ARIZONA SUPREME COURT

9W HALO OPCO, LP dba ANGELICA TEXTILE SERVICES, a California limited partnership, fka ANGELICA TEXTILE SERVICES, INC., a California corporation, Plaintiffs/Appellant, v. ARIZONA DEPARTMENT OF REVENUE, an executive agency of the State of Arizona and the CITY OF PHOENIX, an Arizona municipal corporation, Defendants/Appellees.	No. CV-24-0288-PR Court of Appeals No. 1 CATX-23-0003 Arizona Tax Court No. TX2020-000967

BRIEF OF AMICUS CURIAE LEAGUE OF ARIZONA CITIES AND TOWNS IN SUPPORT OF APPELLEES CITY OF PHOENIX AND ARIZONA DEPARTMENT OF REVENUE

(FILED WITH CONSENT OF THE PARTIES)

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INTEREST OF AMICUS CURIAE

This amicus curiae brief ("Brief") is submitted by the League of Arizona Cities and Towns ("League") pursuant to Rules 14 and 16 of the Arizona Rules of Civil Appellate Procedure ("ARCAP") in support of Appellees Arizona Department of Revenue ("DOR") and the City of Phoenix ("City").

The League is neither a party to the appeal, nor controlled by any party to the appeal. No person or entity other than the League provided financial resources for the preparation or submission of this Brief. The League obtained consent to file the Brief from all the parties, read the filings, and is familiar with the questions involved in this appeal.

The League is a voluntary association of all 91 incorporated cities and towns in Arizona. These members represent approximately 79% of Arizona's total population. The League provides collective advocacy, education, training, technical assistance, and information-sharing for and amongst its members. The League also files amicus briefs in cases with potential statewide impacts on its members like this one.

League members have a significant interest in this appeal because they are tax-levying entities whose revenues and budgets are impacted by this Court's interpretation of tax exemptions. In particular, League members are concerned about

the consequences of broadening the meaning of "processing" operations for the purpose of the tax exemption under A.R.S. § 42-5159(B)(1). Broadening the exemption would invite sweeping and unintended erosions of the tax base, hamper municipal financial planning, and create confusion and uncertainty over tax codes.

INTRODUCTION

Taxation is fundamental to the continued existence and operation of local governments. To weaken that foundation through judicially created exemptions imposes unintended burdens on local governments and ultimately shifts costs onto ordinary taxpayers.

At issue is whether the equipment of 9W Halo Opco, LP, dba Angelica Textile Services ("Angelica") is used directly in "processing" operations for the purpose of a use tax exemption under A.R.S. § 42-5159(B)(1).[1] *See also* Phoenix City Code §§ 14-110(a)(1) and 14-660(g).[2] Angelica's equipment cleans fabricated linens for use or reuse in medical and health-related environments. (IR 25 [Ex. A, ¶¶ 19-21].) The lower courts correctly held the equipment is not used in "processing" operations for

[1] The exemption was previously codified at § 42-1409, but it has essentially remained unchanged. 1989 Ariz. Sess. Laws, ch. 132, § 1. This Brief cites the current statute throughout.

[2] The Phoenix City Code language mirrors that of A.R.S. § 42-5159(B)(1), and all arguments concerning the statute also apply to the Phoenix City Code provision.

the purpose of § 42-5159(B)(1). *See 9W Halo Opco v. Arizona Dep't of Revenue*, 2024 WL 4702300, 1 CATX 23-003, at *2 (November 7, 2024) ("Decision").

The League respectfully urges this Court to affirm. Tax systems rely on predictability. Unlike the Legislature, local governments cannot easily replace lost revenues through new taxes due to constitutional and statutory constraints. Angelica's proposed definition of "processing" would stretch the statutory term beyond recognition and swallow limits the Legislature clearly intended. Broadening the tax exemption would not only intrude on legislative taxing authority, it would bypass the normal processes of fiscal impact analysis and public debate that accompanies legislative tax policy. In the end, it would shrink the taxable base that supports public safety, infrastructure, and community programs.

ARGUMENT

I. CLEANING LINENS IS NOT A PROCESSING OPERATION UNDER § 42-5159(B)(1).

A court's task in statutory construction is to "effectuate the text if it is clear and unambiguous." *BSI Holdings, LLC v. Ariz. Dep't of Transp*., 244 Ariz. 17, 19 ¶ 9 (2018). In Arizona, a use tax is imposed "on the storage, use or consumption in this state of tangible personal property purchased from a retailer or utility business." A.R.S. § 42–5155(A). State law creates a presumption that property purchased out-of-state and brought into Arizona is intended for storage, use, or consumption within

the state. A.R.S. § 42–5152 ("It shall be presumed that tangible personal property purchased by any person and brought into this state is purchased for storage, use or consumption in this state."); A.R.S. § 42-5155(E) ("[e]very person storing, using or consuming in this state tangible personal property purchased from a retailer or utility business is liable for the tax [and the] person's liability is not extinguished until the tax has been paid to this state.") (citation omitted); *see also* A.A.C. R15-5-2304(B) ("The burden of proof that a purchase is not subject to use tax rests upon the purchaser."); *see also Arizona Elec. Power Coop., Inc. v. Arizona Dep't of Revenue*, 242 Ariz. 85, 88 (Ct. App. 2017) (noting the statutory presumption and the taxpayer's burden of rebutting that presumption).

The use tax exemption at issue in this case applies to "[m]achinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations." A.R.S. § 42-5159(B)(1) (citation omitted). As used in § 42-5159(B)(1), processing operations "refer to and include those operations commonly understood within their ordinary meaning." A.R.S. § 42-5159(B)(1) (citation omitted). "Used directly" has been interpreted as "those items which are essential to [a system's] operation and which make it an integrated system." *Duval Sierrita Corp. v. Arizona Dep't of Revenue*, 116 Ariz. 200, 206 (App. 1977).

Angelica's equipment cleans fabricated linens for use or reuse in medical and health-related environments. (IR 25 [Ex. A, ¶¶ 19-21].) Nothing in § 42-5159(B)(1) exempts Angelica's cleaning equipment. Angelica argues that the cleaning component of its business is technically a "processing" operation because cleaning removes harmful contaminants and converts the manufactured linens into "medical-grade products." Pet. for Rev. at 3, 7. Angelica explains that the manufactured linens are "fundamentally transform[ed]" because cleaning "alters the textile's composition by breaking down the bonds between the contaminants and the fabric."[3] Pet. for Rev. at 4. Angelica's focus on the science of cleaning departs from the statutory directive to interpret "processing" operations as they are commonly understood within their ordinary meaning. A.R.S. § 42-5159(B)(1)*; see also* A.R.S. § 1–213 ("Words and phrases shall be construed according to the common and approved use of the language. Technical words and phrases and those which have acquired a peculiar and appropriate meaning in the law shall be construed according to such peculiar and appropriate meaning."); *Meredith Corp. v. State Tax Comm'n*,

[3] The breakdown of bonds described by Angelica appears to be no different than the breakdown of bonds that occurs when clothes are washed at home with run-of-the mill detergent. *See, e.g.,* Arm & Hammer, *How Does Laundry Detergent Work?* (last visited Sept. 30, 2025), https://www.armandhammer.com/en/articles/how-laundry-detergents-work (describing how ingredients in Arm & Hammer laundry detergent breaks the bonds between contaminants and textile fibers).

23 Ariz. App. 152, 153 (1975) (refusing to apply a technical meaning of "processing" based a detailed, technical description of a video tape recorder's operation).

To determine the ordinary meaning of "processing," courts may look to established and widely used dictionaries. *State v. Wise,* 137 Ariz. 468, 470 n. 3 (1983). The Cambridge Dictionary defines "processing" as a "series of actions that are taken to change raw materials during the production of goods." *Processing*, Cambridge Dictionary, https://dictionary.cambridge.org/us/dictionary/english/processing (last accessed Sept. 30, 2025) (citation omitted); *see also Raw Material*, Merriam Webster, https://www.merriam-webster.com/dictionary/raw%20material (last accessed Sept. 30, 2025) ("crude or processed material that can be converted by manufacture, processing, or combination into a new and useful product"); *Raw Material*, The American Heritage Dictionary, https://ahdictionary.com/word/search.html?q=raw+material (last accessed Sept. 30, 2025) (raw material: "[u]nprocessed natural products used in manufacture."); *Raw*, The American Heritage Dictionary, https://ahdictionary.com/word/search.html?q=raw (last accessed Sept. 30, 2025) (raw: "[b]eing in a natural condition; not processed or refined: raw wool.").

Angelica's equipment does not change or convert any raw or unfinished material into a new product. The already-fabricated linen is not further cut, woven, or chemically reformulated. Cleaning simply restores the linen to a usable condition by *removing* unwanted contaminants from the linen (soil, oils, organic material, microbes, stains). While harsh chemicals or improper techniques may damage Angelica's linen fibers over time, the chemicals are washed away, and the result is clean linen that is used for the same purpose. There is no claim that Angelica's equipment incorporates or embeds a new substance or material into the linen, such as adding resin or polymers to make wrinkle-resistant or flame-resistant linens. *See, e.g.*, *Undercofler v. Macon Linen Serv., Inc*., 114 Ga. App. 231, 241 (1966) (holding that the laundering operations were not processing operations and noting that starch was not impregnated into the product at any state).

Angelica equates its equipment to pasteurization equipment based on a definition of processing cited in *Moore v. Farmers Mut. Mfg. & Ginning Co.,* 51 Ariz. 378, 382 (1938). Pet. for Rev. at 7. A comparison to pasteurization does not help Angelica's position. Pasteurization equipment processes *raw* milk. *See, e.g.,* U.S. Food & Drug Admin., *Raw Milk*, https://www.fda.gov/food/resources-you-food/raw-milk (last visited Sept. 30, 2025). *Moore* is not helpful to this case. *Moore* did not apply any definition to a use tax, § 42-5159(B)(1) did not exist at the time,

and none of the statutes at issue in *Moore* expressly required an interpretation based on ordinary meaning. Besides, the defendants in *Moore* did not dispute their obligation to pay a tax. The question in *Moore* was whether ginning cotton fell within the gross income tax or the privilege sales tax. *Id*. at 380. Ultimately, *Moore* applied a definition of "processing" to cotton ginning, which involves the conversion of cotton *in its natural state*. *Id*. at 380. In the end, *Moore* supports, rather than undermines, the conclusion that "processing" requires the conversion of raw or unfinished materials into another form.

In short, the court of appeals correctly held that Angelica's equipment is not used in a "processing" operation. To interpret § 42-5159(B)(1) as encompassing Angelica's equipment would wrench "processing" from its ordinary meaning.

II. "PROCESSING" CANNOT BE READ IN ISOLATION.

To the extent the plain language of § 42-5159(B)(1) is ambiguous, the associated-words canon may help clarify the meaning of "processing" by considering the specific words with which it is grouped. *In re Drummond*, 257 Ariz. 15, 21 (2024) (describing *noscitur a sociis* and citing Antonin Scalia & Bryan A. Garner, *Reading Law: The Interpretation of Legal Texts* 196 (2012) ("*Reading Law*"); *see also, e.g., Fann v. State*, 251 Ariz. 425, 435 ¶ 29 (2021) (determining the meaning of an unclear term by analyzing the words immediately surrounding it);

Qasimyar v. Maricopa Cnty., 250 Ariz. 580, 588 (Ct. App. 2021), as amended (Aug. 12, 2021) (construing a phrase in context with two other statutory triggers in the same subsection); *Kelly v. Blanchard in & for Cnty. of Maricopa*, 255 Ariz. 197, 201 (Ct. App. 2023), *review denied* (Aug. 22, 2023) (analyzing words nestled between two phrases). The canon helps avoid ascribing an overly broad meaning to a word that it is inconsistent with its neighboring words. *Id*.

Here, "processing" is nestled a series. It is between "manufacturing," "fabricating," "job printing," "refining," and "metallurgical" operations. A.R.S. § 42-5159(B)(1). The series forms a coherent group of industrial, transformative operations:

- "manufacturing" and "fabricating" denote industrial creation;
- "refining" describes industrial extraction and purification of raw ore;
- "job printing" involves digital inputs that produce printed materials; and
- "metallurgical operations" is defined in § 42-5159(B)(1) to include "leaching, milling, precipitating, smelting and refining."

When § 42-5159(B)(1) is properly construed in light of its associates, "processing" and its neighboring terms denote only those industrial operations that are integrally related to the transformation of a raw or unfinished material into a product of a different form or utility. *See Reading Law* at 196 ("The common quality suggested

by a listing should be its most general quality—the least common denominator, so to speak—relevant to the context.") Cleaning linens that are already fabricated does not transform them into anything new. Under the broad definition of "processing" proposed by Angelica, virtually all equipment used for cleaning, maintaining, and restoring tangible physical property (finished or unfinished) would qualify as "processing" (e.g., equipment for washing cars, dishes, windows, jewelry). Interpreting the term in such a broad way would extend the exemption to items the Legislature never enumerated, leading to unpredictable tax outcomes.

In sum, the associated-words canon supports construing "processing" operations as industrial activities that transform a material into a new product.

III. TAX STATUTES SHOW THE LEGISLATURE KNOWS HOW TO EXEMPT A SPECIFIC INDUSTRY WHEN DESIRED.

Arizona tax statutes demonstrate a clear pattern: when the Legislature intends to exempt a particular industry or category from taxation, it does so expressly and with precise language. Subsections A and B of § 42-5159 include *80 industry-specific exemptions*. If lawmakers had intended to exempt additional items—such as Angelica's equipment—they knew how to do so. Indeed, lawmakers have done so regarding similar matters. For example, § 42-5159 includes use tax exemptions for certain tangible personal property purchased by:

- nonprofit hospitals (§ 42-5159(A)(13)(a));

- hospitals operated by the state or a political subdivision (§ 42-5159(A)(13)(b));
- licensed nursing care, residential care, and residential care facilities that are operated in conjunction with certain licensed nursing care institutions or licensed kidney dialysis centers (§ 42-5159(A)(13)(c)); and
- qualifying health care organizations (§ 42-5159(A)(13)(d)).

Section 42-5159 also includes exemptions for:

- prescription drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank (§ 42-5159(A)(16));
- certain prosthetic appliances (§ 42-5159(A)(17));
- prescription eyeglasses and contact lenses (§ 42-5159(A)(18));
- insulin, insulin syringes and glucose test strips (§ 42-5159(A)(19));
- hearing aids (§ 42-5159(A)(20)); and
- certain durable medical equipment (§ 42-5159(A)(21)).

Additionally, state law narrows the use tax exemptions to exclude:

- Expendable materials . . . regardless of the cost or useful life of that property;
- Janitorial equipment and hand tools;
- Office equipment, furniture and supplies;

- Tangible personal property used in selling or distributing activities, other than [certain] telecommunications transmissions . . .;
- Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted . . ., without regard to the use of such motor vehicles;
- Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt;
- Motors and pumps used in drip irrigation systems; and
- Machinery and equipment or tangible personal property used by a contractor in performing a contract.

A.R.S. § 42-5061(C).

The large number of tax exemptions and specific list of exclusions show that the Legislature has crafted narrow, targeted exemptions when it wanted to benefit a particular type of equipment or sector. While economic and technological developments have occurred since the exemption in § 42-5159(B)(1) was adopted, these developments do not license the Court to expand the exemption. See *State ex rel. Morrison v. Anway*, 87 Ariz. 206, 209 (1960) ("It is a universal rule that courts will not enlarge, stretch, expand, or extend a statute to matters not falling within its express provisions.") "If the true construction will be followed by harsh

consequences, it cannot influence the courts in administering the law." *Barlow v. Jones*, 37 Ariz. 396, 399–400 (1930); *accord State ex rel. Polk v. Campbell*, 239 Ariz. 405, 408 ¶ 12 (2016) ("We decline to effectively, if not actually, rewrite [the statute], as that is the legislature's prerogative, not ours.").

In sum, if lawmakers had intended to exempt Angelica's equipment, they knew how to do so. They did not.

CONCLUSION

For the foregoing reasons, the League respectfully asks this Court to affirm.

RESPECTFULLY SUBMITTED this 6th day of October 2025 by:

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