2018 Ballot Propositions

Background & County Relevance

Proposition 125: Public Retirement Systems

What does the proposition do?

Modifies the Corrections Officers Retirement Plan (CORP) and the Elected Officials Retirement Plan (EORP) to replace the permanent benefit increase (PBI) with an annual cost of living adjustment (COLA).

These are the same changes made to PSPRS that were overwhelmingly approved by voters in 2016.

How does this change CORP & EORP?

Currently PBIs are only given to members when investment earnings are above a certain level, and are capped at 4%. Depending on when they were hired, the proposed COLA would be given to each member annually or be based on the plan's funding level. This allows for stable increases in benefits to be made over time, while ensuring that the plan is properly funded.

How does it relate to county government?

- Counties have employees in both CORP and EORP and are responsible for making employer contributions for each member.
- The average funded ratio for county CORP detention plans is only 65%, with the funded ratio for EORP below 31%. These plans are largely underfunded due to PBIs that were given when the plan could not afford it.
- CORP employer contribution rates have increased by 58% since 2014, and EORP employer contributions will nearly triple this year due to their underfunded status. The increased costs are straining county budgets, and will likely continue to increase without reform.
- A more consistent COLA will allow the plans to save money over time, while still providing benefit increases for pension members.

Proposition 126: Protect Arizona Taxpayers Act

What does the proposition do?

Constitutionally prevents services that are not currently taxed from being taxed in the future. Additionally, it prevents any future increases in taxes that currently apply to services.

What is the current status of services?

ARS § 42-5061 currently exempts the majority of services from state and county sales taxes. The Arizona Department of Revenue (ADOR) estimates that this is approximately **$5.6 billion annually in foregone revenue** for the state.

Services are an increasingly large part of the U.S. economy, growing from 54% of consumer spending in 1980 to **69% of consumer spending in 2018**.

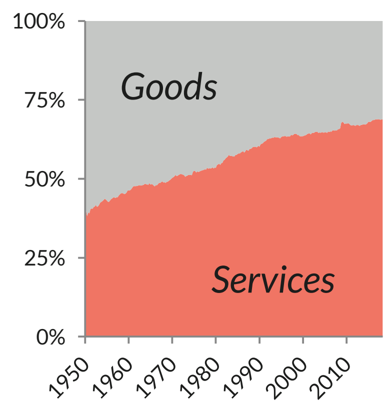
Emerging technologies such as *software as a service* and media streaming services indicate that the line between goods and services may become increasing blurred in the future.

How does it relate to county government?

- Counties rely on the state's TPT tax base for local excise taxes and shared TPT.
- Services are currently exempt from the base, which means TPT revenues come from taxes on tangible goods sold in brick and mortar stores (not online).
- The proposition would eliminate policy options for state lawmakers, including:
  - Expanding the tax base to include services and lower the sales tax rate for everyone.
  - Expand the tax base to include services and provide additional funding for essential state and county government functions (i.e. public safety, education, etc.).

    Note: The AZ Constitution requires a super majority to enact any revenue increase.
- The practical consequence of the proposition: the county tax base will remain restricted to taxes on retail goods and property, potentially putting upward pressure on these rates over time.

% OF CONSUMER SPENDING



2018 Ballot Propositions

Background & County Relevance

Proposition 127: Clean Energy for a Healthy Arizona

What does the proposition do?

Amends the Arizona Constitution to require electric utilities regulated by the Arizona Corporation Commission (ACC) to get 50% of their electricity sold to residential, commercial and industrial consumers (retail electricity) from renewable energy sources by 2030. Additionally it would require those utilities to get 10% of their energy from *distributed renewable energy resources*.

What are the current requirements?

Currently, the ACC requires that investor-owned electric utilities – like APS – get 8% of their electricity for retail sale from renewable sources. This requirement is set to increase to 15% in 2025. Renewable energy is defined as energy resources (like solar, wind, and biomass) that are rapidly replaced by a natural process (does not include nuclear power).

Distributed renewable energy resources are generated at a customer's location (i.e. rooftop solar panels). Under current requirements, the ACC mandates that utilities get 3% of their energy from *distributed renewable energy resources.* This requirement is set to increase to 4.5% in 2025.

How does it relate to county government?

- Retail electricity is subject to state and local transaction privilege taxes (TPT), and currently makes up 6% of the state sales tax base. Any change to the price or quantity of retail electricity would have an impact on the county portion of state shared TPT, as well as any local excise taxes that counties may levy.
- Gas and electric utilities and electric cooperative make up about 5.7% of the statewide property tax base. Changes to the value or classification of these properties has the potential to effect county property tax bases.
- Since county governments are consumers of electricity, changes in the price of retail electricity would also impact county costs.
- Finally, since counties are involved in the public health process, environmental impacts from changes in the mix of electricity generated from renewable versus nonrenewable sources may have an effect on air quality and public health.

Proposition 305

Save Our Schools Arizona

What does the proposition do?

Refers Laws 2017, Chapter 139 to the voters for consideration. The main provisions of the law are to: expand the eligibility for Empowerment Scholarship Accounts (ESAs), remove the existing ESA enrollments cap, increase the cap annually by 0.5% of total public school enrollment through 2022, and cap ESA enrollment in 2023.

Proposition 306

Citizens Clean Elections Act

What does the proposition do?

Prohibits payments from clean elections campaign accounts to political parties or specified tax-exempt organizations. Removes the Citizens Clean Elections Commission (CCEC) rulemaking exemptions and would require all CCEC rules to go through the Governor's Regulatory Review Council prior to adoption.

Prop. 125	Prop. 126	Prop. 127	Prop. 305	Prop. 306
Measure	Measure	Measure	Measure	Measure
Arguments FOR & AGAINST	Arguments FOR & AGAINST	Arguments FOR & AGAINST	Arguments FOR & AGAINST	Arguments FOR & AGAINST
Adopted Analysis	Adopted Analysis	Adopted Analysis	Adopted Analysis	Adopted Analysis
Fiscal Analysis	Fiscal Analysis	Fiscal Analysis	Fiscal Analysis	Fiscal Analysis