FISCAL IMPACT OF 2012 LEGISLATIVELY-REFERRED BALLOT MEASURES

A.R.S. § 19-123(D) requires the JLBC Staff to prepare a summary of 300 words or less on the fiscal impact of voter-initiated ballot measures for publication in the Secretary of State's publicity pamphlet.

Unlike voter-initiated measures, legislatively-referred ballot measures do not require a fiscal impact statement in the publicity pamphlet. As a substitute, the JLBC Staff provides the following brief summaries for the 4 of the 7 legislatively-referred measures with a potential fiscal impact:

<u>Proposition 116 - personal property tax exemption amount</u>
Proposition 116 would amend the Arizona Constitution by increasing the exemption for business personal property initially acquired during or after Tax Year 2013 to an amount equal to the annual earnings of 50 workers in the state. Based on Federal Bureau of Economic Analysis data, the exemption would be approximately $2.4 million. Business personal property initially acquired before Tax Year 2013 would be subject to the current exemption of $68,079.

Based on data provided by the Maricopa County Assessor's Office and the Arizona Department of Revenue, Proposition 116 is estimated to have a direct General Fund cost of $8.2 million, beginning in FY 2015. The measure would reduce net assessed valuation, which would result in an increase of the Arizona Department of Education's K-12 school formula costs. Under the state's K-12 funding formula, any reduction in local property values results in an increase in the state share of school funding.

<u>Proposition 117 - property tax assessed valuation; limitation</u>
Proposition 117 would amend the Arizona Constitution by limiting the annual growth of locally assessed real property to 5%, beginning in Tax Year 2015. Current law limits annual valuation growth to the greater of: (1) 10% or (2) 25% of the difference between the parcel's full cash value in the current year and its limited value in the prior year. Unless a specific statutory method is prescribed, full cash value is synonymous with market value. Currently, there is no limit on growth in full cash value. While the long-run average annual growth in full cash value is only slightly higher than limited value growth, there can be significant differences in growth rates in years with high growth in property values, such as in 2006 and 2007.

Under the state's valuation calendar, the 5% cap would first apply to 2014 real property valuations, which are not subject to taxes until FY 2016. The fiscal impact of Proposition 117 would therefore not occur until at least FY 2016. The actual impact, however, would not occur until property valuation growth exceeds 5%, which cannot be determined in advance.

Proposition 117 would not generally have a General Fund impact. Currently, the state qualifying tax rate (QTR) rises or falls so that the statewide existing K-12 property tax collection remains unchanged. For example, if existing property values grow by 3%, the qualifying tax rate declines proportionately.

If the proposed 5% cap results in a lower assessed valuation growth than would be allowed under current law, some localities may choose to increase their local property tax rates. If that causes a jurisdiction to exceed the Constitutional 1% cap, the state would pay the local jurisdictions the difference.

The proposition could also affect the amount of debt issued by local governments as well as certain operating expenditures. In these circumstances, local expenditure and bonding capacity is limited to a certain percentage of taxable property value. Under current law, this amount is based on full cash value as opposed to limited value. In years with full cash growth in excess of 5%, Proposition 117 could have the effect of lowering local government expenditure and bonding capacity compared to current law.

Proposition 118 - permanent state land fund; distribution

Proposition 118 would revise the Permanent Fund annual distribution formula to be 2.5% of the average monthly market value of the fund for the preceding 5 calendar years and would be effective from FY 2013 through FY 2021. After FY 2021, the distribution would revert to the existing formula, which is determined by the average inflation-adjusted rate of return in the previous 5 fiscal years multiplied by the average market value over the previous 5 years. While the proposed formula requires an annual distribution, the current formula can result in distributions greater or less than 2.5% or no distributions.

Determining the fiscal impact of Proposition 118 requires the projection of the annual distributions and the market value of the Permanent Fund over time. The magnitude of the projected impact, depends in large measure on assumptions concerning the timing of the broader economic cycle and its resulting effect on investment performance.

A consultant for the State Treasurer estimated the potential impact of the current and proposed distribution formulas based on 5 economic forecast scenarios. The results were as follows under 3 of the scenarios:

1. In the most pessimistic economic scenario, total distributions from FY 2013 to FY 2021 would be $342 million higher under the proposed formula than under the current formula. In 5 of those years, the current formula would yield no distribution. At the end of the 9 year period, the market value of the fund would be $290 million lower under the proposed formula.

2. In the moderate economic scenario, total distributions from FY 2013 to FY 2021 would also be $342 million higher under the proposed formula than under the current formula. In 5 of those years, the current formula would yield no distribution. At the end of the 9 year period, the market value of the fund would be $286 million lower under the proposed formula.

3. In the most optimistic economic scenario, total distributions from FY 2013 to FY 2021 would be $449 million lower under the proposed formula than under the current formula. The current formula is estimated to produce 1 year with no distribution. At the end of the 9 year period, the market value of the fund would be $433 million higher under the proposed formula.

Proposition 120 - state sovereignty

Proposition 120 would declare state sovereignty over all lands and resources within the boundaries of Arizona. The measure would establish exclusive authority and jurisdiction over the air, water, public lands, minerals, wildlife and other natural resources within the state, with primary exceptions being Indian reservations and military installations.

The Governor’s office has indicated that a similar bill, SB 1332, would have cost the state $23 million. This estimate assumes that this type of legislation would add 23 million acres to the Land Department's jurisdiction. This estimate also assumes that these federal lands would have the same cost to manage per acre ($1) as current state trust lands.

If the state were to take jurisdiction over federal lands, there would be a management cost to the state. However, without an extensive analysis of the specific management requirements for these lands, it is difficult to confirm the magnitude of the cost.

In addition to the costs of managing the acquired land, there would also be opportunities to generate revenue, potentially offsetting the management costs. The state could develop the land, providing revenue from both the sale of land and the subsequent property taxes assessed on that land. The state could also collect fees and rents.

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