

# Fiscal Note

**BILL #** SB 1335

**SPONSOR:** Shamp

**PREPARED BY:** Hans Olofsson/Cameron Mortensen

**TITLE:** ~~deputy constable appointments; website notification~~ S/E: TPT; prime contracting; senior housing

**STATUS:** As Amended by House APPROP

## Description

Under current law, the gross proceeds from a contract to build a residential apartment that qualifies for a federal housing subsidy for low-income persons who are over 62 years of age and that is owned by a 501(c)(3) non-profit charitable organization is exempt from the Transaction Privilege Tax (TPT).

Retroactive to January 1, 2023, the strike-everything-amendment to SB 1335 would expand this TPT exemption to include the construction of senior residential apartments where the nonprofit entity enters into a partnership (for example, in the form of a limited liability company) with a private developer or investor.

## Estimated Impact

The bill will result in a General Fund revenue loss due to the expanded TPT exemption. The magnitude will vary each year depending on the number of qualifying senior low-income apartments. Based on recent construction activity, we estimate the revenue loss at \$(700,000) annually.

## Analysis

As a part of our analysis of this proposal, Arizona Department of Housing (ADOH) provided the JLBC Staff with a list of senior housing projects administered through the department. According to this information, there are 10 senior housing projects listed for calendar year 2022 and ADOH believes that 2 of these projects would qualify for the expanded TPT exemption under the bill.

Additional data found on ADOH's website indicates that the 2 senior housing projects have a combined project cost that is in excess of \$30 million. We do not have information, however, regarding how much of the project cost would be subject to contracting TPT. The tax base for the prime contracting classification is 65% of the gross proceeds derived from a construction contract. In addition, statutes allow a deduction from the gross proceeds for land that was purchased to construct the building on, if any.

Since we lack information regarding the specifics of the building contracts, for the purpose of this analysis, we have made the simplifying assumption that the total statewide annual contracting cost of senior residential apartments subject to the expanded exemption under this bill is \$25 million, of which 65%, or \$16.25 million, constitutes the contracting tax base. Under this assumption, the exemption would reduce state TPT by \$(812,500) annually. Under the statutory distribution formula for the prime contracting classification, the General Fund revenue loss would be \$(706,100) while the remaining revenue loss of \$(106,400) would be incurred by local governments.

## Local Government Impact

The bill, as amended, would reduce the annual distribution of state TPT to counties and cities by an estimated \$(65,800) and \$(40,600), respectively.

4/10/23

