FISCAL IMPACT OF LEGISLATIVELY-REFERRED BALLOT MEASURES AND VOTER REFERRALS OF LEGISLATIVE ENACTMENTS

2018 GENERAL ELECTION

Legislative Council prepares analyses of ballot measures to be placed in the Secretary of State's publicity pamphlet. JLBC Staff has traditionally also prepared a fiscal analysis of these measures. Statute does not require that these fiscal analyses below for legislatively-referred ballot measures and voter referrals of legislative enactments appear in the publicity pamphlet. Below you will find our fiscal impact statements on these types of measures.

A.R.S. § 19-123(D) does require 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. If any such measures ultimately make the ballot, we will separately develop fiscal impact statements for those measures.

<u>Proposition 125 - public retirement systems</u>
Proposition 125 allows modifications to the Corrections Officer Retirement Plan (CORP) and the Elected Officials Retirement Plan (EORP) as approved by the Legislature in SB 1442 (2017 Legislative Session) and HB 2545 (2018 Legislative Session).

Under current law, each year CORP and EORP retirees are eligible for a Permanent Benefit Increase (PBI), which is calculated based on recent pension investment returns and may not exceed 4% in any year. Conditional upon approval of Proposition 125, SB 1442 and HB 2545 replace the PBI with an annual cost-of-living adjustment (COLA) based on the change in the Phoenix-Mesa Consumer Price Index (CPI), not to exceed 2% in any year. This change would apply to all members of CORP and EORP, including retirees, survivors, and current active members.

Proposition 125 would reduce the combined present value liabilities of CORP and EORP by an estimated $275 million. This savings estimate would include the following 2 factors. By reducing the plans' unfunded liabilities, these savings would generally occur over the next 20 to 30 years, as the plans' current policies dictate that all unfunded liabilities will be paid off during that time period. In addition, the COLA change would reduce the cost of future pension benefits earned by employees and those savings would continue after the systems' unfunded liabilities are paid off. The savings would accrue to all CORP and EORP employers, which include the state, counties and cities/towns.

<u>Proposition 306 - clean elections; unlawful contributions; rulemaking</u>
Proposition 306 would amend Arizona statute to prohibit payment from candidates' Citizens Clean Elections Commission (CCEC) campaign accounts to political parties and certain tax-exempt organizations eligible to engage in activities to influence the outcome of a candidate election. Proposition 306 also generally requires CCEC to follow rulemaking requirements of the administrative procedures act.

Proposition 306 would not have an impact on the state General Fund as the CCEC has its own source of funds. There may be increased audit and enforcement costs associated with ensuring compliance of the new prohibition of payments to political parties and certain tax-exempt organizations. The CCEC did not provide an estimate of the magnitude of any impact.

Proposition 305 - empowerment scholarships; expansion; phase-in

Proposition 305 will determine whether SB 1431 from the 2017 Legislative Session will take effect. SB 1431 made changes to the Empowerment Scholarship Account (ESA) program. Among other changes, Proposition 305 would:

1) Expand ESA eligibility to any Kindergarten student.
2) Phase in ESA eligibility of any prior public school student by FY 2021.
3) Revise the award amounts for most new participants to receive 90% of District Additional Assistance, rather than Charter Additional Assistance.
4) Allow the program to grow annually by up to 0.5% of the public school population through FY 2022, at which time overall enrollment would be capped at the FY 2022 level.

We estimate that Proposition 305 would decrease state General Fund costs by $(2.4) million in FY 2020, $(2.1) million in FY 2021, and $(1.1) million in FY 2022 relative to current law. These estimates are speculative and actual costs will likely vary depending on participation.

The fiscal impact consists of 3 main factors:

1) Expanding prior public school student participation would decrease General Fund costs each year, since the dollar value of most ESAs under Proposition 305 is less than the public school formula amount.
2) Newly-eligible private school students would increase General Fund costs each year.
3) New students' ESA awards will not be as high as under current law, as the District Additional Assistance benchmark is lower than Charter Additional Assistance.

Further details on the JLBC Staff analysis of Proposition 305 can be found in this memo.