

ARIZONA HOUSE OF REPRESENTATIVES
Fifty-second Legislature – First Regular Session

COMMITTEE ON APPROPRIATIONS

Report of Regular Meeting
Wednesday, February 18, 2015
House Hearing Room 1 -- 2:00 p.m.

Convened 2:50 p.m.

Recessed

Reconvened

Adjourned 7:06 p.m.

Members Present

Mr. Allen J
Mr. Bowers
Mr. Clark
Mr. Gray
Ms. Mach
Mr. Meyer
Mr. Petersen
Mr. Sherwood
Mr. Stevens
Mrs. Ugenti
Mr. Leach, Vice-Chairman
Mr. Olson, Chairman

Members Absent

Mr. Cardenas
Mr. Rivero

Request to Speak

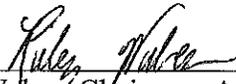
Report – Attachment 1

Presentations

<u>Name</u>	<u>Organization</u>	<u>Attachments (Handouts)</u>
Universities	Joint Legislative Budget Committee	2, 3, 4, 5, 6, 7, 8,
Debt and Lease-Purchase Financing	Joint Legislative Budget Committee	

Committee Action

<u>Bill</u>	<u>Action</u>	<u>Vote</u>	<u>Attachments (Summaries, Amendments, Roll Call)</u>
HB2083	DPA	7-3-0-4	9, 10, 11
HB2568	DP	8-3-0-3	12, 13
HB2610	DPA	5-3-1-5	14, 15, 16
HB2617	DPA	7-3-0-4	17, 18, 19
HB2670	DPA	10-2-0-2	20, 21, 22


Riley Weber, Chairman Assistant
February 18, 2015

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

Information Registered on the Request to Speak System

House Appropriations (2/18/2015)

HB2568, insurance premium tax reduction

Testified in support:

J. Michael Low, Attorney, Prudential & American Council Of Life Insurers

Support:

Stuart Goodman, CSAA Insurance Group; Cheyenne Walsh, STATE FARM INSURANCE COMPANIES; David Childers, FARMERS INSURANCE GROUP OF COMPANIES, PROPERTY CASUALTY INSURERS ASSOC OF AMERICA; Don Isaacson, Prudential & American Council Of Life Insurers, STATE FARM INSURANCE COMPANIES; Mike Huckins, GREATER PHOENIX CHAMBER OF COMMERCE; Tom Dorn, American Insurance Association, East Valley Chambers Of Commerce Alliance ; Garrick Taylor, Arizona Chamber Of Commerce And Industry; Ellen Poole, Executive Director, SW Region Govt Relations, U.S.A.A.; Kerry L. Hayden, FARMERS INSURANCE GROUP OF COMPANIES; Amanda Rusing, American Insurance Association; Eric Emmert, East Valley Chambers Of Commerce Alliance

Neutral:

Steven Zylstra, representing self; Andrew Carlson, Executive Assistant for Policy Affairs, AZ DEPT OF INSURANCE

All Comments:

Steven Zylstra, Self: The Arizona Technology Council is neutral on HB2568.

HB2617, regulatory relief tax credit

Support:

Farrell Quinlan, State Director, NATIONAL FEDERATION OF INDEPENDENT BUSINESS; Spencer Kamps, HOME BUILDERS ASSOCIATION OF CENTRAL AZ; Scot Mussi, Arizona Free Enterprise Club

Neutral:

Steven Zylstra, representing self

HB2083, income tax revisions

Support:

Karen Mackean, representing self; Jim Foust, representing self; Jeff Sandquist, NAIOP; Tom Holding, representing self; Susan Hicks, representing self; Ann Heins, representing self; Christine Maceri Genge, representing self; Joyce Hill, representing self; Dennis Genge, representing self; Richard Hofelich, representing self; Sandi Bartlett, representing self; Patrick OMalley, representing self; Gene Dufoe, representing self; Scot Mussi, Arizona Free Enterprise Club; Tyler DiGrazia, representing self; Leslie White, representing self; Jered Skousen, representing self; Krystal Slivinski, AMERICANS FOR PROSPERITY AZ; Farrell Quinlan, State Director, NATIONAL FEDERATION OF

INDEPENDENT BUSINESS; Tom Dorn, East Valley Chambers Of Commerce Alliance ; Garrick Taylor, Arizona Chamber Of Commerce And Industry; Tom Jenney, AMERICANS FOR PROSPERITY AZ; Lynne Weaver, representing self; James Norton, Arizona Manufacturers Council; Eric Emmert, East Valley Chambers Of Commerce Alliance ; Jeff Gray, AZ CHAMBER OF COMMERCE

Neutral:

Sean Laux, AZ DEPT OF REVENUE

All Comments:

James Norton, Arizona Manufacturers Council: Also representing the Arizona Chamber of Commerce & Industry

HB2670, international operations centers

Support:

Tom Dorn, Arizona Association For Economic Development , East Valley Chambers Of Commerce Alliance ; Rob Dalager, GREATER PHOENIX ECONOMIC COUNCIL; Ed Sanchez, Arizona Commerce Authority; Eric Emmert, Arizona Association For Economic Development ; Amanda Rusing, East Valley Chambers Of Commerce Alliance

Neutral:

Sean Laux, AZ DEPT OF REVENUE

HB2610, community college collegiate special plates

Support:

Kevin DeMenna, MARICOPA COUNTY COMMUNITY COLLEGE DIST; Justin Marino, MARICOPA COUNTY COMMUNITY COLLEGE DIST

All Comments:

Kevin DeMenna, MARICOPA COUNTY COMMUNITY COLLEGE DIST: We would like to thank Representative Olson for sponsoring and hearing HB 2610. We look forward to working with him on a few technical/operational concerns with the underlying bill and proposed committee amendment.

Universities
February 17 - 18, 2015
Appropriations Committee Hearings

JLBC

Arizona University System

- Total FY 2016 Baseline Funding

	<u>\$ in M</u>
General Fund	\$765.9
TRIF Fund	3.6
Appropriated Tuition	1,065.2
<u>Non-Appropriated Funds</u>	
Non-Appropriated Tuition	837.3
Designated Fund	471.1
Federal Grants	724.7
Auxiliary Fund (dorms, bookstore, union, athletics)	361.8
Restricted Fund	417.2
Other Non-Appropriated Funds	<u>293.6</u>
Total Resources	\$4,940.4



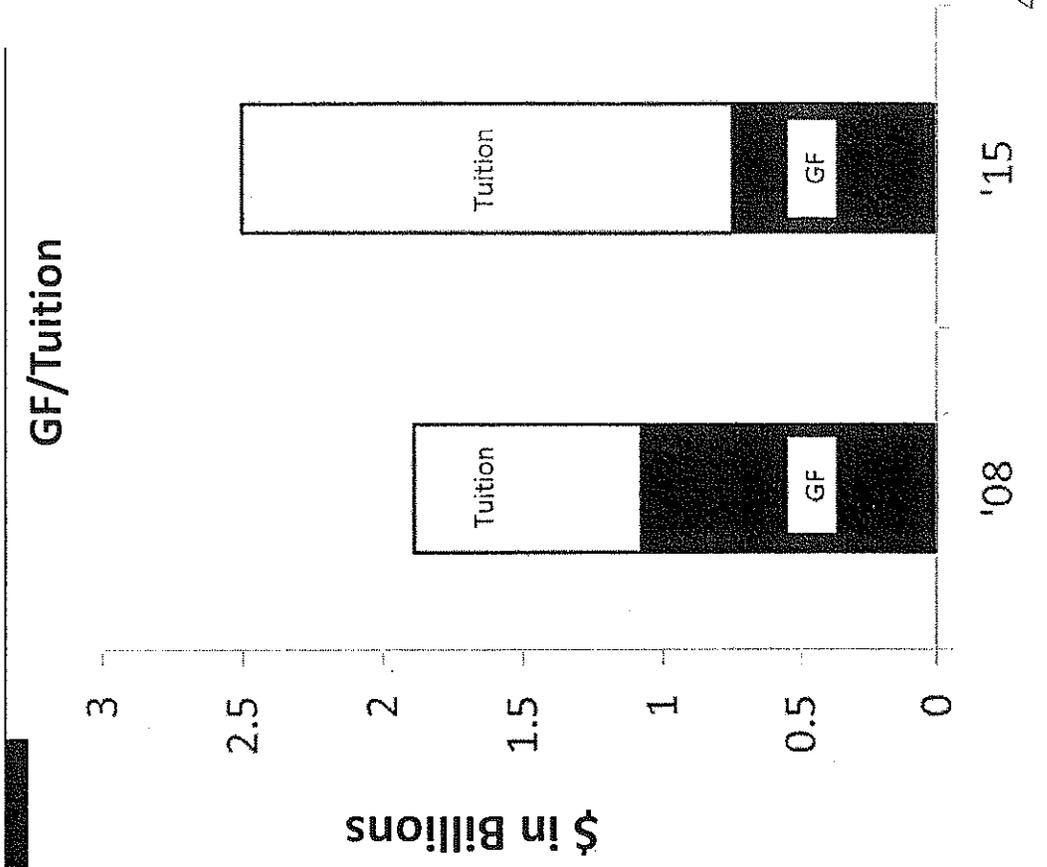
Arizona University System

- FY 2008 and FY 2016 Total Funds

	<u>FY 2008</u>	<u>FY 2016</u>
General Fund	\$1,121.1	\$765.9
Tuition (Appropriated & Non-Appropriated)	817.0	1,902.4
All Other Funds	<u>1,462.8</u>	<u>2,272.1</u>
TOTAL	\$3,400.9	\$4,940.4

University GF Reduction Since '08 Offset by Tuition Increases

- ☐ Avg '08-'15 tuition grew from \$4.9 K to \$10.3 K
- ☐ Total tuition increased from \$817 M to \$1.9 B
- ☐ Total GF + Tuition grew from \$1.9 B to \$2.5 B
- ☐ '08-'15 GF/Tuition per student \$ grew from \$17.2 K to \$17.9 K



Arizona University System

- Executive Budget – Lump Sum Reduction

□ The Executive Budget would reduce university funding by \$(75) M from the General Fund in FY 2016

\$ in M

<u>University</u>	<u>Baseline</u>	<u>Reduction</u>	<u>Percentage</u>
ABOR	\$ 21.9	\$ 0	0%
ASU - Tempe/DPC	287.6	(34.2)	(11.9)%
ASU - East	25.9	(2.7)	(10.5)%
ASU - West	33.3	(3.4)	(10.1)%
NAU	118.3	(13.1)	(11.1)%
UA - Main	209.3	(21.2)	(10.1)%
UA - HSC	<u>69.6</u>	<u>(0.4)</u>	<u>(0.5)%</u>
Total	\$765.9	\$(75.0)	(9.8)%

Arizona University System

- University of Arizona Health Sciences Campus

- The Baseline for the Health Sciences Campus (HSC) is:
 - \$69.6 M from the General Fund
 - \$47.1 M from tuition revenue

- The amounts for the HSC only fund medical education

- University Medical Center (UMC) clinical costs are not a state responsibility
 - Financed through the non-profit University of Arizona Health Network (UAHN)

Arizona University System

- Update on UAHN-Banner Merger

- Banner merges with UMC and UAHN
- UA receives additional \$21 million for land
- Banner funds \$300 million endowment: \$20 million per year for academic enhancements at Phoenix and Tucson campuses
- Banner funds \$500 million for capital improvements of clinical facilities
- Additional financial support for clinical enterprises
- UMC to remain a faculty-based academic center
- Removes state risk management liability

Arizona Board of Regents

- Website Links

JLBC Baseline

[ABOR](#)

[ASU - Tempe/DPC](#)

[ASU - East Campus](#)

[ASU - West](#)

[NAU](#)

[U of A - Main](#)

[U of A HSC](#)

Executive Budget

[ABOR](#)

[ASU - Tempe/DPC](#)

[ASU - East Campus](#)

[ASU - West](#)

[NAU](#)

[U of A - Main](#)

[U of A HSC](#)

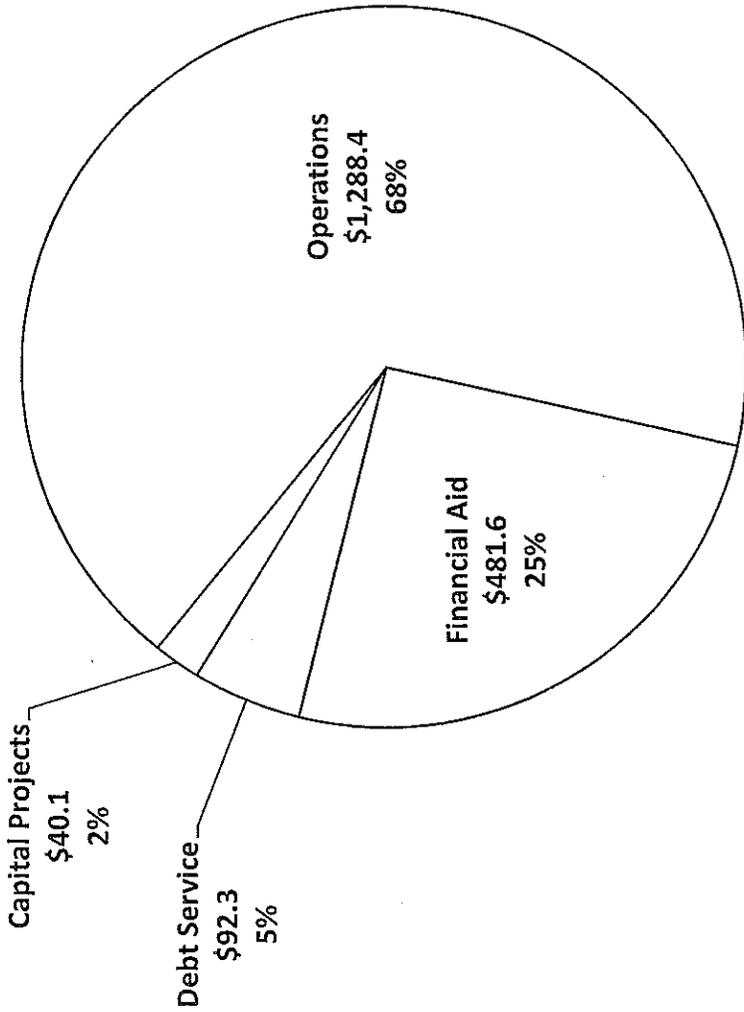


Appendix

Arizona University System

- Total FY '15 Tuition Estimated to be \$1.9 B

\$ in Millions

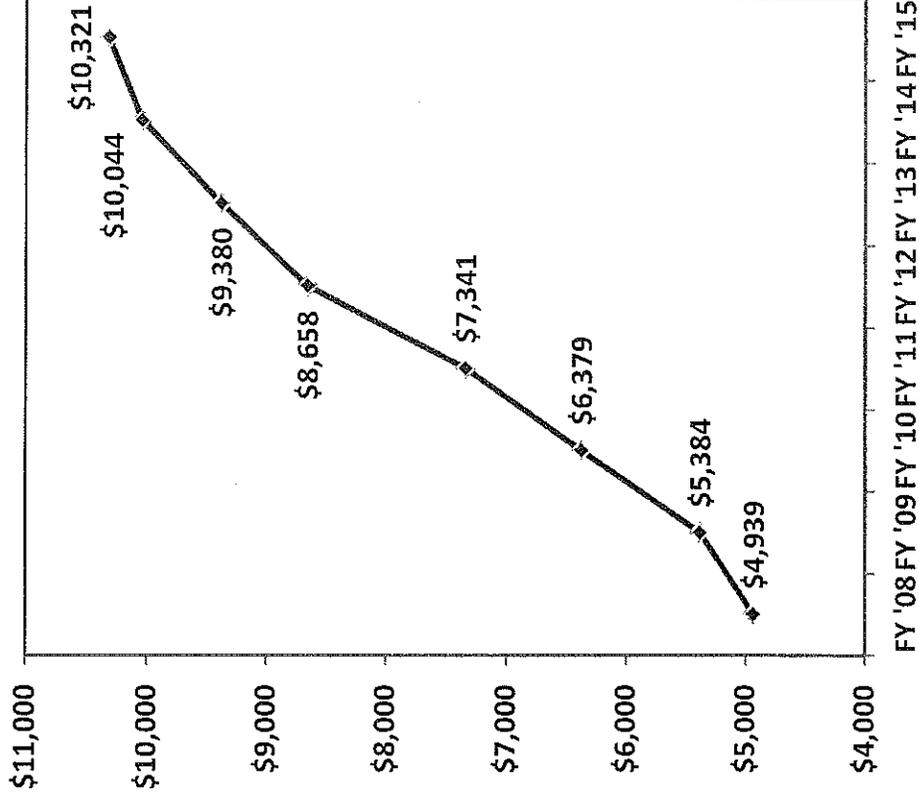


- \$1,065.2 M of tuition collections is appropriated
- \$837.3 M of tuition collections is non-appropriated

Arizona University System

- Resident Undergraduate Tuition and Fees

- 11.24% average annual increase since FY '08
- Continuing resident undergraduate students
 - NAU and UA provide a guaranteed tuition rate for each incoming class
 - ASU annual tuition growth is limited to 3% through FY 2024



Arizona University System

- Undergraduate Tuition and Fee Rates

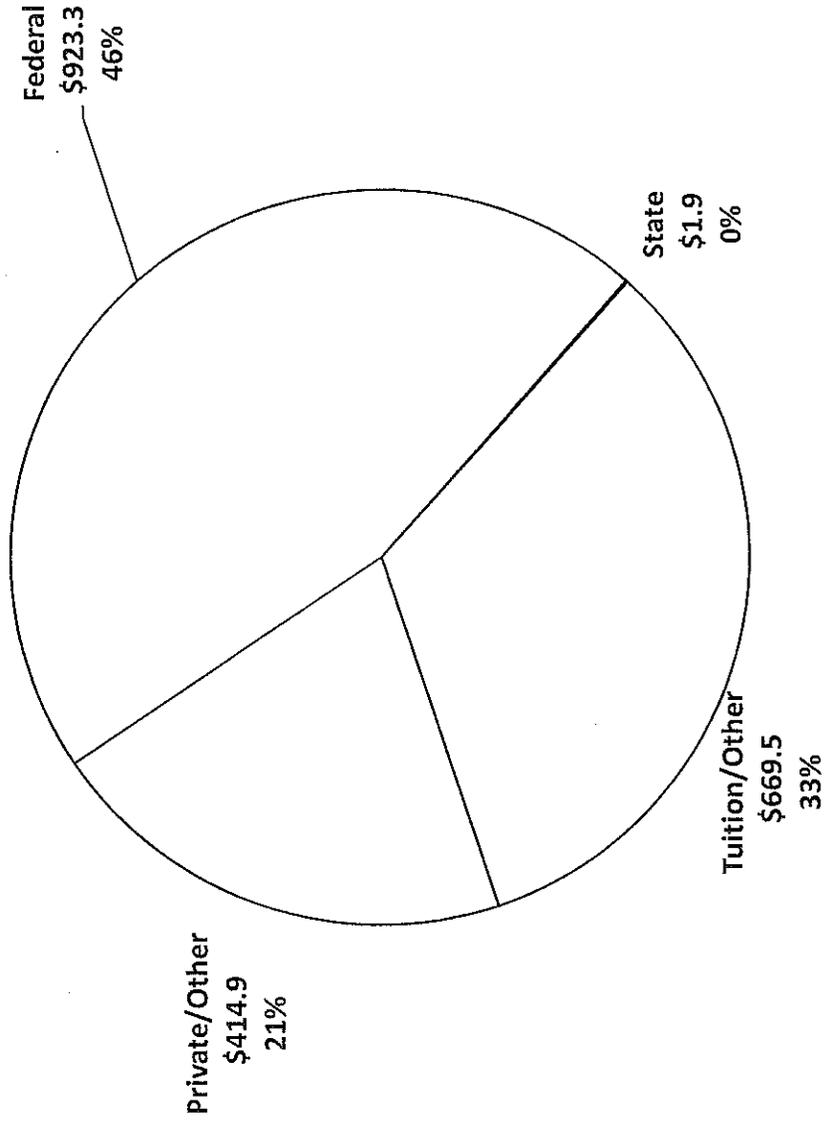
	<u>Resident Undergraduate</u>		<u>Non-Resident Undergraduate</u>	
	FY 15	Annual Increase	FY 15	Annual Increase
ASU	\$10,157	1.5%	\$24,503	3.6%
NAU	\$9,989	2.6%	\$22,509	1.9%
UofA	\$10,957	5.4%	\$29,421	8.7%

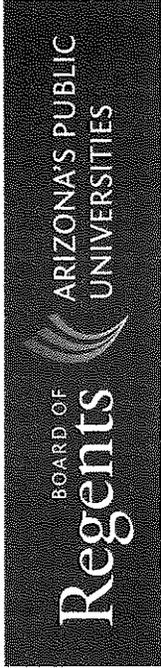
1/ Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class, while ASU annual undergraduate tuition growth is limited to 3% through FY 2024.

Arizona University System

- FY '14 Distributed Financial Aid was \$2.0 B

\$ in Millions





EDUCATE • DISCOVER • IMPACT

Arizona House Appropriations Committee Hearing

Presenter: Eileen Klein

President

Date: February 18, 2015



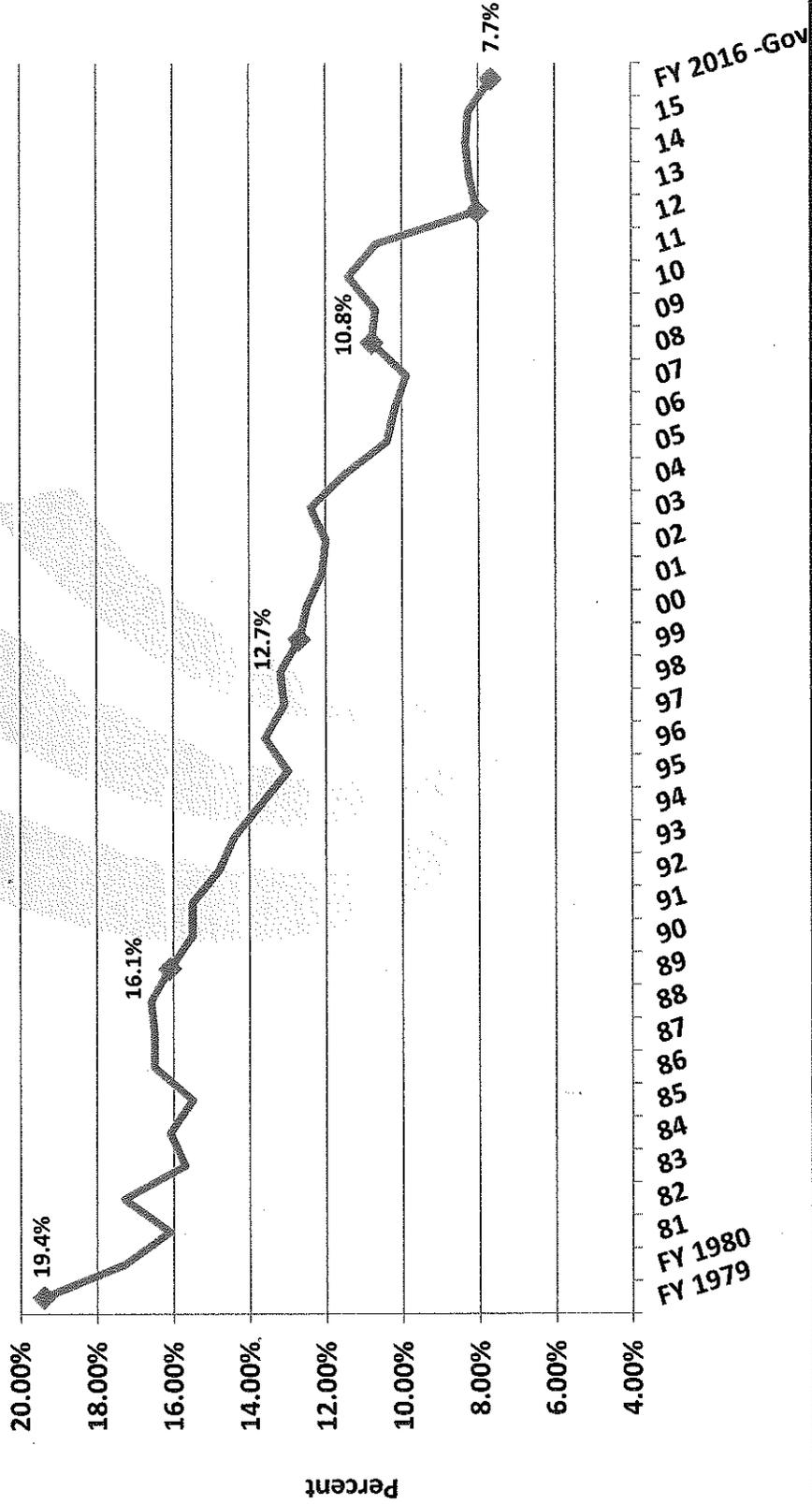
Arizona Universities' Impact

- Provide the educated and trained workforce for companies to hire
- Long-term economic success and competitiveness tied to ability to educate workforce
- 2/3 of jobs will require post-secondary education by 2018
- Focused on outcomes at all levels of university business



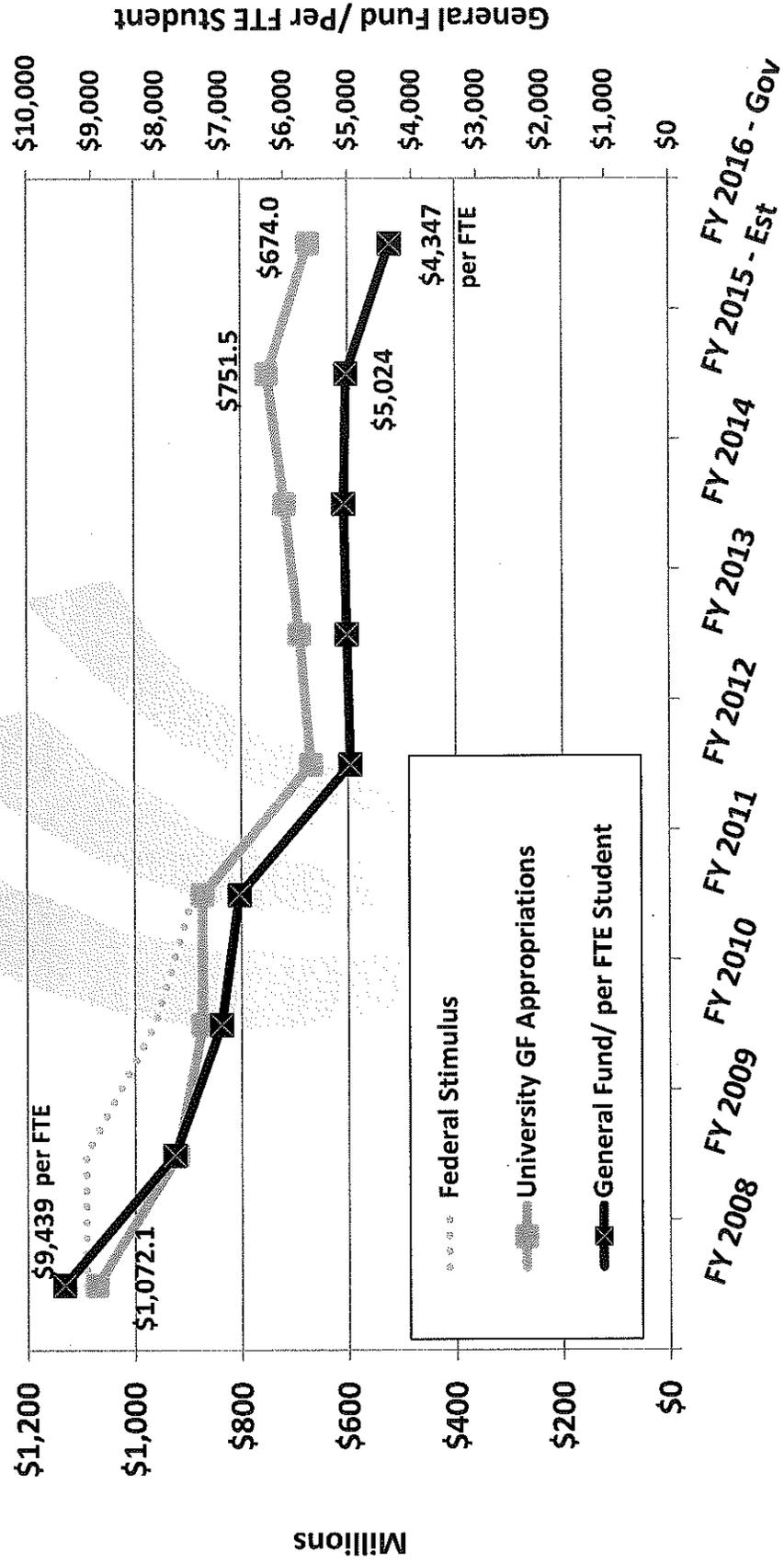
EDUCATE · DISCOVER · IMPACT

State Disinvestment in Public Universities: Appropriations for Universities as Percentage of Total State Budget



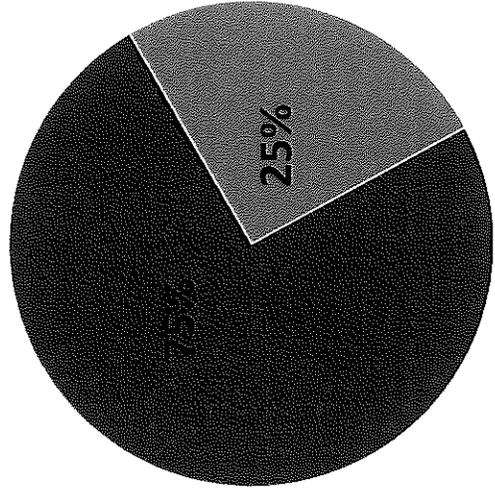


State Disinvestment in Public Universities: FY08-16

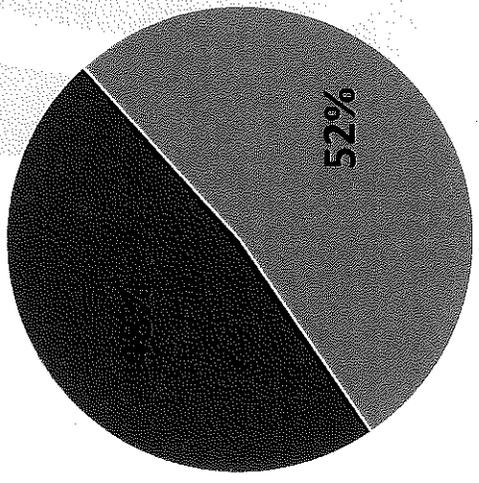


University Operating Revenue

FY15 Est



FY08



-  Gross Tuition & Fee Revenues
-  General Fund Appropriation

Note: General Fund Appropriations do not include ABOR



Impact of Budget Cuts – FY08-12

- \$407 million state general fund reduction
- 23,000 new students
- Reduced workforce by 2,100 positions
- Merged, consolidated or disestablished 182 colleges, schools, programs
- Closed four extended campus sites
- Tuition doubled
- \$200 million in base funding owed via rollover

2015 ABOR Legislative Agenda

- Cuts to the university system must be held below \$77.5 million to avoid compromising access and affordability.
- Any cuts should be given to the board in a lump sum to be allocated to the universities to preserve equity in funding among the universities.
- Triggers must be included in the budget so that the universities recoup funding as state revenues recover.
- Reductions must be coupled with regulatory relief for universities to enhance our operational flexibility and entrepreneurialism at the universities to increase efficiencies and cost savings. Now is the time to transform the university operating model and create a sustainable employee benefit structure.



FY16 State Budget

ABOR and the university presidents are united in their position on the state budget:

- Cuts to the university system must be held below \$77.5 million to avoid compromising access and affordability.
- Any cuts should be given to the board in a lump sum to be allocated to the universities to preserve equity in funding among the universities.
- Triggers must be included in the budget so that the universities recoup funding as state revenues recover.
- Reductions must be coupled with regulatory relief for universities to enhance our operational flexibility and entrepreneurialism at the universities to increase efficiencies and cost savings. Now is the time to transform the university operating model and create a sustainable employee benefit structure.

University Regulatory Reform

Introduced Legislation

HB 2364 universities; funding revisions – Sponsor: Representative Bob Thorpe

- Remove outdated references to enrollment growth formula and codify the Performance Funding Model (PFM) in state law
Integrate the PFM into the JLBC baseline budget
- Eliminate state tuition remittance process and maintain transparency by modifying reporting requirements to align with ABOR business cycle
 - *Increase efficiencies by reducing the administrative burden of paperwork, processing, and staff time associated with deposits, draws and reconciliations*
 - *Simplifies the reporting process and increases transparency as ABOR would continue to provide detailed tuition and fee revenue summaries*
 - *Protects university bonding authority & bond ratings*
- Limit JCCR review to state-funded capital projects and require review within 90 days
Reduces costly delays in state approval of capital projects; 90-day window allows universities to better plan construction and financing

REGENTS

Chair Mark Killian, *Mesa* • Jay Heiler, *Paradise Valley* • Ram Krishna, *Yuma* • LuAnn H. Leonard, *Polacca* • Rick Myers, *Tucson*
Greg Patterson, *Scottsdale* • Bill Ridenour, *Paradise Valley* • Ron Shoopman, *Tucson* • **STUDENT REGENTS:** Valerie Hanna, *UA*
Mark Naufel, *ASU* • **EX-OFFICIO:** Governor Doug Ducey • Superintendent of Public Instruction Diane Douglas

ENTERPRISE EXECUTIVE COMMITTEE

Eileen I. Klein, *Board President* • Michael M. Crow, *ASU President* • Rita Cheng, *NAU President* • Ann Weaver Hart, *UA President*

HB 2206 ABOR; statutory revisions – Sponsor: Representative Paul Boyer

- Update statutes to reflect current operating model, improve efficiencies or delete extraneous reports
Update reports and processes that are outdated or superfluous to allow universities to invest their time and dollars efficiently

HB 2484 income; licensing; patents; repeal – Sponsor: Representative T.J. Shope

- Eliminate A.R.S. § 15-1647, which requires ASU to distribute licensing and patent income derived from certain patents
This section of statute is unnecessary given that all three universities' relevant policies and procedures are controlled by the ABOR's Intellectual Property Policy
- Allow universities to keep all of the proceeds from their technology transfer operations (HB2484 Amendment)
Technology transfer success requires broad institutional commitment, deep expertise and appreciable resources

SB 1378 universities; commercial paper – Sponsor: Senator Jeff Dial

- Authorization to issue commercial paper and obtain commercial lines of credit
Arizona's universities must have access to tools of contemporary businesses, such as commercial paper, as universities are expected to behave entrepreneurially

Upcoming Legislation

- Allow universities to retain any benefit from their bond refinancing efforts
Arizona's universities wish to behave more entrepreneurial by refinancing debt without the state collecting refinance savings, shifting refinancing costs and time lost solely onto the universities
- Permit each university to develop independent benefits programs by 2017 - retirement, health and risk management
To provide total compensation programs that appeal to a high quality workforce, Arizona universities must move toward a more sustainable and cost-effective approach.

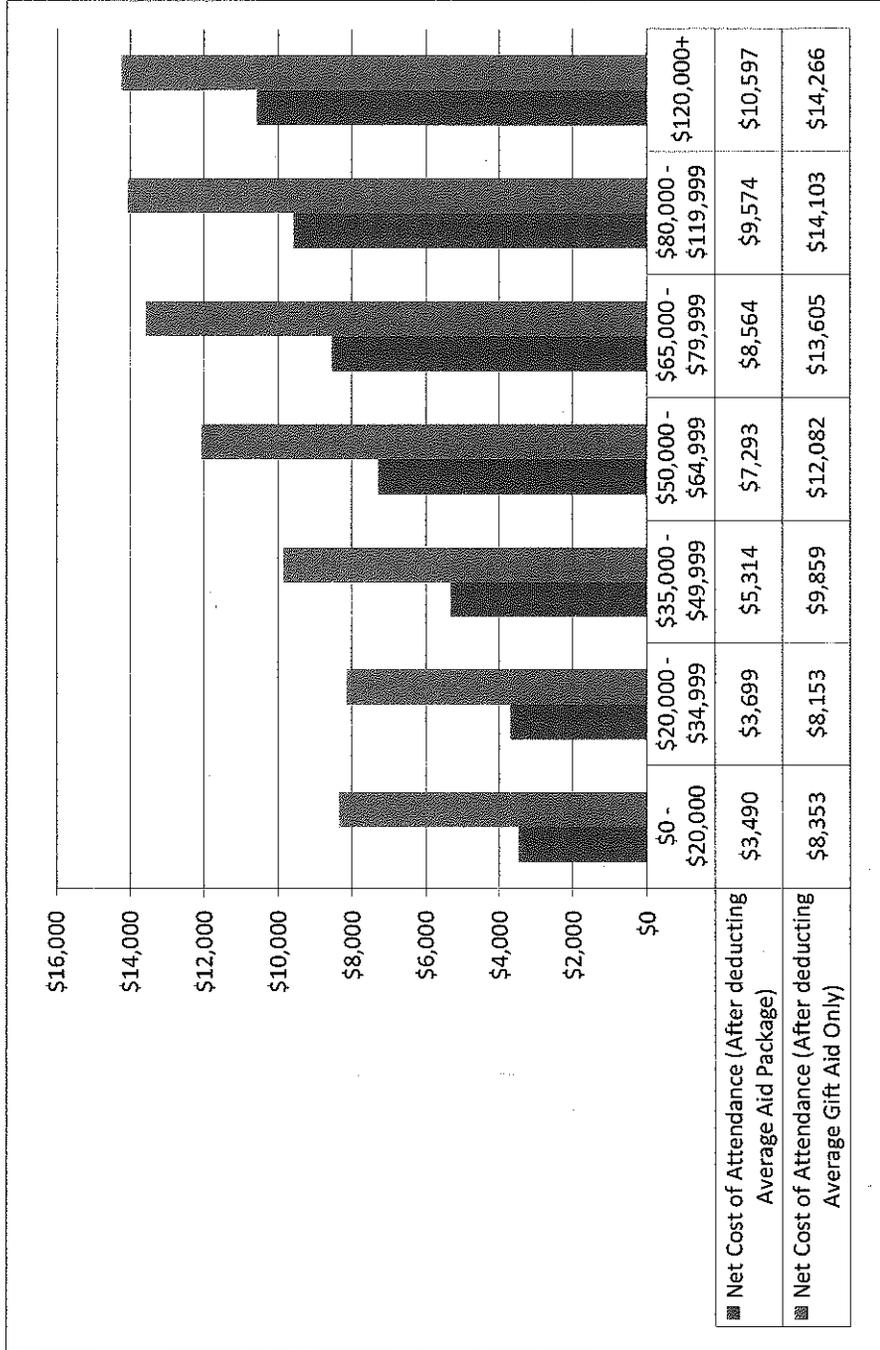
Contacts

ABOR

Katie Paquet, Vice President, Public Affairs & External Relations
602-229-2543
katie.paquet@azregents.edu

Kody Kelleher, Director, Government Affairs
602-229-2509
kody.kelleher@azregents.edu

Net Average Cost of Attendance By Income Level Arizona Resident Full-Time Undergraduate Students 2013-14

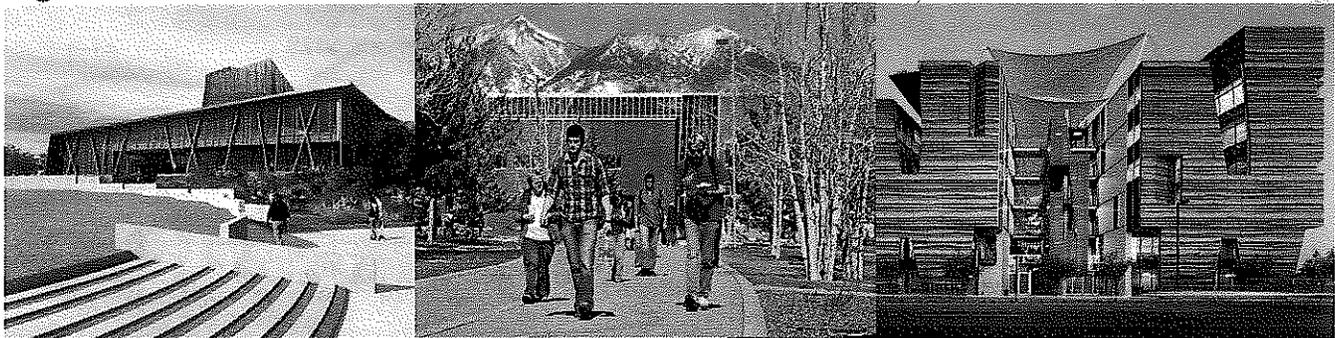


Average Aid Package: The average total financial aid a student receives. Federal and non-federal aid in the form of grants, waivers, loans, scholarships, work-study, and other government/institution-funded employment are combined into a "package" to help meet the student's need.

Average Gift Aid: Any financial aid that does not have to be earned or repaid (i.e., scholarships, grants, and waivers). The majority of private/other aid is gift aid.

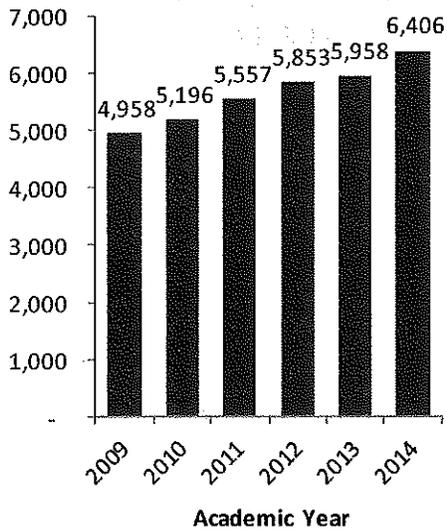


NORTHERN ARIZONA UNIVERSITY

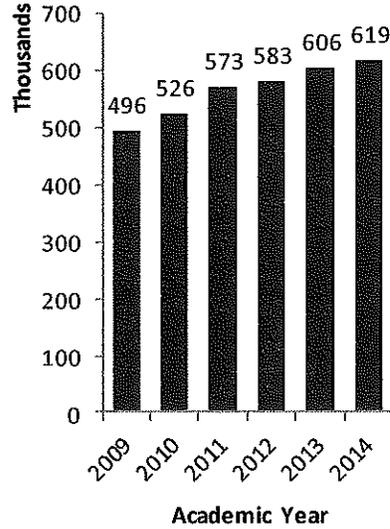


NAU's Performance on the ABOR 2020 Goals

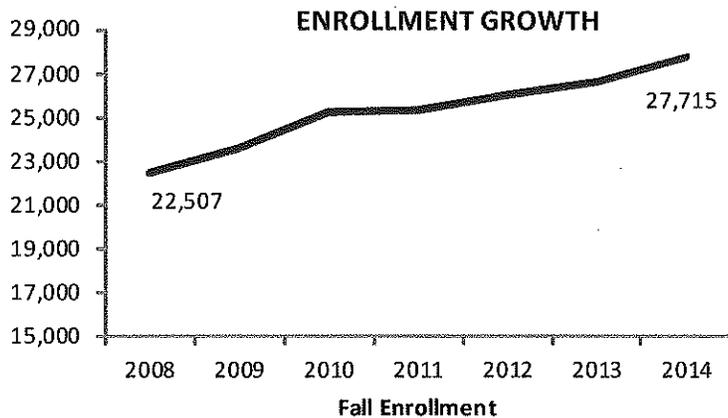
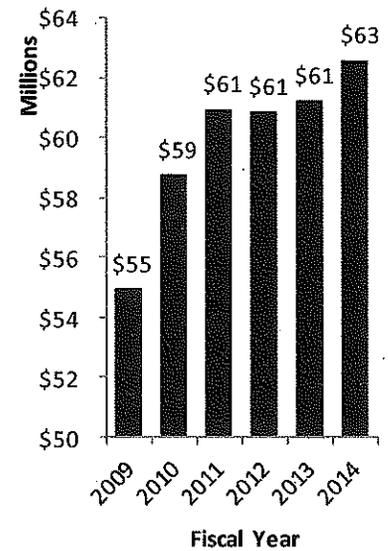
AWARDED DEGREES



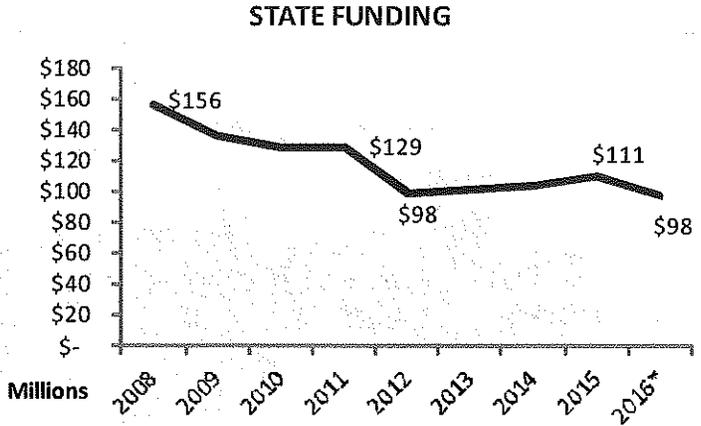
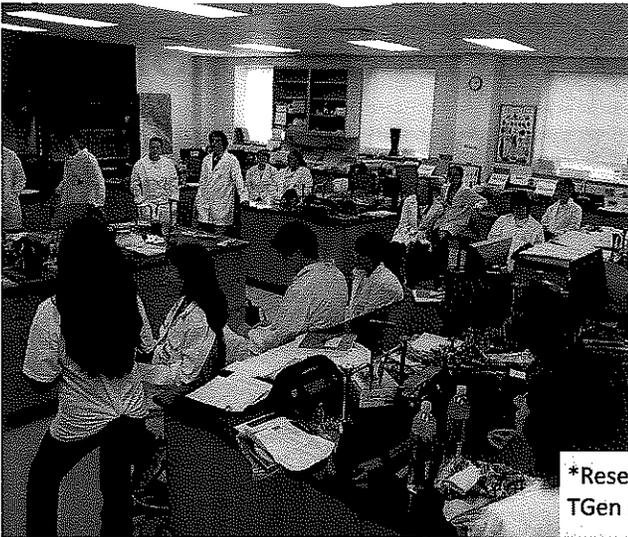
COMPLETED CREDIT HOURS



RESEARCH & PUBLIC SERVICE

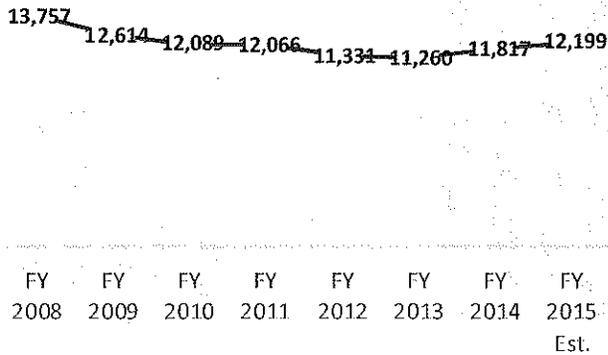


Northern Arizona University's 2020 goals set by the Arizona Board of Regents were unimaginable when Northern Arizona Normal School was born in Flagstaff with one building, 23 students and one professor. Yet 116 years and a few name changes later, NAU has grown into a major research institution with world-class programs in education, forestry, the arts and in STEM fields. Clearly, Northern Arizona University is just getting started.

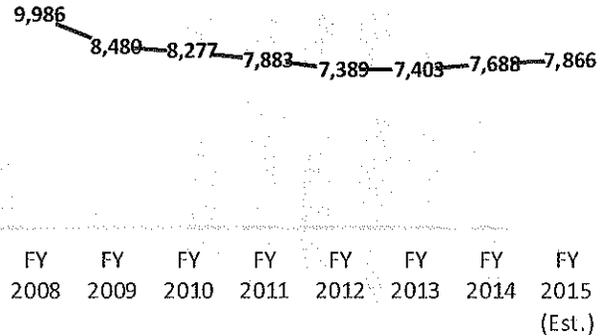


*Research infrastructure debt service is excluded from each year as is the TGen line item in FYs 15 & 16. The FY 16 estimate factors in a \$13 million cut.

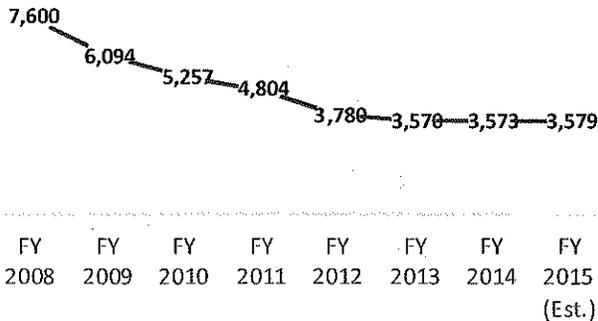
GENERAL FUND AND NET TUITION PER FTE



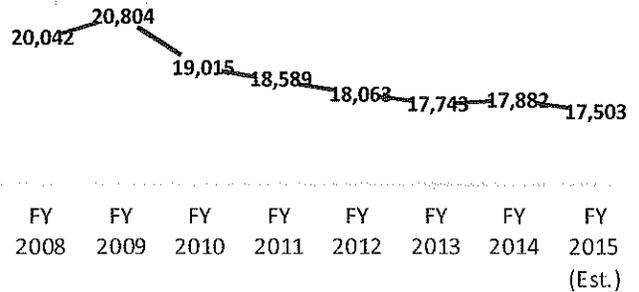
INFLATION ADJUSTED APPROPRIATED FUNDS PER FTE



INFLATION ADJUSTED GENERAL FUND PER FTE



INFLATION ADJUSTED TOTAL FUNDS PER FTE

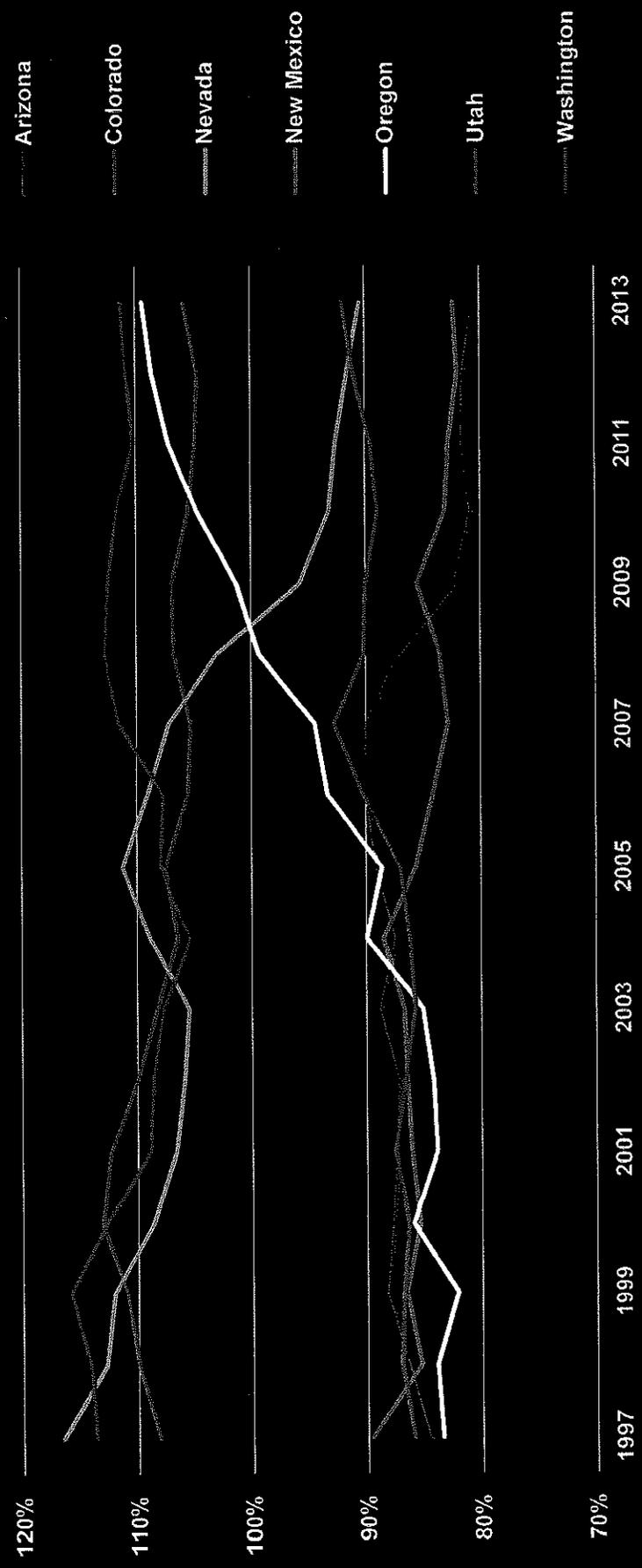


As these charts clearly demonstrate, Northern Arizona University is operating more efficiently and successfully at a lower per-student cost than in 2008.

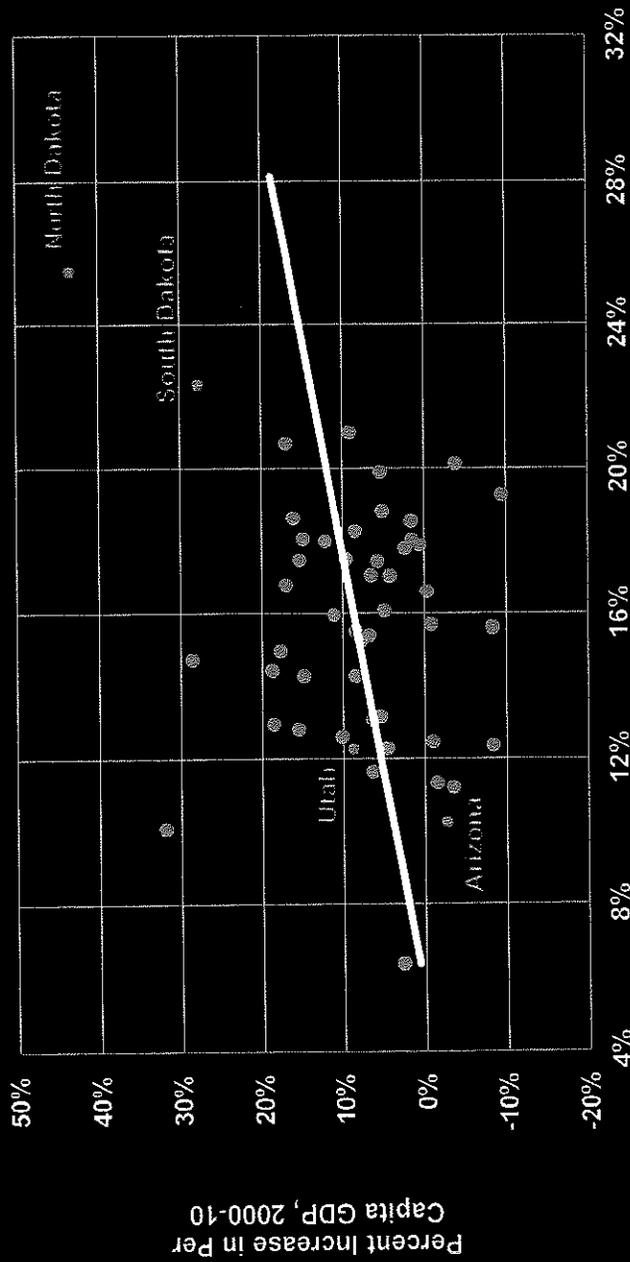
Value to the Economy: Macro-Level Evidence

ASU

Per Capita GDP Relative to US Average



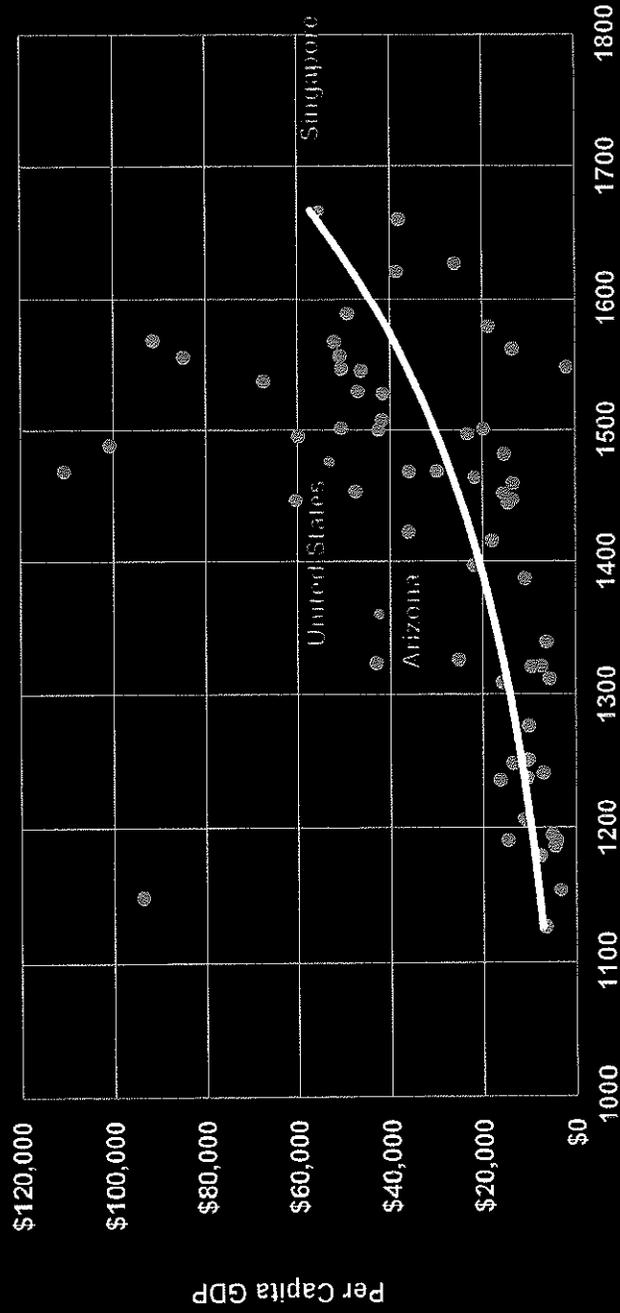
Relationship between Change in Educational Attainment and Economic Development in US States, 2000-2010



Change in Percent of 25 Year or Older Having Attained a Bachelors Degree or Higher, 2000-10

Data Sources: US Census Bureau

Education and Economic Growth in OECD Countries



Sum of PISA Math, Reading and Science Scores

Data Sources: OECD, PISA 2012



The University of Arizona

House Appropriations Committee

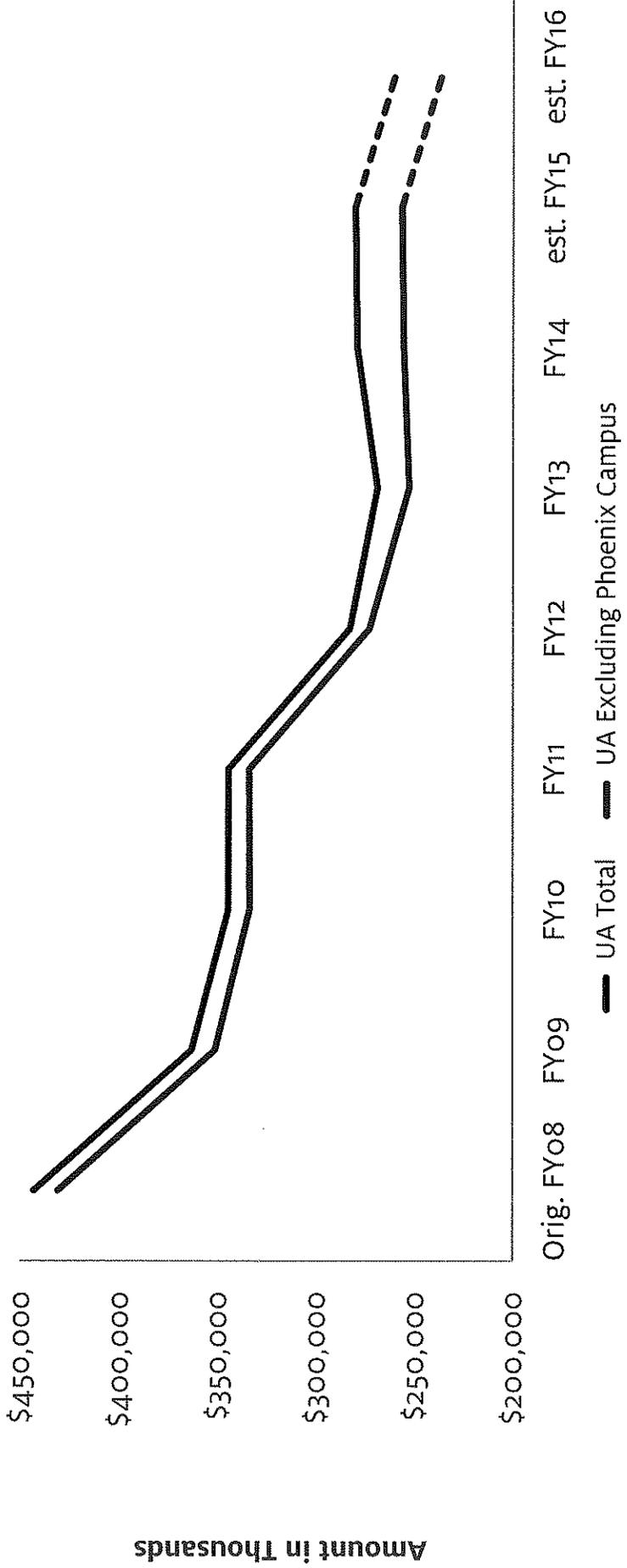
February 18, 2015



UA FUNDING HISTORY

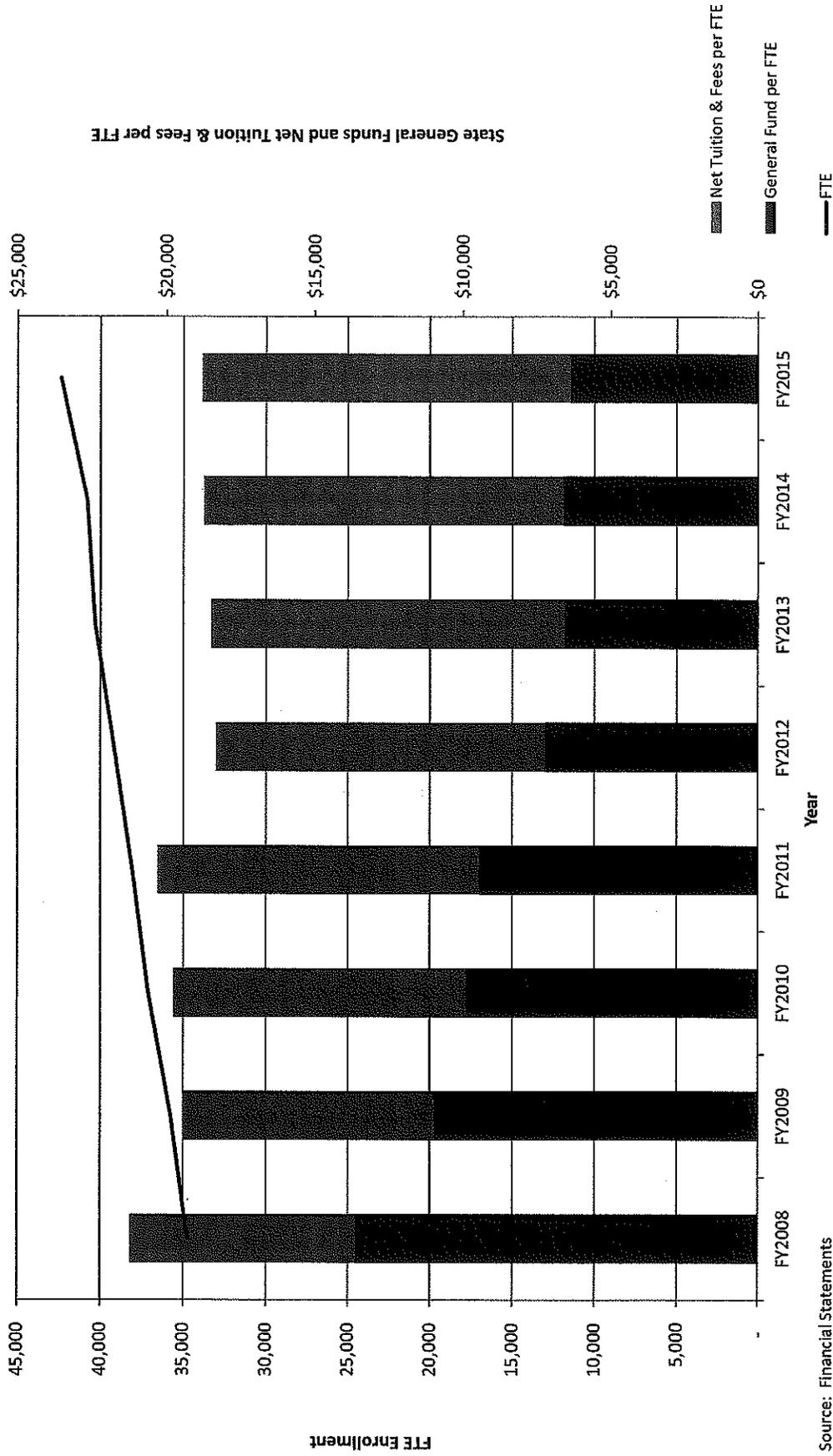


State General Fund Appropriation
(FY2008 TO FY2016)



State General Fund Allocations & Tuition & Fees

University of Arizona
(in Constant 2015 Dollars)

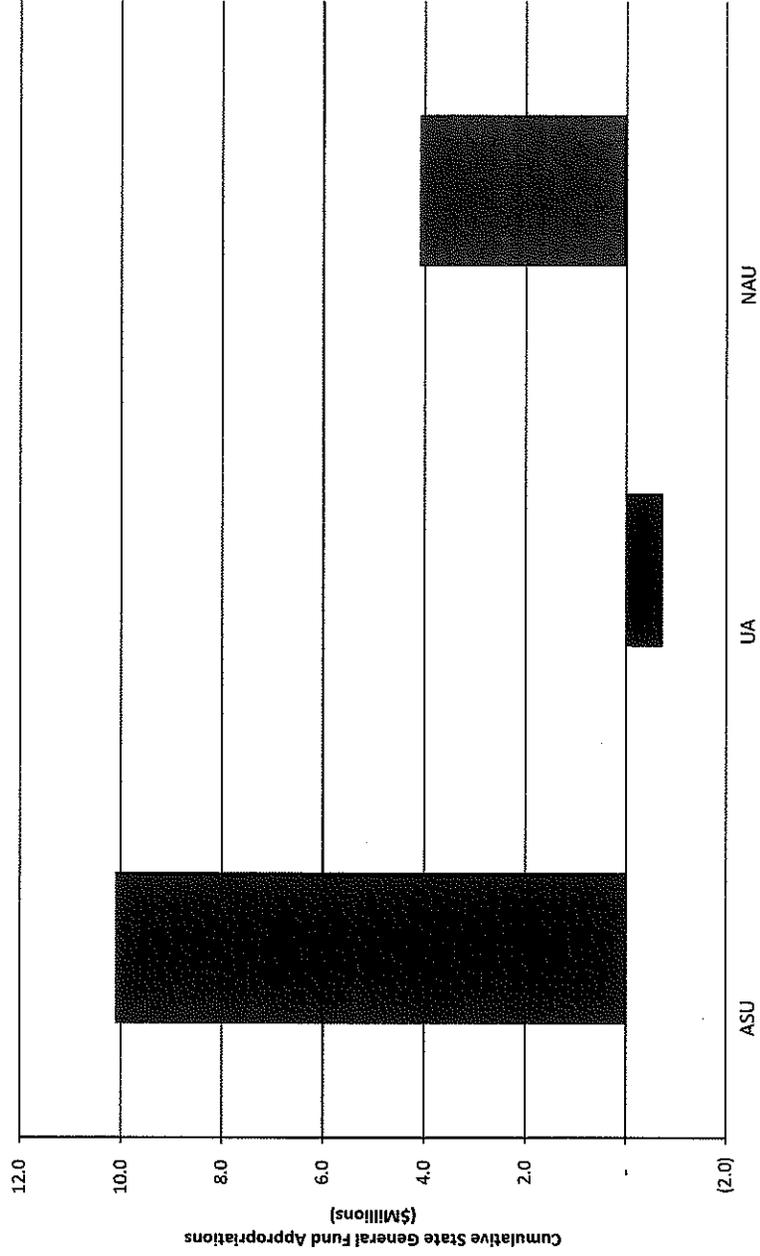


Source: Financial Statements
Note: Constant 2015 dollars adjusted by CPI (Consumer Price Index)

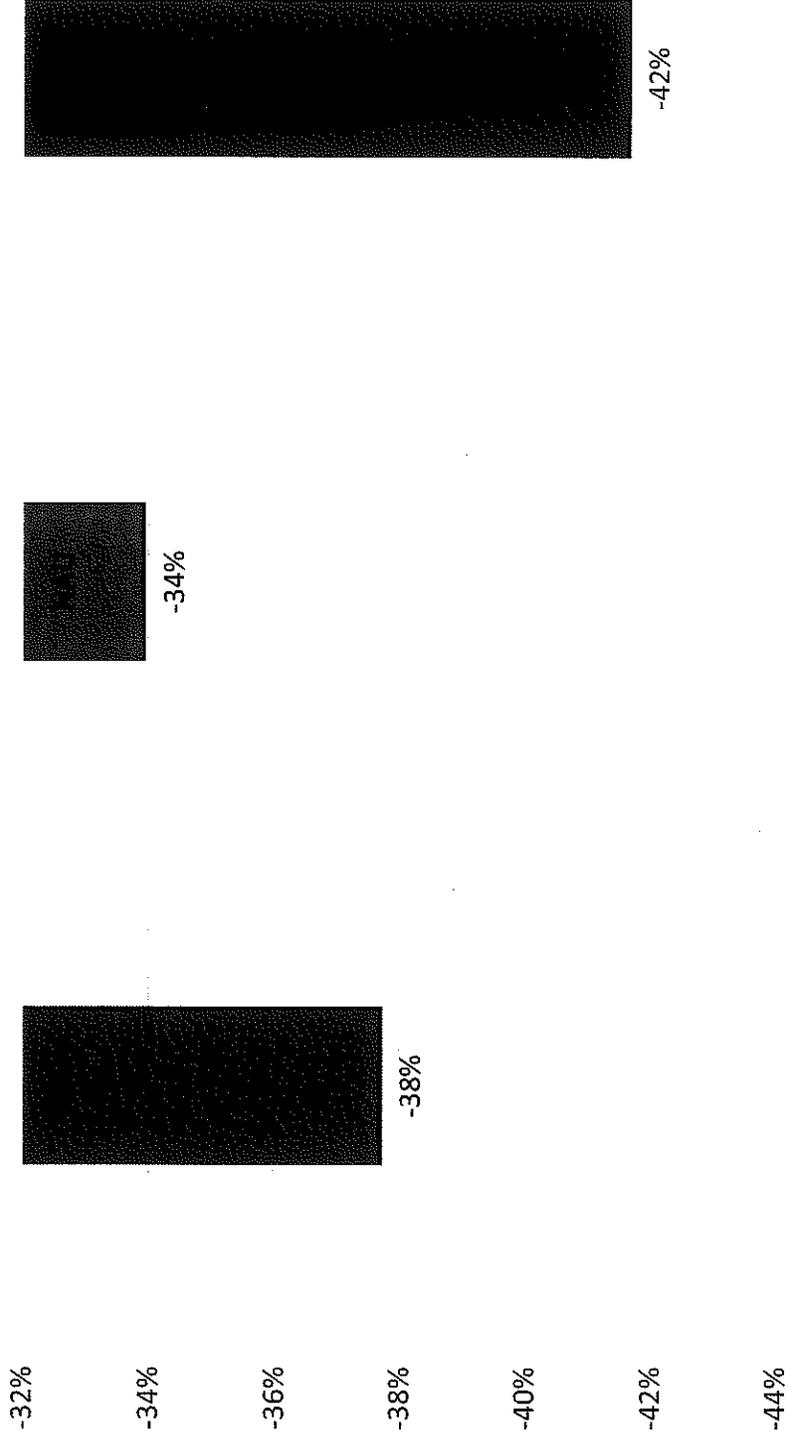
Note: State General Funds do not include Research Infrastructure Capital Appropriation

State General Fund Allocations - Universities

NET CHANGE IN 4-YR STATE GENERAL FUND APPROPRIATIONS
(Includes FY13 - 15 Allocations and Governor's FY16 Proposal)

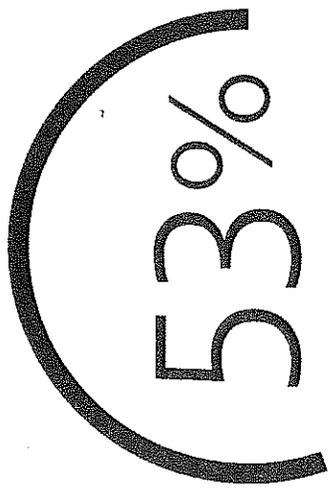


**Arizona Universities
State General Fund Appropriation
Percent Reduction: Original FY08 to Executive Proposal FY16**

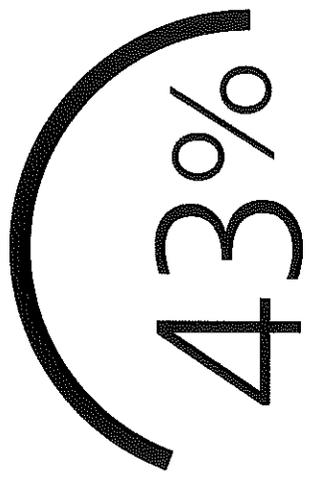


- Notes:**
- FY16 is from Executive Budget Proposal
 - Includes Capital Appropriation for Research Infrastructure
 - Includes FY14 Performance Funding Allocation – JLBC Baseline includes this allocation in the ABOR baseline

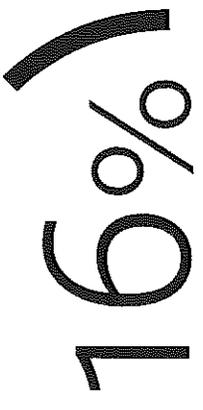
Percent of ABOR Requested Increases Actually Appropriated in FY15



Arizona State
University



Northern Arizona
University



University of
Arizona

FY15 DISTRIBUTION OF INCREASES



23.5

MILLION

Arizona State
University

9.5

MILLION

Northern Arizona
University

5.5

MILLION

University of
Arizona

GOVERNOR'S POLICY STATEMENT



GOVERNOR DUCEY RECOMMENDS REDUCING UNIVERSITY FUNDING COUPLED WITH REDUCED ADMINISTRATIVE BURDENS AND STATUTORY CHANGES

*Providing fiscal certainty while allowing flexibility for
business management*

Regulatory Reform

- Eliminate **state tuition remittance** process affecting university credit ratings, financing, cash flows and students' bottom line costs
- Authorize universities to use **commercial paper** and obtain commercial lines of credit providing access to short-term financing to manage cash flow
- Allow universities to **retain the benefit from their bond refinancing** efforts to encourage entrepreneurial behavior
- Allow universities to **keep all proceeds from technology transfer** operations, a deliberate managed effort that takes broad institutional commitment, expertise and resources
- Permit each university to **develop independent benefits programs** by 2017 including:
 - Defined contribution retirement plans similar to programs being adopted by universities nationwide
 - Health, property, casualty and workman's compensation insurance structured specifically for the unique university risk profile



HOUSE OF REPRESENTATIVES

HB 2083

income tax revisions

Sponsor: Representative Mesnard

DPA Committee on Ways and Means

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

HB 2083 makes various changes based on the Joint Task Force on Income Tax Reform (Task Force) recommendations regarding audit period, income tax bracket inflation index and business expensing and bonus depreciation.

HISTORY

The Task Force was established by the President of the Senate and Speaker of the House of Representatives on August 15, 2013. The charge of the Task force is to enhance Arizona's business friendly profile and to make our tax system fairer for the average taxpayer. The Task Force explored ways of reforming Arizona's existing personal income tax system. The task force met seven times and produced a final report, which can be found at <http://azleg.gov/itr/>

The Task Force made the following recommendations:

- Permanently increase instant expensing allowance to \$500,000.
- Permanently increase bonus depreciation allowance to 50%.
- Index income tax brackets for inflation.
- Reduce ITT graduated-rate system from five to three income tax brackets.
- Allow businesses to E-file income tax returns with Department of Revenue (DOR).
- Reduce audit period from four to three years.
- Provide DOR with resources to build an up-to-date, sophisticated IIT model.
- Repeal obsolete statutes.

PROVISIONS

Audit Period

1. Requires all audits not based on federal information to be performed within three years after the report or return is filed, whichever expires later, beginning in the 2015 Tax Year (TY).
2. Stipulates that following an audit based on state information, an audit may still be performed based solely on federal information within four years.
3. Makes technical and conforming changes.
4. Applies retroactively beginning from and after December 31, 2014.

Income Tax Brackets

5. Requires DOR to increase the income dollar amount of each income tax bracket to compensate for the annual change in the Metropolitan Phoenix Consumer Price Index for each year beginning from and after December 31, 2015.

Fifty-second Legislature
First Regular Session

Analyst Initials _____
February 16, 2015

HB 2083

6. Stipulates that the revised dollar amount shall be raised to the nearest whole dollar.
7. Prohibits the dollar amount from being revised below the amount prescribed in the prior tax year.

Arizona gross income

8. Adds adjustment related provisions to the amounts utilized to calculate Arizona adjusted gross income.
9. Provides that a taxpayer may take an expense deduction in an amount equal to the amount allowed under the Internal Revenue Code (IRC) § 179 if the maximum deduction were \$500,000, reduced by the amount exceeding \$2 million, for qualified property placed in service during and after TY 2014.
10. Provides, for TY 2014, that a taxpayer may deduct 10% of the amount of bonus depreciation allowed under IRC § 168(k) and stipulates such an election applies for the rest of the asset's life.
11. Allows a tax payer to take a 50% bonus depreciation deduction for qualified property placed in service during and after TY 2014.
12. Outlines necessary calculations regarding additions to Arizona gross income to avoid a double deduction if a taxpayer uses the business expensing or bonus depreciation provisions for and after TY 2014.

Repeal of Obsolete Statutes

13. Repeals A.R.S. § 43-1021, Paragraph 21 and A.R.S. § 43-1121, Paragraph 9.

AMENDMENTS

Committee on Ways and Means

1. Changes various dates throughout the bill.

PROPOSED
HOUSE OF REPRESENTATIVES AMENDMENTS TO H.B. 2083
(Reference to printed bill)

- 1 Page 1, line 17, after "IS" strike remainder of line; strike line 18; line 19,
2 strike "REPORTED ON THE INDIVIDUAL'S ARIZONA RETURN" insert "DETERMINED TO BE
3 NECESSARY BASED ON INFORMATION PROVIDED BY THE UNITED STATES INTERNAL REVENUE
4 SERVICE"
- 5 Page 13, line 36, after "16." insert "FOR PROPERTY PLACED IN SERVICE IN A TAXABLE
6 YEAR BEGINNING BEFORE JANUARY 1, 2015,"
- 7 Page 14, line 26, strike "THE DIFFERENCE BETWEEN"
- 8 Line 27, after "31" strike remainder of line; line 28, strike "DEPRECIATION OR
9 AMORTIZATION COMPUTED UNDER THE INTERNAL REVENUE CODE"
- 10 Line 29, after the period insert "IF THE PROPERTY IS SOLD OR OTHERWISE DISPOSED
11 OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE ADJUSTMENT REQUIRED
12 UNDER PARAGRAPH 23 OF THIS SECTION IN LIEU OF THE ADJUSTMENT UNDER THIS
13 PARAGRAPH RELATED TO THE PROPERTY."
- 14 Line 38, after the period insert "IF THE PROPERTY IS SOLD OR OTHERWISE DISPOSED
15 OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE ADJUSTMENT REQUIRED
16 UNDER PARAGRAPH 25 OF THIS SECTION IN LIEU OF THE ADJUSTMENT UNDER THIS
17 PARAGRAPH RELATED TO THE PROPERTY."
- 18 Page 17, line 12, strike "2014" insert "2015"
- 19 Page 19, line 11, strike "2013" insert "2014"
- 20 Line 15, after the period insert "THAT AMOUNT SHALL BE REDUCED BY THE EXPENSE
21 AMOUNT ALLOWED PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IN
22 DETERMINING THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME, BUT NOT BELOW
23 ZERO."
- 24 Line 17, strike "2013" insert "2014"

Attachment 10

Adopted # of Verbals _____
Failed _____ Withdrawn _____
Not Offered _____ Analysts Initials _____

1 Page 19, line 20, strike "THE INTERNAL REVENUE"

2 Line 21, strike "CODE OR"; after the period insert "THE AMOUNT DETERMINED UNDER
3 THIS PARAGRAPH SHALL BE REDUCED BY THE SPECIAL ALLOWANCE DETERMINED UNDER
4 SECTION 168(k) OF THE INTERNAL REVENUE CODE, BUT NOT BELOW ZERO."

5 Lines 37, 38, 39 and 41, strike "2013" insert "2014"

6 Page 20, line 26, after "5." insert "FOR PROPERTY PLACED IN SERVICE IN A TAXABLE
7 YEAR BEGINNING BEFORE JANUARY 1, 2015,"

8 Page 23, strike lines 1 and 2, insert:

9 "29. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT IS MADE UNDER
10 SECTION 43-1122, PARAGRAPH 25, ONE-FIFTH OF THE AMOUNT OF THE ADJUSTMENT
11 UNDER SECTION 43-1122, PARAGRAPH 25 FOR THE YEAR IN WHICH THE ADJUSTMENT IS
12 MADE AND IN EACH OF THE FOLLOWING FOUR YEARS. IF THE PROPERTY IS SOLD OR
13 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE
14 ADJUSTMENT REQUIRED UNDER PARAGRAPH 30 OF THIS SECTION IN LIEU OF THE
15 ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO THE PROPERTY.

16 30. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
17 43-1122, PARAGRAPH 25 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
18 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
19 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF
20 THE PROPERTY COMPUTED UNDER THIS TITLE.

21 31. WITH RESPECT TO QUALIFIED PROPERTY FOR WHICH AN ADJUSTMENT IS MADE
22 UNDER SECTION 43-1122, PARAGRAPH 26, ONE-FIFTH OF THE AMOUNT OF ADJUSTMENT
23 FOR THE YEAR IN WHICH THE ADJUSTMENT IS MADE AND IN EACH OF THE FOLLOWING
24 FOUR YEARS. IF THE PROPERTY IS SOLD OR OTHERWISE DISPOSED OF DURING THE
25 TAXABLE YEAR, THE TAXPAYER SHALL MAKE THE ADJUSTMENT REQUIRED UNDER PARAGRAPH
26 32 OF THIS SECTION IN LIEU OF THE ADJUSTMENT UNDER THIS PARAGRAPH RELATED TO
27 THE PROPERTY.

28 32. FOR PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER SECTION
29 43-1122, PARAGRAPH 26 AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE
30 TAXABLE YEAR, THE AMOUNT BY WHICH THE ADJUSTED BASIS COMPUTED UNDER THE
31 INTERNAL REVENUE CODE WITH RESPECT TO PROPERTY EXCEEDS THE ADJUSTED BASIS OF
32 THE PROPERTY COMPUTED UNDER THIS TITLE."

1 Page 25, line 2, strike "2014" insert "2015"

2 Strike lines 7 and 8, insert:

3 "25. FOR PROPERTY PLACED IN SERVICE IN TAXABLE YEARS BEGINNING FROM
4 AND AFTER DECEMBER 31, 2014, THE AMOUNT OF THE EXPENSE DEDUCTION THAT WOULD
5 BE ALLOWED PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IF THE
6 MAXIMUM DEDUCTION ALLOWED WERE FIVE HUNDRED THOUSAND DOLLARS AND THIS
7 LIMITATION WERE REDUCED BY THE AMOUNT THAT THE COST OF SECTION 179 PROPERTY
8 PLACED IN SERVICE IN THE TAXABLE YEAR EXCEEDS TWO MILLION DOLLARS. THAT
9 AMOUNT SHALL BE REDUCED BY THE EXPENSE AMOUNT ALLOWED PURSUANT TO SECTION 179
10 OF THE INTERNAL REVENUE CODE IN DETERMINING THE TAXPAYER'S FEDERAL ADJUSTED
11 GROSS INCOME, BUT NOT BELOW ZERO.

12 26. FOR QUALIFIED PROPERTY THAT IS PLACED IN SERVICE IN TAXABLE YEARS
13 BEGINNING FROM AND AFTER DECEMBER 31, 2014, AN ALLOWANCE EQUAL TO FIFTY
14 PERCENT OF THE ADJUSTED BASIS OF THE QUALIFIED PROPERTY REMAINING AFTER THE
15 ADJUSTMENT FOR THE ALLOWANCE UNDER PARAGRAPH 25 OF THIS SECTION AND
16 ADJUSTMENTS FOR ANY OTHER DEPRECIATION ALLOWANCE UNDER THIS TITLE. THE
17 AMOUNT DETERMINED UNDER THIS PARAGRAPH SHALL BE REDUCED BY THE SPECIAL
18 ALLOWANCE DETERMINED UNDER SECTION 168(k) OF THE INTERNAL REVENUE CODE, BUT
19 NOT BELOW ZERO. FOR THE PURPOSES OF THIS PARAGRAPH, "QUALIFIED PROPERTY"
20 MEANS PROPERTY THAT IS NOT SUBJECT TO THE ALTERNATIVE DEPRECIATION SYSTEM
21 UNDER SECTION 168(g) OF THE INTERNAL REVENUE CODE AND THAT MEETS THE
22 FOLLOWING QUALIFICATIONS:

23 (a) THE PROPERTY IS ANY OF THE FOLLOWING:

24 (i) TANGIBLE PROPERTY DEPRECIATED UNDER THE MODIFIED ACCELERATED COST
25 RECOVERY SYSTEM THAT HAS A RECOVERY PERIOD EQUAL TO OR LESS THAN TWENTY YEARS
26 AND IS WITHIN THE SCOPE OF SECTION 168 OF THE INTERNAL REVENUE CODE.

27 (ii) COMPUTER SOFTWARE AS DEFINED IN SECTION 167(f)(1)(B) OF THE
28 INTERNAL REVENUE CODE FOR WHICH A DEDUCTION IS ALLOWABLE UNDER SECTION 167(a)
29 OF THE INTERNAL REVENUE CODE.

30 (iii) WATER UTILITY PROPERTY AS DEFINED IN SECTION 168 OF THE INTERNAL
31 REVENUE CODE.

House Amendments to H.B. 2083

1 (iv) QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY AS DEFINED IN SECTION
2 168 OF THE INTERNAL REVENUE CODE.

3 (b) THE ORIGINAL USE OF THE PROPERTY COMMENCES WITH THE TAXPAYER AFTER
4 DECEMBER 31, 2014.

5 (c) THE PROPERTY IS ACQUIRED BY THE TAXPAYER AFTER DECEMBER 31, 2014
6 PURSUANT TO A WRITTEN BINDING CONTRACT ENTERED INTO AFTER DECEMBER 31, 2014.

7 (d) THE PROPERTY IS PLACED IN SERVICE FOR USE IN THE TAXPAYER'S TRADE
8 OR BUSINESS OR FOR THE PRODUCTION OF INCOME AFTER DECEMBER 31, 2014.

9 (e) THE PROPERTY IS NOT EXCEPTED PROPERTY OR SUBJECT TO ANY SPECIAL
10 RULES UNDER SECTION 168 OF THE INTERNAL REVENUE CODE."

11 Page 26, line 42, strike "and" insert ", 42-1123,"; after "42-2059" insert
12 ", 42-2075 and 42-5069"

13 Amend title to conform

JUSTIN OLSON

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HOUSE OF REPRESENTATIVES

HB 2568

insurance premium tax reduction

Sponsors: Representatives Livingston, Cobb, Coleman, et al.

DPA Committee on Insurance
X Committee on Appropriations
 Caucus and COW
 House Engrossed

OVERVIEW

HB 2568 reduces the insurance premium tax rate, with the exception of fire insurance premiums and health service and disability insurance premiums.

HISTORY

Pursuant to Arizona Revised Statutes § 20-224, insurers are required to file a report with the Director of Department of Insurance showing total direct premium income including policy membership and other applicable fees. Additionally, insurers must remit a 2% tax on the net premiums; however statute outlines the tax rate for certain types of insurance as follows:

- Fire Insurance
 - On property located in an incorporated city or town certified by the state fire marshal for obtaining the service of a private fire company, the rate is .66%.
 - On all other fire insurance premiums, the rate is 2.2%.
- Health care service and disability insurance
 - As prescribed by statute, the rate is 2%.

PROVISIONS

1. Maintains the current premium tax rate on fire insurance and health care service and disability insurance.
2. Sets the premium tax rate for disability insurance at 2%.
3. Reduces the insurance premium tax rate for all other insurance as follows:
 - a. 1.99% for Calendar Year (CY) 2016,
 - b. 1.98% for CY 2017,
 - c. 1.95% for CY 2018,
 - d. 1.92% for CY 2019,
 - e. 1.89% for CY 2020,
 - f. 1.86% for CY 2021,
 - g. 1.83% for CY 2022,
 - h. 1.80% for CY 2023,
 - i. 1.77% for CY 2024,
 - j. 1.74% for CY 2025,
 - k. 1.70% for CY 2026 and each CY thereafter.
4. Clarifies what constitutes *fire insurance* with regard to the premium tax and surplus lines tax.

Fifty-second Legislature
First Regular Session

Analyst Initials _____
February 2, 2015

HB 2568

5. Makes technical and conforming changes.

AMENDMENTS

Committee on Insurance

1. Removes duplicative language.
2. Makes a clarifying change.



HOUSE OF REPRESENTATIVES

HB2610

community college collegiate special plates

Sponsors: Representative Olson

W/D Committee on Transportation and Infrastructure

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

HB 2610 creates the Community College Collegiate Special Plates and Funds.

HISTORY

The Arizona Department of Transportation (ADOT) Motor Vehicle Division (MVD) provides one license plate to every motor vehicle owner for each vehicle registered. Vehicle license plates display both the state name and a number assigned to the vehicle and the owner, as well as MVD issued registration stickers. In addition to standard Arizona vehicle license plates, MVD issues special license plates for a variety of causes and organizations. The fee for obtaining or renewing a special license plate is \$25. From the \$25 fee, \$8 is an administrative fee that goes to ADOT, and \$17 is used as a donation to the respective organization. The cost of each new special plate is \$32,000. The money is used for the production of the new special plate.

Currently, there are ten community college districts (districts) in Arizona: Cochise, Coconino, Graham, Maricopa, Mojave, Navajo, Pima, Pinal, Yavapai, and Yuma/La Paz. Arizona Revised Statutes § 15-1444 allows the districts to administer trusts declared or created for the district.

PROVISIONS

1. Stipulates that each district must establish a separate Community College Collegiate Special Plates Fund for each individual community college within its district consisting of monies received from collegiate plate annual donations.
2. Requires each community college within a district to submit an approved spending plan for the monies within its fund as well as to meet the following conditions:
 - a. The money must be used to fund academic scholarships; and
 - b. The community colleges must annually report to their district the percentage of money spent on minority applicants.
3. Allows a district to delegate promotion and marketing of their special plates to a community college foundation, prohibiting the foundation from charging any additional dues, fees, or charges in connection with the plates.
4. Exempts the community college funds from the lapsing of appropriations.
5. Permits the State Treasurer to invest and divest inactive monies within the funds and credit all interest earned.

Attachment 14

HB2610

6. Requires ADOT to issue special plates for each community college and, upon request of the community college, revise the color or design of the plates.
7. Directs ADOT to transfer the collegiate plate annual donations to the district for deposit into the appropriate Community College Collegiate Special Plate Fund.
8. Makes technical and conforming changes.

PROPOSED
HOUSE OF REPRESENTATIVES AMENDMENTS TO H.B. 2610
(Reference to printed bill)

- 1 Page 1, line 4, after "college" insert "district"
2 Line 6, strike "EACH" insert "A GOVERNING BOARD OF A"; after "DISTRICT" strike
3 remainder of line
4 Line 7, strike "LOCATED" insert "WITH A FULL-TIME EQUIVALENT STUDENT ENROLLMENT
5 PURSUANT TO SECTION 15-1466.01 OF MORE THAN FIFTY THOUSAND STUDENTS"; strike
6 "SEPARATE"; after "COLLEGE" insert "DISTRICT"
7 Line 8, strike "FOR EACH COMMUNITY COLLEGE, AS DEFINED IN SECTION 15-1401,"
8 Lines 9 and 10, strike "BY THE COMMUNITY COLLEGE DISTRICT FROM COLLEGIATE PLATE
9 ANNUAL DONATIONS FOR COMMUNITY COLLEGES"
10 Strike lines 11 and 12
11 Line 13, strike "EXPENDITURE OF MONIES IN THE APPROPRIATE" insert "THE GOVERNING
12 BOARD SHALL ADMINISTER THE"
13 Line 14, after the period strike remainder of line
14 Strike lines 15 through 23
15 Reletter to conform
16 Line 25, after the second "OF" insert "THE GOVERNING BOARD OF"
17 Line 26, strike "WHERE THE COMMUNITY COLLEGE IS LOCATED"
18 Page 2, line 12, strike "AS DEFINED IN SECTION 15-1401" insert "DISTRICT"
19 Line 15, strike "AS DEFINED IN SECTION"; line 16, strike "15-1401" insert
20 "DISTRICT"
21 Line 17, after "COLLEGE" insert "DISTRICT"
22 Line 28, strike "COMMUNITY COLLEGE DISTRICT WHERE THE COMMUNITY COLLEGE IS";
23 line 29, strike "LOCATED FOR PLACEMENT IN THE APPROPRIATE"; after "COLLEGE"
24 insert "DISTRICT"

Attachment 15

Adopted # of Verbals _____
Failed _____ Withdrawn _____
Not Offered _____ Analysts Initials _____

House Amendments to H.B. 2610

1 Page 2, line 30, after "FUND" insert "ESTABLISHED BY SECTION 15-1447"

2 After line 35, insert:

3 "E. FOR THE PURPOSES OF THIS SECTION, "COMMUNITY COLLEGE DISTRICT"

4 MEANS A COMMUNITY COLLEGE DISTRICT THAT ALL OF THE FOLLOWING:

5 1. IS ESTABLISHED PURSUANT TO SECTIONS 15-1402 AND 15-1403 OR SECTION
6 15-1402.01.

7 2. IS A POLITICAL SUBDIVISION OF THIS STATE.

8 3. HAS A FULL-TIME EQUIVALENT STUDENT ENROLLMENT PURSUANT TO SECTION
9 15-1466.01 OF MORE THAN FIFTY THOUSAND STUDENTS."

10 Amend title to conform

JUSTIN OLSON

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HOUSE OF REPRESENTATIVES

HB 2617

regulatory relief tax credit

Sponsors: Representatives Mesnard, Mitchell; Kern, et al.

DPA Committee on Ways and Means

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

HB 2617 creates an income tax credit for small businesses that incur costs from specified state regulations.

HISTORY

The Governor's Regulatory Review Council (Council) reviews and approves agency rules to ensure that the rules were properly developed and comply with specific statutory criteria. The Council reviews proposed rules to ensure that the agency has authority to make the rule and it does not conflict with existing law; the rule language is understandable; the rule's probable benefits outweigh its probable costs; and that the agency has addressed public comments.

The Council consists of seven members, six of which are appointed by the Governor to hold three-year terms. The Chair of the Council, the seventh member, is served by the Director of the Department of Administration or a designee. The members serve at the pleasure of the Governor and are required to meet at least once a month. The Council is regulated by Arizona Revised Statutes (A.R.S.) Title 41, Chapter 6, Article 5 and will repeal on January 1, 2018, pursuant to A.R.S. § 41-3017.05.

Added by Laws 2009, Chapter 32 § 2, the Joint Legislative Income Tax Credit Review Committee was established to determine the original purpose of existing tax credits and establish a standard for evaluating and measuring the success or failure of the tax credits. The standard for evaluating tax credits may include: (1) the history, rationale and estimated revenue impact of the credit; (2) whether the credit has provided a benefit to this state including, for corporate tax credits, measurable economic development, new investments, creation of new jobs or retention of existing jobs in this state; and (3) whether the credit is unnecessarily complex in the application, administration and approval process.

PROVISIONS

1. Allows a *small business* to claim a tax credit for *creditable expenses* due to *extra regulation*, instead of pursuing judicial remedies or appeals against the regulating entity.
2. Specifies that a credit is against the *claimants'* income tax liability for the taxable year in which it is approved.
3. Specifies that a credit approved by the Council constitutes a debt against the state General Fund (GF) appropriation to the agency directly responsible for the regulation.

Attachment 17

HB 2617

4. Appropriates \$350,000 from the GF to the Council for administering this Act and four full-time equivalent employment positions.
5. Stipulates that a tax credit must be for a *creditable expense* greater than \$200 and each credit may only regard one regulation.
6. Specifies that each credit may not exceed \$1,000.
7. Caps the aggregate amount of credits at \$500,000; if the cap is reached, the Council must notify all parties to pending claims that further proceedings are terminated and no further credits may be awarded for that calendar year.
8. Allows credits approved by the Council to be carried forward for up to five years.
9. Designates the Council as the entity which shall administer the credit.
10. Requires the Council to develop an electronic claim form that includes the following:
 - a. The *claimant's* name.
 - b. The name, title, business address, phone number and email address of the individual submitting the claim.
 - c. Information necessary to determine whether the claimant is actually engaged in business activity, such as a transaction privilege tax license number.
 - d. An identification of the regulation and corresponding claim amount.
 - e. The regulating entity's name.
 - f. A waiver and acknowledgement that by filing the claim, the *claimant* will not litigate or pursue judicial remedies against the regulating entity or entities evaluating the claim.
 - g. Any other information required by the Council to evaluate and rule on validity of claims.
 - h. A declaration that the claim is true, complete and accurate to the *claimant's* best knowledge.
11. Allows the Council to forward a copy of the claim, as a formal notice, to the responsible regulating entity.
12. Grants the Council 60 days to evaluate, deny and notify *claimants* that their claim has been denied before it is automatically considered approved.
13. Requires the Council to notify the Department of Revenue of a claim upon approval.
14. Requires the Council to deny claims that are based on substantially similar circumstances to a previously denied claim.
15. Requires the Council to maintain a public electronic register of claims filed.
16. Requires the Council to provide, upon request, annual data on the number of claims filed, the number of claims accepted for review and the number of accepted claims.
17. Instructs the Joint Legislative Tax Credit Review Committee to review the tax credit during years ending in zero and five.
18. Defines various terms.
19. Contains a legislative purpose clause.

AMENDMENTS

Committee on Ways and Means

1. Excludes the Corporation Commission from the definition of *regulating entity*.

HB 2617

2. Adds to the definition of *small business*, any other corporation incorporated in this state that has fewer than 50 full-time employees.
3. Replaces shall with may regarding the council's authority to deny a claim that is not submitted in a complete, correct and timely manner.
4. Removes language that deems a claim approved for processing if the Council fails to make a decision within 60 days after the submission of the claim.
5. Removes language that states, any amount of a claim approved by the Council constitutes a debit against the state General Fund appropriation to the state agency responsible for enacting, adopting or enforcing the regulation that resulted in the tax credit.
6. Reduces the reporting requirements the Council is must maintain.
7. Makes technical and conforming changes.
8. Reduces the appropriation to the Council from \$350,000 to \$175,000.
9. Reduces the prescribed number of administrative full-time employees from four to two.
10. Becomes effective in the 2016 Tax Year.

PROPOSED

HOUSE OF REPRESENTATIVES AMENDMENTS TO H.B. 2617

(Reference to printed bill)

- 1 Page 1, line 17, after "STATE" insert ", EXCEPT THE CORPORATION COMMISSION"
- 2 Line 37, strike "_____" insert "FIFTY"
- 3 Page 3, line 11, strike "SHALL" insert "MAY"
- 4 Line 13, strike "COMPLETE, CORRECT AND TIMELY"
- 5 Strike lines 30 through 32
- 6 Renumber to conform
- 7 Line 45, strike the colon
- 8 Page 4, line 1, strike "1."
- 9 Strike lines 7 through 12
- 10 Line 15, after "DENIED" strike remainder of line; strike lines 16 through 18;
- 11 line 19, strike "INDIVIDUAL CIRCUMSTANCES"
- 12 Page 6, strike lines 3 through 13
- 13 Renumber to conform
- 14 After line 22, insert:
15 "Sec. 6. Effective date
16 This act is effective and applies to taxable years beginning from and
17 after December 31, 2015."
- 18 Amend title to conform

JUSTIN OLSON

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Attachment 18

Adopted # of Verbals _____
Failed _____ Withdrawn _____
Not Offered _____ Analysts Initials _____



HOUSE OF REPRESENTATIVES

HB 2670

international operations centers

Sponsors: Representatives Gowan, Livingston, Montenegro, et al.

X Committee on Appropriations

Caucus and COW

House Engrossed

OVERVIEW

Allows utility relief for the owner or operator of a certified international operations center that meets specific investment requirements. Modifies requirements for the tax credit for investment in new renewable energy facilities that produce energy for self-consumption (tax credit).

HISTORY

Laws 2014, Chapter 8 creates individual and corporate tax credits for investment in new renewable energy facilities that produce energy for self-consumption if the power will be used primarily for manufacturing. To qualify, a taxpayer must invest at least \$300 million in new renewable energy facilities that produce energy using renewable energy resources, with the power being used primarily for manufacturing and at least 90% of the energy produced at each facility used for self-consumption in Arizona. The minimum investment must be completed within a three-year period beginning on the date the application is received or December 31, 2017, whichever is earlier.

The tax credit is capped at \$1 million per year for five years for each renewable energy facility; the maximum tax credit allowed per taxpayer per year is \$5 million. A tax credit may not be claimed for any taxable year after 2025, with the exception of allowable carryovers. The taxpayer must apply to the Department of Revenue (DOR) for certification of the credit, which is allocated on a first come, first served basis. DOR is prohibited from authorizing tax credits that exceed in the aggregate a total of \$10 million for any calendar year.

PROVISIONS

1. Allows, beginning July 1, 2015, utility relief for the owner or operator of a certified international operations center. *Utility relief* is defined as the reduced economic burden of the Transaction Privilege Tax (TPT), use tax or municipal tax that is provided to a retail purchaser of electricity or natural gas. *International operations center* is defined as a facility that is subject to investment thresholds and self-consumes renewable energy from a qualified facility.

International Operations Center Certification

2. Requires the owner or operator to submit an application with specific details to the Arizona Commerce Authority (ACA) to qualify for utility relief and receive certification.
3. Requires the ACA to review a complete and correct application within 60 days after receipt and either issue a written certification that the international operations center qualifies for the utility relief or provide written reasons for its denial.

HB 2670

4. Stipulates that a failure to approve the application within 60 days of its submittal constitutes certification, and requires the ACA to issue the written certification to the owner or operator within 14 days.
5. Requires the ACA to send a copy of the certification to DOR.
6. Requires the owner or operator to achieve both of the following investment requirements after taking into account the combined investments made by the owner or operator:
 - a. A minimum annual investment of \$100 million in new capital assets, including cost of land, buildings and equipment, in each of 10 consecutive taxable years of the owner or operator;
 - b. A minimum investment of at least \$1.25 billion in new capital assets, including cost of land, buildings and equipment, on or before the tenth anniversary of certification.
7. Allows any investments greater than \$100 million in any taxable year to be carried forward as a credit toward the investment requirement in future years.
8. Requires the owner or operator to furnish written information demonstrating whether the certified international operations center has or has not satisfied the investment requirements within 30 days after the end of each tax year and the tenth anniversary of certification.
9. Requires the owner or operator to keep detailed records of all capital investment and all directly received utility relief until the investment requirements are met.
10. Allows the ACA to revoke certification and notify DOR in writing if the ACA determines that certification requirements have not been satisfied.
11. Permits the owner or operator to appeal a revocation of certification.
12. Allows the ACA to give special consideration or a temporary exception from certification revocation if there is extraordinary hardship due to factors beyond the owner or operator's control.
13. Directs DOR to order the owner or operator to forfeit further entitlement to utility relief if certification is revoked.
14. Allows, if the minimum annual capital investment requirement is not met, the owner or operator to avoid revocation of certification by paying DOR the amount of utility relief provided that year within 60 days following the end of the taxable year.
15. Requires the ACA and DOR to prescribe forms and procedures as necessary to provide for certification requirements.
16. Prescribes that proprietary business information contained in the application form and the written notice are confidential and prohibited from being disclosed to the public, with the exception that the information must be transmitted to DOR.
17. Permits the ACA and DOR to disclose the name of a certified international operations center.
18. Specifies that an international operations center remains certified regardless of a future transfer, sale or direct or indirect disposition, unless the international operations center fails to meet certification requirements.
19. Allows an owner or operator to be a single entity or affiliated entities.

Utility Relief

20. Exempts, from the utilities TPT classification, gross proceeds of sales or gross income derived from sales of electricity or natural gas to a business that operates a certified international operations center.
21. Specifies that use tax does not apply to the purchase price of electricity or natural gas by a certified international operations center.
22. Specifies that businesses that operate a certified international operations center may be exempt from municipal tax pertaining to the sale of electricity or natural gas.

Tax Credit for Renewable Energy Investment and Production for Self-Consumption

23. Allows power used for an international operations center to qualify for an individual or corporate tax credit for renewable energy investment and production for self-consumption (tax credit).
24. Applies tax credit application and reporting procedures to those who qualify with the requirement that the international operations center certification from the ACA be submitted each year after initial preapproval.
25. Stipulates that a taxpayer is eligible for the tax credit if power generated by the renewable energy facility is used in the certified international operations center and the following apply:
 - a. The taxpayer invests at least \$100 million in a new renewable energy facility in Arizona that produces energy for self-consumption using renewable energy resources. Requires the minimum investment to be completed within a three-year period beginning on the date the initial application is received or December 31, 2018, whichever arrives first.
 - b. A portion of the energy produced at the renewable energy facility is used for self-consumption in Arizona. Requires at least 51% of energy produced to be used for self-consumption in Arizona by the fifth year the renewable energy facility is in operation.
 - c. The power used for self-consumption is used primarily for an international operations center. Stipulates that a lessor of an international operations center facility that uses power for self-consumption satisfies this requirement if the lessee is an international operations center and the power is transferred as part of the lease to the lessee.
26. Specifies that self-consumption includes the power used by related entities if they are directly or indirectly under the same ownership interests that collectively own more than 50%.
27. Qualifies power that a renewable energy facility transfers to a utility as self-consumption if the power is transferred back to the owner of the renewable energy facility for use in the owner's international operations center.
28. Increases the tax credit from \$1 million to \$5 million per year for five years for each renewable energy facility.
29. Specifies that the maximum tax credit allowed per taxpayer per year is \$5 million *regardless* of whether the taxpayer is comprised of a single entity or multiple affiliated entities.
30. Requires the taxpayer, if the taxpayer is an owner or operator of an international operations center, to submit additional evidence to DOR within 60 days after the end of the fifth year of operation of the facility that the energy portion requirements for the tax credit have been met.
31. Stipulates that a taxpayer must cease claiming tax credits if the ACA certification, for international operations centers, has been revoked or if the facility fails to achieve final certification.

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32. Requires DOR to recapture the amount of all tax credits claimed if the taxpayer fails to meet requirements. Current law requires the taxpayer to recapture any tax credits already claimed.
33. Requires, if the recapture is due to an international operations center's certification being revoked, the tax credits to be recaptured in inverse proportion to the total capital investment made in the international operations center divided by \$1.25 billion.
34. Permits DOR to give special consideration or allow a temporary exemption from recapture if there is extraordinary hardship due to factors beyond the taxpayer's control.
35. Makes technical and conforming changes.

PROPOSED

HOUSE OF REPRESENTATIVES AMENDMENTS TO H.B. 2670

(Reference to printed bill)

- 1 Page 1, line 39, strike "TAX" insert "TAXABLE"
2 Page 2, line 16, strike "FOLLOWING" insert "AFTER"
3 Line 23, after "PUBLIC" insert a comma
4 Line 24, after "DEPARTMENT" insert "OF REVENUE"
5 Strike lines 29 and 30, insert "UNLESS OWNERSHIP OF THE INTERNATIONAL OPERATIONS
6 CENTER IS SOLD, CONVEYED, TRANSFERRED OR OTHERWISE DIRECTLY OR INDIRECTLY
7 DISPOSED OF TO ANOTHER ENTITY IN WHICH THE ORIGINAL OWNER HOLDS LESS THAN A
8 CONTROLLING INTEREST. FOR THE PURPOSES OF THIS SUBSECTION, "CONTROLLING
9 INTEREST" MEANS AT LEAST EIGHTY PERCENT OF THE VOTING SHARES OF A CORPORATION
10 OR OF THE INTERESTS IN A NONCORPORATE ENTITY."
11 Page 19, line 40, after "if" strike remainder of line; strike line 41, insert "THE
12 POWER IS TRANSFERRED TO THE SAME UTILITY THAT PROVIDES POWER TO THE
13 FACILITY."
14 Page 20, line 32, after "dollars" strike remainder of line
15 Line 33, strike "IS COMPRISED OF A SINGLE ENTITY OR MULTIPLE AFFILIATED
16 ENTITIES"; after the period insert "IF A TAXPAYER USES THE POWER GENERATED BY
17 THE RENEWABLE ENERGY FACILITY IN THE TAXPAYER'S INTERNATIONAL OPERATIONS
18 CENTER, THE TAXPAYER, INCLUDING ALL AFFILIATES OF THE TAXPAYER, MAY NOT
19 CUMULATE TAX CREDITS UNDER THIS SECTION OVER DIFFERENT TAXABLE YEARS
20 EXCEEDING, IN THE AGGREGATE, TWENTY-FIVE MILLION DOLLARS."
21 Page 22, strike lines 26 through 42, insert:
22 "K. IF THE TAXPAYER FAILS TO MAKE THE REQUIRED INVESTMENT IN RENEWABLE
23 ENERGY FACILITIES WITHIN THE TIME PERIOD REQUIRED BY SUBSECTION B, PARAGRAPH
24 1 OR SUBSECTION C, PARAGRAPH 1 OF THIS SECTION OR IF THE CERTIFICATION OF AN

Attachment 21

Adopted # of Verbals _____
Failed _____ Withdrawn _____
Not Offered _____ Analysts Initials _____

1 INTERNATIONAL OPERATIONS CENTER HAS BEEN REVOKED UNDER SECTION 41-1520 DUE TO
2 A FAILURE TO MAKE A ONE BILLION TWO HUNDRED FIFTY MILLION DOLLAR INVESTMENT
3 IN THE CENTER WITHIN TEN YEARS AFTER CERTIFICATION OR IF THE TAXPAYER FAILS
4 TO RECEIVE FINAL CERTIFICATION OF THE CREDIT UNDER SUBSECTION J OF THIS
5 SECTION, THE TAXPAYER SHALL NOT BE ELIGIBLE AND MUST CEASE CLAIMING ANY
6 FURTHER CREDITS UNDER THIS SECTION AND SHALL REIMBURSE THE AMOUNT OF ALL
7 CREDITS PREVIOUSLY RECEIVED UNDER THIS SECTION. THE REIMBURSEMENT MUST BE
8 MADE ON THE TAXPAYER'S INCOME TAX RETURN FOR THE TAXABLE YEAR IN WHICH IT IS
9 FIRST KNOWN THAT THE REQUIRED INVESTMENT WOULD NOT BE MADE WITHIN THE
10 REQUIRED TIME OR THE TAXABLE YEAR IN WHICH THE CERTIFICATION WAS REVOKED.
11 THE DEPARTMENT MAY GIVE SPECIAL CONSIDERATION OR ALLOW A TEMPORARY EXEMPTION
12 FROM REIMBURSEMENT IF THERE IS EXTRAORDINARY HARDSHIP DUE TO FACTORS BEYOND
13 THE TAXPAYER'S CONTROL. IF THE REIMBURSEMENT IS DUE TO REVOCATION OF THE
14 CERTIFICATION OF AN INTERNATIONAL OPERATIONS CENTER DUE TO A FAILURE TO
15 INVEST ONE BILLION TWO HUNDRED FIFTY MILLION DOLLARS IN THE CENTER WITHIN TEN
16 YEARS AFTER CERTIFICATION, THE CREDITS SHALL BE REIMBURSED IN INVERSE
17 PROPORTION TO THE TOTAL CAPITAL INVESTMENT MADE IN THE INTERNATIONAL
18 OPERATIONS CENTER DIVIDED BY ONE BILLION TWO HUNDRED FIFTY MILLION DOLLARS.
19 THE DEPARTMENT MAY REQUIRE REIMBURSEMENT BEFORE THE TENTH ANNIVERSARY OF
20 CERTIFICATION OF AN INTERNATIONAL OPERATIONS CENTER IF THE FACILITY HAS BEEN
21 CLOSED OR RELOCATED OR THE TAXPAYER HAS OTHERWISE DEMONSTRATED THAT THE ONE
22 BILLION TWO HUNDRED FIFTY MILLION DOLLAR INVESTMENT WILL NOT BE TIMELY MADE."

23 Page 24, line 34, after "if" strike remainder of line; strike line 35, insert "THE
24 POWER IS TRANSFERRED TO THE SAME UTILITY THAT PROVIDES POWER TO THE
25 FACILITY."

26 Page 25, line 3, after "OR" insert "BY"

27 Line 24, after "dollars" strike remainder of line

28 Line 25, strike "IS COMPRISED OF A SINGLE ENTITY OR MULTIPLE AFFILIATED
29 ENTITIES"; after the period insert "IF A TAXPAYER USES THE POWER GENERATED BY
30 THE RENEWABLE ENERGY FACILITY IN THE TAXPAYER'S INTERNATIONAL OPERATIONS
31 CENTER, THE TAXPAYER, INCLUDING ALL AFFILIATES OF THE TAXPAYER, MAY NOT

1 CUMULATE TAX CREDITS UNDER THIS SECTION OVER DIFFERENT TAXABLE YEARS
2 EXCEEDING, IN THE AGGREGATE, TWENTY-FIVE MILLION DOLLARS."

3 Page 27, strike lines 17 through 33, insert:

4 "K. IF THE TAXPAYER FAILS TO MAKE THE REQUIRED INVESTMENT IN RENEWABLE
5 ENERGY FACILITIES WITHIN THE TIME PERIOD REQUIRED BY SUBSECTION B, PARAGRAPH
6 1 OR SUBSECTION C, PARAGRAPH 1 OF THIS SECTION OR IF THE CERTIFICATION OF AN
7 INTERNATIONAL OPERATIONS CENTER HAS BEEN REVOKED UNDER SECTION 41-1520 DUE TO
8 A FAILURE TO MAKE A ONE BILLION TWO HUNDRED FIFTY MILLION DOLLAR INVESTMENT
9 IN THE CENTER WITHIN TEN YEARS AFTER CERTIFICATION OR IF THE TAXPAYER FAILS
10 TO RECEIVE FINAL CERTIFICATION OF THE CREDIT UNDER SUBSECTION J OF THIS
11 SECTION, THE TAXPAYER SHALL NOT BE ELIGIBLE AND MUST CEASE CLAIMING ANY
12 FURTHER CREDITS UNDER THIS SECTION AND SHALL REIMBURSE THE AMOUNT OF ALL
13 CREDITS PREVIOUSLY RECEIVED UNDER THIS SECTION. THE REIMBURSEMENT MUST BE
14 MADE ON THE TAXPAYER'S INCOME TAX RETURN FOR THE TAXABLE YEAR IN WHICH IT IS
15 FIRST KNOWN THAT THE REQUIRED INVESTMENT WOULD NOT BE MADE WITHIN THE
16 REQUIRED TIME OR THE TAXABLE YEAR IN WHICH THE CERTIFICATION WAS REVOKED.
17 THE DEPARTMENT MAY GIVE SPECIAL CONSIDERATION OR ALLOW A TEMPORARY EXEMPTION
18 FROM REIMBURSEMENT IF THERE IS EXTRAORDINARY HARDSHIP DUE TO FACTORS BEYOND
19 THE TAXPAYER'S CONTROL. IF THE REIMBURSEMENT IS DUE TO REVOCATION OF THE
20 CERTIFICATION OF AN INTERNATIONAL OPERATIONS CENTER DUE TO A FAILURE TO
21 INVEST ONE BILLION TWO HUNDRED FIFTY MILLION DOLLARS IN THE CENTER WITHIN TEN
22 YEARS AFTER CERTIFICATION, THE CREDITS SHALL BE REIMBURSED IN INVERSE
23 PROPORTION TO THE TOTAL CAPITAL INVESTMENT MADE IN THE INTERNATIONAL
24 OPERATIONS CENTER DIVIDED BY ONE BILLION TWO HUNDRED FIFTY MILLION DOLLARS.
25 THE DEPARTMENT MAY REQUIRE REIMBURSEMENT BEFORE THE TENTH ANNIVERSARY OF
26 CERTIFICATION OF AN INTERNATIONAL OPERATIONS CENTER IF THE FACILITY HAS BEEN
27 CLOSED OR RELOCATED OR THE TAXPAYER HAS OTHERWISE DEMONSTRATED THAT THE ONE
28 BILLION TWO HUNDRED FIFTY MILLION DOLLAR INVESTMENT WILL NOT BE TIMELY MADE."

29 Page 28, after line 45, insert:

30 "Sec. 7. Effective date; retroactivity

31 A. Sections 42-5063, 42-5159 and 42-6012, Arizona Revised Statutes, as
32 amended by this act, are effective from and after the last day of the month

House Amendments to H.B. 2670

1 of the general effective date of the fifty-second legislature, first regular
2 session.

3 B. Sections 43-1083.04 and 43-1164.05, Arizona Revised Statutes, as
4 amended by this act, apply retroactively to taxable years beginning from and
5 after December 31, 2014."

6 Amend title to conform

JUSTIN OLSON

2670jo1
02/18/2015
11:36 AM
C: dmt

