ATRA

Legislative Review

2024

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Information without action is futile

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ATRA'S 2024 LEGISLATIVE REVIEW

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ATRA is Arizona's only statewide taxpayer organization dedicated to protecting taxpayers and advocating for sound fiscal policy. A considerable amount of ATRA's work on behalf of taxpayers is done at the state capitol during the annual legislative session. Each year, through its legislative program adopted by the Board of Directors, ATRA advocates for tax and fiscal policies to improve Arizona's public finance system.

The ATRA Legislative Policy Committee meets every Friday during the legislative session to review the impact of all proposed legislation on taxpayers and Arizona's public finance system. ATRA coordinates its advocacy efforts in the Legislature on important tax legislation. Through testimony in committees and dissemination of information to legislators, ATRA serves as the leading taxpayer advocate at the Legislature.

ATRA staff would like to thank the members of ATRA's Legislative Policy Committee and Chairwoman Rebecca Hudson-Nunez for their guidance and combined efforts during the 2024 legislative session. Special appreciation also goes out to members of ATRA's Tax Policy Committee whose knowledge, under the leadership of Chairwoman Heidi Thomas, has consistently proven to be indispensable to this organization's success during the legislative session and throughout the year.

During the Second Regular Session of the 56th Legislature, 1,801 bills and resolutions were introduced. Of the 1,663 bills introduced, 332 passed, 259 were signed into law, and 73 were vetoed. Thirty-one of the 138 resolutions introduced were adopted by the Legislature. This document summarizes key legislation ATRA supported, opposed, and monitored.

Additionally, ATRA would like to thank ATRA board member Steve Trussell, Executive Director of Arizona Rock Products Association and the Arizona Mining Association, and his staff for not only continuing to host the Legislative Policy Committee meetings at their office, but for providing a hybrid virtual option for ATRA as well.

HIGHLIGHTS OF THE 2024 LEGISLATIVE SESSION

This document summarizes key legislation ATRA actively supported, opposed or monitored during the Second Regular Session of Arizona's 56th Legislature. This year's legislative session lasted through June 15th, setting the General Effective date to September 14, 2024.

The State Budget

As in past years, a major focus of ATRA staff's activity this legislative session was on the state budget. This year, the Legislature was tasked with addressing a combined $1.4 billion shortfall for Fiscal Years 2024 and 2025. The two-year deficit was resolved dominantly through $715 million in fund sweeps from a laundry list of state agencies and revolving funds. There were $540 million in one-time changes made to the FY 2024 budget, primarily from "ex-appropriating" funds for capital projects from previous year's budgets. Finally, ongoing spending in the FY 2025 budget was trimmed by $133 million, with only $39.6 million being ongoing reductions to various state agency budgets. The $133 million in ongoing reductions was a roughly 1% reduction in the ongoing budget. Despite considerable attention to reductions to the proposed FY 2025 budget, the final budget actually increased ongoing spending $763 million or 5.2%. *See Appendix for more information on the state budget.*

Legislative Activity

ATRA staff pushed for several legislative opportunities while at the same time defending taxpayers against bad policy threats. Among the most significant accomplishments of this legislative session in which ATRA took a leadership role included the following:

- ATRA successfully advocated for legislation that reinforces the Arizona Department of Revenue's (ADOR) oversight and authority over state and local TPT audits of multijurisdictional taxpayers (HB2380). This legislation also bolsters the responsibility of the Unified Audit Committee (UAC) by requiring the Committee to establish and publish uniform guidelines to improve the uniformity of state and local audits.
- ATRA defeated an effort under HB2330 that would have allowed fire districts in rural Arizona to be created by a simple majority vote. Defeating this measure was imperative to keeping in place the current petition process that allows the property taxpayers of the proposed district to participate in the district creation process.
- ATRA was successful in favorably amending HB2382 to remove proposed language by the League of Arizona Cities and Towns that would have significantly changed Arizona's TPT sourcing law for the sale of tangible personal property. ATRA was concerned with making a sweeping change to the TPT sourcing law without broad input from the taxpaying community and without proper notice to effected taxpayers that would need to make changes to comply with the new law.

LEGISLATION LISTED BY BILL NUMBER

LEGEND FOR ATRA'S POSITION:

S = Supported M = Monitored O = Opposed FA = Favorably Amended

BILL NUMBER, SHORT TITLE, AND PRIMARY SPONSOR		POSITION	FINAL STATUS/CHAPTER #	PAGE
HB2088	bond; override; contributions; contracts; prohibition (Hendrix)	M	Held in House COW	11
HB2089	community colleges; expenditure limitation (Hendrix)	M	Held in House COW	11
HB2173	county aid; school districts; revisions (Pingerelli)	S	Chapter 134	6
HB2196	commercial property assessed financing (Hendrix)	M	Held in House RA	11
HB2274	NOW: theme park districts; formation (Marshall)	M	Chapter 252	12
HB2290	certificates of operation; interfacility transfers (Kolodin)	M	Failed in House RA	12
HB2309	GPLET; agreement posting; abatement period (Grantham)	S	Vetoed	7
HB2329	S/E: CORP; employee enrollment; membership; election (Payne)	O	Held in House Rules	8
HB2330	fire districts; formation; county supervisors (Marshall)	O	Held in Senate GOV	9
HB2379	internal revenue code; conformity (Carter)	S	Chapter 7	6
HB2380	TPT; municipalities; audits; guidelines (Carter)	S	Chapter 33	6
HB2382	TPT; sourcing; validation (Carter)	FA	Chapter 142	10
HB2408	property tax assessment; destroyed property (Gillette)	M	Chapter 34	12
HB2418	fire district advisory board (Livingston)	FA	Held in Senate GOV	10
HB2501	community college districts; county removal (Biasiucci)	M	Held in the House	12
HB2594	TPT; prime contracting; exemption; alterations (Carbone)	S	Held in House WM	7
HB2608	teacher retention; study; report (Gress)	S	Held in Senate Third Read	7
HB2875	tax payments; electronic funds transfer (Carbone)	S	Chapter 44	6
HCR2023	property tax; refund; nuisance enforcement (Toma)	M	Prop 312	13
HCR2047	state land trust; permanent funds (Gress)	M	Held in House COW	14
HCR2048	schools; teacher salary increases; reporting (Smith)	M	Held in House COW	13
SB1056	municipalities; counties; fee increases (Petersen)	M	Struck in the House	14
SB1075	K-12; school funding; revisions (Bennett)	S	Held in Senate ED	8
SB1095	property tax; golf courses; valuation (Mesnard)	M	Chapter 8	14
SB1119	school district buildings; demolition; request (Bennett)	S	Held in House ED	8
SB1335	NOW: public notice; municipal land sales (Carroll)	M	Chapter 198	15
SB1431	right to redeem; foreclosure;sale (Mesnard)	M	Chapter 176	15
SB1495	personal property exemption; increase (Mesnard)	S	Held in House Rules	8
SB1636	excise tax; jet fuel; definition (Carroll)	S	Chapter 242	6
SB1663	common school districts; tuition; expenditures (Gowan)	O	Held in House ED	9
SB1695	community colleges; dual enrollment; funding (Gonzales)	O	Held in Senate Approps	9
SCR1027	state land trust; permanent funds (Mesnard)	M	Held in Senate COW	14
SCR1034	schools; teacher salary increases; reporting (Hoffman)	M	Held in Senate COW	13

PASSED LEGISLATION ATRA SUPPORTED

HB2173 county aid; school districts; revisions (Pingerelli) Chapter 134
An emergency measure that repeals A.R.S. 15-971, HB2173 is a continuation of ATRA's prior successes regarding type 03 school finance (see HB2124 from 2022). HB2173 Capped the additional tax rate for a type 03 school at the lesser of the qualifying tax rate (QTR) or a rate resulting in a levy equal to the countywide average per pupil equalization base for high school pupils multiplied by the number of resident high school pupils in the district during the previous school year. When evaluating whether a district exceeds their maximum primary property tax rate, the Minimum QTR and additional tax are excluded. Additionally, any unexpended revenues collected from the additional tax levied by a county board of supervisors in TY 2023 pursuant to Laws 2022, chapter 285, section 11, will be redirected to the County Treasurer for deposit in the State General Fund for school financial assistance.

HB2379 internal revenue code; conformity (Carter) Chapter 7
HB2379 was the annual IRC conformity bill that conforms Arizona state statutes to the Internal Revenue Code (IRC) as of January 1, 2024. There was no anticipated fiscal impact according to ADOR.

HB2380 TPT; municipalities; audits; guidelines (Carter) Chapter 33
HB2380 reinforces ADOR's authority to approve or deny a city or town's request to audit a TPT taxpayer located in more than one city or town. The measure also bolsters the existing statutory authority of the Unified Audit Committee (UAC) by requiring the Committee to establish and publish uniform guidelines to improve the uniformity of state and local TPT audits. ATRA advocated for this measure following a recent draft IGA between ADOR and the cities that would allow the cities to overrule the Department's decision to deny a city or town's request to audit a multijurisdictional taxpayer. *See ATRA Position Paper in Appendix*

HB2875 tax payments; electronic funds transfer (Carbone) Chapter 44
An electronic payment is deemed to have been made at the date and time the taxpayer successfully authorizes the electronic funds transfer from the taxpayer's financial institution to ADOR. Timeliness of electronic payments is evidenced by an electronic payment confirmation issued by ADOR, the taxpayer's financial institution or a vendor certified by ADOR. Through December 31, 2024, ADOR may abate penalties relating to the timeliness of an electronic payment if the taxpayer provides reasonable evidence from ADOR or the taxpayer's financial institution.

SB1636 excise tax; jet fuel; definition (Carroll) Chapter 242
The definition of "jet fuel" is expanded to include an aviation turbine fuel that consists of conventional and synthetic blending components that can be used without the need to

modify aircraft engines and existing fuel distribution infrastructure. Also included are jet fuels derived from coprocessed feedstocks at a conventional petroleum refinery.

FAILED LEGISLATION ATRA SUPPORTED

HB2309 GPLET; agreement posting; abatement period (Grantham) Vetoed
HB2309 would have reduced the maximum property tax abatement period under the Government Property Lease Excise Tax (GPLET) from eight to four years. Additionally, the measure required ADOR to post the county treasurer's GPLET reports on its website and government lessors to include all GPLET leases in the public database and post to their websites. ATRA advocated for this GPLET reform in response to the recent Gift Clause challenge under *Englehorn* in which the court ruled that the GPLET provided to the developer by the City of Phoenix was unconstitutional. Reducing the abatement period would improve the chances of future GPLET agreements surviving a Gift Clause challenge. *See ATRA Position Paper in Appendix*

HB2594 TPT; prime contracting; exemption; alterations (Carbone) Held in WM
ATRA advocated for HB2594 to simplify the tax treatment of contracts for residential remodels by eliminating the current 25% statutory threshold for residential "alteration" projects and remain subject to tax under MRRA (maintenance, repair, replacement, alteration) and only contracts that add square footage beyond the existing roof would be subject to tax under prime contracting. The bill was opposed by city lobbyists for the second year in a row by using the same flawed interpretation as last year that "one component or system" means "one room" rather than the "entire home" in residential remodels. According to this flawed perspective, a contract to remodel only one room in a house would be taxed as MRRA, but if more than one room is remodeled, then the contract would be taxed under prime contracting. State statute states that ADOR's interpretation of the law is binding on the cities and towns when state statute and the model city tax code are the same, and that is the case here. Following last year's testimony from the cities, ADOR discredited the city's inaccurate interpretation of the law in a letter to the bill sponsor. Specifically, the ADOR letter stated that the city's testimony "introduces a new interpretation of alteration that is unsupported by law." Despite ATRA's best efforts to debunk the city's flawed messaging to certain lawmakers, the bill was held in the House Ways & Means Committee without a hearing.

HB2608 teacher retention; study; report (Gress) Held in Senate Third Read
HB2608 would have required the State Board of Education to conduct a study on teacher retention in school districts and charter schools, covering factors such as certification types, teaching assignments, locations, and teacher preparation programs. The measure also would have required teacher FTE data to be included in the budget of a school district or charter. Would have required the study to include data on the

number of teachers who received formal mentorship within the first three years of teaching. HB2608 left the House on a 45-10-2 vote, but was held in the Senate.

SB1075 K-12; school funding; revisions (Bennett) Held in Senate Ed
SB1075 was an ATRA-backed bill that was sponsored by Senator Ken Bennett, Chairman of the Senate Education Committee, intended to support a more equitable school finance system by instituting a new optional funding formula for public school districts. Districts would be able to opt into a more streamlined and secure funding formula currently used by charter schools. In return for the funding increase, these districts would forgo locally funded bonds and overrides. SB1075 was never heard in committee.

SB1119 school district buildings; demo; request (Bennett) Held in House Ed
Would have required that before a school building could be demolished, the district must first prove that the building has outlived its useful life, has been condemned, or is unsafe. Demolition of these buildings must also not reduce per pupil square footage thereby making the district noncompliant with minimum adequacy requirements. SB1119 would have required written approval from the SFB before demolition can occur. SB1119 received broad support in the Senate with a 22-7-1 vote, but was ultimately held in the House Education Committee.

SB1495 personal property exemption; increase (Mesnard) Held in House Rules
SB1495 would have increased the personal property exemption from the current inflation adjusted amount of *$248,691 (tax year 2024)* to $500,000 of full cash value, effective for tax year 2025. ATRA advocated for this measure since it would further reduce the tax and administrative burden on small businesses. The JLBC fiscal note of $1.6 million (with TNT savings) prevented the bill from moving forward due to the state budget deficit. *See ATRA Position Paper in Appendix*

PASSED LEGISLATION ATRA OPPOSED

No legislation passed that ATRA opposed.

FAILED LEGISLATION ATRA OPPOSED

HB2329 S/E: CORP; enrollment; membership (Payne) Held in House Rules
The strike-everything (S/E) amendment to HB2329 in the House Military Affairs & Public Safety Committee would have reversed pension reform legislation enacted in 2017. That reform closed the defined benefit (DB) plan in the Corrections Officer Retirement Plan (CORP) to all new corrections and detention officer positions hired on or after July 1, 2018, and instead, those employees were automatically enrolled in the Defined Contribution Plan under the Public Safety Personnel Retirement System (PSPRS). The

S/E to HB2329 would have allowed all new hires to participate in either the CORP DB Plan or the PSPRS DC Plan. Furthermore, the legislation would have allowed those hired on or after July 1, 2018 a one-time election to participate in the CORP DB Plan instead of the DC Plan. ATRA opposed the legislation since it could potentially expose taxpayers to future unfunded liabilities by resurrecting the CORP DB Plan.

HB2330 fire districts; formation; county sups. (Marshall) Held in Senate GOV
HB2330 would have allowed the formation of a fire district with a vote of the electors instead of the current petition process that requires the signatures from 50% of the property owners and the property owners with 50% of the net assessed value. This alternate formation process would be limited to a district with 5,000 or fewer persons in counties with population less than 500k (All counties except Maricopa & Pima). HB2330 was advanced specifically for the creation of a small fire district in northern Arizona that, after failing to obtain the requisite number of signatures through the petition process, turned to the Legislature to create the district instead with just a simple public vote. ATRA strongly opposed the measure since it would allow only those registered to vote in the area, who may or may not own property in the proposed district, the authority to enact a new property tax. On the other hand, property owners in the proposed district who are not registered to vote in the area would have no say but would be liable for the tax. HB2330 was held in the Senate Government Committee. *See ATRA Position Paper in Appendix*

SB1663 common school districts; tuition; exp. (Gowan) Held in House Ed
A Senator Gowan bill that would have undone years of ATRA progress on the subject, SB1663 would have required unified school districts to calculate tuition to be paid by a type 03 district for a student who lives within the boundary of the type 03 district if there is no school of the appropriate grade level for the student to attend. To that end, the student's enrollment would be counted in the school district the student lives in rather than the district they are enrolled in for the purposes of aid calculations. It would have established a revenue control limit for common school districts not within a high school district comprising base limit, tuition, and transportation limits, excluding transported high school pupils. District additional assistance omits pupils admitted elsewhere but includes extra funding for transported high school pupils. The student count encompasses kindergarten through twelfth grade, and tuition amounts are capped based on pupil count and actual costs. Such districts may calculate budgets and equalization assistance according to these provisions for fifteen years after an election or until a high school is established. SB1663 was held in Senate Appropriations.

SB1695 community colleges; dual enrollment (Gonzales) Held in Sen. Approps
SB1695 would have eliminated the current 50% state aid reduction for community college dual enrollment students and appropriated $1M from the GF in FY 2025 to spread amongst the community college districts. SB1695 died fairly early in the session and was held before it was heard in Senate Rules.

LEGISLATION ATRA FAVORABLY AMENDED

HB2382 TPT; sourcing; validation (Carter) Chapter 142

HB2382 would have changed the TPT sourcing rules for the sale of tangible personal property (TPP). Under current statute, the sale of TPP is sourced to the seller's business location if the seller receives the order at a business location in this state. If a seller receives the order at a business location outside this state, then the sale is sourced at the purchaser's location. As introduced, HB2382 would have allowed sourcing to the business location in this state only if "the seller regularly conducts retail sales at that business location." ATRA was opposed to dramatically changing the TPT sourcing law, not only without fully vetting what such a significant change would have on Arizona businesses, but also the vagueness of what "regularly" means and what exactly constitutes "retail sales." Following a stakeholder meeting between ATRA and the League of Arizona Cities & towns, the proposed sourcing language was removed from the bill, with a commitment to continue discussions on the topic over the interim.

The one provision that remained in the bill requires the Arizona Department of Revenue (ADOR) to establish a process to certify third-party providers to offer sourcing services to taxpayers for transactions involving TPP, beginning on or before January 1, 2026. A taxpayer that uses a certified third-party provider is not liable for failing to pay the correct amount of tax due to an error in sourcing, and instead, the third-party provider would be liable unless the error was due to incorrect information provided by ADOR. The taxpayer is liable for failing to pay the correct amount of tax if the failure to pay the correct amount was due to an error other than sourcing.

HB2418 fire district advisory board (Livingston) Held in Senate GOV

HB2418 would have established the Fire District Advisory Board. The purpose of the Board would have been to "ensure the effective and efficient delivery" of fire suppression, rescue, emergency medical services (EMS) and affiliated emergency services throughout this state. The Board would be composed of four members recommended by fire districts and the firefighters union and appointed by the Governor, and one member each appointed by the House and Senate. One nonvoting member would be appointed by the Governor who has knowledge and expertise in government finance and economics. One of the requirements of this new Board would be to recommend general state appropriations and programs for the improvement of fire and EMS in unincorporated and rural areas of the state. Additionally, the Board could recommend national standards and best practices for the operation of fire districts to include emergency response times for fire and EMS. One of the several concerns that ATRA had with the bill was providing this new board with the authority to recommend EMS response times since the Department of Health Services currently provides oversight of those services and any recommendations should appropriately come from

that department. The bill was amended on the House floor and was ultimately held in the Senate Government Committee.

SELECTED LEGISLATION ATRA MONITORED

HB2088 bond; override; contributions; contracts (Hendrix) Held in House COW
HB2088 would have prohibited any individual or organization that donates to a campaign for a bond or override from bidding on contracts funded by that bond or override. As ATRA has uncovered over the years, most of the donations made to school district bond/override campaign PACs are made by businesses which ultimately bid on contracts for work with the school district. HB2088 aimed to curtail this conflict of interest in favor of a fairer bidding process. Despite receiving favorable vote's in House committees, the bill was never heard on the floor.

HB2089 community colleges; exp. limitation (Hendrix) Held in House COW
HB2089 would have withheld graduated portions of state aid from any community college district which exceeds its expenditure limit. The withholding percentages would have ranged from 10% to 50%, varying based on the extent of excess expenditures. Additionally, there were specific provisions for provisional community college districts established before December 31, 2015, with a population lower than 300,000, capping the maximum state aid withheld at 1% of the district budget. For community college districts in counties with populations not exceeding one million, the maximum state aid withholding was to be limited to 0.5% of the district budget. Given this population threshold, this bill appeared to target only Maricopa Community College specifically and would have extended these penalties to FY2027. HB2089 was ultimately never heard on the House Floor.

HB2196 commercial property assessed financing (Hendrix) Held in House RA
HB2196 would have allowed a county, city or town to establish a "C-PACE" program which is a special assessment program for private financing of commercial improvements. A local government would designate a private third party to administer the program and may include a local program authority (defined). A property owner eligible to receive financing through the program would include the legal owner of property, the owner of an improvement on a possessory right or those with leasehold interests of a ground lease agreement or government property lease excise tax development (GPLET) agreement. The special assessment agreement would be a written agreement between the applicable local government and the property owner setting forth the terms and conditions of the special assessment to repay the special assessment financing. Before entering into a special assessment agreement, the local program authority would be required to receive written consent from any holder of a lien, mortgage or security interest in the qualifying property that the property may participate in the program and that the special assessment lien has priority superior to

all liens, claims and titles except for general property taxes and prior special assessments. The measure outlined the process for collecting delinquent special assessments, the foreclosure process and the right to redeem. HB2196 never received a hearing in House Regulatory Affairs.

HB2274 NOW: theme park districts; formation (Marshall) Chapter 252
The strike-everything amendment to HB2274 in the Senate Government Committee reduces the city population threshold for which a theme park may be created from more than one million to 500k in a county with population of more than 125k in which the city is entirely located. The measure also allows a district to be created in such a city or county acting on its own and more than one district may be located in a county or a city. If a district is formed by a county acting on its own, the geographic boundaries of the district, which must include only the sites of the theme parks, must consist only of contiguous property that must be located entirely and only in the unincorporated area of the county. The measure also specifies that a theme park district is limited to properties whose owners have consented to being included in the district, including any sites that are added after the district is initially established.

HB2290 certificates of operation (Kolodin) Failed House RA
HB2290 would have created a certificate of operation (COO) that would allow an entity (defined as a direct or indirect owner of a hospital) to provide interfacility transports and such entities would be exempt from having to apply for a certificate of necessity (CON) from the Arizona Department of Health Services (DHS). Within 45 days of receiving an application, the DHS Director would be required to issue a COO if the applicant meets certain minimal requirements. If the Director fails to take action within 60 calendar days after receiving the application, the certificate would be deemed granted. HB2290 failed by a 2-4 vote in the House Regulatory Affairs Committee.

HB2408 property tax assessment; destroyed property (Gillette) Chapter 34
Property that is destroyed as a result of a verifiable accident, including fire, flood or any other act of god, may maintain the classification in place on the date of destruction for a period of five years or until an objectively verifiable change in use occurs, whichever is sooner.

HB2501 comm. college districts; county removal (Biasiucci) Held in the House
HB2501 was an effort out of La Paz County to allow the county to be removed from the Arizona Western Community College District (CCD). The procedure to be removed from the CCD would require 10% of the qualified electors from the county wanting to be removed to sign a petition, which would go to a vote requiring a majority of electors to approve the removal. If approved, the CCD and county would be required to prepare a projected list of assets and each entity would be required to set aside sufficient assets or provide other means to satisfy the liabilities of the district and approve the final

division of all assets on or before September 15 of the year in which the removal becomes operative.

The removed county would be required to continue levying taxes sufficient to pay any outstanding indebtedness and any other obligations equal to the county's proportionate share according to the ratio of net assessed value (NAV) the removed county bears to the total NAV of the CCD. HB2501 was held awaiting House Third Read.

HCR2023 property tax; refund; nuisance enforcement (Toma) Prop 312

If approved by the voters at the 2024 general election, Prop 312 is a statutory measure that would allow a property owner to apply for a refund of primary property taxes paid to a city, town or county if the jurisdiction adopts and follows or maintains a policy, pattern or practice of declining to enforce existing laws, ordinances or other legislation prohibiting a list of nuisances including illegal camping, obstructing public thoroughfares, loitering, panhandling, public urination or defecation, and the property owner incurs documented expenses to mitigate the effects on the property owner's property.

The amount of the refund is equal to the documented expenses incurred by the property owner that were reasonably necessary to mitigate the effects on the property owner's real property. The refund is in lieu of any claim for monetary damages and may not exceed the amount the property owner paid for the prior tax year in primary property taxes paid to the city, town or the county. Any amount that exceeds the property taxes paid must be paid by ADOR and the property owner may apply to ADOR for the remaining portion of the refund the following and successive tax years, as needed. Outlines the refund application process. If the refund is accepted, ADOR shall pay the refund to the property owner. A refund application is deemed accepted if a jurisdiction does not respond to ADOR within 30 days. If the refund is rejected, the taxpayer may file a cause of action in Superior Court. In a cause of action, the jurisdiction bears the burden of demonstrating that its actions are lawful or the refund is unreasonable and the property owner is not liable for attorney fees or costs but a prevailing property owner shall be awarded reasonable attorney fees and costs.

On notice from ADOR, the state treasurer shall withhold TPT distributions to the affected city, town or county for the respective aggregate amount of refunds claimed. Effective beginning in tax year 2025.

HCR2048/SCR1034 schools; teacher salaries (Smith/Hoffman) Both Held

Subject to voter approval, these measures would have authorized a continuation of the 6.9% annual distribution from the State Land Trust Permanent Funds with the stated purpose of funding an increase in base salary for all "eligible teachers", a term defined by this act, employed by a school district or charter school. Eligible teachers included any full-time teacher who devotes a defined portion of their work time to instruction and who is not assessed to be in the two lowest of the performance classifications outlined

by the act. The Teacher Pay Fund, created by this act, would have been funded by legislative appropriations and Permanent State School Fund distributions, to be administered by the Department of Education. It would allocate funds to eligible districts and charter schools based on the number of eligible teachers. The fund would have been exempt from revenue control limits. Additionally, school districts and charters would have been prohibited from reducing the base salary of eligible teachers below the FY25 base salary schedule. These bills were an attempt to overhaul Prop 123, a 2016 ballot measure that diverted $3.5 billion from the State Land Trust to public schools.

SCR1027/HCR2047 state land trust; funds (Mesnard/Gress) Both Held
These identical measures would have allowed voters the opportunity at the next general election to reboot the Prop 123 state trust permanent fund distribution of 6.9% but would be earmarked for a statewide program to increase the base salary of all eligible teachers above the FY 2025 base salary. The increased distribution of 6.9% would remain in place for fiscal years 2025 through 2035 with clauses allowing the Legislature, with Governor approval, to reduce the distribution rate to between 2.5% and 6.9%. In 2036, the distribution rate would decrease to 2.5%. The Governor had a competing proposal that would have increased the distribution to 8.9%. These two measures were held in their respective chambers as the Legislature and Executive branch failed to reach an agreement.

SB1056 municipalities; counties; fee increases (Petersen) Struck in the House
SB1056 would have prohibited a common council of a municipality or the board of supervisors of a county from imposing or levying an increase in any assessment, tax or fee without a two-thirds vote. The bill was amended on the Senate floor stating that the regulation of increases in municipal and county assessments, taxes and fees is a matter of statewide concern and is not subject to further regulation by a municipality or county. The bill passed the Senate on a 16-11-3 vote but was struck with a different subject in the House Judiciary Committee.

SB1095 property tax; golf courses; valuation (Mesnard) Chapter 8
Current statute requires the owner of a golf course to record a deed restriction that restricts the property's use as a golf course for at least ten years. SB1095 also requires the deed restriction for the golf course be refiled when property is split or combined. If any part of the property is converted to a different use in violation of the deed restriction, SB1095 requires the owner of a golf course to notify the county assessor personally, electronically or by certified mail within 30 days after the property is converted to a different use. The existing statutory penalty that is assessed when there is a change in the property's use prior to the 10 years, which would require the property owner to pay taxes on the property as if the property was not valued as a golf course over the 10-year period, is triggered either on receipt of the owner's notice to the county assessor or the county assessor discovering that the use has been converted.

SB1335 NOW: public notice; municipal land sales (Carroll) Chapter 198
SB1335 was struck late in the session to allow a city of town to sell real property valued between $1.5 million and $15 million without voter approval. Instead, the city or town would now only need to hold at least one public hearing for public comment after publishing the invitation for bids at least 30 days before the scheduled approval of the purchase agreement. Notice of the hearing must be provided at least ten days before the hearing. Requires a city or town to post the terms of the sale on the city's or town's website on completion of the sale.

SB1431 right to redeem; foreclosure; sale (Mesnard) Chapter 176
Outlines a new process for which a qualified entity (association or corporation doing business as a bank, credit union, consumer lender, escrow agent, insurance company, law firm or special master appointed by the court) conducts the sale of property at public auction and how the minimum bid price is determined. A property owner whose right to redeem is being foreclosed may request the court to determine if the sale of the property to recover excess proceeds is reasonable. After proceeds are distributed to the qualified entity, certificate of purchase holder, and the county treasurer, the qualified entity must distribute any remaining proceeds of the sale to the property owner who's right to redeem was foreclosed.

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2024 LEGISLATIVE PROGRAM

Introduction/State Budget

ATRA's legislative program is developed each year with recognition that the Legislature and Governor's highest priority for the session should be passing a state budget that is balanced and sustainable.

This year's budget exercise is complicated by the Joint Legislative Budget Committee's (JLBC) estimate that the current year (FY 2024) budget has a shortfall of $400 million. Assuming the FY 2024 deficit is resolved, JLBC estimates another $450 million deficit awaits them in balancing the FY 2025 budget.

ATRA will provide updated state budget recommendations to the Legislature after the JLBC and the Office of Strategic Planning and Budgeting (OSPB) have submitted their budget recommendations in January.

Taxation

Property tax reform. ATRA has led the effort to reform Arizona's property tax system and reduce the disparity in tax treatment between business and residential property. As a result of previous ATRA-backed legislation passed in 2005, 2007, 2011, 2021, and 2022, ATRA achieved its decade's long goal of reducing the class one (business) assessment ratio to 15% beginning in tax year 2027. In addition, the historic reductions in the business personal property tax, coupled with the passage of Proposition 130 in 2022, now provides opportunities for further reductions.

Prevent greater access to the property tax. For the 2024 session, ATRA will oppose efforts on the part of Arizona state and local governments and special districts to increase access to the property tax base.

In addition, ATRA will advocate for the continued compliance with the state's Truth-in-Taxation (TNT) law. Since its passage in 1998, the state has consistently complied with the TNT law and state controlled tax rates have declined in each of the last ten years. While those rates have both risen and fallen with the fluctuations in the real estate market, ATRA believes adherence to the TNT law is an important principle that has and

will continue to benefit taxpayers over time.

Targeted Property Tax Breaks. For decades, ATRA has led the effort at the Capitol to oppose rifle-shot property tax breaks to specific taxpayers. Too often, these bad precedents create a path dependency leading to more inequity in the system. ATRA will continue to support policies that provide for equitable treatment among property taxpayers and oppose efforts that undermine that important policy principle.

For the 2024 session, ATRA will pursue the following legislation:

Property Tax

Personal Property Tax Relief. In November 2022, Arizona voters approved Proposition 130 that gave state lawmakers the statutory authority over business personal property tax exemptions. Under the new authority provided to the Legislature, ATRA will pursue increasing the personal property exemption from the current $225,572 to $500,000. (Sen. J.D. Mesnard)

Sales Tax

Sales Tax Audit Reform:

Clarify ADOR's Audit Authority. The Director of ADOR is statutorily required to establish a Unified Audit Committee (UAC) with cities and towns to coordinate uniform audit functions. However in the most recent intergovernmental agreement between the Department and the cities and towns, the authority of UAC has been deferred to a non-statutory committee that diminishes the Department's authority over audit functions. ATRA will pursue legislation to expand the statutory authority of UAC that will maintain ADOR's oversight over state and local audits. (HB2380/Rep. Neal Carter)

Limit City Multijurisdictional Audits. Arizona's historic 2013 transaction privilege tax (TPT) reforms targeted the longstanding administrative and compliance complications associated with the lack of a central auditing process in Arizona. Arizona is one of a few states nationally that allows for an independent municipal sales tax structure where cities tax bases can vary from the state, and cities are allowed to deploy their own auditors. The 2013 reforms were intended to limit city auditing to single location taxpayers in an effort to eliminate the considerable confusion associated with cities auditing multi-jurisdictional taxpayers. This meaningful reform has deteriorated over time as multijurisdictional taxpayers face more city audits. To the extent these audits are necessary, they should be conducted by the Arizona Department of Revenue (ADOR). In recent years, lawmakers have increased funding to ADOR for additional

TPT auditors and ATRA would support more if necessary. ATRA will pursue legislation to limit the cities authority to conduct multijurisdictional audits. (HB2380/Rep. Neal Carter)

Prime Contracting Simplification. Arizona's prime contracting tax is generally regarded as the most complex and inefficient area of Arizona's TPT system. Some improvement was achieved through TPT Simplification in 2013 that transitioned activities involving maintenance, repair, replacement, and alteration (within certain thresholds) from prime contracting to a tax on materials at the point of sale, now known as MRRA. MRRA simplified tax compliance for most contractors that only work on MRRA projects; however, contractors involved in residential home remodels, for instance, can unknowingly get pulled into prime contracting. For example, tax guidance published by ADOR considers moving interior walls or adding a kitchen island as "modification" activity, which will make the entire contract taxable under prime contracting if the cost of the modification activity exceeds 15%. ATRA will pursue legislation to simplify residential remodels by eliminating the current thresholds for alteration projects, and instead, only tax contracts under prime contracting that add or expand square footage regardless of the amount of modification activity performed within the existing roof and exterior walls of the home. (HB2594Rep. Michael Carbone)

Public Finance:

Government Property Lease Excise Tax (GPLET) Reform: GPLET continues to be a highly controversial feature of Arizona's public finance system. ATRA participated in several major successful GPLET reform efforts in 2010, 2017, and 2018 to limit cities use of their tax exempt status to harvest property taxes for private projects. However, a historic Arizona Supreme Court Gift Clause decision in 2021 (*Schires v. Carlat)* has made those reforms potentially moot. Arizona's Gift Clause states that a municipality may not "give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation." To determine a violation of the Gift Clause, the courts rely on the *Wisturber* two-pronged test to determine whether the expenditure has a public purpose and if the consideration received by the government is grossly disproportionate to the amount paid to the private entity. In considering the direct payments that were bargained for in the case, the court determined that the agreement failed *Wisturber's* second prong and therefore violated the Gift Clause. To reduce Gift Clause challenges to future GPLET agreements, ATRA will pursue legislation to limit the current 8-year abatement period to 4 years so that the "give" doesn't exceed the "get."

In addition, in order to reduce the potential for Gift Clause violations for GPLET deals outside the Central Business District, the legislation will reduce the maximum GPLET lease term from the current 25 years to 10 years. (HB2309/Rep. Travis Grantham)

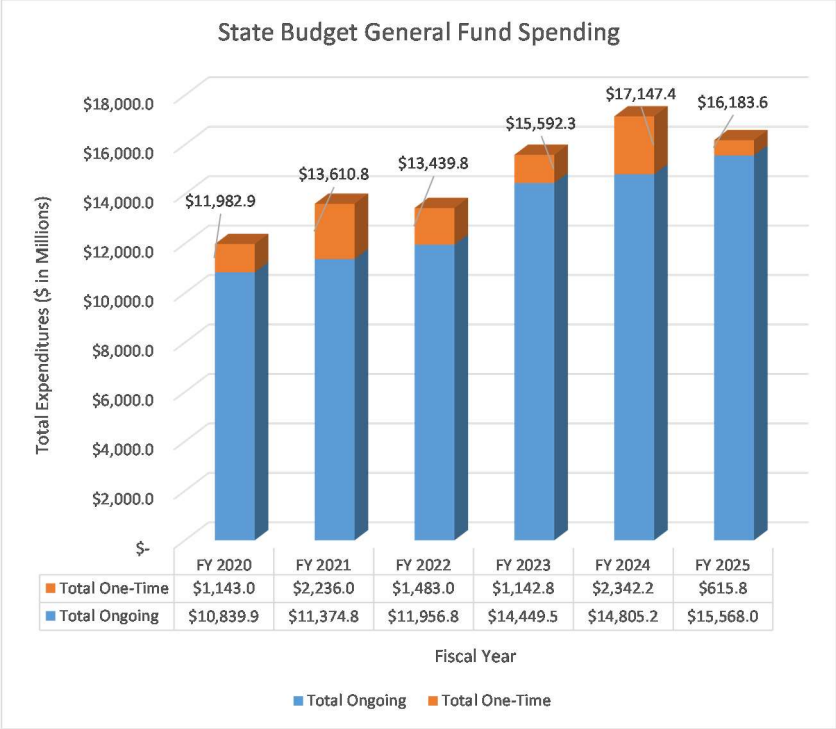
School Finance Reform: For decades, ATRA has advocated for a school finance system that is equitable and reflective of Arizona's K12 system that encourages and promotes parental choice. ATRA has also argued that a more equitable school finance system reduces the state's exposure to the continuous litigation facing the state. ATRA will pursue the following school finance reform in the 2024 session:

Create a state student funding formula. This proposal would allow any school district with no secondary property tax (no bonds or overrides) to switch to a new state funding formula similar to the current charter funding system. Upon the approval of district voters, eligible districts would opt into the new state funding system (an average of $1,200 more per pupil) and agree to forgo bond and override funding. In order to offset some of the state general fund impacts of the new state funding formula, district voters would also be required to approve an additional property tax rate of $0.35 for elementary and union districts or $0.70 for unified districts. (SB1075/Sen. Ken Bennett)

Fiscal Year 2025 State Budget Overview

Total Ongoing Spending Climbs $763 Million for FY25

The Arizona Legislature adjourned sine die on June 15th after passing a bipartisan budget package that closed a combined $1.4 billion shortfall for Fiscal Years (FY) 2024 and 2025.



The two-year deficit was dominantly addressed through onetime measures, led by $715 million in fund sweeps from a laundry list of state agencies and revolving funds. There were $540 million in one-time changes made to the FY 24 budget, primarily from "exappropriating" funds for capital projects from previous years' budgets. Finally, ongoing spending in the FY 25 budget was trimmed by $133 million, with only $39.6 million being ongoing reductions to various state agency budgets. The $133 million in ongoing reductions is a roughly 1% reduction in the ongoing budget.

Too often in government budgeting, reductions to expected increases are characterized as cuts. The initial Joint Legislative Budget Committee FY 25 budget estimate that rolled out in January reflected ongoing spending climbing $851 million, or 5.7%, over FY 24. The final budget actually increased ongoing spending $763 million, or 5.2% - most of that directed to K-12 schools, AHCCCS, the Department of Economic Security, and the Department of Corrections. In fact, ongoing spending over the last five years has climbed $4.7 billion, a significant 43.6%. The required three-year budget estimates ongoing state spending increasing $1.97 billion or 13.3% through FY 27.

ATRA SUPPORTS HB2309

Arizona's Constitutional Gift Clause Challenges

In 2021, the Arizona Supreme Court's historic Gift Clause decision under *Schires v. Carlat* found that the City of Peoria violated the State Constitution's Gift Clause when it promised to pay up to $2.6 million to a private university to offer an undergraduate degree program in the city.

Arizona's Gift Clause states that a municipality may not "give or loan its credit in the aid of, or make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation."

Even before the *Schires* decision, the Maricopa Superior Court found under *Englehorn v. Stanton* in 2020 that the tax subsidy under the Government Property Lease Excise Tax (GPLET) between the City of Phoenix and a developer to build a high-rise residential tower in downtown Phoenix violated the Gift Clause. Specifically, the Court ruled that the benefits to the developer over the term of the lease were "grossly disproportionate" to the amount received by the public.

To determine a Gift Clause violation, the courts rely on the *Wisturber* two-pronged test to determine whether the expenditure has a public purpose and if the consideration received by the government is grossly disproportionate to the amount paid to the private entity. In considering a violation under the second prong, only the direct payments that are bargained for in the agreement are considered and any indirect, economic benefits are not.

What is GPLET?

In the early 1980's, some cities began to aggressively use their tax exempt status for "economic development." The Legislature responded by creating the possessory interest tax to tax private concerns on certain government properties but also exempted existing deals, which the Court ultimately struck down. The Legislature responded again in 1996 and enacted GPLET to replace the tax on possessory interests. GPLET is an excise tax that is levied on property owned by a city, town, county or county stadium district and leased to a private concern. Under GPLET, a government lessor

can offer an 8-year abatement to shield the lessee from paying both property taxes and GPLET if the property is located in a central business district.

GPLET has been a very controversial topic at the Capitol for decades that has led to several reforms; however, the recent court decisions have made all the reforms potentially moot. It is clear that the 8-year abatement under GPLET remains the most significant problem.

In 2010, 2017, and 2018, previous Legislatures attempted to reduce GPLET's role in our public finance system. From central planners picking winners and losers and creating significant inequities across property taxpayers to cost shifting budget impacts to the state general fund, GPLET has created a myriad of policy challenges.

Basis for ATRA's Support

The *Englehorn* Gift Clause challenge was the first and most significant judicial review of the GPLET structure. In ruling against the tax incentive, the lower Court questioned that "…if payments under a future GPLET agreement must more closely approximate the amount of ad valorem taxes, does the GPLET have any remaining usefulness to incent redevelopment? In other words…this judicial officer questions whether the death knell for the GPLET's usefulness has rung."

These GPLET deals continue to be made and taxpayers can't be expected to legally challenge every one of them. To reduce Gift Clause challenges to future GPLET agreements, HB2309 limits the current 8-year abatement period to 4 years so that the "give" doesn't exceed the "get."

ATRA SUPPORTS HB2380
Sales Tax (TPT) Audit Reform

Background

Arizona's historic 2013 transaction privilege tax (TPT) reforms targeted the longstanding administrative and compliance complications associated with the lack of a central auditing process in Arizona. Arizona is one of only a few states nationally that allows for an independent municipal sales tax structure where cities' tax bases can vary from the state, and cities are allowed to deploy their own auditors. The 2013 reforms were intended to limit city auditing to single location taxpayers in an effort to eliminate the considerable confusion associated with cities auditing multi-jurisdictional taxpayers. This meaningful reform has deteriorated over time as multijurisdictional taxpayers face more city audits. To the extent these audits are necessary, they should be conducted by the Arizona Department of Revenue (ADOR). Only upon approval from ADOR should a city have the ability to audit multi-jurisdictional taxpayers.

State statute also directs ADOR to coordinate uniform state and local audit functions through the Unified Audit Committee (UAC). However, in the most recent intergovernmental agreement between the Department and the cities and towns, the authority of UAC has been deferred to a non-statutory committee that diminishes the Department's authority over audit functions.

ATRA's Support

HB2380 reinforces the Arizona Department of Revenue's authority to approve or deny a city or town's request to audit a TPT taxpayer located in more than one city or town. Furthermore, the proposal bolsters the responsibility of the UAC by requiring the Committee to establish and publish uniform guidelines to improve the uniformity of state and local TPT audits.

ATRA SUPPORTS SB1495

Reduces Business Personal Property Tax & Administrative Burden on Small Business

Reforming the tax on business personal property (BPP) has been a bipartisan effort for decades. In 1996, the voters approved a constitutional amendment to exempt the first $50k on BPP per taxpayer. The constitutional exemption was later enhanced by requiring the exemption to be adjusted annually for inflation, bringing the current exemption to $248k. In 1994, the Legislature enacted "accelerated depreciation" for newly acquired BPP and has adjusted it twice since initially enacted. In 2022, legislation was enacted to limit the tax on new BPP to a valuation factor of 2.5%. With the passage of Prop 130 in 2022, voters gave the Legislature the authority to fully exempt the tax on locally assessed BPP.

In addition to being a tax that discourages capital investment in Arizona, the BPP is also complicated and inefficient. Worse, many business taxpayers often fail to self-report because they are unaware they owe the taxes.

Previous actions by the Arizona Legislature and voters have reduced the tax base and administrative burden on small businesses, as well as the administrative burden on county assessors and treasurers who are tasked with administering the tax.

SB1495 further reduces the tax and administrative burden by increasing the BPP exemption to $500k.

ATRA OPPOSES HB2330

Bypasses Longstanding Property Owner Approval for Fire District Creation

Background

Current statute allows for the creation of a fire district through a petition process that requires the signatures of more than 50% of the property owners and owners with more than 50% of the net assessed value. If established, the fire district may levy a secondary property tax on all the property within the district at a maximum tax rate of $3.75 per $100 of assessed value. The petition process that requires the approval from more than half of the property owners is important since the property owners will be liable for the tax.

HB2330 would allow a proposed fire district to bypass the petition process, and instead, create a new district with a vote of the registered voters.

ATRA's Opposition

HB2330 allows proponents of a new fire district to do an end run around property taxpayers by replacing the current petition process with a public vote. Particularly in rural areas of the state, vacant and improved land may be owned by taxpayers who are not registered to vote in the area and therefore would not be allowed to vote in the election. In this case, a fire district could be created by a small number of electors to impose a significant property tax on all property owners.

ATRA OPPOSES HB2330
Taxpayers Don't Get to Say No?

Proponents of the proposed West Coconino Fire Rescue District needed one-half of the property owners and owners with more than 50% of the value to sign a petition for its creation.

Circulators failed to receive the appropriate signatures to create the district:

Assessor's Summary of Report of Findings:
Of the 515 units (accounts) associated with the proposal of the West Coconino Fire Rescue district, 404 unique owners were identified & 110 valid signatures collected resulting in 27.2% of owners in favor of the district. Those 110 property owners collectively own property totaling $1,014,395 in assessed value or 34.4% of the initial assessed value of $2,949,484.

Please note: Duplicate petition pages, duplicate owner signatures and signatures affiliated with delinquent real property accounts are considered invalid and were removed from the final calculations.

Source: Coconino County Clerk of the Board memo, 6/14/2022

Based on data provided by the County, circulators failed to get signatures from 95 of the residential property taxpayers who reside within the boundaries of the proposed district.

HB2330 allows the proponents of this new fire district to do an end-run around the current process despite their failed attempt to receive approval from the property taxpayers. Now, only the registered voters in the area get to participate in the question whether or not to increase property taxes and the property taxpayers, who may or may not be registered voters in the area, don't get a say.