

REFERENCE TITLE: TPT; services; tuition surcharge

State of Arizona  
House of Representatives  
Fifty-sixth Legislature  
First Regular Session  
2023

## HB 2735

Introduced by

Representatives Sandoval: Aguilar, Bravo, Contreras P, De Los Santos,  
Hernandez A, Hernandez C, Hernandez L, Hernandez M, Longdon, Pawlik,  
Peshlakai, Quiñonez, Seaman, Stahl Hamilton, Travers, Tsosie

### AN ACT

AMENDING SECTIONS 15-977 AND 15-1642, ARIZONA REVISED STATUTES; AMENDING TITLE 15, CHAPTER 13, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-1642.01; AMENDING TITLE 15, CHAPTER 13, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-1705; AMENDING TITLE 41, CHAPTER 1, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-181; REPEALING SECTION 41-194.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 403, SECTION 18; AMENDING SECTION 41-194.01, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2016, CHAPTER 35, SECTION 1; AMENDING SECTIONS 42-5010 AND 42-5029, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5077; AMENDING SECTION 42-6010, ARIZONA REVISED STATUTES; APPROPRIATING MONIES; RELATING TO STATE REVENUES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2 Section 1. Section 15-977, Arizona Revised Statutes, is amended to  
3 read:  
4 15-977. Classroom site fund; definitions  
5 A. The classroom site fund is established consisting of monies  
6 transferred to the fund pursuant to section 37-521, subsection B, section  
7 42-5029, subsection E, paragraph 10, SECTION 42-5029, SUBSECTION F,  
8 PARAGRAPH 1 and section 42-5029.02, subsection A. The department of  
9 education shall administer the fund. School districts and charter schools  
10 may not supplant existing school site funding with revenues from the  
11 fund. All monies distributed from the fund are intended for use at the  
12 school site. Teacher compensation distributed pursuant to this section  
13 shall supplement, and not supplant, teacher compensation monies from any  
14 other sources. The school district or charter school shall notify each  
15 school principal of the amount available to the school by April 15 of each  
16 year. The district or charter school shall request from the school's  
17 principal each school's priority for the allocation of the funds available  
18 to the school for each program listed under subsection H of this  
19 section. The amount budgeted by the school district or charter school  
20 pursuant to this section shall not be included in the allowable budget  
21 balance carryforward calculated pursuant to section 15-943.01.  
22 B. A school district governing board must adopt a performance based  
23 compensation system at a public hearing to allocate funding from the  
24 classroom site fund pursuant to subsection A of this section. Individual  
25 teacher performance shall be a component of allocation for teacher  
26 compensation.  
27 C. A school district governing board shall vote on a performance  
28 based compensation system that includes the following elements:  
29 1. School district performance and school performance.  
30 2. Individual teacher performance.  
31 3. Measures of academic progress toward the academic standards  
32 adopted by the state board of education.  
33 4. Other measures of academic progress.  
34 5. Dropout or graduation rates.  
35 6. Attendance rates.  
36 7. Ratings of school quality by parents.  
37 8. Ratings of school quality by students.  
38 9. The input of teachers and administrators.  
39 10. Approval of the performance based compensation system based on  
40 an affirmative vote of at least seventy percent of the teachers eligible  
41 to participate in the performance based compensation system.  
42 11. An appeals process for teachers who have been denied  
43 performance based compensation.  
44 12. Regular evaluation for effectiveness.

1 D. A performance based compensation system shall include teacher  
2 professional development programs that are aligned with the elements of  
3 the performance based compensation system.

4 E. A school district governing board may modify the elements  
5 contained in subsection C of this section and consider additional elements  
6 when adopting a performance based compensation system. A school district  
7 governing board shall adopt any modifications or additional elements and  
8 specify the criteria used at a public hearing.

9 F. Until December 31, 2009, each school district shall develop an  
10 assessment plan for its performance based compensation system and submit  
11 the plan to the department of education by December 31 of each year. A  
12 copy of the performance based compensation system and assessment plan  
13 adopted by the school district governing board shall be included in the  
14 report submitted to the department of education.

15 G. Monies in the fund are continuously appropriated, are exempt  
16 from the provisions of section 35-190 relating to lapsing of  
17 appropriations and shall be distributed as follows:

18 1. By March 30 of each year, the staff of the joint legislative  
19 budget committee shall determine a per pupil amount from the fund for the  
20 budget year using the estimated statewide weighted count for the current  
21 year pursuant to section 15-943, paragraph 2, subdivision (a) and based on  
22 estimated available resources in the classroom site fund for the budget  
23 year adjusted for any prior year carryforward or shortfall.

24 2. The allocation to each charter school and school district for a  
25 fiscal year shall equal the per pupil amount established in paragraph 1 of  
26 this subsection for the fiscal year multiplied by the weighted student  
27 count for the school district or charter school for the fiscal year  
28 pursuant to section 15-943, paragraph 2, subdivision (a). For the  
29 purposes of this paragraph, the weighted student count for a school  
30 district that serves as the district of attendance for nonresident pupils  
31 shall be increased to include nonresident pupils who attend school in the  
32 school district.

33 H. Monies distributed from the classroom site fund shall be spent  
34 for the following purposes:

- 35 1. Class size reduction.
- 36 2. Teacher compensation, including a base pay and performance pay  
37 component.
- 38 3. Assessment intervention programs.
- 39 4. Teacher development.
- 40 5. Dropout prevention programs.
- 41 6. Teacher liability insurance premiums.
- 42 7. Student support services.

43 I. The district governing board or charter school shall allocate  
44 the classroom site fund monies to include, if possible, the priorities

1 identified by the principals of the schools while ensuring that the monies  
2 maximize classroom opportunities and conform to the authorized  
3 expenditures identified in subsection A of this section.

4 J. School districts and charter schools that receive monies from  
5 the classroom site fund shall submit a report by November 15 of each year  
6 to the superintendent of public instruction that provides an accounting of  
7 the expenditures of monies distributed from the fund during the previous  
8 fiscal year and a summary of the results of district and school programs  
9 funded with monies distributed from the fund. The department of education  
10 in conjunction with the auditor general shall prescribe the format of the  
11 report under this subsection.

12 K. School districts and charter schools that receive monies from  
13 the classroom site fund shall receive these monies monthly in an amount  
14 not to exceed one-twelfth of the monies estimated pursuant to subsection G  
15 of this section, except that if there are insufficient monies in the fund  
16 that month to make payments, the distribution for that month shall be  
17 prorated for each school district or charter school. The department of  
18 education may make an additional payment in the current month for any  
19 prior month or months in which school districts or charter schools  
20 received a prorated payment if there are sufficient monies in the fund  
21 that month for the additional payments. The state is not required to make  
22 payments to a school district or charter school classroom site fund if the  
23 state classroom site fund revenue collections are insufficient to meet the  
24 estimated allocations to school districts and charter schools pursuant to  
25 subsection G of this section.

26 L. The state education system for committed youth shall receive  
27 monies from the classroom site fund in the same manner as school districts  
28 and charter schools. The Arizona state schools for the deaf and the blind  
29 shall receive monies from the classroom site fund in an amount that  
30 corresponds to the weighted student count for the current year pursuant to  
31 section 15-943, paragraph 2, subdivision (b) for each pupil enrolled in  
32 the Arizona state schools for the deaf and the blind. Except as otherwise  
33 provided in this subsection, the Arizona state schools for the deaf and  
34 the blind and the state education system for committed youth are subject  
35 to this section in the same manner as school districts and charter  
36 schools.

37 M. Each school district and charter school, including school  
38 districts that unify pursuant to section 15-448 or consolidate pursuant to  
39 section 15-459, shall establish a local level classroom site fund to  
40 receive allocations from the state level classroom site fund. The local  
41 level classroom site fund shall be a budgetary controlled account.  
42 Interest charges for any registered warrants for the local level classroom  
43 site fund shall be a charge against the local level classroom site fund.  
44 Interest earned on monies in the local level classroom site fund shall be

1 added to the local level classroom site fund as provided in section  
2 15-978. This state shall not be required to make payments to a school  
3 district or charter school local level classroom site fund that are in  
4 addition to monies transferred to the state level classroom site fund  
5 pursuant to section 37-521, subsection B, section 42-5029, subsection E,  
6 paragraph 10 and section 42-5029.02, subsection A.

7 N. Monies distributed from the classroom site fund for class size  
8 reduction, assessment intervention and dropout prevention programs shall  
9 only be used for instructional purposes in the instruction function as  
10 defined in the uniform system of financial records, except that monies  
11 shall not be used for school-sponsored athletics.

12 O. For the purposes of this section:

13 1. "Assessment intervention" means summer programs, after school  
14 programs, before school programs or tutoring programs that are  
15 specifically designed to ensure that pupils meet the Arizona academic  
16 standards as measured by the statewide assessment prescribed by section  
17 15-741.

18 2. "Class size reduction" means any maintenance and operations  
19 expenditure that is designed to reduce the ratio of pupils to classroom  
20 teachers, including the use of persons who serve as aides to classroom  
21 teachers.

22 3. "Student support services" means any expenditure in the student  
23 support services function as defined in the uniform system of financial  
24 records.

25 Sec. 2. Section 15-1642, Arizona Revised Statutes, is amended to  
26 read:

27 15-1642. Financial aid trust fund; aid to students with  
28 verifiable financial need; endowment; report

29 A. The Arizona board of regents may establish a financial aid trust  
30 fund for the purposes of providing immediate aid to students with  
31 verifiable financial need, including students who are underrepresented in  
32 the population of university students or who by virtue of their special  
33 circumstances present unique needs for financial aid, and creating an  
34 endowment for future financial aid. Subject to the limits provided in  
35 subsection B, paragraph 3 of this section, the board may assess a  
36 surcharge on registration fees paid by students for deposit in the fund.  
37 The fund shall also consist of monies deposited pursuant to **THIS SECTION**  
38 **AND** section 15-1670, subsection F **AND MONIES TRANSFERRED PURSUANT TO**  
39 **SECTION 42-5029, SUBSECTION F, PARAGRAPH 2.**

40 B. The board shall adopt rules to govern the financial aid trust  
41 fund, including the following:

42 1. Twenty-five percent of the monies received each year shall be  
43 placed in the trust fund as a permanent endowment. The remaining monies  
44 received shall be used for immediate aid for students with verifiable

1 financial need. At least fifty percent of the immediate aid monies shall  
2 be used for grant aid.

3 2. The immediate aid monies shall be distributed to the  
4 universities on a pro rata basis based on relative student contributions  
5 to the fund.

6 3. The surcharge on student registration shall not exceed one  
7 percent of the registration fee for students taking more than six credit  
8 surcharge hours. The surcharge hours for students taking fewer than seven  
9 credit hours shall equal one-half the surcharge assessed students taking  
10 more than six credit hours.

11 C. Each dollar raised pursuant to the surcharge on student  
12 registration shall be matched by \$2 appropriated by the legislature.

13 D. The board shall report every three years to the legislature on  
14 the status of the financial aid trust fund. The report shall include the  
15 use to which the monies have been put and the impact of such use.

16 E. Fund monies shall only be used in university assistance programs  
17 approved by the board, and such monies shall be in addition to, and not in  
18 replacement of, existing state or institutional financial aid monies.  
19 Assistance may be provided to full-time or part-time students. Monies  
20 appropriated by this state shall not be used to provide assistance to  
21 students who are not residents of this state.

22 Sec. 3. Title 15, chapter 13, article 2, Arizona Revised Statutes,  
23 is amended by adding section 15-1642.01, to read:

24 15-1642.01. Surcharge on out-of-state students; transfer

25 THE ARIZONA BOARD OF REGENTS SHALL ASSESS A SURCHARGE OF \$300 EACH  
26 YEAR ON TUITION PAID BY EACH STUDENT WHO IS NOT A RESIDENT OF THIS STATE.  
27 MONIES COLLECTED PURSUANT TO THIS SECTION SHALL BE DEPOSITED, PURSUANT TO  
28 SECTIONS 35-146 AND 35-147, IN THE ARIZONA HIGHER EDUCATION FINANCIAL AID  
29 PROGRAM FUND ESTABLISHED BY SECTION 41-181.

30 Sec. 4. Title 15, chapter 13, article 6, Arizona Revised Statutes,  
31 is amended by adding section 15-1705, to read:

32 15-1705. Arizona higher education financial aid program;  
33 requirements; distribution fund; rules

34 A. THE ARIZONA BOARD OF REGENTS SHALL ESTABLISH THE ARIZONA HIGHER  
35 EDUCATION FINANCIAL AID PROGRAM.

36 B. THE BOARD SHALL ESTABLISH APPLICATION, EVALUATION AND APPROVAL  
37 PROCEDURES AND CRITERIA FOR PERSONS TO APPLY TO PARTICIPATE IN THE ARIZONA  
38 HIGHER EDUCATION FINANCIAL AID PROGRAM.

39 C. THE ARIZONA HIGHER EDUCATION FINANCIAL AID PROGRAM DISTRIBUTION  
40 FUND IS ESTABLISHED CONSISTING OF LEGISLATIVE APPROPRIATIONS AND MONIES  
41 DEPOSITED PURSUANT TO SECTION 41-181. THE BOARD SHALL ADMINISTER THE  
42 FUND. MONIES IN THE FUND ARE CONTINUOUSLY APPROPRIATED. THE BOARD MAY  
43 ANNUALLY RETAIN UP TO FIVE PERCENT OF THE MONIES IN THE FUND FOR

1 ADMINISTRATIVE PURPOSES. THE BOARD SHALL DISTRIBUTE MONIES IN THE FUND TO  
2 QUALIFYING STUDENTS AS PROVIDED IN THIS SECTION.

3 D. IN ORDER TO QUALIFY FOR DISTRIBUTIONS FROM THE ARIZONA HIGHER  
4 EDUCATION FINANCIAL AID PROGRAM DISTRIBUTION FUND, A PERSON MUST MEET AT  
5 LEAST ALL OF THE FOLLOWING CRITERIA:

6 1. BE A RESIDENT OF THIS STATE.

7 2. BE CURRENTLY ENROLLED IN OR ACCEPTED FOR ENROLLMENT IN EITHER:

8 (a) A UNIVERSITY UNDER THE JURISDICTION OF THE ARIZONA BOARD OF  
9 REGENTS.

10 (b) A COMMUNITY COLLEGE UNDER THE JURISDICTION OF A COMMUNITY  
11 COLLEGE DISTRICT GOVERNING BOARD.

12 3. MAINTAIN A GRADE POINT AVERAGE OF AT LEAST 2.0 ON A 4.0 SCALE,  
13 OR THE EQUIVALENT, AT THE UNIVERSITY OR COMMUNITY COLLEGE WHERE THE  
14 STUDENT IS ENROLLED. IF THE GRADE POINT AVERAGE OF AN OTHERWISE  
15 QUALIFYING STUDENT FALLS BELOW 2.0 ON A 4.0 SCALE, THE STUDENT IS NO  
16 LONGER ELIGIBLE FOR A DISTRIBUTION FROM THE FUND UNTIL THAT STUDENT MEETS  
17 THE GRADE POINT REQUIREMENT PRESCRIBED IN THIS PARAGRAPH.

18 E. BEGINNING IN 2024, THE BOARD SHALL DISTRIBUTE MONIES FROM THE  
19 ARIZONA HIGHER EDUCATION FINANCIAL AID PROGRAM DISTRIBUTION FUND ON OR  
20 BEFORE AUGUST 1 OF EACH YEAR TO QUALIFYING STUDENTS TO COVER THE FULL  
21 AMOUNT OF EACH QUALIFYING STUDENT'S TUITION AND FEES AT THE UNIVERSITY OR  
22 COMMUNITY COLLEGE WHERE THE QUALIFYING STUDENT IS ENROLLED. IF THERE ARE  
23 INSUFFICIENT MONIES AVAILABLE IN THE ARIZONA HIGHER EDUCATION FINANCIAL  
24 AID PROGRAM DISTRIBUTION FUND DURING ANY FISCAL YEAR TO COVER THE TUITION  
25 AND FEES OF ALL QUALIFYING STUDENTS, THE BOARD SHALL DISTRIBUTE THE MONIES  
26 IN THE FUND TO QUALIFYING STUDENTS ON A FIRST-COME, FIRST-SERVED BASIS.

27 F. THE BOARD SHALL ADOPT RULES TO CARRY OUT THE PURPOSES OF THIS  
28 SECTION.

29 Sec. 5. Title 41, chapter 1, article 4, Arizona Revised Statutes,  
30 is amended by adding section 41-181, to read:

31 41-181. Arizona higher education financial aid program fund

32 A. THE ARIZONA HIGHER EDUCATION FINANCIAL AID PROGRAM FUND IS  
33 ESTABLISHED CONSISTING OF MONIES TRANSFERRED PURSUANT TO SECTION 42-5029,  
34 SUBSECTION F, PARAGRAPH 4. THE STATE TREASURER SHALL ADMINISTER THE FUND.  
35 MONIES IN THE FUND ARE CONTINUOUSLY APPROPRIATED. THE STATE TREASURER  
36 SHALL INVEST AND DIVEST MONIES IN THE FUND AS PROVIDED BY SECTION 35-313,  
37 AND MONIES EARNED FROM INVESTMENT SHALL BE CREDITED TO THE FUND.

38 B. BEGINNING IN 2024, THE STATE TREASURER SHALL TRANSFER ON OR  
39 BEFORE AUGUST 1 OF EACH YEAR MONIES IN THE ARIZONA HIGHER EDUCATION  
40 FINANCIAL AID PROGRAM FUND TO THE ARIZONA BOARD OF REGENTS FOR DEPOSIT IN  
41 THE ARIZONA HIGHER EDUCATION FINANCIAL AID PROGRAM DISTRIBUTION FUND  
42 ESTABLISHED BY SECTION 15-1705.

1 Sec. 6. Repeal

2 Section 41-194.01, Arizona Revised Statutes, as amended by Laws  
3 2021, chapter 403, section 18, is repealed.

4 Sec. 7. Section 41-194.01, Arizona Revised Statutes, as added by  
5 Laws 2016, chapter 35, section 1, is amended to read:

6 41-194.01. Violations of state law by counties, cities and  
7 towns; attorney general investigation; report;  
8 withholding of state shared revenues; notice of  
9 violation

10 A. At the request of one or more members of the legislature, the  
11 attorney general shall investigate any ordinance, regulation, order or  
12 other official action adopted or taken by the governing body of a county,  
13 city or town or any written policy, written rule or written regulation  
14 adopted by any agency, department or other entity of the county, city or  
15 town that the member alleges violates state law or the Constitution of  
16 Arizona.

17 B. The attorney general shall make a written report of findings and  
18 conclusions as a result of the investigation within thirty days after  
19 receipt of the request and shall provide a copy of the report to the  
20 governor, the president of the senate, the speaker of the house of  
21 representatives, the member or members of the legislature making the  
22 original request and the secretary of state. If the attorney general  
23 concludes that the ordinance, regulation, order, written policy, written  
24 rule or other action under investigation:

25 1. Violates any provision of state law or the Constitution of  
26 Arizona, the attorney general shall provide notice to the county, city or  
27 town, by certified mail, of the violation and shall indicate that the  
28 county, city or town has thirty days to resolve the violation. If the  
29 attorney general determines that the county, city or town has failed to  
30 resolve the violation within thirty days, the attorney general shall:

31 (a) Notify the state treasurer who shall withhold and redistribute  
32 state shared monies from the county, city or town as provided by section  
33 42-5029, subsection ~~+~~ M and from the city or town as provided by section  
34 43-206, subsection F.

35 (b) Continue to monitor the response of the governing body, and  
36 when the offending ordinance, regulation, order or action is repealed or  
37 the violation is otherwise resolved, the attorney general shall notify:

38 (i) The governor, the president of the senate, the speaker of the  
39 house of representatives and the member or members of the legislature  
40 making the original request that the violation has been resolved.

41 (ii) The state treasurer to restore the distribution of state  
42 shared revenues to the county, city or town.

43 2. May violate a provision of state law or the Constitution of  
44 Arizona, the attorney general shall file a special action in the supreme



1 court to resolve the issue, and the supreme court shall give the action  
2 precedence over all other cases. The court shall require the county, city  
3 or town to post a bond equal to the amount of state shared revenues paid  
4 to the county, city or town pursuant to sections 42-5029 and 43-206 in the  
5 preceding six months.

6 3. Does not violate any provision of state law or the Constitution  
7 of Arizona, the attorney general shall take no further action pursuant to  
8 this section.

9 C. Before a member of the legislature may request an investigation  
10 by the attorney general of any written policy, written rule or written  
11 regulation adopted by any agency, department or other entity of a county,  
12 city or town pursuant to subsection A of this section, the member of the  
13 legislature shall first provide a written notification of the alleged  
14 violation of state law or the Constitution of Arizona to the chief  
15 executive officer or governing body of the county, city or town. If the  
16 county, city or town does not repeal or otherwise resolve the violation  
17 within sixty days after receiving the notification, the member or members  
18 of the legislature may request an investigation by the attorney general  
19 pursuant to this section.

20 Sec. 8. Section 42-5010, Arizona Revised Statutes, is amended to  
21 read:

22 42-5010. Rates; distribution base

23 A. The tax imposed by this article is levied and shall be collected  
24 at the following rates:

25 1. Five percent of the tax base as computed for the business of  
26 every person engaging or continuing in this state in the following  
27 business classifications described in article 2 of this chapter:

28 (a) Transporting classification.

29 (b) Utilities classification.

30 (c) Telecommunications classification.

31 (d) Pipeline classification.

32 (e) Private car line classification.

33 (f) Publication classification.

34 (g) Job printing classification.

35 (h) Prime contracting classification.

36 (i) Amusement classification.

37 (j) Restaurant classification.

38 (k) Personal property rental classification.

39 (l) Retail classification and amounts equal to retail transaction  
40 privilege tax due pursuant to section 42-5008.01.

41 2. Five and one-half percent of the tax base as computed for the  
42 business of every person engaging or continuing in this state in:

43 (a) The transient lodging classification described in section  
44 42-5070.

1 (b) The online lodging marketplace classification described in  
2 section 42-5076 who has entered into an agreement with the department to  
3 register for, or has otherwise obtained from the department, a license to  
4 collect tax pursuant to section 42-5005, subsection L.

5 3. Three and one-eighth percent of the tax base as computed for the  
6 business of every person engaging or continuing in this state in the  
7 mining classification described in section 42-5072.

8 4. ONE PERCENT OF THE TAX BASE AS COMPUTED FOR THE BUSINESS OF  
9 EVERY PERSON ENGAGING OR CONTINUING IN THIS STATE IN THE SERVICES  
10 CLASSIFICATION DESCRIBED IN SECTION 42-5077.

11 ~~4.~~ 5. Zero percent of the tax base as computed for the business of  
12 every person engaging or continuing in this state in the commercial lease  
13 classification described in section 42-5069.

14 B. Except as provided by subsection J of this section, twenty  
15 percent of the tax revenues collected at the rate prescribed by subsection  
16 A, paragraph 1 of this section from persons on account of engaging in  
17 business under the business classifications listed in subsection A,  
18 paragraph 1, subdivisions (a) through (h) of this section is designated as  
19 distribution base for THE purposes of section 42-5029.

20 C. Forty percent of the tax revenues collected at the rate  
21 prescribed by subsection A, paragraph 1 of this section from persons on  
22 account of engaging in business under the business classifications listed  
23 in subsection A, paragraph 1, subdivisions (i) through (l) of this section  
24 is designated as distribution base for THE purposes of section 42-5029.

25 D. Thirty-two percent of the tax revenues collected from persons on  
26 account of engaging in business under the business classification listed  
27 in subsection A, paragraph 3 of this section is designated as distribution  
28 base for THE purposes of section 42-5029.

29 E. Fifty-three and one-third percent of the tax revenues collected  
30 from persons on account of engaging in business under the business  
31 classification listed in subsection A, paragraph ~~4~~ 5 of this section is  
32 designated as distribution base for THE purposes of section 42-5029.

33 F. Fifty percent of the tax revenues collected from persons on  
34 account of engaging in business under the business classification listed  
35 in subsection A, paragraph 2 of this section is designated as distribution  
36 base for THE purposes of section 42-5029.

37 G. In addition to the rates prescribed by subsection A of this  
38 section, if approved by the qualified electors voting at a statewide  
39 general election, an additional rate increment is imposed and shall be  
40 collected through June 30, 2021. The taxpayer shall pay taxes pursuant to  
41 this subsection at the same time and in the same manner as under  
42 subsection A of this section. The department shall separately account for  
43 the revenues collected with respect to the rates imposed pursuant to this  
44 subsection and the state treasurer shall distribute all of those revenues

1 in the manner prescribed by section 42-5029, subsection E. The rates  
2 imposed pursuant to this subsection shall not be considered local revenues  
3 for purposes of article IX, section 21, Constitution of Arizona. The  
4 additional tax rate increment is levied at the rate of six-tenths of one  
5 per cent of the tax base of every person engaging or continuing in this  
6 state in a business classification listed in subsection A, paragraph 1 of  
7 this section.

8 H. Any increase in the rate of tax that is imposed by this chapter  
9 and that is enacted by the legislature or by a vote of the people does not  
10 apply with respect to contracts entered into by prime contractors or  
11 pursuant to written bids made by prime contractors on or before the  
12 effective date of the legislation or the date of the election enacting the  
13 increase. To qualify for the exemption under this subsection, the prime  
14 contractor must maintain sufficient documentation, in a manner and form  
15 prescribed by the department, to verify the date of the contract or  
16 written bid.

17 I. For taxpayers **THAT ARE** taxable under this chapter other than  
18 prime contractors taxable pursuant to section 42-5075:

19 1. Any increase in the rate of tax that is levied by this article  
20 or article 2 of this chapter enacted by the legislature or by a vote of  
21 the people does not apply for a period of one hundred twenty days from the  
22 date of the tax rate increase to the gross proceeds of sales or gross  
23 income from the business of the taxpayer with respect to written contracts  
24 entered into before the effective date of the tax rate increase unless the  
25 taxpayer has entered into a contract that contains a provision that  
26 entitles the taxpayer to recover from the purchaser the amount of the  
27 additional tax levied.

28 2. The provisions of this subsection apply without regard to the  
29 accounting method used by the taxpayer to report the taxes imposed under  
30 article 2 of this chapter.

31 3. The provisions of this subsection shall not be considered in  
32 determining the rate of tax imposed under chapter 6, article 3 of this  
33 title.

34 J. Zero percent of the tax revenues that are collected at the rate  
35 prescribed by subsection A, paragraph 1 of this section from persons on  
36 account of engaging in business under the business classification listed  
37 in:

38 1. Subsection A, paragraph 1, subdivision (h) of this section, ~~and~~  
39 that are subject to any distribution required by section 42-5032.02, ~~is~~  
40 designated as distribution base for the purposes of section 42-5029 until  
41 the total amount subject to distribution pursuant to section 42-5032.02  
42 has reached the maximum amount prescribed by section 42-5032.02,  
43 subsection C. Thereafter, twenty percent of the remaining tax revenues is

1 designated as distribution base for the purposes of section 42-5029 as  
2 provided by subsection B of this section.

3 2. SUBSECTION A, PARAGRAPH 4 OF THIS SECTION IS DESIGNATED AS  
4 DISTRIBUTION BASE FOR THE PURPOSES OF SECTION 42-5029, SUBSECTION D, BUT  
5 THE STATE TREASURER SHALL DISTRIBUTE ALL OF THOSE REVENUES IN THE MANNER  
6 PRESCRIBED BY SECTION 42-5029, SUBSECTION F.

7 Sec. 9. Section 42-5029, Arizona Revised Statutes, is amended to  
8 read:

9 42-5029. Remission and distribution of monies; withholding;  
10 definition

11 A. The department shall deposit, pursuant to sections 35-146 and  
12 35-147, all revenues collected under this article and articles 4, 5 and 8  
13 of this chapter pursuant to section 42-1116, separately accounting for:

14 1. Payments of estimated tax under section 42-5014, subsection D.

15 2. Revenues collected pursuant to section 42-5070.

16 3. Revenues collected under this article and article 5 of this  
17 chapter from and after June 30, 2000 from sources located on Indian  
18 reservations in this state.

19 4. Revenues collected pursuant to section 42-5010, subsection G and  
20 section 42-5155, subsection D.

21 5. Revenues collected pursuant to section 42-5010.01 and section  
22 42-5155, subsection E.

23 B. The department shall credit payments of estimated tax to an  
24 estimated tax clearing account and each month shall transfer all monies in  
25 the estimated tax clearing account to a fund designated as the transaction  
26 privilege and severance tax clearing account. The department shall credit  
27 all other payments to the transaction privilege and severance tax clearing  
28 account, separately accounting for the monies designated as distribution  
29 base under sections 42-5010, 42-5164 and 42-5205. Each month the  
30 department shall report to the state treasurer the amount of monies  
31 collected pursuant to this article and articles 4, 5 and 8 of this  
32 chapter.

33 C. On notification by the department, the state treasurer shall  
34 distribute the monies deposited in the transaction privilege and severance  
35 tax clearing account in the manner prescribed by this section and by  
36 sections 42-5164 and 42-5205, after deducting warrants drawn against the  
37 account pursuant to sections 42-1118 and 42-1254.

38 D. Of the monies designated as distribution base, the department  
39 shall:

40 1. Pay twenty-five percent to the various incorporated  
41 municipalities in this state in proportion to their population to be used  
42 by the municipalities for any municipal purpose.

1           2. Pay 38.08 percent to the counties in this state by averaging the  
2 following proportions:

3           (a) The proportion that the population of each county bears to the  
4 total state population.

5           (b) The proportion that the distribution base monies collected  
6 during the calendar month in each county under this article, section  
7 42-5164, subsection B and section 42-5205, subsection B bear to the total  
8 distribution base monies collected under this article, section 42-5164,  
9 subsection B and section 42-5205, subsection B throughout the state for  
10 the calendar month.

11           3. Pay an additional 2.43 percent to the counties in this state as  
12 follows:

13           (a) Average the following proportions:

14           (i) The proportion that the assessed valuation used to determine  
15 secondary property taxes of each county, after deducting that part of the  
16 assessed valuation that is exempt from taxation at the beginning of the  
17 month for which the amount is to be paid, bears to the total assessed  
18 valuations used to determine secondary property taxes of all the counties  
19 after deducting that portion of the assessed valuations that is exempt  
20 from taxation at the beginning of the month for which the amount is to be  
21 paid. Property of a city or town that is not within or contiguous to the  
22 municipal corporate boundaries and from which water is or may be withdrawn  
23 or diverted and transported for use on other property is considered to be  
24 taxable property in the county for purposes of determining assessed  
25 valuation in the county under this item.

26           (ii) The proportion that the distribution base monies collected  
27 during the calendar month in each county under this article, section  
28 42-5164, subsection B and section 42-5205, subsection B bear to the total  
29 distribution base monies collected under this article, section 42-5164,  
30 subsection B and section 42-5205, subsection B throughout ~~the~~ THIS state  
31 for the calendar month.

32           (b) If the proportion computed under subdivision (a) of this  
33 paragraph for any county is greater than the proportion computed under  
34 paragraph 2 of this subsection, the department shall compute the  
35 difference between the amount distributed to that county under paragraph 2  
36 of this subsection and the amount that would have been distributed under  
37 paragraph 2 of this subsection using the proportion computed under  
38 subdivision (a) of this paragraph and shall pay that difference to the  
39 county from the amount available for distribution under this paragraph.  
40 Any monies remaining after all payments under this subdivision shall be  
41 distributed among the counties according to the proportions computed under  
42 paragraph 2 of this subsection.

43           4. After any distributions required by sections 42-5030,  
44 42-5030.01, 42-5031, 42-5032, 42-5032.01 and 42-5032.02, and after making

1 any transfer to the water quality assurance revolving fund as required by  
2 section 49-282, subsection B, credit the remainder of the monies  
3 designated as distribution base to the state general fund. From this  
4 amount the legislature shall annually appropriate to:

5 (a) The department of revenue sufficient monies to administer and  
6 enforce this article and articles 5 and 8 of this chapter.

7 (b) The department of economic security monies to be used for the  
8 purposes stated in title 46, chapter 1.

9 (c) The firearms safety and ranges fund established by section  
10 17-273, ~~fifty thousand dollars~~ \$50,000 derived from the taxes collected  
11 from the retail classification pursuant to section 42-5061 for the current  
12 fiscal year.

13 E. If approved by the qualified electors voting at a statewide  
14 general election, all monies collected pursuant to section 42-5010,  
15 subsection G and section 42-5155, subsection D shall be distributed each  
16 fiscal year pursuant to this subsection. The monies distributed pursuant  
17 to this subsection are in addition to any other appropriation, transfer or  
18 other allocation of public or private monies from any other source and  
19 shall not supplant, replace or cause a reduction in other school district,  
20 charter school, university or community college funding sources. The  
21 monies shall be distributed as follows:

22 1. If there are outstanding state school facilities revenue bonds  
23 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the  
24 amount that is necessary to pay the fiscal year's debt service on  
25 outstanding state school improvement revenue bonds for the current fiscal  
26 year shall be transferred each month to the school improvement revenue  
27 bond debt service fund established by section 15-2084. The total amount  
28 of bonds for which these monies may be allocated for the payment of debt  
29 service shall not exceed a principal amount of eight hundred million  
30 dollars exclusive of refunding bonds and other refinancing obligations.

31 2. After any transfer of monies pursuant to paragraph 1 of this  
32 subsection, twelve per cent of the remaining monies collected during the  
33 preceding month shall be transferred to the technology and research  
34 initiative fund established by section 15-1648 to be distributed among the  
35 universities for the purpose of investment in technology and  
36 research-based initiatives.

37 3. After the transfer of monies pursuant to paragraph 1 of this  
38 subsection, three per cent of the remaining monies collected during the  
39 preceding month shall be transferred to the workforce development account  
40 established in each community college district pursuant to section 15-1472  
41 for the purpose of investment in workforce development programs.

42 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
43 this subsection, one-twelfth of the amount a community college that is  
44 owned, operated or chartered by a qualifying Indian tribe on its own

1 Indian reservation would receive pursuant to section 15-1472, subsection  
 2 D, paragraph 2 if it were a community college district shall be  
 3 distributed each month to the treasurer or other designated depository of  
 4 a qualifying Indian tribe. Monies distributed pursuant to this paragraph  
 5 are for the exclusive purpose of providing support to one or more  
 6 community colleges owned, operated or chartered by a qualifying Indian  
 7 tribe and shall be used in a manner consistent with section 15-1472,  
 8 subsection B. For the purposes of this paragraph, "qualifying Indian  
 9 tribe" has the same meaning as defined in section 42-5031.01,  
 10 subsection D.

11 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
 12 this subsection, one-twelfth of the following amounts shall be transferred  
 13 each month to the department of education for the increased cost of basic  
 14 state aid under section 15-971 due to added school days and associated  
 15 teacher salary increases enacted in 2000:

- 16 (a) In fiscal year 2001-2002, \$15,305,900.
- 17 (b) In fiscal year 2002-2003, \$31,530,100.
- 18 (c) In fiscal year 2003-2004, \$48,727,700.
- 19 (d) In fiscal year 2004-2005, \$66,957,200.
- 20 (e) In fiscal year 2005-2006 and each fiscal year thereafter,  
 21 \$86,280,500.

22 6. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
 23 this subsection, seven million eight hundred thousand dollars is  
 24 appropriated each fiscal year, to be paid in monthly installments, to the  
 25 department of education to be used for school safety as provided in  
 26 section 15-154 and two hundred thousand dollars is appropriated each  
 27 fiscal year, to be paid in monthly installments to the department of  
 28 education to be used for the character education matching grant program as  
 29 provided in section 15-154.01.

30 7. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
 31 this subsection, no more than seven million dollars may be appropriated by  
 32 the legislature each fiscal year to the department of education to be used  
 33 for accountability purposes as described in section 15-241 and title 15,  
 34 chapter 9, article 8.

35 8. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
 36 this subsection, one million five hundred thousand dollars is appropriated  
 37 each fiscal year, to be paid in monthly installments, to the failing  
 38 schools tutoring fund established by section 15-241.

39 9. After transferring monies pursuant to paragraphs 1, 2 and 3 of  
 40 this subsection, twenty-five million dollars shall be transferred each  
 41 fiscal year to the state general fund to reimburse the general fund for  
 42 the cost of the income tax credit allowed by section 43-1072.01.

43 10. After the payment of monies pursuant to paragraphs 1 through 9  
 44 of this subsection, the remaining monies collected during the preceding

1 month shall be transferred to the classroom site fund established by  
2 section 15-977. The monies shall be allocated as follows in the manner  
3 prescribed by section 15-977:

4 (a) Forty per cent shall be allocated for teacher compensation  
5 based on performance.

6 (b) Twenty per cent shall be allocated for increases in teacher  
7 base compensation and employee related expenses.

8 (c) Forty per cent shall be allocated for maintenance and operation  
9 purposes.

10 F. ALL MONIES COLLECTED PURSUANT TO SECTION 42-5010, SUBSECTION A,  
11 PARAGRAPH 4, SECTION 42-5010, SUBSECTION J, PARAGRAPH 2 AND SECTION  
12 42-5077 SHALL BE DISTRIBUTED EACH FISCAL YEAR PURSUANT TO THIS SUBSECTION  
13 AS FOLLOWS:

14 1. TWENTY-FIVE PERCENT OF THE MONIES COLLECTED EACH MONTH SHALL BE  
15 TRANSFERRED TO THE CLASSROOM SITE FUND ESTABLISHED BY SECTION 15-977 FOR  
16 THE PURPOSE OF TEACHER COMPENSATION INCREASES.

17 2. TWENTY-FIVE PERCENT OF THE MONIES COLLECTED EACH MONTH SHALL BE  
18 TRANSFERRED TO THE FINANCIAL AID TRUST FUND ESTABLISHED PURSUANT TO  
19 SECTION 15-1642 FOR THE PURPOSE OF PROVIDING FINANCIAL AID TO RESIDENT  
20 STUDENTS AT THE UNIVERSITIES UNDER THE JURISDICTION OF THE ARIZONA BOARD  
21 OF REGENTS.

22 3. TWENTY-FIVE PERCENT OF THE MONIES COLLECTED EACH MONTH SHALL BE  
23 TRANSFERRED TO THE PUBLIC SAFETY PERSONNEL RETIREMENT FUND ESTABLISHED  
24 PURSUANT TO TITLE 38, CHAPTER 5, ARTICLE 4 FOR THE PURPOSE OF PAYING THE  
25 UNFUNDED ACCRUED LIABILITY UNDER THE PUBLIC SAFETY PERSONNEL RETIREMENT  
26 SYSTEM.

27 4. TWENTY-FIVE PERCENT OF THE MONIES COLLECTED EACH MONTH SHALL BE  
28 TRANSFERRED TO THE ARIZONA HIGHER EDUCATION FINANCIAL AID PROGRAM FUND  
29 ESTABLISHED BY SECTION 41-181.

30 ~~F.~~ G. The department shall credit the remainder of the monies in  
31 the transaction privilege and severance tax clearing account to the state  
32 general fund, subject to any distribution required by section 42-5030.01.

33 ~~G.~~ H. Notwithstanding subsection D of this section, if a court of  
34 competent jurisdiction finally determines that tax monies distributed  
35 under this section were illegally collected under this article or articles  
36 5 and 8 of this chapter and orders the monies to be refunded to the  
37 taxpayer, the department shall compute the amount of such monies that was  
38 distributed to each city, town and county under this section. Each  
39 city's, town's and county's proportionate share of the costs shall be  
40 based on the amount of the original tax payment each municipality and  
41 county received. Each month the state treasurer shall reduce the amount  
42 otherwise distributable to the city, town and county under this section by  
43 ~~one thirty-sixth~~ 1/36 of the total amount to be recovered from the city,  
44 town or county until the total amount has been recovered, but the monthly



1 reduction for any city, town or county shall not exceed ten percent of the  
 2 full monthly distribution to that entity. The reduction shall begin for  
 3 the first calendar month after the final disposition of the case and shall  
 4 continue until the total amount, including interest and costs, has been  
 5 recovered.

6 ~~H.~~ I. On receiving a certificate of default from the greater  
 7 Arizona development authority pursuant to section 41-2257 or 41-2258 and  
 8 to the extent not otherwise expressly prohibited by law, the state  
 9 treasurer shall withhold from the next succeeding distribution of monies  
 10 pursuant to this section due to the defaulting political subdivision the  
 11 amount specified in the certificate of default and immediately deposit the  
 12 amount withheld in the greater Arizona development authority revolving  
 13 fund. The state treasurer shall continue to withhold and deposit the  
 14 monies until the greater Arizona development authority certifies to the  
 15 state treasurer that the default has been cured. In no event may the  
 16 state treasurer withhold any amount that the defaulting political  
 17 subdivision certifies to the state treasurer and the authority as being  
 18 necessary to make any required deposits then due for the payment of  
 19 principal and interest on bonds of the political subdivision that were  
 20 issued before the date of the loan repayment agreement or bonds and that  
 21 have been secured by a pledge of distributions made pursuant to this  
 22 section.

23 ~~I.~~ J. Except as provided by sections 42-5033 and 42-5033.01, the  
 24 population of a county, city or town as determined by the most recent  
 25 United States decennial census plus any revisions to the decennial census  
 26 certified by the United States bureau of the census shall be used as the  
 27 basis for apportioning monies pursuant to subsection D of this section.

28 ~~J.~~ K. Except as otherwise provided by this subsection, on notice  
 29 from the department of revenue pursuant to section 42-6010, subsection B,  
 30 the state treasurer shall withhold from the distribution of monies  
 31 pursuant to this section to the affected city or town the amount of the  
 32 penalty for business location municipal tax incentives provided by the  
 33 city or town to a business entity that locates a retail business facility  
 34 in the city or town. The state treasurer shall continue to withhold  
 35 monies pursuant to this subsection until the entire amount of the penalty  
 36 has been withheld. The state treasurer shall credit any monies withheld  
 37 pursuant to this subsection to the state general fund as provided by  
 38 subsection D, paragraph 4 of this section. The state treasurer shall not  
 39 withhold any amount that the city or town certifies to the department of  
 40 revenue and the state treasurer as being necessary to make any required  
 41 deposits or payments for debt service on bonds or other long-term  
 42 obligations of the city or town that were issued or incurred before the  
 43 location incentives provided by the city or town.

1       ~~K~~ L. On notice from the auditor general pursuant to section  
2 9-626, subsection D, the state treasurer shall withhold from the  
3 distribution of monies pursuant to this section to the affected city the  
4 amount computed pursuant to section 9-626, subsection D. The state  
5 treasurer shall continue to withhold monies pursuant to this subsection  
6 until the entire amount specified in the notice has been withheld. The  
7 state treasurer shall credit any monies withheld pursuant to this  
8 subsection to the state general fund as provided by subsection D,  
9 paragraph 4 of this section.

10       ~~L~~ M. Except as otherwise provided by this subsection, on notice  
11 from the attorney general pursuant to section 41-194.01, subsection B,  
12 paragraph 1 that an ordinance, regulation, order or other official action  
13 adopted or taken by the governing body of a county, city or town violates  
14 state law or the Constitution of Arizona, the state treasurer shall  
15 withhold the distribution of monies pursuant to this section to the  
16 affected county, city or town and shall continue to withhold monies  
17 pursuant to this subsection until the attorney general certifies to the  
18 state treasurer that the violation has been resolved. The state treasurer  
19 shall redistribute the monies withheld pursuant to this subsection among  
20 all other counties, cities and towns in proportion to their population as  
21 provided by subsection D of this section. The state treasurer shall not  
22 withhold any amount that the county, city or town certifies to the  
23 attorney general and the state treasurer as being necessary to make any  
24 required deposits or payments for debt service on bonds or other long-term  
25 obligations of the county, city or town that were issued or incurred  
26 before committing the violation.

27       ~~M~~ N. For the purposes of this section, "community college  
28 district" means a community college district that is established pursuant  
29 to sections 15-1402 and 15-1403 and that is a political subdivision of  
30 this state and, unless otherwise specified, includes a community college  
31 tuition financing district established pursuant to section 15-1409.

32       Sec. 10. Title 42, chapter 5, article 2, Arizona Revised Statutes,  
33 is amended by adding section 42-5077, to read:

34       42-5077. Services classification

35       A. THE SERVICES CLASSIFICATION INCLUDES THE FOLLOWING BUSINESSES  
36 THAT ARE NOT OTHERWISE CLASSIFIED FOR TAXATION UNDER THIS ARTICLE:

- 37       1. LEGAL SERVICES.
- 38       2. ARCHITECTURE, LANDSCAPE ARCHITECTURE, ENGINEERING, ENGINEERING  
39 DESIGN AND LAND SURVEYOR SERVICES.
- 40       3. HOME INSPECTION SERVICES.
- 41       4. BUILDING AND PROPERTY ALARM AGENCIES AND SECURITY GUARDS AND  
42 AGENCIES.
- 43       5. INVESTIGATION AND SECURITY SERVICES.
- 44       6. STRUCTURAL, PROPERTY AND AGRICULTURAL PEST CONTROL SERVICES.

- 1 7. OTHER SERVICES TO BUILDINGS, DWELLINGS AND REAL ESTATE.
- 2 8. REAL ESTATE AGENCIES, AGENTS AND BROKERS.
- 3 9. REAL ESTATE APPRAISERS AND PROPERTY TAX AGENTS.
- 4 10. BARBER SERVICES.
- 5 11. BEAUTY AND COSMETIC SALON SERVICES, INCLUDING COSMETOLOGISTS,
- 6 AESTHETICIANS AND NAIL TECHNICIANS.
- 7 12. OTHER PERSONAL CARE SERVICES.
- 8 13. ACCOUNTING, TAX PREPARATION AND BOOKKEEPING SERVICES.
- 9 14. MEDICAL, OSTEOPATHIC MEDICINE, CHIROPRACTIC, PODIATRIC,
- 10 NATUROPATHIC, HOMEOPATHIC, DENTAL, OPTOMETRIC, OPTICIAN AND OTOLOGY
- 11 SERVICES.
- 12 15. ACUPUNCTURE THERAPISTS AND PRACTITIONERS.
- 13 16. BEHAVIORAL AND MENTAL HEALTH PRACTITIONER SERVICES.
- 14 17. PHYSICAL, OCCUPATIONAL AND SPEECH THERAPY AND REHABILITATION
- 15 SERVICES.
- 16 18. HOSPITAL AND URGENT CARE SERVICES.
- 17 19. AMBULANCE AND OTHER MEDICAL OR DISABILITY TRANSPORTATION
- 18 SERVICES.
- 19 20. OTHER HEALTH PRACTITIONER SERVICES.
- 20 21. OUTPATIENT CARE SERVICES.
- 21 22. RADIOLOGY SERVICES.
- 22 23. MEDICAL DIAGNOSTIC LAB SERVICES.
- 23 24. HOME HEALTH SERVICES.
- 24 25. OTHER AMBULATORY HEALTH SERVICES.
- 25 26. NURSING AND RESIDENTIAL CARE FACILITY SERVICES.
- 26 27. ATHLETIC AND PHYSICAL FITNESS TRAINERS AND MASSAGE THERAPISTS.
- 27 28. INDIVIDUAL AND FAMILY PSYCHOLOGY AND SOCIAL SERVICES.
- 28 29. FUNERAL, EMBALMER, CREMATORY, CEMETERY AND OTHER DEATH CARE
- 29 SERVICES.
- 30 30. VETERINARY SERVICES.
- 31 31. PET CARE SERVICES THAT ARE NOT CONSIDERED VETERINARY SERVICES.
- 32 32. COMMUNITY FOOD, EMERGENCY HOUSING AND HOMELESS RELIEF SERVICES.
- 33 33. COMPUTER SYSTEM DESIGN AND RELATED SERVICES.
- 34 34. MANAGEMENT, SCIENTIFIC AND TECHNICAL CONSULTING SERVICES.
- 35 35. MARKET RESEARCH AND POLLING SERVICES.
- 36 36. PHOTOGRAPHIC SERVICES.
- 37 37. COLLECTION, REPOSSESSION AND RECOVERY AGENCIES.
- 38 38. PROPERTY AND BUSINESS MANAGEMENT SERVICES.
- 39 39. ADMINISTRATIVE AND SUPPORT SERVICES.
- 40 40. BUSINESS SUPPORT SERVICES.
- 41 41. MANAGEMENT OF COMPANIES.
- 42 42. OTHER SUPPORT SERVICES.
- 43 43. WASTE MANAGEMENT SERVICES.
- 44 44. DRY CLEANING AND LAUNDRY SERVICES.

- 1 45. PARKING LOT AND GARAGE SERVICES.
- 2 46. BUSINESS, COMPUTER AND MANAGEMENT TRAINING.
- 3 47. PRIVATE FOR-PROFIT POSTSECONDARY UNIVERSITY, TECHNICAL AND
- 4 TRADE SCHOOLS.
- 5 48. DANCE SCHOOLS.
- 6 49. EXAMINATION PREPARATION SERVICES.
- 7 50. DRIVING SCHOOL SERVICES.
- 8 51. OTHER MISCELLANEOUS SCHOOL SERVICES.
- 9 52. AUTOMOTIVE REPAIR AND MAINTENANCE SERVICES.
- 10 53. ELECTRONIC AND PRECISION REPAIR AND MAINTENANCE SERVICES.
- 11 54. COMMERCIAL AND INDUSTRIAL MACHINERY REPAIR AND MAINTENANCE
- 12 SERVICES.
- 13 55. PERSONAL AND HOUSEHOLD GOODS AND JEWELRY REPAIR AND MAINTENANCE
- 14 SERVICES.

15 B. THE TAX BASE FOR THE SERVICES CLASSIFICATION IS THE GROSS  
16 PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM THE BUSINESS.

17 Sec. 11. Section 42-6010, Arizona Revised Statutes, is amended to  
18 read:

19 42-6010. Retail business location municipal tax incentives;  
20 prohibition; penalty; exceptions; definitions

21 A. If at least sixty-five ~~per cent~~ PERCENT of the land area within  
22 a city's or town's exterior boundaries is located within the exterior  
23 boundary of a metropolitan statistical area having a population of more  
24 than two million persons, the city or town shall not offer or provide a  
25 tax incentive to a business entity as an inducement or in exchange for  
26 locating or relocating a retail business facility in the city or town.

27 B. A city or town that violates this section is subject to a  
28 penalty equal to the amount of the incentive realized by the taxpayer,  
29 extended over a period of sixty months. The department of revenue shall  
30 notify the state treasurer to withhold the amount of the penalty from  
31 monies otherwise payable to the city or town as provided by section  
32 42-5029, subsection ~~J~~ K.

33 C. The city or town shall report to the department of revenue the  
34 value of any tax incentive used as an inducement or in exchange for  
35 locating or relocating a retail business facility in the city or town.  
36 For the purposes of this subsection, the value includes all negotiated  
37 amounts, in any form and whether actual, realized or contingent, over the  
38 term of the incentive agreement.

39 D. This section does not apply with respect to:

40 1. Municipal services and benefits generally afforded by ordinance  
41 to all new businesses in the city or town, having no direct ~~affect~~ EFFECT  
42 on municipal tax levies.

43 2. Tax incentives that are afforded to all existing retail business  
44 facilities in the city or town.

1           3. Tax incentives for locating retail business facilities in an  
2 area designated as a redevelopment project pursuant to title 36, chapter  
3 12, article 3 where the average household income is less than the average  
4 city household income as determined by the United States census bureau.

5           4. Incentives consisting of reimbursement for public infrastructure  
6 dedicated to and accepted and controlled ~~upon~~ ON completion of the project  
7 by the city or town, county, ~~OR~~ OR state or a private utility where no other  
8 political subdivision provides ~~such~~ THE utility for transportation, water,  
9 sewer, electrical, drainage, the fair market value of real property  
10 necessary for the public infrastructure and other necessary public  
11 infrastructure. This paragraph does not apply to parking lots, parking  
12 structures or parking facilities or other structures or amenities ~~THAT ARE~~  
13 owned or controlled by a private entity.

14           5. Incentives that are offered for the purpose of preserving  
15 historical buildings and other structures.

16           6. Incentives that are offered for cleanup or other remediation  
17 activities at a brownfields site under title 49, chapter 2, article 1.1 or  
18 the comprehensive environmental response, compensation, and liability act  
19 of 1980 (P.L. 96-510, 94 Stat. 2767; 42 United States Code sections 9601  
20 through 9657), commonly known as "superfund".

21           E. To qualify as exempt from the penalty, an incentive under  
22 subsection D of this section that is offered in exchange for expenses  
23 incurred by the business entity must be in the form of a reimbursement of  
24 the expenses and may not exceed or otherwise be disproportional to the  
25 actual cost incurred.

26           F. This section does not apply to tax incentives that were referred  
27 to a vote of the qualified electors of the city or town before July 1,  
28 2007 and approved by the qualified electors of the city or town.

29           G. For the purposes of this section:

30           1. "Metropolitan statistical area" means a ~~geographical~~ GEOGRAPHIC  
31 area consisting of cities, towns and other populated areas defined for  
32 federal statistical and census purposes by the United States office of  
33 management and budget with technical assistance from the United States  
34 CENSUS bureau ~~of the census~~.

35           2. "Retail business facility" means a store, warehouse or other  
36 improvement to real estate where at least one-half of the business  
37 conducted on the premises consists of retail sales of tangible personal  
38 property to the ultimate consumer, measured by either the number of  
39 employees assigned to retail sales or the square footage of the facility  
40 used for retail sales. For the purposes of this paragraph, retail sales  
41 do not include:

42           (a) Sales of food and beverage for consumption on the premises of  
43 the facility.

1 (b) The distribution without charge of promotional products that  
2 display the company logo or trademark.

3 (c) Sales solely to company employees.

4 3. "Tax incentive" means any waiver, exemption, deduction, credit,  
5 rebate, discount, deferral or other abatement or reduction of the normal  
6 municipal tax liability of an individual taxpayer that otherwise applies  
7 to similar existing taxpayers and properties in the city or town, however  
8 denominated, computed or applied, ~~and~~ THAT IS generally understood ~~as~~ TO  
9 BE an inducement for the taxpayer to locate a business facility or other  
10 operation in the city or town.

11 Sec. 12. Conforming legislation

12 The legislative council staff shall prepare proposed legislation  
13 conforming the Arizona Revised Statutes to the provisions of this act for  
14 consideration in the fifty-sixth legislature, second regular session.

15 Sec. 13. Applicability

16 This act applies to taxable periods beginning on or after the first  
17 day of the month following the effective date of this act.

18 Sec. 14. Appropriation; Arizona higher education financial  
19 aid program distribution fund; exemption

20 A. The sum of \$500,000 is appropriated from the state general fund  
21 in fiscal year 2023-2024 to the Arizona higher education financial aid  
22 program distribution fund established by section 15-1705, Arizona Revised  
23 Statutes, as added by this act, for the purposes of this act.

24 B. The appropriation made in subsection A of this section is exempt  
25 from the provisions of section 35-190, Arizona Revised Statutes, relating  
26 to lapsing of appropriations.

27 Sec. 15. Requirements for enactment; two-thirds vote

28 Pursuant to article IX, section 22, Constitution of Arizona, this  
29 act is effective only on the affirmative vote of at least two-thirds of  
30 the members of each house of the legislature and is effective immediately  
31 on the signature of the governor or, if the governor vetoes this act, on  
32 the subsequent affirmative vote of at least three-fourths of the members  
33 of each house of the legislature.