

State of Arizona  
House of Representatives  
Forty-second Legislature  
Second Regular Session  
1996

**FILED**

**Jane Dee Hull  
Secretary of State**

CHAPTER 344

**HOUSE BILL 2496**

AN ACT

AMENDING SECTIONS 41-1521, 41-1522, 41-1523, 41-1524, 41-1525, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 10, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1525.01; AMENDING SECTION 42-162, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 1996, CHAPTER 93, SECTION 3; AMENDING SECTIONS 43-1074, 43-1161 AND 43-1168, ARIZONA REVISED STATUTES; REPEALING LAWS 1989, CHAPTER 194, SECTION 11; PROVIDING FOR A DELAYED REPEAL OF TITLE 41, CHAPTER 10, ARTICLE 2, ARIZONA REVISED STATUTES; PROVIDING FOR A DELAYED REPEAL OF SECTIONS 43-1074 AND 43-1161, ARIZONA REVISED STATUTES; RELATING TO ENTERPRISE ZONES.

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

2 Section 1. Section 41-1521, Arizona Revised Statutes, is amended to  
3 read:

4 41-1521. Definitions

5 In this article, unless the context otherwise requires:

6 1. "Commission" means an enterprise zone commission established under  
7 section 41-1522.

8 ~~2. "Minority business" means a business of which a majority is owned~~  
9 ~~by African Americans, persons of Hispanic or Latin American ancestry and~~  
10 ~~persons of Indian, Asian or other minority origin or descent.~~

11 ~~3. "Qualified manufacturing business" means a manufacturing business~~  
12 ~~in an enterprise zone that meets both of the following requirements:~~

13 ~~(a) The business is a small business, a minority owned business or a~~  
14 ~~woman owned business.~~

1           ~~(b) Not less than a two million dollar fixed asset investment has been~~  
2 ~~made after July 1, 1993 by the qualified manufacturing business, or by~~  
3 ~~another entity on behalf of the qualified business, in property within an~~  
4 ~~enterprise zone that is used by a qualified business.~~

5           ~~4. "Small business" means a business with a net worth of no more than~~  
6 ~~six million dollars or a business with no more than one hundred employees~~  
7 ~~within the zone.~~

8           ~~5. "Woman owned business" means a business of which a majority of the~~  
9 ~~business is owned by a woman.~~

10           ~~6.~~ 2. "Zone" means an enterprise zone established under this article.

11           Sec. 2. Section 41-1522, Arizona Revised Statutes, is amended to read:

12           41-1522. Enterprise zone commissions

13           A. A county or incorporated cities and towns may propose establishing  
14 an enterprise zone under this article.

15           B. If the proposed zone would be located:

16           1. Entirely within the exterior boundaries of an incorporated city or  
17 town, the governing body of the city or town shall serve as the enterprise  
18 zone commission under this article.

19           2. Entirely within unincorporated areas of the county, the county  
20 board of supervisors shall serve as the enterprise zone commission under this  
21 article.

22           3. Entirely in all or part of two or more adjacent cities or towns,  
23 the governing bodies of the participating cities and towns shall jointly  
24 establish a commission by intergovernmental agreement under title 11, chapter  
25 7, article 3 consisting of either:

26           (a) Representatives from the governing body of each city or town based  
27 on the relative population within the proposed enterprise zone area.

28           (b) The governing body of one of the cities or towns in which the  
29 enterprise zone is located.

30           4. In both an incorporated city or town and in an unincorporated area  
31 of the county, the board of supervisors and the governing body of the city  
32 or town shall jointly establish a commission by intergovernmental agreement  
33 under title 11, chapter 7, article 3 consisting of either:

34           (a) The county board of supervisors.

35           (b) Representatives from the board of supervisors and the governing  
36 body of the city or town based on the relative population of the incorporated  
37 and unincorporated areas within the proposed enterprise zone.

38           C. If members of the governing body of a city or town are prohibited  
39 from serving on the enterprise zone commission, the governing body shall  
40 appoint the commission members.

41           D. AN ENTERPRISE ZONE COMMISSION MAY ADMINISTER AND MANAGE MORE THAN  
42 ONE ZONE IF ALL OF THE AFFECTED JURISDICTIONS AGREE TO THAT ARRANGEMENT.

43           ~~E.~~ E. The enterprise zone commission shall appoint a zone  
44 administrator. The zone administrator may be a person not presently employed

1 by the city, town or county or a member of the existing staff of the city,  
2 town or county.

3 ~~E. An enterprise zone shall not include territory in more than one~~  
4 ~~county or any portion of two or more counties.~~

5 F. The commission shall:

6 1. Select a chairman and vice-chairman from among its members.

7 2. Meet at least semiannually and at other times on the call of the  
8 chairman.

9 G. The commission may utilize the services of appropriate county, city  
10 and town personnel.

11 H. A commission is a public body for purposes of title 38, chapter 3,  
12 article 3.1, and commission members are public officers for purposes of title  
13 38, chapter 3, article 8.

14 I. The commission shall identify areas of the county which potentially  
15 qualify as enterprise zones and may apply for designation, or renewal of  
16 designation, as an enterprise zone.

17 J. After an enterprise zone has been established in the county the  
18 commission shall:

19 1. Provide for planning, community relations and promotion of the zone  
20 among interested parties in the county.

21 2. Apply for and receive gifts, loans and other monies from any  
22 private source.

23 3. Make an annual report to the department on the development of the  
24 zone. The report shall ~~also~~ include information on: ~~businesses receiving~~  
25 ~~income tax credits under sections 43-1074 and 43-1161 including the name and~~  
26 ~~address of the businesses. The report shall also include the number of net~~  
27 ~~new employees and the total tax credits claimed by businesses in the~~  
28 ~~enterprise zone.~~

29 (a) THE TYPES AND AMOUNTS OF INCENTIVES THAT ARE OFFERED BY LOCAL  
30 GOVERNMENTS TO BUSINESSES IN THE ZONE.

31 (b) A LIST OF OTHER FEDERAL, STATE AND LOCAL PROGRAMS THAT ARE USED  
32 IN THE ZONE, SUCH AS JOB TRAINING, SPECIAL LOAN PROGRAMS, COMMUNITY  
33 DEVELOPMENT BLOCK GRANTS AND AFFORDABLE HOUSING, AND SOURCES OF FUNDING FOR  
34 THE PROGRAMS.

35 (c) PUBLIC INFRASTRUCTURE INVESTMENTS AND THE SOURCES OF FUNDING FOR  
36 THE INFRASTRUCTURE PROJECTS.

37 ~~K. A business receiving income tax credits under sections 43-1074 and~~  
38 ~~43-1161 for net new employment increases shall report the following~~  
39 ~~information annually to the zone administrator of the zone where the business~~  
40 ~~is located.~~

41 ~~1. The business name and mailing address.~~

42 ~~2. The business location.~~

43 ~~3. The number of employees for which it received income tax credits.~~

1 ~~4. The total amount of income tax credits received for that year:~~  
2 Sec. 3. Section 41-1523, Arizona Revised Statutes, is amended to read:  
3 41-1523. Qualifying criteria for enterprise zones.  
4 A. ~~A county or a specific area of the county may be designated an~~  
5 ~~enterprise zone if it meets either of the following requirements:~~  
6 1. The average annual unemployment rate in the area, or within a  
7 reasonable proximity of the area, in the preceding two years as determined  
8 by the department of economic security was at least one hundred fifty per  
9 cent of the average annual statewide unemployment rate for the same period  
10 of time.  
11 2. The poverty rate in the area, or within a reasonable proximity of  
12 the area, is at least one hundred fifty per cent of the statewide poverty  
13 rate according to the most recent United States decennial census.  
14 B. In addition to the requirements of subsection A:  
15 1. A SPECIFIC AREA OF A COUNTY MAY BE DESIGNATED AN ENTERPRISE ZONE,  
16 OR AN ENTIRE COUNTY HAVING A POPULATION OF LESS THAN FIVE HUNDRED THOUSAND  
17 PERSONS, ACCORDING TO THE MOST RECENT UNITED STATES DECENNIAL CENSUS  
18 PRECEDING DESIGNATION OR RENEWAL, MAY BE DESIGNATED AN ENTERPRISE ZONE.  
19 2. The proposed enterprise zone must include a geographical area of  
20 at least one-fourth square mile and have a population of at least one  
21 thousand persons.  
22 3. AN ENTERPRISE ZONE MAY NOT INCLUDE ANY NONCONTIGUOUS TERRITORY, AND  
23 a county, ~~or incorporated city or town shall not establish an enterprise zone~~  
24 that surrounds an area that is not part of the enterprise zone.  
25 4. AN ENTERPRISE ZONE SHALL NOT INCLUDE TERRITORY IN MORE THAN ONE  
26 COUNTY OR ANY PORTION OF TWO OR MORE COUNTIES.  
27 5. THE BOUNDARIES OF AN ENTERPRISE ZONE SHALL BE BASED ON HISTORIC  
28 COMMUNITY OR NEIGHBORHOOD IDENTITY AND MAY ALSO USE UNITED STATES CENSUS  
29 GEOGRAPHICAL UNITS, POLITICAL SUBDIVISIONS, INDIAN RESERVATIONS, INCORPORATED  
30 CITIES OR TOWNS OR COUNTY BOUNDARIES.  
31 C. ~~The commission of an established enterprise zone may annually apply~~  
32 ~~for expansion or contraction of the zone if the size of the geographical area~~  
33 ~~under consideration for expansion or contraction does not exceed one fourth~~  
34 ~~square mile or five per cent of the area of the zone, whichever is greater,~~  
35 ~~and if the modification does not adversely impact any of the businesses in~~  
36 ~~the areas that are being proposed to be included or excluded from the zone.~~  
37 ~~The modifications may be made administratively by the department and shall~~  
38 ~~not be counted as one of the six new zones that the department may designate~~  
39 ~~annually. For expansion or contraction of more than one fourth square mile~~  
40 ~~or five per cent of the area of the zone, whichever is greater, applicants~~  
41 ~~shall follow the procedures required for new applications. An expansion or~~  
42 ~~contraction shall not be granted if the resulting enterprise zone surrounds~~  
43 ~~an area that is not part of the enterprise zone.~~  
44 Sec. 4. Section 41-1524, Arizona Revised Statutes, is amended to read:

1           41-1524. Application for designation of an enterprise zone:  
2                           term: renewal

3           A. The commission shall apply to the department to designate a  
4 qualified area in the county as an enterprise zone. The application shall  
5 be in a form prescribed by the department and shall include:

6           1. A map showing the proposed boundaries of the enterprise zone. ~~The~~  
7 ~~proposed boundaries shall be based on historic community or neighborhood~~  
8 ~~identity and may also use United States census geographical units, political~~  
9 ~~subdivisions, Indian reservations, incorporated cities or towns or county~~  
10 ~~boundaries. The area within the boundaries of the enterprise zone shall be~~  
11 ~~contiguous. For counties having a population of less than five hundred~~  
12 ~~thousand persons, according to the most recent United States decennial census~~  
13 ~~preceding designation or renewal, the enterprise zone may include the entire~~  
14 ~~county.~~

15           2. Evidence and certification of notice and a hearing held by the  
16 applicant before submitting the application.

17           3. A written narrative explaining the area and the development goals  
18 and strategy for the zone, the vacancy rates of residential, commercial and  
19 industrial structures and land use information.

20           4. A plan for the management or administrative responsibility for the  
21 zone.

22           5. Incentives and initiatives that local governments in the proposed  
23 zone will provide or establish to encourage businesses to locate in the  
24 proposed zone. These may include economic or financial incentives or  
25 priorities, increased public services, improved infrastructure, structural  
26 rehabilitation and regulatory simplification and expedition.

27           B. If the department finds after a public hearing that the area of  
28 application qualifies under this article, the department shall certify the  
29 area as an enterprise zone. The department shall provide notice of the  
30 certification to the department of revenue, THE COUNTY ASSESSOR OF ANY  
31 AFFECTED COUNTY, any affected municipality, the enterprise zone commission  
32 and each legislator whose district includes all or part of the zone. In any  
33 calendar year the department shall not certify the formation of more than six  
34 enterprise zones in this state.

35           C. The department shall set a termination date for the enterprise zone  
36 which shall be not more than five years after the date the zone is  
37 designated. During the last year before termination the commission may apply  
38 to renew the enterprise zone, and the department after a public hearing may  
39 renew the zone for consecutive ~~five-year~~ terms OF UP TO FIVE YEARS if the  
40 zone continues to meet the criteria prescribed by this article.

41           Sec. 5. Section 41-1525, Arizona Revised Statutes, is amended to read:

42           41-1525. Tax incentives

43           A. The owner of a business located in an enterprise zone BEFORE JULY  
44 1, 1998 is eligible for an income tax credit under section 43-1074 or 43-1161

1 for net increases in QUALIFIED employment POSITIONS ~~of qualified employees,~~  
2 EXCEPT EMPLOYMENT POSITIONS AT A BUSINESS LOCATION WHERE TANGIBLE PERSONAL  
3 PROPERTY IS SOLD AT RETAIL, if the owner certifies:

4 1. CERTIFIES to the department of revenue the amount of compensation  
5 paid to qualified employees in the enterprise zone, the dates of employment  
6 and other information as requested.

7 2. CERTIFIES to the department of commerce that at least thirty-five  
8 per cent of the new qualified employees are residents of the zone ON THE DATE  
9 OF EMPLOYMENT. To satisfy the thirty-five per cent residency requirement,  
10 all contiguous or noncontiguous zones in the county from which employers hire  
11 eligible workers shall be treated as one zone.

12 3. REPORTS ANNUALLY TO THE DEPARTMENT OF COMMERCE:

13 (a) THE BUSINESS NAME AND MAILING ADDRESS.

14 (b) THE BUSINESS LOCATION.

15 (c) THE NUMBER OF EMPLOYEES FOR WHICH IT RECEIVED INCOME TAX CREDITS.

16 (d) THE AMOUNT OF COMPENSATION PAID TO EMPLOYEES QUALIFIED FOR THE  
17 CREDIT.

18 (e) THAT THE EMPLOYER HAS PAID AT LEAST FIFTY PER CENT OF THE PREMIUM  
19 OR MEMBERSHIP COST OF HEALTH INSURANCE COVERAGE FOR EMPLOYEES QUALIFIED FOR  
20 THE INCOME TAX CREDIT FOR INCREASED EMPLOYMENT IN ENTERPRISE ZONES.

21 (f) THE TOTAL AMOUNT OF INCOME TAX CREDITS RECEIVED FOR THAT YEAR.

22 (g) CAPITAL INVESTMENT MADE IN THE ZONE.

23 (h) OTHER INFORMATION NECESSARY FOR THE MANAGEMENT AND REPORTING OF  
24 THIS PROGRAM, INCLUDING INFORMATION ON HEALTH INSURANCE COVERAGE FOR  
25 QUALIFIED EMPLOYMENT POSITIONS.

26 ~~B. The owner of a business located in an enterprise zone is eligible  
27 for an income tax credit under section 43-1074 or 43-1161 for the employment  
28 of a person who qualifies as a dislocated worker for the purposes of the job  
29 training partnership and economic dislocation and worker adjustment act (P.L.  
30 97-300; 96 Stat. 1322) if the business meets the requirements of subsection  
31 A of this section.~~

32 ~~C. B. The increase in valuation resulting from a fixed asset  
33 investment of not less than two million dollars in REAL AND PERSONAL property  
34 within an enterprise zone which is owned or used by a qualified SMALL  
35 manufacturing business THAT IS CERTIFIED BY THE DEPARTMENT PURSUANT TO  
36 SECTION 41-1525.01 BEFORE JULY 1, 1998 shall be assessed as class eight  
37 property as provided by section 42-162.~~

38 Sec. 6. Title 41, chapter 10, article 2, Arizona Revised Statutes, is  
39 amended by adding section 41-1525.01, to read:

40 41-1525.01. Certification of small manufacturing businesses:  
41 definitions

42 A. THROUGH JUNE 30, 1998, THE DEPARTMENT OF COMMERCE SHALL CERTIFY  
43 SMALL MANUFACTURING BUSINESSES THAT QUALIFY FOR PROPERTY TAX INCENTIVES UNDER  
44 SECTION 41-1525, SUBSECTION B. TO QUALIFY UNDER THIS SECTION:

1           1. AN EXISTING SMALL MANUFACTURING BUSINESS, THAT IS ALREADY LOCATED  
2 IN THE ENTERPRISE ZONE AND HAS A PROFITABLE OPERATING HISTORY FOR THE MOST  
3 RECENT TWO YEARS, MUST INVEST AT LEAST TWO MILLION DOLLARS IN FIXED ASSETS  
4 IN THE ZONE AFTER DECEMBER 31, 1995. INVESTMENT MAY BE CUMULATIVE.  
5 RECLASSIFICATION IS EFFECTIVE ON JANUARY 1 OF THE YEAR FOLLOWING COMPLETION  
6 OF THE REQUIRED INVESTMENT.

7           2. A SMALL MANUFACTURING BUSINESS THAT IS NEWLY LOCATED IN THE ZONE  
8 MUST INVEST AT LEAST TWO MILLION DOLLARS IN FIXED ASSETS IN THE ZONE AFTER  
9 DECEMBER 31, 1995. INVESTMENT MAY BE CUMULATIVE. RECLASSIFICATION IS  
10 EFFECTIVE ON JANUARY 1 OF THE YEAR FOLLOWING COMPLETION OF THE REQUIRED  
11 INVESTMENT.

12           3. A CERTIFIED SMALL BUSINESS MUST REPORT ANNUALLY TO THE ARIZONA  
13 DEPARTMENT OF COMMERCE:

14           (a) BUSINESS NAME AND MAILING ADDRESS.

15           (b) BUSINESS LOCATION.

16           (c) NUMBER OF EMPLOYEES.

17           (d) VALUE OF PROPERTY RECLASSIFIED.

18           (e) OTHER INFORMATION NECESSARY FOR THE MANAGEMENT AND REPORTING OF  
19 THIS PROGRAM.

20           B. THE DEPARTMENT SHALL NOT CERTIFY ANY BUSINESS FOR QUALIFICATION FOR  
21 PROPERTY TAX INCENTIVES AFTER JUNE 30, 1998. HOWEVER, CERTIFICATION UNDER  
22 THIS SECTION IS VALID FOR FIVE YEARS REGARDLESS OF WHETHER UNDER CHANGING  
23 CIRCUMSTANCES THE BUSINESS GROWS BEYOND THE LIMITS OF A SMALL BUSINESS AND  
24 REGARDLESS OF WHETHER THE ENTERPRISE ZONE CONTINUES IN EXISTENCE.

25           C. THE DEPARTMENT OF COMMERCE SHALL NOTIFY THE DEPARTMENT OF REVENUE  
26 AND THE COUNTY ASSESSOR IF A CERTIFIED SMALL MANUFACTURING BUSINESS CLOSES  
27 OR MOVES FROM THE ENTERPRISE ZONE, AND THE ASSESSOR SHALL MAKE THE  
28 APPROPRIATE CHANGES TO THE TAX ROLL.

29           D. FOR PURPOSES OF THIS SECTION:

30           1. "MANUFACTURING" MEANS FABRICATING, PRODUCING OR MANUFACTURING  
31 PRODUCTS, WARES OR ARTICLES FOR USE FROM RAW OR PREPARED MATERIALS, IMPARTING  
32 TO THOSE MATERIALS NEW FORMS, QUALITIES, PROPERTIES AND COMBINATIONS.

33           2. "MINORITY OWNED BUSINESS" MEANS A BUSINESS OF WHICH A MAJORITY OF  
34 THE BUSINESS IS OWNED BY AFRICAN AMERICANS, PERSONS OF HISPANIC OR LATIN  
35 AMERICAN ANCESTRY AND PERSONS OF NATIVE AMERICAN, ASIAN OR OTHER MINORITY  
36 ORIGIN OR DESCENT.

37           3. "SMALL BUSINESS" MEANS A MINORITY OWNED BUSINESS, A WOMAN OWNED  
38 BUSINESS OR A CONCERN, INCLUDING ITS AFFILIATES, THAT IS INDEPENDENTLY OWNED  
39 AND OPERATED, AND EMPLOYS LESS THAN ONE HUNDRED FULL-TIME EMPLOYEES AT THE  
40 LOCATION IN THE ENTERPRISE ZONE OR HAD GROSS ANNUAL RECEIPTS OF LESS THAN  
41 FOUR MILLION DOLLARS IN ITS LAST FISCAL YEAR.

42           4. "WOMAN OWNED BUSINESS" MEANS A BUSINESS OF WHICH A MAJORITY OF THE  
43 BUSINESS IS OWNED BY ONE OR MORE WOMEN.

1           Sec. 7. Section 42-162, Arizona Revised Statutes, as amended by Laws  
2 1996, chapter 93, section 3, is amended to read:

3           42-162. Classification of property for taxation

4           A. There are established the following classes of property for  
5 taxation:

6           1. Class one:

7           (a) Producing mines and mining claims, the personal property used  
8 thereon, the improvements thereto and the mills and smelters operated in  
9 conjunction therewith valued under the provisions of section 42-143.

10          (b) Standing timber.

11          2. Class two:

12          (a) All real and personal property used to provide local  
13 telecommunications service valued under chapter 4, article 5 of this title.

14          (b) All property, both real and personal, of gas, water and electric  
15 utility companies and pipeline companies valued under the provisions of  
16 section 42-144 or 42-201, whichever is applicable.

17          3. Class three, consisting of two subclasses:

18          (a) Class three (R) consisting of all real property and improvements  
19 devoted to any commercial or industrial use other than property included in  
20 class one, two, four, six, seven, eight, nine or ten.

21          (b) Class three (P) consisting of all personal property devoted to any  
22 commercial or industrial use other than property included in class one, two,  
23 four, six, seven, eight, nine or ten.

24          4. Class four, consisting of two subclasses:

25          (a) Class four (R) consisting of:

26           (i) All real property and the improvements to such property, if any,  
27 used for agricultural purposes, and all other real property and the  
28 improvements to such property, if any, not included in class one, two, three,  
29 five, six, eight, nine or ten.

30           (ii) All real property and the improvements to such property which  
31 are primarily used for agricultural purposes in the production of trees,  
32 other than trees intended for use as standing timber, vines, rosebushes,  
33 ornamental plants or other horticultural crops, without regard to whether  
34 such crops are grown in containers, soil or any other medium and which are  
35 not included in class one, two, three, five, six, eight, nine or ten.

36           (iii) Real property and improvements to the property that are owned  
37 and controlled by a nonprofit organization that qualifies as exempt from  
38 taxation pursuant to section 501(c)(3), (4), (7), (10) or (14) of the  
39 internal revenue code if the property is not used or intended for the  
40 financial benefit of members of the organization or any other individual or  
41 organization, unless the financial benefit is for charitable, religious,  
42 scientific, literary or educational purposes.

43          (b) Class four (P) consisting of personal property that is:

1 (i) Used for agricultural purposes, and all other personal property  
2 not included in class one, two, three, five, six, eight, nine or ten.

3 (ii) Primarily used for agricultural purposes in producing trees,  
4 other than trees intended for use as standing timber, vines, rosebushes,  
5 ornamental plants or other horticultural crops, without regard to whether  
6 such crops are grown in containers, soil or any other medium and which is not  
7 included in class one, two, three, five, six, eight, nine or ten.

8 (iii) Owned and controlled by a nonprofit organization that qualifies  
9 as exempt from taxation pursuant to section 501(c)(3), (4), (7), (10) or (14)  
10 of the internal revenue code if the property is not used or intended for the  
11 financial benefit of members of the organization or any other individual or  
12 organization, unless the financial benefit is for charitable, religious,  
13 scientific, literary or educational purposes.

14 5. Class five:

15 All real property and the improvements to such property and personal  
16 property used for residential purposes and not otherwise included in class  
17 one, two, three, four, six, eight, nine or ten.

18 6. Class six:

19 (a) All real and personal property and improvements to such property  
20 that are not included in class one, two, three, four, five, eight, nine or  
21 ten and that are devoted to use as leased or rented property solely for  
22 residential purposes.

23 (b) Day care centers licensed under title 36, chapter 7.1.

24 (c) All real property and the improvements to such property and  
25 personal property used for the operation of residential housing facilities  
26 not used or held for profit and structured to the care or housing of  
27 handicapped persons or persons sixty-two years of age or older.

28 (d) All real property and improvements to such property and personal  
29 property used for the operation of licensed residential care institutions or  
30 licensed nursing care institutions which provide medical services, nursing  
31 services or health related services and are structured to the care or housing  
32 of handicapped persons or persons sixty-two years of age or older. Nothing  
33 in this subdivision shall be construed to limit eligibility for an exemption  
34 pursuant to section 42-271.

35 (e) Real and personal property consisting of no more than four rooms  
36 of owner-occupied residential property that are leased or rented to transient  
37 lodgers at no more than a fifty per cent average annual occupancy rate,  
38 together with furnishing no more than a breakfast meal, by the owner of the  
39 property.

40 7. Class seven:

41 (a) All real and personal property of railroad companies used in the  
42 continuous operation of a railroad valued under chapter 4, article 4 of this  
43 title.

1 (b) All real and personal property used in the operation of private  
2 car companies valued under chapter 4, article 3 of this title.

3 (c) Flight property valued under chapter 4, article 1 of this title.

4 8. Class eight:

5 (a) Noncommercial historic property as defined in section 42-161.

6 (b) Any real and personal property located within the boundaries of  
7 a foreign trade zone or subzone established pursuant to 19 United States Code  
8 section 81 and title 44, chapter 18. The property classification authorized  
9 by this subdivision shall apply only to the area of a foreign trade zone or  
10 subzone which has been activated for foreign trade zone use by the district  
11 director of the United States customs service, pursuant to 19 Code of Federal  
12 Regulations section 146.6.

13 (c) Real and personal property and improvements that are located in  
14 a military reuse zone that is established under title 41, chapter 10, article  
15 3 and that is devoted to providing aviation or aerospace services or to  
16 manufacturing, assembling or fabricating aviation or aerospace products.  
17 Property may not be classified under this subdivision for more than five tax  
18 years. Any new addition or improvement to property already classified under  
19 this subdivision qualifies separately for classification under this  
20 subdivision for not more than five tax years. If a military reuse zone is  
21 terminated, the property in that zone that was previously classified under  
22 this subdivision shall be reclassified as prescribed by this section.

23 (d) Real and personal property and improvements THAT ARE LOCATED IN  
24 AN ENTERPRISE ZONE AND owned or used by a ~~qualified~~ SMALL manufacturing  
25 business, ~~as defined in~~ THAT IS CERTIFIED BY THE DEPARTMENT OF COMMERCE  
26 PURSUANT TO section ~~41-1521~~ 41-1525.01. Property may not be classified under  
27 this subdivision for more than ~~ten~~ FIVE tax years. THIS SUBDIVISION APPLIES  
28 ONLY TO CLASSIFICATION OF PROPERTY FOR PRIMARY PROPERTY TAX PURPOSES UNLESS  
29 THIS LIMITATION IS FINALLY ADJUDICATED TO BE INVALID, IN WHICH CASE THIS  
30 SUBDIVISION APPLIES TO CLASSIFICATION OF PROPERTY FOR BOTH PRIMARY AND  
31 SECONDARY PROPERTY TAX PURPOSES.

32 (e) Beginning for tax year 1994, real and personal property and  
33 improvements or a portion of such property comprising a qualified  
34 environmental technology manufacturing, producing or processing facility as  
35 described in section 41-1514.02 shall be classified under this subdivision  
36 for twenty tax years from the date placed in service. Any addition or  
37 improvement to property already classified under this subdivision qualifies  
38 separately for classification under this subdivision for an additional twenty  
39 tax years from the date placed in service. Following revocation of  
40 certification pursuant to section 41-1514.02, property previously classified  
41 under this subdivision shall be reclassified as prescribed by this section.

42 9. Class nine:

1 Real property, improvements and personal property that meet the  
2 criteria for property included in class three and also the criteria for  
3 commercial historic property as defined in section 42-161.

4 10. Class ten:

5 Real property, improvements and personal property that meet the  
6 criteria for property included in class six and also meet the criteria for  
7 commercial historic property as defined in section 42-161.

8 11. Class eleven:

9 (a) Improvements located on federal, state, county or municipal  
10 property and owned by the lessee of such property provided that the  
11 improvements shall become the property of the owner of the federal, state,  
12 county or municipal property upon termination of the leasehold interest in  
13 the federal, state, county or municipal property and that both the  
14 improvements and the federal, state, county or municipal property are used  
15 primarily for athletic, recreational, entertainment, artistic, cultural or  
16 convention activities.

17 (b) Improvements located on federal, state, county or municipal  
18 property and owned by the lessee of such property provided:

19 (i) That the improvements shall become the property of the owner of  
20 the federal, state, county or municipal property upon termination of the  
21 leasehold interest in the federal, state, county or municipal property.

22 (ii) That both the improvements and the federal, state, county or  
23 municipal property are used for or in connection with aviation, including  
24 hangars, tie-downs, aircraft maintenance, sales of aviation-related items,  
25 charter and rental activities, parking facilities and restaurants, stores and  
26 other services located in a terminal.

27 (iii) That both the improvements and the federal, state, county or  
28 municipal property are located on a state, county, city or town airport or  
29 a public airport operating pursuant to sections 2-311, 2-312 and 2-313.

30 (c) Property that is leased to or acquired by the government and used  
31 to perform a government contract and that is defined as "contractor-acquired  
32 property" or "government-furnished property" in the federal acquisition  
33 regulations, 48 Code of Federal Regulations section 45.101.

34 (d) Property of a corporation organized by or at the direction of this  
35 state or a county, city or town to develop, construct, improve, repair,  
36 replace or own any property, improvement, building or other facility to be  
37 used for public purposes that the state, county, city or town pledges to  
38 lease or lease-purchase with state, county or municipal special or general  
39 revenues and not otherwise exempt under section 42-271.

40 B. For the purposes of classification of property under this section,  
41 partially completed or vacant improvements on the land including improved  
42 common area tracts shall be classified according to their intended use as  
43 demonstrated by objective evidence. For property not valued by the  
44 department, an improvement on the land is considered to be partially

1 completed when the foundation of the structure or structures to be located  
2 on the property is in place. The only portion affected by the  
3 reclassification is the improvement on the land and that portion of the land  
4 that is necessary to support the use of the structure or structures, except  
5 that common area tracts in residential developments associated with partially  
6 completed improvements shall receive the same classification as the partially  
7 completed improvements. Property that is not valued by the department, that  
8 does not have a structure or structures and that is actively used for  
9 commercial purposes shall be classified as prescribed by subsection A of this  
10 section. This subsection does not apply to property that is classified as  
11 agricultural pursuant to section 42-167.

12 Sec. 8. Section 43-1074, Arizona Revised Statutes, is amended to read:  
13 43-1074. Credit for increased employment in enterprise zones

14 A. A credit is allowed ~~for taxable years beginning from and after~~  
15 ~~December 31, 1989~~ against the taxes imposed by this title for net increases  
16 in QUALIFIED employment POSITIONS of ~~qualified employees~~ RESIDENTS OF THIS  
17 STATE by a business located in an enterprise zone established under title 41,  
18 chapter 10, article 2, EXCEPT EMPLOYMENT POSITIONS AT A BUSINESS LOCATION  
19 WHERE TANGIBLE PERSONAL PROPERTY IS SOLD AT RETAIL. The amount of the credit  
20 is equal to:

21 1. One-fourth of the taxable wages paid to ~~each qualified~~ AN employee  
22 IN A QUALIFIED EMPLOYMENT POSITION, not to exceed ~~one thousand~~ FIVE HUNDRED  
23 dollars, ~~per net new employee~~, in the first year or partial year of  
24 employment.

25 2. One-third of the taxable wages paid to ~~each previously qualified~~  
26 AN employee IN A QUALIFIED EMPLOYMENT POSITION, not to exceed one thousand  
27 ~~five hundred~~ dollars per ~~net new employee~~ QUALIFIED EMPLOYMENT POSITION, in  
28 the second year of continuous employment.

29 3. One-half of the taxable wages paid to ~~each previously qualified~~ AN  
30 employee IN A QUALIFIED EMPLOYMENT POSITION, not to exceed ~~two~~ ONE thousand  
31 five hundred dollars per ~~net new employee~~ QUALIFIED EMPLOYMENT POSITION, in  
32 the third year of continuous employment.

33 B. TO QUALIFY FOR A CREDIT UNDER THIS SECTION:

34 1. ALL OF THE EMPLOYEES WITH RESPECT TO WHOM A CREDIT IS CLAIMED MUST  
35 RESIDE IN THIS STATE.

36 2. THIRTY-FIVE PER CENT OF THE EMPLOYEES WITH RESPECT TO WHOM A CREDIT  
37 IS CLAIMED FOR THE FIRST YEAR OF EMPLOYMENT MUST RESIDE IN AN ENTERPRISE ZONE  
38 THAT IS LOCATED IN THE SAME COUNTY IN WHICH THE BUSINESS IS LOCATED ON THE  
39 DATE OF EMPLOYMENT.

40 3. A QUALIFIED EMPLOYMENT POSITION MUST MEET ALL OF THE FOLLOWING  
41 REQUIREMENTS:

42 (a) THE POSITION MUST BE A MINIMUM OF ONE THOUSAND SEVEN HUNDRED FIFTY  
43 HOURS PER YEAR OF FULL TIME EMPLOYMENT.

1 (b) THE EMPLOYMENT MUST INCLUDE HEALTH INSURANCE COVERAGE FOR THE  
2 EMPLOYEE FOR WHICH THE EMPLOYER PAYS AT LEAST FIFTY PER CENT OF PREMIUM OR  
3 MEMBERSHIP COST.

4 (c) THE EMPLOYER MUST PAY COMPENSATION AT LEAST EQUAL TO THE WAGE  
5 OFFER BY COUNTY AS COMPUTED ANNUALLY BY THE DEPARTMENT OF ECONOMIC SECURITY  
6 RESEARCH ADMINISTRATION DIVISION.

7 (d) THE EMPLOYEE MUST HAVE BEEN EMPLOYED FOR AT LEAST NINETY DAYS  
8 DURING THE FIRST TAXABLE YEAR. AN EMPLOYEE WHO IS HIRED DURING THE LAST  
9 NINETY DAYS OF THE TAXABLE YEAR SHALL BE CONSIDERED A NEW EMPLOYEE DURING THE  
10 NEXT TAXABLE YEAR.

11 (e) THE EMPLOYEE HAS NOT BEEN PREVIOUSLY EMPLOYED BY THE TAXPAYER  
12 WITHIN TWELVE MONTHS BEFORE THE CURRENT DATE OF HIRE.

13 C. The net increase in the number of ~~employees~~ QUALIFIED EMPLOYMENT  
14 POSITIONS shall be determined by comparing the average NUMBER OF QUALIFIED  
15 employment POSITIONS during the taxable year with THE FULL TIME EMPLOYMENT  
16 DURING the immediately preceding taxable year.

17 ~~B.~~ D. If the allowable tax credit exceeds the income taxes otherwise  
18 due on the claimant's income, or if there are no state income taxes due on  
19 the claimant's income, the amount of the claim not used as an offset against  
20 income taxes may be carried forward as a tax credit against subsequent  
21 TAXABLE years' income tax liability ~~for the period~~, not to exceed five  
22 TAXABLE years, provided the business remains in an enterprise zone.

23 ~~B.~~ E. Co-owners of a business, including partners in a partnership  
24 and shareholders of an S corporation, as defined in section 1361 of the  
25 internal revenue code, may each claim only the pro rata share of the credit  
26 allowed under this section based on the ownership interest. The total of the  
27 credits allowed all such owners of the business may not exceed the amount  
28 that would have been allowed for a sole owner of the business.

29 F. A FAILURE TO REPORT AND CERTIFY TO THE DEPARTMENT OF COMMERCE THE  
30 INFORMATION PRESCRIBED BY SECTION 41-1525, SUBSECTION A, PARAGRAPHS 2 AND 3  
31 DISQUALIFIES THE TAXPAYER FROM THE CREDIT UNDER THIS SECTION.

32 G. THE DEPARTMENT MAY ADOPT RULES NECESSARY FOR THE ADMINISTRATION OF  
33 THIS SECTION.

34 ~~E. A credit against the taxes imposed by this title as provided in~~  
35 ~~subsection A of this section is allowed for the employment of a person who~~  
36 ~~qualifies as a dislocated worker for the purposes of the job training~~  
37 ~~partnership and economic dislocation and worker adjustment act (P.L. 97-300;~~  
38 ~~96 Stat. 1322) if a business located in an enterprise zone meets the~~  
39 ~~requirements of section 41-1525, subsection A.~~

40 ~~F. For purposes of this section "qualified employee" means a person~~  
41 ~~who qualifies as economically disadvantaged for purposes of the job training~~  
42 ~~partnership act (P.L. 97-300; 96 Stat. 1322).~~

1           Sec. 9. Section 43-1161, Arizona Revised Statutes, is amended to read:  
2           43-1161. Credit for increased employment in enterprise zones

3           A. A credit is allowed ~~for taxable years beginning from and after~~  
4 ~~December 31, 1989~~ against the taxes imposed by this title for net increases  
5 in QUALIFIED employment POSITIONS of ~~qualified employees~~ RESIDENTS OF THIS  
6 STATE by a business located in an enterprise zone established under title 41,  
7 chapter 10, article 2, EXCEPT EMPLOYMENT POSITIONS AT A BUSINESS LOCATION  
8 WHERE TANGIBLE PERSONAL PROPERTY IS SOLD AT RETAIL. The amount of the credit  
9 is equal to:

10           1. One-fourth of the taxable wages paid to ~~each qualified~~ AN employee  
11 IN A QUALIFIED EMPLOYMENT POSITION, not to exceed ~~one thousand~~ FIVE HUNDRED  
12 dollars, ~~per net new employee~~, in the first year or partial year of  
13 employment.

14           2. One-third of the taxable wages paid to ~~each previously qualified~~  
15 AN employee IN A QUALIFIED EMPLOYMENT POSITION, not to exceed one thousand  
16 ~~five hundred~~ dollars ~~per net new employee~~ QUALIFIED EMPLOYMENT POSITION, in  
17 the second year of continuous employment.

18           3. One-half of the taxable wages paid to ~~each previously qualified~~ AN  
19 employee IN A QUALIFIED EMPLOYMENT POSITION, not to exceed ~~two~~ ONE thousand  
20 five hundred dollars ~~per net new employee~~ QUALIFIED EMPLOYMENT POSITION, in  
21 the third year of continuous employment.

22           B. TO QUALIFY FOR A CREDIT UNDER THIS SECTION:

23           1. ALL OF THE EMPLOYEES WITH RESPECT TO WHOM A CREDIT IS CLAIMED MUST  
24 RESIDE IN THIS STATE.

25           2. THIRTY-FIVE PER CENT OF THE EMPLOYEES WITH RESPECT TO WHOM A CREDIT  
26 IS CLAIMED FOR THE FIRST YEAR OF EMPLOYMENT MUST RESIDE IN AN ENTERPRISE ZONE  
27 THAT IS LOCATED IN THE SAME COUNTY IN WHICH THE BUSINESS IS LOCATED ON THE  
28 DATE OF HIRE.

29           3. A QUALIFIED EMPLOYMENT POSITION MUST MEET ALL OF THE FOLLOWING  
30 REQUIREMENTS:

31           (a) THE POSITION MUST BE A MINIMUM OF ONE THOUSAND SEVEN HUNDRED FIFTY  
32 HOURS PER YEAR OF FULL TIME EMPLOYMENT.

33           (b) THE EMPLOYMENT MUST INCLUDE HEALTH INSURANCE COVERAGE FOR THE  
34 EMPLOYEE FOR WHICH THE EMPLOYER PAYS AT LEAST FIFTY PER CENT OF THE PREMIUM  
35 OR MEMBERSHIP COST.

36           (c) THE EMPLOYER MUST PAY COMPENSATION AT LEAST EQUAL TO THE WAGE  
37 OFFER BY COUNTY AS COMPUTED ANNUALLY BY THE DEPARTMENT OF ECONOMIC SECURITY  
38 RESEARCH ADMINISTRATION DIVISION.

39           (d) THE EMPLOYEE MUST HAVE BEEN EMPLOYED FOR AT LEAST NINETY DAYS  
40 DURING THE FIRST TAXABLE YEAR. AN EMPLOYEE WHO IS HIRED DURING THE LAST  
41 NINETY DAYS OF THE TAXABLE YEAR SHALL BE CONSIDERED A NEW EMPLOYEE DURING THE  
42 NEXT TAXABLE YEAR.

43           (e) THE EMPLOYEE HAS NOT BEEN PREVIOUSLY EMPLOYED BY THE TAXPAYER  
44 WITHIN TWELVE MONTHS BEFORE THE CURRENT DATE OF HIRE.

1 C. The net increase in the number of ~~employees~~ QUALIFIED EMPLOYMENT  
2 POSITIONS shall be determined by comparing the average NUMBER OF QUALIFIED  
3 employment POSITIONS during the taxable year with the immediately preceding  
4 taxable year according to the report filed by the enterprise zone with the  
5 department of commerce.

6 ~~B.~~ D. If the allowable tax credit exceeds the income taxes otherwise  
7 due on the claimant's income, or if there are no state income taxes due on  
8 the claimant's income, the amount of the claim not used as an offset against  
9 income taxes may be carried forward as a tax credit against subsequent years'  
10 income tax liability for the period, not to exceed five TAXABLE years,  
11 provided the business remains in an enterprise zone.

12 ~~B.~~ E. Co-owners of a business, including partners in a partnership,  
13 may each claim only the pro rata share of the credit allowed under this  
14 section based on the ownership interest. The total of the credits allowed  
15 all such owners of the business may not exceed the amount that would have  
16 been allowed for a sole owner of the business.

17 F. A FAILURE TO REPORT AND CERTIFY TO THE DEPARTMENT OF COMMERCE THE  
18 INFORMATION PRESCRIBED BY SECTION 41-1525, SUBSECTION A, PARAGRAPHS 2 AND 3  
19 DISQUALIFIES THE TAXPAYER FROM THE CREDIT UNDER THIS SECTION.

20 G. THE DEPARTMENT MAY ADOPT RULES NECESSARY FOR THE ADMINISTRATION OF  
21 THIS SECTION.

22 ~~E. A credit against the taxes imposed by this title as provided in~~  
23 ~~subsection A of this section is allowed for the employment of a person who~~  
24 ~~qualifies as a dislocated worker for the purposes of the job training~~  
25 ~~partnership and economic dislocation and worker adjustment act (P.L. 97-300;~~  
26 ~~96 Stat. 1322) if a business located in an enterprise zone meets the~~  
27 ~~requirements of section 41-1525, subsection A.~~

28 ~~F. For purposes of this section "qualified employee" means a person~~  
29 ~~who qualifies as economically disadvantaged for purposes of the job training~~  
30 ~~partnership act (P.L. 97-300; 96 Stat. 1322).~~

31 Sec. 10. Sec. Section 43-1168, Arizona Revised Statutes, is amended to  
32 read:

33 43-1168. Credit for research and development expenses

34 A credit is allowed against the taxes imposed by this title in an  
35 amount determined pursuant to section 41 of the internal revenue code, as in  
36 effect on January 1, 1994, except that:

37 1. Qualified research includes only research conducted in this state  
38 including research conducted at a university in this state and paid for by  
39 the taxpayer.

40 2. If two or more taxpayers share in the eligible expenses, each  
41 taxpayer is eligible to receive a proportionate share of the credit.

42 3. For the first taxable year in which the taxpayer claims the credit,  
43 the maximum allowable credit is one hundred thousand dollars. For the second  
44 taxable year, the maximum allowable credit is two hundred fifty thousand

1 dollars. For the third taxable year, the maximum allowable credit is four  
2 hundred thousand dollars. For each taxable year after the third taxable  
3 year, the maximum allowable credit is five hundred thousand dollars.  
4 Qualified research expenses that exceed the maximum allowable credit in a  
5 taxable year may be carried forward for not more than fifteen taxable years.

6 4. The credit under this section applies only to expenses incurred  
7 from and after December 31, 1993 THROUGH DECEMBER 31, 1998.

8 5. THE TERMINATION PROVISIONS OF SECTION 41 OF THE INTERNAL REVENUE  
9 CODE DO NOT APPLY.

10 Sec. 11. Repeal

11 Laws 1989, chapter 194, section 11 is repealed.

12 Sec. 12. Delayed repeal

13 Title 41, chapter 10, article 2, Arizona Revised Statutes, and sections  
14 43-1074 and 43-1161, Arizona Revised Statutes, are repealed from and after  
15 June 30, 2001.

16 Sec. 13. Existing enterprise zone property; tax classification

17 Notwithstanding sections 41-1525 and 42-162, Arizona Revised Statutes,  
18 as amended by this act and section 41-1525.01, Arizona Revised Statutes, as  
19 added by this act, property that is located in an enterprise zone and  
20 classified as class eight property pursuant to section 42-162, subsection A,  
21 paragraph 8, subdivision (d), Arizona Revised Statutes, on the effective date  
22 of this act shall remain classified as class eight according to the terms and  
23 conditions prescribed by sections 41-1525 and 42-162, Arizona Revised  
24 Statutes, before the effective date of this act.

25 Sec. 14. Existing qualified employees; tax credit calculation

26 Notwithstanding sections 43-1074 and 43-1161, Arizona Revised Statutes,  
27 as amended by this act, employees determined to be qualified employees as  
28 determined prior to the effective date of this act shall continue to be  
29 qualified employees for the purposes of calculation of subsequent years  
30 credit.

31 Sec. 15. Reports

32 On or before September 30, 1996, 1997, 1998, 1999 and 2000:

33 1. The department of commerce shall transmit a report to the governor,  
34 president of the senate, speaker of the house of representatives and  
35 chairpersons of the senate finance and house of representatives ways and  
36 means committees containing the following information:

37 (a) The number, size and locations of all enterprise zones established  
38 as of the end of the preceding fiscal year pursuant to title 41, chapter 10,  
39 article 2, Arizona Revised Statutes.

40 (b) The business names, locations, number of employees and amount of  
41 compensation paid to employees qualifying for income tax credits, as reported  
42 to the department pursuant to section 41-1525, Arizona Revised Statutes, in  
43 each enterprise zone.

1 (c) The amount of capital investment, made during the preceeding  
2 fiscal year and cumulatively, in each enterprise zone.

3 (d) The number of minority owned businesses, woman owned businesses  
4 and other small manufacturing businesses certified for property tax  
5 incentives pursuant to section 41-1525.01, Arizona Revised Statutes, in the  
6 preceeding fiscal year and cumulatively, in each enterprise zone, and for  
7 each such business:

8 (i) The name and location.

9 (ii) The number of employees.

10 (iii) The full cash value of the property qualifying for  
11 classification as class eight pursuant to section 42-162, Arizona Revised  
12 Statutes.

13 2. The department of revenue shall transmit a report to the governor,  
14 president of the senate, speaker of the house of representatives and  
15 chairpersons of the senate finance and house of representatives ways and  
16 means committees containing the following information:

17 (a) The full cash value and assessed valuation of property classified  
18 as class eight pursuant to section 42-162, subsection A, paragraph 8,  
19 subdivision (d), Arizona Revised Statutes, in each enterprise zone, and the  
20 assessed valuation of that property if it was not classified as class eight.

21 (b) The fiscal impact on each taxing jurisdiction for the current tax  
22 year of classifying property in enterprise zones as class eight rather than  
23 in the classification in which it would otherwise be classified.

24 (c) The total amount of income tax credits allowed for the preceding  
25 taxable year pursuant to sections 43-1074 and 43-1161, Arizona Revised  
26 Statutes.

27 Sec. 16. Retroactivity

28 A. Sections 1 through 9 of this act apply retroactively to taxable  
29 years beginning from and after December 31, 1995.

30 B. Section 10 of this act applies retroactively to taxable years  
31 beginning from and after June 30, 1995.

32 Sec. 17. Emergency

33 This act is an emergency measure that is necessary to preserve the  
34 public peace, health or safety and is operative immediately as provided by  
35 law.

**APPROVED BY THE GOVERNOR MAY 1, 1996**

**FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 1, 1996**