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## 2022 AZ Legislative Update

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The 55th Arizona State Legislature, 2nd Regular Session, adjourned *sine die* at 12:26 a.m. on Saturday, June 25, 2022 after 166 days.

At 166 days, the 2022 legislative session was tied for the fifth longest legislative session on record. Additionally, this year we witnessed the most pieces of legislation introduced in a single session with 1,851 bills, surpassing last year's record of 1,774; however, we fell short of last year's record number of bills signed into law by about 50 bills.

With the completion of his 8th legislative session, Governor Ducey became the first governor since Governor Jack Williams, five decades ago (1974), to complete two full terms in elected office. Previous twice-elected governors have all either been impeached (Mecham), resigned from office (Symington), died in office (Bolin), or were appointed to another position by the president of the United States (Castro, Napolitano).

### Back to Normal

Last year, the Arizona Legislature implemented a number of COVID-19 safety guidelines and protocols which essentially shut down most in-person activity at the Capitol; however, this session the Capitol complex returned to business as usual with all committee hearings and voting taking place in person. While a small handful of members still preferred to meet virtually, most interactions took place face to face and with minimal mask usage and social distancing. Additionally, unlike last year, Governor Ducey delivered his state of the state address in person to a joint session of the AZ Legislature.

### Personal Property Tax Reform Legislation

Earlier this session, the Legislature passed, and the Governor signed, a personal property tax reform bill, HB 2822, with bipartisan support that will dramatically simplify a complicated section of Arizona tax law.

In Arizona, compliance with business personal property tax is notoriously cumbersome. The Arizona Department of Revenue's Business Personal Property Tax manual includes 76 pages of instructions and 49 pages of tables that explain how to value equipment ranging from cranes to TVs and chairs. The personal property tax requires businesses to pay taxes on assets like machinery and equipment of all types, ranging from something as large as a farmer's tractor all the way down to a simple laptop. The personal property tax is on top of the sales tax the buyer pays at the time of purchase.

HB 2822 sets the valuation factor at 2.5% for business personal property acquired after tax year 2022 in taxation classes 1, 2, and 6. These classes include commercial and industrial uses, agriculture, and non-profits.

The Arizona business community made passage of the bill one of its top priorities for the legislative session.

### **COVID-19 Restrictions**

For the last couple of years, the Arizona Legislature has considered dozens of bills to limit public health measures in response to COVID-19 or the emergence of some other dangerous virus.

This session, Governor Ducey signed HB 2107, which prevents cities and counties from ordering business closures during an emergency. He also signed HB 2489 which prevents any level of government funded by taxpayers from requiring anyone to get a COVID-19 vaccination. This measure will prevent the COVID vaccine from ever being added to the list of required school vaccinations; however, it leaves private businesses free to impose vaccination requirements on their employees. Additionally, the governor signed HB 2616 which bars any school or government agency from requiring a face covering for anyone under the age of 18 without the written permission of the student's parent.

Several problematic bills that would have negatively impacted the business community were also introduced; however, they failed to advance. HB 2043, a bill sponsored by state representative Quang Nguyen, would have allowed an employee to recover no less than \$500,000 if their employer denied a religious exemption and required the employee to receive a COVID-19 vaccination as a condition of their employment and the person suffered a significant injury. This legislation, and others like it, failed.

### **Election Bills**

The specter of the 2020 election once again hung over Capitol proceedings, most notably with the Senate-assigned audit of Maricopa County's results. As a follow up to last year's 23 controversial election bills, the Arizona Legislature introduced well over 100 election-related proposals this session; however, most of them failed or were fairly benign with regard to impact.

Many of these election bills represent a broader attempt nationally by Republicans to change election laws following the challenges to the 2020 presidential election. They included raising the threshold for triggering an automatic recount in close elections, requiring the Arizona Department of Game and Fish to hand out voter register forms when people sign up for hunting and fishing licenses, requiring court clerks to report new felony convictions monthly so voter registration can be canceled, and requirements for county officials to count and publicly report on the number of uncounted early ballots on election night, if practical. Additionally, the Legislature passed a bill that banned same-day voter registration; however, the practice is already illegal in Arizona, making the legislation simply a message bill from Republican lawmakers.

Legislative Democrats opposed most of the election proposals, stating that they were a misdirected attempt at changing election law to appease the Stop the Steal crowd. Additionally, they argued that the state's current election laws are working fine.

### **Arizona Passes Historic Water Legislation**

In his January state of the state address, Governor Ducey called for a major new investment in water. On the last day of the 2022 legislative session, the Arizona Legislature passed an historic water bill, SB 1740, with overwhelming bipartisan support.

As passed by the Legislature, SB1740 will greatly enhance the Arizona Water Infrastructure Financing Authority (WIFA), which will be responsible for managing a \$1 billion appropriation to address the water issues in our state. That money will be used for conservation, developing groundwater, or possibly importing water from other states.

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WIFA is a statewide entity with the necessary new governance structure, duties, authorities, and staffing to promote water conservation, while identifying and developing new, innovative long-term water sources.

Under the legislation, WIFA will be tasked with finding new water solutions, but will not be a regulatory body. WIFA will achieve this through limited ownership and control of new water resources, as well as by providing financing to other water projects.

This legislation contains strong guiding principles and a purpose statement that will help to create a focused vision for fiscally responsible implementation. The enhancement of WIFA will enable Arizona to take a proactive approach to water management rather than relying on the federal government.

**Arizona Supreme Court Reinstates Historic Tax Cuts**

Back in mid-April, the Arizona Supreme Court ruled that last year's historic income tax cuts cannot be referred to the November ballot. The Court ruled that the tax cut legislation, passed last session, cannot go to the ballot because it falls under the Arizona Constitution's "support and maintenance" exception for citizen referenda.

Under the new law, rates for most taxpayers will drop to a flat 2.5% and revenue would be cut by \$1.9 billion once the tax cuts are fully in place. That's down from a range of 2.59% to 4.5%. This represents the largest tax cut in state history and the lowest flat tax in the nation.

The Legislature's budget analysts, JLBC, said the average Arizonan earning between \$75,000 and \$100,000 will save \$231 per year in state income taxes, and the average taxpayer earning between \$500,000 and \$1 million per year will save more than \$12,000.

**Arizona Expands School Voucher Program to All 1.1 Million Students**

The Arizona Legislature passed the largest school voucher expansion in the country this session. House Bill 2853, sponsored by house majority leader representative Ben Toma, expands Arizona's Empowerment Scholarship Accounts in the 2022-2023 school year to all 1.1 million Arizona students who are eligible to enroll in any public school in the state, including a preschool program for students with disabilities, a kindergarten program, any student in grades 1 through 12 and any other student who otherwise does not qualify for an ESA, and students who attended a nonpublic school for pupils with disabilities in the prior year. ESA dollars can be spent on anything a student needs, from tuition for a private school to tutoring or to homeschooling materials; however, the bill excludes allowing families to use ESA moneys to pay for computer hardware and technological devices primarily used for an educational purpose.

More than 11,775 students now use ESAs to attend private schools using public taxpayer dollars. The average student receives \$6,641, or about 90% of per-pupil funding for a student attending a district public school.

While the legislation was signed into law, Arizona voters may have the final say on the matter. The education group Save Our Schools Arizona, which advocates on behalf of public school education, successfully referred a previous expansion of the ESA voucher program to the ballot in 2018 which was overwhelmingly rejected by the voters. The group once again plans to refer this expansion to the ballot.

