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ARIZONA TAX RESEARCH ASSOCIATION

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Assessor's Office: Skysong is a Taxable Property

After years of controversy and debate, the Skysong property in south Scottsdale is headed for the property tax rolls after enjoying 12 years of tax-free status. Following a review, the Maricopa County's Assessors Office determined the properties were incorrectly provided a governmental exemption and will be assessed as improvements on a possessory right (IPR), since these commercial properties sit on leased land from the City of Scottsdale, per A.R.S.§ 42-19003.

Skysong is a massive mixed-use property, featuring 1.2 million square feet across six buildings with commercial, restaurant, retail, hotel, apartments, and other business activity. Though ASU does occupy some space for University purposes, the vast majority of the activity is commercial activity which would be subject

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2021 Legislative Update

Nearing the halfway mark in the 2021 session, the Legislature faces a mountain of work, partially due to the shortened session last year and also because a projected budget surplus gives lawmakers far more options in the state budget. ATRA has several good government bills to improve transparency, oversight, and outcomes but is also working on a major property tax reform in SB1108 with Senator Mesnard to reduce business property tax assessment ratios. Below are summaries of bills ATRA is actively engaged in advocacy, both in support and opposition.

Good Bills

HB2018/SB1164 schools; audits; financial records; budgets (Udall/Boyer) HB2018 and its mirror SB1164 make several changes in Title 15 related to all public school audits and compliance questionnaires.

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State Supreme Court Deals Blow to Incentive Deals

In a landmark case, the state Supreme Court ruled this February in *Schires v. Carlat* 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 and their property owner in exchange for an agreement to offer an undergraduate degree program in the city.

Arizona's longstanding gift clause in the Constitution states:

> *"Neither the state, nor any county, city, town, municipality, or other subdivision of the state shall ever . . . make any donation or grant, by subsidy or otherwise, to any individual, association, or corporation…" Art. 9 § 7*

In 2010, the Arizona Supreme Court ruled in *Turken v. Gordon* that the incentives provided to a private entity must not outweigh the public benefit. *Turken* affirmed the existing *Wisturber* two-prong test for the Gift Clause, which states that there must be a public purpose for the deal and the incentive must not be grossly

disproportionate to the benefit received by the public. *Turken* clarified that the fair market value of the benefits bargained for must be what is considered and that "indirect" benefits from the project cannot be counted in the 'math' for the second prong of *Wisturber*. However, exactly what may constitute as a benefit to the public was left somewhat uncertain.

In *Schires*, the Supreme Court vacated the appellate court decision and ruled Peoria had violated the Gift Clause when it agreed to pay Huntington University (HU) and its landlord $2.6 million in exchange for them offering educational services. The Court agreed with the City on the first prong that duly elected city officials have broad latitude to determine whether the exchange served a public purpose. The case turned on the second prong of *Wisturber*, whether the consideration or 'gift' was "grossly disproportionate" to what was received in return.

ATRA filed an amicus brief with the Court Arguably the most important portion of the ruling was re-establishing *Turken* by firmly declaring that "indirect" benefits would not count towards the *Wisturber* consideration test, which the Appellate court had effectively altered by suggesting the government should have broad latitude in how they measure benefits, citing *Cheatham*. While *Schires* concurred the government has broad authority to determine the first prong of *Wisturber*, the public purpose, it does not enjoy the same latitude in determining the scope or measurement of benefits to the public. In *Schires,* the Court disapproves that interpretation of *Cheatham*, and concludes:

> *"…deferring to the public entity under the second prong is not "appropriate," as the inquiry is an objective one and does not involve subjective policy decisions. In deciding the sufficiency of consideration under the second prong, courts should not give deference to the public entity's assessment of value but should instead identify the fair market value of the benefit provided to the entity and then determine proportionality." (¶23)*

Refuting the Appellate court and limiting the *Cheatham* decision was necessary, given the obvious legal incongruity between their interpretation of *Cheatham* and *Turken*. The Court strengthened *Turken*, stating that "indirect" benefits or "anticipated economic impact" are valueless for the second prong of the *Wisturber* test.

> *"Neither HU nor Arrowhead signed an enforceable promise to provide the City with any particular economic impact. Likewise, neither promised to provide the City with any goods or services, such as an ownership interest in the campus building or reduced tuition for Peoria residents. They simply promised to engage in their respective private businesses (educating and leasing)." (¶16)*

The court went further by reinforcing that expected future tax revenues from the private interest cannot constitute a public benefit because they are "…independent of an economic development agreement" (¶18); essentially, they are owed with or without the agreement. Like anticipated economic impact, anticipated tax revenues are speculative unless agreed upon contractually. The Court also closed the door on counting vague benefits such as "HU's obligation to participate in economic development activities," when they are so indefinite they become impossible to enforce and fairly value (¶21).

The *Schires* decision is refreshingly clear and straightforward, eliminating many of the loose strands in case law surrounding the Gift Clause. Without such clarity, the appellate court decision in *Schires* would have left the public

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with a garbled mess and a largely meaningless *Gift Clause*, considering their decision had essentially determined the consideration of the benefit can be measured in any manner that suits the government. Instead, the Arizona Supreme Court put a bow on measuring economic development activities against the Constitutional Gift Clause:

> *In sum, although economic development activities can fulfill a public purpose, the public entity must receive a bargained-for benefit as part of the private party's performance, and the payment of public funds must not be grossly disproportionate to the fair market value of that benefit. Here, the City's payments to HU and Arrowhead did not satisfy Wistuber's second prong, and the City therefore violated the Gift Clause. (¶24)*

Schires follows another recent Gift Clause decision in *Englehorn v. Stanton*. In June, the Superior Court ruled in favor of the plaintiffs that the City of Phoenix violated the Constitutional Gift Clause when it entered a development agreement to offer a 25-year GPLET to a developer in exchange for building an apartment tower in downtown Phoenix. Though this decision was not precedential and was not appealed by the City, it is noteworthy that the Superior Court interpreted existing case law similarly to the unanimous Supreme Court in *Schires*.

In *Englehorn*, the Court also rejected as part of the consideration test any estimated economic growth, projected sales and other tax revenue, and anything that was not contractual to the development agreement. The court also rejected the specious claim that because the city held fee title to the improvement, the city could count the value of the building as a public benefit on the city side of the ledger. The value of the property tax abatement in GPLET so upsets the balance of the *Wisturber* consideration test that the court questioned the "…vitality of the GPLET as a useful redevelopment tool…and if the 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?" For more on *Englehorn*, see the ATRA July 2020 Newsletter.

It will be most interesting to see the framework used for new development deals in Arizona following these cases. Policymakers may be forced to reconcile their interest in incentivizing development with the guidance provided by the courts in *Schires*. At a minimum, it should mean tighter development deals and smaller incentives overall. It's a significant win for taxpayers and good governance.

https://www.azcourts.gov/Portals/0/OpinionFiles/Supreme/2021/CV200027PR.pdf

-Sean McCarthy

Skysong To Go on Tax Rolls, *Continued from Page 1*

to property taxes regardless of whether the land underneath is publicly owned. There are many properties in the state subject to the IPR, such as resorts built on leased State land. When improvements are on government land, it only means the value of the land itself is not subject to *ad valorem* property taxes.

The Skysong properties were developed by a capital venture run by the ASU Foundation's (ASUF) real-estate arm, a private nonprofit which supports ASU. They originally entered a 99-year lease with the City of Scottsdale for the land back in 2004. The first buildings opened in 2008. Investigative reporter Mark Flatten first discovered the property was enjoying tax exempt status back in 2010 in a report published by the Goldwater Institute. No one could fully explain the tax exempt status and the ASUF claimed they had not asked for the exemption. Lawmakers at the State Capitol have crowed over the tax treatment for years.

Based on correspondence with the City of Scottsdale in 2015, it's clear that its taxability status came into question following the Flatten investigation because ASUF argued in a response letter to the City that GPLET did not apply to them because GPLET only applies if a city, county, or stadium district owns both the land *and* the improvements. That much certainly seems accurate. At Skysong, the City has leased the land to a private nonprofit. Prior to the most recent interpretation, Skysong appears to have enjoyed governmental status because the owner supports a governmental entity, a highly dubious connection.

The Maricopa County Assessor was aided in the decision by a recent Appellate Court decision out of Yavapai County. In *Sky Ranch,* the Court concluded a lodge which resides on a long-term lease of county land was subject to the IPR because the private entity maintained the typical rights of ownership of the buildings. Essentially, the public land does *not* create an impenetrable barrier for the Assessor to "reach through" in order to tax the improvement—this lodge is a taxable entity like any other business and subject to the IPR. The Court pointed out several features which demonstrated ownership interest: Sky Ranch offered its improvements as collateral under a loan agreement, was able to convey the property as it desired, and was required to secure insurance for its interest in the property.

In addition to *Sky Ranch*, there is longstanding Arizona case law on property tax exemptions which inform the analysis. Arizona property tax law is bound in the Arizona Constitution. It directs that all property be subject to tax "…uniform upon the same class of property" unless exempt (Art. 9, Section 1). Exemptions to the property tax are authorized in the Constitution. The Arizona Supreme Court established in 1932 that "…laws exempting property from taxation are to be construed strictly. The presumption is against the exemption, and every ambiguity in the statute will be construed against it." *Conrad v. County of Maricopa*, 12 P.2d 613 (Ariz. 1932). In *Conrad*, the Court denied the tax exemption for the Arizona Free Masons because though they are a charitable nonprofit organization, the Masonic Lodge in question was not used as a charitable institution.

Conrad affirmed that tax exemption is not met alone with an ownership test, but the property's functional *use* being compliant with a constitutional exemption. *Conrad* provides the legal foundation for several precedential opinions on property tax exemptions.

In *Lois Grunow Memorial Clinic* (1932) the Arizona Supreme Court denied tax exemption because while there was some charitable and educational use, the property was not *predominantly used* for these purposes. The court's definition of "educational institution" and requirement of "devoted to educational uses" is the established case law in this area. This same exemption was applied in a similar fact situation in *Tucson Junior League* (1979).

There are a few Arizona property tax cases which cloud the debate, typically surrounding private entities who were allowed to build an improvement on airport property which in turn serves a transit related function (*Cutter Aviation* 1997, *Airport Properties* 1999, *Novasic* 1970). Though built by private entities for their use, these properties have enjoyed tax exempt status because in addition to their titles being held by the public entity, the leasehold interest cannot be conveyed to other entities and are effectively property of the airport. Judges drew a clear line between these cases and *Sky Ranch*, citing several differences. The primary difference is those airport properties do not enjoy the typical benefits of property ownership and more accurately are lessees to government property.

How it came to pass that Skysong received a 12-year tax abatement is a mystery. It's rather clear that Skysong is not government property, is not providing a government function, and ought to be taxed in line with state law and

judicial precedent. There certainly is no explicit or implied property tax exemption for an owner which donates profits from lease proceeds to a nonprofit education entity. If that were the case, there would be many more attempts to access this tax treatment or something similar to it. Kudos to the Maricopa County Assessor's Office for correcting the situation and reestablishing fairness in the property tax. Taxation is a burden for all property owners and efforts to skirt the system results in tax increases on everyone else and undermine the public's confidence in government.

-Sean McCarthy

2021 Legislative Update, *Continued from Page 1*

The bill was originally proposed in 2020 but did not pass due to the short session. There are four major changes: 1) It improves compliance questionnaire transparency. The bill requires all school districts and charters (LEAs) provide their annual compliance questionnaire to the Department of Education (ADE) who will make them publicly available on their website. These questionnaires ensure compliance with state laws related to the uniform system of financial records (USFR). 2) The bill improves board awareness by requiring elected or appointed school board members accept all audits and compliance questionnaires by roll call vote, which also provides the public the opportunity to see and comment on these reports. 3) It improves awareness for the State Board of Education (SBE). The bill requires the Auditor General provide the same details it provides ADE to the SBE related to financial noncompliance so they can make decisions with full context. Finally, the bill no longer requires school districts file their budgets with the county school superintendent, which is a historical requirement that is no longer necessary. Budgets are electronically passed to ADE for acceptance, where counties can easily access them. *Chapter 7*

HB2112 truth in taxation; press releases (Bolick) State and local governments are required to adhere to truth in taxation (TNT) laws when proposing to increase property taxes. Those requirements include publishing the TNT notice in a newspaper of general circulation and issuing a press release to notify taxpayers of the pending tax increase. HB2112 is an effort to elevate transparency in the TNT process by requiring the press release include the name of the newspaper and dates in which the TNT notice will be published and to post the press release on the entity's website. Furthermore, the TNT notice must be included in the proposed and final adopted budgets. *HB2112 passed the House and Senate Finance by a unanimous vote.*

HB2114/SB1350 income tax; returns; filing extension (Bolick/Leach) HB2114 and its mirror SB1350 adds one month to the due date for extended corporate income tax state filings, meaning they will be due seven months after the original due date instead of six. This would give corporate filers one month to finish state tax filings after their federal return is due. This change reduces the burdensome task of completing a federal filing at the same time as determining apportionment to states along with completing those filings. *Each bill has passed their respective chamber and await action in the other.*

HB2321 DOR; administrative rulings; procedures (Toma) HB2321 is the same as last year's effort under HB2681 that codifies the Arizona Department of Revenue's (DOR) current policy of allowing public comment on draft rulings and procedures that provide tax guidance. Specifically, prior to adopting a final tax ruling or procedure, DOR must allow for and accept public comments and may amend the draft based on those comments. If DOR chooses not to incorporate public comments in the draft document, DOR must provide an explanation for that decision, which becomes part of the public record. A draft becomes final within 30 days following the

public comment period unless withdrawn by DOR. The new section of law also includes an agency deference provision that states the courts must decide all questions of law without deference to any determination made by DOR.

Also under current law, taxpayers may request guidance from DOR based on a specific set of facts that is unique to that taxpayer. HB2321 improves that process by requiring DOR to meet with the requestor of the Private Taxpayer Ruling (PTR) within 30 days of submitting the request in order to discuss the facts and circumstances pertaining to the PTR request unless waived by the requestor. Prior to issuing the final ruling, DOR must meet with the PTR requestor if requested in order to discuss the contents of the draft PTR. DOR has 90 days, rather than 45 days, to issue the letter ruling unless both the DOR and requestor agree to delay the ruling. DOR has the option to decline issuing a ruling, and if so, DOR must issue appropriate written assistance or advice that explains the reason DOR declined to issue the ruling and instead, must provide a general discussion of relevant tax principles or applications that apply to the taxpayer's situation. *HB2321 awaits Senate Appropriations.*

HB2391 county property tax information; worksheet (Kaiser) HB2391 requires all counties publish their annual property tax rates and levies on a standard worksheet (such as Excel or Google Sheets) developed by ADOR and make it available on their website. Presently, each county publishes it differently with varying levels of fidelity. By publishing on a worksheet, the information will allow the public to turn it into more useful data. Publishing on their website will improve transparency and information sharing. *HB2391 passed the House unanimously and awaits Senate Rules.*

HB2442 county treasurers; reports; posting; website (Nutt) Under current statute, county treasurers are required to submit monthly and annual financial reports to the county board of supervisors. These reports include the amount of monies received, the sources from which the monies were derived, and the amount of payments or disbursements made, and any amounts remaining on hand. HB2442 requires the county treasurers to post these reports on the treasurer's website within five days after the reports are submitted to the Board of Supervisors. *HB2442 passed the House and Senate Finance by a unanimous vote.*

HB2555 SFB; department of administration (Udall) HB2555 places the School Facilities Board (SFB) in the Department of Administration as the Division of School Facilities. The oversight board sets policies and procedures and manages the new school construction approvals while the division itself will manage the Building Renewal Grant (BRG) program. The oversight board is reduced from nine to seven members and calls for two members who have construction experience but whose business does not include education. SFB is allowed to use BRG funds to procure assessments before a grant is awarded. SFB will brief the Joint Committee on Capital Review (JCCR) once per year on the use of all funds and activity. *HB2555 passed the House and awaits action in the Senate.*

SB1074 local governments; audits; public meeting (Livingston) The local governments of counties, community colleges, cities and towns are required to have their annual expenditures audited and filed with the Office of the Auditor General within nine months following the close of the fiscal year. The audits provide accountability by ensuring taxpayer dollars are being spent according to law. Many times, however, the audits will reflect misspending of public funds that resulted from flawed government policies and lack of oversight. Although these audits must be posted on each entity's website, there currently is no requirement that the audits be presented to the governing boards in a public meeting. Local governing boards need to be made aware of any flawed policies

or procedures that have or may lead to the misuse of public funds. SB1074 requires the auditor who conducted the audit to present the findings to the governing boards in a public meeting so that adjustments to policies can be made to immediately correct and prevent the future misuse of public funds. *SB1074 awaits a hearing in House Government & Elections.*

SB1108 tax omnibus (Mesnard) A tax package originally proposed in 2020 reemerged in 2021, which makes several changes in both income and property taxes, among other areas. The primary thrust of the bill is a reduction in the business class assessment ratio, from 18% of value to 17% over two years beginning in tax year 2022. Assessment ratios are how state law shifts property tax burden between classes based on property usage, with business property shouldering the largest shift. With 21% of all statewide property value, businesses pay roughly 35% of all property taxes. To offset tax shifts to other classifications, the bill reduces the state equalization tax rate by roughly 14 cents at a cost of $62 million. The bill increases the maximum property tax rate cap for Fire Districts from $3.25 to $3.50 per hundred, because many of them are presently rate capped.

In addition, the bill proposes to increase the child/dependent credit by 20% from $100/$25 to $120/$30 and increase the capital gains subtraction to 50% (instead of 25%) for all assets acquired after December 31, 2019. On the corporate side, Arizona would conform to the federal change to allow bonus depreciation from 50% to 100%, creating some one-time costs as depreciation is pulled forward. Finally, the bill increases taxes on alternative fuel and electric fuel vehicles in an attempt to bring parity to the lack of gas taxes paid by these drivers. *SB1108 passed the Senate and awaits action in the House.*

SB1449 schools; state aid; adjustment (Kerr) SB1449 adds tax settlements to the statute which allows property tax judgements to initiate a recalculation of state aid for school districts. When a taxpayer successfully appeals their property value after taxes are owed, they are due money from the impacted jurisdictions. Because the state expects property taxpayers to pay a qualifying tax rate to their school district, this means the state should have paid more in state aid to the school, because the valuation was previously set too high. If not corrected, this amount is otherwise paid as additional future taxes in the district. In rare cases where the valuation change creates a considerable tax impact, usually for a large taxpayer in a low-valuation area, the existing law protects local taxpayers by requiring state aid to be recalculated. SB1449 simply expands this law from only cases adjudicated in tax court to settlements that occur at the Board of Equalization or with the Department of Revenue. *SB1449 unanimously passed the House and awaits action in the House.*

SB1659 fire district annual budget; summary (Leach) Fire districts are required to prepare an annual budget containing the estimated revenues and expenditures for the ensuing fiscal year. Unlike other local governments, however, fire districts are not required to present their budgets on forms prescribed by the Auditor General's office (OAG). Consequently, the budgets adopted by the nearly 150 fire districts lack detail and consistency. Also like other local governments, fire districts are required to post their budgets to their websites within seven days of adoption. If a fire district doesn't have a website, the district may request its budget be posted on a website of an association of fire districts. Since this provision is permissive, there are many fire districts that don't adhere to the website posting requirement. Finally, although fire districts are required to have an annual audit or financial review performed, there is currently no requirement that the audits be posted to the entity's website.

ATRA worked with the Arizona Fire District Association (AFDA) on SB1659 to expand the proposed revenue and expense information fire districts must include in their budgets and that district budgets be prepared on forms

prescribed by the OAG. Furthermore, fire districts must have their budgets posted on a fire district association's website if they do not have a website of their own. Lastly, the audits performed on fire district operations are subject to the same web posting requirements as the annual budgets. *SB1659 passed the Senate and awaits a hearing in House Ways and Means.*

Bad Bills

HB2161/SB1101 tourism marketing authority (Kaiser/Pace) SB1101 and its mirror bill HB2161 would allow for the creation of tourism marketing authorities (TMAs). A TMA is formed when one or more municipalities or one or more municipalities and a county other than Maricopa is presented a petition signed by two-thirds of hotel operators within the proposed TMA. The nonprofit tourism promotion organization associated with the municipality becomes the governing body of the TMA and adds one elected official to the board. A variable tax rate of up to $5 per room night may be placed on all lodging operators within the district and any amount may be charged using a tier system based on average daily room rates. ATRA's primary opposition to the TMA is the governance structure, whereby a nonprofit is granted governmental status and the authority to tax. *SB1101 awaits Senate COW and HB2161 failed in a vote on the House floor.*

SB1309 property classification; gasoline manufacturing equipment (Shope) SB1309 changes the property tax classification for a company that produces zero-sulfur gasoline from natural gas from class 1 property to class 6 property. It would provide a gasoline manufacturer with a 5% assessment ratio compared to the 18% assessment ratio applied to most other business taxpayers. This results in a 72% reduction in property tax liability. The bill was intended as an incentive package for Nacero, a Houston based gasoline company, who plans to operate in Mohave County. In addition to the favorable class 6 designation, SB1309 also provides additional tax relief by extending Arizona's accelerated depreciation for personal property to this type of gasoline manufacturer. ATRA continues to support policies that provide for equitable treatment among property taxpayers and will oppose efforts that undermine that important policy principle. *SB1309 was held in Senate Finance.*

HB2802 ambulance services; service areas (Burges) Under current statute, the Director of the Department of Health Services (DHS) regulates operating and response times of ambulance service providers, and as such, must adopt rules that include uniform standards for response times within certificates of necessity (CON) based on a number of considerations. HB2802 would have set a new precedent by allowing the DHS Director to award a CON to a city, town or fire district without having to undergo the same rigorous review from an administrative law judge that private ambulance providers must endure. This new provision would have provided an unfair advantage to the costly enterprises of fire districts over the more cost-efficient private ambulance providers. Furthermore, HB2802 would have allowed the Director to determine a separate set of response times for cities, towns and fire districts. *HB2802 was held following discussion in the House Health Committee.*

HB2834 economic development; project certification (Dunn) HB2834 would allow economic development improvement programs to be established in unincorporated areas of counties and municipalities with specific capital investments and employment. Each county and city would get a limited number of annual awards of class six property based on their size to use as incentives. Qualified property would be classified under class six, which is assessed at 5% until the ownership of the property changes hands, unless the new owner reapplies. ATRA opposed the bill in the House Commerce Committee due to the constitutional concerns with providing tax breaks to similarly situated property in which the only distinguishing factor is the amount and location of the capital

investment, rather than property use. Furthermore, ATRA has consistently opposed any effort to expand targeted tax breaks to businesses under class 6 that exacerbates the inequity inherent in Arizona's property tax system. *HB2834 failed to pass House Commerce*.

SB1294 S/E: community college; expenditure limitation (Shope) SB1294 provides community college districts with a nonvoter approved expenditure limit override by artificially inflating their student counts. Community college districts have a long history of trying to evade their constitutional expenditure limits. Previously, they managed them by grossly exaggerating their student counts, by an average of 19.4% before reforms were made in 2016. This bill proposes CTE students be double counted in the current year, but not in the base year for purposes of the calculation. This triples the current weight of 0.3 which was added to a 2016 law change which had a similar motivation. The bill further allows districts to use a 10-year rolling average of prior student count for purposes of setting their expenditure limit, from five.

In 2016, ATRA proposed allowing districts to ask their voters for a permanent adjustment to their base level in order to increase their expenditure limit. This was offered and passed into law because these are constitutionally created by the voters and should not be diluted with simple legislative tinkering to student counts. So far, just Pima College has leveraged this new tool, successfully requesting a 60% increase from their voters. With community college enrollment continuing to decline overall, districts are looking for new ways to expand their expenditure limits in order to maintain and increase spending levels. Finally, the bill provides session law which limits penalties to just $100 for violating the expenditure limits in FY21, FY22, and FY23. ATRA is encouraging the Legislature to consider a one-year reprieve from the limits while schools battle COVID-19 enrollment losses and reconsider the issue next year. *SB1294 passed the Senate 21-9 and awaits action in the House.*

SB1721 TPT; prime contracting classification (Fann) Arizona's prime contracting tax is regarded as one of the most complex and inefficient areas of Arizona's transaction privilege tax (TPT) system. Arizona's prime contracting tax allows contractors to purchase materials tax-free at retail, and instead, the tax is owed on 65% of the gross proceeds of the contract. Legislation enacted in recent years simplified this area of law by moving contracts for the maintenance, repair, replacement, and alteration projects within specific thresholds (MRRA) from the prime contracting tax to paying tax on materials at retail. Although MRRA simplified tax compliance for many contractors, new complications were created for contractors involved in both MRRA and prime contracting activities.

SB1721 is a proposal by the Arizona League of Cities and Towns to eliminate MRRA and limit construction contracts that are $100,000 or less for residential property and $1 million or less for all other properties to pay tax on materials at retail instead of prime contracting.

ATRA opposes SB1721 in its current form since it would be a significant tax increase on businesses that enter into high-dollar replacement contracts. *SB1721 awaits Senate COW*.