

# Military Reuse Zones



## Preface

The Arizona Department of Revenue (Department) administers the property tax system in cooperation with the 15 county assessors, among others. One of the administrative duties of the Department is to prepare and maintain publications reflecting standard and statutory appraisal methods and techniques that are used in the identification, classification, valuation, and assessment of property for purposes of ad valorem taxation. The Department regularly updates these publications, consistent with the following three update levels, depending on the perceived need:

**Review:** Publication conforms to standard style and formatting. Legislative and other citations verified. No changes to content, methodology, policy, or practice.

**Revision:** Includes applicable Review processes. Publication is newly edited. Nonsubstantive legislative changes incorporated. Addition or deletion of information that does not alter valuation methodology.

**Rewrite:** Includes applicable Review and Revision processes. Major substantive changes made to any combination of content, methodology, policy, or practice.

This publication is a Revision. It supersedes the prior version (October 2023) of this publication and remains effective until replaced. Additional information may be issued as an addendum to this publication or as a separate publication. Due to the flexibility provided for in statute, deadlines and procedures may vary by county. The Department recommends contacting the county assessor of the county in which a subject property is located for detailed information regarding the deadlines and procedures in that jurisdiction. **The information in this publication is based upon laws and rules in effect at the time of publication. Should any content in this publication conflict with current laws or rules, the latter shall be controlling.**

All comments, inquiries, and suggestions concerning the material in this publication may be submitted to the following:

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This publication can be accessed on the Department website at:

[https://azdor.gov/sites/default/files/2023-03/PROPERTY\\_MilitaryReuseZones.pdf](https://azdor.gov/sites/default/files/2023-03/PROPERTY_MilitaryReuseZones.pdf).

## Authority

Authority to produce this publication is found in Arizona Revised Statutes (A.R.S.) [42-11054\(A\) \(1\) and \(2\)](#). Regarding the weight of authority of this publication, see A.R.S. [42-13051\(B\)\(2\)](#).

## Publication Formatting and Style

Publications produced by the Department Property Tax Unit generally follow the rules of citation, format, grammar, punctuation, and related matters found in the following three guides: *Style Manual: An Official Guide to the Form and Style of Federal Government Publications*,<sup>1</sup> *The Chicago Manual of Style*,<sup>2</sup> and *The Bluebook: A Uniform System of Citation*.<sup>3</sup>

## Changes in Law

Following are notable changes in Arizona law that became effective since the last version of this publication was prepared by the Department, and that may be applicable to the material herein. Although every effort has been made to include all relevant and

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<sup>1</sup> United States Government Publishing Office. [Style Manual: An Official Guide to the Form and Style of Federal Government Publications](#), 31st ed. (Washington, DC: U.S. Government Publishing Office, 2016).

<sup>2</sup> The University of Chicago. [The Chicago Manual of Style](#), 17th ed. (Chicago: University of Chicago Press, 2017).

<sup>3</sup> Editors, Columbia Law Review, et al., comps. [The Bluebook: A Uniform System of Citation](#), 21st ed. (Cambridge: Harvard Law Review Association, 2020).

notable changes in law, this section may not be all inclusive. The Department recommends relying on your own research and discretion.

### ***Statutory and Constitutional Changes***

The table below has been updated through the legislative session identified in the header row.

#### **2024 – Fifty-sixth Legislature – Second Regular Session**

**House Bill [2634](#): Transferred and Renumbered A.R.S. 1531 to 1533; Amended A.R.S. 42-5075 and 42-12006**

Transferred and renumbered Title 41, chapter 10, article 3, for placement in title 42, chapter 1, article 7, as follows:

<b>Former Sections</b>	<b>New Sections</b>
41-1531.....	42-1301
41-1532.....	42-1302
41-1533.....	42-1303

Reassigned administration of the Military Reuse Program from the Arizona Commerce Authority to the Arizona Department of Revenue.

### ***Caselaw Changes***

There were no changes in Arizona caselaw that were notable and applicable to the material in this publication since the prior version was published.

## Introduction

The Military Reuse Zone Program was established in 1992 by the Arizona legislature to mitigate impacts related to the closure of military bases in the state. See A.R.S. [42-1301](#) et seq. This goal is achieved through the provision of tax incentives for certain businesses and projects located in a Military Reuse Zone.

Currently, there are two Military Reuse Zones in Arizona. The former Williams Air Force Base was designated a Military Reuse Zone in 1996, and is the current location of the Phoenix-Mesa Gateway Airport. The former U.S. Naval Air Facility in Goodyear was designated a Military Reuse Zone in 2002, and is the current location of the Phoenix Goodyear Airport.

The purpose of this publication is to provide assessment personnel and other interested parties with the information and procedures necessary to identify, classify, and value qualifying taxable property located in a Military Reuse Zone in accordance with Arizona law.

## Administration of the Military Reuse Zone Program

The [Military Reuse Zone Program](#) is administered by the Department, including the receipt of applications and the determination of eligibility for program benefits.<sup>4</sup> See A.R.S. [42-1303](#). The county assessor administers the property tax benefit provided under the program, which consists of a reduced assessment ratio for qualifying property. To learn about the transaction privilege tax exemption available under the program, visit the program website (link above) or contact the Department.

## Designation of a Military Reuse Zone

Military Reuse Zones are designated by the governor after consultation with the Director of the Department. A.R.S. [42-1301\(A\)](#). The governor can designate a qualifying Military

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<sup>4</sup> Arizona Department of Revenue, *Military Reuse Zone, Application Process*, accessed October 2024 [hereinafter [MRZ Webpage](#)]. **Note:** The Department unit that administers the Military Reuse Zone Program is separate from the Department unit that administers the Property Tax Program. All comments or questions for the Department regarding Military Reuse Zones should be submitted through the contact information found on the [MRZ Webpage](#).

Reuse Zone for a period of ten years, and can renew that designation for an additional ten-year period. A.R.S. [42-1301\(B\)](#). Thereafter, the governor and the legislature can jointly renew a Military Reuse Zone for additional ten-year periods. A.R.S. [42-1301\(B\)](#).

To qualify for designation as Military Reuse Zone property, the subject real property or improvements must be located on a closed military facility that was formerly used for operational and training purposes for active uniformed services of the United States, and must include a runway that is at least eight thousand feet in length. A.R.S. [42-1301\(A\)](#).

### **Eligibility and Application for Military Reuse Zone Benefits**

Only certain types of businesses are eligible to claim the property tax benefit available under the Military Reuse Zone Program. See A.R.S. [42-1302\(B\)](#). Eligible businesses include companies that meet the following qualifications:<sup>5</sup>

1. Located in a Military Reuse Zone.
2. Primarily engaged (more than 50%) in:
  - a. providing aviation or aerospace services, or
  - b. manufacturing, assembling or fabricating aviation or aerospace products.

An eligible business that wishes to claim the property tax benefit available under the Military Reuse Zone Program must file an application for certification of eligibility with the Department, followed by an application for reclassification of property with the assessor.<sup>6</sup>

#### ***Application for Certification of Eligibility***

As administrator of the Military Reuse Zone Program, the Department is authorized to accept applications and determine eligibility of applicants.<sup>7</sup> See A.R.S. [42-1303](#). Applications are available on the Department website and may be filed year round.<sup>8</sup> There is no annual application requirement for program certification.

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<sup>5</sup> [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*.

<sup>6</sup> [Ibid.](#)

<sup>7</sup> [Ibid.](#), *Application Process*.

<sup>8</sup> [Ibid.](#), *Guidelines and Application*.

There are several considerations related to the application for certification that may be helpful to understand with respect to the assessment of Military Reuse Zone property.

**Letter of Certification.** If an application for certification is approved, the Department will issue the applicant a Letter of Certification for program benefits.<sup>9</sup> The letter will identify the specific property subject to the certification, including whether all or part of the subject parcel is certified and whether or not the certification encompasses both real and personal property. The certification is valid for five years, but can be terminated earlier for failure to comply with program requirements, including an annual reporting requirement.<sup>10</sup> See A.R.S. [42-1302\(D\)](#).

**Annual Reporting Requirement.** To retain certification for the Military Reuse Zone program benefit, a certified business must file an annual report with the Department for each year that the benefit is received.<sup>11</sup> A.R.S. [42-1302\(C\)](#). The report must be filed by January 31 each year and must detail the amount of the property tax reduction received by the business for the preceding tax year.<sup>12</sup> See A.R.S. [42-1302\(C\)](#).

If a certified business fails to file the annual report of benefits, or to otherwise meet the statutory requirements of the program, the Department must immediately revoke the business's certification for program benefits.<sup>13</sup> A.R.S. [42-1302\(C\)](#). The Department will notify the appropriate county assessor of any revocation of certification.<sup>14</sup>

**Appeal for Denial of Certification.** If an application for certification is denied by the Department, the applicant may appeal the decision pursuant to A.R.S. [41-1092](#) et seq.<sup>15</sup>

### ***Application for Reclassification of Property***

Once a business has received a Letter of Certification for program benefits from the Department, the business must annually apply to the county assessor to receive the

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<sup>9</sup> [MRZ Webpage](#), *supra* note 4, *Application Process*.

<sup>10</sup> [Ibid.](#), *Annual Reporting, Revocation of Benefits, Appeals*.

<sup>11</sup> [Ibid.](#), *Benefits and Eligibility*.

<sup>12</sup> [Ibid.](#), *Annual Reporting, Revocation of Benefits, Appeals*.

<sup>13</sup> [Ibid.](#)

<sup>14</sup> [Ibid.](#)

<sup>15</sup> [Ibid.](#)

available property tax benefit.<sup>16</sup> This is accomplished by a written request for reclassification of the subject property, accompanied by a copy of the Letter of Certification. The application must be submitted to the assessor on or before December 10th of each year. This deadline provides the assessor time to revise the classification and status of the property for the upcoming valuation year.

## Identification of Property in a Military Reuse Zone

Property that is eligible for reclassification under the Military Reuse Zone Program is defined in A.R.S. [42-12006\(3\)](#), which reads, in part:

For the purposes of taxation, class six is established consisting of: ... Real and personal property and improvements that are located in a military reuse zone that is established under chapter 1, article 7 of this title and that is devoted to providing aviation or aerospace services or to manufacturing, assembling or fabricating aviation or aerospace products, valued at full cash value....

See A.R.S. [42-1302\(B\)](#).

Upon receiving the application for reclassification from a certified business, the assessor will identify and list the relevant existing and/or new property. See A.R.S. [42-13051](#) and [42-15053](#). The assessor should use the Letter of Certification to help determine whether all or part of the subject parcel is certified as Military Reuse Zone property and whether the certification encompasses both real and personal property.

## Classification of Property in a Military Reuse Zone

The qualifying real and personal property of a certified business in a Military Reuse Zone is eligible for reclassification by the assessor from property Class One to property Class Six.<sup>17</sup> See A.R.S. [42-1302\(B\)](#) and [42-12006\(3\)](#). Although the assessor may otherwise be informed of new or existing Military Reuse Zone property, the assessor

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<sup>16</sup> [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*.

<sup>17</sup> [Ibid.](#) **Note:** Business personal property that is classified as Military Reuse Zone property is not eligible for the property tax exemption defined in A.R.S. [42-11127\(A\)](#).



should not reclassify the qualifying property until after receiving an annual application for reclassification from the certified business owning the property.<sup>18</sup>

The reclassification of qualifying real and personal property should be made effective by the assessor in the valuation year<sup>19</sup> following receipt of an annual application for reclassification, and should continue only so long as an annual application for reclassification is received and the reclassification benefit endures.<sup>20</sup>

If the certified business fails to submit an annual application for reclassification, or to otherwise meet the statutory requirements of the program, or if the Military Reuse Zone is terminated, the subject property that was previously classified as Military Reuse Zone property must be reclassified according to the current use<sup>21</sup> of the property. A.R.S. [42-12006\(3\)\(c\)](#). See A.R.S. [42-12001](#) et seq. This reclassification should be made effective in the tax year following any of these triggering events.

### Classification Limitation

The reclassification of real and personal property under the Military Reuse Zone Program is limited to a period of not more than five tax years.<sup>22</sup> A.R.S. [42-12006\(3\)\(a\)](#). In the case of a new addition or improvement to property already reclassified under the Military Reuse Zone Program, the new property qualifies for reclassification for a separate period of not more than five tax years.<sup>23</sup> A.R.S. [42-12006\(3\)\(b\)](#). When a reclassification period expires, the subject property must be reclassified again according to its current use, typically as property Class One.<sup>24</sup> See A.R.S. [42-12006\(3\) \(a\) and \(b\)](#).

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<sup>18</sup> [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*. **Note:** As with other property tax incentives, it is important that the assessor consider any potential impact that the reclassification of property in a Military Reuse Zone might have. Such considerations may include the fluctuation of total assessed property value over time as the qualifying property of various certified businesses enters and leaves the program.

<sup>19</sup> For real property, the valuation year is the calendar year preceding the year in which the taxes are levied. For personal property, the valuation year is the calendar year in which the taxes are levied. A.R.S. [42-11001\(20\) \(a\) and \(b\)](#). The “year in which the taxes are levied” is known as the tax year. A.R.S. [42-11001\(17\)](#).

<sup>20</sup> See [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*.

<sup>21</sup> **Current Use:** “[T]he use to which property is put at the time of valuation by the assessor or the department.” A.R.S. [42-11001\(4\)](#).

<sup>22</sup> [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*.

<sup>23</sup> [Ibid.](#)

<sup>24</sup> See [Ibid.](#) **Note:** The assessment ratio for property Class One will decrease incrementally through valuation year 2026. A.R.S. [42-15001 \(14\) through \(17\)](#).

**Note:** The phrase “new addition or improvement to property” in A.R.S. [42-12006\(3\)\(b\)](#) refers to more than mere maintenance, repair, or remodel of an existing improvement.<sup>25</sup> For example, a remodel consisting of new doors and windows for an existing structure that is already subject to reclassification would not rise to the level of being a “new addition or improvement to property,” and thus would not qualify either the added components or the entire structure for a separate or additional reclassification period of five years.

### Classification Restriction

Pursuant to A.R.S. [42-12006\(3\)\(d\)](#), property that is classified as Military Reuse Zone property cannot thereafter be classified as Class Six property used solely for the purposes of the [Healthy Forest Enterprise](#) initiative.<sup>26</sup> See A.R.S. [41-1516](#).

## Valuation and Assessment of Property in a Military Reuse Zone

### Market Valuation

Qualifying real and personal property of a certified business in a Military Reuse Zone should be valued at full cash value using standard appraisal methods and techniques, in the same manner as any other commercially used property. A.R.S. [42-12006\(3\)](#). See A.R.S. [42-11001\(6\)](#).

For additional information regarding the valuation of property, refer to the Department publication entitled [Approaches to Value](#).

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<sup>25</sup> See generally, William D. Bremer, J.D., Annotation, *What Constitutes “Improvement to Real Property” for Purposes of Statute of Repose or Statute of Limitations*, 122 A.L.R. 5th 1 (2004) (citing numerous court cases that adopted former Black’s Law Dictionary definition of “improvement”); Black’s Law Dictionary 682 (5th ed.1979).

<sup>26</sup> Property that qualifies for the Healthy Forest Enterprise Program is defined in A.R.S. [42-12006\(6\)](#) as: Real and personal property and improvements constructed or installed from and after December 31, 2004 through December 31, 2024 and owned by a qualified business under section 41-1516 and used solely for the purpose of harvesting, transporting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516.

## Limited Property Valuation

The reclassification of property under the Military Reuse Zone Program does not constitute a change in use (rather it constitutes a change in qualifying status) that would require the limited property value to be calculated pursuant to A.R.S. [42-13302\(A\)\(2\)](#).<sup>27</sup>

For additional information regarding limited property value, including sample calculations, refer to the Department publication entitled [Limited Property Value](#).

## Assessed Valuation

As property Class Six, the qualifying real and personal property of a certified business in a Military Reuse Zone should be assessed at five percent of the property's full cash value.<sup>28</sup> A.R.S. [42-15006](#). The five percent assessment ratio is applied to calculate both primary and secondary property taxes. See A.R.S. [42-17152\(B\)](#).

## Mixed Use Assessment

Military Reuse Zone property should be treated in the same manner as any other commercially used property that is subject to mixed use assessment. Only that portion of the property of a certified business that meets the definition of Military Reuse Zone property found in A.R.S. [42-12006\(3\)](#) should be classified as property Class Six and receive the benefit of a five percent assessment ratio. Any additional land of a certified business that is not being used, or any property that is being used for some other commercial purpose, should be classified, valued, and assessed accordingly.

For instructions on determining mixed-use assessment percentages for property subject to multiple uses, refer to the Department publication entitled [Determining Mixed-Use Percentages and Assessment Ratios](#).

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<sup>27</sup> See [Qasimyar v. Maricopa County](#), 250 Ariz. 580, 585, 483 P.3d 202, 207 (App. 2021) (stating that "property classifications are generally based on (1) a property's use or (2) its qualifying status.") (citations omitted). The court provides the following example of classification based upon qualifying status:

For example, for a home to qualify as "[n]oncommercial historic property" under class six, § 42-12006(1), the homeowner must apply to the Assessor, § 42-12102(A)(1), and the property must be listed in the national register of historic places, § 42-12101(2)(a). Therefore, it is the property's change in *qualifying status* as "historic," not a change in use, that allows reclassification to class six in this scenario.

Ibid. at 589, 211 (emphasis in original).

<sup>28</sup> [MRZ Webpage](#), *supra* note 4, *Benefits and Eligibility*.