

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-first Legislature – Second Regular Session

COMMITTEE ON WAYS AND MEANS

Minutes of Meeting
Monday, February 10, 2014
House Hearing Room 1 -- 2:00 p.m.

Vice-Chairman Kwasman called the meeting to order at 2:38 p.m. and attendance was noted by the secretary.

Members Present

Mr. Cardenas
Mr. Gallego
Mr. Mesnard

Mr. Olson
Mr. Petersen
Mr. Wheeler

Mr. Kwasman, Vice-Chairman
Mrs. Lesko, Chairman

Members Absent

None

Committee Action

HB2174 – ~~DP~~ FAILED (4-4-0-0)

HB2281 – DP (4-3-0-1)

HB2283 – HELD BY CHAIRMAN

HB2285 – DPA/SE (6-0-0-2)

HB2289 – DPA (6-0-0-2)

HB2291 – DP (5-2-0-1)

CONSIDERATION OF BILLS

HB2174 – income tax; health care deduction – ~~DO-PASS~~ FAILED

Kyle Heitmann, Majority Research Intern, stated that HB2174 allows a taxpayer to subtract the amount paid as a federal tax penalty for failing to purchase health care insurance in a sufficient time under the Patient Protection and Affordable Care Act (ACA) from their Arizona Gross Income (Attachment 1).

Mr. Gallego asked if there is a fiscal note on the bill.

Mr. Heitmann stated that the fiscal note states a reduction to the state of \$1.7 million for fiscal year 2014.

Vice-Chairman Kwasman, sponsor, explained that HB2174 allows individuals the same opportunity that the Obama administration has given to businesses: the ability to deduct if a fine is imposed on the 2014 income taxes as an itemized expense. This bill expires in one year and is in response to the problems associated with the healthcare.gov website.

Mr. Olson said that the self-employed are able to deduct the expense on taxes paid in the current year and asked what the current treatment of premiums that are paid for health insurance are; staff will provide that information.

Chairman Lesko assumed the chair.

Sean Laux, Chief Legislative Liaison and Public Information Officer, Arizona Department of Revenue (DOR), stated that DOR is neutral on HB2174. He responded to Mr. Kwasman and Mr. Olson's questions related to deducting insurance premiums and medical expenses on the federal and state income tax.

Mr. Mesnard stated that the federal government has delayed the employer mandate until 2016.

Chairman Lesko announced the names of those who signed up as neutral on HB2174 but did not speak:

Leonard Clark, representing self

Chairman Lesko announced the names of those who signed up in support of HB2174 but did not speak:

Bill Fathauer, Americans for Prosperity Arizona

Walter Dudley, representing self

Dave Kopp, Americans for Prosperity Arizona

Chairman Lesko announced the names of those who signed up in opposition to HB2174 but did not speak:

Pat VanMaanen, representing self

Vice-Chairman Kwasman moved that HB2174 do pass. The motion failed by a roll call vote of 4-4-0-0 (Attachment 2).

HB2283 – TPT; postmark; filing by mail – HELD

Chairman Lesko announced that HB2283 will be held.

HB2281 – leased religious property; class nine – DO PASS

Vice-Chairman Kwasman moved that HB2281 do pass.

Jeanine Jones, Majority Research Analyst, explained that HB2281 reclassifies property leased to a religious assembly or institution as class 9 and exempts such property from taxation if owned by an educational, religious, or charitable organization (Attachment 3).

Chairman Lesko, sponsor, stated that HB2281 gives churches that rent facilities a similar property tax savings as other churches that own a facility.

Josh Kredit, Legal Counsel, Center for Arizona Policy, spoke in support of HB2281 and read a provision relating to property tax in the Arizona Constitution. He stated that in 2009, a law was passed which exempted charter schools that rented property from paying property taxes as all

other public schools were exempt. HB2281 is the mirror the approach taken by the charter schools. He cited three provisions in the bill:

1. If only a portion is used by the church or organization, then only that portion being leased can be classified as class 9.
2. An annual affidavit must be provided to the county assessor in order to receive the reclassification.
3. An additional affidavit must be provided, by the property owner to the county assessor, stating that the church is the sole beneficiary of the change in the property tax classification and the lease rate being charged is consistent with the lease rates charged to other tenants or is at fair market rate.

Tory Anderson, Secular Coalition for Arizona, spoke in opposition to HB2281. She stated that the Coalition is a statewide organization representing broad diverse secular communities that supports equal rights and freedoms for all Arizonans and Arizona taxpayers, including those unique groups that are not churches. She explained that HB2281 crosses the line between separation of church and state and the tax exemption for *religious worship only*, is biased toward religious privilege and is unconstitutional. Tax exemption should be eliminated from the Arizona tax code, not expanded.

Mr. Mesnard queried if the Coalition is in favor of not having any tax exemptions for anything regarding religion and would be more equal if nonprofits were included. Ms. Anderson replied that the tax code should be applied fairly and the bill promotes religious worship to a tax exempt purpose. Also, the bill does apply to charitable and educational purposes, but not for any other purpose than religious.

Ryan Nunez, Pastor, Palm Valley Community Church, representing self, spoke in support of HB2281 and explained that the church has out grown its building capacity and now they lease. He explained that the property taxes are passed on as part of their bill and that money would be beneficial to put back into the church.

Discussion ensued as to the definition of religious institution and assembly, who is able to lease and claim the reclassification status.

Stephen Wyatt, Lead Pastor, Crossroads Church, representing self, spoke in support of HB2281 and stated they too started out small and have grown. They are currently leasing an 18,000 square foot building and stated that it puts them at a disadvantage with other churches that can afford their own building.

Mr. Wheeler stated that he would like a fiscal note and staff stated that Joint Legislative Budget Committee is working on one but that information is not currently available. Discussion continued on the impact to the state general fund, construction costs, property tax rates and classifications.

Michael Combrink, Legislative Liaison, Maricopa County Assessor's Office, spoke as neutral on HB2281 and answered Mr. Cardenas' question about property tax.

Discussion ensued on the difference of property and rental tax, how reclassification affects both tax amounts, and the loss of revenues from the rental tax which could affect the city's ability to clean up abandoned property.

Chairman Lesko announced the names of those who signed up as neutral on HB2281 but did not speak:

Trey Williams, representing self

Leonard Clark, representing self

Question was called on the motion that HB2281 do pass. The motion carried by a roll call vote of 4-3-0-1 (Attachment 4).

HB2289 – telecommunications; broadband infrastructure; accelerated depreciation – DO PASS AMENDED

Vice-Chairman Kwasman moved that HB2289 do pass.

Chairman Lesko moved that the Lesko two-line amendment dated 02/04/14 to HB2289 be adopted (Attachment 5).

Chairman Lesko made a motion on the Lesko four-line amendment dated 02/04/14 to HB2283 be adopted but the motion was withdrawn due to being read into the wrong bill.

Jeanine Jones, Majority Research Analyst, explained that HB2289 establishes an accelerated depreciation schedule for centrally assessed telecommunication company property that meets the definition of qualifying broadband infrastructure (Attachment 6). The Lesko two-line amendment dated 02/04/14 (Attachment 5) clarifies that qualifying broadband infrastructure includes telecommunications equipment.

Chairman Lesko withdrew the motion that the Lesko two-line amendment dated 02/04/14 to HB2289 be adopted (Attachment 5).

Chairman Lesko, sponsor, stated that HB2289 is an equity issue. Companies like CenturyLink and Cox, have their phone, internet, and cable phone centrally assessed so they do not qualify for accelerated depreciation. Other companies that have similar services do qualify if they are locally assessed so this will bring the companies more in line with each other.

Michael DiMaria, Director of Legislative Affairs, CenturyLink, spoke in support of HB2289 and reiterated what Chairman Lesko stated, that centrally assessed telecommunication companies have not been allowed to accept accelerated depreciation and/or modifications. He stated that in a jobs bill that passed in 2011, there was additional help for accelerated depreciation which was only available to locally-assessed telecommunication companies. When delivery of the same services from different companies is available, the same tax treatment should be applied.

Chairman Lesko announced the names of those who signed up as neutral on HB2289 but did not speak:

Sean Laux, Chief Legislative Liaison and Public Information Officer, Arizona Department of Revenue

Leonard Clark, representing self
Michael Combrink, Maricopa County Assessor's Office

Vice-Chairman Kwasman announced the names of those who signed up in support of HB2289 but did not speak:

Chad Heinrich, Greater Phoenix Chamber of Commerce
Dean Miller, TW Telecom of Arizona, LLC.
Joseph Abate, AT&T Inc.
Garrick Taylor, Arizona Chamber of Commerce and Industry
Barbara Meaney, Verizon
Don Isaacson, Sprint
Rebecca Hudson, Southwest Gas Corporation
Marcus Dell'Artino, CenturyLink, Inc.
Eric Emmert, East Valley Chamber of Commerce Alliance
Jerry Fuentes, AT&T Inc.
Kevin McCarthy, Arizona Tax Research Association

Question was called on the motion that the Lesko two-line amendment to HB2289 dated 02/04/14 (Attachment 5) be adopted. The motion carried.

Vice-Chairman Kwasman moved that HB2289 as amended do pass. The motion carried by a roll call vote of 6-0-0-2 (Attachment 7).

**HB2285 – technical correction; mining classification – DO PASS AMENDED S/E
S/E: TPT, refined coal transfer; exemption**

Vice-Chairman Kwasman moved that HB2285 do pass.

Chairman Lesko moved that the Lesko 53-page strike-everything amendment to HB2285 dated 02/06/14 (Attachment 8) be adopted.

Michael Madden, Majority Research Assistant Analyst, explained that the proposed 53-page strike-everything amendment to HB2285 exempts from state, county, city, town, and special district Transaction Privilege Tax, the transfer of title or possession of coal, back and forth, between a coal refinery and power plant (Attachment 9).

Gretchen Kitchel, Salt River Project (SRP), spoke in favor of HB2285 and explained that this bill allows SRP to pursue refining coal measures in the Navajo Generating Plant. There is a glitch in the law in Arizona: if coal is purchased and not used it immediately, sales tax is charged twice.

Chairman Lesko announced the names of those who signed up as neutral on the strike-everything amendment to HB2285 but did not speak:

Sean Laux, Chief Legislative Liaison and Public Information Officer, Arizona Department of Revenue
Leonard Clark, representing self

Vice-Chairman Kwasman announced the names of those who signed up in support of the strike-everything amendment to HB2285 but did not speak:

Martin Shultz, Brownstein Hyatt Farber Schreck
Chad Guzman, Arizona Public Service Company

Question was called on the motion that the Lesko 53-page strike-everything amendment to HB2285 dated 02/06/14 (Attachment 8) be adopted. The motion carried.

Vice-Chairman Kwasman moved that HB2285 as amended do pass. The motion carried by a roll call vote of 6-0-0-2 (Attachment 10).

HB2291 – empowerment scholarships accounts; expansion – DO PASS

Vice-Chairman Kwasman moved that HB2291 do pass.

Chairman Lesko, sponsor, stated that empowerment scholarships accounts are another good option for parents and students that saves the state General Fund money.

Michael Madden, Majority Assistant Analyst, stated that HB2291 expands the definition of qualifying student under the Empowerment Scholarship Accounts Program (Attachment 11).

Anita Belcher, representing self, spoke in favor of HB2291 and stated she has four children. Her seven-year-old son, who has autism, is using this scholarship fund and is improving in reading and math. Every child has a special way of learning and she would like other families to have the opportunity to have this support for their children.

Mr. Mesnard thanked Ms. Belcher for speaking to the Committee.

Chairman Lesko announced the names of those who signed up as neutral on HB2291 but did not speak:

Leonard Clark, representing self

Vice-Chairman Kwasman announced the names of those who signed up in support of HB2291 but did not speak:

Ron Johnson, Arizona Catholic Conference

Sydney Hay, American Federation for Children; Every Child Can Learn, Inc.

Jonathan Butcher, representing self

Harry Miller, representing self

Dave Kopp, Americans for Prosperity Arizona

Richard Mihalik, representing self

Susan Mihalik, representing self

Scot Mussi, Arizona Free Enterprise Club

Joyce Hill, representing self

Antoinette Lane, representing self

Josh Kredit, Center for Arizona Policy

Julie Batt, representing self

Grant Batt, representing self

Bill Fathauer, Americans for Prosperity Arizona
Emily DaVault, representing self

Vice-Chairman Kwasman announced the names of those who signed up in opposition to HB2291 but did not speak:

Sabrina Vazquez, Arizona School Administrators Association
Leeann Wieser, Arizona Federation of Teachers Union
Janice Palmer, Arizona School Boards Association
Mark Lane, representing self
Jennifer Loreda, Arizona Education Association

Question was called on the motion that HB2291 do pass. The motion carried by a roll call vote of 5-2-0-1 (Attachment 12).

Without objection, the meeting adjourned at 3:56 p.m.

Tracey Gardner, Committee Secretary
April 8, 2014

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