

# Fiscal Note

**BILL #** HB 2809

**TITLE:** public infrastructure improvements;  
reimbursement

**SPONSOR:** Carbone

**STATUS:** House Engrossed

**PREPARED BY:** Hans Olofsson

## Description

HB 2809 would eliminate the current \$100 million cap on the distribution of state prime contracting Transaction Privilege Tax (TPT) to reimburse cities and counties for the cost of qualifying public infrastructure improvements built to support the activities of a manufacturing facility, as provided by A.R.S. § 42-5032.02.

## Estimated Impact

We estimate that the bill would have a General Fund cost of at least \$106.9 million relative to current law. This estimate is based on public information contained in Intergovernmental Agreements (IGA) between 3 separate municipalities and the Department of Revenue (DOR) as well as other media sources.

The cost estimate above will very likely increase for at least 2 reasons: (1) existing IGAs can be amended through September 30, 2033 when the program expires, and (2) subject to certain minimum capital investment requirements, additional IGAs between other cities or counties and DOR can be made through September 30, 2033.

## Analysis

Pursuant to A.R.S. § 42-5032.02, the State Treasurer is authorized to pay state prime contracting tax revenues generated from qualifying projects to a municipality or county to fund up to 80% of the costs of public infrastructure improvements (such as roads, water and wastewater facilities) needed to support the activities of a manufacturing facility. Under current law, the total amount of state tax dollars paid to cities and counties statewide under A.R.S. § 42-5032.02 is capped at \$100 million over 10 years (to September 30, 2033).

For a city or county to receive state prime contracting tax monies, the manufacturing plant must make certain minimum capital investments depending on its location (\$500 million in Maricopa and Pima and \$50 million in all other counties).

Based on our research of publicly available information, we have identified 3 cities/towns that have entered into an IGA with DOR for the distribution of state TPT to reimburse those cities for public infrastructure improvements. Two of those municipalities (Phoenix and Chandler), which appear to have entered into their agreements in 2019 and 2021, respectively, have already commenced construction of the manufacturing facility and the associated public infrastructure improvements. As of March 10, 2023, the State Treasurer has reimbursed those 2 cities for a cumulative total of \$57.7 million.

Based on public information from city council meetings and various media sources, we estimate that the 2 cities with IGAs approved prior to 2023 plan to spend a combined \$241 million on various public infrastructure projects of which 80%, or \$193 million, would be subject to reimbursement from the state under the bill.

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The third city/town (Queen Creek) approved an IGA with DOR in February of 2023. According to a report issued by the Economic Development Director of that city/town on February 15, 2023, the municipality expects the total cost of its infrastructure projects to support the new manufacturing facility that will be built in that city/town to be about \$80 million, of which \$30 million is expected to be reimbursed from state contracting TPT generated activities. (It is not clear from available information why the reimbursement amount is estimated to be less than 80% of the projected cost of public infrastructure improvements.)

Based on the information outlined above, we estimate that the total reimbursement under HB 2809 would reach at least \$223 million [= \$193 million from the 2 cities with IGAs approved prior to 2023 + \$30 million from the municipality with the IGA approved in 2023], which is \$123 million above the current reimbursement cap of \$100 million. Monies for public infrastructure improvements are distributed from the state and local share of prime contracting TPT generated from qualifying projects. Thus, under the statutory TPT distribution formula for the prime contracting classification, 86.9% of the bill's estimated \$123 million cost, or \$106.9 million would be incurred by the General Fund while the remaining 13.1%, or \$16.1 million would be incurred by counties and cities.

#### **Local Government Impact**

Relative to current law, the bill is estimated to reduce the distribution of state TPT to counties and cities by \$10.0 million and \$6.1 million, respectively.

3/27/23