

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

COMMITTEE ON APPROPRIATIONS

Minutes of Special Meeting
Tuesday, April 20, 2010
House Hearing Room 1 -- 9:00 a.m.

Chairman Kavanagh called the meeting to order at 9:25 a.m. and attendance was noted by the secretary.

Members Present

Ms. Cajero Bedford	Mr. Jones	Ms. Sinema
Mr. Campbell CL	Mrs. McLain	Mr. Williams
Mr. Court	Mr. Murphy	Mr. Biggs, Vice-Chairman
Mr. Crandall	Mr. Schapira	Mr. Kavanagh, Chairman
Mr. Heinz		

Members Absent

None

Committee Action

SB1238 – DPA S/E (13-0-0-0)

SCR1060 – DPA S/E (8-5-0-0)

CONSIDERATION OF BILLS

SCR1060 – legislature; disqualification; technical correction(now: state debt) – DO PASS

AMENDED S/E

S/E: same subject

Vice-Chairman Biggs moved that SCR1060 do pass.

Vice-Chairman Biggs moved that the Kavanagh four-page strike-everything amendment to SCR1060 dated 4/16/10 (Attachment 1) be adopted.

Mike Huckins, Majority Research Analyst, explained that the strike-everything amendment to SCR1060 (Attachment 1) modifies the current constitutional debt limitation and identifies what type of debt is included in the limitation (Attachment 2).

Senator Bob Burns, sponsor, conveyed that controlling debt is a critical component of the state's economic recovery, in addition to further restraining spending and promoting economic stimulus to attract employers to Arizona. The state currently has a debt obligation of \$4.3 billion against

the General Fund, so the current debt limitation in the Constitution of \$350,000 is not working, which is the reason for this measure. He added that he is still working on the language.

In response to a question, Senator Burns related that this measure creates a cap that the state cannot exceed without a two-thirds vote of the Legislature or referral to the ballot, and there will have to be a revenue stream to cover that other than the General Fund. The state now has a \$4.3 billion debt obligation, but as that is paid off, the amount will decrease to the area of capacity that will be available for debt.

Ms. Sinema asked how a potential future fiscal crisis will be handled if the current debt is higher than the limit. Senator Burns reiterated there is the opportunity of a two-thirds vote. A dedicated revenue stream other than the General Fund is for protection to be able to continue critical operations of state government.

Ms. Sinema asked how the measure will help solve the state's financial crisis when it takes away a tool that has been used for that purpose. Senator Burns disagreed that it has been a helpful tool and opined that it has worsened the situation. He noted that after the November 2010 election, the Appropriations Chairmen will meet with Joint Legislative Budget Committee staff to see what resources are available, spending obligations relative to voter initiatives and statutory funding formulas, etc. He said \$300 million will be taken out for statutory formulas and new or existing programs, so it is a hidden cost at the moment that will become evident when it is time to put together a budget to present to the Legislature.

Ms. Sinema asked if it would be preferable to make more cuts or raise taxes and why those options were not used in the last year-and-a-half while working on the budget. Senator Burns answered that those activities were not done because of the lack of votes.

Mr. Crandall remarked that he is concerned about three federal issues over which the Legislature has no control: internet sales (the more sales taxes are raised, the more people revert to the internet and do not pay taxes), tribal activity (when huge commercial enterprises are developed in tax-free zones, the state does not benefit whatsoever) and the state's share of the federal health care reform bill (\$47 million). He added that when a cap is placed on what the state is able to borrow, it is important to address the fact that sales and income taxes will be lower. Senator Burns agreed that many items are out of the Legislature's control, but said he does not believe that is the answer.

Mr. Murphy, in reference to Ms. Sinema's point about more cuts and raising taxes, stated that he and others advocated making cuts as early as 2007. If that had been done, the present cuts would not have been so deep and the budget problem would not have been as bad. Having the debt available and continuing to spend money that was not going to be available perpetuated the problem.

Mr. Jones noted that the summary (Attachment 2) stipulates what the limit applies to and mentions lease-purchase agreements, which most schools use, especially since the Legislature swept funds and did not fund the School Facilities Board (SFB). The state continues to add to the structural debt through rollovers, which is not addressed in the bill. He questioned the impact on counties, and whether provisions are included to replace funds or provide other options for State Parks and other agencies that had funds swept and will not be able to incur debt.

Senator Burns responded that he believes the language will be improved. He tried to clearly identify General Fund debt. Some of the other items that are exempt have caps already in place so those were set aside, and in his opinion, there is too much language as far as the ballot proposition. Rollovers were taken out as “a different sort of creature.”

When Mrs. McLain asked for an example of a revenue source other than the state General Fund, Senator Burns answered that racinos (race track casinos) is one example.

Ms. Sinema asked what can be done to restrain spending since the state has a limited ability to make more cuts because of federal requirements and voter-approved mandates. Senator Burns replied that there are not many options, which is one of the problems. The state came close to running out of money this session and issued IOUs, so he is not sure what value there is in a statutory formula or voter initiative requiring a certain amount of money be spent if the funds do not exist and the state has to start issuing IOUs. It behooves the Legislature to better manage the resources that are available, which means reductions will have to be made in some areas.

Ms. Sinema stated that she is not sure where reductions can be made because there is not much left to cut except the Arizona Department of Corrections and the Department of Public Safety. Senator Burns responded that it will be up to the Legislature to decide where reductions will have to be made in the next budget cycle.

Ms. Sinema remarked that she is concerned because while the measure sounds good, the practical alternatives are not available since there is not much left to cut and a two-thirds majority vote is needed to increase revenue, which the Legislature has not shown an interest in doing over the last few years. She does not know what options will be available by not having the ability to engage in debt.

In response to a question, Senator Burns replied that in the fall of 2007, the state was \$680 million in debt and nothing was done. It continued to go on until the state finally hit the wall. If this had previously been in place, the state probably would have a more responsible budget. He said debt, especially at the current level, is not an attractive trait to outside employers considering locating to Arizona.

Ms. Cajero Bedford said this is such a large financial overhaul that it seems that a proven model would have been put in place. Senator Burns answered that he is concerned about what has been happening, but he is more concerned about the future. The state cannot keep functioning as it has; his goal is not to make the current situation worse.

Mr. Court asked if the cap of five percent of net assessed value was vetted by an economist as a reasonable number for the state to carry as a debt limit. Senator Burns answered that one of the criticisms about the current \$350,000 debt limit in the Constitution is that it is never adjusted for inflation or anything else, so the idea behind the five percent limit is something that is adjustable; it was chosen because it is relatively close to the debt that has been acquired against the General Fund to this point.

Mr. Murphy expressed concern that even with the definitions and specifics, people will allow a much larger debt and find a loophole. Senator Burns replied that he spoke to many attorneys and bonds people that he hopes provided the right direction on the language to make it as strict as

possible. He asked the Members to pass the legislation out of Committee so more work can be done, noting that consideration is being given to leaving the \$350,000 debt limit in place and specifying that creation of new debt will require a two-thirds vote based on Proposition 108 and revenue other than the General Fund, or revenue other than the General Fund and passage by the voters.

Suzanne Taylor, Senior Vice President of Public Policy, Arizona Chamber of Commerce & Industry, spoke in support of the strike-everything amendment to SCR1060. She testified that in the Chamber's 2010 budget recommendations, its members supported the implementation of a statewide debt policy, which includes many of the elements found in SCR1060. She urged the Members to support the strike-everything amendment, which provides a more straightforward and honest approach to debt, so the measure can be considered by voters in the fall.

Kevin McCarthy, President, Arizona Tax Research Association (ATRA), spoke in favor of the strike-everything amendment to SCR1060. He said for at least 10 years, ATRA has been supportive of redoing the state's debt limitation and debt structure. This measure will reboot the state's debt limitation and provide legal protection for what has happened and more accountability going forward. The provision requiring the state to designate a funding source for debt financing is important because it will limit the Legislature's ability to use debt financing for ongoing spending. He added that he would like to see the entire strike-everything amendment pass, but he will be glad to work on whatever the Committee decides to pass.

Chairman Kavanagh said one of the items some people are conflicted about is the use of debt for the short term when there is a deep drop in revenue in order to avoid a tax increase that may never go away. Mr. McCarthy replied that the state is in its present situation because the Legislature elected to use a variety of gimmicks and debt financing options to avoid budget cuts when action should have been taken more quickly.

Mr. Jones opined that the initiative process should be dealt with along these same lines, and decisions should be made in a real-time scenario, which cannot be done because of Proposition 108. Mr. McCarthy answered that he is not sure what the Legislature is doing and has been doing is constitutional; this measure sets up a better framework going forward. He opined that Proposition 105 should be eliminated and noted that he did not support Proposition 108 because he believes the Legislature should have the authority and flexibility to balance the budget on an annual basis.

Vice-Chairman Biggs announced the names of those who signed up in support of the strike-everything amendment to SCR1060 but did not speak:

Gretchen Kitchel, Senior Public Affairs Representative, Pinnacle West Capital Corporation
Allison Bell, Arizona Chamber of Commerce & Industry

Larry Lucero, Manager, Governmental Affairs, Tucson Electric Power Company

Donna Davis, Chief Executive Officer, Arizona Small Business Association

Lyn White, Manager, Government Relations, Freeport McMoRan

Vice-Chairman Biggs announced the names of those who signed up in opposition to the strike-everything amendment to SCR1060 but did not speak:

Rebekah Friend, Lobbyist, Arizona AFL-CIO

Janice Palmer, Governmental Relations Analyst, Arizona School Boards Association

Question was called on the motion that the Kavanagh four-page strike-everything amendment to SCR1060 dated 4/16/10 (Attachment 1) be adopted. The motion carried.

Vice-Chairman Biggs moved that SCR1060 as amended do pass. The motion carried by a roll call vote of 8-5-0-0 (Attachment 3).

SB1238 – air permits; begin actual construction – DO PASS AMENDED S/E
S/E: agriculture; pests; appropriation

Vice-Chairman Biggs moved that SB1238 do pass.

Vice-Chairman Biggs moved that the Kavanagh seven-line strike-everything amendment to SB1238 dated 4/16/10 (Attachment 4) be adopted.

Daniel Gonzalez-Plumhoff, Majority Assistant Research Analyst, explained that strike-everything amendment to SB1238 (Attachment 4) appropriates \$60,000 from the Dangerous Plants, Pests and Diseases Fund in FY 2010-2011 for the detection, identification and eradication of the Asian Citrus Psyllid (Attachment 5).

Vice-Chairman Biggs announced the names of those who signed up in support of the strike-everything amendment to SB1238 but did not speak:

Robert Shuler, Western Growers

Shelly Tunis, Attorney, Yuma Fresh Vegetable Association

Question was called on the motion that the Kavanagh seven-line strike-everything amendment to SB1238 dated 4/16/10 (Attachment 4) be adopted. The motion carried.

Vice-Chairman Biggs moved that SB1238 as amended do pass.

In response to questions, Mr. Gonzalez-Plumhoff explained that the Asian Citrus Psyllid is a vector for a devastating citrus disease. The Department of Agriculture (ADAG) can currently appropriate \$40,000 annually from this Fund to address issues such as this; SB1238 increases the allocation to \$100,000 to combat the infestation. ADAG is working with other stakeholders to quarantine, and infestations at initial sites have been addressed.

Mr. Jones added that if this pest is not contained in certain areas around Yuma, the federal government will step in and all of the citrus in Arizona could possibly be quarantined and not available for export, which would be devastating to the citrus industry.

Question was called on the motion that SB1238 as amended do pass. The motion carried by a roll call vote of 13-0-0-0 (Attachment 6).

Without objection, the meeting adjourned at 10:31 a.m.

Linda Taylor, Committee Secretary
April 26, 2010

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