

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

HB 4165

Introduced by
Representatives Livingston: Carbone, Carter N, Montenegro, Willoughby
(with permission of Committee on Rules)

AN ACT

**AMENDING SECTIONS 42-5029.02 AND 42-5041, ARIZONA REVISED STATUTES;
AMENDING LAWS 2022, CHAPTER 321, SECTION 3; RELATING TO TAXATION.**

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5029.02, Arizona Revised Statutes, is amended
3 to read:

4 42-5029.02. Distribution of revenues for education;
5 definitions

6 A. All monies collected pursuant to section 42-5010.01 and section
7 42-5155, subsection E shall be distributed each fiscal year pursuant to
8 this subsection. The monies distributed pursuant to this subsection are
9 in addition to any other appropriation, transfer or other allocation of
10 public or private monies from any other source and may not supplant,
11 replace or cause a reduction in other school district, charter school,
12 university or community college funding sources. The monies shall be
13 distributed as follows:

14 1. \$64,100,000 is appropriated each fiscal year, to be paid in
15 monthly installments, to the superintendent of public instruction for
16 basic state aid.

17 2. After any transfer of monies pursuant to paragraph 1 of this
18 subsection, twelve percent of the remaining monies collected during the
19 preceding month shall be transferred to the technology and research
20 initiative fund established by section 15-1648 to be distributed among the
21 universities under the jurisdiction of the Arizona board of regents for
22 the purpose of investment in technology and research-based initiatives.

23 3. After the transfer of monies pursuant to paragraph 1 of this
24 subsection, three percent of the remaining monies collected during the
25 preceding month shall be transferred to the workforce development account
26 established in each community college district pursuant to section 15-1472
27 for the purpose of investment in workforce development programs.

28 4. After the transfer of monies pursuant to paragraphs 1, 2 and 3
29 of this subsection, one-twelfth of the amount a community college that is
30 owned, operated or chartered by a qualifying Indian tribe on its own
31 Indian reservation would receive pursuant to section 15-1472,
32 subsection D, paragraph 2 if it were a community college district shall be
33 distributed each month to the treasurer or other designated depository of
34 the qualifying Indian tribe. Monies distributed pursuant to this
35 paragraph are for the exclusive purpose of providing support to one or
36 more community colleges that are owned, operated or chartered by a
37 qualifying Indian tribe and shall be used in a manner consistent with
38 section 15-1472, subsection B.

39 5. After the transfer of monies pursuant to paragraphs 1, 2 and 3
40 of this subsection, one-twelfth of \$86,280,500 shall be transferred each
41 month to the department of education for the increased cost of basic state
42 aid under section 15-971 due to added school days and associated teacher
43 salary increases that were enacted in 2000.

44 6. After the transfer of monies pursuant to paragraphs 1, 2 and 3
45 of this subsection, \$7,800,000 is appropriated each fiscal year, to be

1 paid in monthly installments, to the department of education to be used
2 for school safety as provided in section 15-154 and \$200,000 is
3 appropriated each fiscal year, to be paid in monthly installments, to the
4 department of education to be used for the character education matching
5 grant program as provided in section 15-154.01.

6 7. After the transfer of monies pursuant to paragraphs 1, 2 and 3
7 of this subsection, the legislature may not appropriate more than
8 \$7,000,000 each fiscal year to the department of education to be used for
9 accountability purposes as described in section 15-241.02 and title 15,
10 chapter 9, article 8.

11 8. After the transfer of monies pursuant to paragraphs 1, 2 and 3
12 of this subsection, \$1,500,000 is appropriated each fiscal year, to be
13 paid in monthly installments, to the failing schools tutoring fund
14 established by section 15-241.

15 9. After the transfer of monies pursuant to paragraphs 1, 2 and 3
16 of this subsection, \$25,000,000 shall be transferred each fiscal year to
17 the state general fund to reimburse the state general fund for the cost of
18 the income tax credit allowed by section 43-1072.02.

19 10. From and after June 30, 2022 through June 30, ~~2028~~ 2030, after
20 the transfer of monies pursuant to paragraphs 1 through 9 of this
21 subsection, an amount determined by the director pursuant to section
22 42-5041 **SHALL BE TRANSFERRED** to the department of revenue integrated tax
23 system project fund established by section 42-5041.

24 11. After the transfer of monies pursuant to paragraphs 1
25 through 10 of this subsection, the remaining monies collected during the
26 preceding month shall be transferred to the classroom site fund
27 established by section 15-977. The monies shall be allocated in the
28 manner prescribed by section 15-977.

29 B. For the purposes of this section:

30 1. "Community college district" means a community college district
31 that is established pursuant to sections 15-1402 and 15-1403 and that is a
32 political subdivision of this state and, unless otherwise specified,
33 includes a community college tuition financing district established
34 pursuant to section 15-1409.

35 2. "Qualifying Indian tribe" has the same meaning as defined in
36 section 42-5031.01.

37 Sec. 2. Section 42-5041, Arizona Revised Statutes, is amended to
38 read:

39 **42-5041. Assessment of fees; integrated tax system**
40 **modernization project; fund**

41 A. From and after June 30, 2022 through June 30, ~~2028~~ 2030, the
42 department shall assess and collect fees from counties, cities, towns,
43 councils of governments and regional transportation authorities as
44 determined by the director and as provided by this section to implement an
45 integrated tax system modernization project at the department.

1 B. From and after June 30, 2022 through June 30, ~~2028~~ 2030, a fee
2 is assessed to each county, city and town that receives state shared
3 revenues pursuant to section 42-5029 or 43-206, to each council of
4 governments that receives revenues pursuant to ~~section~~ SECTIONS 42-6105
5 AND 42-6105.01 and to each regional transportation authority located in a
6 county with a population of more than eight hundred thousand persons that
7 receives revenues pursuant to section 42-6106.

8 C. The department shall assess the fees under ~~subsection~~
9 SUBSECTIONS A and B of this section not later than October 31 each year,
10 and the fees are payable immediately on assessment. If a county, city,
11 town, council of governments or regional transportation authority fails to
12 pay the fees in full on or before December 31, the department shall notify
13 the state treasurer who shall withhold the delinquent amount from the
14 distribution of monies to the affected county, city or town pursuant to
15 sections 42-5029 and 43-206, from the distribution of monies to the
16 affected council of governments pursuant to ~~section~~ SECTIONS 42-6105 AND
17 42-6105.01 and from the distribution of monies to the affected regional
18 transportation authority pursuant to section 42-6106, and who shall
19 continue to withhold monies until the entire amount of the assessment has
20 been satisfied.

21 D. Counties, cities and towns may meet their cost sharing
22 obligation from any source of county, city or town revenue designated by
23 the appropriate county, city or town. The county sources may include
24 monies of any countywide special taxing jurisdiction in which the board of
25 supervisors serves as the board of directors.

26 E. From and after June 30, 2022 through June 30, ~~2028~~ 2030,
27 pursuant to section 42-5029.02, the department shall transfer an amount
28 from monies collected pursuant to section 42-5010.01 and section 42-5155,
29 subsection E as determined by the director to implement the integrated tax
30 system modernization project at the department. The amount transferred
31 pursuant to this subsection shall be the actual reasonable costs incurred
32 by the department for integrated tax system modernization upgrades related
33 to the taxes authorized and levied pursuant to section 42-5010.01 and
34 section 42-5155, subsection E.

35 F. From and after June 30, 2022 through June 30, ~~2028~~ 2030,
36 pursuant to section 36-2856, subsection B, paragraph 2, the state
37 treasurer shall transfer an amount from monies collected pursuant to
38 section 42-5452 as determined by the director to implement the integrated
39 tax system modernization project at the department. The amount
40 transferred pursuant to this subsection shall be the actual reasonable
41 costs incurred by the department for integrated tax system modernization
42 upgrades related to the tax authorized and levied by section 42-5452.

G. All monies paid to the department or withheld by the state treasurer for the fees assessed pursuant to subsection B of this section or transferred pursuant to subsections E and F of this section shall be credited to the department of revenue integrated tax system project fund established by subsection H of this section.

H. The department of revenue integrated tax system project fund is established consisting of monies deposited IN or transferred to the fund pursuant to this section. The director shall administer the fund. Monies in the fund are subject to legislative appropriation. The director shall use monies in the fund solely for the administrative, development and other operating costs incurred in implementing the integrated tax system modernization project at the department.

Sec. 3. Laws 2022, chapter 321, section 3 is amended to read:

Sec. 3. Repeal

Section 42-1009, Arizona Revised Statutes, as added by this act, is repealed from and after December 31, ~~2029~~ 2031.

Sec. 4. Legislative intent

The legislature intends:

1. That in fiscal year 2026-2027 the fee prescribed in section 42-5041, subsection B, Arizona Revised Statutes, as amended by this act, be assessed and collected pursuant to the following guidelines:

(a) The total amount of fees for all counties, cities, towns, councils of governments and regional transportation authorities may not exceed \$1,273,800 in fiscal year 2026-2027.

(b) The share of fees assessed to all counties pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to counties for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-6103, 42-6107, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111 and 42-6112, Arizona Revised Statutes, as a percentage of aggregate distributions to all counties, cities, towns, councils of governments and regional transportation authorities located in a county with a population of more than eight hundred thousand persons for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-6001, 42-6103, 42-6105, 42-6105.01, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised Statutes.

(c) The share of fees assessed to all cities and towns pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to cities and towns for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-6001 and 43-206, Arizona Revised Statutes, as a percentage of aggregate distributions to all counties, cities, towns, councils of governments and regional transportation authorities located in a county with a population of more than eight hundred thousand persons for the fiscal year two years

1 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
2 42-6103, 42-6105, 42-6105.01, 42-6106, 42-6107, 42-6108, 42-6108.01,
3 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
4 Statutes.

5 (d) The share of fees assessed to all councils of governments
6 pursuant to subdivision (a) of this paragraph shall be in proportion to
7 the aggregate amount of monies distributed to all councils of governments
8 for the fiscal year two years preceding the current fiscal year pursuant
9 to section 42-6105, Arizona Revised Statutes, as a percentage of aggregate
10 distributions to all counties, cities, towns, councils of governments and
11 regional transportation authorities located in a county with a population
12 of more than eight hundred thousand persons for the fiscal year two years
13 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
14 42-6103, 42-6105, 42-6105.01, 42-6106, 42-6107, 42-6108, 42-6108.01,
15 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
16 Statutes.

17 (e) The share of fees assessed to all regional transportation
18 authorities located in a county with a population of more than eight
19 hundred thousand persons pursuant to subdivision (a) of this paragraph
20 shall be in proportion to the aggregate amount of monies distributed to
21 all regional transportation authorities located in a county with a
22 population of more than eight hundred thousand persons for the fiscal year
23 two years preceding the current fiscal year pursuant to section 42-6106,
24 Arizona Revised Statutes, as a percentage of aggregate distributions to
25 all counties, cities, towns, councils of governments and regional
26 transportation authorities located in a county with a population of more
27 than eight hundred thousand persons for the fiscal year two years
28 preceding the current fiscal year pursuant to sections 42-5029, 42-6001,
29 42-6103, 42-6105, 42-6105.01, 42-6106, 42-6107, 42-6108, 42-6108.01,
30 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112 and 43-206, Arizona Revised
31 Statutes.

32 (f) Except as provided by sections 42-5033 and 42-5033.01, Arizona
33 Revised Statutes, the population of a county as determined by the most
34 recent United States decennial census plus any revision to the decennial
35 census certified by the United States census bureau shall be used as the
36 basis for apportioning monies pursuant to subdivision (b) of this
37 paragraph.

38 (g) Except as provided by sections 42-5033 and 42-5033.01, Arizona
39 Revised Statutes, the population of a city or town as determined by the
40 most recent United States decennial census plus any revision to the
41 decennial census certified by the United States census bureau shall be
42 used as the basis for apportioning monies pursuant to subdivision (c) of
43 this paragraph.

1 2. That in fiscal year 2026-2027 the transfer prescribed in section
2 42-5041, subsection E, Arizona Revised Statutes, as amended by this act,
3 not exceed \$154,500.

4 3. That in fiscal year 2026-2027 the transfer prescribed in section
5 42-5041, subsection F, Arizona Revised Statutes, as amended by this act,
6 not exceed \$34,400.