

ARIZONA STATE SENATE

46TH LEGISLATURE FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON FINANCE

DATE: February 3, 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 1022	DPA/SE
Senator Burns	X			SB 1082	HELD
Senator Chevront	X				
Senator Garcia	X				
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 1:35 p.m., and roll call was taken.

APPROVAL OF MINUTES

Senator Martin announced, without objection, the minutes of the meeting of January 27, 2003, are approved as distributed.

CONSIDERATION OF BILLS

SB 1082 – aircraft license tax; buyer’s possession – HELD

Senator Martin announced that as noted on the revised agenda SB 1056 and SB 1086 will be held. He also announced that SB 1082 will be held at the request of the sponsors.

SB 1022 – income tax exemption; stillborn children – DO PASS AMENDED/STRIKE EVERYTHING

Lace Collins, Senate Finance Assistant Research Analyst, explained the strike-everything amendment to SB 1022 creates an individual income tax exemption in the amount of \$2,300 for a taxpayer who receives a certificate of birth resulting in stillbirth beginning January 1, 2003. She stated that a Joint Legislative Budget Committee (JLBC) fiscal note has been requested; however, the Arizona Department of Revenue (DOR) reports that the impact of this exemption would be an estimated revenue loss of \$57,000 to the State general fund.

Senator Jarrett explained why she brought the bill forward. She commented that a request was received from a constituent indicating that individuals experiencing this unfortunate event have the expense of funerals, and they would like a one-time exemption to help meet the unexpected costs.

In response to Senator Martin, Ms. Collins stated that \$57,000 is an estimate based on the calendar year 2001 when 703 stillbirths occurred in Arizona. In response to Senator Leff as to the definition of stillbirth on which this legislation is based, Ms. Collins stated perhaps someone from the Arizona Department of Health Services (DHS) could provide that information.

Senator Jarrett explained that two years ago legislation was passed called the “Missing Angels” bill, and SB 1022 refers to the group that was involved at that time. She said she believes the definition is based on the later part of the pregnancy, and a certification from DHS is received pertaining to the stillbirth.

Senator Cheuvront wanted to know why the legislation only relates to stillbirths and not other situations, such as premature infant deaths. Senator Jarrett replied the reasoning is because the group involved in the “Missing Angels” legislation is the group that came forward requesting assistance in SB 1022. She stated it is a difficult time for all individuals involved in these types of tragedies.

Senator Martin clarified that if an infant lives, that child automatically receives a tax deduction. However, a stillbirth does not receive a tax deduction. Therefore, this measure helps defray funeral expenses that are involved with stillbirths.

Senator Leff stated there were concerns raised in the past on this issue. She said that this measure deals with a tax exemption, and she is somewhat uncomfortable with this being considered as a tax bill. She asked Senator Jarrett whether a tax implication was discussed when the legislation was passed originally. Senator Jarrett responded the tax issue was not discussed previously, and SB 1022 was only recently brought to her attention. Senator Leff commented that if an infant is lost at 16 or 18 weeks, there are expenses relating to that situation as well. She wanted to know how a comparison could be made between the loss of a child at that period of time and a stillbirth, as they both incur funeral expenses. Senator Martin replied part of the debate last year centered around the period considered as stillbirth, and a stillbirth certification is not received until the 20th week of pregnancy. Senator Leff asked who determined that the 20th week was the point at which certification was issued. Ms. Collins said she will research that point for the Committee.

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

Senator Harper moved SB 1022 be returned with a DO PASS recommendation.

Senator Harper moved the 3-page strike-everything Jarrett amendment dated 01/30/03, at 10:16 a.m., be ADOPTED (Attachment B). The motion CARRIED by a voice vote.

Senator Harper moved SB 1022 be returned with an AS AMENDED, DO PASS recommendation.

Senator Chevront stated that this is a laudable goal; however, at this time of budget constraints he will vote "no."

The motion CARRIED by a roll call vote of 7-2-0 (Attachment 1).

Senator Martin announced that he requested presentations on the retirement systems be given today in preparation for bills that will be presented during the following weeks. He stated that employer/employee contributions will be increasing partially due to market conditions and other pressures being placed on the system. He indicated that the result will be a substantial general fund impact to the State because of the increased employer contributions. He said it will also impact employees as well as many political subdivisions that use the State retirement system.

Overview of the Arizona State Retirement System (ASRS)

Richard Stephenson, ASRS, gave a slide presentation accompanied by a handout distributed to the Committee (Attachment C). He stated there will be a significant increase in contribution rates this year. He said he would attempt to address the background of ASRS and other issues that will be addressed this year. Topics of his presentation included the following:

- Benefits
- Members
- Health Insurance
- The "Actuary"
- Assets and Liabilities
- Effect of Investment Returns
- Benefit Enhancements/Contribution Rates
- Article 29/Arizona Constitution

Mr. Stephenson provided an overview of the employer/employee contribution rates and said those rates will continue to increase over the next few years. In response to Senator Leff, Mr. Stephenson said the increases are the result of a combination of scenarios, such as the enhancement of benefits and market fluctuations. In his remarks regarding Article 29 of the Arizona Constitution, Mr. Stephenson emphasized that membership in a public retirement system is a contractual relationship that is subject to contract law, and benefits shall not be diminished or impaired. He explained that once the Legislature passes and grants a benefit, that benefit cannot be taken away.

Ron Murphy, Legislative Chairman, All Arizona School Retirees Association, stated he is concerned that the retirement situation has evolved to this point. He provided some background information on steps taken in the past where the State's retirement system became one of the best retirement systems in America. However, he pointed out that certain issues were not resolved in the past, and now the State faces a difficult task. He commented he believes the rural retirees should be given assistance with some kind of subsidy because of their particular situation. He commended the Committee for its present work and urged them to prepare for the future.

Overview of the Public Safety Personnel Retirement System (PSPRS), Corrections Officer Retirement Plan (CORP), and Elected Officials Retirement Plan (EORP)

Jack Cross, Administrator, PSPRS, CORP, EORP, gave a presentation and distributed a binder describing those three plans (Attachment D). He stated he has been the Administrator for seventeen years, is a Certified Public Accountant (CPA) and also a Charter Financial Analyst, which is a designation for money manager. He explained the differences between the retirement plans that he manages. He noted that the member contribution rates are fixed by statute; however, the employer contribution rate is the rate that changes in those plans.

Mr. Cross stated that the other differences between the plans he manages and ASRS is that PSPRS and CORP are referred to as an agent multi-employer plan. He explained that each employer group has its own contribution rate and separate accountability. He indicated that the EORP plan is a pooled plan. Mr. Cross pointed out that the three plans are all twenty-year retirement plans regardless of an individual's years of age. He said there are other provisions that allow people to retire at certain ages based on years of service. Senator Leff wanted to know how the stock market affected the plans he manages. Mr. Cross replied the answer is similar to that of ASRS with two-thirds of the increase in contribution rates being a result of employee benefit improvements and one-third from the stock market decline.

Senator Martin thanked the presenters for the information. He said that as bills are proposed in future meetings, any benefit increases will be considered as an addition to the numbers and facts presented today.

There being no further business, the meeting adjourned at 2:34 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.)