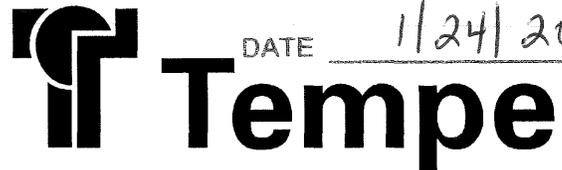


Memorandum



AGENDA ITEM IRS #5  
DATE 1/24/2013

City Manager's Office

Date: January 17, 2013  
To: Mayor and City Council  
Through: Charlie Meyer, City Manager  
From: Jeff Kulaga, Assistant City Manager

**Subject: Governor's TPT Simplification Task Force Recommendations**

The purpose of this item is to provide an overview of recent recommendations by the Governor's Transaction Privilege Tax (TPT) Simplification Task Force. Mayor Mitchell requested this item be reviewed.

As background, in June 2012, Governor Brewer appointed an 11 member Transaction Privilege Tax (TPT) Simplification Task Force. As stated in the attached press release, the Task Force "was asked to issue recommendations on how the Arizona sales tax code can be made simpler and easier for taxpayers to comply with and the State to administer. Arizona's sales tax system is generally considered among the nation's most complex." Additionally, "the Task Force must submit its recommendations to the Governor, Speaker of the House and Senate President no later than Dec. 31, 2012." The recommendations were presented on December 13, 2012 in this final report:

[http://www.azgovernor.gov/TPT/documents/Materials/TPT\\_121312\\_TaskForceFinalReport.pdf](http://www.azgovernor.gov/TPT/documents/Materials/TPT_121312_TaskForceFinalReport.pdf)

The Arizona League of Cities and Towns' recent legislative alert (attached) notes that the vast majority of Task Force recommendations are agreeable. However, three recommendations are alarming: State administration; Department of Revenue Audits; and Construction Materials Retail Sales Tax.

These recommendations are of concern to the League of Arizona Cities and Towns and to the City of Tempe. Our City of Tempe 2013 Legislative Principles (attached) include "Preserve existing revenue sources." The construction materials retail sales tax recommendation and the recommendation to relinquish our sales tax audit authority to the Department of Revenue are in conflict with the City Council's principle of maintaining existing local revenue.

Representatives from the League of Arizona Cities and Towns and City staff will present the impacts of these recommendations in the event they would become state law proposals during the current legislative session.

Staff is seeking direction from Council regarding these recommendations.

Thank you.

Attachments



**State of Arizona**

**Janice K. Brewer**  
Governor

**Office of the Governor**  
1700 West Washington Street, Phoenix, AZ 85007

**Main Phone: 602-542-4331**  
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**FOR IMMEDIATE RELEASE**  
May 31, 2012

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## **Governor Jan Brewer Names Members of the Transaction Privilege Tax Simplification Task Force**

### *Panel to Recommend Reforms to Simplify Sales Tax Code, Ease Compliance*

PHOENIX – Governor Jan Brewer today appointed members to the Transaction Privilege Tax (TPT) Simplification Task Force.

The panel, consisting of tax experts, business owners, municipal representatives and others, has been asked to issue recommendations on how the Arizona sales tax code can be made simpler and easier for taxpayers to comply with and the State to administer. Arizona's sales tax system is generally considered among the nation's most complex.

The TPT Task Force was established through an Executive Order issued May 11, 2012, the same day Governor Brewer signed into law HB 2815 – a tax-reform package aimed at spurring job creation and economic development in Arizona.

"Sales tax is arguably the most critical source of revenue for the core programs and services provided by State government," said Governor Brewer. "With this panel of dedicated and knowledgeable experts, Arizona is one step closer to adopting a user-friendly tax system that will benefit our economy and taxpayers."

Appointed to the panel are a dozen of the State's leading experts on tax policy. Michael Hunter, the Governor's Director of Legislative Affairs and Special Advisor on Tax Policy and Reform, will serve as the Governor Brewer's designee and act as chairman of the Task Force on her behalf. The Task Force will also utilize the expertise of outside tax experts and stakeholders through public testimony and working groups.

The Task Force must submit its recommendations to the Governor, Speaker of the House and Senate President no later than Dec. 31, 2012.

Members of the TPT Task Force include:

- John Olsen, Senior Tax Auditor, Town of Gilbert
- Miguel Teposte, Finance Supervisor – Tax, City of Phoenix
- Tom Belshe, Deputy Director, Arizona League of Cities and Towns
- Kevin McCarthy, President, Arizona Tax Research Association
- Steve Barela, State and Local Tax Manager, Arizona Public Service Company
- Linda Stanfield, President, Benjamin Franklin Plumbing
- Keely Hitt, Senior Tax Manager, Circle K Stores, Inc.

- Lynne Herndon, City President, BBVA Compass
- Vince Perez, Deputy Director, Department of Revenue
- State Senator John McComish
- State Representative Rick Gray

**###**

## Legislative Issues

# ACTION ALERT

### **Municipalities Face Serious Threats to Sales Tax Revenue and Authority**

Recently the Governor's TPT Simplification Task Force approved its final report to the Governor. Cities and towns are in agreement with the vast majority of the recommendations included in the report; however, there are three recommendations that the League finds alarming due to their negative impacts on city and town budgets and their ability to efficiently administer and collect sales tax. The three recommendations are:

1. **Require state administration of sales tax for all municipalities.**
2. **Require the Department of Revenue (DOR) to conduct all sales tax audits.**
3. **Eliminate the construction sales tax to be replaced by a retail sales tax at the point-of-sale of construction materials.**

Although these were just recommendations from the taskforce, and were acknowledged to not be consensus issues, business groups have already begun to make inroads at the Capitol in an attempt to turn these issues into state law. It is critical that cities and towns communicate with their legislators immediately about the negative effects of these recommendations. Please contact your legislators and use the following information to structure your arguments.

#### **State Administration**

- The Department of Revenue does not have the resources necessary to absorb the responsibilities of the cities that currently collect their own sales taxes. It would take a significant budget increase to DOR in order to ensure proper administration; funds that could be used for other budget priorities the state is facing. This is an issue that equally harms program and non-program cities; if DOR is tasked with administering the entire state, all participants will receive subpar services. (If you are a DOR program city or town, you may want to include your own anecdotal experiences in dealing with DOR.)
- State administration is not the best solution to the perceived problem. Last year, Rep. Rick Gray was instrumental in passing legislation establishing an online portal for the remittance of sales taxes and licensing. Proper utilization of this portal will solve the very issues that the proponents would like to see addressed, with none of the costs or negative consequences associated with DOR administration.

#### **DOR Audits**

- Efficient and timely auditing is a win-win for those involved. It protects those law-abiding businesses that all already paying their taxes, allows cities and towns to educate small business owners in order to help them comply with the law and it ensures that municipalities receive the revenue they need to provide services to those same taxpayers.
- The Department of Revenue does not have the resources necessary to properly administer a program of this magnitude. Budget cuts have decimated the auditing capacity of DOR.
- There is already a system in place to allow for a single audit of businesses. The Multi-Jurisdictional Audit Coordinator (MJAC) program allows a business to choose that just one audit to be done on behalf of all applicable jurisdictions.
- DOR is focused on large, statewide taxpayers; they do not focus on small, local businesses. Moving to statewide auditing will make it difficult for cities and towns to have their individualized needs met. (If you are a city or town

that uses private auditors, you may want to highlight the fact that this change will eliminate private jobs in rural areas and create more state jobs at the Capitol.)

### **Retail Sales on Construction Materials**

- Shifts money away from the impacts of growth. Moving to such a system means that unless your city or town has regional retail centers that sell construction materials (this is not Home Depot or Lowe's), the sales tax collected from those construction projects will go outside your community to areas that have such centers, including retail centers out of state. Your city will not be able to utilize this revenue to offset the increased demands on city services that relate to the construction.
- Bad economic policy. This is a classic example of picking winners and losers. This is not tax simplification; this is a tax reduction. The construction industry is seeking preferential treatment; giving it favor among all other business types.
- Narrows the tax base. Rather than broadening the tax base which could produce lower rates, this is another special interest tax break that reduces total revenue to the state as well as local governments.
- Significant tax policy shift. This change represents a new way of dealing with manufacturers that has not been given serious discussion and analysis. Construction is not a service industry, it's a manufacturing industry. At the end of the day, you are buying a finished product manufactured on-site. If the state wishes to revisit how manufacturing is viewed and treated, it shouldn't be done in haste in a piecemeal fashion.
- Lack of information. We are expected to accept these changes with little or highly questionable data. Based on available data there is no way to estimate the impact to local sales tax revenue. The state estimates that there will be no impact to the state budget. We believe this is based on faulty assumptions. Any errors in those assumptions may result in significant budget losses at the state level, losses that the state can't afford to risk.
- Attack on rural and small town Arizona. This change will lead to huge budget losses and will send that revenue to urban Arizona or out of state. If you represent a small or rural municipality, you need to make your legislators understand very clearly that support for this change means that they are not concerned with the issues facing the constituents in their own district.

# Memorandum



City of Tempe

Date: October 24, 2012  
To: Mayor and Council  
From: Chad Heinrich, Government Relations Coordinator  
Through: Charlie Meyer, City Manager; Jeff Kulaga, Assistant City Manager  
Subject: 2013 State Legislative Principles

Arizona's 51<sup>st</sup> State Legislature begins on Monday, January 14, 2013.

Each year the State Legislature considers many legislative proposals. Because of the broad responsibilities held by municipal government, a large number of legislative proposals have the potential to impact City operations, finances and governance.

As legislative issues develop, staff will seek your leadership and guidance on policy issues. As a beginning, staff is requesting your input on what you would communicate to legislators about the City's ability to support the Council's eleven strategic priorities. How do the Council priorities shape your perspective on state legislative proposals?

Staff is also seeking your input, discussion and possible acceptance of the 2013 State Legislative Principles found in the attached document. These principles act as a guide in the development of policy statements and positions on specific policy proposals as the legislative session progresses. Throughout the legislative session, staff will seek your leadership and guidance on any proposals that do not fall clearly within or outside of these standard guiding principles.

During the legislative session, staff consistently works with the Mayor and Council members, state legislators, the League of Arizona Cities and Towns, and other partners to ensure that the City's perspective is represented.

Mayor Mark Mitchell serves as the Vice President of the League of Arizona Cities and Towns which is an advocate of two core principles: protection of shared revenues and defense of local decision-making authority. Your government relations staff works closely with our partners in the League to communicate a clear message on policy proposals of shared interest. You will find the League 2013 Policy Statement attached.

As always, Council will receive regular updates addressing current legislative bills and activities throughout the legislative session.

To further communication between Council and the Legislature, staff will coordinate meetings between the Council and the newly-elected state legislators that represent the City of Tempe, following the General Election.

If there is anything else I can assist with, just let me know. Thank you.

# City of Tempe

## 2013 State Legislative Principles



The citizens created the City of Tempe government through the adoption of the City Charter. Through this Charter, the citizens empower the City government to provide services and generate revenue to pay for those services. The Mayor and Council determine policies for the City and serve at the pleasure of the voting public. It is this system that allows for local decision-making on issues that are local in nature and directly impact local citizens and businesses.

The services provided by the City of Tempe encourage investment in the local economy, enable business development and support commerce within the community and the region. Additionally, City services help sustain safe neighborhoods and provide recreation opportunities that encourage families to live and work within the community.

State legislation can impact the City's ability to deliver local services such as police, fire, transit, roadways, libraries, and parks among many others.

The City Council endorses the following principles when considering the City's position on any state legislative proposal:

- **Preserve local authority** – The City believes that the most effective, responsible and responsive government is the government closest to the people. The City supports legislative proposals that preserve or enhance the City's ability to govern locally and opposes legislative proposals that reduce or restrict the City's local authority.
- **Preserve existing revenue sources** – The City supports legislative proposals that preserve or enhance existing revenue sources and opposes proposals that would reduce or restrict the use of existing revenues.
- **Maintain flexibility in service delivery** – The City supports legislative proposals that enable the City to provide services desired by local residents and opposes legislative attempts to require additional services without providing revenue to fund any additional costs associated with the services.
- **Preserve local investments** – The City supports proposals that protect the City's investment in infrastructure, capital, and enterprises.