's Health Insurance Program Fund	24.3	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0
6) Family Stability and Self-Sufficiency Fund	97.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
7) University, Scholarship, Operations and Infrastructure Fund	48.6	54.4	65.9	78.0	90.6	103.9	118.0	135.8	154.5	174.3
8) Inflationary Adjustment for K-12 Funding Formula 2/	98.6	199.6	304.1	413.2	527.3	625.0	626.1	642.5	660.7	679.8
9) Payments to Districts/Charters Low-Income Student Counts	0.0	6.5	23.3	41.0	59.6	79.0	100.3	113.1	126.8	141.1
10) Community Colleges - Workforce Development Accounts	0.0	4.4	15.9	28.0	40.6	53.9	66.1	67.1	68.2	69.4
11) Joint Technical Education Districts	0.0	1.8	6.4	11.2	16.2	21.6	27.2	30.1	31.2	32.4
12) Adult Education Programs	0.0	0.4	1.4	2.5	3.6	4.8	5.0	5.0	5.0	5.0
Total Distributions	971.2	1,019.7	1,070.7	1,124.2	1,180.5	1,239.5	1,301.5	1,366.5	1,434.9	1,506.6
Inflation Costs Not Funded by Sales Tax 3/										
Marginal Cost of Inflation Adjustment	98.6	101.0	104.5	109.1	114.1	119.4	124.9	130.6	136.6	142.9
Total Cost of Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	646.6	771.5	902.1	1,038.7	1,181.6
Assumed Deflator %	*1.60%*	*1.40%*	*1.60%*	*1.70%*	*1.60%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*	*1.50%*
Sales Tax Transfer for Inflation Adjustment	98.6	199.6	304.1	413.2	527.3	625.0	626.1	642.5	660.7	679.8
Marginal Inflation Adjustment Not Funded by Sales Tax	0.0	0.0	0.0	0.0	0.0	21.6	123.7	114.2	118.4	123.8
Total Inflation Adjustment Not Funded by Sales Tax	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**21.6**	**145.3**	**259.6**	**378.0**	**501.8**

1/ Represents JLBC Staff's current understanding of the distribution of the 1 cent sales tax, based on ballot proposition version posted on Secretary of State website.
2/ Monies from the Quality Education and Performance Fund (QEPF) are to be transferred to the General Fund for the inflationary adjustment if the amount of the inflationary adjustment is more than $125 million. As a result, the QEPF allocation declines after FY 2014. Conversely, monies to fund the inflationary adjustment are to be transferred to the QEPF if any excess monies are not necessary to fully fund the inflationary adjustment. As a result, the QEPF receives more than $500 million in FY 2014.
3/ The ballot proposition would require an inflation adjustment of the per pupil base level and the transportation support level. The proposition provides 1 cent sales tax monies to fund these adjustments, which is projected to be sufficient through FY 2018.

JLBC Staff
6/22/2012

Distribution Formulas of Proposition #I-16-2012 Funding
Quality Education and Jobs Act

	Distribution	Use/Purpose	First $1 Billion Collected	Second Distribution	Third Distribution
1)	Quality Education and Performance Fund	Payments to local school districts and charter schools based on student count	$500 million, unless used for inflation costs in #8. Also receives unused inflation fuding.	N/A	40%
2)	Education Learning and Accountability Fund	Statewide education data system	$10 million, unless data system is completed	N/A	N/A
3)	Education Accountability and Improvement Fund	Payments to local school districts and charter schools based on statewide performance measures	$90 million	N/A	7.5%
4)	State Infrastructure Fund	Transportation Projects	$100 million	11%, not to exceed $100 million	10%
5)	Children's Health Insurance Program Fund	Low-Income Children's Health Insurance Programs (KidsCare)	$25 million, unless lesser amount needed for program	N/A	N/A
6)	Family Stability and Self-Sufficiency Fund	Low-Income Health and Welfare Grants	$100 million	N/A	N/A
7)	University, Scholarship, Operations and Infrastructure Fund	University Scholarships and Performance Funding	$50 million	22.5%, not to exceed $250 million	7.5%
8)	Inflationary Adjustment for K-12 Funding Formula	Inflation adjustments to school funding formula for base support level and transportation support level	As necessary, costs above $125 million paid from Quality Education and Peformance Fund distribution	N/A	N/A
9)	Payments to Districts/Charters Low-Income Student Counts	Payments to local school districts and charter schools based on low-income student count	N/A	33%, not to exceed $100 million	30%
10)	Community Colleges - Workforce Development. Accounts	Community College workforce development and job training programs	N/A	22.5%, not to exceed $66 million	2.5%
11)	Joint Technical Education Districts	Payments to local vocational education school districts	N/A	9%, not to exceed $29 million	2.5%
12)	Adult Education Programs	Adult Education Programs operated by the Arizona Dept. of Education	N/A	2%, not to exceed $5 million	N/A

Notes:
1) Distribution formula based on ballot version posted on Secretary of State website.
2) Second distribution affects allocation of funding above $1 billion. Once second distribution cap is reached for any one category, any excess funds for that category would then be available for the third distribution category.