# Fiscal Note

**BILL #** HB 2082

**TITLE:** TPT; exemption; wastewater; pipes

**SPONSOR:** Griffin

**STATUS:** House Engrossed

**PREPARED BY:** Benjamin Newcomb

**Description**

Under current law, the gross receipts derived from the sale of pipes or valves that are at least 4 inches in diameter and used in transporting oil, natural gas, artificial gas, water, or coal slurry are exempt from Transaction Privilege Tax (TPT) and Use Tax [A.R.S. §§ 42-5061(B)(6), 42-5159(B)(6)]. HB 2082 would expand this exemption to include the sale of pipe used to transport wastewater. The bill would become effective on the first day of the month following the general effective date.

**Estimated Impact**

We estimate that exempting the sale of wastewater pipe from TPT and Use Tax would reduce General Fund revenue by $(94,000) annually. Due to a lack of specific data on the amount and type of wastewater pipe laid each year, this estimate is uncertain.

**Analysis**

Current law exempts the sale of water pipe from TPT but not the sale of wastewater pipe. The chief difference between the two is that water pipe carries fresh water into buildings for uses like cooking and cleaning, while wastewater pipe (also known as sewer pipe) removes sewage, or waste, from an establishment.

According to the Department of Revenue's (DOR) most recent Tax Expenditure Report, Arizona businesses deducted $39.7 million for the existing exemption in FY 2024, which translates into a total state TPT revenue loss of $(2) million (of which the General Fund revenue loss was about $(1.5) million). The bill would expand the existing exemption to include the sale of wastewater pipes that are 4 inch in diameter or larger. To evaluate the bill's fiscal impact, we estimated the annual amount of sewer pipe replaced, how much new pipe is laid each year in the state, and the average cost per linear foot of pipe.

Replacement of Existing Wastewater Pipes

According to the American Society of Civil Engineers (ASCE), there is approximately 26,000 miles of sewer pipe in Arizona, which is 2% of the national total. ASCE estimates that 4,692 miles of wastewater pipe had to be repaired or replaced nationally in 2019, the most recent year for which they have data. Assuming this is a typical level of repairs each year, and that 2% of the pipe replacements took place in Arizona, we estimate that about 94 miles of sewer pipe needs to be replaced in the state each year. Since the data does not differentiate between repairs and replacements, we have assumed in our analysis that all broken wastewater pipes will be replaced.

Installation of New Wastewater Pipes

The ASCE's latest *Report Card for Arizona Infrastructure* states that there were 315 wastewater treatment plants (WWTP) in the state in 2020. With 26,000 miles of sewer pipe currently in the state, the average WWTP includes 83 miles of wastewater pipe. According to the ASCE's 2020 report, there were plans to build 2 new plants and recommission 2 old WWTP in Arizona over the next 5 years. Based on this information, our analysis assumes that on average one WWTP is built in Arizona annually. Therefore, our estimate for the average annual level of new pipe laid in Arizona is 83 miles.

The cost of sewer pipe depends in large part on the kind of material used. The most common material is polyvinyl chloride (PVC), comprising over 85% of existing sewer pipe per the PVC Pipe Association. Other common materials include cast iron, concrete, and copper. For the purposes of this analysis, we made the simplifying assumption that all sewer pipe is made from PVC. Based on price data from a home services website, the price of PVC sewer pipe ranges from $0.50 to $5 per linear foot. The midpoint of these values, $2.75 per linear foot, is what we used for our estimate of the average cost of wastewater pipe in Arizona.

With 176 miles [94 miles of replacement pipes plus 83 miles of new pipes installed] of PVC sewer pipe laid each year, at a cost of $2.75 per linear foot, we estimate that businesses will deduct $2.6 million [= 176 miles x 5,280 linear feet x $2.75 per linear foot] from their annual taxable sales. At the general state TPT rate of 5.0%, this represents a total revenue loss of $(128,000), of which $(94,000) would come from the General Fund. Both the cost and amount of pipe purchased each year could vary widely, depending on several factors like the type of material used, pipe width, number of new WWTP, and level of required repairs. Therefore, our estimate is uncertain and should be interpreted with caution.

**Local Government Impact**

State TPT revenues are shared with local governments and any reduction in these collections would result in decreased distributions to cities and counties. We estimate that HB 2082 will result in $(34,000) in reduced TPT distributions to localities, including $(13,000) for cities and $(21,000) for counties.

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