Gretchen Kitchel is Reelected as ATRA’s Board Chairman

Gretchen Kitchel, *Pinnacle West Capital Corporation*, was reelected to her third term as the Chairman of Arizona Tax Research Association’s Board at the 66th Annual Meeting on November 17, 2006. Gretchen’s appointment was accompanied by the reelection of Larry Lucero, *Tucson Electric Power*, first vice-chair; Barb Dickerson, *Deloitte Tax LLP*, third vice-chair; and Dave Minard, *individual*, secretary/treasurer. Samantha Omey, *Honeywell*, was elected to her first term as second vice-chair.


Treasurer-Elect Dean Martin highlights Outlook Luncheon Program

The Outlook Conference luncheon program was highlighted by an address from State Treasurer-elect Dean Martin. The current state senator explained his plans for reforming an office that has been in turmoil for several months. Senator Martin said it is his highest priority to rebuild the public confidence in the Treasurer’s office. Martin said "Taxpayers need to be ensured their funds are not only accounted for but invested wisely."

House and Senate Leadership address ATRA Outlook Conference

ATRA Outlook Conference attendees got an early glimpse of the Republican Leadership’s plans for the 48th Legislature when it convenes in January. The new Senate Majority Leader Thayer Verschoor told the crowd that he did not view the size of Governor Napolitano’s victory as a mandate for an expansion of state government. Verschoor cautioned that state policymakers face more difficult budget decisions in 2007 as available revenues decline. The new Senate Majority Leader predicted a tough fight if the Governor called for spending increases that outpace new revenues.

House Speaker Jim Weiers pointed out that illegal immigration will again be a major policy issue at the Capitol next year. Speaker Weiers said the election results made clear that Arizonans want to see results from policymakers on the immigration issue.
Richard Stavneak, Director of the Joint Legislative Budget Committee (JLBC), addressed attendees at the November ATRA Outlook Conference with his perspective on the upcoming state budget.

Stavneak began by noting the rapid growth in general fund revenues of almost 40% over the last two years, which is a level of growth Arizona hasn’t experienced in at least 35 years. This dramatic growth turned what had been a $151 million structural deficit in FY 2004 into a $900 million surplus in FY 2007. The highest percentage of growth in FY 2006 came from corporate income tax revenues at 24.6%, followed by individual income tax at 24.1%, and sales tax, with 16.7% growth. This extraordinary growth has led to an estimated $10 billion in state general fund revenues in FY 2007, up from only $6.2 billion in FY 2003.

Richard estimates that lawmakers can count on half of that growth to be a permanent revenue source. He also explained that while 50% of the revenue gain may be temporary, the state will receive recurring one-time gains, including revenues generated from the stock market, real estate market, business profits, and employee stock options. In addition, the state coffers can expect to benefit from $200 billion in capital gain distributions this year, which is up from $130 billion in the previous year.

Stavneak pointed out that although the growth in revenues is down in the first trimester of FY 2007, state general fund revenues are still experiencing double-digit growth, with revenues in July through October up over 11% from last year. The 11% overall growth is based upon a 23% rise in corporate income tax revenues, 11% growth in individual income tax, and a 10% increase in sales taxes.

In regard to the Arizona Blue Chip 2007 forecast, he explained that personal income, retail sales, and job growth rates will remain near 10-year historical averages, at 7.4%, 6.8%, and 3.7%, respectively. Stavneak stated that the National Blue Chip reports predicts a 25% chance of a recession in the next 12 months.

**Spending Trends and Challenges**

The JLBC analysis reflects that FY 2007 represents the fourth consecutive year that spending outpaced population and inflation, with spending as high as 19.3% in FY 2006 while population and inflation remained steady at around 5%.
Joe Langlois Receives the 2006 J. Elliott Hibbs ATRA Good Government Award

For the last 15 years, ATRA has taken the occasion of the Outlook Conference to recognize an outstanding individual whose work in the public sector is characterized by strong, continuing, and consistent efforts to spend taxpayer dollars wisely and to promote government that is efficient, open, and accountable.

The 2006 recipient of the ATRA Good Government Award is the first recipient of the newly named J. Elliott Hibbs ATRA Government Award. Elliott Hibbs spent most of his career as a dedicated public servant in the Arizona Department of Revenue (DOR). The first recipient of the J. Elliott Hibbs ATRA Good Government Award is Joe Langlois, Supervisor of the Natural Resource Group of DOR.

When Joe arrived at the DOR almost 30 years ago, he posed rare combination of skills of a Masters in Geology and also a background in accounting and economics. A perfect match for the job he would perform for DOR. As the Supervisor of the Natural Resource Group, he is responsible for the annual determination of the ad valorem property values of oil, gas, railroad, and mining properties statewide. For tax year 2006, the full cash value of those properties approached 2.3 billion. In many instances, the valuing of these industries is quite complex and the process for reaching a reasonable value is difficult. Despite that, Joe’s colleagues at DOR, as well as those in the private sector, characterize his work as always fair, honest and performed with great dignity and professionalism.

Prop 101 Passes Arizona Voters Restate Limit on Primary Property Taxes

The passage of the Taxpayer Protection Act of 2006 (Prop 101), a ballot measure that ATRA aggressively advocated for during the 2006 legislative session, will eliminate the ability of local jurisdictions to increase taxes by $186 million without the permission of voters. The measure passed by a narrow margin with only 50.7% of the vote.

In an effort to address growing concerns with skyrocketing property valuations, the Legislature supported a three-pronged ATRA plan that called for the following:

TAX RELIEF: State policymakers were encouraged to offset property valuation growth with a meaningful reduction in tax rates. The Legislature and Governor responded by including a $215 million property tax relief package in the budget. The 43-cent county education equalization rate was reduced to zero for tax years 2006, 2007, and 2008.

STOP THE BACKFILL: Local governments (cities, counties, and community college districts) were preempted from increasing primary property taxes in 2006. The 2006 levies for these entities were limited to 2% growth (plus new construction) over their 2005 levels.

PROPOSITION 101: Beginning in 2007, require local governments to receive voter approval before raising property taxes beyond the 2% plus growth threshold.

The effort to avoid tax increases through rate reductions has already proved successful. The combination of the state property tax rate cut and the local government preemption caused the state average tax rate to fall 57 cents in tax year 2006. The successful passage of Prop 101 will ensure that those gains do not disappear in the near future.

ATRA will follow up its effort to address primary property taxes in 2006 by pursuing legislation in 2007 that limits secondary taxes. Look for those recommendations in the upcoming January ATRA NEWSLETTER.

Stavneak, Continued from Page 2

In regard to the challenges that Arizona lawmakers will face in the upcoming year, Stavneak referenced the two-year 10% income tax cut that was part of the 2006 tax package, which has an estimated fiscal impact of $178 million for FY 2008. Additional challenges in FY 2008 include the increase in the corporate sales factor, which allows taxpayers the option of choosing either a 50% or 60% sales factor for tax year 2007. Further challenges include the complete phase-in of full day kindergarten at a cost of $80 million to the state general fund, the Universities Research Facilities debt payment of $35 million.

In his closing remarks, Richard made several recommendations for process improvements, which include improving the consistency in the state’s financial reports, the need to review public-private partnerships, improve debt reporting, expand actuarial audits, and finally, improve the expenditure forecast modeling.
ATRA Outstanding Members of 2006

On behalf of the ATRA Board of Directors, Chairman of the Board Gretchen Kitchel presented Mike Galloway and Larry Lucero with the 2006 Outstanding Member awards.

An expert in state and local taxation, Mike Galloway has played a leadership role in ATRA, both as a member of the Board of Directors and the Tax Practitioners Committee. Over the past several years, Michael has dedicated countless hours to ATRA’s efforts in ensuring taxpayers equal access to tax rulings in Arizona’s courts and administrative decisions of state agencies, which ultimately resulted in the recent passage of House Bill (HB) 2712. In addition, Michael’s work in representing ATRA in amicus briefs before the courts involving numerous tax issues has proven invaluable to Arizona taxpayers.

In presenting the award to Michael, Gretchen said, “Mike, you are a great example to the entire membership and we are extremely grateful for your years of service to ATRA.”

Larry Lucero, who represents Tucson Electric Power in both state and local issues in Arizona, sits as ATRA’s first Vice-chairman and also serves as the Chairman of ATRA’s Legislative Policy Committee. Gretchen emphasized the fact that both the Board and the Legislative Policy Committee benefit greatly from Larry’s broad public policy experience.

Kitchel credited Larry as being a regular at ATRA county budget meetings as well as a major presence at the state capitol in assisting ATRA with its legislative agenda. “Larry is a great supporter of ATRA’s staff and the mission of the association,” said Gretchen in presenting him with the award.

2006 ATRA Outlook Conference Highlights

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Senate Appropriations Chair Bob Burns (left) and Director of the Joint Legislative Budget Committee Richard Stavneak (right) provide their perspectives on the major budget issues facing the state in 2007.

Speaker Jim Weiers (left) addresses attendees at the Outlook Conference, accompanied by Senate Majority Leader Thayer Verschoor (right) and ATRA Vice-chair Larry Lucero (left of Speaker Weiers).
Barb Dickerson (left), and Kevin McCarthy (right) provided the current issues on corporate income taxes and property taxes facing Arizona taxpayers.

Michael Galloway (right) addressed the Outlook attendees of the various Arizona sale tax concerns.

Howie Fischer and Mary Jo Pitzel (below), two journalists that regularly cover issues at the state capitol, provide an analysis on the November general election and their outlook on the 2007 Legislative session.

ATRA Board members Russell Smoldon of SRP (left) and Martin Shultz of APS (right) pose questions to the panel at the ATRA Conference.

Keynote Speaker Treasurer-elect Dean Martin (left & below) addresses the ATRA lunch crowd.
Arizona Capitol Times
December 15, 2006
Best of the Capitol
BEST CAPITOL WATCHDOG GROUP

Arizona Tax Research Association longtime leader Kevin McCarthy says, “That’s an honor. I guess when I explain our organization to perspective members, I caution people that we’re consistent in what we do. Sixty-five years of being focused on public finance and taxation has allowed us to establish a consistent policy, and over time that builds credibility.”

Mr. McCarthy is himself evidence of consistency, having served the organization since 1986. He is considered an expert in public finance and taxation, and regularly represents taxpayers before policy-makers at the state and local level. He currently serves on the Property Tax Oversight Commission, Debt Oversight Commission, and Joint Legislative Committee on Property Tax.

“Sometimes lawmakers get frustrated with us, but they know it’s not personal,” Mr. McCarthy says. “And, we have a very supportive board of directors which supports our mission, despite not always taking a popular position. We’re not an anti-tax organization. We provide a watchdog focus to make sure government is accountable, and they don’t spend any more money than they have to.”