



STATE OF ARIZONA

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June 28, 2006

The Honorable Ken Bennett  
President  
Arizona State Senate  
1700 West Washington Street  
Senate Office Building  
Phoenix, Arizona 85007

Re: Senate Bill 1543: property tax valuations; pipelines

Dear President Bennett:

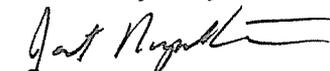
Today I vetoed Senate Bill 1543, related to changes in the formula for pipeline valuations for property tax purposes.

This bill makes a number of unwise changes in the law that will result in a tax shift from these pipeline companies to other taxpayers of over \$10 million annually. Section 5 of the bill precludes the Department of Revenue from assigning a value to a pipeline's personal property construction work in progress (CWIP) before the property is first placed in commercial service. This exclusion sets bad and potentially enormous tax shifting precedent in light of the many large construction projects being undertaken by other industries who are currently subject to taxation of their CWIP.

I also object to the proposed changes to the Arizona Allocation Factor. The bill eliminates certain costs from the numerator in the factor (Arizona Property Cost) while continuing to include the same costs in the denominator (Total System Property Cost). To reduce "funds used during construction, mapping costs, and costs associated with environmental studies" from the Arizona property cost but not make a similar reduction to the total system costs makes no sense. These are normal costs that are capitalized and reflected in the total balance sheet cost of a pipeline, and there is no basis for excluding them from the cost of a pipeline's Arizona property for tax purposes.

For these and other reasons, I have vetoed Senate Bill 1543.

Yours very truly,

  
Janet Napolitano  
Governor

JN:TN/jm

cc: The Honorable Jim Weiers  
The Honorable Dean Martin