Agendas can be obtained via the Internet at https://apps.azleg.gov/BillStatus/AgendaSearch
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ARIZONA STATE SENATE

Fifty-third Legislature - Second Regular Session

MEETING NOTICE

COMMITTEE ON FINANCE

DATE: Wednesday, March 14, 2018   TIME: 9:00 A.M.   ROOM: SHR 1

SENATORS: Bowie, Cajero Bedford, Farley, Gray, Petersen, Fann, Vice-Chairman, Farnsworth D, Chairman

1. Call to Order
2. Roll Call
3. Approval of Minutes
4. Executive Nominations
   ARIZONA STATE RETIREMENT SYSTEM BOARD
   Michael A. Lofton
5. Consideration of Bills

Bills		Short Title	Subject of Strike Everything Amendment
HB2003	_______	coal mining; TPT; repeal (Finchem: Mitchell, Nutt)	
HB2081	_______	insurance adjusters; application of laws (Livingston)	
HB2099	_______	state budget; estimates; notice. (Leach)	
HB2126	_______	government property; abatement; slum; blight (Leach)	
HB2371	_______	mobile food vendors; state licensure (Payne: Campbell, Clodfelter, et al)	
HB2434	_______	financial products; regulatory exemption program (Weninger)	
HB2528	_______	capital gains; income tax subtraction (Mesnard: Allen J, Finchem, et al)	
HB2601	_______	securities; crowdfunding; virtual coin offerings (Weninger)	

Bills		Short Title	Subject of Strike Everything Amendment
HB2647	________	internal revenue code conformity (Mesnard)	
HCR2029	________	personal property tax exemption (Mesnard)	

3/8/18
EMS

Fiscal Note

BILL # HB 2003

TITLE: coal mining; TPT; repeal

SPONSOR: Finchem

STATUS: As Amended by House WM

PREPARED BY: Hans Olofsson

Description

The bill would exempt the sale of coal from the state and municipal Transaction Privilege Tax (TPT).

Estimated Impact

Relative to current law, the bill would result in an estimated General Fund revenue loss of $(9.1) million in FY 2019. The ongoing revenue impact after FY 2019 depends on whether the coal mine and the Navajo Generating Station (NGS), which purchases its coal, continue their operations after December 31, 2019.

There are at least 3 possible scenarios:

1. NGS and the coal mine remain open without the TPT exemption. In that circumstance, there is an estimated ongoing General Fund revenue loss of $(12.2) million from the bill.
2. NGS and the coal mine close in December 2019. There is still an estimated ongoing General Fund revenue loss of $(12.2) million due to closure, but that impact is not associated with the bill.
3. NGS and the coal mine remain open only with the TPT exemption. The state still loses $(12.2) million in revenue, but that would have happened in any event because without the bill's TPT exemption, the state would have otherwise collected no TPT revenue.

We have insufficient information to determine whether the TPT exemption would keep NGS and the coal mine open. If the TPT exemption would keep the 2 entities operating (scenario #3 above), the state would forego the potential loss of individual income taxes from the entities' employees as well as any corporate income taxes paid by the businesses if the operations were to close.

Analysis

According to publicly available data released by the U.S. Energy Information Administration (EIA), there is 1 coal mine (Kayenta) in Arizona that ships coal to an electric generating station in the state, the Navajo Generating Station (NGS). Both companies are located in Navajo County. EIA lists the quantity of coal shipped as well as the shipment price by year through 2016. Based on the average quantity of coal shipped and the shipment price in the 5 most recent years, the JLBC Staff estimates that the coal mine currently pays an estimated $20.1 million annually in total state and local TPT. This amount is comprised of $16.5 million for state TPT (rate = 5%), $2.0 million for the education tax under Proposition 301 (rate = 0.6%), and the remaining $1.6 million for the Navajo County excise tax (rate = 0.5%). The General Fund portion of state TPT is $12.2 million and the remaining $4.3 million of state TPT is shared with counties and cities.

The bill, which has a general effective date, is assumed to reduce collections in 9 of the last 12 months of FY 2019. Under this assumption, the bill's exemption is expected to result in a General Fund revenue loss of $(9.1) million [= $(12.2) million x (9/12)] in FY 2019.

The bill's ongoing revenue impact depends on the status of NGS. Based on information by the owner of NGS (as reported in media outlets), the power plant is scheduled to operate through December 31, 2019 after which date it will close.

(Continued)

The coal mine, which sells all its coal to the power plant, will reportedly cease operations after this date unless the power plant finds a new owner. Depending on whether NGS and the coal mine close, we have prepared our estimates for 3 different scenarios, as described below.

Scenario 1: NGS and Coal Mine Remain Open Without the TPT Exemption
Under this scenario, NGS is acquired by a new owner and the coal mine continues to operate in calendar year 2020 and beyond. This occurs irrespective of the bill's TPT exemption. Under this scenario, there is an estimated ongoing General Fund revenue loss of $(12.2) million annually.

Scenario 2: NGS and Coal Mine Close in December 2019
Under this scenario there is still an ongoing General Fund revenue loss of $(12.2) million due to closure. However, this impact is not associated with the bill.

Scenario 3: NGS and Coal Mine Remain Open Only With the TPT Exemption
Under this scenario, the state still loses $(12.2) million in revenue, but that would have happened in any event. Without the TPT exemption, the state would have otherwise collected no TPT revenue.

Other Issues Related to the Potential Closure of the Coal Mine
While this analysis addresses the direct revenue impact associated with the potential closure of the coal mine and NGS, there would also be secondary or indirect impacts owing to the "ripple effect" such closures would have on the local economy. This analysis does not include such indirect impacts.

Local Government Impact

In FY 2019, the bill would reduce distributions of state TPT to counties and cities by $(2.0) million and $(1.2) million, respectively. The Navajo County excise tax would be reduced by $(1.2) million.

The ongoing local government revenue impact after FY 2019 depends on whether NGS and the coal mine close. For this reason, we have prepared our local government impact estimates under the 3 scenarios described above.

Scenario 1: NGS and Coal Mine Remain Open Without the TPT Exemption
Ongoing state TPT distributions to counties and cities are reduced annually by $(2.7) million and $(1.6) million, respectively. The Navajo County excise tax is reduced by $(1.6) million annually on an ongoing basis.

Scenario 2: NGS and Coal Mine Close in December 2019
The ongoing local government impact is the same as under Scenario 1. However, since the revenue loss is due to closure, this impact is not associated with the bill.

Scenario 3: NGS and Coal Mine Remain Open Only With the TPT Exemption
Counties and cities are still losing the same amount of revenues as under Scenario 1. However, these losses would have happened in any event. Without the TPT exemption, counties and cities would have otherwise received no state TPT distributions from the sale of coal (and Navajo County would have received no county excise taxes).

2/21/18

ARIZONA HOUSE OF REPRESENTATIVES

HB 2003: coal mining; TPT; repeal

PRIME SPONSOR: Representative Finchem, LD 11

BILL STATUS: House Engrossed

Legend:
DOR – Department of Revenue
TPT – Transaction Privilege Tax
Amendments – **BOLD** and ~~Stricken~~ (*Committee*)

Abstract
Relating to exempting coal from TPT.

Provisions

1. Exempts the sale of coal from TPT. (Sec. 1-3)
2. Establishes a .5% county excise tax on the gross proceeds from the sale of coal that has been mined or extracted within the county boundaries.
   a. Applies the same tax exemptions and statutory provisions as those established under the mining classification of TPT. (Sec. 4)
3. Prevents this Act from taking effect, unless the Navajo Nation Council approves the transfer of ownership of the Navajo Generating Station by a resolution, signed by the President of the Navajo Nation by January 1, 2023.
   a. If applicable, requires the Navajo Nation to deliver the resolution to the Governor and the Director of DOR.
   b. Directs DOR to notify the Director of Legislative Council by February 1, 2023 whether this condition was met. (Sec. 5)
4. Makes technical and conforming changes. (Sec. 1,2)

Current Law

Coal is exempt from tax under the retail and mining TPT classifications, in addition to municipal TPT when used or sold under specific circumstances. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to a qualified technology manufacturer, producer or processor and used directly for on-site power is exempt from TPT (A.R.S 42-5061). Coal is also exempt from taxation when the transfer of title or possession of the coal is for the purpose of refining the coal and the title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process (A.R.S §§ 42-5072, 42-5151, 42-5159, 42-6004).

TPT is imposed on a vendor for the privilege of conducting business in Arizona. Under this tax, the seller is responsible for remitting to the state the entire amount of tax due based on the gross proceeds or gross income of the business. While the tax is commonly passed on to the consumer at the point of sale, it is ultimately the seller's responsibility to remit the tax. TPT is broken down into 16 different classifications, one of which is the retail classification. The retail classification is comprised of businesses selling tangible personal property at retail (A.R.S. § 42-5061). The mining classification is comprised of the business of mining, quarrying or producing for sale, profit or commercial use any nonmetalliferous mineral product that has been mined, quarried or otherwise extracted within the boundaries of this state (A.R.S. § 42-5072).

☐ Prop 105 (45 votes) ☐ Prop 108 (40 votes) ☐ Emergency (40 votes) ☐ Fiscal Note