

REFERENCE TITLE: housing; contractors; bonds; taxes

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HB 2926

Introduced by
Representative Bliss

AN ACT

AMENDING TITLE 9, CHAPTER 4, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 9-461.21; AMENDING TITLE 32, CHAPTER 10, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 32-1130; AMENDING SECTIONS 35-726, 41-3953 AND 42-5075, ARIZONA REVISED STATUTES; RELATING TO CONSTRUCTION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 9, chapter 4, article 6, Arizona Revised Statutes,
3 is amended by adding section 9-461.21, to read:

4 9-461.21. Workforce housing projects; residential structures;
5 concurrent development; plan review and
6 permitting process; definitions

7 A. NOTWITHSTANDING ANY OTHER LAW, A MUNICIPALITY SHALL ALLOW A
8 WORKFORCE HOUSING BUILDER TO COMMENCE VERTICAL CONSTRUCTION ON ANY
9 RESIDENTIAL STRUCTURE AS PART OF A WORKFORCE HOUSING PROJECT CONCURRENTLY
10 WITH THE COMPLETION OF THE HORIZONTAL IMPROVEMENTS TO THE WORKFORCE
11 HOUSING PROJECT IF ALL OF THE FOLLOWING APPLY:

12 1. ALL REQUIRED IMPROVEMENT PLANS HAVE RECEIVED THE REQUIRED
13 PRELIMINARY APPROVAL FROM THE MUNICIPALITY.

14 2. ALL NECESSARY PUBLIC INFRASTRUCTURE EASEMENTS, BONDS OR
15 ASSURANCES ARE COMPLETED.

16 3. AN ENGINEER WHO IS REGISTERED PURSUANT TO TITLE 32, CHAPTER 1
17 HAS CERTIFIED THAT THE COMMENCEMENT OF VERTICAL CONSTRUCTION CONCURRENTLY
18 WITH THE COMPLETION OF HORIZONTAL CONSTRUCTION DOES NOT CONSTITUTE A
19 PUBLIC SAFETY CONCERN.

20 B. A MUNICIPALITY MAY NOT WITHHOLD NECESSARY BUILDING PERMITS OR
21 CERTIFICATES OF OCCUPANCY FOR WORKFORCE HOUSING PROJECTS SOLELY BECAUSE
22 THE HORIZONTAL CONSTRUCTION ASSOCIATED WITH THE WORKFORCE HOUSING PROJECT
23 IS NOT FULLY COMPLETE AS LONG AS ESSENTIAL INFRASTRUCTURE UTILITY SERVICES
24 ARE COMPLETED AND FUNCTIONAL.

25 C. EACH MUNICIPALITY SHALL ESTABLISH AND MAINTAIN A WORKFORCE
26 HOUSING PROJECT EXPEDITED PLAN REVIEW AND PERMITTING PROCESS THAT IS
27 CERTIFIED BY THE ARIZONA DEPARTMENT OF HOUSING WITHIN TWELVE MONTHS AFTER
28 THE EFFECTIVE DATE OF THIS SECTION. THE WORKFORCE HOUSING PROJECT
29 EXPEDITED PLAN REVIEW AND PERMITTING PROCESS SHALL INCLUDE AT LEAST ALL OF
30 THE FOLLOWING:

31 1. A DEDICATED POINT OF CONTACT FOR AFFORDABLE HOUSING APPLICANTS.

32 2. INITIAL PLAN REVIEW WITHIN TWENTY BUSINESS DAYS AFTER THE
33 SUBMISSION OF THE PLAN APPLICATION.

34 3. PRIORITY SCHEDULING OF INSPECTIONS.

35 4. REDUCED OR DEFERRED PLAN REVIEW FEES.

36 D. A MUNICIPALITY MAY ENTER INTO AGREEMENTS WITH THE ARIZONA
37 DEPARTMENT OF HOUSING TO COORDINATE CERTIFICATION AND PERMIT TRACKING.

38 E. FOR THE PURPOSES OF THIS SECTION:

39 1. "WORKFORCE HOUSING BUILDER" MEANS A RESIDENTIAL CONTRACTOR THAT
40 IS LICENSED PURSUANT TO TITLE 32, CHAPTER 10 AND THAT DOES ALL OF THE
41 FOLLOWING:

42 (a) CONSTRUCTS NEW DWELLING UNITS FOR SALE OR RENT AT A SALES OR
43 RENTAL PRICE THAT IS AFFORDABLE TO HOUSEHOLDS EARNING NOT MORE THAN ONE
44 HUNDRED TWENTY PERCENT OF THE AREA MEDIAN INCOME AS DETERMINED BY THE
45 UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT.

1 (b) RECORDS AN AFFORDABILITY COVENANT OR OTHER BINDING RESTRICTION
2 THAT ENSURES THAT THE SALES OR RENTAL PRICE OF THE DWELLING UNIT IS
3 AFFORDABLE AS PRESCRIBED IN SUBDIVISION (a) OF THIS PARAGRAPH FOR AT LEAST
4 TWENTY YEARS FOR WORKFORCE HOUSING RENTAL PROJECTS OR INITIAL SALE PRICE
5 AFFORDABILITY FOR OWNERSHIP UNITS.

6 (c) IS CERTIFIED BY THE ARIZONA DEPARTMENT OF HOUSING PURSUANT TO
7 SECTION 41-3953.

8 2. "WORKFORCE HOUSING" MEANS NEW DWELLING UNITS THAT ARE:

9 (a) FOR SALE OR RENT AT A SALES OR RENTAL PRICE THAT IS AFFORDABLE
10 TO HOUSEHOLDS EARNING NOT MORE THAN ONE HUNDRED TWENTY PERCENT OF THE AREA
11 MEDIAN INCOME AS DETERMINED BY THE UNITED STATES DEPARTMENT OF HOUSING AND
12 URBAN DEVELOPMENT.

13 (b) SUBJECT TO A RECORDED AFFORDABILITY COVENANT OR OTHER BINDING
14 RESTRICTION THAT ENSURES THAT THE SALES OR RENTAL PRICE OF THE DWELLING
15 UNIT IS AFFORDABLE AS PRESCRIBED IN SUBDIVISION (a) OF THIS PARAGRAPH FOR
16 AT LEAST TWENTY YEARS.

17 Sec. 2. Title 32, chapter 10, article 2, Arizona Revised Statutes,
18 is amended by adding section 32-1130, to read:

19 32-1130. Rural contractors; licensing; requirements;
20 examination waiver; restriction; license
21 expiration; rule; definition

22 A. NOTWITHSTANDING ANY OTHER LAW, THE REGISTRAR MAY WAIVE THE
23 EXAMINATION REQUIREMENTS OF SECTION 32-1122 AND ISSUE A LICENSE TO AN
24 APPLICANT WHO MEETS ALL OF THE FOLLOWING REQUIREMENTS:

25 1. HAS SUBMITTED TO THE REGISTRAR PROOF OF ONE OF THE FOLLOWING:

26 (a) EMPLOYMENT IN A RURAL AREA.

27 (b) A BUSINESS PRESENCE IN A RURAL AREA.

28 (c) A CONTRACTUAL AGREEMENT TO PERFORM WORK IN A RURAL AREA FOR
29 WHICH A LICENSE IS REQUIRED.

30 2. HOLDS A VALID AND UNRESTRICTED CONTRACTOR'S LICENSE IN ANY STATE
31 OR TERRITORY OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA AND THE
32 REGISTRAR DETERMINES THAT THE QUALIFICATIONS FOR THE LICENSE ISSUED IN
33 ANOTHER STATE OR TERRITORY OF THE UNITED STATES OR DISTRICT OF COLUMBIA
34 ARE SUBSTANTIALLY THE SAME AS THE REQUIREMENT FOR THE ISSUANCE OF A
35 LICENSE IN THIS STATE AND HAS HELD THE LICENSE FOR AT LEAST FOUR
36 CONSECUTIVE YEARS.

37 3. HAS NOT BEEN DISCIPLINED BY THE AGENCY RESPONSIBLE FOR ISSUING
38 THE CONTRACTOR'S CURRENT LICENSE THAT WAS ISSUED BY ANOTHER STATE OR
39 TERRITORY OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA.

40 4. DOES NOT HAVE ANY PENDING DISCIPLINARY ACTIONS AGAINST THE
41 CONTRACTOR'S CURRENT LICENSE THAT WAS ISSUED BY ANOTHER STATE OR TERRITORY
42 OF THE UNITED STATES OR THE DISTRICT OF COLUMBIA.

43 5. HAS SUBMITTED TO THE REGISTRAR A COMPLETE SET OF FINGERPRINTS OR
44 WRITTEN AUTHORIZATION FOR THE AGENCY THAT ISSUED THE CONTRACTOR'S CURRENT
45 LICENSE THAT WAS ISSUED BY ANOTHER STATE OR TERRITORY OF THE UNITED STATES

1 OR DISTRICT OF COLUMBIA TO FORWARD A COPY OF THE APPLICANT'S FINGERPRINTS
2 TO THE DEPARTMENT OF PUBLIC SAFETY.

3 B. THE REGISTRAR SHALL APPROVE OR DENY AN APPLICATION FOR A LICENSE
4 SUBMITTED PURSUANT TO THIS SECTION WITHIN SIXTY DAYS AFTER THE RECEIPT OF
5 A COMPLETED APPLICATION.

6 C. A PERSON WHO IS ISSUED A LICENSE PURSUANT TO THIS SECTION MAY
7 NOT PERFORM ANY WORK THAT IS NOT IN A RURAL AREA OF THIS STATE.

8 D. A LICENSE ISSUED PURSUANT TO THIS SECTION EXPIRES ON DECEMBER
9 31, 2029.

10 E. THE REGISTRAR SHALL ADOPT RULES NECESSARY TO IMPLEMENT THIS
11 SECTION.

12 F. FOR THE PURPOSES OF THIS SECTION, "RURAL AREA" MEANS EITHER:

13 1. ANY COUNTY WITH A POPULATION OF LESS THAN ONE HUNDRED THOUSAND
14 PERSONS.

15 2. ANY MUNICIPALITY THAT IS LOCATED IN A COUNTY THAT HAS A
16 POPULATION OF LESS THAN ONE HUNDRED THOUSAND PERSONS.

17 Sec. 3. Section 35-726, Arizona Revised Statutes, is amended to
18 read:

19 35-726. Approval of general plan before issuing bonds; fee;
20 exceptions; definition

21 A. Bonds shall not be issued by a corporation ~~for the purpose of~~
22 ~~financing~~ TO FINANCE single family dwelling units pursuant to section
23 35-706, subsection A, paragraph 11 or 12 without approval of a general
24 plan by its governing body. The corporation shall submit TO THE GOVERNING
25 BODY a general plan for each respective series of bonds ~~to its governing~~
26 ~~body~~. The general plan shall briefly describe:

27 1. The amount of the proposed bonds.

28 2. The maximum term of the bonds.

29 3. The maximum interest rate on the bonds.

30 4. The need for the bond issue.

31 5. The terms and conditions for originating or purchasing mortgage
32 loans or making loans to lenders.

33 6. The area in which the single family dwelling units to be
34 financed may be located.

35 7. The proposed fees, charges and expenditures to be paid for
36 originators, servicers, trustees, custodians, mortgage administrators and
37 others.

38 8. All insurance requirements with respect to mortgage loans,
39 mortgaged property, mortgagors, originators, servicers and trustees.

40 9. The anticipated date of issuance of the bonds.

41 B. The governing body shall review general plans submitted by
42 corporations pursuant to subsection A of this section. In reviewing the
43 plans the governing body shall consider:

44 1. Whether the amount of the mortgage monies proposed to be made
45 available is reasonably related to the demand for the mortgage monies.

1 2. Whether the terms of the general plan are justifiable in the
2 context of the transaction and in the context of similar transactions.

3 3. Whether the fees, costs and expenditures as set forth in the
4 general plan are reasonably related to the services provided.

5 4. For projects of owner-occupied single family dwelling units to
6 be occupied by persons of low and moderate income and financed pursuant to
7 section 35-706, subsection A, paragraphs 11 and 12, whether the proposed
8 mortgage monies to be made available will fulfill a public purpose by
9 providing housing for persons of low and moderate income or by encouraging
10 single family developments in all participating jurisdictions, including
11 such jurisdictions' slum or blighted areas as defined in section 36-1471.

12 C. The governing body shall approve or disapprove the general plan
13 not later than thirty days after receipt of the plan. If the governing
14 body does not act on the general plan within thirty days after the date of
15 receipt, the general plan shall be deemed approved. If a general plan is
16 approved, the corporation may issue the series of bonds covered by the
17 general plan with a total principal amount, maximum term and maximum
18 interest rate ~~no~~ NOT greater than that which is set forth in the general
19 plan. The origination and servicing fees pertaining to mortgage loans to
20 be financed in accordance with the general plan shall not exceed those
21 proposed in the general plan. The corporation may vary other items in the
22 general plan on a finding that the variation is minor and that the
23 variations will not impair the security for the bonds or substantially
24 increase the cost of financing the single family dwelling units and the
25 findings of the corporation shall be conclusive.

26 D. The governing body may charge any corporation submitting a
27 general plan for review a fee of not ~~to exceed ten thousand dollars~~ MORE
28 THAN \$10,000 together with reimbursement of its actual costs and expenses
29 incurred in reviewing the general plan.

30 E. Except for a corporation THAT IS approved by the Arizona finance
31 authority or a governing body of a county or a municipality having a
32 population of more than ~~seven~~ THREE percent of the total state population,
33 a corporation shall not issue bonds, other than refunding bonds the
34 proceeds of which are used exclusively to refund a prior bond issue, to
35 finance a ~~multifamily~~ residential rental project, sanitarium, clinic,
36 medical hotel, rest home, nursing home, skilled nursing facility or life
37 care facility as prescribed in section 20-1801, unless the department
38 approves the project. The department, with or without a hearing, shall
39 review the project and consider at least the following factors:

40 1. The demand for and feasibility of the project in the area set
41 forth in the application to the corporation.

42 2. The terms and conditions of the proposed bonds.

43 3. The proposed use of bond proceeds.

1 4. The benefit to the public if the project provides rental housing
2 for persons of low and moderate income or encourages rental housing in
3 slum or blighted areas as defined in section 36-1471.

4 5. If the project consists of a nursing home, or a life care
5 facility as prescribed in section 20-1801, the benefit to the public of
6 the project, including the proposed rent, fees and other charges of the
7 project in relation to the level of services to be offered.

8 F. Subsection E of this section does not apply to bonds issued to
9 finance:

10 1. A sanitarium, clinic, medical hotel, rest home, nursing home,
11 skilled nursing facility, or life care facility as prescribed in section
12 20-1801, if the facility is to be owned and operated by this state or a
13 political subdivision or agency of this state.

14 2. A nursing home, rest home, skilled nursing facility, life care
15 facility or senior residential facility providing on-site medical and
16 support services if the facility is owned and operated by a nonprofit
17 organization that is exempt from taxation under section 501(c)(3) of the
18 United States internal revenue code.

19 G. Except for a corporation that is exempt under subsection E of
20 this section, the department with or without a hearing shall approve or
21 disapprove the project not later than thirty days after receipt of the
22 request for approval. If the project is approved the corporation may
23 issue the bonds described in the approval request with the total principal
24 amount, maximum term and maximum interest rate ~~no~~ NOT greater than as set
25 forth in the request. The department shall charge each applicant
26 submitting a project approval request pursuant to this subsection a fee of
27 not ~~to exceed five thousand dollars~~ MORE THAN \$5,000 together with
28 reimbursement of its actual costs and expenses incurred in reviewing the
29 project. The department shall remit the fees to the state treasurer for
30 deposit in the Arizona department of housing program fund established by
31 section 41-3957.

32 H. For the purposes of this section, "department" means the Arizona
33 department of housing.

34 Sec. 4. Section 41-3953, Arizona Revised Statutes, is amended to
35 read:

36 41-3953. Department powers and duties: definition

37 A. The department is responsible for establishing policies,
38 procedures and programs that the department is authorized to conduct to
39 address the affordable housing issues confronting this state, including
40 housing issues of low-income families, moderate-income families, housing
41 affordability, special needs populations and decaying housing stock.
42 Among other things, the department shall provide to qualified housing
43 participants and political subdivisions of this state financial, advisory,
44 consultative, planning, training and educational assistance for the
45 development of safe, decent and affordable housing, including housing for

1 low and moderate income households. The department is responsible for
2 maintaining and enforcing standards of quality and safety for manufactured
3 homes, mobile homes and factory-built buildings.

4 B. Under the direction of the director, the department shall:

5 1. Establish guidelines applicable to the programs and activities
6 of the department for the construction and financing of affordable housing
7 and housing for low and moderate income households in this state. These
8 guidelines shall meet or exceed all applicable state or local building and
9 health and safety code requirements and, if applicable, the national
10 manufactured home construction and safety standards act of 1974 and
11 title VI of the housing and community development act of 1974 (P.L. ~~96-399~~
12 ~~93-383~~, as amended by P.L. 95-128, 96-153 and ~~96-339~~ 96-399). Guidelines
13 established pursuant to this paragraph do not apply to the department's
14 activities prescribed in section 35-726, subsection E.

15 2. Accept and allocate any monies as from time to time may be
16 appropriated by the legislature for the purposes set forth in this
17 article.

18 3. Perform other duties necessary to administer this chapter.

19 4. Perform the duties prescribed in sections 35-726 and 35-728.

20 5. Stimulate and encourage all local, state, regional and federal
21 governmental agencies and all private persons and enterprises that have
22 similar and related objectives and purposes, cooperate with the agencies,
23 persons and enterprises and correlate department plans, programs and
24 operations with those of the agencies, persons and enterprises.

25 6. Conduct research on its own initiative or at the request of the
26 governor, the legislature or state or local agencies pertaining to any
27 department objectives.

28 7. Provide information and advice on request of any local, state or
29 federal agencies, private persons and business enterprises on matters
30 within the scope of department activities.

31 8. Consult with and make recommendations to the governor and the
32 legislature on all matters concerning department objectives.

33 9. Make annual reports to the governor and the legislature on its
34 activities, including the geographic location of its activities, its
35 finances and the scope of its operations. The annual reports submitted
36 pursuant to this paragraph shall also include all of the following
37 outcome-based metrics for department-funded projects and initiatives:

38 (a) The number of affordable housing units developed in this state.

39 (b) The number of individuals housed in permanent supportive
40 housing environments in the past year and related housing outcomes for
41 those exiting permanent supportive housing for which the department has
42 conveyed funding.

43 (c) Any improvements in housing accessibility for underserved and
44 rural populations in this state.

1 10. Maintain and enforce standards of quality and safety for
2 manufactured homes, mobile homes and factory-built buildings and enforce
3 rules adopted by the board pursuant to section 41-4010.

4 11. As a condition of funding for emergency shelter and
5 transitional housing programs that receive grants or other sources of
6 funding from the department, adopt policies and procedures concerning
7 responding to an alleged sale, manufacture or possession of dangerous
8 drugs and narcotic drugs as defined in section 13-3401. These policies
9 shall include clear signage on the facilities denoting a drug-free zone.

10 12. ESTABLISH A PROCESS TO CERTIFY WORKFORCE HOUSING BUILDERS AS
11 DEFINED IN SECTION 9-461.21 AND MAINTAIN A PUBLIC REGISTRY OF CERTIFIED
12 WORKFORCE HOUSING BUILDERS. THE ARIZONA DEPARTMENT OF HOUSING AND THE
13 DEPARTMENT OF REVENUE SHALL ADOPT RULES AND PRESCRIBE FORMS AND PROCEDURES
14 AS NECESSARY FOR THE PURPOSES OF THIS SUBSECTION. THE ARIZONA DEPARTMENT
15 OF HOUSING AND THE DEPARTMENT OF REVENUE SHALL COLLABORATE IN ADOPTING
16 RULES AS NECESSARY TO AVOID DUPLICATION AND INCONSISTENCIES WHILE
17 ACCOMPLISHING THE PURPOSES OF THIS SUBSECTION. THE ARIZONA DEPARTMENT OF
18 HOUSING HAS EXCLUSIVE AUTHORITY OVER ISSUES RELATED TO CERTIFICATION OF
19 WORKFORCE HOUSING BUILDERS AND DEVELOPMENT AND MAINTENANCE OF A PUBLIC
20 REGISTRY OF CERTIFIED WORKFORCE HOUSING BUILDERS. THE DEPARTMENT OF
21 REVENUE HAS EXCLUSIVE AUTHORITY OVER THE ADMINISTRATION OF TAX RELIEF.

22 C. Under the direction of the director, the department may:

23 1. Assist in securing construction and mortgage financing from
24 public and private sector sources.

25 2. Assist mortgage financing programs established by industrial
26 development authorities and political subdivisions of this state.

27 3. Assist in the acquisition and use of federal housing assistance
28 programs pertinent to enhance the economic feasibility of a proposed
29 residential development.

30 4. Assist in the compliance of a proposed residential development
31 with applicable federal, state and local codes and ordinances.

32 5. Prepare and publish planning and development guidelines for the
33 establishment and delivery of housing assistance programs.

34 6. Contract with a federal agency to carry out financial work on
35 the federal agency's behalf and accept payment for the work.

36 7. Subcontract for the financial work prescribed in paragraph 6 of
37 this subsection and make payments for that subcontracted work based on the
38 expectation that the federal agency will pay for that work.

39 8. Accept payment from a federal agency for work prescribed in
40 paragraph 6 of this subsection and deposit those payments in the Arizona
41 department of housing program fund established by section 41-3957.

42 9. Contract for the services of outside advisers, consultants and
43 aides reasonably necessary or desirable to enable the department to
44 adequately perform its duties.

1 10. Contract for and incur obligations reasonably necessary or
2 desirable within the general scope of department activities and operations
3 to enable the department to adequately perform its duties.

4 11. Use any media of communication, publication and exhibition in
5 the dissemination of information, advertising and publicity in any field
6 of its purposes, objectives or duties.

7 12. Adopt rules deemed necessary or desirable to govern its
8 procedures and business.

9 13. Contract with other agencies in furtherance of any department
10 program.

11 14. Use monies, facilities or services to provide contributions
12 under federal or other programs that further the objectives and programs
13 of the department.

14 15. Accept gifts, grants, matching monies or direct payments from
15 public or private agencies or private persons and enterprises for the
16 conduct of programs that are consistent with the general purposes and
17 objectives of this article and deposit these monies in the Arizona
18 department of housing program fund established by section 41-3957.

19 16. Establish and collect fees and receive reimbursement of costs
20 in connection with any programs or duties performed by the department and
21 deposit the fees and cost reimbursements in the Arizona department of
22 housing program fund established by section 41-3957.

23 17. Provide staff support to the board of manufactured housing.

24 18. ENTER INTO AGREEMENTS WITH A MUNICIPALITY TO COORDINATE
25 CERTIFICATION AND PERMIT TRACKING FOR WORKFORCE HOUSING PROJECTS PURSUANT
26 TO SECTION 9-461.21.

27 D. For the purposes of this section, the department is exempt from
28 chapter 23 of this title.

29 E. The department is the designated state public housing agency as
30 defined in the United States housing act of 1937 (42 United States Code
31 sections 1401 through 1440) for the purpose of accepting federal housing
32 assistance monies and may participate in the housing assistance payments
33 program. Federal monies may be secured for all areas of this state
34 subject only to the limitations prescribed in subsection F of this
35 section.

36 F. For areas of this state where an existing public housing
37 authority has not been established pursuant to section 36-1404, subsection
38 A, the department acting as a public housing agency may undertake all
39 activities under the section 8 tenant-based rental housing assistance
40 payment program, except that the department shall not undertake a section
41 8 tenant-based rental housing assistance payment program within the
42 boundaries of a city, town or county unless authorized by resolution of
43 the governing body of the city, town or county. If the department accepts
44 monies for a section 8 tenant-based rental housing assistance payment
45 program for areas of this state where an existing public housing authority

1 has been established pursuant to section 36-1404, subsection A, the
2 department shall only accept and secure federal monies to provide housing
3 for the seriously mentally ill or other populations with disabilities.
4 The department may accept and secure federal monies for undertaking all
5 contract administrator activities authorized under a section 8
6 project-based rental housing assistance payment program in all areas of
7 this state and this participation does not require the authorization of
8 any local governing body.

9 G. The department shall not itself directly own, construct, operate
10 or rehabilitate any housing units, except as may be necessary to protect
11 the department's collateral or security interest arising out of any
12 department programs.

13 H. Notwithstanding any other provision of this section, the
14 department may obligate monies as loans or grants applicable to programs
15 and activities of the department ~~for the purpose of providing~~ TO PROVIDE
16 housing opportunities for low or moderate income households or for housing
17 affordability or to prevent or combat decaying housing stock. Unless
18 otherwise required by federal or state law, any loan repayments shall be
19 deposited in the Arizona department of housing program fund established by
20 section 41-3957.

21 I. For any construction project financed by the department pursuant
22 to subsection C of this section, except for contract administration
23 activities in connection with the project-based section 8 program, the
24 department shall notify a city, town, county or tribal government that a
25 project is planned for its jurisdiction and, before proceeding, shall seek
26 comment from the governing body of the city, town, county or tribal
27 government or an official authorized by the governing body of the city,
28 town, county or tribal government. The department shall not interfere
29 with or attempt to override the local jurisdiction's planning, zoning or
30 land use regulations.

31 J. The department has the administrative responsibility through its
32 hearing officer function concerning alleged violations of the Arizona
33 mobile home parks residential landlord and tenant act under title 33,
34 chapter 11.

35 K. The Arizona department of housing shall act consistently with
36 the minimum standards of the United States department of housing and urban
37 development so as to be designated the state inspector for manufactured
38 homes and related industries. The Arizona department of housing shall
39 implement all existing laws and regulations established by the federal
40 government, its agencies and this state for that purpose.

41 L. For the purposes of this section, "permanent supportive housing"
42 means long-term housing assistance paired with supportive services that
43 are aimed at individuals experiencing homelessness or individuals with
44 special needs.

1 Sec. 5. Section 42-5075, Arizona Revised Statutes, is amended to
2 read:

3 42-5075. Prime contracting classification; exemptions;
4 definitions

5 A. The prime contracting classification is comprised of the
6 business of prime contracting and the business of manufactured building
7 dealer. Sales for resale to another manufactured building dealer are not
8 subject to tax. Sales for resale do not include sales to a lessor of
9 manufactured buildings. The sale of a used manufactured building is not
10 taxable under this chapter. The prime contracting classification does not
11 include any work or operation performed by a person that is not required
12 to be licensed by the registrar of contractors pursuant to section
13 32-1121.

14 B. The tax base for the prime contracting classification is
15 sixty-five percent of the gross proceeds of sales or gross income derived
16 from the business. The following amounts shall be deducted from the gross
17 proceeds of sales or gross income before computing the tax base:

18 1. The sales price of land, which shall not exceed the fair market
19 value.

20 2. Sales and installation of groundwater measuring devices required
21 under section 45-604 and groundwater monitoring wells required by law,
22 including monitoring wells installed for acquiring information for a
23 permit required by law.

24 3. The sales price of furniture, furnishings, fixtures, appliances
25 and attachments that are not incorporated as component parts of or
26 attached to a manufactured building or the setup site. The sale of such
27 items may be subject to the taxes imposed by article 1 of this chapter
28 separately and distinctly from the sale of the manufactured building.

29 4. The gross proceeds of sales or gross income received from a
30 contract entered into for the modification of any building, highway, road,
31 railroad, excavation, manufactured building or other structure, project,
32 development or improvement located in a military reuse zone for providing
33 aviation or aerospace services or for a manufacturer, assembler or
34 fabricator of aviation or aerospace products within an active military
35 reuse zone after the zone is initially established or renewed under
36 section 42-1301. To be eligible to qualify for this deduction, before
37 beginning work under the contract, the prime contractor must have applied
38 for a letter of qualification from the department of revenue.

39 5. The gross proceeds of sales or gross income derived from a
40 contract to construct a qualified environmental technology manufacturing,
41 producing or processing facility, as described in section 41-1514.02, and
42 from subsequent construction and installation contracts that begin within
43 ten years after the start of initial construction. To qualify for this
44 deduction, before beginning work under the contract, the prime contractor
45 must obtain a letter of qualification from the department of revenue.

1 This paragraph shall apply for ten full consecutive calendar or fiscal
2 years after the start of initial construction.

3 6. The gross proceeds of sales or gross income from a contract to
4 provide for one or more of the following actions, or a contract for site
5 preparation, constructing, furnishing or installing machinery, equipment
6 or other tangible personal property, including structures necessary to
7 protect exempt incorporated materials or installed machinery or equipment,
8 and tangible personal property incorporated into the project, to perform
9 one or more of the following actions in response to a release or suspected
10 release of a hazardous substance, pollutant or contaminant from a facility
11 to the environment, unless the release was authorized by a permit issued
12 by a governmental authority:

13 (a) Actions to monitor, assess and evaluate such a release or a
14 suspected release.

15 (b) Excavation, removal and transportation of contaminated soil and
16 its treatment or disposal.

17 (c) Treatment of contaminated soil by vapor extraction, chemical or
18 physical stabilization, soil washing or biological treatment to reduce the
19 concentration, toxicity or mobility of a contaminant.

20 (d) Pumping and treatment or in situ treatment of contaminated
21 groundwater or surface water to reduce the concentration or toxicity of a
22 contaminant.

23 (e) The installation of structures, such as cutoff walls or caps,
24 to contain contaminants present in groundwater or soil and prevent them
25 from reaching a location where they could threaten human health or welfare
26 or the environment.

27 This paragraph does not include asbestos removal or the construction or
28 use of ancillary structures such as maintenance sheds, offices or storage
29 facilities for unattached equipment, pollution control equipment,
30 facilities or other control items required or to be used by a person to
31 prevent or control contamination before it reaches the environment.

32 7. The gross proceeds of sales or gross income that is derived from
33 a contract for the installation, assembly, repair or maintenance of
34 machinery, equipment or other tangible personal property that is either
35 deducted from the tax base of the retail classification under section
36 42-5061, subsection B or that is exempt from use tax under section
37 42-5159, subsection B and that has independent functional utility,
38 pursuant to the following provisions:

39 (a) The deduction provided in this paragraph includes the gross
40 proceeds of sales or gross income derived from all of the following:

41 (i) Any activity performed on machinery, equipment or other
42 tangible personal property with independent functional utility.

43 (ii) Any activity performed on any tangible personal property
44 relating to machinery, equipment or other tangible personal property with

1 independent functional utility in furtherance of any of the purposes
2 provided for under subdivision (d) of this paragraph.

3 (iii) Any activity that is related to the activities described in
4 items (i) and (ii) of this subdivision, including inspecting the
5 installation of or testing the machinery, equipment or other tangible
6 personal property.

7 (b) The deduction provided in this paragraph does not include gross
8 proceeds of sales or gross income from the portion of any contracting
9 activity that consists of the development of, or modification to, real
10 property in order to facilitate the installation, assembly, repair,
11 maintenance or removal of machinery, equipment or other tangible personal
12 property that is either deducted from the tax base of the retail
13 classification under section 42-5061, subsection B or exempt from use tax
14 under section 42-5159, subsection B.

15 (c) The deduction provided in this paragraph shall be determined
16 without regard to the size or useful life of the machinery, equipment or
17 other tangible personal property.

18 (d) For the purposes of this paragraph, "independent functional
19 utility" means that the machinery, equipment or other tangible personal
20 property can independently perform its function without attachment to real
21 property, other than attachment for any of the following purposes:

22 (i) Assembling the machinery, equipment or other tangible personal
23 property.

24 (ii) Connecting items of machinery, equipment or other tangible
25 personal property to each other.

26 (iii) Connecting the machinery, equipment or other tangible
27 personal property, whether as an individual item or as a system of items,
28 to water, power, gas, communication or other services.

29 (iv) Stabilizing or protecting the machinery, equipment or other
30 tangible personal property during operation by bolting, burying or
31 performing other similar nonpermanent connections to either real property
32 or real property improvements.

33 8. The gross proceeds of sales or gross income attributable to the
34 purchase of machinery, equipment or other tangible personal property that
35 is exempt from or deductible from transaction privilege and use tax under:

36 (a) Section 42-5061, subsection A, paragraph 25, 29 or 58.

37 (b) Section 42-5061, subsection B.

38 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a),
39 (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 55.

40 (d) Section 42-5159, subsection B.

41 9. The gross proceeds of sales or gross income received from a
42 contract for the construction of an environmentally controlled facility
43 for the raising of poultry for the production of eggs and the sorting,
44 cooling and packaging of eggs.

1 10. The gross proceeds of sales or gross income that is derived
2 from a contract entered into with a person who is engaged in the
3 commercial production of livestock, livestock products or agricultural,
4 horticultural, viticultural or floricultural crops or products in this
5 state for the modification of any building, highway, road, excavation,
6 manufactured building or other structure, project, development or
7 improvement used directly and primarily to prevent, monitor, control or
8 reduce air, water or land pollution.

9 11. The gross proceeds of sales or gross income that is derived
10 from the installation, assembly, repair or maintenance of clean rooms that
11 are deducted from the tax base of the retail classification pursuant to
12 section 42-5061, subsection B, paragraph 17.

13 12. For taxable periods beginning from and after June 30, 2001, the
14 gross proceeds of sales or gross income derived from a contract entered
15 into for the construction of a residential apartment housing facility that
16 qualifies for a federal housing subsidy for low-income persons over
17 sixty-two years of age and that is owned by a nonprofit charitable
18 organization that has qualified under section 501(c)(3) of the internal
19 revenue code.

20 13. For taxable periods beginning from and after December 31, 1996
21 and ending before January 1, 2017, the gross proceeds of sales or gross
22 income derived from a contract to provide and install a solar energy
23 device. The contractor shall register with the department as a solar
24 energy contractor. By registering, the contractor acknowledges that it
25 will make its books and records relating to sales of solar energy devices
26 available to the department for examination.

27 14. The gross proceeds of sales or gross income derived from a
28 contract entered into for the construction of a launch site, as defined in
29 14 Code of Federal Regulations section 401.5.

30 15. The gross proceeds of sales or gross income derived from a
31 contract entered into for the construction of a domestic violence shelter
32 that is owned and operated by a nonprofit charitable organization that has
33 qualified under section 501(c)(3) of the internal revenue code.

34 16. The gross proceeds of sales or gross income derived from
35 contracts to perform postconstruction treatment of real property for
36 termite and general pest control, including wood-destroying organisms.

37 17. The gross proceeds of sales or gross income received from
38 contracts entered into before July 1, 2006 for constructing a state
39 university research infrastructure project if the project has been
40 reviewed by the joint committee on capital review before the university
41 enters into the construction contract for the project. For the purposes
42 of this paragraph, "research infrastructure" has the same meaning
43 prescribed in section 15-1670.

1 18. The gross proceeds of sales or gross income received from a
2 contract for the construction of any building, or other structure,
3 project, development or improvement owned by a qualified business under
4 section 41-1516 for harvesting or processing qualifying forest products
5 removed from qualifying projects as defined in section 41-1516 if actual
6 construction begins before January 1, 2024. To qualify for this
7 deduction, the prime contractor must obtain a letter of qualification from
8 the Arizona commerce authority before beginning work under the contract.

9 19. Any amount of the gross proceeds of sales or gross income
10 attributable to development fees that are incurred in relation to a
11 contract for construction, development or improvement of real property and
12 that are paid by a prime contractor or subcontractor. For the purposes of
13 this paragraph:

14 (a) The attributable amount shall not exceed the value of the
15 development fees actually imposed.

16 (b) The attributable amount is equal to the total amount of
17 development fees paid by the prime contractor or subcontractor, and the
18 total development fees credited in exchange for the construction of,
19 contribution to or dedication of real property for providing public
20 infrastructure, public safety or other public services necessary to the
21 development. The real property must be the subject of the development
22 fees.

23 (c) "Development fees" means fees imposed to offset capital costs
24 of providing public infrastructure, public safety or other public services
25 to a development and authorized pursuant to section 9-463.05, section
26 11-1102 or title 48 regardless of the jurisdiction to which the fees are
27 paid.

28 20. The gross proceeds of sales or gross income derived from a
29 contract entered into for the construction of a mixed waste processing
30 facility that is located on a municipal solid waste landfill and that is
31 constructed for the purpose of recycling solid waste or producing
32 renewable energy from landfill waste. For the purposes of this paragraph:

33 (a) "Mixed waste processing facility" means a solid waste facility
34 that is owned, operated or used for the treatment, processing or disposal
35 of solid waste, recyclable solid waste, very small quantity generator
36 waste or household hazardous waste. For the purposes of this subdivision,
37 "very small quantity generator waste", "household hazardous waste" and
38 "solid waste facility" have the same meanings prescribed in section
39 49-701, except that solid waste facility does include a site that stores,
40 treats or processes paper, glass, wood, cardboard, household textiles,
41 scrap metal, plastic, vegetative waste, aluminum, steel or other
42 recyclable material.

43 (b) "Municipal solid waste landfill" has the same meaning
44 prescribed in section 49-701.

1 (c) "Recycling" means collecting, separating, cleansing, treating
2 and reconstituting recyclable solid waste that would otherwise become
3 solid waste, but does not include incineration or other similar processes.

4 (d) "Renewable energy" means usable energy, including electricity,
5 fuels, gas and heat, produced through the conversion of energy provided by
6 sunlight, water, wind, geothermal, heat, biomass, biogas, landfill gas or
7 another nonfossil renewable resource.

8 21. The gross proceeds of sales or gross income derived from a
9 contract to install containment structures. For the purposes of this
10 paragraph, "containment structure" means a structure that prevents,
11 monitors, controls or reduces noxious or harmful discharge into the
12 environment.

13 C. Entitlement to the deduction pursuant to subsection B, paragraph
14 7 of this section is subject to the following provisions:

15 1. A prime contractor may establish entitlement to the deduction by
16 both:

17 (a) Marking the invoice for the transaction to indicate that the
18 gross proceeds of sales or gross income derived from the transaction was
19 deducted from the base.

20 (b) Obtaining a certificate executed by the purchaser indicating
21 the name and address of the purchaser, the precise nature of the business
22 of the purchaser, the purpose for which the purchase was made, the
23 necessary facts to establish the deductibility of the property under
24 section 42-5061, subsection B, and a certification that the person
25 executing the certificate is authorized to do so on behalf of the
26 purchaser. The certificate may be disregarded if the prime contractor has
27 reason to believe that the information contained in the certificate is not
28 accurate or complete.

29 2. A person who does not comply with paragraph 1 of this subsection
30 may establish entitlement to the deduction by presenting facts necessary
31 to support the entitlement, but the burden of proof is on that person.

32 3. The department may prescribe a form for the certificate
33 described in paragraph 1, subdivision (b) of this subsection. The
34 department may also adopt rules that describe the transactions with
35 respect to which a person is not entitled to rely solely on the
36 information contained in the certificate provided in paragraph 1,
37 subdivision (b) of this subsection but must instead obtain such additional
38 information as required in order to be entitled to the deduction.

39 4. If a prime contractor is entitled to a deduction by complying
40 with paragraph 1 of this subsection, the department may require the
41 purchaser who caused the execution of the certificate to establish the
42 accuracy and completeness of the information required to be contained in
43 the certificate that would entitle the prime contractor to the deduction.
44 If the purchaser cannot establish the accuracy and completeness of the
45 information, the purchaser is liable in an amount equal to any tax,

1 penalty and interest that the prime contractor would have been required to
 2 pay under article 1 of this chapter if the prime contractor had not
 3 complied with paragraph 1 of this subsection. Payment of the amount under
 4 this paragraph exempts the purchaser from liability for any tax imposed
 5 under article 4 of this chapter. The amount shall be treated as a
 6 transaction privilege tax to the purchaser and as tax revenues collected
 7 from the prime contractor in order to designate the distribution base for
 8 purposes of section 42-5029.

9 D. Subcontractors or others who perform modification activities are
 10 not subject to tax if they can demonstrate that the job was within the
 11 control of a prime contractor or contractors or a dealership of
 12 manufactured buildings and that the prime contractor or dealership is
 13 liable for the tax on the gross income, gross proceeds of sales or gross
 14 receipts attributable to the job and from which the subcontractors or
 15 others were paid.

16 E. Amounts received by a contractor for a project are excluded from
 17 the contractor's gross proceeds of sales or gross income derived from the
 18 business if the person who hired the contractor executes and provides a
 19 certificate to the contractor stating that the person providing the
 20 certificate is a prime contractor and is liable for the tax under article
 21 1 of this chapter. The department shall prescribe the form of the
 22 certificate. If the contractor has reason to believe that the information
 23 contained on the certificate is erroneous or incomplete, the department
 24 may disregard the certificate. If the person who provides the certificate
 25 is not liable for the tax as a prime contractor, that person is
 26 nevertheless deemed to be the prime contractor in lieu of the contractor
 27 and is subject to the tax under this section on the gross receipts or
 28 gross proceeds received by the contractor.

29 F. Every person engaging or continuing in this state in the
 30 business of prime contracting or dealership of manufactured buildings
 31 shall present to the purchaser of such prime contracting or manufactured
 32 building a written receipt of the gross income or gross proceeds of sales
 33 from such activity and shall separately state the taxes to be paid
 34 pursuant to this section.

35 G. For the purposes of section 42-5032.01, the department shall
 36 separately account for revenues collected under the prime contracting
 37 classification from any prime contractor engaged in the preparation or
 38 construction of a multipurpose facility, and related infrastructure, that
 39 is owned, operated or leased by the tourism and sports authority pursuant
 40 to title 5, chapter 8.

41 H. For the purposes of section 42-5032.02, from and after
 42 September 30, 2013, the department shall separately account for revenues
 43 reported and collected under the prime contracting classification from any
 44 prime contractor engaged in the construction of any buildings and
 45 associated improvements that are for the benefit of a manufacturing

1 facility. For the purposes of this subsection, "associated improvements"
2 and "manufacturing facility" have the same meanings prescribed in section
3 42-5032.02.

4 I. For the purposes of section 42-5032.03 and subject to section
5 48-4238, beginning October 1, 2025 and each month thereafter through
6 December 31, 2055, the department shall separately account for revenues
7 reported and collected under the prime contracting classification from any
8 prime contractor engaged in the construction of any buildings and
9 associated improvements that are for the benefit of a major league
10 baseball facility or an adjacent building that is owned by a county
11 stadium district pursuant to title 48, chapter 26 and operated by the
12 county stadium district or the professional baseball franchise
13 organization that occupies the major league baseball facility or adjacent
14 building. For the purposes of this subsection, "adjacent building" and
15 "major league baseball facility" have the same meanings prescribed in
16 section 48-4201.

17 J. The gross proceeds of sales or gross income derived from a
18 contract for lawn maintenance services is not subject to tax under this
19 section if the contract does not include landscaping activities. Lawn
20 maintenance service is a service pursuant to section 42-5061, subsection
21 A, paragraph 1, and includes lawn mowing and edging, weeding, repairing
22 sprinkler heads or drip irrigation heads, seasonal replacement of flowers,
23 refreshing gravel, lawn dethatching, seeding winter lawns, leaf and debris
24 collection and removal, tree or shrub pruning or clipping, garden and
25 gravel raking and applying pesticides, as defined in section 3-361, and
26 fertilizer materials, as defined in section 3-262.

27 K. Except as provided in subsection P of this section, the gross
28 proceeds of sales or gross income derived from landscaping activities is
29 subject to tax under this section. Landscaping includes installing lawns,
30 grading or leveling ground, installing gravel or boulders, planting trees
31 and other plants, felling trees, removing or mulching tree stumps,
32 removing other imbedded plants, building irrigation berms, installing
33 railroad ties and installing underground sprinkler or watering systems.

34 L. The portion of gross proceeds of sales or gross income
35 attributable to the actual direct costs of providing architectural or
36 engineering services that are incorporated in a contract is not subject to
37 tax under this section. For the purposes of this subsection, "direct
38 costs" means the portion of the actual costs that are directly expended in
39 providing architectural or engineering services.

40 M. Operating a landfill or a solid waste disposal facility is not
41 subject to taxation under this section, including filling, compacting and
42 creating vehicle access to and from cell sites within the landfill.
43 Constructing roads to a landfill or solid waste disposal facility and
44 constructing cells within a landfill or solid waste disposal facility may
45 be deemed prime contracting under this section.

1 N. The following apply in determining the taxable situs of sales of
2 manufactured buildings:

3 1. For sales in this state where the manufactured building dealer
4 contracts to deliver the building to a setup site or to perform the setup
5 in this state, the taxable situs is the setup site.

6 2. For sales in this state where the manufactured building dealer
7 does not contract to deliver the building to a setup site or does not
8 perform the setup, the taxable situs is the location of the dealership
9 where the building is delivered to the buyer.

10 3. For sales in this state where the manufactured building dealer
11 contracts to deliver the building to a setup site that is outside this
12 state, the situs is outside this state and the transaction is excluded
13 from tax.

14 0. The gross proceeds of sales or gross income attributable to a
15 written contract for design phase services or professional services,
16 executed before modification begins and with terms, conditions and pricing
17 of all of these services separately stated in the contract from those for
18 construction phase services, is not subject to tax under this section,
19 regardless of whether the services are provided sequential to or
20 concurrent with prime contracting activities that are subject to tax under
21 this section. This subsection does not include the gross proceeds of
22 sales or gross income attributable to construction phase services. For
23 the purposes of this subsection:

24 1. "Construction phase services" means services for the execution
25 and completion of any modification, including the following:

26 (a) Administration or supervision of any modification performed on
27 the project, including team management and coordination, scheduling, cost
28 controls, submittal process management, field management, safety program,
29 close-out process and warranty period services.

30 (b) Administration or supervision of any modification performed
31 pursuant to a punch list. For the purposes of this subdivision, "punch
32 list" means minor items of modification work performed after substantial
33 completion and before final completion of the project.

34 (c) Administration or supervision of any modification performed
35 pursuant to change orders. For the purposes of this subdivision, "change
36 order" means a written instrument issued after execution of a contract for
37 modification work, providing for all of the following:

38 (i) The scope of a change in the modification work, contract for
39 modification work or other contract documents.

40 (ii) The amount of an adjustment, if any, to the guaranteed maximum
41 price as set in the contract for modification work. For the purposes of
42 this item, "guaranteed maximum price" means the amount guaranteed to be
43 the maximum amount due to a prime contractor for the performance of all
44 modification work for the project.

1 (iii) The extent of an adjustment, if any, to the contract time of
2 performance set forth in the contract.

3 (d) Administration or supervision of any modification performed
4 pursuant to change directives. For the purposes of this subdivision,
5 "change directive" means a written order directing a change in
6 modification work before agreement on an adjustment of the guaranteed
7 maximum price or contract time.

8 (e) Inspection to determine the dates of substantial completion or
9 final completion.

10 (f) Preparation of any manuals, warranties, as-built drawings,
11 spares or other items the prime contractor must furnish pursuant to the
12 contract for modification work. For the purposes of this subdivision,
13 "as-built drawing" means a drawing that indicates field changes made to
14 adapt to field conditions, field changes resulting from change orders or
15 buried and concealed installation of piping, conduit and utility services.

16 (g) Preparation of status reports after modification work has begun
17 detailing the progress of work performed, including preparation of any of
18 the following:

19 (i) Master schedule updates.

20 (ii) Modification work cash flow projection updates.

21 (iii) Site reports made on a periodic basis.

22 (iv) Identification of discrepancies, conflicts or ambiguities in
23 modification work documents that require resolution.

24 (v) Identification of any health and safety issues that have arisen
25 in connection with the modification work.

26 (h) Preparation of daily logs of modification work, including
27 documentation of personnel, weather conditions and on-site occurrences.

28 (i) Preparation of any submittals or shop drawings used by the
29 prime contractor to illustrate details of the modification work performed.

30 (j) Administration or supervision of any other activities for which
31 a prime contractor receives a certificate for payment or certificate for
32 final payment based on the progress of modification work performed on the
33 project.

34 2. "Design phase services" means services for developing and
35 completing a design for a project that are not construction phase
36 services, including the following:

37 (a) Evaluating surveys, reports, test results or any other
38 information on-site conditions for the project, including physical
39 characteristics, legal limitations and utility locations for the site.

40 (b) Evaluating any criteria or programming objectives for the
41 project to ascertain requirements for the project, such as physical
42 requirements affecting cost or projected utilization of the project.

43 (c) Preparing drawings and specifications for architectural program
44 documents, schematic design documents, design development documents,

1 modification work documents or documents that identify the scope of or
2 materials for the project.

3 (d) Preparing an initial schedule for the project, excluding the
4 preparation of updates to the master schedule after modification work has
5 begun.

6 (e) Preparing preliminary estimates of costs of modification work
7 before completion of the final design of the project, including an
8 estimate or schedule of values for any of the following:

9 (i) Labor, materials, machinery and equipment, tools, water, heat,
10 utilities, transportation and other facilities and services used in the
11 execution and completion of modification work, regardless of whether they
12 are temporary or permanent or whether they are incorporated in the
13 modifications.

14 (ii) The cost of labor and materials to be furnished by the owner
15 of the real property.

16 (iii) The cost of any equipment of the owner of the real property
17 to be assigned by the owner to the prime contractor.

18 (iv) The cost of any labor for installation of equipment separately
19 provided by the owner of the real property that has been designed,
20 specified, selected or specifically provided for in any design document
21 for the project.

22 (v) Any fee paid by the owner of the real property to the prime
23 contractor pursuant to the contract for modification work.

24 (vi) Any bond and insurance premiums.

25 (vii) Any applicable taxes.

26 (viii) Any contingency fees for the prime contractor that may be
27 used before final completion of the project.

28 (f) Reviewing and evaluating cost estimates and project documents
29 to prepare recommendations on site use, site improvements, selection of
30 materials, building systems and equipment, modification feasibility,
31 availability of materials and labor, local modification activity as
32 related to schedules and time requirements for modification work.

33 (g) Preparing the plan and procedures for selection of
34 subcontractors, including any prequalification of subcontractor
35 candidates.

36 3. "Professional services" means architect services, engineer
37 services, geologist services, land surveying services or landscape
38 architect services that are within the scope of those services as provided
39 in title 32, chapter 1 and for which gross proceeds of sales or gross
40 income has not otherwise been deducted under subsection L of this section.

41 P. The gross proceeds of sales or gross income derived from a
42 contract with the owner of real property or improvements to real property
43 for the maintenance, repair, replacement or alteration of existing
44 property is not subject to tax under this section if the contract does not
45 include modification activities, except as specified in this subsection.

1 The gross proceeds of sales or gross income derived from a de minimis
2 amount of modification activity does not subject the contract or any part
3 of the contract to tax under this section. For the purposes of this
4 subsection:

5 1. Tangible personal property that is incorporated or fabricated
6 into a project described in this subsection may be subject to the amount
7 prescribed in section 42-5008.01.

8 2. Each contract is independent of any other contract, except that
9 any change order that directly relates to the scope of work of the
10 original contract shall be treated the same as the original contract under
11 this chapter, regardless of the amount of modification activities included
12 in the change order. If a change order does not directly relate to the
13 scope of work of the original contract, the change order shall be treated
14 as a new contract, with the tax treatment of any subsequent change order
15 to follow the tax treatment of the contract to which the scope of work of
16 the subsequent change order directly relates.

17 Q. Notwithstanding subsection P of this section, a contract that
18 primarily involves surface or subsurface improvements to land and that is
19 subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 is
20 taxable under this section, even if the contract also includes vertical
21 improvements. Agencies that are subject to procurement processes under
22 those provisions shall include in the request for proposals a notice to
23 bidders when those projects are subject to this section. This subsection
24 does not apply to contracts with:

25 1. Community facilities districts, fire districts, county
26 television improvement districts, community park maintenance districts,
27 cotton pest control districts, hospital districts, pest abatement
28 districts, health service districts, agricultural improvement districts,
29 county free library districts, county jail districts, county stadium
30 districts, special health care districts, public health services
31 districts, theme park districts or revitalization districts.

32 2. Any special taxing district not specified in paragraph 1 of this
33 subsection if the district does not substantially engage in the
34 modification, maintenance, repair, replacement or alteration of surface or
35 subsurface improvements to land.

36 R. THE GROSS PROCEEDS OF SALES OR GROSS INCOME ATTRIBUTABLE TO THE
37 DEVELOPMENT OF WORKFORCE HOUSING PROJECTS IF THE WORKFORCE HOUSING BUILDER
38 AS DEFINED IN SECTION 9-461.21 IS NOT SUBJECT TO TAX UNDER THIS SECTION,
39 REGARDLESS OF WHETHER THE SERVICES ARE PROVIDED SEQUENTIAL TO OR
40 CONCURRENT WITH PRIME CONTRACTING ACTIVITIES THAT ARE SUBJECT TO TAX UNDER
41 THIS SECTION.

42 ~~R.~~ S. Notwithstanding subsection ~~S~~ T, paragraph 10 of this
43 section, a person owning real property who enters into a contract for sale
44 of the real property, who is responsible to the new owner of the property
45 for modifications made to the property in the period subsequent to the

1 transfer of title and who receives a consideration for the modifications
2 is considered a prime contractor solely for purposes of taxing the gross
3 proceeds of sale or gross income received for the modifications made
4 subsequent to the transfer of title. The original owner's gross proceeds
5 of sale or gross income received for the modifications shall be determined
6 according to the following methodology:

7 1. If any part of the contract for sale of the property specifies
8 amounts to be paid to the original owner for the modifications to be made
9 in the period subsequent to the transfer of title, the amounts are
10 included in the original owner's gross proceeds of sale or gross income
11 under this section. Proceeds from the sale of the property that are
12 received after transfer of title and that are unrelated to the
13 modifications made subsequent to the transfer of title are not considered
14 gross proceeds of sale or gross income from the modifications.

15 2. If the original owner enters into an agreement separate from the
16 contract for sale of the real property providing for amounts to be paid to
17 the original owner for the modifications to be made in the period
18 subsequent to the transfer of title to the property, the amounts are
19 included in the original owner's gross proceeds of sale or gross income
20 received for the modifications made subsequent to the transfer of title.

21 3. If the original owner is responsible to the new owner for
22 modifications made to the property in the period subsequent to the
23 transfer of title and derives any gross proceeds of sale or gross income
24 from the project subsequent to the transfer of title other than a delayed
25 disbursement from escrow unrelated to the modifications, it is presumed
26 that the amounts are received for the modifications made subsequent to the
27 transfer of title unless the contrary is established by the owner through
28 its books, records and papers kept in the regular course of business.

29 4. The tax base of the original owner is computed in the same
30 manner as a prime contractor under this section.

31 ~~S.~~ T. For the purposes of this section:

32 1. "Alteration" means an activity or action that causes a direct
33 physical change to existing property. For the purposes of this paragraph:

34 (a) For existing property that is properly classified as class two
35 property under section 42-12002, paragraph 1, subdivision (c) or paragraph
36 2, subdivision (c) and that is used for residential purposes, class three
37 property under section 42-12003 or class four property under section
38 42-12004, this paragraph does not apply if the contract amount is more
39 than twenty-five percent of the most recent full cash value established
40 under chapter 13, article 2 of this title as of the date of any bid for
41 the work or the date of the contract, whichever value is higher.

42 (b) For all existing property other than existing property
43 described in subdivision (a) of this paragraph, this paragraph does not
44 apply if the contract amount is more than \$750,000.

1 (c) Project elements may not be artificially separated from a
2 contract to cause a project to qualify as an alteration. The department
3 has the burden of proof that project elements have been artificially
4 separated from a contract.

5 (d) If a project for which the owner and the person performing the
6 work reasonably believed, at the inception of the contract, would be
7 treated as an alteration under this paragraph and, on completion of the
8 project, the project exceeded the applicable threshold described in either
9 subdivision (a) or (b) of this paragraph by not more than twenty-five
10 percent of the applicable threshold for any reason, the work performed
11 under the contract qualifies as an alteration.

12 (e) A change order that directly relates to the scope of work of
13 the original contract shall be treated as part of the original contract,
14 and the contract amount shall include any amount attributable to a change
15 order that directly relates to the scope of work of the original contract.

16 (f) Alteration does not include maintenance, repair or replacement.

17 2. "Contracting" means engaging in business as a contractor.

18 3. "Contractor" is synonymous with the term "builder" and means any
19 person or organization that undertakes to or offers to undertake to, or
20 purports to have the capacity to undertake to, or submits a bid to, or
21 does personally or by or through others, modify any building, highway,
22 road, railroad, excavation, manufactured building or other structure,
23 project, development or improvement, or to do any part of such a project,
24 including the erection of scaffolding or other structure or works in
25 connection with such a project, and includes subcontractors and specialty
26 contractors. For all purposes of taxation or deduction, this definition
27 shall govern without regard to whether or not such a contractor is acting
28 in fulfillment of a contract.

29 4. "Manufactured building" means a manufactured home, mobile home
30 or factory-built building, as defined in section 41-4001.

31 5. "Manufactured building dealer" means a dealer who either:

32 (a) Is licensed pursuant to title 41, chapter 37, article 4 and who
33 sells manufactured buildings to the final consumer.

34 (b) Supervises, performs or coordinates the excavation and
35 completion of site improvements or the setup of a manufactured building,
36 including the contracting, if any, with any subcontractor or specialty
37 contractor for the completion of the contract.

38 6. "Modification" means construction, grading and leveling ground,
39 wreckage or demolition. Modification does not include:

40 (a) Any project described in subsection P of this section.

41 (b) Any wreckage or demolition of existing property, or any other
42 activity that is a necessary component of a project described in
43 subsection P of this section.

1 (c) Any mobilization or demobilization related to a project
2 described in subsection P of this section, such as the erection or removal
3 of temporary facilities to be used by those persons working on the
4 project.

5 7. "Modify" means to make a modification or cause a modification to
6 be made.

7 8. "Owner" means the person that holds title to the real property
8 or improvements to real property that is the subject of the work, as well
9 as an agent of the title holder and any person with the authority to
10 perform or authorize work on the real property or improvements, including
11 a tenant and a property manager. For the purposes of subsection P of this
12 section, a person who is hired by a general contractor that is hired by an
13 owner, or a subcontractor of a general contractor that is hired by an
14 owner, is considered to be hired by the owner.

15 9. "Prime contracting" means engaging in business as a prime
16 contractor.

17 10. "Prime contractor" means a contractor who supervises, performs
18 or coordinates the modification of any building, highway, road, railroad,
19 excavation, manufactured building or other structure, project, development
20 or improvement, including the contracting, if any, with any subcontractors
21 or specialty contractors and who is responsible for the completion of the
22 contract. Except as provided in subsections E and ~~R~~ S of this section, a
23 person who owns real property, who engages one or more contractors to
24 modify that real property and who does not itself modify that real
25 property is not a prime contractor within the meaning of this paragraph
26 regardless of the existence of a contract for sale or the subsequent sale
27 of that real property.

28 11. "Replacement" means the removal from service of one component
29 or system of existing property or tangible personal property installed in
30 existing property, including machinery or equipment, and the installation
31 of a new component or system or new tangible personal property, including
32 machinery or equipment, that provides the same, a similar or an upgraded
33 design or functionality, regardless of the contract amount and regardless
34 of whether the existing component or system or existing tangible personal
35 property is physically removed from the existing property.

36 12. "Sale of a used manufactured building" does not include a lease
37 of a used manufactured building.

38 Sec. 6. Legislative findings

39 A. The legislature finds that:

40 1. Arizona faces an acute shortage of attainable and workforce
41 housing across income levels.

42 2. The cost and timing of housing production are significantly
43 affected by state and local fees, taxation and approval delays.

1 3. Providing targeted tax relief and streamlined processes for
2 builders of affordable housing will directly increase the number of units
3 produced and lower costs for Arizona families.

4 B. The legislature intends to incentivize the production of
5 affordable housing by:

6 1. Exempting qualifying affordable housing builders from the
7 states' prime contracting sales tax.

8 2. Allowing qualified builders to begin vertical construction and
9 home sales while horizontal infrastructure work continues under approved
10 plans.

11 3. Requiring cities and towns to implement expedited permitting for
12 affordable housing projects and creating a pathway for more contractors in
13 rural Arizona.

14 Sec. 7. Effective date

15 Sections 9-461.21 and 32-1130, Arizona Revised Statutes, as added by
16 this act, and sections 35-726, 41-3953 and 42-5075, Arizona Revised
17 Statutes, as amended by this act, are effective twelve months from and
18 after the general effective date.

19 Sec. 8. Short title

20 This act may be cited as the "Workforce Housing Incentive Act".