

ARIZONA HOUSE OF REPRESENTATIVES
Forty-ninth Legislature – Second Regular Session

COMMITTEE ON WAYS AND MEANS

Minutes of Meeting
Monday, February 22, 2010
House Hearing Room 1 -- 2:00 p.m.

Chairman Murphy called the meeting to order at 3:00 p.m. and attendance was noted by the secretary.

Members Present

Mr. Biggs	Mr. Farley	Mrs. Lesko, Vice-Chairman
Mr. Brown	Ms. Reagan	Mr. Murphy, Chairman
Mr. Chabin	Mr. Yarbrough	

Members Absent

None

Committee Action

HB2061 – DPA (7-1-0-0)	HB2613 – HELD
HB2504 – DPA (6-1-0-1)	HB2672 – DP (6-1-0-1)
HB2505 – DP (7-0-0-1)	HB2700 – DP (5-3-0-0)
HB2515 – DPA S/E (6-2-0-0)	HCR2061 – DPA (5-2-0-1)
HB2597 – DPA FAILED (4-4-0-0)	HCR2057 DPA S/E (5-2-0-1)

CONSIDERATION OF BILLS

HB2515 – confidential tax information; utilities – DO PASS AMENDED S/E

SE: prime contracting; sales tax

Vice-Chairman Lesko moved that HB2515 do pass.

Vice-Chairman Lesko moved that the 67-page Murphy strike-everything amendment dated 2/17/10 amendment be adopted (Attachment 1).

Vice-Chairman Lesko moved that the 11-line Murphy amendment to the strike everything amendment dated 2/18/10 be adopted (Attachment 2).

Jennifer Anderson, Majority Research Analyst, explained that the proposed strike-everything amendment to HB2515 removes the requirement for contractors to pay transaction privilege tax (TPT) under the prime contracting classification based on the gross proceeds of sales or gross income derived from their business and requires contractors to pay TPT under the retail

classification on the materials purchased for construction projects (Attachment 3). Ms. Anderson went on to explain the 11-line amendment.

Scot Butler, Arizona Housing Association, testified as neutral to HB2515. Mr. Butler stated that eliminating the prime contracting tax does not benefit manufactured home dealers, and he would prefer elimination of the materials tax.

Mr. Murphy, sponsor, responded that he plans to further amend HB2515 on the floor to improve streamlining of the tax structure for all homebuilders. Discussion ensued regarding the application of materials and prime contracting tax.

Mark Barnes, County Supervisors Association, testified in opposition to HB2515. Mr. Barnes testified that Apache and other counties benefit from the tax because revenue generated by the state is then appropriated back to the counties. Mr. Barnes went on to say that changing from prime contracting to a point of sale tax also affects the sales tax which reduces revenue for rural communities.

Question was called on the motion that the 11-line Murphy amendment to the 67-page Murphy strike-everything amendment be adopted. The motion carried.

Question was called on the motion that the 67-page Murphy strike-everything amendment as amended be adopted. The motion carried.

Vice-Chairman Lesko moved that HB2515 as amended do pass. The motion carried by a roll call vote of 6-2-0-0 (Attachment 4).

HB2597 – tax credits deductions; exemptions; sunset – ~~DO PASS AMENDED FAILED~~

Vice-Chairman Lesko moved that HB2597 do pass

Mr. Chabin moved that the 5-line Chabin amendment dated 2/22/10 be adopted (Attachment 5).

Jennifer Anderson, Majority Research Analyst, explained that HB2597 requires the enabling legislation for any new transaction privilege tax (TPT) deductions or exemptions and individual and corporation income tax credits to include a seven year sunset date and provides for the sunset of most of the existing TPT exemptions and individual and corporate income tax credits at the end of TY 2017 (Attachment 6). Ms. Anderson went on to explain the amendment.

Ms. Lesko asked if HB2597 affected corporate private school tax credits. Ms. Anderson responded that they would not be affected.

Mr. Chabin, sponsor, stated that Arizona is in a crisis and HB2597 will sunset every tax credit by a certain date, would allow for renewal of tax credits, and help reform Arizona's tax code. Mr. Chabin went on to say that he is amending the bill to exempt tax credits for schools as a compromise.

Mr. Yarbrough asked if HB2597 staggers sunset dates based on when the credit was adopted. Mr. Chabin responded that the goal of HB2597 is to give the legislature seven years to reform the tax code in Arizona. Mr. Yarbrough expressed concern with not exempting actions taken by the Legislature in the last couple of years. Discussion ensued regarding tax reform and unintentional consequences of tax credits.

Kevin McCarthy, President, Arizona Tax Research Association, testified in opposition to HB2597. Mr. McCarthy testified that HB2597 would create severe instability in the sales tax, use tax, and impacts tax exemptions put in place by the legislature.

Ron Johnson, Executive Director, Arizona Catholic Conference, testified in opposition to HB2597. Mr. Johnson stated that his concern is based on school tax credits, charitable tax credits, and credits for the working poor.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2597, but did not speak:

Karen McLaughlin, Director of Budget & Research, Children's Action Alliance

Vice-Chairman Lesko announced the names of those who signed up in opposition to HB2597, but did not speak:

Farrell Quinlan, State Director, National Federation of Independent Business

Deborah Sheasby, Legal Counsel, Center for Arizona Policy

Question was called on the motion that the five-line Chabin amendment dated 2/22/10 be adopted. The motion carried.

Vice-Chairman Lesko moved that HB2597 as amended do pass. The motion failed by a roll call vote of 4-4-0-0 (Attachment 7).

HB2061 – teacher performance pay; special assessment – DO PASS AMENDED

Vice-Chairman Lesko moved that HB2061 do pass.

Vice-Chairman Lesko moved that the 16-line Murphy amendment dated 2/22/10 be adopted (Attachment 8).

Jennifer Anderson, Majority Research Analyst, explained that HB2061 repeals the Career Ladder Program and the Optional Performance Incentive Program (OPIP) and authorizes all school districts to budget for a special assessment on the primary property tax rate for statewide teacher pay beginning in FY 2010-11 and explained the amendment (Attachment 9).

Representative Tom Boone, sponsor, testified that HB2061 would solve the issue with the Career Ladder Program lawsuit and allow other school districts to have the program. Mr. Boone went on to explain how current career ladder school districts have a competitive advantage over those without.

John Kaites, Education Finance Reform Group, testified in support of HB2061. Mr. Kaites testified that HB2061 puts all school districts on equal footing to create a pay-for-performance program and eliminate the old Career Ladder Program.

Kevin McCarthy, President, Arizona Tax Research Association, testified in opposition to HB2061. Mr. McCarthy testified that high business property taxes hinder economic growth, and Arizona already has seen large property tax increases in the past year. Mr. McCarthy went on to state his concerns that expanding performance pay with other obligations could lead to astronomical increases in property taxes.

Mr. Murphy asked what would happen if there was an expansion followed by a three-year phase out. Mr. McCarthy responded that he had not been able to analyze that.

Jay Kaprosy, Senior Government Relations Advisor, Arizona Charter Schools Association, testified in opposition to HB2061. Mr. Kaprosy testified that the school finance system is already very complicated and too reliant on local property tax. Mr. Kaprosy went on to explain how the inequality between school districts continues to grow without comprehensive school finance reform.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2061, but did not speak:

Jim Dicello, CPA, Deer Valley, Glendale Elementary

Jennifer Loreda, Arizona Education Association

Charles Essigs, Director of Government Relations, Az Association of School Business Officials

Bobette Tomerlin, representing self;

Scott Thompson, Dysart Unified School District

Sam Polito, Tucson Area School Districts

Morgan Day, Education Finance Reform Group

Jim Migliorino, Deer Valley Unified School District

Scott Thompson, Dysart Unified School District

Kevin Hegarty, Glendale Elementary School District

Kent Deyoung, Higley Unified School District

Karen Eyherabide, Littleton Elementary School District

Pat Dallabetta, Mayer Unified School District

John St. John, Sahuarita Unified School District

Brent Agenbroad, Sierra Vista Unified School District

Bill Christensen, Tolleson Elementary

Calvin Baker, Vail Unified School District

Becky Hill, Scottsdale Unified School District

Vice-Chairman Lesko announced the names of those who signed up as neutral on HB2061, but did not speak:

Janice Palmer, Governmental Relations Analyst, AZ School Boards Association

Question was called on the motion that the 16-line Murphy amendment dated 2/22/10 be adopted. The motion carried.

Vice-Chairman Lesko moved that HB2061 as amended do pass. The motion carried by a roll call vote of 7-1-0-0 (Attachment 10).

HB2700 – solar energy tax incentives; extension – DO PASS

Vice-Chairman Lesko moved that HB2700 do pass.

Paul Benny, Assistant Research Analyst, explained that HB2700 delays the termination of the prime contracting transaction privilege tax (TPT) exemption and the individual and corporate income tax credits for the installation of solar energy devices by six years (Attachment 11).

Representative Tom Boone, sponsor, testified that there are two pieces contained in HB2700, the TPT exemption which is expiring this year and the tax credits which expire next year. Mr. Boone went on to explain that HB2700 would extend both for another six years.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2700, but did not speak:

Thomas Alston, Solar Alliance
James Beard, representing self
Ryan Denke, representing self
Joy Butler, American Solar Electric, Inc
Sandy Bahr, Conservation Director, Sierra Club - Grand Canyon Chapter
Adam Browning, Vote Solar
Sean Seitz, CEO, American Solar Electric
Judy Stanley, Mainstream Energy Corporation
Kari Smith, Sun Power
Michael Rabstoff, representing self
Jennifer Woolrich, representing self
Raymond Graap, representing self
William Chopak, representing self
Patsy Stewart, representing self
Melissa Black, representing self
Barbara Warren, representing self
Cary Hayes, REC Solar, Inc.
James McCay, AEE Solar, Inc.
Mitch Menlove, Solar Alliance
Todd Landfried, Ironco/Renewable Energy Contracting
Nick Holder, representing self
Colin Murchie, SolarCity

Vice-Chairman Lesko announced the names of those who signed up in opposition to HB2700, but did not speak:

Steve Voeller, President, Arizona Free Enterprise Club

Question was called on the motion that HB2700 do pass. The motion carried by a roll call vote of 5-3-0-0 (Attachment 12).

HCR2061 – property tax valuation limits – DO PASS AMENDED

Vice-Chairman Lesko moved that HCR2061 do pass.

Vice-Chairman Lesko moved that the 13-line Murphy amendment dated 2/22/10 be adopted (Attachment 13).

Jennifer Anderson, Majority Research Analyst, explained that HCR2061 repeals the secondary value for property tax purposes, decreases the constitutional limit on the annual growth of the primary property value from 10% to 5%, and includes levies for bond indebtedness, budget overrides, and special districts under the constitutional limits for total property tax collections and the growth in the annual tax levy, subject to voter approval (Attachment 14). Ms. Anderson went on to explain the amendment.

Mr. Farley asked if the 5% limit also applied to a decrease in value. Ms. Anderson responded that the 5% limit would only apply to increases.

Representative Lucy Mason, sponsor, testified that having property tax assessments based on fluxuating market value has been causing issues, and HCR2061 would provide some stability.

Kevin McCarthy, President, Arizona Tax Research Association, testified in support of HCR2061. Mr. McCarthy testified that properties would still be taxed the full cash value of a property, but not the net assessed value, creating more stability and assurances for local governments.

Mr. Farley asked if there is no percent cap on property tax decreases, could property tax fall significantly then not be able to recover. Mr. McCarthy responded that in the short term that would be correct, but limiting increases prevents future tax increases on undervalued properties. Discussion ensued regarding rate adjustment over time, property tax valuation, and different property tax systems.

Vice-Chairman Lesko announced the names of those who signed up as opposed to HCR2061, but did not speak:

Mark Barnes, County Supervisors Association

Janice Palmer, Governmental Relations Analyst, AZ School Boards Association

Charles Essigs, Director of Government Relations, Az Association of School Business Officials

Karen McLaughlin, Director of Budget & Research, Children's Action Alliance

Sam Polito, Tucson Area School Districts

Question was called on the motion that the 13-line Murphy amendment dated 2/22/10 be adopted. The motion carried.

Vice-Chairman Lesko moved that HCR2061 as amended do pass. The motion carried by a roll call vote of 5-2-0-1 (Attachment 15).

HB2672 – health savings accounts; reimbursements; incentives – DO PASS

Vice-Chairman Lesko moved that HB2672 do pass.

Paul Benny, Assistant Research Analyst, explained that HB2672 provides an exemption from insurance premium tax for high deductible health plans (HDHPs) and allows an income tax subtraction for rewards received from a wellness program and for certain contributions to health savings accounts (HSAs) and health reimbursement arrangements (Attachment 16).

Ms. Reagan, sponsor, stated that HB2672 would decouple reimbursement accounts from their employer and allow people to purchase insurance with their reimbursement money. Ms. Reagan went on to say that the program was piloted in Georgia and so far has been successful

Mr. Farley asked what the fiscal impact would be. Ms. Reagan responded that the fiscal note is from last year and was estimated at 3.4 million annually, but if the premium tax deduction is removed there would be no fiscal impact.

Farrell Quinlan, State Director, National Federation of Independent Business, testified in support of HB2672. Mr. Quinlan testified that this program has been very successful in Georgia. NFIB is looking for ways to copy the exact program and will draft an amendment to take full advantage of federal funds. Mr. Quinlan went on to explain how they will attempt to make HB2672 revenue neutral.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2672, but did not speak:

Michelle Bolton, V.P. of Public Affairs, Greater Phoenix Chamber of Commerce
Kathi Beranek, Government Relations Coordinator, Blue Cross Blue Shield of Arizona
Raymond Kronenbitter, Arizona Nurses Association
Stacey Langford, Arizona Bankers Association
Eric Emmert, East Valley Chambers of Commerce
Heather Bernacki, East Valley Chambers of Commerce Alliance

Vice-Chairman Lesko announced the names of those who signed up as neutral on HB2672, but did not speak:

Karlene Wenz, Legislative Liaison, Department of Insurance

Question was called on the motion that HB2672 do pass. The motion carried by a roll call vote of 6-1-0-1 (Attachment 17).

HB2504 – GPLET; lease records and reporting – DO PASS AMENDED

Vice-Chairman Lesko moved that HB2504 do pass.

Vice-Chairman Lesko moved that the 12-line Murphy amendment dated 2/22/10 be adopted (Attachment 18).

Jennifer Anderson, Majority Research Analyst, explained that HB2504 sets new rates and provides additional requirements for leases entered into beginning January 1, 2011 that are subject to the Government Property Lease Excise Tax (GPLET), modifies the requirements to abate the GPLET, requires the Office of the Auditor General (OAG) to complete a special audit

of the GPLET and establishes annual reporting requirements (Attachment 19). Ms. Anderson went on to explain the amendment.

Mr. Farley asked if there needs to be a grandfather clause for current projects. Ms. Anderson responded that HB2504 would not apply to any projects prior to January 1, 2011.

Chairman Murphy, sponsor, stated that HB2504 has been a long-standing issue, and HB2504 is currently a work in progress.

Jeffrey Kros, Legislative Director, League of Cities and Towns, testified as neutral to HB2504. Mr. Kros testified that there still needs to be some adjusting of the weight structure and tightening of the grandfather clause.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2504, but did not speak:

Jeff Sandquist, National Association of Office & Industrial Properties
Becky Hill, John F. Long Properties
Knox Kimberly, Lobbyist, Hines and GEPT

Vice-Chairman Lesko announced the names of those who signed up as neutral on HB2504, but did not speak:

Christian Stumpf, International Council of Shopping Centers
Richard Hubbard, President/CEO Valley Partnership, Valley Partnership
Scott Butler, City of Mesa
Karen Peters, Lobbyist, City of Phoenix
Romina Korke, Director of Government Affairs, City of Goodyear

Vice-Chairman Lesko announced the names of those who signed up in opposition to HB2504, but did not speak:

Anne Hamilton, Senior Account Executive, DMB Associates

Question was called on the motion that the 12-line Murphy amendment dated 2/22/10 be adopted. The motion carried.

Vice-Chairman Lesko moved that 10-line Murphy amendment dated 2/22/10 be adopted.

Ms. Anderson explained the amendment.

Question was called on the motion that the 10-line Murphy Amendment dated 2/22/10 be adopted (Attachment 20). The motion carried.

Vice-Chairman Lesko moved that HB2504 as amended do pass. The motion carried by a roll call vote of 6-1-0-1 (Attachment 21).

HB2505 – income tax credit review; criteria – DO PASS

Vice-Chairman Lesko moved that HB2505 do pass

Paul Benny, Assistant Research Analyst, explained that HB2505 establishes a new performance measure for the Joint Legislative Income Tax Credit Review Committee (Committee) when evaluating the success of an income tax credit (Attachment 22).

Mr. Farley asked if there is a funding source for staff who will be working on the committee. Mr. Benny responded that he would check and get back to Mr. Farley.

Vice-Chairman Lesko announced the names of those who signed up in support of HB2505, but did not speak:

Jason Bagley, Government Affairs Manager, Intel Corporation

Question was called on the motion that HB2505 do pass. The motion carried by a roll call vote of 7-0-0-1 (Attachment 23).

HCR2057 – phase-out business personal property tax – DO PASS AMENDED S/E
S/E: legislative appropriation; noncustodial federal monies

Vice-Chairman Lesko moved that HCR2057 do pass

Vice-Chairman Lesko moved that the three-page Murphy strike-everything amendment dated 2/18/10 be adopted (Attachment 24).

Kirin Smiles, Majority Research Intern, explained that the strike-everything amendment gives the Legislature the authority to appropriate noncustodial federal monies, upon approval by the voters and on proclamation of the Governor (Attachment 25).

Chairman Murphy, sponsor, stated that HCR2057, upon approval of the voters, would provide the Legislature the authority to appropriate noncustodial monies. Discussion ensued regarding constitutionality.

Vice-Chairman Lesko announced the names of those who signed up in opposition to HCR2057, but did not speak:

Seth Apfel, Volunteer, representing self

Barbara Fanning, Legislative Liaison, Arizona Hospital and Healthcare Association

Question was called on the motion that the three-page Murphy strike-everything amendment dated 2/18/10 be adopted. The motion carried.

Vice-Chairman Lesko moved that HCR2057 as amended do pass. The motion carried by a roll call vote of 5-2-0-1 (Attachment 26).

HB2613 – tax credit; schools; classroom materials - HELD

Chairman Murphy announced that HB2613 will be held.

Without objection, the meeting adjourned at 5:15 P.M.

Emilio Bascunan, Committee Secretary
March 17, 2010

(Original minutes, attachments and audio on file in the Chief Clerk's Office; video archives available at <http://www.azleg.gov>).