

MEMO

This November, Arizona voters will have five ballot measures to decide on. The five measures cover a variety of issues. You will find a short background on each measure below. Both the Public Affairs Council and the Chamber's Board of Directors deliberated on each measure.

I. Proposition 125 - Related to Public Retirement Systems

Issue: The Corrections Officer Retirement Plan (CORP) and the Elected Officials Retirement Plan (EORP) currently have substantial financial shortfalls in their long-term projections. This a consequence of unsustainable defined-benefit retirement plans, poor performance during the recession, and declining financial contribution to the retirement plans.

Background: The measure would allow the adjustments to two state pension plans — CORP and EORP — based on SB1442 and HB2545. The two bills make adjustments to each retirement plan by capping cost-of-living adjustments at 2 percent, rather than permanent benefit increases. SB1442 would also require corrections officers hired on or after July 1, 2018, to enroll in a defined-contribution plan, rather than the current defined-benefit plan now in place.

Chamber Position: Support

II. Proposition 126 (C-05-2018) - The Protect Arizona Taxpayers Act

Issue: There have been recent discussion and suggestions by policy experts and elected officials for Arizona to consider implementing/applying transaction privilege tax (TPT) to services. While a change in current state law would be required to implement, this measure is meant to take the option away from future legislatures and Governors. The idea behind applying TPT to services is the "smoothing" of revenues during economic cycles and the substantially lower TPT rate that would be needed.

Background: The ballot initiative would amend Article 9 and Article 13 of the Arizona Constitution to prohibit the placement of taxes on services. The following underlined text would be added to the constitution:

Section 6 of Article 9. Local Assessments and Taxes.

Except as provided by Section 25 of this Article, incorporated cities, towns, and villages may be vested by law with power to make local improvements by special assessments, or by special taxation of property benefited. For all corporate purposes, all municipal corporations may be vested with authority to assess and collect taxes.

Section 25 of Article 9. Prohibition of New or Increased Taxes on Services

The state, any county, city, town, municipal corporation, or other political subdivision of the state, or any district created by law with authority to impose any tax, fee, stamp requirement, or other assessment, shall not impose or increase any sales tax, transaction privilege tax, luxury tax, excise tax, use tax, or any other transaction-based tax, fee, stamp requirement or assessment on the privilege to engage in, or the gross receipts of sales or gross income derived from, any service performed in

this state. This section does not repeal or nullify any tax, fee, stamp requirement, or other assessment in effect on December 31, 2018.

Section 2 of Article 13. Charter; Preparation and Proposal by Board of Freeholders; Ratification and Approval; Amendment

Any city containing, now or hereafter, a population of more than three thousand five hundred may frame a charter for its own government consistent with, and subject to, the Constitution and the laws of the state, in the following manner...

...The charter so ratified may be amended by amendments proposed and submitted by the legislative authority of the city to the qualified electors thereof (or by petition as hereinafter provided), at a general or special election, and ratified by a majority of the qualified electors voting thereon and approved by the governor as herein provided for the approval of the charter.

Notwithstanding any provision of this section to the contrary, no charter shall provide a city with any power to violate Article IX, Section 25, which preempts such power.

Chamber Position: Support

III. Proposition 127 – Clean Energy for a Healthy Arizona Amendment

Issue: The Clean Energy for a Healthy Arizona Amendment would require affected electric utilities to provide at least 50% of their annual retail sales of electricity from renewable energy sources by 2030. The Amendment defines renewable energy sources to include solar, wind, small-scale hydropower, and other sources that are replaced rapidly by a natural, ongoing process (excluding nuclear or fossil fuel). Distributed renewable energy sources, like rooftop solar, must comprise at least 10% of utilities' annual retail sales of electricity by 2030. The Amendment allows electric utilities to earn and trade credits to meet these requirements.

Background: If the voters of Arizona pass the amendment, this would represent a drastic shift in the energy portfolio and policy for the entire State of Arizona. Requiring 50% use of renewables (*specifically* defined in the amendment) would be the largest and most aggressive energy generation requirement, likely placing Arizona at a substantial economic disadvantage. Tucson Electric Power, our region's largest electrical utility, estimates the average increase a year would be \$550 to residential customers, and \$3,400 for commercial customers.

The amendment would not allow the Arizona Corporation Commission to make adjustments to implementation of the new requirements, regardless of reason (i.e. safety, affordability, availability of technology, etc.). It also would require the shuttering of numerous generating stations throughout Arizona prior to their expected lifetimes, including the Palo Verde Nuclear Plant.

Chamber Position: Oppose

IV. Proposition 305 (R-02-2018) – Related to Empowerment Scholarships Accounts

Issue: In 2011, Arizona became the first state to establish an Empowerment Scholarship Accounts (ESA) program. The original program allowed parents or guardians of students with disabilities to sign a contract to opt out of the public schools system and instead receive an ESA. This referendum was initiated to overturn SB 1431.

Background: SB1431 will make all K-12 students eligible to apply for an ESA by FY21/22. The expansion would phase in over four school years:

- FY18/19 – students in kindergarten or grades 1, 6, and 9
- FY19/20 – students in kindergarten or grades 1, 2, 6, 7, 9, and 10
- FY20/21 – students in kindergarten or grades 1 through 3 and 6 through 11
- FY21/22 – all K-12 students

SB1431 would cap the number of new students allowed to receive ESAs at 0.5 percent of the total number of students enrolled in school districts and charter schools per year through FY22/23. For FY23/24 and thereafter, the number of new ESAs per year would not exceed the number approved for FY22/23. A student whose family is at or below 250% of the federal poverty line would be eligible for an ESA with 100% of costs covered, rather than the current 90%, of what the state would have paid for the student in a district or charter school.

A “yes” vote supports SB1341, upholding the legislation; a “no” vote opposes SB1341 and would overturn the legislation.

Chamber Position: Neutral

V. Proposition 306 (HCR2007) - Related to the Citizens Clean Elections Act

Issue: There has been criticism of the clean elections program in recent years, and a few select cases of what is perceived as abuse of the program. In a number of cases, candidates who get the clean elections funding have transferred funds to political parties and special interests groups.

Background: This measure would prohibit candidates from using their public financing accounts, known as clean election accounts in Arizona, to give funds to political parties or tax-exempt 501(a) organizations that are allowed to engage in activities to influence candidate elections. The measure would specifically:

- Prohibit candidates from using their public financing accounts to give funds to political parties or tax-exempt 501(a) organizations that are allowed to engage in activities to influence candidate elections
- Require the Citizens Clean Election Commission’s proposed rules to receive approval from the Governor’s Regulatory Review Council.

Chamber Position: Neutral