STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

April 12, 2011

The Honorable Kirk Adams
Speaker of the House
Arizona House of Representatives
1700 W. Washington
Phoenix, Arizona 85007

RE: HB 2581 (STOs; credits; administration)

Dear Speaker Adams:

Today I vetoed HB 2581. I have always recognized the importance of empowering parents, and school choice is a key component of that strategy. I have supported efforts to expand education opportunities for more than 25 years, and I count the establishment of charter schools and open enrollment as among our state's proudest accomplishments. I worked on some of the earliest supportive homeschooling legislation and, as Governor, I have continued to expand school choice and have signed legislation to expand and strengthen Arizona's education options. When the Supreme Court ruled our voucher program for displaced and disabled students unconstitutional, I had no hesitation calling a Special Session to create alternatives for our students. This past January I launched a school choice website to help parents find the information they need. Arizona is a national leader in school choice and I am deeply proud to be a part of that legacy.

While a school choice advocate, I am also a proponent of sound tax policy. Any change in state laws, including school choice expansion, should be balanced against other good government principles. In this case, HB 2581 may create additional school choice opportunities, but, in so doing, it creates other budget and tax issues.

First, HB 2581 unbalances the budget. A public school student receiving a tuition scholarship and leaving the public system is likely to be a financial win for the state. However, HB 2581 expands the pool of qualified students that may qualify for the scholarships funded by corporate tax credits. As is well understood, Arizona has faced a series of unprecedented fiscal challenges. The effort to balance the fiscal year 2012 budget was painful and drove difficult and far reaching decisions, but the outcome of producing a balanced budget was critical to the long-term fiscal health of our state. Undoing that effort and immediately placing fiscal year 2012 into a deficit is inappropriate. Any tax reduction, including tax credits, must be part of an overall plan to keep the budget balanced.

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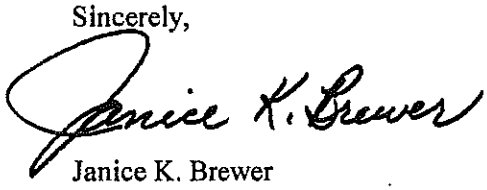
Second, HB 2581 removes the total cap from both corporate tax credits. I acknowledge that in the current environment of low corporate income taxes, tax credits claimed by corporations are likely to be well below the current cap. However, aggregate caps on tax credits are critical to the State's ability to budget. Corporate tax credits should have aggregate caps.

Third, the expanded credits unfairly impact certain local governments. Severance taxes are not uniformly spread throughout the state. While severance is a small portion of overall state revenues, and a limited funding source for most counties, it is a major component of the revenues for Greenlee and Graham Counties. While we can only estimate the impact on severance revenues this credit might have, we know that the effect will be significant on these two rural county budgets, and without an aggregate cap, the impact could potentially be dramatic. Tax credits should not overly burden budgets and as much as possible, impact local governments in a uniform manner.

Fourth, I am deeply concerned about creating a luxury tax credit or other consumption based tax credits. In most cases, Arizona luxury tax is passed through from the wholesalers to the retailer to the consumer. HB 2581 potentially creates a system that would provide wholesalers a tax benefit with no requirement to pass that benefit through to consumers. Further, with no experience in luxury tax credits, we are unable to accurately predict how distributors might respond to this opportunity. Once again, with no aggregate cap, we leave programs, including the Department of Corrections, that rely on luxury taxes, over exposed. It is not clear that the additional reform opportunities presented in the bill outweigh these concerns.

I continue to support the expansion of school choice opportunities and look forward to working with the education community and the Legislature to identify avenues to expand school choice while maintaining sound tax policy.

Sincerely,



Janice K. Brewer
Governor

cc: The Honorable Russell Pearce
The Honorable J.D. Mesnard
The Honorable Ken Bennett

House Engrossed

State of Arizona
House of Representatives
Fiftieth Legislature
First Regular Session
2011

HOUSE BILL 2581

AN ACT

AMENDING SECTION 20-224.06, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 3, ARTICLE 8, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 42-3357 AND 42-3358; AMENDING TITLE 42, CHAPTER 5, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 42-5207 AND 42-5208; AMENDING SECTIONS 43-1089, 43-1183, 43-1184, 43-1502, 43-1503, 43-1504, 43-1505, 43-1507, 43-1602, 43-1603 AND 43-1605, ARIZONA REVISED STATUTES; RELATING TO TAX CREDITS FOR CONTRIBUTIONS TO SCHOOL TUITION ORGANIZATIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

Passed the House March 10, 20 11

by the following vote: 39 Ayes,

21 Nays, 0 Not Voting

Speaker of the House

Cheryl Laube

Chief Clerk of the House

Passed the Senate April 5, 20 11

by the following vote: 21 Ayes,

7 Nays, 2 Not Voting

President of the Senate

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

6 day of April, 20 11

at 10:30 o'clock A. M.

Secretary to the Governor

Approved this _____ day of

VETO

at _____ o'clock _____ M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this _____ day of _____, 20_____

at _____ o'clock _____ M.

Secretary of State

H.B. 2581