

State of Arizona
House of Representatives
Fiftieth Legislature
Second Regular Session
2012

HOUSE BILL 2855

AN ACT

AMENDING SECTIONS 5-113, 5-113.01, 5-554, 5-555, 5-571, 5-572, 8-524, 15-1682.03, 17-273, 17-297, 17-298, 32-2132, 36-274, 41-1965, 41-2306, 42-5029, 42-5061, 42-5159, 43-405, 43-1022, 44-6552 AND 48-6636, ARIZONA REVISED STATUTES; AMENDING LAWS 2011, CHAPTER 35, SECTION 10; RELATING TO REVENUE BUDGET RECONCILIATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 5-113, Arizona Revised Statutes, is amended to
3 read:

4 5-113. Disposition of revenues and monies; funds; committee

5 A. ~~Except as provided in section 5-113.01,~~ All revenues derived from
6 permittees, permits and licenses as provided by this article shall be
7 deposited, pursuant to sections 35-146 and 35-147, in the ~~state general fund~~
8 RACING REGULATION FUND ESTABLISHED BY SECTION 5-113.01.

9 B. The Arizona county fairs racing betterment fund is established
10 under the jurisdiction of the department. The department shall distribute
11 monies from the fund to the county fair association or county fair racing
12 association of each county conducting a county fair racing meeting in such
13 proportion as the department deems necessary for the promotion and betterment
14 of county fair racing meetings. All expenditures from the fund shall be made
15 on claims approved by the department. In order to be eligible for
16 distributions from the fund, a county fair association must provide the
17 department with an annual certification in the form required by the
18 department supporting expenditures made from the fund. Balances remaining in
19 the fund at the end of a fiscal year do not revert to the state general fund.

20 C. The county fairs livestock and agriculture promotion fund is
21 established under the control of the governor and shall be used for the
22 purpose of promoting the livestock and agricultural resources of the state
23 and for the purpose of conducting an annual Arizona national livestock fair
24 by the Arizona exposition and state fair board to further promote livestock
25 resources. The direct expenses less receipts of the livestock fair shall be
26 paid from this fund, but such payment shall not exceed thirty per cent of the
27 receipts of the fund for the preceding fiscal year. Balances remaining in
28 the fund at the end of a fiscal year do not revert to the state general fund.
29 All expenditures from the fund shall be made upon claims approved by the
30 governor, as recommended by the livestock and agriculture committee, for the
31 promotion and betterment of the livestock and agricultural resources of this
32 state. The livestock and agriculture committee is established and shall be
33 composed of the following members, at least three of whom are from counties
34 that have a population of less than five hundred thousand persons, appointed
35 by the governor:

- 36 1. Three members representing county fairs.
- 37 2. One member representing Arizona livestock fairs.
- 38 3. One member representing the university of Arizona college of
39 agriculture.
- 40 4. One member representing the livestock industry.
- 41 5. One member representing the farming industry.
- 42 6. One member representing the governor's office.
- 43 7. One member representing the Arizona state fair conducted by the
44 Arizona exposition and state fair board.
- 45 8. One member representing the general public.

1 D. The governor shall appoint a chairman from the members. Terms of
2 members shall be four years.

3 E. Members of the committee are not eligible to receive compensation
4 but are eligible to receive reimbursement for expenses pursuant to title 38,
5 chapter 4, article 2.

6 F. The Arizona breeders' award fund is established under the
7 jurisdiction of the department. The department shall distribute monies from
8 the fund to the breeder, or the breeder's heirs, devisees or successors, of
9 every winning horse or greyhound foaled or whelped in this state, as defined
10 by section 5-114, in a manner and in an amount established by rules of the
11 commission to protect the integrity of the racing industry and promote,
12 improve and advance the quality of race horse and greyhound breeding within
13 this state. The department may contract with a breeders' association to
14 provide data, statistics and other information necessary to enable the
15 department to carry out the purposes of this subsection. Persons who are not
16 eligible to be licensed under section 5-107.01 or persons who have been
17 refused licenses under section 5-108 are not eligible to participate in the
18 Arizona greyhound breeders' award fund. Balances remaining in the fund at
19 the end of a fiscal year do not revert to the state general fund. For the
20 purposes of this subsection, "breeder" means the owner or lessee of the dam
21 of the animal at the time the animal was foaled or whelped.

22 G. The Arizona stallion award fund is established under the
23 jurisdiction of the department to promote, improve and advance the quality of
24 stallions in this state. The department shall distribute monies from the
25 fund to the owner or lessee, or the owner's or lessee's heirs, devisees or
26 successors, of every Arizona stallion whose certified Arizona bred offspring,
27 as prescribed in section 5-114, finishes first, second or third in an
28 eligible race in this state. The department may contract with a breeders'
29 association to provide data, statistics and other information necessary to
30 enable the department to carry out the purposes of this subsection. Balances
31 remaining in the fund at the end of a fiscal year do not revert to the state
32 general fund. The commission shall adopt rules pursuant to title 41, chapter
33 6 to carry out the purposes of this subsection. The rules shall prescribe at
34 a minimum:

35 1. The manner and procedure for distribution from the fund, including
36 eligibility requirements for owners and lessees.

37 2. Subject to availability of monies in the fund, the amount to be
38 awarded.

39 3. The requirements for a stallion registered with the jockey club,
40 Lexington, Kentucky or with the American quarter horse association, Amarillo,
41 Texas to be certified as an Arizona stallion.

42 4. The types and requirements of races for which an award may be made.

43 H. The greyhound and retired racehorse adoption fund is established.
44 The department shall administer the fund and maintain separate accounts for
45 greyhound adoptions and retired racehorse adoptions. All revenues derived

1 from license fees collected from dog breeders, racing kennels and other
2 operations where greyhounds are raised for the purpose of dog racing pursuant
3 to section 5-104, subsection F shall be deposited, pursuant to sections
4 35-146 and 35-147, in the greyhound adoption account of the fund. All
5 revenues derived from retired racehorse adoption surcharges collected
6 pursuant to section 5-104, subsection G shall be deposited, pursuant to
7 sections 35-146 and 35-147, in the retired racehorse adoption account of the
8 fund. The department shall distribute monies from the fund to provide
9 financial assistance to nonprofit enterprises approved by the commission to
10 promote the adoption of former racing greyhounds as domestic pets and to
11 promote the adoption of retired racehorses pursuant to section 5-104,
12 subsection G in a manner and in an amount established by rules of the
13 commission. Balances remaining in the fund at the end of a fiscal year do
14 not revert to the state general fund.

15 I. The county fair racing fund is established. The department shall
16 administer the fund. Monies in the fund are continuously appropriated. The
17 department shall use fund monies for the administration of county fair
18 racing. Any monies remaining unexpended in the fund at the end of the fiscal
19 year in excess of seventy-five thousand dollars shall revert to the state
20 general fund.

21 J. The agricultural consulting and training trust fund is established
22 for the exclusive purpose of implementing, continuing and supporting the
23 agricultural consulting and training program established by section
24 3-109.01. The director of the Arizona department of agriculture shall
25 administer the trust fund as trustee. The state treasurer shall accept,
26 separately account for and hold in trust any monies deposited in the state
27 treasury, which are considered to be trust monies as defined in section
28 35-310 and which shall not be commingled with any other monies in the state
29 treasury except for investment purposes. On notice from the director, the
30 state treasurer shall invest and divest any trust fund monies deposited in
31 the state treasury as provided by sections 35-313 and 35-314.03, and monies
32 earned from investment shall be credited to the trust fund. The beneficiary
33 of the trust is the agricultural consulting and training program established
34 by section 3-109.01. Surplus monies, including balances remaining in the
35 trust fund at the end of a fiscal year, do not revert to the state general
36 fund.

37 Sec. 2. Section 5-113.01, Arizona Revised Statutes, is amended to
38 read:

39 5-113.01. Racing regulation fund; exemption

40 The racing regulation fund is established. All revenues derived from
41 permittees, permits and licenses pursuant to ~~section 5-104, subsection F~~ THIS
42 ARTICLE and section 5-230 AND ANY GRANTS OR DONATIONS RECEIVED BY THE
43 DEPARTMENT shall be deposited, pursuant to sections 35-146 and 35-147, in the
44 racing regulation fund. The department shall administer the racing
45 regulation fund. Monies in the racing regulation fund are subject to

1 legislative appropriation ~~to the department~~ AND ARE to be used by the
2 department to support the mission of the department. The racing regulation
3 fund is exempt from the provisions of section 35-190 relating to lapsing of
4 appropriations.

5 Sec. 3. Section 5-554, Arizona Revised Statutes, is amended to read:
6 5-554. Commission; director; powers and duties; definitions

7 A. The commission shall meet with the director not less than once each
8 quarter to make recommendations and set policy, receive reports from the
9 director and transact other business properly brought before the commission.

10 B. The commission shall oversee a state lottery to produce the maximum
11 amount of net revenue consonant with the dignity of the state. To achieve
12 these ends, the commission shall authorize the director to adopt rules in
13 accordance with title 41, chapter 6. Rules adopted by the director may
14 include provisions relating to the following:

15 1. Subject to the approval of the commission, the types of lottery
16 games and the types of game play-styles to be conducted.

17 2. The method of selecting the winning tickets or shares for
18 noncomputerized online games, except that no method may be used that, in
19 whole or in part, depends on the results of a dog race, a horse race or any
20 sporting event.

21 3. The manner of payment of prizes to the holders of winning tickets
22 or shares, including providing for payment by the purchase of annuities in
23 the case of prizes payable in installments, except that the commission staff
24 shall examine claims and may not pay any prize based on altered, stolen or
25 counterfeit tickets or based on any tickets that fail to meet established
26 validation requirements, including rules stated on the ticket or in the
27 published game rules, and confidential validation tests applied consistently
28 by the commission staff. No particular prize in a lottery game may be paid
29 more than once, and in the event of a binding determination that more than
30 one person is entitled to a particular prize, the sole remedy of the
31 claimants is the award to each of them of an equal portion of the single
32 prize.

33 4. The method to be used in selling tickets or shares, except that no
34 elected official's name may be printed on such tickets or shares. The
35 overall estimated odds of winning some prize or some cash prize, as
36 appropriate, in a given game shall be printed on each ticket or share.

37 5. The licensing of agents to sell tickets or shares, except that a
38 person who is under eighteen years of age shall not be licensed as an agent.

39 6. The manner and amount of compensation to be paid licensed sales
40 agents necessary to provide for the adequate availability of tickets or
41 shares to prospective buyers and for the convenience of the public, including
42 provision for variable compensation based on sales volume.

43 7. Matters necessary or desirable for the efficient and economical
44 operation and administration of the lottery and for the convenience of the
45 purchasers of tickets or shares and the holders of winning tickets or shares.

1 C. The commission shall authorize the director to issue orders and
2 shall approve orders issued by the director for the necessary operation of
3 the lottery. Orders issued under this subsection may include provisions
4 relating to the following:

5 1. The prices of tickets or shares in lottery games.

6 2. The themes, game play-styles, and names of lottery games and
7 definitions of symbols and other characters used in lottery games, except
8 that each ticket or share in a lottery game shall bear a unique
9 distinguishable serial number.

10 3. The sale of tickets or shares at a discount for promotional
11 purposes.

12 4. The prize structure of lottery games, including the number and size
13 of prizes available. Available prizes may include free tickets in lottery
14 games and merchandise prizes.

15 5. The frequency of drawings, if any, or other selections of winning
16 tickets or shares, except that:

17 (a) All drawings shall be open to the public.

18 (b) The actual selection of winning tickets or shares may not be
19 performed by an employee or member of the commission.

20 (c) Noncomputerized online game drawings shall be witnessed by an
21 independent observer.

22 6. Requirements for eligibility for participation in grand drawings or
23 other runoff drawings, including requirements for the submission of evidence
24 of eligibility within a shorter period than that provided for claims by
25 section 5-568.

26 7. Incentive and bonus programs designed to increase sales of lottery
27 tickets or shares and to produce the maximum amount of net revenue for this
28 state.

29 D. Notwithstanding title 41, chapter 6 and subsection B of this
30 section, the director, subject to the approval of the commission, may
31 establish a policy, procedure or practice that relates to an existing online
32 game or a new online game that is the same type and has the same type of game
33 play-style as an online game currently being conducted by the lottery or may
34 modify an existing rule for an existing online game or a new online game that
35 is the same type and has the same type of game play-style as an online game
36 currently being conducted by the lottery, including establishing or modifying
37 the matrix for an online game by giving notice of the establishment or
38 modification at least thirty days before the effective date of the
39 establishment or modification.

40 E. The commission shall maintain and make the following information
41 available for public inspection at its offices during regular business hours:

42 1. A detailed listing of the estimated number of prizes of each
43 particular denomination expected to be awarded in any instant game currently
44 on sale.

1 2. After the end of the claim period prescribed by section 5-568, a
2 listing of the total number of tickets or shares sold and the number of
3 prizes of each particular denomination awarded in each lottery game.

4 3. Definitions of all play symbols and other characters used in each
5 lottery game and instructions on how to play and how to win each lottery
6 game.

7 F. Any information that is maintained by the commission and that would
8 assist a person in locating or identifying a winning ticket or share or that
9 would otherwise compromise the integrity of any lottery game is deemed
10 confidential and is not subject to public inspection.

11 ~~G. The commission, in addition to other games authorized by this
12 article, shall establish two special games for each year to be conducted
13 concurrently with other lottery games authorized under subsection B of this
14 section. The monies for prizes, for operating expenses and for payment to
15 the Arizona competes fund, as provided in section 5-572, subsection B, shall
16 be accounted for separately as nearly as practicable in the lottery
17 commission's general accounting system. The monies shall be derived from the
18 revenues of the special games, and monies for prizes do not become an expense
19 to the lottery commission's annual appropriation as provided in section
20 5-555, subsection D and section 5-572, subsection I. Monies saved from the
21 revenues of the special games, by reason of operating efficiencies, shall
22 become other revenue of the lottery commission and revert to the state
23 general fund.~~

24 ~~H.~~ G. The commission, in addition to other games authorized by this
25 article, may establish multistate lottery games to be conducted concurrently
26 with other lottery games authorized under ~~subsections~~ SUBSECTION B and ~~G~~ of
27 this section. The monies for prizes, for operating expenses and for payment
28 to the state general fund shall be accounted for separately as nearly as
29 practicable in the lottery commission's general accounting system. The
30 monies shall be derived from the revenues of multistate lottery games.

31 ~~I.~~ H. The commission, in addition to other games authorized by this
32 article, shall establish special instant ticket games with play areas
33 protected by paper tabs designated for use by charitable organizations. The
34 monies for prizes and for operating expenses shall be accounted for
35 separately as nearly as practicable in the lottery commission's general
36 accounting system. Monies saved from the revenues of the special games, by
37 reason of operating efficiencies, shall become other revenue of the lottery
38 commission and revert to the state general fund.

39 ~~J.~~ I. The commission or director shall not establish or operate any
40 online or electronic keno game or any game played on the internet.

41 ~~K.~~ J. The commission or director shall not establish or operate any
42 lottery game or any type of game play-style, either individually or in
43 combination, that uses gaming devices or video lottery terminals as those
44 terms are used in section 5-601.02, including monitor games that produce or
45 display outcomes or results more than once per hour.

1 ~~K.~~ K. The director shall print, in a prominent location on each
2 lottery ticket or share, a statement that help is available if a person has a
3 problem with gambling and a toll-free telephone number where problem gambling
4 assistance is available. The director shall require all licensed agents to
5 post a sign with the statement that help is available if a person has a
6 problem with gambling and the toll-free telephone number at the point of sale
7 as prescribed and supplied by the director. The requirements of this
8 subsection apply to tickets and shares printed after July 18, 2000.

9 ~~M.~~ L. For the purposes of this section:

10 1. "Charitable organization" means any nonprofit organization,
11 including not more than one auxiliary of that organization, that has operated
12 for charitable purposes in this state for at least two years before
13 submitting a license application under this article.

14 2. "Game play-style" means the process or procedure that a player must
15 follow to determine if a lottery ticket or share is a winning ticket or
16 share.

17 3. "Matrix" means the odds of winning a prize and the prize payout
18 amounts in a given game.

19 Sec. 4. Section 5-555, Arizona Revised Statutes, is amended to read:

20 5-555. Apportionment of revenue

21 A. Not more than eighteen and one-half per cent of the total annual
22 revenues accruing from the sale of lottery tickets or shares and from all
23 other sources and not more than thirty-five per cent of the total annual
24 revenues from the sale of special instant games authorized under section
25 5-554, subsection ~~I.~~ H shall be deposited in the state lottery fund
26 established by section 5-571 to be expended for the following:

27 1. The payment of costs incurred in the operation and administration
28 of the lottery, including the expenses of the commission and the costs
29 resulting from any contract or contracts entered into for consulting or
30 operational services.

31 2. Independent audits, which shall be performed annually in addition
32 to the audits required by section 5-574.

33 3. Incentive programs for lottery sales agents and lottery employees.

34 4. Payment of compensation to licensed sales agents necessary to
35 provide for the adequate availability of tickets or services to prospective
36 buyers and for the convenience of the public. Except as otherwise provided
37 in this subsection, compensation of licensed sales agents shall be at least
38 five and one-half per cent but not more than eight per cent of the price of
39 each ticket or share that a retail sales agent sells in instant games and
40 online games, less the price of any tickets or shares that are voided.

41 5. The payment of reasonable fees to redemption agents as authorized
42 by section 5-569.

43 6. The purchase or lease of lottery equipment, tickets and materials.

44 7. Compensation of a licensed sales agent who is designated as a
45 charitable organization as defined in section 5-554. Compensation shall be

1 twenty per cent of the price of each ticket from a special instant game
2 authorized under section 5-554, subsection ~~I~~ H and shall be an offset
3 against the sale of the ticket.

4 B. Not less than fifty per cent of the total annual revenues accruing
5 from the sale of lottery tickets or shares shall be deposited in the state
6 lottery prize fund established by section 5-573 for payment of prizes to the
7 holders of winning tickets or shares or for other purposes provided for in
8 section 5-568.

9 C. All other revenues accruing from the sale of lottery tickets or
10 shares in online games or instant games shall be deposited in the state
11 lottery fund established by section 5-571 to be used as prescribed by section
12 5-572.

13 D. ~~Except for Monies for prizes expended as provided in section 5-554,~~
14 ~~subsection G and section 41-1545.01, monies~~ expended under subsection A of
15 this section shall be subject to legislative appropriation.

16 Sec. 5. Section 5-571, Arizona Revised Statutes, is amended to read:
17 5-571. State lottery fund

18 The state lottery fund is established consisting of all revenues
19 received from the sale of lottery tickets or shares, including revenues from
20 games authorized pursuant to section 5-554, ~~subsections~~ SUBSECTION G ~~and H~~,
21 the fees, if any, charged pursuant to section 5-554 and all other monies
22 credited or transferred from any other fund or source pursuant to statute,
23 with the exception of those monies apportioned for payment of prizes and
24 deposited as provided in section 5-573.

25 Sec. 6. Section 5-572, Arizona Revised Statutes, is amended to read:
26 5-572. Use of monies in state lottery fund; report

27 A. If there are any bonds or bond related obligations payable from the
28 state lottery revenue bond debt service fund, the state lottery revenue bond
29 debt service fund shall be secured by a first lien on the monies in the state
30 lottery fund after the payment of operating costs of the lottery, as
31 prescribed in section 5-555, subsection A, paragraph 1, until the state
32 lottery bond debt service fund contains sufficient monies to meet all the
33 requirements for the current period as required by the bond documents. Debt
34 service for revenue bonds issued pursuant to this chapter shall be paid first
35 from monies that would have otherwise been deposited pursuant to this section
36 in the state general fund. After the requirements for the current period
37 have been satisfied as required by the bond documents, the monies in the
38 state lottery fund shall be expended for the expenses of the commission
39 incurred in carrying out its powers and duties and in the operation of the
40 lottery.

41 ~~B. Of the monies remaining in the state lottery fund each fiscal year~~
42 ~~after appropriations and deposits authorized in subsection A of this section,~~
43 ~~three million five hundred thousand dollars shall be deposited in the Arizona~~
44 ~~competes fund established by section 41-1545.01.~~

1 ~~C.~~ B. Of the monies remaining in the state lottery fund each fiscal
2 year after appropriations and deposits authorized in ~~subsections~~ SUBSECTION A
3 ~~and B~~ of this section, ten million dollars shall be deposited in the Arizona
4 game and fish commission heritage fund established by section 17-297.

5 ~~D.~~ C. Of the monies remaining in the state lottery fund each fiscal
6 year after appropriations and deposits authorized in subsections A, ~~AND~~ B
7 ~~and C~~ of this section, five million dollars shall be allocated to the
8 department of economic security for the healthy families program established
9 by section 8-701, four million dollars shall be allocated to the Arizona
10 board of regents for the Arizona area health education system established by
11 section 15-1643, three million dollars shall be allocated to the department
12 of health services to fund the teenage pregnancy prevention programs
13 established in Laws 1995, chapter 190, sections 2 and 3, two million dollars
14 shall be allocated to the department of health services for the health start
15 program established by section 36-697, two million dollars shall be deposited
16 in the disease control research fund established by section 36-274 and one
17 million dollars shall be allocated to the department of health services for
18 the federal women, infants and children food program. The allocations in
19 this subsection shall be adjusted annually according to changes in the GDP
20 price deflator as defined in section 41-563 and the allocations are exempt
21 from the provisions of section 35-190 relating to lapsing of appropriations.

22 If there are not sufficient monies available pursuant to this subsection,
23 the allocation of monies for each program shall be reduced on a pro rata
24 basis.

25 ~~E.~~ D. If the state lottery director determines that monies available
26 to the state general fund may not equal ~~eighty-million-six~~ EIGHTY-FOUR
27 MILLION ONE hundred fifty thousand dollars in a fiscal year, the director
28 shall not authorize deposits to the Arizona game and fish commission heritage
29 fund pursuant to subsection B of this section until the deposits to the state
30 general fund equal ~~eighty-million-six~~ EIGHTY-FOUR MILLION ONE hundred fifty
31 thousand dollars in a fiscal year.

32 ~~F.~~ E. Of the monies remaining in the state lottery fund each fiscal
33 year after appropriations and deposits authorized in subsections A through ~~E~~
34 D of this section, one million dollars or the remaining balance in the fund,
35 whichever is less, is appropriated to the department of economic security for
36 grants to nonprofit organizations, including faith based organizations, for
37 homeless emergency and transitional shelters and related support services.
38 The department of economic security shall submit a report on the amounts,
39 recipients, purposes and results of each grant to the governor, the speaker
40 of the house of representatives and the president of the senate on or before
41 December 31 of each year for the prior fiscal year and shall provide a copy
42 of this report to the secretary of state.

43 ~~G.~~ F. Of the monies remaining in the state lottery fund each fiscal
44 year after appropriations and deposits authorized in subsections A through ~~F~~
45 E of this section, and after a total of at least ~~ninety-six-million-one~~

1 NINETY-NINE MILLION SIX hundred forty thousand dollars has been deposited in
2 the state general fund, THREE MILLION FIVE HUNDRED THOUSAND DOLLARS SHALL BE
3 DEPOSITED IN THE ARIZONA COMPETES FUND ESTABLISHED BY SECTION 41-1545.01.
4 The ~~remaining~~ balance in the state lottery fund REMAINING AFTER DEPOSITS INTO
5 THE ARIZONA COMPETES FUND shall be deposited in the university capital
6 improvement lease-to-own and bond fund established by section 15-1682.03, up
7 to a maximum of eighty per cent of the total annual payments of lease-to-own
8 and bond agreements entered into by the Arizona board of regents.

9 ~~H.~~ G. All monies remaining in the state lottery fund after the
10 appropriations and deposits authorized in this section shall be deposited in
11 the state general fund.

12 ~~I.~~ H. Except for monies expended for ~~prizes as provided in section~~
13 ~~5-554, subsection G and section 41-1545.01 and for~~ debt service of revenue
14 bonds as provided in subsection A of this section, monies expended under
15 subsection A of this section are subject to legislative appropriation.

16 Sec. 7. Section 8-524, Arizona Revised Statutes, is amended to read:
17 8-524. Special advocate fund

18 A. The court appointed special advocate fund is established consisting
19 of monies received pursuant to section ~~5-518~~ 5-568. The fund is subject to
20 annual legislative appropriation. Monies appropriated by the legislature
21 from the court appointed special advocate fund for the court appointed
22 special advocate program shall be used by the supreme court to operate,
23 improve, maintain and enhance the program.

24 B. A court may request fund monies by submitting a program plan and
25 funding request to the supreme court pursuant to rules adopted by the court.

26 Sec. 8. Section 15-1682.03, Arizona Revised Statutes, is amended to
27 read:

28 15-1682.03. University capital improvement lease-to-own and
29 bond fund; lease-to-own and bond capital
30 improvement agreements

31 A. The university capital improvement lease-to-own and bond fund is
32 established consisting of the monies provided by the Arizona board of regents
33 pursuant to this section, monies deposited pursuant to section ~~5-522~~ 5-572
34 and monies appropriated by the legislature. The board shall administer the
35 fund. On notice from the board, the state treasurer shall invest and divest
36 monies in the fund as provided by section 35-313, and monies earned from
37 investment shall be credited to the fund. Monies in the fund are exempt from
38 the provisions of section 35-190 relating to lapsing of appropriations.

39 B. Through revenues of the state university system, the board shall
40 annually provide monies to the fund of at least twenty per cent of the
41 aggregate annual payments of lease-to-own and bond agreements entered into by
42 the board pursuant to this section.

43 C. The board shall distribute monies in the fund to make payments
44 pursuant to lease-to-own and bond agreements entered into by the board
45 pursuant to this section. The board may enter into lease-to-own and bond

1 agreements for the purposes of building renewal projects and new facilities.
2 New lease-to-own and bond agreements entered into pursuant to this section
3 shall not exceed one hundred sixty-seven million six hundred seventy-one
4 thousand two hundred dollars in fiscal year 2008-2009 and four hundred
5 million dollars in fiscal year 2009-2010. The board may enter into
6 lease-to-own and bond transactions up to a maximum of eight hundred million
7 dollars.

8 D. Notwithstanding section ~~5-522~~ 5-572, subsection G, the amount of
9 state lottery revenues distributed to the university capital improvement
10 lease-to-own and bond fund in fiscal year 2009-2010 and fiscal year 2010-2011
11 shall not exceed an amount sufficient for up to eighty per cent of the annual
12 payments of the first one hundred sixty-seven million six hundred seventy-one
13 thousand two hundred dollars of new lease-to-own and bond agreements entered
14 into pursuant to this section. The full amount of state lottery revenues
15 distributed to the university capital improvement lease-to-own and bond fund
16 pursuant to section ~~5-522~~ 5-572, subsection G shall be made available to the
17 board for the remaining new lease-to-own and bond agreements up to eight
18 hundred million dollars beginning in fiscal year 2011-2012.

19 E. In entering into lease-to-own and bond agreements pursuant to this
20 section, the board shall not obligate this state to provide any additional
21 monies from the state lottery fund above the amounts authorized in this
22 section and section ~~5-522~~ 5-572, subsection G. In entering into lease-to-own
23 and bond agreements pursuant to this section, the board shall not obligate
24 any state general fund monies.

25 Sec. 9. Section 17-273, Arizona Revised Statutes, is amended to read:
26 17-273. Firearms safety and ranges fund; uses; criteria

27 A. The firearms safety and ranges fund is established consisting of
28 monies transferred to the fund pursuant to section 42-5029, subsection D,
29 paragraph 4, subdivision ~~(e)~~ (c) and revenues derived from the sale or lease
30 of real property owned by the commission and acquired for or used for the
31 purpose of providing public shooting ranges. The Arizona game and fish
32 commission shall administer the fund which is continuously appropriated.
33 Monies in the fund are exempt from the provisions of section 35-190 relating
34 to lapsing of appropriations. Interest earned on monies in the fund shall be
35 credited to the fund.

36 B. The Arizona game and fish commission shall use monies in the fund
37 on shooting ranges open to the public and operated by government or nonprofit
38 entities for the following purposes:

- 39 1. Shooting range engineering and studies.
- 40 2. Noise abatement.
- 41 3. Safety enhancement.
- 42 4. Shooting range design.
- 43 5. New shooting range sites and construction.
- 44 6. Shooting range relocation.

1 7. Other projects that are necessary to operate and maintain a
2 shooting range under good practices and management.

3 C. The director of the Arizona game and fish department shall consult
4 with the state land commissioner to identify eligible state trust land
5 suitable for the location or relocation of shooting ranges.

6 D. The Arizona game and fish commission may accept and spend private
7 grants, gifts and contributions to assist in carrying out this section.

8 Sec. 10. Section 17-297, Arizona Revised Statutes, is amended to read:
9 17-297. Arizona game and fish commission heritage fund

10 A. The Arizona game and fish commission heritage fund is established
11 consisting of monies deposited from the state lottery fund pursuant to
12 section ~~5-522~~ 5-572 and interest earned on those monies.

13 B. The fund shall be administered by the Arizona game and fish
14 commission and is not subject to appropriation and expenditures from the fund
15 are not subject to outside approval notwithstanding any provision of section
16 17-241 or 17-261 or any other statutory provision to the contrary. Monies
17 received pursuant to section ~~5-522~~ 5-572 shall be deposited directly with the
18 Arizona game and fish commission heritage fund. On notice from the Arizona
19 state game and fish commission, the state treasurer shall invest and divest
20 monies in the fund as provided by section 35-313, and monies earned from
21 investment shall be credited to the fund.

22 C. All monies in the Arizona game and fish commission heritage fund
23 shall be spent by the Arizona game and fish commission only for the purposes
24 and in the percentages set forth in this article. In no event shall any
25 monies in the fund revert to the state general fund and monies in the fund
26 are exempt from the provisions of section 35-190 relating to lapsing of
27 appropriations.

28 D. The commission shall not use its rights of eminent domain to
29 acquire property to be paid for with money from the Arizona game and fish
30 commission heritage fund.

31 Sec. 11. Section 17-298, Arizona Revised Statutes, is amended to read:
32 17-298. Expenditures from fund; purpose and amounts; annual
33 report

34 A. MONIES RECEIVED PURSUANT TO SECTION 5-572 SHALL BE SPENT AS
35 FOLLOWS:

36 ~~A. 1. Five per cent of the monies received pursuant to section 5-522~~
37 ~~shall be spent~~ on public access, including maintenance and operation
38 expenses.

39 ~~B. 2. Sixty per cent of the monies received pursuant to section 5-522~~
40 ~~shall be spent~~ on the identification, inventory, acquisition, protection and
41 management, including maintenance and operations, of sensitive habitat. At
42 least forty per cent of the monies available under this ~~subsection~~ PARAGRAPH
43 shall be spent on the acquisition of sensitive habitat utilized by
44 endangered, threatened and candidate species. The commission may dispose of
45 any lands acquired for use as habitat by an endangered, threatened or

1 candidate species under this ~~subsection~~ PARAGRAPH when the species no longer
2 qualifies as an endangered, threatened or candidate species. The Arizona
3 game and fish commission shall dispose of the land in a manner consistent
4 with the preservation of the species of concern. The disposal may include
5 conservation easements and fee simple transfers with associated instruments
6 of protection. The commission shall follow the guidelines established
7 pursuant to section 37-803 relating to the disposition of real property by a
8 state agency. In addition, disposal shall include a written agreement
9 between the commission and the purchaser requiring the purchaser to
10 incorporate management actions to ensure proper maintenance of the species of
11 concern. Management actions may include maintenance of habitat, selective
12 control of nonnative species, maintenance of genetic viability, monitoring of
13 populations and habitat, coordinating conservation activities, funding
14 conservation actions and assessing conservation progress.

15 ~~C. 3. Fifteen per cent of the monies received pursuant to section~~
16 ~~5-522 shall be spent~~ on habitat evaluation or habitat protection.

17 ~~D. 4. Fifteen per cent of the monies received pursuant to section~~
18 ~~5-522 shall be spent~~ on urban wildlife and urban wildlife habitat programs.

19 ~~E. 5. Five per cent of the monies received pursuant to section 5-522~~
20 ~~shall be spent~~ on environmental education.

21 ~~F. B.~~ B. All monies earned as interest on monies received pursuant to
22 section ~~5-522~~ 5-572 shall be spent only in the percentages and for the
23 purposes described in ~~subsections A through E~~ SUBSECTION A of this section or
24 for costs of administering the Arizona game and fish commission heritage fund
25 in such amounts as determined by the Arizona game and fish commission.

26 ~~G. C.~~ C. On or before December 31 each year the commission shall submit
27 its annual report to the president of the senate, the speaker of the house of
28 representatives and the chairmen of the senate and house of representatives
29 committees on natural resources and agriculture, or their successor
30 committees. The annual report shall include information on:

31 1. The amount of monies spent or encumbered in the fund during the
32 preceding fiscal year and a summary of the projects, activities and
33 expenditures relating to:

34 (a) Property acquisition.

35 (b) Identification, inventory, protection and management of sensitive
36 habitat.

37 (c) Habitat evaluation and protection.

38 (d) Urban wildlife.

39 (e) Environmental education.

40 (f) Public access.

41 2. The number and location of parcels of property acquired during the
42 preceding fiscal year.

43 3. For personal and real properties acquired with fund monies during
44 the preceding fiscal year, the amount of property tax revenue paid to each
45 taxing jurisdiction during the last full tax year prior to acquisition.

- 1 4. The amount of money spent from the fund during the preceding fiscal
2 year for employee personal services.
- 3 5. The number of full-time employees employed in the preceding fiscal
4 year in connection with property acquisition, including survey, appraisal and
5 other related activities.
- 6 6. The total number of full-time employees employed in the preceding
7 fiscal year for the programs listed in ~~subsections A through E~~ SUBSECTION A
8 of this section.
- 9 7. A list of the grants awarded during the preceding fiscal year
10 including information on the recipients, purposes and amounts.
- 11 Sec. 12. Section 32-2132, Arizona Revised Statutes, is amended to
12 read:
- 13 32-2132. Fees
- 14 A. Except as provided in subsection D OF THIS SECTION, the following
15 fees shall be charged ~~which~~ AND shall not be refunded by the commissioner
16 after issuance of a receipt for payment:
- 17 1. A broker's examination application fee of not less than thirty-five
18 dollars and not more than one hundred twenty-five dollars.
- 19 2. A broker's examination fee of not less than thirty-five dollars and
20 not more than one hundred dollars.
- 21 3. A broker's license fee of not less than seventy-five dollars and
22 not more than two hundred fifty dollars.
- 23 4. A broker's renewal fee of not less than one hundred dollars and not
24 more than four hundred dollars.
- 25 5. A salesperson's examination application fee of not less than
26 fifteen dollars and not more than seventy-five dollars.
- 27 6. A salesperson's examination fee of not less than fifteen dollars
28 and not more than fifty dollars.
- 29 7. A salesperson's license fee of not less than thirty-five dollars
30 and not more than one hundred twenty-five dollars.
- 31 8. A salesperson's renewal fee of not less than sixty dollars and not
32 more than two hundred dollars.
- 33 9. A branch office broker's license fee or renewal fee of not less
34 than sixty dollars and not more than two hundred dollars.
- 35 10. A fee for a change of name and address of licensee on records of
36 the department of not more than twenty dollars.
- 37 11. A duplicate license fee of five dollars.
- 38 12. A fee for reinstatement of license within license period of five
39 dollars.
- 40 13. A fee for each certificate of correctness of copy of records or
41 documents on file with the department of one dollar, plus the cost to the
42 department for reproducing the records or documents.
- 43 14. A temporary broker's license fee of not less than fifteen dollars
44 and not more than fifty dollars.

1 15. A temporary cemetery salesperson's license fee of not less than
2 fifteen dollars and not more than fifty dollars.

3 16. A membership camping salesperson certificate of convenience fee of
4 not less than fifteen dollars and not more than fifty dollars.

5 17. FEES IN AN AMOUNT TO BE DETERMINED BY THE COMMISSIONER BY RULE FOR
6 THE FOLLOWING:

7 (a) A CERTIFICATE OF APPROVAL OR RENEWAL TO OPERATE A SCHOOL.

8 (b) AN INSTRUCTOR OR OTHER SCHOOL OFFICIAL APPROVAL OR RENEWAL FEE.

9 (c) A LIVE CLASSROOM CONTINUING EDUCATION COURSE APPROVAL OR RENEWAL
10 FEE.

11 (d) A LIVE CLASSROOM PRELICENSURE EDUCATION COURSE APPROVAL OR RENEWAL
12 FEE.

13 (e) A CONTINUING EDUCATION DISTANCE LEARNING COURSE APPROVAL OR
14 RENEWAL FEE.

15 B. ~~No~~ A corporation, partnership or limited liability company shall
16 NOT be assessed a fee for the issuance of a broker's license.

17 C. The commissioner may contract for the processing of applications
18 and the examination of applicants for licensure. The contract may provide
19 for specific fees or a reasonable range for fees as determined by the
20 commissioner for examination applications and examinations to be paid
21 directly to the contractor by the applicant. These fees may not exceed the
22 amounts prescribed in subsection A, paragraphs 1, 2, 5 and 6 OF THIS SECTION.

23 D. For good cause shown the commissioner may refund fees previously
24 collected.

25 Sec. 13. Section 36-274, Arizona Revised Statutes, is amended to read:

26 36-274. Disease control research fund; lapsing; investment

27 A. The disease control research fund is established consisting of
28 monies received from the state lottery fund pursuant to section ~~5-522~~ 5-572,
29 subsection D, monies appropriated by the legislature and any gifts,
30 contributions or other monies received by the department from any source to
31 carry out the purposes of this article, except monies from the health
32 research fund established by section 36-275. The department shall administer
33 the disease control research fund.

34 B. The department may expend monies in the disease control research
35 fund for projects or services pursuant to section 36-273 and for expenses
36 incurred by the department in carrying out the purposes of this article,
37 including filing applications and maintaining patents.

38 C. As a condition of each contract for cancer research projects or
39 services, the department shall require that the recipient shall not use fund
40 monies for any purpose, including any administrative or building purposes,
41 other than the specific cancer research grant project contract.

42 D. Monies in the disease control research fund are exempt from the
43 provisions of section 35-190 relating to lapsing of appropriations.

1 E. On notice from the department, the state treasurer shall invest and
2 divest monies in the disease control research fund as provided by section
3 35-313, and monies earned from investment shall be credited to the fund.

4 Sec. 14. Section 41-1965, Arizona Revised Statutes, is amended to
5 read:

6 41-1965. Eligibility of lottery prize winner to receive
7 assistance; determination

8 On receipt of the information provided by the state lottery commission
9 pursuant to section ~~5-523~~ 5-573, subsection C, the director shall determine
10 if the person is receiving assistance from any financial assistance program
11 administered by the department. If the person is receiving assistance, the
12 director shall promptly redetermine the eligibility of that person to receive
13 the assistance.

14 Sec. 15. Section 41-2306, Arizona Revised Statutes, is amended to
15 read:

16 41-2306. Tourism fund

17 A. The tourism fund is established consisting of separate accounts
18 derived from:

19 1. ~~Revenues deposited pursuant to section 42-5029.~~ STATE GENERAL FUND
20 MONIES APPROPRIATED TO THE FUND BY THE LEGISLATURE. All monies in this
21 account are continuously appropriated to the office of tourism for the
22 purposes of operations and statewide tourism promotion.

23 2. Revenues deposited pursuant to section 5-835, subsection B or C.
24 All monies in this account are continuously appropriated to the office of
25 tourism, which, in consultation with a consortium of destination marketing
26 organizations in the county in which the tourism and sports authority is
27 established, shall be spent to promote tourism within that county. For
28 fiscal years 2010-2011 and 2011-2012, fifty per cent of the revenues
29 deposited in the tourism fund pursuant to this ~~subsection~~ PARAGRAPH may be
30 expended by the office of tourism for operational and administrative
31 purposes.

32 3. Revenues deposited pursuant to section 42-6108.01. The legislature
33 shall appropriate all monies in this account to the office of tourism, which,
34 in conjunction with the destination marketing organization in the county in
35 which the tax revenues are collected, shall be spent only to promote tourism
36 within that county and shall not be spent for administrative or overhead
37 expenses.

38 4. Revenues deposited pursuant to section 5-601.02(H)(3)(b)(iv). The
39 office of tourism shall administer the account. The account is not subject
40 to appropriation, and expenditures from the fund are not subject to outside
41 approval notwithstanding any statutory provision to the contrary. Monies
42 received pursuant to section 5-601.02 shall be deposited directly with this
43 account. On notice from the office of tourism, the state treasurer may
44 invest and divest monies in the account as provided by section 35-313, and
45 monies earned from investment shall be credited to the account. No monies in

1 the account shall revert to or be deposited in any other fund, including the
2 state general fund. Monies in this account shall supplement, not supplant,
3 current funds in other accounts of the tourism fund. Monies in this account
4 shall be spent only to promote tourism within the state and shall not be used
5 for administrative or overhead expenses.

6 B. Monies in the fund are exempt from the provisions of section 35-190
7 relating to lapsing of appropriations.

8 Sec. 16. Section 42-5029, Arizona Revised Statutes, is amended to
9 read:

10 42-5029. Remission and distribution of monies; 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 of
13 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 chapter
17 from and after June 30, 2000 from sources located on Indian reservations in
18 this state.

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

21 B. The department shall credit payments of estimated tax to an
22 estimated tax clearing account and each month shall transfer all monies in
23 the estimated tax clearing account to a fund designated as the transaction
24 privilege and severance tax clearing account. The department shall credit
25 all other payments to the transaction privilege and severance tax clearing
26 account, separately accounting for the monies designated as distribution base
27 under sections 42-5010, 42-5164, 42-5205 and 42-5353. Each month the
28 department shall report to the state treasurer the amount of monies collected
29 pursuant to this article and articles 4, 5 and 8 of this chapter.

30 C. On notification by the department, the state treasurer shall
31 distribute the monies deposited in the transaction privilege and severance
32 tax clearing account in the manner prescribed by this section and by sections
33 42-5164, 42-5205 and 42-5353, after deducting warrants drawn against the
34 account pursuant to sections 42-1118 and 42-1254.

35 D. Of the monies designated as distribution base the department shall:

36 1. Pay twenty-five per cent to the various incorporated municipalities
37 in this state in proportion to their population to be used by the
38 municipalities for any municipal purpose.

39 2. Pay 38.08 per cent to the counties in this state by averaging the
40 following proportions:

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

43 (b) The proportion that the distribution base monies collected during
44 the calendar month in each county under this article, section 42-5164,
45 subsection B, section 42-5205, subsection B and section 42-5353 bear to the

1 total distribution base monies collected under this article, section 42-5164,
2 subsection B, section 42-5205, subsection B and section 42-5353 throughout
3 the state for the calendar month.

4 3. Pay an additional 2.43 per cent to the counties in this state as
5 follows:

6 (a) Average the following proportions:

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

19 (ii) The proportion that the distribution base monies collected during
20 the calendar month in each county under this article, section 42-5164,
21 subsection B, section 42-5205, subsection B and section 42-5353 bear to the
22 total distribution base monies collected under this article, section 42-5164,
23 subsection B, section 42-5205, subsection B and section 42-5353 throughout
24 the state for the calendar month.

25 (b) If the proportion computed under subdivision (a) of this paragraph
26 for any county is greater than the proportion computed under paragraph 2 of
27 this subsection, the department shall compute the difference between the
28 amount distributed to that county under paragraph 2 of this subsection and
29 the amount that would have been distributed under paragraph 2 of this
30 subsection using the proportion computed under subdivision (a) of this
31 paragraph and shall pay that difference to the county from the amount
32 available for distribution under this paragraph. Any monies remaining after
33 all payments under this subdivision shall be distributed among the counties
34 according to the proportions computed under paragraph 2 of this subsection.

35 4. After any distributions required by sections 42-5030, 42-5030.01,
36 42-5031, 42-5032 and 42-5032.01, and after making any transfer to the water
37 quality assurance revolving fund as required by section 49-282, subsection B,
38 credit the remainder of the monies designated as distribution base to the
39 state general fund. From this amount:—

40 ~~(a)~~ the legislature shall annually appropriate to:

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

43 ~~(ii)~~ (b) The department of economic security monies to be used for
44 the purposes stated in title 46, chapter 1.

1 ~~(iii)~~ (c) The firearms safety and ranges fund established by section
2 17-273, fifty thousand dollars derived from the taxes collected from the
3 retail classification pursuant to section 42-5061 for the current fiscal
4 year.

5 ~~(b) Subject to separate initial legislative authorization, each year~~
6 ~~the state treasurer shall transfer to the tourism fund an amount equal to the~~
7 ~~sum of the following:~~

8 ~~(i) Three and one half per cent of the gross revenues derived from the~~
9 ~~transient lodging classification pursuant to section 42-5070 during the~~
10 ~~preceding fiscal year.~~

11 ~~(ii) Three per cent of the gross revenues derived from the amusement~~
12 ~~classification pursuant to section 42-5073 during the preceding fiscal year.~~

13 ~~(iii) Two per cent of the gross revenues derived from the restaurant~~
14 ~~classification pursuant to section 42-5074 during the preceding fiscal year.~~

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

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

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

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

44 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
45 subsection, one-twelfth of the amount a community college that is owned,

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

11 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
12 subsection, one-twelfth of the following amounts shall be transferred each
13 month to the department of education for the increased cost of basic state
14 aid under section 15-971 due to added school days and associated teacher
15 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 this
23 subsection, seven million eight hundred thousand dollars is appropriated each
24 fiscal year, to be paid in monthly installments, to the department of
25 education to be used for school safety as provided in section 15-154 and two
26 hundred thousand dollars is appropriated each fiscal year, to be paid in
27 monthly installments to the department of education to be used for the
28 character education matching grant program as provided in section 15-154.01.

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

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

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

42 10. After the payment of monies pursuant to paragraphs 1 through 9 of
43 this subsection, the remaining monies collected during the preceding month
44 shall be transferred to the classroom site fund established by section

1 15-977. The monies shall be allocated as follows in the manner prescribed by
2 section 15-977:

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

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

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

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

12 G. Notwithstanding subsection D of this section, if a court of
13 competent jurisdiction finally determines that tax monies distributed under
14 this section were illegally collected under this article or articles 5 and 8
15 of this chapter and orders the monies to be refunded to the taxpayer, the
16 department shall compute the amount of such monies that was distributed to
17 each city, town and county under this section. The department shall notify
18 the state treasurer of that amount plus the proportionate share of additional
19 allocated costs required to be paid to the taxpayer. Each city's, town's and
20 county's proportionate share of the costs shall be based on the amount of the
21 original tax payment each municipality and county received. Each month the
22 state treasurer shall reduce the amount otherwise distributable to the city,
23 town and county under this section by one thirty-sixth of the total amount to
24 be recovered from the city, town or county until the total amount has been
25 recovered, but the monthly reduction for any city, town or county shall not
26 exceed ten per cent of the full monthly distribution to that entity. The
27 reduction shall begin for the first calendar month after the final
28 disposition of the case and shall continue until the total amount, including
29 interest and costs, has been recovered.

30 H. On receiving a certificate of default from the greater Arizona
31 development authority pursuant to section 41-2257 or 41-2258 and to the
32 extent not otherwise expressly prohibited by law, the state treasurer shall
33 withhold from the next succeeding distribution of monies pursuant to this
34 section due to the defaulting political subdivision the amount specified in
35 the certificate of default and immediately deposit the amount withheld in the
36 greater Arizona development authority revolving fund. The state treasurer
37 shall continue to withhold and deposit the monies until the greater Arizona
38 development authority certifies to the state treasurer that the default has
39 been cured. In no event may the state treasurer withhold any amount that the
40 defaulting political subdivision certifies to the state treasurer and the
41 authority as being necessary to make any required deposits then due for the
42 payment of principal and interest on bonds of the political subdivision that
43 were issued before the date of the loan repayment agreement or bonds and that
44 have been secured by a pledge of distributions made pursuant to this section.

1 I. Except as provided by sections 42-5033 and 42-5033.01, the
2 population of a county, city or town as determined by the most recent United
3 States decennial census plus any revisions to the decennial census certified
4 by the United States bureau of the census shall be used as the basis for
5 apportioning monies pursuant to subsection D of this section.

6 J. Except as otherwise provided by this subsection, on notice from the
7 department of revenue pursuant to section 42-6010, subsection B, the state
8 treasurer shall withhold from the distribution of monies pursuant to this
9 section to the affected city or town the amount of the penalty for business
10 location municipal tax incentives provided by the city or town to a business
11 entity that locates a retail business facility in the city or town. The
12 state treasurer shall continue to withhold monies pursuant to this subsection
13 until the entire amount of the penalty has been withheld. The state
14 treasurer shall credit any monies withheld pursuant to this subsection to the
15 state general fund as provided by subsection D, paragraph 4 of this section.
16 The state treasurer shall not withhold any amount that the city or town
17 certifies to the department of revenue and the state treasurer as being
18 necessary to make any required deposits or payments for debt service on bonds
19 or other long-term obligations of the city or town that were issued or
20 incurred before the location incentives provided by the city or town.

21 K. On notice from the auditor general pursuant to section 9-626,
22 subsection D, the state treasurer shall withhold from the distribution of
23 monies pursuant to this section to the affected city the amount computed
24 pursuant to section 9-626, subsection D. The state treasurer shall continue
25 to withhold monies pursuant to this subsection until the entire amount
26 specified in the notice has been withheld. The state treasurer shall credit
27 any monies withheld pursuant to this subsection to the state general fund as
28 provided by subsection D, paragraph 4 of this section.

29 L. For the purposes of this section, "community college district"
30 means a community college district that is established pursuant to sections
31 15-1402 and 15-1403 and that is a political subdivision of this state and,
32 subject to the distribution procedures specified in section 15-1472,
33 subsection D, paragraph 2, subdivision (b), includes a community college
34 district established pursuant to section 15-1402.01 and, subject to the
35 distribution procedures specified in section 15-1472, subsection D, paragraph
36 2, subdivision (b), includes a provisional community college district
37 established pursuant to section 15-1409.

38 Sec. 17. Section 42-5061, Arizona Revised Statutes, is amended to
39 read:

40 42-5061. Retail classification; definitions

41 A. The retail classification is comprised of the business of selling
42 tangible personal property at retail. The tax base for the retail
43 classification is the gross proceeds of sales or gross income derived from
44 the business. The tax imposed on the retail classification does not apply to
45 the gross proceeds of sales or gross income from:

- 1 1. Professional or personal service occupations or businesses which
2 involve sales or transfers of tangible personal property only as
3 inconsequential elements.
- 4 2. Services rendered in addition to selling tangible personal property
5 at retail.
- 6 3. Sales of warranty or service contracts. The storage, use or
7 consumption of tangible personal property provided under the conditions of
8 such contracts is subject to tax under section 42-5156.
- 9 4. Sales of tangible personal property by any nonprofit organization
10 organized and operated exclusively for charitable purposes and recognized by
11 the United States internal revenue service under section 501(c)(3) of the
12 internal revenue code.
- 13 5. Sales to persons engaged in business classified under the
14 restaurant classification of articles used by human beings for food, drink or
15 condiment, whether simple, mixed or compounded.
- 16 6. Business activity which is properly included in any other business
17 classification which is taxable under this article.
- 18 7. The sale of stocks and bonds.
- 19 8. Drugs and medical oxygen, including delivery hose, mask or tent,
20 regulator and tank, on the prescription of a member of the medical, dental or
21 veterinarian profession who is licensed by law to administer such substances.
- 22 9. Prosthetic appliances as defined in section 23-501 prescribed or
23 recommended by a health professional who is licensed pursuant to title 32,
24 chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 25 10. Insulin, insulin syringes and glucose test strips.
- 26 11. Prescription eyeglasses or contact lenses.
- 27 12. Hearing aids as defined in section 36-1901.
- 28 13. Durable medical equipment which has a centers for medicare and
29 medicaid services common procedure code, is designated reimbursable by
30 medicare, is prescribed by a person who is licensed under title 32, chapter
31 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
32 customarily used to serve a medical purpose, is generally not useful to a
33 person in the absence of illness or injury and is appropriate for use in the
34 home.
- 35 14. Sales to nonresidents of this state for use outside this state if
36 the vendor ships or delivers the tangible personal property out of this
37 state.
- 38 15. Food, as provided in and subject to the conditions of article 3 of
39 this chapter and section 42-5074.
- 40 16. Items purchased with United States department of agriculture food
41 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
42 958) or food instruments issued under section 17 of the child nutrition act
43 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
44 section 1786).

1 17. Textbooks by any bookstore that are required by any state
2 university or community college.

3 18. Food and drink to a person who is engaged in business which is
4 classified under the restaurant classification and which provides such food
5 and drink without monetary charge to its employees for their own consumption
6 on the premises during the employees' hours of employment.

7 19. Articles of food, drink or condiment and accessory tangible
8 personal property to a school district or charter school if such articles and
9 accessory tangible personal property are to be prepared and served to persons
10 for consumption on the premises of a public school within the district or on
11 the premises of the charter school during school hours.

12 20. Lottery tickets or shares pursuant to title 5, chapter ~~5-~~ 5.1,
13 article 1.

14 21. The sale of precious metal bullion and monetized bullion to the
15 ultimate consumer, but the sale of coins or other forms of money for
16 manufacture into jewelry or works of art is subject to the tax. For the
17 purposes of this paragraph:

18 (a) "Monetized bullion" means coins and other forms of money which are
19 manufactured from gold, silver or other metals and which have been or are
20 used as a medium of exchange in this or another state, the United States or a
21 foreign nation.

22 (b) "Precious metal bullion" means precious metal, including gold,
23 silver, platinum, rhodium and palladium, which has been smelted or refined so
24 that its value depends on its contents and not on its form.

25 22. Motor vehicle fuel and use fuel that are subject to a tax imposed
26 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
27 valid single trip use fuel tax permit issued under section 28-5739, sales of
28 aviation fuel that are subject to the tax imposed under section 28-8344 and
29 sales of jet fuel that are subject to the tax imposed under article 8 of this
30 chapter.

31 23. Tangible personal property sold to a person engaged in the business
32 of leasing or renting such property under the personal property rental
33 classification if such property is to be leased or rented by such person.

34 24. Tangible personal property sold in interstate or foreign commerce
35 if prohibited from being so taxed by the Constitution of the United States or
36 the constitution of this state.

37 25. Tangible personal property sold to:

38 (a) A qualifying hospital as defined in section 42-5001.

39 (b) A qualifying health care organization as defined in section
40 42-5001 if the tangible personal property is used by the organization solely
41 to provide health and medical related educational and charitable services.

42 (c) A qualifying health care organization as defined in section
43 42-5001 if the organization is dedicated to providing educational,
44 therapeutic, rehabilitative and family medical education training for blind,

1 visually impaired and multihandicapped children from the time of birth to age
2 twenty-one.

3 (d) A qualifying community health center as defined in section
4 42-5001.

5 (e) A nonprofit charitable organization that has qualified under
6 section 501(c)(3) of the internal revenue code and that regularly serves
7 meals to the needy and indigent on a continuing basis at no cost.

8 (f) For taxable periods beginning from and after June 30, 2001, a
9 nonprofit charitable organization that has qualified under section 501(c)(3)
10 of the internal revenue code and that provides residential apartment housing
11 for low income persons over sixty-two years of age in a facility that
12 qualifies for a federal housing subsidy, if the tangible personal property is
13 used by the organization solely to provide residential apartment housing for
14 low income persons over sixty-two years of age in a facility that qualifies
15 for a federal housing subsidy.

16 26. Magazines or other periodicals or other publications by this state
17 to encourage tourist travel.

18 27. Tangible personal property sold to a person that is subject to tax
19 under this article by reason of being engaged in business classified under
20 the prime contracting classification under section 42-5075, or to a
21 subcontractor working under the control of a prime contractor that is subject
22 to tax under article 1 of this chapter, if the property so sold is any of the
23 following:

24 (a) Incorporated or fabricated by the person into any real property,
25 structure, project, development or improvement as part of the business.

26 (b) Used in environmental response or remediation activities under
27 section 42-5075, subsection B, paragraph 6.

28 (c) Incorporated or fabricated by the person into any lake facility
29 development in a commercial enhancement reuse district under conditions
30 prescribed for the deduction allowed by section 42-5075, subsection B,
31 paragraph 8.

32 28. The sale of a motor vehicle to:

33 (a) A nonresident of this state if the purchaser's state of residence
34 does not allow a corresponding use tax exemption to the tax imposed by
35 article 1 of this chapter and if the nonresident has secured a special ninety
36 day nonresident registration permit for the vehicle as prescribed by sections
37 28-2154 and 28-2154.01.

38 (b) An enrolled member of an Indian tribe who resides on the Indian
39 reservation established for that tribe.

40 29. Tangible personal property purchased in this state by a nonprofit
41 charitable organization that has qualified under section 501(c)(3) of the
42 United States internal revenue code and that engages in and uses such
43 property exclusively in programs for mentally or physically handicapped
44 persons if the programs are exclusively for training, job placement,
45 rehabilitation or testing.

1 30. Sales of tangible personal property by a nonprofit organization
2 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
3 of the internal revenue code if the organization is associated with a major
4 league baseball team or a national touring professional golfing association
5 and no part of the organization's net earnings inures to the benefit of any
6 private shareholder or individual.

7 31. Sales of commodities, as defined by title 7 United States Code
8 section 2, that are consigned for resale in a warehouse in this state in or
9 from which the commodity is deliverable on a contract for future delivery
10 subject to the rules of a commodity market regulated by the United States
11 commodity futures trading commission.

12 32. Sales of tangible personal property by a nonprofit organization
13 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
14 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
15 sponsors or operates a rodeo featuring primarily farm and ranch animals and
16 no part of the organization's net earnings inures to the benefit of any
17 private shareholder or individual.

18 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
19 propagative material to persons who use those items to commercially produce
20 agricultural, horticultural, viticultural or floricultural crops in this
21 state.

22 34. Machinery, equipment, technology or related supplies that are only
23 useful to assist a person who is physically disabled as defined in section
24 46-191, has a developmental disability as defined in section 36-551 or has a
25 head injury as defined in section 41-3201 to be more independent and
26 functional.

27 35. Sales of tangible personal property that is shipped or delivered
28 directly to a destination outside the United States for use in that foreign
29 country.

30 36. Sales of natural gas or liquefied petroleum gas used to propel a
31 motor vehicle.

32 37. Paper machine clothing, such as forming fabrics and dryer felts,
33 sold to a paper manufacturer and directly used or consumed in paper
34 manufacturing.

35 38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
36 sold to a qualified environmental technology manufacturer, producer or
37 processor as defined in section 41-1514.02 and directly used or consumed in
38 the generation or provision of on-site power or energy solely for
39 environmental technology manufacturing, producing or processing or
40 environmental protection. This paragraph shall apply for twenty full
41 consecutive calendar or fiscal years from the date the first paper
42 manufacturing machine is placed in service. In the case of an environmental
43 technology manufacturer, producer or processor who does not manufacture
44 paper, the time period shall begin with the date the first manufacturing,
45 processing or production equipment is placed in service.

1 39. Sales of liquid, solid or gaseous chemicals used in manufacturing,
2 processing, fabricating, mining, refining, metallurgical operations, research
3 and development and, beginning on January 1, 1999, printing, if using or
4 consuming the chemicals, alone or as part of an integrated system of
5 chemicals, involves direct contact with the materials from which the product
6 is produced for the purpose of causing or permitting a chemical or physical
7 change to occur in the materials as part of the production process. This
8 paragraph does not include chemicals that are used or consumed in activities
9 such as packaging, storage or transportation but does not affect any
10 deduction for such chemicals that is otherwise provided by this section. For
11 the purposes of this paragraph, "printing" means a commercial printing
12 operation and includes job printing, engraving, embossing, copying and
13 bookbinding.

14 40. Through December 31, 1994, personal property liquidation
15 transactions, conducted by a personal property liquidator. From and after
16 December 31, 1994, personal property liquidation transactions shall be
17 taxable under this section provided that nothing in this subsection shall be
18 construed to authorize the taxation of casual activities or transactions
19 under this chapter. For the purposes of this paragraph:

20 (a) "Personal property liquidation transaction" means a sale of
21 personal property made by a personal property liquidator acting solely on
22 behalf of the owner of the personal property sold at the dwelling of the
23 owner or upon the death of any owner, on behalf of the surviving spouse, if
24 any, any devisee or heir or the personal representative of the estate of the
25 deceased, if one has been appointed.

26 (b) "Personal property liquidator" means a person who is retained to
27 conduct a sale in a personal property liquidation transaction.

28 41. Sales of food, drink and condiment for consumption within the
29 premises of any prison, jail or other institution under the jurisdiction of
30 the state department of corrections, the department of public safety, the
31 department of juvenile corrections or a county sheriff.

32 42. A motor vehicle and any repair and replacement parts and tangible
33 personal property becoming a part of such motor vehicle sold to a motor
34 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
35 and who is engaged in the business of leasing or renting such property.

36 43. Livestock and poultry feed, salts, vitamins and other additives for
37 livestock or poultry consumption that are sold to persons who are engaged in
38 producing livestock, poultry, or livestock or poultry products or who are
39 engaged in feeding livestock or poultry commercially. For the purposes of
40 this paragraph, "poultry" includes ratites.

41 44. Sales of implants used as growth promotants and injectable
42 medicines, not already exempt under paragraph 8 of this subsection, for
43 livestock or poultry owned by or in possession of persons who are engaged in
44 producing livestock, poultry, or livestock or poultry products or who are

1 engaged in feeding livestock or poultry commercially. For the purposes of
2 this paragraph, "poultry" includes ratites.

3 45. Sales of motor vehicles at auction to nonresidents of this state
4 for use outside this state if the vehicles are shipped or delivered out of
5 this state, regardless of where title to the motor vehicles passes or its
6 free on board point.

7 46. Tangible personal property sold to a person engaged in business and
8 subject to tax under the transient lodging classification if the tangible
9 personal property is a personal hygiene item or articles used by human beings
10 for food, drink or condiment, except alcoholic beverages, which are furnished
11 without additional charge to and intended to be consumed by the transient
12 during the transient's occupancy.

13 47. Sales of alternative fuel, as defined in section 1-215, to a used
14 oil fuel burner who has received a permit to burn used oil or used oil fuel
15 under section 49-426 or 49-480.

16 48. Sales of materials that are purchased by or for publicly funded
17 libraries including school district libraries, charter school libraries,
18 community college libraries, state university libraries or federal, state,
19 county or municipal libraries for use by the public as follows:

20 (a) Printed or photographic materials, beginning August 7, 1985.

21 (b) Electronic or digital media materials, beginning July 17, 1994.

22 49. Tangible personal property sold to a commercial airline and
23 consisting of food, beverages and condiments and accessories used for serving
24 the food and beverages, if those items are to be provided without additional
25 charge to passengers for consumption in flight. For the purposes of this
26 paragraph, "commercial airline" means a person holding a federal certificate
27 of public convenience and necessity or foreign air carrier permit for air
28 transportation to transport persons, property or United States mail in
29 intrastate, interstate or foreign commerce.

30 50. Sales of alternative fuel vehicles if the vehicle was manufactured
31 as a diesel fuel vehicle and converted to operate on alternative fuel and
32 equipment that is installed in a conventional diesel fuel motor vehicle to
33 convert the vehicle to operate on an alternative fuel, as defined in section
34 1-215.

35 51. Sales of any spirituous, vinous or malt liquor by a person that is
36 licensed in this state as a wholesaler by the department of liquor licenses
37 and control pursuant to title 4, chapter 2, article 1.

38 52. Sales of tangible personal property to be incorporated or installed
39 as part of environmental response or remediation activities under section
40 42-5075, subsection B, paragraph 6.

41 53. Sales of tangible personal property by a nonprofit organization
42 that is exempt from taxation under section 501(c)(6) of the internal revenue
43 code if the organization produces, organizes or promotes cultural or civic
44 related festivals or events and no part of the organization's net earnings
45 inures to the benefit of any private shareholder or individual.

1 54. Through August 31, 2014, sales of Arizona centennial medallions by
2 the historical advisory commission.

3 55. Application services that are designed to assess or test student
4 learning or to promote curriculum design or enhancement purchased by or for
5 any school district, charter school, community college or state university.
6 For the purposes of this paragraph:

7 (a) "Application services" means software applications provided
8 remotely using hypertext transfer protocol or another network protocol.

9 (b) "Curriculum design or enhancement" means planning, implementing or
10 reporting on courses of study, lessons, assignments or other learning
11 activities.

12 B. In addition to the deductions from the tax base prescribed by
13 subsection A of this section, the gross proceeds of sales or gross income
14 derived from sales of the following categories of tangible personal property
15 shall be deducted from the tax base:

16 1. Machinery, or equipment, used directly in manufacturing,
17 processing, fabricating, job printing, refining or metallurgical operations.
18 The terms "manufacturing", "processing", "fabricating", "job printing",
19 "refining" and "metallurgical" as used in this paragraph refer to and include
20 those operations commonly understood within their ordinary meaning.
21 "Metallurgical operations" includes leaching, milling, precipitating,
22 smelting and refining.

23 2. Mining machinery, or equipment, used directly in the process of
24 extracting ores or minerals from the earth for commercial purposes, including
25 equipment required to prepare the materials for extraction and handling,
26 loading or transporting such extracted material to the surface. "Mining"
27 includes underground, surface and open pit operations for extracting ores and
28 minerals.

29 3. Tangible personal property sold to persons engaged in business
30 classified under the telecommunications classification and consisting of
31 central office switching equipment, switchboards, private branch exchange
32 equipment, microwave radio equipment and carrier equipment including optical
33 fiber, coaxial cable and other transmission media which are components of
34 carrier systems.

35 4. Machinery, equipment or transmission lines used directly in
36 producing or transmitting electrical power, but not including distribution.
37 Transformers and control equipment used at transmission substation sites
38 constitute equipment used in producing or transmitting electrical power.

39 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
40 to be used as breeding or production stock, including sales of breedings or
41 ownership shares in such animals used for breeding or production.

42 6. Pipes or valves four inches in diameter or larger used to transport
43 oil, natural gas, artificial gas, water or coal slurry, including compressor
44 units, regulators, machinery and equipment, fittings, seals and any other
45 part that is used in operating the pipes or valves.

1 7. Aircraft, navigational and communication instruments and other
2 accessories and related equipment sold to:

3 (a) A person holding a federal certificate of public convenience and
4 necessity, a supplemental air carrier certificate under federal aviation
5 regulations (14 Code of Federal Regulations part 121) or a foreign air
6 carrier permit for air transportation for use as or in conjunction with or
7 becoming a part of aircraft to be used to transport persons, property or
8 United States mail in intrastate, interstate or foreign commerce.

9 (b) Any foreign government.

10 (c) Persons who are not residents of this state and who will not use
11 such property in this state other than in removing such property from this
12 state. This subdivision also applies to corporations that are not
13 incorporated in this state, regardless of maintaining a place of business in
14 this state, if the principal corporate office is located outside this state
15 and the property will not be used in this state other than in removing the
16 property from this state.

17 8. Machinery, tools, equipment and related supplies used or consumed
18 directly in repairing, remodeling or maintaining aircraft, aircraft engines
19 or aircraft component parts by or on behalf of a certificated or licensed
20 carrier of persons or property.

21 9. Railroad rolling stock, rails, ties and signal control equipment
22 used directly to transport persons or property.

23 10. Machinery or equipment used directly to drill for oil or gas or
24 used directly in the process of extracting oil or gas from the earth for
25 commercial purposes.

26 11. Buses or other urban mass transit vehicles which are used directly
27 to transport persons or property for hire or pursuant to a governmentally
28 adopted and controlled urban mass transportation program and which are sold
29 to bus companies holding a federal certificate of convenience and necessity
30 or operated by any city, town or other governmental entity or by any person
31 contracting with such governmental entity as part of a governmentally adopted
32 and controlled program to provide urban mass transportation.

33 12. Groundwater measuring devices required under section 45-604.

34 13. New machinery and equipment consisting of tractors, tractor-drawn
35 implements, self-powered implements, machinery and equipment necessary for
36 extracting milk, and machinery and equipment necessary for cooling milk and
37 livestock, and drip irrigation lines not already exempt under paragraph 6 of
38 this subsection and that are used for commercial production of agricultural,
39 horticultural, viticultural and floricultural crops and products in this
40 state. For the purposes of this paragraph:

41 (a) "New machinery and equipment" means machinery and equipment which
42 have never been sold at retail except pursuant to leases or rentals which do
43 not total two years or more.

44 (b) "Self-powered implements" includes machinery and equipment that
45 are electric-powered.

1 14. Machinery or equipment used in research and development. For the
2 purposes of this paragraph, "research and development" means basic and
3 applied research in the sciences and engineering, and designing, developing
4 or testing prototypes, processes or new products, including research and
5 development of computer software that is embedded in or an integral part of
6 the prototype or new product or that is required for machinery or equipment
7 otherwise exempt under this section to function effectively. Research and
8 development do not include manufacturing quality control, routine consumer
9 product testing, market research, sales promotion, sales service, research in
10 social sciences or psychology, computer software research that is not
11 included in the definition of research and development, or other
12 nontechnological activities or technical services.

13 15. Machinery and equipment that are purchased by or on behalf of the
14 owners of a soundstage complex and primarily used for motion picture,
15 multimedia or interactive video production in the complex. This paragraph
16 applies only if the initial construction of the soundstage complex begins
17 after June 30, 1996 and before January 1, 2002 and the machinery and
18 equipment are purchased before the expiration of five years after the start
19 of initial construction. For the purposes of this paragraph:

20 (a) "Motion picture, multimedia or interactive video production"
21 includes products for theatrical and television release, educational
22 presentations, electronic retailing, documentaries, music videos, industrial
23 films, CD-ROM, video game production, commercial advertising and television
24 episode production and other genres that are introduced through developing
25 technology.

26 (b) "Soundstage complex" means a facility of multiple stages including
27 production offices, construction shops and related areas, prop and costume
28 shops, storage areas, parking for production vehicles and areas that are
29 leased to businesses that complement the production needs and orientation of
30 the overall facility.

31 16. Tangible personal property that is used by either of the following
32 to receive, store, convert, produce, generate, decode, encode, control or
33 transmit telecommunications information:

34 (a) Any direct broadcast satellite television or data transmission
35 service that operates pursuant to 47 Code of Federal Regulations part 25.

36 (b) Any satellite television or data transmission facility, if both of
37 the following conditions are met:

38 (i) Over two-thirds of the transmissions, measured in megabytes,
39 transmitted by the facility during the test period were transmitted to or on
40 behalf of one or more direct broadcast satellite television or data
41 transmission services that operate pursuant to 47 Code of Federal Regulations
42 part 25.

43 (ii) Over two-thirds of the transmissions, measured in megabytes,
44 transmitted by or on behalf of those direct broadcast television or data

1 transmission services during the test period were transmitted by the facility
2 to or on behalf of those services.

3 For the purposes of subdivision (b) of this paragraph, "test period" means
4 the three hundred sixty-five day period beginning on the later of the date on
5 which the tangible personal property is purchased or the date on which the
6 direct broadcast satellite television or data transmission service first
7 transmits information to its customers.

8 17. Clean rooms that are used for manufacturing, processing,
9 fabrication or research and development, as defined in paragraph 14 of this
10 subsection, of semiconductor products. For the purposes of this paragraph,
11 "clean room" means all property that comprises or creates an environment
12 where humidity, temperature, particulate matter and contamination are
13 precisely controlled within specified parameters, without regard to whether
14 the property is actually contained within that environment or whether any of
15 the property is affixed to or incorporated into real property. Clean room:

16 (a) Includes the integrated systems, fixtures, piping, movable
17 partitions, lighting and all property that is necessary or adapted to reduce
18 contamination or to control airflow, temperature, humidity, chemical purity
19 or other environmental conditions or manufacturing tolerances, as well as the
20 production machinery and equipment operating in conjunction with the clean
21 room environment.

22 (b) Does not include the building or other permanent, nonremovable
23 component of the building that houses the clean room environment.

24 18. Machinery and equipment used directly in the feeding of poultry,
25 the environmental control of housing for poultry, the movement of eggs within
26 a production and packaging facility or the sorting or cooling of eggs. This
27 exemption does not apply to vehicles used for transporting eggs.

28 19. Machinery or equipment, including related structural components,
29 that is employed in connection with manufacturing, processing, fabricating,
30 job printing, refining, mining, natural gas pipelines, metallurgical
31 operations, telecommunications, producing or transmitting electricity or
32 research and development and that is used directly to meet or exceed rules or
33 regulations adopted by the federal energy regulatory commission, the United
34 States environmental protection agency, the United States nuclear regulatory
35 commission, the Arizona department of environmental quality or a political
36 subdivision of this state to prevent, monitor, control or reduce land, water
37 or air pollution.

38 20. Machinery and equipment that are sold to a person engaged in the
39 commercial production of livestock, livestock products or agricultural,
40 horticultural, viticultural or floricultural crops or products in this state
41 and that are used directly and primarily to prevent, monitor, control or
42 reduce air, water or land pollution.

43 21. Machinery or equipment that enables a television station to
44 originate and broadcast or to receive and broadcast digital television
45 signals and that was purchased to facilitate compliance with the

1 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
2 Code section 336) and the federal communications commission order issued
3 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
4 not exempt any of the following:

5 (a) Repair or replacement parts purchased for the machinery or
6 equipment described in this paragraph.

7 (b) Machinery or equipment purchased to replace machinery or equipment
8 for which an exemption was previously claimed and taken under this paragraph.

9 (c) Any machinery or equipment purchased after the television station
10 has ceased analog broadcasting, or purchased after November 1, 2009,
11 whichever occurs first.

12 22. Qualifying equipment that is purchased from and after June 30, 2004
13 through June 30, 2014 by a qualified business under section 41-1516 for
14 harvesting or the initial processing of qualifying forest products removed
15 from qualifying projects as defined in section 41-1516. To qualify for this
16 deduction, the qualified business at the time of purchase must present its
17 certification approved by the department.

18 23. Machinery, equipment and other tangible personal property used
19 directly in motion picture production by a motion picture production company.
20 To qualify for this deduction, at the time of purchase, the motion picture
21 production company must present to the retailer its certificate that is
22 issued pursuant to section 42-5009, subsection H and that establishes its
23 qualification for the deduction.

24 C. The deductions provided by subsection B of this section do not
25 include sales of:

26 1. Expendable materials. For the purposes of this paragraph,
27 expendable materials do not include any of the categories of tangible
28 personal property specified in subsection B of this section regardless of the
29 cost or useful life of that property.

30 2. Janitorial equipment and hand tools.

31 3. Office equipment, furniture and supplies.

32 4. Tangible personal property used in selling or distributing
33 activities, other than the telecommunications transmissions described in
34 subsection B, paragraph 16 of this section.

35 5. Motor vehicles required to be licensed by this state, except buses
36 or other urban mass transit vehicles specifically exempted pursuant to
37 subsection B, paragraph 11 of this section, without regard to the use of such
38 motor vehicles.

39 6. Shops, buildings, docks, depots and all other materials of whatever
40 kind or character not specifically included as exempt.

41 7. Motors and pumps used in drip irrigation systems.

42 D. In addition to the deductions from the tax base prescribed by
43 subsection A of this section, there shall be deducted from the tax base the
44 gross proceeds of sales or gross income derived from sales of machinery,
45 equipment, materials and other tangible personal property used directly and

1 predominantly to construct a qualified environmental technology
2 manufacturing, producing or processing facility as described in section
3 41-1514.02. This subsection applies for ten full consecutive calendar or
4 fiscal years after the start of initial construction.

5 E. In computing the tax base, gross proceeds of sales or gross income
6 from retail sales of heavy trucks and trailers does not include any amount
7 attributable to federal excise taxes imposed by 26 United States Code section
8 4051.

9 F. In computing the tax base, gross proceeds of sales or gross income
10 from the sale of use fuel, as defined in section 28-5601, does not include
11 any amount attributable to federal excise taxes imposed by 26 United States
12 Code section 4091.

13 G. If a person is engaged in an occupation or business to which
14 subsection A of this section applies, the person's books shall be kept so as
15 to show separately the gross proceeds of sales of tangible personal property
16 and the gross income from sales of services, and if not so kept the tax shall
17 be imposed on the total of the person's gross proceeds of sales of tangible
18 personal property and gross income from services.

19 H. If a person is engaged in the business of selling tangible personal
20 property at both wholesale and retail, the tax under this section applies
21 only to the gross proceeds of the sales made other than at wholesale if the
22 person's books are kept so as to show separately the gross proceeds of sales
23 of each class, and if the books are not so kept, the tax under this section
24 applies to the gross proceeds of every sale so made.

25 I. A person who engages in manufacturing, baling, crating, boxing,
26 barreling, canning, bottling, sacking, preserving, processing or otherwise
27 preparing for sale or commercial use any livestock, agricultural or
28 horticultural product or any other product, article, substance or commodity
29 and who sells the product of such business at retail in this state is deemed,
30 as to such sales, to be engaged in business classified under the retail
31 classification. This subsection does not apply to businesses classified
32 under the:

- 33 1. Transporting classification.
- 34 2. Utilities classification.
- 35 3. Telecommunications classification.
- 36 4. Pipeline classification.
- 37 5. Private car line classification.
- 38 6. Publication classification.
- 39 7. Job printing classification.
- 40 8. Prime contracting classification.
- 41 9. Owner builder sales classification.
- 42 10. Restaurant classification.

43 J. The gross proceeds of sales or gross income derived from the
44 following shall be deducted from the tax base for the retail classification:

1 1. Sales made directly to the United States government or its
2 departments or agencies by a manufacturer, modifier, assembler or repairer.

3 2. Sales made directly to a manufacturer, modifier, assembler or
4 repairer if such sales are of any ingredient or component part of products
5 sold directly to the United States government or its departments or agencies
6 by the manufacturer, modifier, assembler or repairer.

7 3. Overhead materials or other tangible personal property that is used
8 in performing a contract between the United States government and a
9 manufacturer, modifier, assembler or repairer, including property used in
10 performing a subcontract with a government contractor who is a manufacturer,
11 modifier, assembler or repairer, to which title passes to the government
12 under the terms of the contract or subcontract.

13 4. Sales of overhead materials or other tangible personal property to
14 a manufacturer, modifier, assembler or repairer if the gross proceeds of
15 sales or gross income derived from the property by the manufacturer,
16 modifier, assembler or repairer will be exempt under paragraph 3 of this
17 subsection.

18 K. There shall be deducted from the tax base fifty per cent of the
19 gross proceeds or gross income from any sale of tangible personal property
20 made directly to the United States government or its departments or agencies,
21 which is not deducted under subsection J of this section.

22 L. The department shall require every person claiming a deduction
23 provided by subsection J or K of this section to file on forms prescribed by
24 the department at such times as the department directs a sworn statement
25 disclosing the name of the purchaser and the exact amount of sales on which
26 the exclusion or deduction is claimed.

27 M. In computing the tax base, gross proceeds of sales or gross income
28 does not include:

29 1. A manufacturer's cash rebate on the sales price of a motor vehicle
30 if the buyer assigns the buyer's right in the rebate to the retailer.

31 2. The waste tire disposal fee imposed pursuant to section 44-1302.

32 N. There shall be deducted from the tax base the amount received from
33 sales of solar energy devices. The retailer shall register with the
34 department as a solar energy retailer. By registering, the retailer
35 acknowledges that it will make its books and records relating to sales of
36 solar energy devices available to the department for examination.

37 O. In computing the tax base in the case of the sale or transfer of
38 wireless telecommunications equipment as an inducement to a customer to enter
39 into or continue a contract for telecommunications services that are taxable
40 under section 42-5064, gross proceeds of sales or gross income does not
41 include any sales commissions or other compensation received by the retailer
42 as a result of the customer entering into or continuing a contract for the
43 telecommunications services.

44 P. For the purposes of this section, a sale of wireless
45 telecommunications equipment to a person who holds the equipment for sale or

1 transfer to a customer as an inducement to enter into or continue a contract
2 for telecommunications services that are taxable under section 42-5064 is
3 considered to be a sale for resale in the regular course of business.

4 Q. Retail sales of prepaid calling cards or prepaid authorization
5 numbers for telecommunications services, including sales of reauthorization
6 of a prepaid card or authorization number, are subject to tax under this
7 section.

8 R. For the purposes of this section, the diversion of gas from a
9 pipeline by a person engaged in the business of:

10 1. Operating a natural or artificial gas pipeline, for the sole
11 purpose of fueling compressor equipment to pressurize the pipeline, is not a
12 sale of the gas to the operator of the pipeline.

13 2. Converting natural gas into liquefied natural gas, for the sole
14 purpose of fueling compressor equipment used in the conversion process, is
15 not a sale of gas to the operator of the compressor equipment.

16 S. If a seller is entitled to a deduction pursuant to subsection B,
17 paragraph 16, subdivision (b) of this section, the department may require the
18 purchaser to establish that the requirements of subsection B, paragraph 16,
19 subdivision (b) of this section have been satisfied. If the purchaser cannot
20 establish that the requirements of subsection B, paragraph 16, subdivision
21 (b) of this section have been satisfied, the purchaser is liable in an amount
22 equal to any tax, penalty and interest which the seller would have been
23 required to pay under article 1 of this chapter if the seller had not made a
24 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
25 section. Payment of the amount under this subsection exempts the purchaser
26 from liability for any tax imposed under article 4 of this chapter and
27 related to the tangible personal property purchased. The amount shall be
28 treated as transaction privilege tax to the purchaser and as tax revenues
29 collected from the seller to designate the distribution base pursuant to
30 section 42-5029.

31 T. For the purposes of section 42-5032.01, the department shall
32 separately account for revenues collected under the retail classification
33 from businesses selling tangible personal property at retail:

34 1. On the premises of a multipurpose facility that is owned, leased or
35 operated by the tourism and sports authority pursuant to title 5, chapter 8.

36 2. At professional football contests that are held in a stadium
37 located on the campus of an institution under the jurisdiction of the Arizona
38 board of regents.

39 U. In computing the tax base for the sale of a motor vehicle to a
40 nonresident of this state, if the purchaser's state of residence allows a
41 corresponding use tax exemption to the tax imposed by article 1 of this
42 chapter and the rate of the tax in the purchaser's state of residence is
43 lower than the rate prescribed in article 1 of this chapter or if the
44 purchaser's state of residence does not impose an excise tax, and the
45 nonresident has secured a special ninety day nonresident registration permit

1 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
2 be deducted from the tax base a portion of the gross proceeds or gross income
3 from the sale so that the amount of transaction privilege tax that is paid in
4 this state is equal to the excise tax that is imposed by the purchaser's
5 state of residence on the nonexempt sale or use of the motor vehicle.

6 V. For the purposes of this section:

7 1. "Aircraft" includes:

8 (a) An airplane flight simulator that is approved by the federal
9 aviation administration for use as a phase II or higher flight simulator
10 under appendix H, 14 Code of Federal Regulations part 121.

11 (b) Tangible personal property that is permanently affixed or attached
12 as a component part of an aircraft that is owned or operated by a
13 certificated or licensed carrier of persons or property.

14 2. "Other accessories and related equipment" includes aircraft
15 accessories and equipment such as ground service equipment that physically
16 contact aircraft at some point during the overall carrier operation.

17 3. "Selling at retail" means a sale for any purpose other than for
18 resale in the regular course of business in the form of tangible personal
19 property, but transfer of possession, lease and rental as used in the
20 definition of sale mean only such transactions as are found on investigation
21 to be in lieu of sales as defined without the words lease or rental.

22 W. For the purposes of subsection J of this section:

23 1. "Assembler" means a person who unites or combines products, wares
24 or articles of manufacture so as to produce a change in form or substance
25 without changing or altering the component parts.

26 2. "Manufacturer" means a person who is principally engaged in the
27 fabrication, production or manufacture of products, wares or articles for use
28 from raw or prepared materials, imparting to those materials new forms,
29 qualities, properties and combinations.

30 3. "Modifier" means a person who reworks, changes or adds to products,
31 wares or articles of manufacture.

32 4. "Overhead materials" means tangible personal property, the gross
33 proceeds of sales or gross income derived from which would otherwise be
34 included in the retail classification, and which are used or consumed in the
35 performance of a contract, the cost of which is charged to an overhead
36 expense account and allocated to various contracts based upon generally
37 accepted accounting principles and consistent with government contract
38 accounting standards.

39 5. "Repairer" means a person who restores or renews products, wares or
40 articles of manufacture.

41 6. "Subcontract" means an agreement between a contractor and any
42 person who is not an employee of the contractor for furnishing of supplies or
43 services that, in whole or in part, are necessary to the performance of one
44 or more government contracts, or under which any portion of the contractor's
45 obligation under one or more government contracts is performed, undertaken or

1 assumed and that includes provisions causing title to overhead materials or
2 other tangible personal property used in the performance of the subcontract
3 to pass to the government or that includes provisions incorporating such
4 title passing clauses in a government contract into the subcontract.

5 Sec. 18. Section 42-5159, Arizona Revised Statutes, is amended to
6 read:

7 42-5159. Exemptions

8 A. The tax levied by this article does not apply to the storage, use
9 or consumption in this state of the following described tangible personal
10 property:

11 1. Tangible personal property sold in this state, the gross receipts
12 from the sale of which are included in the measure of the tax imposed by
13 articles 1 and 2 of this chapter.

14 2. Tangible personal property the sale or use of which has already
15 been subjected to an excise tax at a rate equal to or exceeding the tax
16 imposed by this article under the laws of another state of the United States.
17 If the excise tax imposed by the other state is at a rate less than the tax
18 imposed by this article, the tax imposed by this article is reduced by the
19 amount of the tax already imposed by the other state.

20 3. Tangible personal property, the storage, use or consumption of
21 which the constitution or laws of the United States prohibit this state from
22 taxing or to the extent that the rate or imposition of tax is
23 unconstitutional under the laws of the United States.

24 4. Tangible personal property which directly enters into and becomes
25 an ingredient or component part of any manufactured, fabricated or processed
26 article, substance or commodity for sale in the regular course of business.

27 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
28 which in this state is subject to the tax imposed under title 28, chapter 16,
29 article 1, use fuel which is sold to or used by a person holding a valid
30 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
31 the sales, distribution or use of which in this state is subject to the tax
32 imposed under section 28-8344, and jet fuel, the sales, distribution or use
33 of which in this state is subject to the tax imposed under article 8 of this
34 chapter.

35 6. Tangible personal property brought into this state by an individual
36 who was a nonresident at the time the property was purchased for storage, use
37 or consumption by the individual if the first actual use or consumption of
38 the property was outside this state, unless the property is used in
39 conducting a business in this state.

40 7. Purchases of implants used as growth promotants and injectable
41 medicines, not already exempt under paragraph 16 of this subsection, for
42 livestock and poultry owned by, or in possession of, persons who are engaged
43 in producing livestock, poultry, or livestock or poultry products, or who are
44 engaged in feeding livestock or poultry commercially. For the purposes of
45 this paragraph, "poultry" includes ratites.

1 8. Livestock, poultry, supplies, feed, salts, vitamins and other
2 additives for use or consumption in the businesses of farming, ranching and
3 feeding livestock or poultry, not including fertilizers, herbicides and
4 insecticides. For the purposes of this paragraph, "poultry" includes
5 ratites.

6 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
7 material for use in commercially producing agricultural, horticultural,
8 viticultural or floricultural crops in this state.

9 10. Tangible personal property not exceeding two hundred dollars in any
10 one month purchased by an individual at retail outside the continental limits
11 of the United States for the individual's own personal use and enjoyment.

12 11. Advertising supplements which are intended for sale with newspapers
13 published in this state and which have already been subjected to an excise
14 tax under the laws of another state in the United States which equals or
15 exceeds the tax imposed by this article.

16 12. Materials that are purchased by or for publicly funded libraries
17 including school district libraries, charter school libraries, community
18 college libraries, state university libraries or federal, state, county or
19 municipal libraries for use by the public as follows:

20 (a) Printed or photographic materials, beginning August 7, 1985.

21 (b) Electronic or digital media materials, beginning July 17, 1994.

22 13. Tangible personal property purchased by:

23 (a) A hospital organized and operated exclusively for charitable
24 purposes, no part of the net earnings of which inures to the benefit of any
25 private shareholder or individual.

26 (b) A hospital operated by this state or a political subdivision of
27 this state.

28 (c) A licensed nursing care institution or a licensed residential care
29 institution or a residential care facility operated in conjunction with a
30 licensed nursing care institution or a licensed kidney dialysis center, which
31 provides medical services, nursing services or health related services and is
32 not used or held for profit.

33 (d) A qualifying health care organization, as defined in section
34 42-5001, if the tangible personal property is used by the organization solely
35 to provide health and medical related educational and charitable services.

36 (e) A qualifying health care organization as defined in section
37 42-5001 if the organization is dedicated to providing educational,
38 therapeutic, rehabilitative and family medical education training for blind,
39 visually impaired and multihandicapped children from the time of birth to age
40 twenty-one.

41 (f) A nonprofit charitable organization that has qualified under
42 section 501(c)(3) of the United States internal revenue code and that engages
43 in and uses such property exclusively in programs for mentally or physically
44 handicapped persons if the programs are exclusively for training, job
45 placement, rehabilitation or testing.

1 (g) A person that is subject to tax under article 1 of this chapter by
2 reason of being engaged in business classified under the prime contracting
3 classification under section 42-5075, or a subcontractor working under the
4 control of a prime contractor, if the tangible personal property is any of
5 the following:

6 (i) Incorporated or fabricated by the contractor into a structure,
7 project, development or improvement in fulfillment of a contract.

8 (ii) Used in environmental response or remediation activities under
9 section 42-5075, subsection B, paragraph 6.

10 (iii) Incorporated or fabricated by the person into any lake facility
11 development in a commercial enhancement reuse district under conditions
12 prescribed for the deduction allowed by section 42-5075, subsection B,
13 paragraph 8.

14 (h) A nonprofit charitable organization that has qualified under
15 section 501(c)(3) of the internal revenue code if the property is purchased
16 from the parent or an affiliate organization that is located outside this
17 state.

18 (i) A qualifying community health center as defined in section
19 42-5001.

20 (j) A nonprofit charitable organization that has qualified under
21 section 501(c)(3) of the internal revenue code and that regularly serves
22 meals to the needy and indigent on a continuing basis at no cost.

23 (k) A person engaged in business under the transient lodging
24 classification if the property is a personal hygiene item or articles used by
25 human beings for food, drink or condiment, except alcoholic beverages, which
26 are furnished without additional charge to and intended to be consumed by the
27 transient during the transient's occupancy.

28 (l) For taxable periods beginning from and after June 30, 2001, a
29 nonprofit charitable organization that has qualified under section 501(c)(3)
30 of the internal revenue code and that provides residential apartment housing
31 for low income persons over sixty-two years of age in a facility that
32 qualifies for a federal housing subsidy, if the tangible personal property is
33 used by the organization solely to provide residential apartment housing for
34 low income persons over sixty-two years of age in a facility that qualifies
35 for a federal housing subsidy.

36 14. Commodities, as defined by title 7 United States Code section 2,
37 that are consigned for resale in a warehouse in this state in or from which
38 the commodity is deliverable on a contract for future delivery subject to the
39 rules of a commodity market regulated by the United States commodity futures
40 trading commission.

41 15. Tangible personal property sold by:

42 (a) Any nonprofit organization organized and operated exclusively for
43 charitable purposes and recognized by the United States internal revenue
44 service under section 501(c)(3) of the internal revenue code.

1 (b) A nonprofit organization that is exempt from taxation under
2 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
3 organization is associated with a major league baseball team or a national
4 touring professional golfing association and no part of the organization's
5 net earnings inures to the benefit of any private shareholder or individual.

6 (c) A nonprofit organization that is exempt from taxation under
7 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
8 internal revenue code if the organization sponsors or operates a rodeo
9 featuring primarily farm and ranch animals and no part of the organization's
10 net earnings inures to the benefit of any private shareholder or individual.

11 16. Drugs and medical oxygen, including delivery hose, mask or tent,
12 regulator and tank, on the prescription of a member of the medical, dental or
13 veterinarian profession who is licensed by law to administer such substances.

14 17. Prosthetic appliances, as defined in section 23-501, prescribed or
15 recommended by a person who is licensed, registered or otherwise
16 professionally credentialed as a physician, dentist, podiatrist,
17 chiropractor, naturopath, homeopath, nurse or optometrist.

18 18. Prescription eyeglasses and contact lenses.

19 19. Insulin, insulin syringes and glucose test strips.

20 20. Hearing aids as defined in section 36-1901.

21 21. Durable medical equipment which has a centers for medicare and
22 medicaid services common procedure code, is designated reimbursable by
23 medicare, is prescribed by a person who is licensed under title 32, chapter
24 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
25 used to serve a medical purpose, is generally not useful to a person in the
26 absence of illness or injury and is appropriate for use in the home.

27 22. Food, as provided in and subject to the conditions of article 3 of
28 this chapter and section 42-5074.

29 23. Items purchased with United States department of agriculture food
30 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
31 958) or food instruments issued under section 17 of the child nutrition act
32 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
33 section 1786).

34 24. Food and drink provided without monetary charge by a taxpayer which
35 is subject to section 42-5074 to its employees for their own consumption on
36 the premises during the employees' hours of employment.

37 25. Tangible personal property that is used or consumed in a business
38 subject to section 42-5074 for human food, drink or condiment, whether
39 simple, mixed or compounded.

40 26. Food, drink or condiment and accessory tangible personal property
41 that are acquired for use by or provided to a school district or charter
42 school if they are to be either served or prepared and served to persons for
43 consumption on the premises of a public school in the school district or on
44 the premises of the charter school during school hours.

- 1 27. Lottery tickets or shares purchased pursuant to title 5, chapter ~~5-~~
2 5.1, article 1.
- 3 28. Textbooks, sold by a bookstore, that are required by any state
4 university or community college.
- 5 29. Magazines, other periodicals or other publications produced by this
6 state to encourage tourist travel.
- 7 30. Paper machine clothing, such as forming fabrics and dryer felts,
8 purchased by a paper manufacturer and directly used or consumed in paper
9 manufacturing.
- 10 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
11 purchased by a qualified environmental technology manufacturer, producer or
12 processor as defined in section 41-1514.02 and directly used or consumed in
13 the generation or provision of on-site power or energy solely for
14 environmental technology manufacturing, producing or processing or
15 environmental protection. This paragraph shall apply for twenty full
16 consecutive calendar or fiscal years from the date the first paper
17 manufacturing machine is placed in service. In the case of an environmental
18 technology manufacturer, producer or processor who does not manufacture
19 paper, the time period shall begin with the date the first manufacturing,
20 processing or production equipment is placed in service.
- 21 32. Motor vehicles that are removed from inventory by a motor vehicle
22 dealer as defined in section 28-4301 and that are provided to:
- 23 (a) Charitable or educational institutions that are exempt from
24 taxation under section 501(c)(3) of the internal revenue code.
- 25 (b) Public educational institutions.
- 26 (c) State universities or affiliated organizations of a state
27 university if no part of the organization's net earnings inures to the
28 benefit of any private shareholder or individual.
- 29 33. Natural gas or liquefied petroleum gas used to propel a motor
30 vehicle.
- 31 34. Machinery, equipment, technology or related supplies that are only
32 useful to assist a person who is physically disabled as defined in section
33 46-191, has a developmental disability as defined in section 36-551 or has a
34 head injury as defined in section 41-3201 to be more independent and
35 functional.
- 36 35. Liquid, solid or gaseous chemicals used in manufacturing,
37 processing, fabricating, mining, refining, metallurgical operations, research
38 and development and, beginning on January 1, 1999, printing, if using or
39 consuming the chemicals, alone or as part of an integrated system of
40 chemicals, involves direct contact with the materials from which the product
41 is produced for the purpose of causing or permitting a chemical or physical
42 change to occur in the materials as part of the production process. This
43 paragraph does not include chemicals that are used or consumed in activities
44 such as packaging, storage or transportation but does not affect any
45 exemption for such chemicals that is otherwise provided by this section. For

1 the purposes of this paragraph, "printing" means a commercial printing
2 operation and includes job printing, engraving, embossing, copying and
3 bookbinding.

4 36. Food, drink and condiment purchased for consumption within the
5 premises of any prison, jail or other institution under the jurisdiction of
6 the state department of corrections, the department of public safety, the
7 department of juvenile corrections or a county sheriff.

8 37. A motor vehicle and any repair and replacement parts and tangible
9 personal property becoming a part of such motor vehicle sold to a motor
10 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4
11 and who is engaged in the business of leasing or renting such property.

12 38. Tangible personal property which is or directly enters into and
13 becomes an ingredient or component part of cards used as prescription plan
14 identification cards.

15 39. Overhead materials or other tangible personal property that is used
16 in performing a contract between the United States government and a
17 manufacturer, modifier, assembler or repairer, including property used in
18 performing a subcontract with a government contractor who is a manufacturer,
19 modifier, assembler or repairer, to which title passes to the government
20 under the terms of the contract or subcontract. For the purposes of this
21 paragraph:

22 (a) "Overhead materials" means tangible personal property, the gross
23 proceeds of sales or gross income derived from which would otherwise be
24 included in the retail classification, and which are used or consumed in the
25 performance of a contract, the cost of which is charged to an overhead
26 expense account and allocated to various contracts based upon generally
27 accepted accounting principles and consistent with government contract
28 accounting standards.

29 (b) "Subcontract" means an agreement between a contractor and any
30 person who is not an employee of the contractor for furnishing of supplies or
31 services that, in whole or in part, are necessary to the performance of one
32 or more government contracts, or under which any portion of the contractor's
33 obligation under one or more government contracts is performed, undertaken or
34 assumed, and that includes provisions causing title to overhead materials or
35 other tangible personal property used in the performance of the subcontract
36 to pass to the government or that includes provisions incorporating such
37 title passing clauses in a government contract into the subcontract.

38 40. Through December 31, 1994, tangible personal property sold pursuant
39 to a personal property liquidation transaction, as defined in section
40 42-5061. From and after December 31, 1994, tangible personal property sold
41 pursuant to a personal property liquidation transaction, as defined in
42 section 42-5061, if the gross proceeds of the sales were included in the
43 measure of the tax imposed by article 1 of this chapter or if the personal
44 property liquidation was a casual activity or transaction.

1 41. Wireless telecommunications equipment that is held for sale or
2 transfer to a customer as an inducement to enter into or continue a contract
3 for telecommunications services that are taxable under section 42-5064.

4 42. Alternative fuel, as defined in section 1-215, purchased by a used
5 oil fuel burner who has received a permit to burn used oil or used oil fuel
6 under section 49-426 or 49-480.

7 43. Tangible personal property purchased by a commercial airline and
8 consisting of food, beverages and condiments and accessories used for serving
9 the food and beverages, if those items are to be provided without additional
10 charge to passengers for consumption in flight. For the purposes of this
11 paragraph, "commercial airline" means a person holding a federal certificate
12 of public convenience and necessity or foreign air carrier permit for air
13 transportation to transport persons, property or United States mail in
14 intrastate, interstate or foreign commerce.

15 44. Alternative fuel vehicles if the vehicle was manufactured as a
16 diesel fuel vehicle and converted to operate on alternative fuel and
17 equipment that is installed in a conventional diesel fuel motor vehicle to
18 convert the vehicle to operate on an alternative fuel, as defined in section
19 1-215.

20 45. Gas diverted from a pipeline, by a person engaged in the business
21 of:

22 (a) Operating a natural or artificial gas pipeline, and used or
23 consumed for the sole purpose of fueling compressor equipment that
24 pressurizes the pipeline.

25 (b) Converting natural gas into liquefied natural gas, and used or
26 consumed for the sole purpose of fueling compressor equipment used in the
27 conversion process.

28 46. Tangible personal property that is excluded, exempt or deductible
29 from transaction privilege tax pursuant to section 42-5063.

30 47. Tangible personal property purchased to be incorporated or
31 installed as part of environmental response or remediation activities under
32 section 42-5075, subsection B, paragraph 6.

33 48. Tangible personal property sold by a nonprofit organization that is
34 exempt from taxation under section 501(c)(6) of the internal revenue code if
35 the organization produces, organizes or promotes cultural or civic related
36 festivals or events and no part of the organization's net earnings inures to
37 the benefit of any private shareholder or individual.

38 49. Prepared food, drink or condiment donated by a restaurant as
39 classified in section 42-5074, subsection A to a nonprofit charitable
40 organization that has qualified under section 501(c)(3) of the internal
41 revenue code and that regularly serves meals to the needy and indigent on a
42 continuing basis at no cost.

43 50. Application services that are designed to assess or test student
44 learning or to promote curriculum design or enhancement purchased by or for

1 any school district, charter school, community college or state university.
2 For the purposes of this paragraph:

3 (a) "Application services" means software applications provided
4 remotely using hypertext transfer protocol or another network protocol.

5 (b) "Curriculum design or enhancement" means planning, implementing or
6 reporting on courses of study, lessons, assignments or other learning
7 activities.

8 B. In addition to the exemptions allowed by subsection A of this
9 section, the following categories of tangible personal property are also
10 exempt:

11 1. Machinery, or equipment, used directly in manufacturing,
12 processing, fabricating, job printing, refining or metallurgical operations.
13 The terms "manufacturing", "processing", "fabricating", "job printing",
14 "refining" and "metallurgical" as used in this paragraph refer to and include
15 those operations commonly understood within their ordinary meaning.
16 "Metallurgical operations" includes leaching, milling, precipitating,
17 smelting and refining.

18 2. Machinery, or equipment, used directly in the process of extracting
19 ores or minerals from the earth for commercial purposes, including equipment
20 required to prepare the materials for extraction and handling, loading or
21 transporting such extracted material to the surface. "Mining" includes
22 underground, surface and open pit operations for extracting ores and
23 minerals.

24 3. Tangible personal property sold to persons engaged in business
25 classified under the telecommunications classification under section 42-5064
26 and consisting of central office switching equipment, switchboards, private
27 branch exchange equipment, microwave radio equipment and carrier equipment
28 including optical fiber, coaxial cable and other transmission media which are
29 components of carrier systems.

30 4. Machinery, equipment or transmission lines used directly in
31 producing or transmitting electrical power, but not including distribution.
32 Transformers and control equipment used at transmission substation sites
33 constitute equipment used in producing or transmitting electrical power.

34 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or
35 to be used as breeding or production stock, including sales of breedings or
36 ownership shares in such animals used for breeding or production.

37 6. Pipes or valves four inches in diameter or larger used to transport
38 oil, natural gas, artificial gas, water or coal slurry, including compressor
39 units, regulators, machinery and equipment, fittings, seals and any other
40 part that is used in operating the pipes or valves.

41 7. Aircraft, navigational and communication instruments and other
42 accessories and related equipment sold to:

43 (a) A person holding a federal certificate of public convenience and
44 necessity, a supplemental air carrier certificate under federal aviation
45 regulations (14 Code of Federal Regulations part 121) or a foreign air

1 carrier permit for air transportation for use as or in conjunction with or
2 becoming a part of aircraft to be used to transport persons, property or
3 United States mail in intrastate, interstate or foreign commerce.

4 (b) Any foreign government, or sold to persons who are not residents
5 of this state and who will not use such property in this state other than in
6 removing such property from this state.

7 8. Machinery, tools, equipment and related supplies used or consumed
8 directly in repairing, remodeling or maintaining aircraft, aircraft engines
9 or aircraft component parts by or on behalf of a certificated or licensed
10 carrier of persons or property.

11 9. Rolling stock, rails, ties and signal control equipment used
12 directly to transport persons or property.

13 10. Machinery or equipment used directly to drill for oil or gas or
14 used directly in the process of extracting oil or gas from the earth for
15 commercial purposes.

16 11. Buses or other urban mass transit vehicles which are used directly
17 to transport persons or property for hire or pursuant to a governmentally
18 adopted and controlled urban mass transportation program and which are sold
19 to bus companies holding a federal certificate of convenience and necessity
20 or operated by any city, town or other governmental entity or by any person
21 contracting with such governmental entity as part of a governmentally adopted
22 and controlled program to provide urban mass transportation.

23 12. Groundwater measuring devices required under section 45-604.

24 13. New machinery and equipment consisting of tractors, tractor-drawn
25 implements, self-powered implements, machinery and equipment necessary for
26 extracting milk, and machinery and equipment necessary for cooling milk and
27 livestock, and drip irrigation lines not already exempt under paragraph 6 of
28 this subsection and that are used for commercial production of agricultural,
29 horticultural, viticultural and floricultural crops and products in this
30 state. For the purposes of this paragraph:

31 (a) "New machinery and equipment" means machinery or equipment which
32 has never been sold at retail except pursuant to leases or rentals which do
33 not total two years or more.

34 (b) "Self-powered implements" includes machinery and equipment that
35 are electric-powered.

36 14. Machinery or equipment used in research and development. For the
37 purposes of this paragraph, "research and development" means basic and
38 applied research in the sciences and engineering, and designing, developing
39 or testing prototypes, processes or new products, including research and
40 development of computer software that is embedded in or an integral part of
41 the prototype or new product or that is required for machinery or equipment
42 otherwise exempt under this section to function effectively. Research and
43 development do not include manufacturing quality control, routine consumer
44 product testing, market research, sales promotion, sales service, research in
45 social sciences or psychology, computer software research that is not

1 included in the definition of research and development, or other
2 nontechnological activities or technical services.

3 15. Machinery and equipment that are purchased by or on behalf of the
4 owners of a soundstage complex and primarily used for motion picture,
5 multimedia or interactive video production in the complex. This paragraph
6 applies only if the initial construction of the soundstage complex begins
7 after June 30, 1996 and before January 1, 2002 and the machinery and
8 equipment are purchased before the expiration of five years after the start
9 of initial construction. For the purposes of this paragraph:

10 (a) "Motion picture, multimedia or interactive video production"
11 includes products for theatrical and television release, educational
12 presentations, electronic retailing, documentaries, music videos, industrial
13 films, CD-ROM, video game production, commercial advertising and television
14 episode production and other genres that are introduced through developing
15 technology.

16 (b) "Soundstage complex" means a facility of multiple stages including
17 production offices, construction shops and related areas, prop and costume
18 shops, storage areas, parking for production vehicles and areas that are
19 leased to businesses that complement the production needs and orientation of
20 the overall facility.

21 16. Tangible personal property that is used by either of the following
22 to receive, store, convert, produce, generate, decode, encode, control or
23 transmit telecommunications information:

24 (a) Any direct broadcast satellite television or data transmission
25 service that operates pursuant to 47 Code of Federal Regulations part 25.

26 (b) Any satellite television or data transmission facility, if both of
27 the following conditions are met:

28 (i) Over two-thirds of the transmissions, measured in megabytes,
29 transmitted by the facility during the test period were transmitted to or on
30 behalf of one or more direct broadcast satellite television or data
31 transmission services that operate pursuant to 47 Code of Federal Regulations
32 part 25.

33 (ii) Over two-thirds of the transmissions, measured in megabytes,
34 transmitted by or on behalf of those direct broadcast television or data
35 transmission services during the test period were transmitted by the facility
36 to or on behalf of those services.

37 For the purposes of subdivision (b) of this paragraph, "test period" means
38 the three hundred sixty-five day period beginning on the later of the date on
39 which the tangible personal property is purchased or the date on which the
40 direct broadcast satellite television or data transmission service first
41 transmits information to its customers.

42 17. Clean rooms that are used for manufacturing, processing,
43 fabrication or research and development, as defined in paragraph 14 of this
44 subsection, of semiconductor products. For the purposes of this paragraph,
45 "clean room" means all property that comprises or creates an environment

1 where humidity, temperature, particulate matter and contamination are
2 precisely controlled within specified parameters, without regard to whether
3 the property is actually contained within that environment or whether any of
4 the property is affixed to or incorporated into real property. Clean room:

5 (a) Includes the integrated systems, fixtures, piping, movable
6 partitions, lighting and all property that is necessary or adapted to reduce
7 contamination or to control airflow, temperature, humidity, chemical purity
8 or other environmental conditions or manufacturing tolerances, as well as the
9 production machinery and equipment operating in conjunction with the clean
10 room environment.

11 (b) Does not include the building or other permanent, nonremovable
12 component of the building that houses the clean room environment.

13 18. Machinery and equipment that are used directly in the feeding of
14 poultry, the environmental control of housing for poultry, the movement of
15 eggs within a production and packaging facility or the sorting or cooling of
16 eggs. This exemption does not apply to vehicles used for transporting eggs.

17 19. Machinery or equipment, including related structural components,
18 that is employed in connection with manufacturing, processing, fabricating,
19 job printing, refining, mining, natural gas pipelines, metallurgical
20 operations, telecommunications, producing or transmitting electricity or
21 research and development and that is used directly to meet or exceed rules or
22 regulations adopted by the federal energy regulatory commission, the United
23 States environmental protection agency, the United States nuclear regulatory
24 commission, the Arizona department of environmental quality or a political
25 subdivision of this state to prevent, monitor, control or reduce land, water
26 or air pollution.

27 20. Machinery and equipment that are used in the commercial production
28 of livestock, livestock products or agricultural, horticultural, viticultural
29 or floricultural crops or products in this state and that are used directly
30 and primarily to prevent, monitor, control or reduce air, water or land
31 pollution.

32 21. Machinery or equipment that enables a television station to
33 originate and broadcast or to receive and broadcast digital television
34 signals and that was purchased to facilitate compliance with the
35 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
36 Code section 336) and the federal communications commission order issued
37 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
38 not exempt any of the following:

39 (a) Repair or replacement parts purchased for the machinery or
40 equipment described in this paragraph.

41 (b) Machinery or equipment purchased to replace machinery or equipment
42 for which an exemption was previously claimed and taken under this paragraph.

43 (c) Any machinery or equipment purchased after the television station
44 has ceased analog broadcasting, or purchased after November 1, 2009,
45 whichever occurs first.

1 22. Qualifying equipment that is purchased from and after June 30, 2004
2 through June 30, 2014 by a qualified business under section 41-1516 for
3 harvesting or the initial processing of qualifying forest products removed
4 from qualifying projects as defined in section 41-1516. To qualify for this
5 exemption, the qualified business must obtain and present its certification
6 from the Arizona commerce authority at the time of purchase.

7 23. Machinery, equipment and other tangible personal property used
8 directly in motion picture production by a motion picture production company.
9 To qualify for this exemption, at the time of purchase, the motion picture
10 production company must present to the retailer its certificate that is
11 issued pursuant to section 42-5009, subsection H and that establishes its
12 qualification for the exemption.

13 C. The exemptions provided by subsection B of this section do not
14 include:

15 1. Expendable materials. For the purposes of this paragraph,
16 expendable materials do not include any of the categories of tangible
17 personal property specified in subsection B of this section regardless of the
18 cost or useful life of that property.

19 2. Janitorial equipment and hand tools.

20 3. Office equipment, furniture and supplies.

21 4. Tangible personal property used in selling or distributing
22 activities, other than the telecommunications transmissions described in
23 subsection B, paragraph 16 of this section.

24 5. Motor vehicles required to be licensed by this state, except buses
25 or other urban mass transit vehicles specifically exempted pursuant to
26 subsection B, paragraph 11 of this section, without regard to the use of such
27 motor vehicles.

28 6. Shops, buildings, docks, depots and all other materials of whatever
29 kind or character not specifically included as exempt.

30 7. Motors and pumps used in drip irrigation systems.

31 D. The following shall be deducted in computing the purchase price of
32 electricity by a retail electric customer from a utility business:

33 1. Revenues received from sales of ancillary services, electric
34 distribution services, electric generation services, electric transmission
35 services and other services related to providing electricity to a retail
36 electric customer who is located outside this state for use outside this
37 state if the electricity is delivered to a point of sale outside this state.

38 2. Revenues received from providing electricity, including ancillary
39 services, electric distribution services, electric generation services,
40 electric transmission services and other services related to providing
41 electricity with respect to which the transaction privilege tax imposed under
42 section 42-5063 has been paid.

43 E. The tax levied by this article does not apply to:

44 1. The storage, use or consumption in Arizona of machinery, equipment,
45 materials or other tangible personal property if used directly and

1 predominantly to construct a qualified environmental technology
2 manufacturing, producing or processing facility, as described in section
3 41-1514.02. This paragraph applies for ten full consecutive calendar or
4 fiscal years after the start of initial construction.

5 2. The purchase of electricity by a qualified environmental technology
6 manufacturer, producer or processor as defined in section 41-1514.02 that is
7 used directly in environmental technology manufacturing, producing or
8 processing. This paragraph shall apply for twenty full consecutive calendar
9 or fiscal years from the date the first paper manufacturing machine is placed
10 in service. In the case of an environmental technology manufacturer,
11 producer or processor who does not manufacture paper, the time period shall
12 begin with the date the first manufacturing, processing or production
13 equipment is placed in service.

14 3. The purchase of solar energy devices from a retailer that is
15 registered with the department as a solar energy retailer or a solar energy
16 contractor.

17 F. The following shall be deducted in computing the purchase price of
18 electricity by a retail electric customer from a utility business:

19 1. Fees charged by a municipally owned utility to persons constructing
20 residential, commercial or industrial developments or connecting residential,
21 commercial or industrial developments to a municipal utility system or
22 systems if the fees are segregated and used only for capital expansion,
23 system enlargement or debt service of the utility system or systems.

24 2. Reimbursement or contribution compensation to any person or persons
25 owning a utility system for property and equipment installed to provide
26 utility access to, on or across the land of an actual utility consumer if the
27 property and equipment become the property of the utility. This deduction
28 shall not exceed the value of such property and equipment.

29 G. For the purposes of subsection B of this section:

30 1. "Aircraft" includes:

31 (a) An airplane flight simulator that is approved by the federal
32 aviation administration for use as a phase II or higher flight simulator
33 under appendix H, 14 Code of Federal Regulations part 121.

34 (b) Tangible personal property that is permanently affixed or attached
35 as a component part of an aircraft that is owned or operated by a
36 certificated or licensed carrier of persons or property.

37 2. "Other accessories and related equipment" includes aircraft
38 accessories and equipment such as ground service equipment that physically
39 contact aircraft at some point during the overall carrier operation.

40 H. For the purposes of subsection D of this section, "ancillary
41 services", "electric distribution service", "electric generation service",
42 "electric transmission service" and "other services" have the same meanings
43 prescribed in section 42-5063.

1 Sec. 19. Section 43-405, Arizona Revised Statutes, is amended to read:
2 43-405. Extension of withholding to gambling winnings

3 A. For the purposes of this title, payments of prize winnings which
4 are subject to federal withholding pursuant to section 1441 or section
5 3402(q) of the internal revenue code by any of the following shall be treated
6 as if they were payments of wages by an employer to employees for a payroll
7 period:

8 1. The Arizona state lottery commission under title 5, chapter ~~5~~ 5.1.

9 2. A permittee conducting horse or dog racing under title 5,
10 chapter 1.

11 B. The lottery commission and permittees shall deduct and withhold
12 from each payment of prize winnings an amount equal to twenty per cent of the
13 amount withheld pursuant to section 1441 or section 3402(q) of the internal
14 revenue code and pay that amount to the department pursuant to this article.

15 Sec. 20. Section 43-1022, Arizona Revised Statutes, is amended to
16 read:

17 43-1022. Subtractions from Arizona gross income

18 In computing Arizona adjusted gross income, the following amounts shall
19 be subtracted from Arizona gross income:

20 1. The amount of exemptions allowed by section 43-1023.

21 2. Benefits, annuities and pensions in an amount totaling not more
22 than two thousand five hundred dollars received from one or more of the
23 following:

24 (a) The United States government service retirement and disability
25 fund, retired or retainer pay of the uniformed services of the United States,
26 the United States foreign service retirement and disability system and any
27 other retirement system or plan established by federal law.

28 (b) The Arizona state retirement system, the corrections officer
29 retirement plan, the public safety personnel retirement system, the elected
30 officials' retirement plan, an optional retirement program established by the
31 Arizona board of regents under section 15-1628, an optional retirement
32 program established by a community college district board under section
33 15-1451 or a retirement plan established for employees of a county, city or
34 town in this state.

35 3. A beneficiary's share of the fiduciary adjustment to the extent
36 that the amount determined by section 43-1333 decreases the beneficiary's
37 Arizona gross income.

38 4. The amount of any distributions from an individual retirement
39 account as provided for in section 408 of the internal revenue code or from a
40 qualified retirement plan of a self-employed individual as provided for in
41 section 401 of the internal revenue code to the extent that total adjustments
42 made pursuant to this paragraph in all tax years do not exceed the total of
43 all contributions made by the taxpayer to such plans prior to December 31,
44 1975, which were included in computing Arizona taxable income.

1 5. The amount of income on an installment receivable which is
2 recognized pursuant to the internal revenue code and which has already been
3 recognized on the death of the taxpayer for purposes of this title for tax
4 years ending before January 1, 1990.

5 6. Interest income received on obligations of the United States, less
6 any interest on indebtedness, or other related expenses, and deducted in
7 arriving at Arizona gross income, which were incurred or continued to
8 purchase or carry such obligations.

9 7. The amount of any income tax refunds which were received from
10 states other than Arizona and which were included as income in computing
11 federal adjusted gross income.

12 8. Annuity income included in federal adjusted gross income pursuant
13 to section 72 of the internal revenue code if the first payment with respect
14 to such annuity was received prior to December 31, 1978.

15 9. The excess of a partner's share of income required to be included
16 under section 702(a)(8) of the internal revenue code over the income required
17 to be included under chapter 14, article 2 of this title.

18 10. The excess of a partner's share of partnership losses determined
19 pursuant to chapter 14, article 2 of this title over the losses allowable
20 under section 702(a)(8) of the internal revenue code.

21 11. The amount by which the adjusted basis of property described in
22 this paragraph and computed pursuant to this title and the income tax act of
23 1954, as amended, exceeds the adjusted basis of such property computed
24 pursuant to the internal revenue code. This paragraph shall apply to all
25 property which is held for the production of income and which is sold or
26 otherwise disposed of during the taxable year other than depreciable property
27 used in a trade or business.

28 12. The amount allowed by section 43-1024 for amortization, by a
29 qualified defense contractor certified by the Arizona commerce authority
30 under section 41-1508, of a capital investment for private commercial
31 activities.

32 13. The amount of gain included in federal adjusted gross income on the
33 sale or other disposition of a capital investment that a qualified defense
34 contractor has elected to amortize pursuant to section 43-1024.

35 14. The amount allowed by section 43-1025 for contributions during the
36 taxable year of agricultural crops to charitable organizations.

37 15. The portion of any wages or salaries paid or incurred by the
38 taxpayer for the taxable year that is equal to the amount of the federal work
39 opportunity credit, the empowerment zone employment credit, the credit for
40 employer paid social security taxes on employee cash tips and the Indian
41 employment credit that the taxpayer received under sections 45A, 45B, 51(a)
42 and 1396 of the internal revenue code.

43 16. The amount of prizes or winnings less than five thousand dollars in
44 a single taxable year from any of the state lotteries established and
45 operated pursuant to title 5, chapter ~~5~~ 5.1, article 1, except that all such

1 winnings before March 22, 1983, including periodic distributions from such
2 winnings made after March 22, 1983, may be subtracted.

3 17. The amount of exploration expenses that is determined pursuant to
4 section 617 of the internal revenue code, that has been deferred in a taxable
5 year ending before January 1, 1990 and for which a subtraction has not
6 previously been made. The subtraction shall be made on a ratable basis as
7 the units of produced ores or minerals discovered or explored as a result of
8 this exploration are sold.

9 18. The amount included in federal adjusted gross income pursuant to
10 section 86 of the internal revenue code, relating to taxation of social
11 security and railroad retirement benefits.

12 19. To the extent not already excluded from Arizona gross income under
13 the internal revenue code, compensation received for active service as a
14 member of the reserves, the national guard or the armed forces of the United
15 States, including compensation for service in a combat zone as determined
16 under section 112 of the internal revenue code.

17 20. The amount of unreimbursed medical and hospital costs, adoption
18 counseling, legal and agency fees and other nonrecurring costs of adoption
19 not to exceed three thousand dollars. In the case of a husband and wife who
20 file separate returns, the subtraction may be taken by either taxpayer or may
21 be divided between them, but the total subtractions allowed both husband and
22 wife shall not exceed three thousand dollars. The subtraction under this
23 paragraph may be taken for the costs that are described in this paragraph and
24 that are incurred in prior years, but the subtraction may be taken only in
25 the year during which the final adoption order is granted.

26 21. The amount authorized by section 43-1027 for the taxable year
27 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

28 22. With respect to a medical savings account established pursuant to
29 section 43-1028:

30 (a) An eligible individual may subtract:

31 (i) The amount of contributions made by the individual's employer
32 during the taxable year to the individual's medical savings account pursuant
33 to section 43-1028 to the extent that the employer contributions are included
34 in the individual's federal adjusted gross income.

35 (ii) The amount deposited by the individual in the account during the
36 taxable year to the extent that the individual's contributions are included
37 in the individual's federal adjusted gross income.

38 (b) The individual's employer may subtract the amount of contributions
39 made by the employer to a medical savings account established on the
40 individual's behalf to the extent that the contributions are not deductible
41 under the internal revenue code.

42 23. The amount by which a net operating loss carryover or capital loss
43 carryover allowable pursuant to section 43-1029, subsection F exceeds the net
44 operating loss carryover or capital loss carryover allowable pursuant to
45 section 1341(b)(5) of the internal revenue code.

1 24. Any amount of qualified educational expenses that is distributed
2 from a qualified state tuition program determined pursuant to section 529 of
3 the internal revenue code and that is included in income in computing federal
4 adjusted gross income.

5 25. Any item of income resulting from an installment sale that has been
6 properly subjected to income tax in another state in a previous taxable year
7 and that is included in Arizona gross income in the current taxable year.

8 26. The amount authorized by section 43-1030 relating to holocaust
9 survivors.

10 27. The amount authorized by section 43-1031 for constructing an energy
11 efficient residence.

12 28. An amount equal to the depreciation allowable pursuant to section
13 167(a) of the internal revenue code for the taxable year computed as if the
14 election described in section 168(k)(2)(D)(iii) of the internal revenue code
15 had been made for each applicable class of property in the year the property
16 was placed in service.

17 29. With respect to property that is sold or otherwise disposed of
18 during the taxable year by a taxpayer that complied with section 43-1021,
19 paragraph 26 with respect to that property, the amount of depreciation that
20 has been allowed pursuant to section 167(a) of the internal revenue code to
21 the extent that the amount has not already reduced Arizona taxable income in
22 the current or prior taxable years.

23 30. With respect to property for which an adjustment was made under
24 section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of
25 the adjustment pursuant to section 43-1021, paragraph 27 in the year in which
26 the amount was adjusted under section 43-1021, paragraph 27 and in each of
27 the following four years.

28 31. For taxable years beginning from and after December 31, 2007
29 through December 31, 2012, the amount contributed during the taxable year to
30 college savings plans established pursuant to section 529 of the internal
31 revenue code to the extent that the contributions were not deducted in
32 computing federal adjusted gross income. The amount subtracted shall not
33 exceed:

34 (a) Seven hundred fifty dollars for a single individual or a head of
35 household.

36 (b) One thousand five hundred dollars for a married couple filing a
37 joint return. In the case of a husband and wife who file separate returns,
38 the subtraction may be taken by either taxpayer or may be divided between
39 them, but the total subtractions allowed both husband and wife shall not
40 exceed one thousand five hundred dollars.

41 32. To the extent not already excluded from Arizona gross income under
42 the internal revenue code, the amount authorized by section 43-1032 for
43 displaced pupils choice grants.

44 33. The amount of any original issue discount that was deferred and not
45 allowed to be deducted in computing federal adjusted gross income or federal

1 taxable income in the current taxable year pursuant to section 108(i) of the
2 internal revenue code as added by section 1231 of the American recovery and
3 reinvestment act of 2009 (P.L. 111-5).

4 34. The amount of previously deferred discharge of indebtedness income
5 that is included in the computation of federal adjusted gross income or
6 federal taxable income in the current taxable year pursuant to section 108(i)
7 of the internal revenue code as added by section 1231 of the American
8 recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the
9 amount was previously added to Arizona gross income pursuant to section
10 43-1021, paragraph 33.

11 35. The portion of the net operating loss carryforward that would have
12 been allowed as a deduction in the current year pursuant to section 172 of
13 the internal revenue code if the election described in section 172(b)(1)(H)
14 of the internal revenue code had not been made in the year of the loss that
15 exceeds the actual net operating loss carryforward that was deducted in
16 arriving at federal adjusted gross income. This subtraction only applies to
17 taxpayers who made an election under section 172(b)(1)(H) of the internal
18 revenue code as amended by section 1211 of the American recovery and
19 reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the
20 worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

21 36. For taxable years beginning from and after December 31, 2013, the
22 amount of any net capital gain included in federal adjusted gross income for
23 the taxable year derived from investment in a qualified small business as
24 determined by the Arizona commerce authority pursuant to section 41-1518.

25 Sec. 21. Section 44-6552, Arizona Revised Statutes, is amended to
26 read:

27 44-6552. Charitable organizations; registration; late
28 registration penalty

29 A. Except as provided in subsection ~~E~~ F of this section and section
30 44-6553, before soliciting its first contribution, whether through a
31 contracted fund raiser or otherwise, a charitable organization shall file a
32 registration statement with the secretary of state in a format prescribed and
33 adopted by the secretary of state by rule.

34 B. A charitable organization must file an annual registration
35 statement between September 1 and September 30 of each year following the
36 calendar year in which the charitable organization files its initial
37 registration statement with the secretary of state in a format that is
38 prescribed and adopted by the secretary of state by rule. In the
39 registration statement filed with the secretary of state's office, a
40 charitable organization may indicate whether ~~they participate~~ IT PARTICIPATES
41 as a licensed sales agent pursuant to section ~~5-504~~ 5-554.

42 C. If the internal revenue service determines that a person is a
43 charitable organization exempt from federal income taxes pursuant to section
44 501(c)(3) of the internal revenue code, at the time of its initial
45 registration under this section, the organization shall submit to the

1 secretary of state a copy of the internal revenue service's written
2 determination that it is exempt from taxes.

3 D. The secretary of state shall file and preserve all information
4 required to be filed with the secretary of state pursuant to this section for
5 five years from the date of filing, after which the information may be
6 destroyed. This information is public information and is open to public
7 inspection.

8 E. If a charitable organization is delinquent in filing its annual
9 registration statement, the secretary may assess a late registration penalty
10 of twenty-five dollars when the charitable organization files its
11 registration statement.

12 F. Instead of filing any financial disclosure information prescribed
13 by the secretary of state pursuant to this section, a tax exempt organization
14 pursuant to section 501(c)(3) of the internal revenue code may either:

15 1. File with the secretary of state a copy of the organization's
16 annual information return for the preceding fiscal year as defined in the
17 internal revenue code and applicable regulations.

18 2. Provide the secretary of state with the address on the internet
19 where the organization's annual information return is available.

20 G. Any charitable organization that is a bona fide and duly
21 constituted religious institution and any other entity that is an integral
22 part of a religious institution shall file the registration statement
23 prescribed in this section but is not required to file any financial
24 disclosure information prescribed by the secretary of state pursuant to this
25 section if all of the following apply:

26 1. The religious institution or entity is a tax exempt institution or
27 entity pursuant to the internal revenue code.

28 2. No part of the religious institution's or entity's net income
29 inures to the direct benefit of any individual.

30 3. The religious institution or entity only solicits monies from the
31 institution's or entity's membership, congregation or previous donors and the
32 institution's or entity's conduct and fees charged for services are primarily
33 supported and paid through government grants or contracts.

34 H. The secretary of state may deny an application for registration of
35 the name of a charitable organization if:

36 1. The name might mislead the public or is not readily distinguishable
37 from one or more names that are currently registered under this article.

38 2. The name is the same as or deceptively similar to:

39 (a) An existing corporate name or a corporate name reserved pursuant
40 to title 10, chapter 4, 18 or 27.

41 (b) The name of a limited partnership organized under the laws of this
42 state or licensed or registered as a foreign limited liability company,
43 authorized to transact business in the state or a name that is registered
44 pursuant to chapter 10, article 3 or 3.1 of this title.

1 I. The secretary of state may deny an application for registration or
2 may revoke the registration of a charitable organization for any of the
3 following reasons:

4 1. Substantial and material misstatement or omission in the submitted
5 application.

6 2. Conviction of a felony substantially related to solicitation by any
7 employee, member, officer or director who has any solicitation
8 responsibilities on behalf of the organization or any other person holding
9 any proprietary or beneficial interest in the charitable organization, unless
10 the civil rights have been restored.

11 3. An order or judgment by a court in any jurisdiction that the
12 charitable organization has engaged in deceptive, fraudulent or unlawful
13 business practices that substantially relate to solicitation.

14 4. The violation of any provision of this article.

15 5. The return of a check issued to the order of the secretary of state
16 due to insufficient funds or any other reason for nonpayment.

17 J. If the secretary of state denies an application, the secretary of
18 state shall notify the applicant within ten days after receiving the
19 application and shall state the reasons for the denial.

20 Sec. 22. Section 48-6636, Arizona Revised Statutes, is amended to
21 read:

22 48-6636. Gambling prohibited in district

23 Gambling pursuant to title 5, chapters 4, ~~5- 5.1~~ and 6 shall not be
24 allowed within the geographical boundaries of the district.

25 Sec. 23. Laws 2011, chapter 35, section 10 is amended to read:

26 Sec. 10. Racing and boxing fees; increases; exemption from rule
27 making; retroactivity

28 A. It is the intent of the legislature that fees be in amounts
29 sufficient to support the mission of the department of racing and that the
30 additional revenue generated by any fee increases pursuant to sections 5-104
31 and 5-230, Arizona Revised Statutes, ~~as amended by this act,~~ shall not exceed
32 \$1,042,000 in fiscal year 2011-2012 and \$2,062,000 beginning in fiscal year
33 2012-2013.

34 B. The Arizona department of racing is exempt from the rule making
35 requirements of title 41, chapter 6, Arizona Revised Statutes, for the
36 purpose of establishing fees pursuant to sections 5-104 and 5-230, Arizona
37 Revised Statutes, ~~as amended by this act,~~ until July 1, ~~2012~~ 2013.

38 C. THIS SECTION, AS AMENDED BY THIS ACT, APPLIES RETROACTIVELY TO FROM
39 AND AFTER JUNE 30, 2012.

40 Sec. 24. Fees for providing services; increases; intent;
41 exemption from rule making

42 A. Notwithstanding any other law, the director of each of the
43 following agencies may increase fees in fiscal year 2012-2013 for services
44 provided in fiscal year 2012-2013:

1 1. Office of pest management.

2 2. Radiation regulatory agency.

3 B. It is the intent of the legislature that the additional revenue
4 generated by the fee increases shall not exceed the amounts listed below:

5 1. Office of pest management \$525,000.

6 2. Radiation regulatory agency \$561,000.

7 C. Monies received from any fees pursuant to subsection A, paragraph 1
8 of this section shall be deposited in the pest management fund established by
9 section 32-2305, Arizona Revised Statutes.

10 D. Monies received from any fees pursuant to subsection A, paragraph 2
11 of this section shall be deposited in the radiation regulatory fee fund
12 established by section 30-658, Arizona Revised Statutes.

13 E. The agencies described in subsection A of this section are exempt
14 from the rule making requirements of title 41, chapter 6, Arizona Revised
15 Statutes, for the purpose of establishing fees pursuant to this section until
16 July 1, 2013.

17 Sec. 25. Budget stabilization fund; exception

18 Notwithstanding section 35-144, Arizona Revised Statutes, for fiscal
19 years 2012-2013, 2013-2014 and 2014-2015, the legislature is not required to
20 appropriate monies to or transfer monies from the budget stabilization fund.

21 Sec. 26. County fiscal obligations; report

22 A. Notwithstanding any other law, for fiscal year 2012-2013, a county
23 may meet any county fiscal obligation from any source of county revenue
24 designated by the county, including funds of any countywide special taxing
25 jurisdiction in which the board of supervisors serves as the board of
26 directors.

27 B. On or before October 1, 2012, a county that uses a revenue source
28 to meet a county fiscal obligation pursuant to subsection A of this section
29 shall report to the director of the joint legislative budget committee on the
30 specific source and amount of revenues that the county intends to use in
31 fiscal year 2012-2013.

32 Sec. 27. Registrar of contractors; residential contractors'
33 recovery fund; contracted services, equipment and
34 operational costs; fiscal year 2012-2013

35 Notwithstanding section 32-1134, subsection A, paragraph 5, Arizona
36 Revised Statutes, the registrar of contractors shall employ or contract with
37 individuals and procure equipment and operational support, to be paid from or
38 purchased with monies in the residential contractors' recovery fund, but not
39 to exceed in fiscal year 2012-2013 fourteen per cent of the total amount
40 deposited in the fund in fiscal year 2011-2012, as may be necessary to
41 monitor, process or oppose claims filed by injured persons that may result in
42 collection from the fund.

