

State Room Arizona 001: Aimee Yentes | The Truth About Arizona Policy Now

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Full Article-Style Transcript

Introduction: Launching The State Room

Scot Mussi: Hi, thank you for joining us today at The State Room. My name is Scot Mussi. I am president of the Arizona Free Enterprise Club. Joining us today is Aimee Yentes, also with the Free Enterprise Club, vice president of our policy work, and she heads up all of our advocacy, research, and policy work here in the state of Arizona. Thank you, Aimee, for coming together and wanting to do this podcast.

Aimee Yentes: Yeah, this is fun, Scot. This is fun.

Scot Mussi: Just for clarification on what we are doing here, several months ago we decided it was probably time that we launched our own podcast. From a political and policy direction, we are doing all this activity here in the state, and we thought it would be good to provide an inside look on how we engage here in Arizona. We are in every major fight and every major political battle. Our organization is often in the middle of it. We obviously do a lot of work where we go out and talk at the legislature, do Zoom calls, and online calls, but we thought it was time that we had an opportunity to sit down and really give the inside look on how we are making a difference here in the state, whether on policy issues or talking with candidates looking to run for office. From that, The State Room was born.

Scot Mussi: Today, I wanted to begin The State Room by talking about a couple of the key issues we are working on at the legislature. Aimee is engaged down there on a day-to-day basis, fighting the good fight. I wanted to start first by talking about probably the biggest issue we are currently fighting at the legislature right now. In fact, it is probably the biggest issue impacting Arizonans and Arizona taxpayers: this fight over conformity and tax conformity. It is something probably nobody has ever heard of before because it is not a kitchen-table term. It is usually an inside-baseball fight at the legislature, but it has become a big fight this year. Aimee, do you want to take a couple of minutes to explain what conformity is? When we talk about tax conformity, why should anybody care? And secondarily, why has this become a problem and an issue for Katie Hobbs, and frankly a crisis that she has created?

Tax Conformity and Governor Hobbs

Aimee Yentes: Yeah. Of course, this is actually an issue that comes up every year at the legislature, but most years it is just a procedural matter. It is boring. That is because the issue of Arizona conforming its tax code has to do with what they do at the federal level. Most years, that is not much. The changes the federal government makes on taxes are pretty minute, so there is not a lot the state has to do as far as tax policy goes. This started with passage of the One Big Beautiful Bill that occurred on July 4, Independence Day. It included many of the major tax policy provisions that President Trump was running on, things like not taxing tips or not taxing overtime, which were obviously very popular. When those major tax changes happen at the federal government, states like Arizona have to make conforming changes so Arizonans can both streamline their taxes and take advantage of major tax cuts happening at the federal level.

Scot Mussi: So if we want the Trump tax cuts that happened at the federal level, conformity is how we get the Trump tax cuts at the state level.

Aimee Yentes: Exactly right. All the good provisions, whether on the individual side or for small businesses and corporations, we have to adopt and piggyback on those federal provisions in order for Arizona filers to take advantage of them.

Scot Mussi: And if we did not conform, what would happen if we just said we are not doing anything?

Aimee Yentes: Those provisions that would be a tax decrease for taxpayers would not be fully realized. They would be paying more, essentially. This got scored for Arizona for this year at about \$440 million. That is just this tax season. We are rounding out the middle of March, so I am sure everybody is collecting documents and sending them over to CPAs, getting ready to file their taxes. Many states saw this and went into special session. They knew they had to convene their legislative bodies to pass a tax bill, send it to their governors, and make it tax law to conform with the federal changes. That did not happen in Arizona. There were a lot of Republicans behind the scenes saying, "We have got to get on this. Governor, please convene us into special session so we can deal with this as a matter of urgency." That way, when people started getting W-2s and thinking about filing their taxes, they would have certainty and know what it looked like.

Scot Mussi: Let's not sugarcoat this, Aimee. Governor Katie Hobbs has completely bungled this, and this is not the first time she has bungled something. She has been bungling things for a few years now as governor, but she has bungled this entire conformity issue. She could have called a special session, brought everybody back in December, and made sure everybody had tax clarity before tax season even began. She chose not to. Instead, she rolled into January, and at the State of the State address she announced that she wanted her own conformity plan. She had put out statements prior to that on social media, but announced at the State of the State that she wanted her own conformity plan. What was that like? What did she want to do with her own conformity plan that she was trying to proclaim as her own tax-cut package?

Aimee Yentes: Exactly. In November, she rolled out what she called her own middle-class tax cuts, which really only amounted to about half of the full federal benefit for Arizona taxpayers. She borrowed some of the more popular headlines, things like no tax on tips and no tax on overtime, and tried to come up with her own plan. Then she asked her Department of Revenue, which is an executive agency that takes direction from Katie Hobbs, to promulgate forms that would conform to her tax plan. But it was not full conformity to the One Big Beautiful Bill. It was only about a \$220 million benefit to Arizonans instead of the \$440 million in this first year. What proceeded from there is what has thrown the entire situation into complete chaos: the Department of Revenue did take her package, but then they also adopted tax forms that assumed conformity to every provision of the One Big Beautiful Bill.

Scot Mussi: Wait, wait. Let me get this straight. She announced her own plan, but then her own Department of Revenue issued tax forms that did not even align with what she wanted to do. They did full conformity, which is what every Republican and what our organization wanted. We wanted full conformity tax relief. If you are going to do tax relief and give the amount, you want to do the full amount. The tax forms reflected what most Republicans were advocating for and did not even reflect what she wanted.

Aimee Yentes: Exactly right. To their credit, they adopted what she wanted and then everything else that Republicans wanted on top of it. When Republicans were trying to pass a bill that adopted the Arizona full-conformity plan, the Department of Revenue testified in committee. I would have loved to be a fly on the wall. I was shocked heads did not roll, other than that they need competent people running these agencies, especially in the middle of tax-filing season. They made clear that not conforming fully and doing something contradictory to the tax forms they put out would likely result in a million Arizonans having to refile their taxes. This would be unprecedented and catastrophic in a sense.

Scot Mussi: So Katie Hobbs did not call a special session, then pushed back against the idea of full-conformity tax relief, announced her own plan, but then her own Department of Revenue issued forms that do full conformity. Now she is trying to figure out a way to roll that back so taxpayers do not get full conformity. Because we are in the middle of tax-filing season and people are filing taxes, people would have to go in and refile their taxes if the forms changed, I assume.

Aimee Yentes: Exactly right. That is why Republicans have sent two iterations of a full-conformity package, with minute changes to the specific policies, but the full amount. They put two different versions of this on Katie Hobbs' desk, and unfortunately she vetoed both of them.

Scot Mussi: That is why we are trying to explain this to everybody: what Katie Hobbs wants to do is complete chaos. It would cause chaos in our tax system. As you mentioned, a million people would probably have to refile their taxes and pay more when they do it because her plan rolls back tax relief.

Aimee Yentes: It was kind of funny because in some of the committee hearings, and in a joint hearing between the House and Senate tax committees, some Democrats were shrugging as if maybe it was not that big of a deal for taxpayers to come back and pay additional money to CPAs and accountants to refile. Most people would probably rather have a root canal than file their taxes, so the idea that they would have to do it twice and then pay more taxes on top of it is ridiculous. Any politician telling taxpayers that it is no big deal to file taxes twice is completely out of touch and does not understand what goes into tax preparation or what people have to deal with.

Scot Mussi: Maybe they are unfamiliar with filing taxes. Or maybe they think they represent constituents who do not pay any taxes, and maybe that is a large portion of their constituents. Who knows? That is where we are right now. They are in the middle of this fight. Where do we go from here? If we want to make sure we do not have what chaos Katie wants, with people having to refile tax returns, what is the best thing Republicans and the legislature can do to prevent that damage from happening to Arizona taxpayers?

Aimee Yentes: I will start by saying Republicans do not actually have to do anything. The onus is really on Katie Hobbs. The reality is that people are filing under these forms, so Republicans do not have to pass any tax bill. This is the situation. They can simply take the position that they will not support anything that involves people having to file their taxes again. That means keeping the tax forms that her office approved and doing a budget based on that.

Aimee Yentes: It would probably be a good idea, if they wanted to, on tax-filing day in the middle of April, to send another bill up to her desk and give her one last opportunity to make this right and give people certainty. But it is not very difficult calculus to do. I sometimes try to put myself in Katie Hobbs' mindset and think a few months down the road: how do you square this? It just does not make any sense.

Scot Mussi: I look at it from her perspective. She has bungled it. She has driven herself into her own box canyon because she has taken a position that is untenable. The last thing Republicans should be doing is looking to give her some sort of bailout or soft landing. Setting aside changing the forms, nothing else should be tied to this. These are the forms. Do a budget based on that and call it a day. Am I missing something?

Aimee Yentes: Nope. For this year at least, assuming the full conformity math amount, that just makes sense. I do not see a reality in which they escape from that and then go back to taxpayers and say, "Yeah, go refile, and by the way, you owe us more money," in the middle of election season. I am not sure who is consulting Katie Hobbs these days, but I would strongly advise against that.

Scot Mussi: Chaos. Chaos Katie struck again. She has bungled this, and Republicans should not be bailing her out. Simple as that.

Proposed Election Constitutional Amendment

Scot Mussi: Switching gears, I want to talk about initiatives, proposed initiatives, and ballot measures, which our organization is relentlessly involved in every campaign cycle. We want to make sure we are not passing bad policy at the ballot and that we are not letting the radical left weaponize the ballot box. That is the worst thing we could allow. As part of that, the left comes and tries to put measures on the ballot. They can pay to get signatures. One measure they dropped a couple weeks ago proposes a constitutional amendment that would radically change how the legislature and even the state can manage our election process. It deals primarily with early voting. On first read, it looked like bad news. What is your take on this measure? What does it do that the left is trying to put on the ballot for November to amend our constitution with our election system?

Aimee Yentes: There are a couple provisions in it. You are familiar with this because when people want to stuff a ballot measure full of different provisions, they lead with things that sound popular. If they are going to hide a couple stinkers in there, they want to make it all taste like vanilla ice cream on the outside so they can market the initiative as things people would like. They throw in things like voter ID because voter ID is popular with pretty much everybody along the political spectrum. But the measure really institutionalizes within our constitution our current mail-in voting system. Some of those things are what get under voters' skin the most, like late election results. Some of that is a function of how we do mail-in voting.

Scot Mussi: So the measure enshrines our entire existing mail-in voting system in the Constitution.

Aimee Yentes: By right, as a fundamental right.

Scot Mussi: How could we change that in the future? Could we go to the legislature and run a bill and say we want to fix something? You may like early voting, and there is a lot of debate about that, but how could anybody argue that the current system is perfect? As you mentioned, it has taken us weeks to get election results. Is there a way to fix that, or does this measure basically prohibit changes? This would fundamentally upheave our election process.

Aimee Yentes: There would be nothing the legislature could do. That is why I said at the beginning that they put things in that might sound good. A lot of people like voting by mail. A lot of people like taking their mail-in ballots, if they forgot to put them in the mail in time, and dropping them off on Election Day at a polling place. People like that kind of choice in general. But they do not always think about all the process involved in running an election and how some of that can slow things down and create problems. They hid one provision in this ballot initiative that is probably the most damaging and that voters will not necessarily notice or understand. They are changing the legal standard of review for anything the legislature passes as far as election administration.

Aimee Yentes: Even simple fixes, like having a cutoff date for dropping off mail-in ballots so it does not slow down the entire system, could not be done. It would now be reviewed under strict scrutiny. Basically, anything the legislature passed to create faster elections, more secure elections, or more accurate results could be challenged by the left, and they could argue that under the strict-scrutiny standard those reforms fail, especially as the initiative enshrines these process things as a fundamental right of voters. It would be game over. You could not make even modest tweaks to improve the system.

Scot Mussi: For almost a decade now, Maricopa County has been a national laughingstock because we cannot even come close to getting results on election night. It is taking weeks. If this initiative passes, can that ever be fixed?

Aimee Yentes: No. It would not ever get fixed. You would have to run another ballot measure to the people with a giant uprooting of this entire system through that ballot measure. That would be the only way.

Scot Mussi: So that is the goal, which in some respects is not surprising because the groups pushing this, and Katie Hobbs, have made this clear. She has vetoed bills that would help us get results on election night, including bills that received bipartisan support. There is a contingent on the left that does not care that it is taking weeks to get election results. They see this as a feature. They think it is better to keep the current system in place. We can speculate on why, but I think they like the idea that they feel it is a system they can control related to mail-in voting. Whether we are sitting around at Thanksgiving wondering who is winning and whether all the votes are counted, I do not think the drafters of this care.

Aimee Yentes: We call her chaos Katie, but some chaos built into these systems could be very advantageous. You are right: it is a feature, not a bug.

Affordability and the Local Tax/Fee Moratorium

Scot Mussi: All right, last topic. Affordability has been a big issue in Arizona and nationally. It is a top issue that we have hammered on with lawmakers and policymakers. The cost of living and the cost of everything is a real problem. How do we make sure we are putting forward good solutions to deal with these affordability issues? This year we introduced a bill to get at that. We think it is one of the best bills to tackle this problem because one of the biggest offenders making Arizona unaffordable has been local governments: endless tax and fee increases throughout the state, sales tax increases, property tax increases, and utility fee increases. Interestingly enough, local governments are swimming in cash. They never seem to have a revenue problem. That has never been the issue. They seem to have a spending problem, but they do not seem to care. Families are having to tighten their belts, while local governments are spending away and raising taxes while they do it. We proposed a bill to deal with that and implement a moratorium. What is going on with that bill? How is it moving along? What does this moratorium look like, and why would it be a good idea for taxpayers?

Aimee Yentes: We have a bill as well as a referral. For people who do not know what that means, the bill goes through the regular process, goes to Katie Hobbs, and she has an opportunity to sign it or veto it. Or the legislature can refer it directly to the people. In our infinite prophetic wisdom, we assume Katie Hobbs will oppose a moratorium to stop cities from raising taxes, fees, and utility rates.

Scot Mussi: So this does not make them actually cut anything. It just says they have to stop the badness.

Aimee Yentes: We would love to go as far as ratcheting back and putting caps on the fees and rate hikes, but that is a more difficult political lift. This is really just a freeze. It says whatever your fee, tax, and rate schedules are from this last year, that is what they will be for the next four years. It is a pause, a breather. We hear from people. We are a grassroots organization. We are feeling it too. We are Gilbert residents, and our water bills have gone up over 100% in the last few years.

Scot Mussi: I have a story about that. My dad lives in Gilbert and called me up over the summer because he thought he had a water leak. He could not believe his water bill. He said, "My water bill is so large. What is going on? I think I have a water leak." I told him, "Dad, you do not have a water leak. The town of Gilbert is just jacking up the water rates, and they have doubled them." It is not going to stop. They are coming for more. My dad was freaking out, and I could hear my mom chirping in the background because she was unhappy too. They were astounded by how much their water bills had gone up in less than a year. It is not stopping, and they are not the only ones. Multiple jurisdictions are doing this.

Scot Mussi: When you look at these budgets, you look at the town of Gilbert and others, and they say they want water fees to pay for themselves. What is missing from that equation is that they have an entire general fund that historically went in to help pay for all these different services. Now they have decided they want to spend the money on other things. These town budgets have doubled over

the last 10 years. They are not tightening their belts. Everybody else is. We are paying for all of it, but local governments have not tightened their belts. So explain to me why this is not getting unanimous support at the legislature. Why is everybody not saying we need a pause to tax and fee increases?

Aimee Yentes: That is a great question. To zoom out a bit, the bill was on the floor yesterday to be amended. That happens before a final vote on the bill. It was introduced in the House, so it is still trying to get out of the House. I made a couple of tweaks to make it a little more palatable for people.

Scot Mussi: Who are “the people”? I am assuming the cities obviously do not like this.

Aimee Yentes: I think every city in the state signed in against this thing.

Scot Mussi: So what, are city council members coming down and sitting in the gallery opposing this thing?

Aimee Yentes: No. In fact, I think most city councils probably do not even take direct votes on this, even though they represent the people. They offload their policy positions to intergovernmental affairs and hire lobbyists. So, yes, we were sitting in the gallery.

Scot Mussi: So there are a bunch of city lobbyists opposing this that your taxpayer dollars also pay for. Taxpayers who are getting gouged with these tax and fee increases are simultaneously paying for lobbyists to go down to the Capitol and oppose efforts to provide tax relief so they can keep doing it. Is it possible for them to reduce the size of these tax and fee increases by getting rid of these paid lobbyists?

Aimee Yentes: That is a great idea. There is another bill stirring up. Is it too late? Let's introduce that one. We are all for it. It was somewhat entertaining. My colleague and I were in the gallery yesterday watching this unfold, and I think the whole gallery was filled with city lobbyists. It may be the most hated measure moving through the body right now by cities and towns. It was funny because Democrats used it as an opportunity to run a bunch of amendments on the bill because they recognize how bad it looks for them to oppose a really great affordability measure, something voters would support and that would actually help on affordability. They ran a bunch of unrelated amendments to try to gut the entire moratorium. They recognize that it is really bad optics. They would hate for this to land on Katie Hobbs' desk because there is no reality in which she does not veto it, and that is bad politics for them.

Scot Mussi: Everybody is irate about these tax and fee increases. The city of Tucson tried to do a half-cent sales tax increase last year, and it failed two to one. Many jurisdictions where they have to go to voters to approve a tax increase fail miserably. So some towns say they will just stop doing that, approve it by council vote, and hope people get over it and that no opponents run against them. It is an endless machine, it seems like.

Aimee Yentes: Exactly right. We tried to make some changes to the bill to keep it moving. We will see how it goes. We hope it can get voted on next week, and if it makes it to the Senate side, we will keep the conversation going. But it is critically important for policymakers, Republicans, and anybody looking to run for office to provide real solutions to affordability. It cannot just be lip service. Unfortunately, that is what we see a lot of. If you are going to provide actual solutions to affordability, you are going to run into resistance because there are people who benefit from the unaffordability being created. It is particularly cringe to have lawmakers catering to cities and towns when all they get is flack from them for lowering taxes from the state level. They say, “Stay in your lane,” forgetting that the legislature actually defines how narrow or broad the lane for city government is. The state legislature has been cutting taxes while cities have been raising them.

Scot Mussi: I always love that argument. They say, “Leave us alone, local control,” and then they show up with their briefcase to pick up all the money they get from the state. Every city gets huge sums of money from shared revenues. When people pay income taxes and state sales taxes, every

jurisdiction gets a cut. They love that model because they do not actually have to be held accountable for it. They just get the money. They get to be Santa Claus.

Aimee Yentes: Santa Claus.

Scot Mussi: They get to be local Santa Claus. They take the money and spend it while raising taxes, fees, and water rates, and then claim that you can never put a freeze on anything.

Closing

Scot Mussi: Aimee, thank you so much for joining us for our inaugural State Room podcast. Thank you to everybody who took time to watch our show today. We are going to be doing this on a regular interval, probably once a week, talking about key issues we are working on here in Arizona and key political issues we think we can provide some insight on. Hopefully, we will keep things fun and entertaining because a lot of these issues, often by design at the legislature, are kept as opaque as possible so people do not understand. Our goal is to cut through the clutter and the smoke so people understand what is really impacting us here in the state and how we can keep Arizona free. Thank you for joining us today here for The State Room.