

ARIZONA STATE SENATE

46TH LEGISLATURE FIRST REGULAR SESSION

MINUTES OF COMMITTEE ON FINANCE

DATE: June 12, 2003 **TIME:** 2:30 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 1367 | DP |
| Senator Burns | X | | | SCR 1031 | DP |
| Senator Chevront | X | | | HB 2529 | DPA |
| 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> |
|-------------|-----------------|-----------------------|
|-------------|-----------------|-----------------------|

Chairman Martin called the meeting to order at 2:50 p.m., and roll call was taken.

Senator Martin announced that

APPROVAL OF MINUTES

Senator Martin announced, without objection, the minutes of the meetings of March 31 and April 14, 2003, are approved as distributed.

CONSIDERATION OF BILLS

SB 1367 – unemployment benefits – DO PASS

Todd Madeksza, Senate Commerce Committee Research Analyst, explained that SB 1367 and SCR 1031 raises the maximum weekly unemployment benefit amount and provides some clarifying language regarding unemployment protocol. He noted these bills are identical to SB 1009, which passed the Legislature and was vetoed by the Governor earlier this year. He indicated that concerns have been expressed that Arizona lags behind other states in the amount of benefits that have been paid out to unemployed individuals. He noted that the one difference between the bill and the resolution is that the bill raises the weekly unemployment benefit to \$240 over a two-year period and the resolution simply raises it to \$240.

Becky Hill, Director, Legislative and Congressional Affairs, Governor's Office, testified that they do not support the current version of the bill or the resolution. She said the Governor has met with the sponsor of the bill and other stakeholders on numerous occasions and is confident that a consensus amendment can be prepared for the floor.

In response to Senator Leff, Ms. Hill replied that the Governor feels that in the current economic times, a bill intended to provide increased benefits for unemployed workers is not the appropriate place to add eligibility hurdles. She stressed that the current definition of seasonal workers in the amendment is unacceptable because it is overly broad and there are concerns about its implementation.

Senator Cheuvront stated that one of the concerns of the seasonal worker definition is that if an employer only allows an employee to work 39 hours, those workers would be disqualified to receive unemployment benefits because they are not working 40 hours. He said the business community did not intend the bill to read that way; however, that is how the language is interpreted. He suggested that there are better ways to address the concerns without using that definition.

Senator Leff pointed out that the Legislature wants to raise the amount of the weekly benefits; however, the bill is also intended to give some relief to business owners and particularly the small business owners. She said it needs to be fair and balanced. She noted there are provisions to balance the needs of the employer, which have not been reviewed since the 1980s. She said she is pleased to hear that there is an opportunity to work out language on the floor that will work for everybody.

Senator Martin asked for additional information on the 20-week provision that the Governor does not support. Ms. Hill replied that at the beginning of session, there were two unemployment insurance bills that had several employee/worker reforms to address unemployment insurance benefits and the eligibility requirements. She said the business community was concerned about the scope of those

changes and they met with Senator Allen who agreed to submit a more balanced bill that increased the benefit with some modest reforms for employers. The Governor's Office agreed to support that bill which was introduced in the Senate Commerce Committee, passed on the Senate floor. She noted that was sent to the House of Representatives and they wanted to make some changes. She indicated that the Governor's Office agreed to some of the changes; however, they pointed out that if continued eligibility hurdles were added to the bill, they would no longer be able to support it. She said the bill went to the floor of the House where additional items were added. At that point she informed the sponsor that there is not to be an active attempt to kill the bill; however, she indicated that the Governor's Office could no longer support the bill. She said the bill was eventually sent to Conference Committee to attempt to make some changes requested by the Governor's Office; however, many of those suggested changes were not made. After meeting with various stakeholders and others, the Governor felt it was too onerous to sign.

Mike Vespoli, Director of Community Affairs, United Food and Commercial Workers (UFCW 99), testified in opposition to the bill and the resolution, noting that he would prefer to discuss a full employment bill rather than an unemployment bill. He said he is concerned that the current bill is a compromise bill. He said that he does not have a problem with providing a tax break to attract new businesses to Arizona or raising the eligibility requirement from \$1,000 to \$1,500. He noted; however, that other concerns have not been adequately addressed, such as increasing the length of time an employee must work to 20 weeks. He pointed out that he represents the retail industry that primarily hires part-time employees, with very few full-time employees. The 20-week requirement would disenfranchise many workers that need unemployment benefits the most, such as the seasonal retail workers who typically are earning low wages.

In response to Senator Martin, Mr. Vespoli replied that he could support the increase from \$1,000 to \$1,500, although he does not feel it is necessary. Most employees would earn that much in a quarter; however, some of the part-time employees paid only a minimum wage probably will not be able to meet that requirement. He emphasized that the increased weekly benefit amount is not enough for employees earning \$500 or more a week. In response to Senator Martin, Mr. Vespoli indicated that he supported the original bill without the Pearce amendments. Mr. Vespoli explained that he had expressed his concerns at several meetings with the Governor's Office personnel, Legislators, and other stakeholders; however, he did not testify at the Conference Committee. Senator Martin recommended that all stakeholders should testify at the Conference Committees to ensure that Legislators are informed of everyone's position.

Senator Jarrett asked for clarification between the current unemployment benefit structure and the proposed measure. She mentioned she understood that employers do not want to provide unemployment benefits to part-time or seasonal workers. Mr. Vespoli explained that his understanding of the current process is that an individual must work 13 weeks and make \$1,000 within a specific qualifying period to be eligible for unemployment benefits. He said SB 1367 provides for a 20-week qualifier, which raises the eligibility requirement. He stressed that he is opposed to the new requirement because very few part-time employees would qualify. Senator Jarrett asked for additional information regarding his objections to the bill. Mr. Vespoli replied that he opposes the 20-week qualifier because it raises the bar for eligibility. He pointed out that the largest employers in Arizona are retailers who employ part-time and seasonal workers that would not qualify for unemployment benefits under the new requirements.

In response to various questions, Mr. Madeksza, clarified that workers currently are eligible for unemployment benefits if they earned \$1,000 within four of the last five calendar quarters. He added

that if the workers only earned \$1,000 within that period of time, they would receive less than the maximum weekly benefit.

Senator Chevront noted that it is important to improve the definition of a seasonal worker because the current definition is too broad. Senator Martin commented that he was not on the Conference Committee; however, he said Senator Allen always has an open door policy and she would have addressed concerns from any of the stakeholders to help alleviate the bill being vetoed. He noted it is not customary to reintroduce bills within the same session after they have been vetoed.

Jay Kaprosy, Greater Phoenix Chamber of Commerce, testified in support of SB 1367. He commented that it was never the intention of the individuals working on the bill for it to be onerous. He indicated that they are willing to address specific issues that are problematic as well as language that is overly broad. In response to Senator Leff, Mr. Kaprosy replied that the intention with the seasonal worker requirement was to ensure that holiday retail employees did not impact employers by receiving unemployment benefits. He said the 20-week requirement is an effort to create a measure of an individual's association in the workforce. He pointed out that employees in the lodging industry do not qualify for unemployment benefits, except for some very specific circumstances.

Senator Leff emphasized that individuals who work only three to four weeks a year should not receive the same benefits as those who work 20 weeks. Mr. Kaprosy further noted that the 20-week provision was to ensure employers were not unduly burdened. Senator Leff added it is important that the provisions of the bill are balanced between the employer and employees.

Senator Chevront pointed out that Arizona has the lowest unemployment benefits in the nation and he applauded the business community for taking the initiative to make improvements.

Senator Leff mentioned it is important for everyone to keep in mind that when the amount of the weekly unemployment benefit increases, it creates a burden for small businesses that represents 80% to 90% of the employers in Arizona.

Senator Martin noted that time is of the essence and he encouraged the stakeholders to meet with the sponsor of the bill next week to address concerns.

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

**Senator Harper moved SB 1367 be returned with a DO PASS recommendation.
The motion CARRIED with a roll call vote of 7-1-1. (Attachment 1)**

SCR 1031 – unemployment benefits – DO PASS

Senator Martin explained that SCR 1031 is identical to SB 1367 with a few changes.

Senator Leff suggested that the resolution could be introduced next session and still provide adequate time for it to be on the ballot next year. She indicated that she is not comfortable passing the SCR and waiting one and one-half years before it goes on the ballot. She is concerned that something could occur within that timeframe, such as federal changes, that would impact this issue. Senator Martin suggested that the resolution should be passed out of Committee to allow debate on the Senate floor. Senator Chevront echoed Senator Leff's concerns, stating that once it passes out of the Senate and goes to the House, it will be placed on the ballot. He suggested the Committee should address the resolution next session.

In response to Senator Martin, Ms. Hill responded that she feels it is premature to decide whether this issue needs to be placed on a ballot. She noted that although a ballot measure is an option, making necessary changes in the future becomes difficult because of Proposition 105.

Senator Martin stated that additional negotiations will continue to occur.

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

**Senator Harper moved SCR 1031 be returned with a DO PASS recommendation.
The motion CARRIED with a roll call vote of 5-3-1. (Attachment 2)**

HB 2529 – university research infrastructure financing – DO PASS AMENDED

Denisse Gee, Senate Finance Committee Research Analyst, explained that HB 2529 is an emergency measure that makes a year-to-year state general fund appropriation of \$34,625,000 to the three state universities to finance the lease purchase of various research infrastructure projects starting FY 2007-2008 through FY 2030-2031; and exempts the gross proceeds of sales or gross income resulting from research infrastructure contracts entered into before July 1, 2006 from the prime contracting classification of transaction privilege taxation (TPT). She also explained two amendments: 1) the Martin 2-page amendment dated 06/11/03 at 4:54 p.m. (Attachment B) and the Harper 25-line strike-everything amendment dated 05/13/03 at 8:20 a.m. (Attachment C).

Hugh Hallamen, representing himself, stated that given his reputation as a fiscal conservative, one might wonder why he would support the university research bill. He suggested that these dollars are very targeted education funds going towards research infrastructure that most likely will not and cannot be supplied by the private sector. This is very expensive research space that does not allow the landlord/developer to capture the biggest and best benefit of developing this type of space. In the private market, landlords construct buildings and charge rent and it is very difficult for the landlord to recapture their investment when the building is extraordinarily expensive. In this instance, the State, as the landlord, would capture some of the benefit of the research, and the construction activity will remain in Arizona.

Senator Harper voiced his concern that the Universities will be relying on federal grants for research. He noted that given the current economic constraints, it might be difficult to obtain those funds. Senator Leff noted that President Bush has made it very clear that bioscience and biotechnology are the mainstay of his plan. Senator Chevront suggested that federal grants are available, it is just a matter of who gets them. He commented that at this time, Arizona does not have programs in place to take advantage of those resources. Senator Jarrett noted that private grants would also be available for this project.

Michael Crow, President, Arizona State University (ASU), testified in support of HB 2529 and stated that he would be representing all three Universities in this discussion. He indicated that this bill offers Arizona and its universities an opportunity to enhance the competitiveness of the Universities in a national arena that is currently in progress. He commented that President Bush, his administration and a bipartisan coalition in Congress are strongly behind the investment in science and technology activities as a national priority. Federal Reserve Chairman Greenspan has articulated on several occasions the role of the States in laying down the foundation to help drive forward the national economy by helping to stimulate the economy through enhanced scientific activity. Increasingly over the past 15 years, technology is driving the economy. The largest investor in fundamental science is

the federal government because of its size and scope, and these research facilities are an infrastructure investment. He said this type of investment makes logical sense. He suggested that they are not asking Arizonans to fund the research enterprise, but to help the universities to compete in the national arena.

President Crow discussed the specific benefits of the successful implementation of the bill. First, there is an immediate benefit of \$400 million in new research facilities. Secondly, when these facilities are completed, the faculty and staff will greatly expand the Universities' competitive position. Winning the grants from the federal government in Washington, D.C. and the private sector will bring substantial new dollars into the enterprise, which will have an impact on the economy. Thirdly, the economic benefit of the project has two dimensions. The very presence of this research activity changes the economic profile of the region. It is a proven fact that people think differently about where to go to build science and technology-driven businesses and where to live. Also, out of the research arena comes new companies, technologies, and other tangible things, which is the stimulant for private sector investment. National policymakers are behind this type of investment and the Universities believe this will make them more competitive.

Senator Harper asked if any of the Congressional delegations indicated that they will bring the research dollars to Arizona to pay for the day-to-day operations. President Crow replied that the Universities do not need their participation to assist in earmarking research funds for the facilities. The multibillion dollars of research funding is available on a competitive basis. As regions win more of the grants, they will be considered scientific winners, which is where the people want to go. He emphasized that he believes the Universities need these buildings to assist them in competing for the research funding.

In response to Senator Jarrett, President Crow responded that there are no research facilities under construction at ASU West at this time; however, classroom and dormitory facilities are currently under construction at that location. There is a possibility that ASU will move forward with research facilities on all of the ASU campuses. Senator Leff added that there is a research facility underway at ASU.

Senator Burns prefaced his remarks with a statement that he does not oppose the construction of research facilities, knowing that it would be very beneficial. However, he said that he has serious concerns about the funding mechanism, because there already is a \$390 million deficit in the budget. The Legislature has a goal to try to bring the budget back into balance within a three-year period. He noted that it is his intention to try to find another revenue stream that could be used. He suggested that perhaps some of the Proposition 301 monies could be used or tuition could be increased. He stressed that this is the largest money bill going through the legislative process this year other than the budget, and he feels it deserves consideration before moving forward. He emphasized that part of his responsibility as the Appropriations Committee Chairman is to protect the general fund.

President Crow noted his appreciation of Senator Burns' recognition of the need for these facilities to allow the Arizona Universities to be competitive on a national basis. He said the basic funding is an entrepreneurial proposal that assumes that they will be successful with a good faculty and to garner the grants, produce the technology and share the resources generated through these activities. He said that he believes this is the best proposal that has been considered from the beginning of the budget process.

Senator Martin explained that this bill, if passed out of Committee, will be presented in the Appropriations Committee, as well as the Rules Committee. He said this provides opportunities for the stakeholders to discuss their issues with Senator Burns.

In response to Senator Martin, President Crow noted that the experience level in Arizona with technology transfer from academic inventions and discovery is low. He commented that ASU is a lightweight in the scale of research institutions. However, it is among the most competitive and ranks in the top ten as a smaller scale research institution. If compared against the top ten institutions that are able to compete at the highest levels, ASU has a tiny fraction of their resources. He said this bill would allow the Universities to compete on a much larger scale and competitive basis.

In response to Senator Martin's inquiry regarding more specifics about what monies could be provided to the Universities, President Crow replied that the process is an interaction with the market and the Universities produce scientific properties that cannot yet be predicted. Technology consuming organizations look for those scientific discoveries, consume them, and then advance them into the market after investments from the private sector. He noted there is no way to predict the outcome of this process. In 2002 the International Business Machines Corporation (IBM) was the largest patenting organization in the world; except for one, the amalgamation of the top 50 universities in the United States producing in excess of 3,500 patents. The universities generated multibillion dollars worth of sales activities from the technologies of their patents. He pointed out that the Arizona Universities would model the behavior of the larger research institutions that are the most entrepreneurial and then make some predictions. The main point is that Arizona is looking for an entry position into the process. He suggested that it would be difficult to provide numbers to do budgetary planning, but feels that there would be a dramatic transformation in this level of activity within Arizona.

Senator Burns indicated that the primary concern of the Universities and the taxpayers is the students and he questioned how the Universities plan to provide services to the students. President Crow replied that this is one of management's complexities as they advance the institutions. He explained that ASU has approximately 44,000 undergraduate and 13,000 graduate students and it is likely that both of those numbers will increase dramatically. He suggested that their teaching mission is broad and feels that the research mission, which heavily influences the graduate students, also is a necessary ingredient to the success of the teaching mission within the undergraduate environment. He emphasized that he believes the best teachers are active scholars. He pointed out that the job of the management of the universities is to ensure that they do not take away from the quality of the undergraduate experience. Since 1989, the undergraduate experience at ASU has improved dramatically. He noted that they are continuing to focus on improving their institutional success, increasing the freshmen retention rate in the last ten years from under 65% to 77% and working on raising that to 90%. He stressed that management needs to figure out how to do that, as well as perform the research mission at the same time. He pledged that ASU is committed to both of those objections, not one in lieu of the other.

In response to Senator Martin, President Crow responded that ASU's overall operating budget this year is between \$900 million and \$950 million, with approximately \$130 million earmarked for research. If this bill is funded, the research budget would increase to approximately \$200 million. Senator Martin inquired as to what return ASU is currently receiving from the \$130 million budget. President Crow replied that not all research programs produce the same type of output. He explained that ASU is concentrating its new research facility investments in biodesign, nanotechnology, or projects that they feel will be transformational technologically, which could have a huge value. He added that he is aware of these values because he oversaw the technology transfer operations at Columbia University from 1991 to 2002. In 1991, the technology transfer revenue was \$20 million a year and in 2002, it was \$167 million a year, earning over a billion dollars of new revenue in that timeframe. The overall research revenues increased from \$200 million to \$450 million a year in that

same timeframe. All of the technologies were significant and none were predictable because there were too many variables; however, they all were products of the most fundamental scientists on staff. The key to success is to attract the scientists, have the facilities for them to work in, and to nurture and allow them to be as creative as possible. A number of universities that have taken this path and have been successful in three types of economic benefits: research, change in local culture, and attraction of enterprise. The monies that are received from the research projects would be useful in helping Arizona recover the costs.

Senator Martin provided some background information regarding Proposition 301, which diverts 12% of revenues to Universities for technology and research initiatives. He explained that if HB 2529 passes, the Universities will not be able to turn to Proposition 301 as a support structure. President Crow stated that it is important for the Legislature to keep in mind the cultural change that the Universities are attempting to bring about. If they do not have incentives to succeed and the legislation is not written on the assumption of success, it is difficult to provide incentives for people to be successful. The bill needs to be entrepreneurial in its nature and needs to assume that research will be competitive and that they will succeed.

Senator Leff stated she understands that Proposition 301 is not to be used for construction of buildings. She said the buildings would be the least expensive of the project and the equipment and researchers would be the expensive portion. President Crow agreed, noting that the buildings are only one piece of the overall strategy.

In response to Senator Harper, President Crow explained that there always is a potential that ASU West would win an opportunity to build a research facility should HB 2529 pass. Senator Martin noted that there is much concern about spending these large amounts of money because of the budget constraints facing the State at this time. Senator Leff added that there are many individuals who feel that this project should be a priority for spending the State's money. She said she feels that this project would be a good investment and would bring a lot more back to the community than it would take. She pointed out that if the project provides money to the general fund, those monies can be used for things such as teacher pay increases. Senator Martin explained that the State would only recoup its initial investment and not share in the royalties of the research. Senator Leff pointed out that successful Universities would bring additional dollars to the State as evidenced in other states.

Senator Garcia maintained that allocating \$34 million from the State budget for the research facility would compete with many programs in the budget that he favors. However, he related that after visiting with some of his family members who work in research projects at a California university, they convinced him that this bill would be a good investment for Arizona.

In response to Senator Chevront, President Crow noted that a number of regional economies in the United States have successfully made these investments. The most successful locations are in North Carolina, Maryland, Massachusetts, and Austin, Texas. Since 1980, 14,000 additional high technology companies have emerged in the San Diego, California location, making that university one of the five largest research universities in 2003. He added that the research arena is a complicated and highly competitive business.

Senator Harper noted that the Goldwater Institute opposes the bill. President Crow suggested that he would be interested in engaging in a debate with sound data, which was not in the Goldwater Institute report.

In response to Senator Martin, President Crow explained that for ASU, the project would include ten new research buildings in Phoenix, Tucson, Flagstaff, and Yuma. Specifically, ASU is focused on the continued development of their Arizona biodesign institute. A new school of life sciences is also being built and a second research facility for that school would be desirable. He pointed out that there has not been a new research facility built since 1993, which was built with federal resources.

In response to Senator Leff, President Crow replied that all three Universities are assisting in the successes of Translational Genomics Research Institute (TGen). He indicated TGen has a number of proposals, has begun the publication of new scientific results, and has active operational laboratories. He said the Universities are cooperating through joint faculty hires, and recently allocated several million dollars from the Proposition 301 allocation to purchase a super computer to solve very complex problems. In response to Senator Leff, he explained that cancer therapeutics operate on three simultaneous levels. He commented on the cancer research being conducted, and indicated that the National Institutes of Health will be spending \$27 billion for cancer research. He noted that half that amount will be spent at universities competing and racing to produce therapies to attack those diseases.

Senator Martin commented this is a good example of where to adjust the amendment being drafted. He emphasized the importance of cancer research, which could produce a strong revenue stream to bolster the State's needs. Senator Martin thanked President Crow for his presence and comments before the Committee today.

Representative Mark Thompson, bill sponsor, commented that Representative Robson would like to have been present today but had another commitment. He explained this initiative is an Arizona biodesign collaboration, which will involve other entities such as Mayo Clinic, St. Joseph's Hospital, and the Sun Health Research Institute. He said even though the buildings will be university-based, the research will have a Statewide economic impact. He described the proposal of the accelerated construction schedule due to be completed in the next 37 months, which will encompass approximately 7,000 new construction jobs. He explained the debt service and grants involved with this measure. He commented on the federal "bioshield" program and the grants being allocated for that program.

Senator Martin commented that transaction privilege tax (TPT) issues have not been discussed in previous meetings. He said it is his understanding that the Universities would be exempt from TPT for the construction of facilities and the savings created would be used to make the first couple years of debt service. Representative Thompson stated that was correct and he noted it is to those infrastructure related construction events only, meaning that the University bookstore would not be able to capture and maintain its sales taxes.

Senator Martin noted that once one State agency is exempt for TPT, a cause of action could be created for the federal government regarding the State's equity of the TPT system. He expressed his concern over the potential of setting a risk of a much larger revenue strain from federal contractors. He opined that there might be another way to do this in capturing those revenues, with a different mechanism than a straight exemption. He remarked that further study of this is necessary.

Senator Chevront disagreed that using a TPT exemption would create problems. He remarked that tax increment financing (TIF) has been used on many occasions, such as with Maricopa County when it built Bank One Ballpark and also with many cities, which have used the sales tax revenue and placed it back in their projects to pay for the original financing. He stated this is something that has been used multiple times over the years, and questioned why this occasion should be any different

than at any other time it has been used. Senator Martin remarked that the language in the bill specifies that it would be a straight exemption, which could be the problem. He reiterated that further information is needed.

Ms. Gee clarified that the bill reads as a straight exemption in the prime contracting classification. She noted another provision of the bill provides that the project has to be reviewed by the Joint Committee on Capital Review (JCCR), to be eligible for the tax exemption.

Ray Fontaine, National Association of Industrial and Office Parks (NAIOP), testified in support of HB 2529. He stated that his background is of a regional economist and an economic developer, and the majority of his work is with private and public corporations dealing with acquisition disposition and utilization of real estate assets. He stated that he was present to indicate to the Committee the direct correlation between the amount and quality of research and development (R & D) in an area and the number of manufacturing jobs that are present. Mr. Fontaine provided background information on the collaboration that has taken place with the Universities. He commented that the partnership being discussed today will provide significant returns to the State of Arizona by increasing the Universities' successes in obtaining the much valued federal grants for research as well as foundation and institutional level funding that is available.

Hilary Juel, Government Affairs Manager, Intel, remarked that the members may have received an article written by the Chief Executive Officer (CEO) of Intel, Craig Barrett, supporting investment in university research infrastructure funding. She stated that in that article, Mr. Barrett referenced Intel's commitment of a \$2 billion investment to convert a facility to an upgraded manufacturing process. She commented it is Intel's belief that it is important to invest in the future, despite some of the fiscal stresses the company may be experiencing today. Intel believes the investments that the company has made in R & D over the years has led to its success and allowed it to be competitive in the marketplace.

Ms. Juel provided information regarding Intel's investment in R & D in relationships with the Universities. She stated that she had distributed information prior to this meeting regarding a number of commitments Intel has made this year including the consortium for embedded and internet working technology (CEINT). She said the \$600,000 commitment is to look at developments in technology; a \$2 million industry/university cooperative to Connection One, with a focus on wireless technology and the center for advancing business through information technology (CABOT), which will look at technology and business operations. She explained that these are just a few of the projects that Intel is doing with ASU.

Ms. Juel commented that these initiatives are breeding grounds for workforce development for the high tech sector, and provides an opportunity to educate the future workforce. She noted that Intel hires more graduates from ASU, than any other university. One of the key reasons Intel is in support of HB 2529 is the concept of leverage. She remarked that by advancing the State's innovation infrastructure, the State would be adding value to the investments that have been made. In addition, the State would be making these institutions more attractive for future investments.

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

Senator Martin remarked to Ms. Hill that a comment is reflected in the speaker registration system that the Governor supports the bill unamended. Ms. Hill replied that is correct. He asked if the Governor would support the compromise amendment that the President worked out with the Presidents of the Universities. Ms. Hill remarked that at this particular time, the Governor does not

see the need for the amendment, and believes that the bill as it was passed out of the House of Representatives with bipartisan support is a great bill. She noted that the Governor would be visiting with the bill sponsor to discuss the amendment. Ms. Hill commented it was their understanding that the unamended bill had strong support in the Senate and that it had the votes to pass out of Committee and on the floor. Therefore, the Governor would like to get more information before she signs her name onto the amended bill.

Senator Martin asked whether the budget that was sent to the Governor last night would be vetoed, if the amendment stays on the bill. Ms. Hill stated that whether or not this particular amendment stays on the bill has nothing to do with the budget. The Governor's Office wants to determine if the amendment is even necessary and there are questions as to why the amendment was proposed. She stated that this is a great bill and it has great importance for the future of the State, economic development, and the potential to attract students from throughout the country to attend these Universities. She stated that these are big issues that should be respected and discussed independently of the budget. She stated the Governor weighed in then, and is weighing in now, that she supports the bill and perhaps will, at some point, support the amendment. She reiterated that whether the amendment is adopted or not, has nothing to do with the Governor's intentions with the budget.

Senator Leff remarked that she views this amendment as a win-win situation for the Universities, for moving the State forward, and holds the potential for the general fund to recoup some funds

Ms. Hill clarified that several things have happened to the bill over the last couple of days. She said one suggestion was that Proposition 301 monies be used, which was a last minute proposal without the approval of the University Presidents, the bill sponsor, or any discussion from the stakeholders. Senator Martin commented that he had been working on that proposal in preparation for an eventual Committee hearing at some point.

Ms. Hill remarked that the Committee has a proposed amendment that is being discussed in a public Committee where the bill sponsor has had an opportunity to review it, discuss it with the University Presidents, and will be discussing it with the Governor. She said this is an ongoing process and stated that there is no threat of a veto whether the amendment is adopted or not. She said they are simply exploring the language of the amendment and hopes that the Committee will pass the bill out of Committee today.

In response to Senator Martin, Ms. Hill explained that what is contained in the proposed amendment would determine whether the Governor would be in support of it or not. She said they would not have a problem with a technical change; however, would have concerns if substantive changes are being proposed to the financing. She said it would depend on the language of that amendment.

Senator Chevront noted that the Governor's Office has made it clear that she is in support of the bill unamended. He stated that the bill has been in the Senate since May 8, 2003 and there has been a lengthy amount of time to look at the issues related to the bill. He expressed his concern that if the bill is changed too drastically, the bill could die.

Senator Martin asked Ms. Hill if she knows why the Governor is not in support of the amendment. Ms. Hill stated that there are two issues that relate to the amendment. She stated that the Governor's Office would like an opportunity to look at the language of the amendment. She noted that there is enough time for this to occur before the bill takes a final vote and opined that there is not any reason to force the Governor to decide on an amendment at this time. She stated that the Governor's Office

does not see a reason for an amendment to the underlying bill as it was a negotiated bill that came out of the House of Representatives with bipartisan support and was also supported by University Presidents and business stakeholders. She reiterated that the Governor would like an opportunity to review the language of the amendment.

Senator Burns stated that the Senate would like time to work the bill as well. He noted that the job of the Legislature is to produce legislation and amendments do occur in that process. He said he believes it is presumptuous to not allow any amendments. Ms. Hill stated that the Governor has never said she does not support amendments on bills. She said at this time the Governor's Office does not oppose the amendment, but supports the bill unamended. Senator Burns responded that there may be some amendments that would improve this bill.

Senator Brown stated he does not believe it is the Committee's job to get involved with the Governor's business. He said she has indicated she supports the bill without amendments. He said he is willing to include the amendment to move it along, and believes it is time to vote.

Senator Martin stated that the reason for his question was not to create an issue, but rather to clarify any possible opposition to the amendment and whether it would kill the bill. Ms. Hill remarked that this is an important issue, and that the Governor would like to see the bill on her desk. Consequently, it is necessary to find out if the bill is in jeopardy with or without the amendment. She reiterated that the Governor's Office supports the bill unamended.

President Bennett explained that Senators Bee, Jarrett, Martin, and he had a meeting yesterday with the University Presidents. He stated that many things were discussed about the bill and the relationship between the Legislature and the State's university system in general. He stated the crux of the discussion was the concept of moving away from the "appropriators" and the "spenders" to become "investors" and eventual "partners" with the State Universities. He opined that this amendment represents what the Senate Republican Leadership believed was the best compromise at the conclusion of the meeting, and was supported by the University Presidents. He explained that the Legislature needs to quit thinking of itself as the "appropriators" and the universities as the "spenders" and move to the next level, which is that of the State being an "investor" in the State University system. The next step is developing a partnership of responsibility and interaction between the State and the State University system. The original bill, without the amendment, had an element of payback with a limit so that if one of those streams began to generate some revenue, it could reduce the amount coming from the general fund, but was limited at 50%. He stated that the amendment lays the foundation for the future of a partnership agreement between the State of Arizona and the University systems, the Legislature and the Presidents and the Board of Regents. He said it now references three pots of potential sources of funds to help offset the general fund contribution and eliminates the 50% limit. He commented that all entities would benefit as partners and not in terms of investors. He said he believes the amendment goes a long way from an "investor" mentality to a "partner" mentality.

President Bennett remarked that unfortunately because of the speed in which the process was moving yesterday, people were not included in those discussions as they might appropriately have been, including members of the Legislature and perhaps the Governor or her staff. He opined that if the various entities do not worry about which entity is going to get the credit, much more work can be accomplished. He stated that the amendment had the full support of the sponsors, the University Presidents and all members present in the room. He said that the amendment was not intended to simply get the bill through the Committee. He opined that the amendment is an improvement on the

bill, and is a part of the legislative process. He expressed his hope that the Committee would support the amendment.

Senator Chevront asked President Bennett if he had received support and assurances that the bill, as amended, would be able to get through the House. President Bennett replied that it is difficult to be 100% sure of anything until it actually happens. He stated that in the process of trying to get a budget out of the Legislature this year, he has had people on both sides come to him saying that their vote was contingent on the university bill failing or succeeding. He stated that he has rejected suggestions on both sides that budget votes be tied in that manner to this bill or any other bill. He said he considers this entire bill an investment rather than a cost. He commented that the University Presidents are in support of the bill because they believe it empowers the University system to move forward and be less reliant on the general fund.

Senator Martin commented that the bill as drafted has an emergency clause. He said the misnomer or rumor or discussion that it cannot be changed, improved, adjusted or otherwise because the bill may be killed in the House is a discount to the Legislature and the Senate. He said there should be an ability to make adjustments and he believes a major accomplishment occurred in obtaining the agreement from the sponsors and University Presidents to amend the bill. He commended President Bennett for this breakthrough and he said he would like to encourage amendments rather than discourage them.

Senator Harper stated he has not heard once that the sponsor agrees to the amendment and that the amendment will remain all the way through the process or the sponsor will pull the bill. Senator Bennett responded to that point. He stated that Representatives Robson and Thompson were at the table in the meetings where the amendment was reviewed and clarified. Everyone at the meeting expressed support that the amendment was a permanent improvement to the bill and not temporary. In response to Senator Harper, President Bennett said that no one can guarantee that the amendment will remain with the bill throughout the process, but based on the consensus of support for the amendment, he believes the chances are improved for the amendment.

Jim Lentine, President-Elect of NAIOP, testified in support of HB 2529. He remarked that based on what he has learned in the past few months, Arizona is on the verge of something very exciting as the State becomes more engaged in the scientific and medical research arena. He stated words like IGC and TGEN were once foreign to many, yet the groundbreaking ceremony for them is tomorrow. He said TGEN has already hired 100 employees and has announced a partnership with Southwest Autism Research and Resource Group to expedite the study of genetics of autism, a condition that affects over 5,600 children in the State.

Mr. Lentine remarked that it is easy to become excited about the future of Arizona when that vision includes world class research facilities and medical centers around the State with scientists, doctors and researchers collaborating with each other in real time, working on cures for autism and countless other diseases. He urged the Committee to support the bill.

Senator Harper moved HB 2529 be returned with a DO PASS recommendation.

Senator Martin remarked that this bill will be moved through the process so that the questions that have been raised can be answered. He stated that the work is not finished on this bill.

Senator Harper moved the 25-line Harper strike-everything amendment dated 5/13/03 at 8:20 a.m. be ADOPTED. He requested a roll call vote on the motion.

Senator Leff asked Senator Harper if he would withdraw his amendment and said it probably could be supported on another measure. However, she believes it is inappropriate to put his striker amendment on this particular issue.

Senator Harper moved that without objection, he withdraws his request for a roll call vote and withdraws the strike-everything amendment. Senator Martin announced that without objection the amendment is withdrawn.

Senator Harper moved the Martin amendment dated 6/11/03, 4:54 p.m. be ADOPTED. The motion CARRIED by voice vote.

Senator Harper moved HB 2529 be returned with an AS AMENDED, DO PASS recommendation.

Senator Burns explained his vote. He stated that the building of these facilities would be a benefit to Arizona, but he has a very serious concern regarding the funding source. He said he will vote "no."

Senator Chevront explained his vote. He stated this is an extremely important bill regarding the future direction of Arizona to bring an educated work force to this economy that is very much needed. He applauded everyone who worked on this measure and said he will vote "aye."

Senator Jarrett explained her vote. She stated that she had difficulty supporting this bill and discussed her concerns with the members. She commented on a personal situation and believes that the possibilities of monies coming into the universities is a very real prospect. She said she feels that university research will pay for the buildings as the process continues. She said because of the concessions in the amendment, she feels she can fully support it. She commented that as the legislative process moves along, bills are amended. She said she will vote "aye."

Senator Harper explained his vote. He stated that the premise that research dollars will be available is false. He said the national debt has reached \$400 billion, and he does not believe Congress will make research funds a priority. He noted that national defense is always a priority over research dollars. He said he will vote "no."

Senator Martin explained his vote. He thanked everyone for being present today and for their patience. He stated that this bill represents a substantial long-term commitment by the State. He commented on the current budget situation and believes there are things that can be done to mitigate the cost to taxpayers. He applauded the work involved with the amendment; however, regardless of the merits of the project, an \$800 million hit to the general fund is a very difficult situation. He said he does not want the State to be in the position of having to raise taxes in future years. He said he will vote "no."

The motion CARRIED by a roll call vote of 5-3-1 (Attachment 3).

There being no further business, the meeting adjourned at 6:00 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.