

ARIZONA STATE SENATE

46TH LEGISLATURE
FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON FINANCE

DATE: January 27, 2003

TIME: 1:30 p.m.

ROOM: SHR 1

CHAIRMAN: Senator Martin

VICE CHAIRMAN: Senator Harper

ANALYST: Denisse Gee

COMMITTEE SECRETARY: Nancy L. DeMichele

ASSISTANT ANALYST: Lace Collins

INTERN: Sharad Desai

ATTENDANCE

BILLS

<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Brown	X			SB 1019	DP
Senator Burns	X			SB 1022	HELD
Senator Chevront	X			SB 1032	DP
Senator Garcia	X			SB 1066	DPA
Senator Jarrett	X				
Senator Leff	X				
Senator Weiers	X				
Senator Harper, Vice Chairman	X				
Senator Martin, Chairman	X				

GOVERNOR'S APPOINTMENTS

<u>Name</u>	<u>Position</u>	<u>Recommendation</u>
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Chairman Martin called the meeting to order at 1:36 p.m, and roll call was taken.

APPROVAL OF MINUTES

Senator Martin announced, without objection, the minutes of the meeting of January 20, 2003, are approved as distributed.

CONSIDERATION OF BILLS

SB 1022 – income tax exemption; stillborn children – HELD

Senator Martin announced SB 1022 would be held until the following week because a same subject strike everything amendment is being prepared.

SB 1066 – sales tax increase; preexisting contracts – DO PASS AMENDED

Denisse Gee, Finance Research Analyst, explained SB 1066 stipulates how any future increases in the transaction privilege tax (TPT) rate will be applied to prime contracting activities. She stated that the bill will lock the tax rate for contractors at the rate in effect at the time the contract or written bid was entered. She explained a Martin amendment dated 1/22/03 at 9:18 a.m. allows contractors to maintain qualifying documentation and provide such documents at the request of the Arizona Department of Revenue (DOR) instead of automatically providing DOR with the documentation (Attachment A).

Jennifer Schuldt, Senior Research Analyst, Arizona Tax Research Association (ATRA), testified in support of SB 1066. She stated that the bill conforms State language to what has already been adopted at the local level.

Mark Minter, Executive Director, Arizona Builders Alliance, testified in support of SB 1066. He stated that the bill deals with the unique nature of TPT in Arizona. He said the contracting industry is taxed at the same rates as the retail industry, even though the contracting industry does not operate the same as retail businesses. He indicated it is sometimes difficult to determine the moment a transaction takes place because of the time lapse between events. He said contractors obtain work by entering into a contract typically under the owner's language called "contracts of adhesion." He commented there are no bargaining rights under those contracts. He stated that in 2000 the voters passed a six-tenths-of-a-cent sales tax rate increase, and contractors were subject to that rate increase. He remarked that SB 1066 assures that there will not be a repetition of this kind of increase in the future and contracts will be taxed at the rate in effect when the project was bid or committed. In response to Senator Leff, he stated this bill will deal with prospective tax increases either by the Legislature or by a vote of the public. He noted that since the 2000 election, cities have passed the same proposal in their Model City Tax Code.

Tom Dorn, East Valley Chambers of Commerce Alliance, testified in support of SB 1066. He stated the Alliance has supported this legislation for many years. He said it is hopeful that the Legislature will find a way in the future to expand this to all classifications. He cited an instance two years ago regarding a printer in Gilbert who eventually had to pay a higher rate because of the time element involved. He said the Alliance is hopeful that everyone will work together prospectively to resolve this issue.

Senator Martin announced the individuals who registered their position on the bill (Attachment B). He announced that Michael Williams, Arizona Subcontractors Coalition, also supports SB 1066, but is not listed on Attachment B.

Senator Harper moved SB 1066 be returned with a DO PASS recommendation.

Senator Harper moved the 2-line Martin amendment dated 01/22/03, 9:18 a.m., be ADOPTED (Attachment A). The motion CARRIED by a voice vote.

Senator Harper moved SB 1066 be returned with an AS AMENDED, DO PASS recommendation. The motion CARRIED by a roll call vote of 9-0-0 (Attachment 1).

SB 1019 – wheels to work program; repeal – DO PASS

Senator Anderson, sponsor, explained SB 1019 is primarily a technical bill to remove the wheels to work program from the statutes, as well as the tax credit that accompanied the bill. He provided background information on the bill. He said the program began in 1998 as part of welfare reform in Arizona to address the problem of transportation for people who needed assistance. He said the problem still exists, but this bill proposes removing the program from the statutes.

Tracey Landers, Family Services Assistant Research Analyst, explained the Proposition 108 clause currently in the bill will be removed in the Rules Committee. She further explained that since the program is eliminated, it will be illegal for anyone to take the tax credits.

Senator Martin announced the individuals who registered their position on the bill (Attachment B).

Senator Harper moved SB 1019 be returned with a DO PASS recommendation. The motion CARRIED by a roll call vote of 9-0-0 (Attachment 2).

SB 1032 – property tax exemption; widows – DO PASS

Sharad Desai, Finance Intern, explained SB 1032 increases the property tax assessment limit from \$10,000 to \$20,000 for widows, widowers and disabled persons eligible for a \$3,000 property tax exemption. In response to Senator Harper, Mr. Desai stated a fiscal note has been requested from the Joint Budget Legislative Committee (JLBC).

Senator Chevront asked why such a significant increase is being proposed.

Tonia Tunnell, Government Affairs Manager, Arizona Association of Counties, responded the assessors are members of the Association and they are the individuals who brought this bill forward. She explained that assessors found homes were appreciating at a very rapid rate, particularly in the Yavapai area. She said recent discussions took place regarding including an inflation factor and growth rates in the assessments, but there was concern that it would become complicated. She commented this number is basically a static number included in statute that is not changed very often, while explosive growth rates are being experienced in the State.

In response to Senator Harper, Ms. Tunnell stated the fiscal impact is not viewed as significant for the counties because of the income-qualifying rate. She noted the pension income amount stated in the bill is \$13,200, which does not include Social Security or Veterans disability pension benefits.

Therefore, an individual would have to be very poor to qualify for this exemption. Ms. Tunnell pointed out that the exemption and income level remain the same, and the only item changed is in the value of a home.

Ronald Nicholson, Chief Deputy Assessor, Mohave County, testified in support of SB 1032. He stated he is also a member of the Arizona Assessors Association. He said the Association believes there is not a very heavy fiscal impact associated with this measure, which it also supports. He pointed out there is no change in the income qualification. He commented that the system of exemptions is administered on a local level, which is a heart-wrenching business. He said the counties believe there will only be a minimal impact, and that the cause more than justifies what is being done in this measure. He explained that the income level requirement limits those who would qualify.

Senator Jarrett moved SB 1032 be returned with a DO PASS recommendation.

Senator Leff asked whether this measure would shift the burden from one group to another. Ms. Tunnell responded the tax rate is set accordingly to arrive at a certain dollar amount. She said it may shift the burden to another group. However, she emphasized that the income level is very low and will have a minimal impact. She said the goal is to keep individuals that have been on the qualifying list to remain on that list, particularly in Yavapai County because the homes have appreciated dramatically. In response to Senator Leff, Ms. Tunnell named the categories that are included and excluded in this measure.

The motion CARRIED by a roll call vote of 9-0-0 (Attachment 3).

Overview of Insurance Law and the Arizona Department of Insurance (DOI)

Vista Brown, Legislative Liaison, DOI, gave a slide presentation and provided copies of that presentation to the Committee (Attachment C). Some of the highlights include the following:

- The McCarran-Ferguson Act
- The Gramm-Leach-Bliley Act
- The National Association of Insurance Commissioners (NAIC)
- DOI's mission and vision
- Collections and funding
- DOI's divisions, programs and responsibilities
- Insurance fraud
- Licensing and revenue collection
- Consumer information and assistance
- Product regulation
- DOI's 2003 legislative agenda
- Strategic issues

Senator Leff wanted to know how Arizona ranks in comparison with other states regarding a medical malpractice crisis. Ms. Brown responded it is not as critical in Arizona as in other states, primarily due to the formation several years ago of the Mutual Insurance Company of Arizona (MICA). Senator Martin asked Ms. Brown if she could provide a ten-year history of the status of medical malpractice in Arizona. Senator Leff said she has concerns, and asked Ms. Brown if she would work with Senator Martin and herself on this issue. Senator Garcia suggested requesting a twenty-year history rather than ten years. Ms. Brown said she could meet with the Senators to review the history of MICA.

Senator Jarrett commented that many complaints have been received regarding credit ratings for individuals who were in certain temporary situations and not able to pay premiums. As a result their insurance premiums increased. She asked Ms. Brown to provide information on that issue. Ms. Brown responded that HB 2183 is being proposed again this year that pertains to that issue. Senator Martin agreed that the issue definitely needs to be addressed.

Senator Harper wanted to know how the insurance industry would be affected, if a bill passed that included a six-month moratorium on the State's mandatory automobile insurance for the unemployed. Ms. Brown responded she is unsure how it would affect the various insurers with their systems in place or how disruptive it would be to the marketplace. She said she would be glad to refer that issue to the Property and Casualty Section to provide information for the Committee.

In response to Senator Jarrett regarding mandatory automobile insurance, Ms. Brown said DOI is not tracking those numbers. However, the Arizona Department of Motor Vehicles may have better information regarding that issue. She said the Insurance Information Institute may have that data, and she would be glad to research it further for the Committee.

Overview of TPT sales tax - DOR

Christie Comanita, Manager, Office of Tax Policies and Legal Support, DOR, gave a presentation on TPT and provided a handout to the Committee (Attachment D). She said she will attempt to explain the difference between Arizona's TPT and the traditional sales tax of the majority of other states. Some of the highlights include the following:

- TPT versus sales tax
- Business classifications
- Tax rates
- Deductions/exemptions
- Use Tax
- TPT revenue sharing
- County taxes
- Model City Tax Code
- Streamlined sales tax project

A series of charts were included in the back of the handout for informational purposes.

Overview of the Arizona Property Tax System - DOR

Edward Leyba, Property Tax Administrator, DOR, gave a presentation on the Arizona Property Tax System and provided copies of his presentation to the Committee (Attachment E). He pointed out that Arizona has a complicated tax system. DOR's responsibility is to oversee the fifteen county assessors throughout the State and assure that there is uniformity and equity in the systems and procedures being utilized in the overall property tax liability for all taxpayers throughout the State. He explained the procedures used for general supervision over county assessors. He commented on the procedure regarding the equalization order authority of DOR.

Some of the highlights in his presentation include the following:

- Effect of inequitable property values
- Sales ratio studies

- Centrally valued properties
- County assessor's role in the property tax system
- Property tax appeals process
- Property tax exemptions
- Homeowner's assistance programs
- Tax levy and collection process

In response to Senator Leff, Mr. Leyba stated that DOR's Property Tax Division is currently funded in part by the client county equalization fund. He explained that DOR has an annual contract with client counties, and currently 12 of the 15 counties are considered client counties. Under that scenario DOR contracts annually under an Intergovernmental Agreement (IGA) with those counties. He referred to page 5 of the handout and said that for each parcel listed for each county, DOR charges sixty cents per parcel to the counties to produce their data processing service and records. He noted that the sixty cents goes to the State general fund. Anything over that amount, which is the client county equalization fund, is returned to DOR in the form of an appropriation that DOR can use to enhance its data processing system for the 12 client counties.

Mr. Leyba pointed out that the State shares taxes with the counties for State Aid to Education, which is funded through the property tax that is distributed back to the counties based on assessed value. He said it is very important to ensure that the counties are at the right level so that the correct amount of State Aid to Education, in the form of rebate, goes back to those counties. He said it is only applicable to owner-occupied homes (class 3). He indicated that there is an incentive on the part of the counties to do as good a job as they can to raise the assessed values to the level they should be in order to share in State equalization funds for State Aid to Education rebates.

In response to Senator Leff, Mr. Leyba explained the homeowner's rebate. He said the State Aid to Education rebate is based on the assessed value that assessors arrive at annually. He indicated that the difference in the total tax rate that is credited back to the counties in the form of a rebate is based on a mathematical formula. He stated he would be happy to provide a better definition of the rebate program to Senator Leff.

In response to Senator Martin, Mr. Leyba provided an overview of the business personal property tax. He said that the tax is also applicable to agricultural properties that have equipment. The tax is assessed at 25% for a business and 16% for agricultural property, which could be significant. He noted that a few years ago the Legislature acted to provide an exemption of up to \$50,000 for businesses, which eliminated many of the smaller business property owners from having to pay the tax. He said as mentioned earlier, someone has to make up the difference. He emphasized it is not an easy task, and it will be difficult to address as far as any shift is concerned.

Information charts were included at the back of the handout.

There being no further business, the meeting adjourned at 3:30 p.m.

Respectfully submitted,

Nancy L. DeMichele
Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)