

ARIZONA STATE SENATE  
RESEARCH STAFF



TO: JOINT LEGISLATIVE AUDIT COMMITTEE  
Representative John Huppenthal, Chair  
Senator Robert Blendu, Vice Chair

SEAN LAUX  
LEGISLATIVE RESEARCH ANALYST  
FINANCE COMMITTEE  
Telephone: (602) 926-3171  
Facsimile: (602) 926-3833

DATE: January 4, 2005

SUBJECT: Sunset Review of the Municipal Tax Code Commission

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Attached is the final report of the sunset review of the Municipal Tax Code Commission, which was conducted by the Senate Finance and House of Representatives Ways & Means Committee of Reference.

**The Committee of Reference recommends that the Municipal Tax Code Commission be continued for ten years.**

This report has been distributed to the following individuals and agencies:

Governor of the State of Arizona  
The Honorable Janet Napolitano

President of the Senate  
Senator Ken Bennett

Speaker of the House of Representatives  
Representative Jake Flake

Senate Members  
Senator Dean Martin, Cochair  
Senator Jack W. Harper  
Senator Marilyn Jarrett  
Senator Jack A. Brown  
Senator Jorge Luis Garcia

House Members  
Representative Steven Huffman, Cochair  
Representative Ken Clark  
Representative Jack Jackson, Jr.  
Representative Michele Reagan  
Representative Steven Yarbrough

Municipal Tax Code Commission  
Office of the Auditor General  
Department of Library, Archives & Public Records

Senate Majority Staff  
Senate Research Staff  
Senate Minority Staff  
Senate Resource Center

House Majority Staff  
House Research Staff  
House Minority Staff  
Chief Clerk

SL/jas

*Senate Finance and House of Representatives Ways & Means  
Committee of Reference Report*

**MUNICIPAL TAX CODE COMMISSION**

***Background***

The Municipal Tax Code Commission (MTCC) was established by Laws 1998, Chapter 107 and subsequently extended by Laws 1991, Chapter 160, Laws 1999, Chapter 225 and Laws 2000, Chapter 297. The law also provided that all cities and towns that impose a transaction privilege tax adopt the Model City Tax Code. The Model City Tax Code and the MTCC were established to create greater uniformity in city transaction privilege tax ordinances.

The MTCC is required to meet on the second Friday of every other month to review and comment on any changes to a city ordinance submitted by a city, town or taxpayer that modify the application of the Model City Tax Code for that city or town.. The MTCC may hold public hearings on any proposed amendment within 30 days of receiving the proposed change and may recommend changes to the language submitted by the city, town or taxpayer. Changes in tax rates are not subject to the Commission's review, but municipalities must notify the Commission within 10 days after passing an ordinance imposing a rate change.

A city or town must submit a proposed amendment (other than tax rate changes) to the MTCC at least 60 days prior to adoption. The MTCC must notify all cities and towns of any changes to the Model City Tax Code adopted by a municipality. The MTCC may recommend that the change be adopted by all cities and towns. In addition, the MTCC maintains a master list of all amendments to the Code which have been adopted by the various municipalities. Failure to approve a change to the Model City Tax Code by the MTCC does not prohibit the municipality from adopting the change. However, the municipality must notify the MTCC of all final action.

The Joint Legislative Audit Committee assigned the review of a performance audit of the MTCC to the Senate Finance and House of Representatives Ways and Means Committee of Reference.

***Commission Membership***

The MTCC consists of a representative of the Department of Revenue and nine mayors or council members of cities or towns that have adopted the model city tax code. Five members are appointed by the Governor, two members are appointed by the President of the Senate and two members are appointed by the Speaker of the House of Representatives. No more than two members of the Commission may be from the same city or town and their terms are three years. The Department of Revenue representative serves as an ex officio member without the power to vote.

The Department of Revenue provides staff support for the MTCC. The MTCC receives no direct funding from the state or the cities and towns.

The MTCC must prepare an annual report before January 1 of each year.

A.R.S. § 41-3005.12 dictates that the Commission is to terminate on July 1, 2005, unless continued.

### ***Committee Sunset Review Procedures***

The Committee of Reference held one public hearing on Tuesday, November 30, 2004, to review the sunset factors prepared by the Commission and to receive public testimony. Testimony was received from representatives of the Commission.

### ***Committee Recommendations***

The Committee of Reference recommends that the Municipal Tax Code Commission be continued for ten years.

### ***Sunset Report Requirements Pursuant to A.R.S. § 41-2954***

#### **I. Identification of the problem or the needs that the agency is intended to address.**

The Commission is an integral part of the compromise established in the late 1980s between the business community and the cities and towns of Arizona relating to the local sales tax. The initial oversight responsibility of the Commission over the Model City Tax Code and now the requirement of approval of changes to the tax code by the Commission give the business community some consistency and certainty in dealing with the local sales tax structure. This role has also been a deterrent to individual city changes to the code, meaning there are fewer differences between and among the cities and how they tax.

#### **II. Statement of the objectives of the agency and its anticipated accomplishments.**

Through the public hearing process, the Commission is required to review and comment on proposed changes to the Model City Tax Code adopted by the cities and towns in the State of Arizona. The Model City Tax Code is a uniform transaction privilege (sales) tax code that contains varying options within a taxable activity that a city or town can select without the approval of the Commission. The Commission, in addition to reviewing and commenting on proposed changes to the Code, may recommend changes to language presented and may recommend changes to the Code to all cities and towns. Specifically excluded from review by the Commission is any increase in rate. All changes adopted by a city or town are required to be kept on file.

#### **III. Identification of any other agencies with similar, conflicting or duplicative objectives and an explanation of the manner in which the agency avoids duplication or conflict with other such agencies.**

There is no other agency with similar, conflicting or duplicate objectives.

**IV. Assessment of the consequences of eliminating the agency or of consolidating the agency with another agency.**

If the Commission was eliminated, its oversight role over the Model City Tax Code would be lost. This risks the possibility of numerous changes to the tax code by individual cities and towns, thereby creating more difference among cities and between the cities and the state. Consolidating the Commission with another agency would prove difficult due to the unique nature of the Commission.

***Attachments***

1. Agenda of the Senate Finance and House of Representatives Ways & Means Committee of Reference.
2. Meeting Minutes of the Senate Finance and House of Representatives Ways & Means Committee of Reference.
3. Agency response to the Sunset Questionnaire
4. League of Arizona Cities and Towns response
5. 2003 Annual Report

**Senate Finance and House of Representatives Ways & Means  
Committee of Reference  
Meeting Agenda**

## ARIZONA STATE LEGISLATURE

### INTERIM MEETING NOTICE OPEN TO THE PUBLIC

#### SENATE FINANCE AND HOUSE OF REPRESENTATIVES WAYS AND MEANS COMMITTEE OF REFERENCE

**Date:** Tuesday, November 30, 2004  
**Time:** 10:00 a.m.  
**Place:** Senate Hearing Room 1

#### AGENDA

1. Call to Order
2. Opening Remarks
3. Non-sunset Audit on the Gila County Transportation Excise Tax
  - Presentation by the Office of the Auditor General
  - Public Testimony
  - Discussion and Recommendations by Committee of Reference
4. Sunset of the Board of Tax Appeals
  - Presentation by the Board of Tax Appeals
  - Public Testimony
  - Discussion and Recommendations by Committee of Reference
5. Sunset of the Municipal Tax Code Commission
  - Presentation by the Municipal Tax Code Commission
  - Public Testimony
  - Discussion and Recommendations by Committee of Reference
6. Adjourn

#### Members:

Senator Dean Martin, Cochair  
Senator Jack Brown  
Senator Jorge Garcia  
Senator Jack Harper  
Senator Marilyn Jarrett

Representative Steve Huffman, Cochair  
Representative Ken Clark  
Representative Jack Jackson Jr.  
Representative Michele Reagan  
Representative Steven Yarbrough

11/19/04 cd

**Senate Finance and House of Representatives Ways & Means  
Committee of Reference  
Meeting Minutes**

ARIZONA STATE LEGISLATURE  
Forty-sixth Legislature – Second Regular Session

SENATE FINANCE AND HOUSE OF REPRESENTATIVES  
WAYS AND MEANS COMMITTEE OF REFERENCE

Minutes of Meeting  
Tuesday, November 30, 2004  
Senate Hearing Room 1 – 10:00 a.m.

Chairman Martin called the meeting to order at 10:03 a.m. and attendance was noted by the secretary.

**Members Present**

Senator Brown  
Senator Garcia  
Senator Harper  
Senator Martin, Cochair

Representative Reagan  
Representative Yarbrough  
Representative Huffman, Cochair

**Members Absent**

Senator Jarrett

Representative Clark  
Representative Jackson

**Speakers Present**

Sean Laux, Research Analyst, Senate Family Services Committee  
Carol West, Member, Tucson City Council; Vice Chair, Municipal Tax Code Commission  
Dot Reinhard, Auditor General's Office  
David Patterson, Finance Director, Gila County  
Ruben Medina, Executive Director, Arizona State Board of Tax Appeals

Sean Laux, Research Analyst, Senate Family Services Committee, reviewed the responsibilities of the Committee of Reference (COR). He noted that sunset hearings will be conducted on the Arizona State Board of Tax Appeals (BOTA) and the Municipal Tax Code Commission (MTCC), as well as a non-sunset audit of the Gila County Transportation Excise Tax.

**Sunset of the Municipal Tax Code Commission**

Carol West, Member, Tucson City Council; Vice Chair, Municipal Tax Code Commission, provided historical background on formation of the MTCC. She stated that the oversight role of the MTCC has provided a check against inconsistent changes to the Model City Tax Code by

individual cities and towns, as well as a forum for the business community to comment upon proposed changes and suggest changes of their own. The MTCC meets only when necessary and operates at essentially no cost to the State, except for minimal staffing by the Arizona Department of Revenue (DOR). Recognizing the great importance of the local sales tax as a revenue source for all cities and towns in Arizona, she believes the Commission should be continued. The MTCC gives the business community a place to object or voice concerns about this local tax, and consistency in changes to the code, while preserving local authority over the most important local revenue source.

**Mr. Huffman moved that the Committee make a recommendation to continue the Municipal Tax Code Commission for an additional 10 years. The motion carried.**

### **Audit on the Gila County Transportation Excise Tax**

Dot Reinhard, Auditor General's Office, reviewed the audit performed on the Gila County Transportation Excise Tax (Attachment 1).

Senator Brown remarked that the funds were not necessarily spent illegally, but for the public benefit, and cautioned against over-regulating.

Senator Martin stated that he is especially concerned about the gifts with public monies and suggested that the Committee meet again during the next interim to make sure the recommendations are implemented.

Senator Brown noted that the problems were corrected and changes were made. Also, the Auditor General's Office would let the Members know if the recommendations are not implemented.

Ms. Reinhard indicated to Mr. Yarbrough that the County agreed to determine the amount of inappropriate expenditures and compare those against indirect costs for that particular fund because monies were not transferred to the General Fund for indirect service costs. The County believes the amount of inappropriate expenditures would be less than the amount that should have been transferred to the General Fund for indirect costs. If that is the process the County took to implement that recommendation, it would have to be looked at, but she made the recommendation that going forward the County should follow appropriate accounting procedures and transfer that money to the General Fund for indirect service costs. As far as remedies, in the past the Attorney General's Office was involved in cases where counties inappropriately used excise tax monies and agreements were established to reimburse the funds appropriately.

Senator Martin asked about non-public groups that received monies. Ms. Reinhard responded that has not yet been determined, but there is the potential of expenditures that violate public monies where she does not believe the General Fund could be used to reimburse the Road Fund. At this point, she is not sure how those would be handled.

Senator Martin could not recall the statutory penalty, but submitted that it is fairly severe.

David Patterson, Finance Director, Gila County, stated that he does not know how the auditors came up with 11 percent in questionable costs. Originally, the auditors conducted a random sample over three years, pulling 40 items per year, and found one item that was questionable. Based on that, the auditors said it was an attribute sampling versus a variable sampling, but he does not believe 1 item out of 120 equates to 11 percent questionable items. The auditors then started doing judgmental samples, and when that is done, specific items are looked for, and those cannot be projected to the population as a whole. Some of the items that were questioned are not that significant, although they are against the statutes. For example, \$500 for Kids Voting out of \$2.5 million for one year and \$48 for flowers from the community for someone's funeral. The Board of Supervisors was notified that those kinds of decisions cannot be made without identifying that it is for the betterment of the community and initialing the request. The County is in the process of correcting those items.

Senator Martin remarked that using money from the transportation plan for the public good becomes problematic no matter the amount. He requested the specifics of changes that need to be made, the illegal or inappropriate expenditures, and the plan detailing the fix.

Mr. Patterson indicated to Ms. Reagan that he is not opposed to a review by the Auditor General in six months, but the presentation by the Auditor General's Office implied that the issue is more horrendous than it actually is. In fact, the funds were spent inappropriately; however, he believes the \$500 donated to Kids Voting should be allowable. The only problem was that the supervisor did not initial the request, but believed it was in the best interest of the community to make the donation.

Ms. Reagan commented that if the Auditor General's findings are somewhat inflated, perhaps another audit would help clear the County's name.

Mr. Patterson advised Senator Martin that Kids Voting is not necessarily beneficial to transportation as it is to the community, but it was not public money given to a private charity that had no benefit to the community. It was not appropriate to be part of the transportation tax, but that is something that has been changed. At one time, the County had three road crews that were consolidated into one public works. Constituent Services was paid out of the Road Fund, but that was offset by what the County considers chargeable indirect costs. A decision was made that was inappropriate because the two could not be identified, so Constituent Services was pulled from the Road Fund and put into the General Fund where the County began charging the indirect costs. The County is in the process of making things more compartmentalized, which is also why a new financial accounting system will be implemented in January 2005.

Mr. Huffman stated that a memo from Mr. Nelson, the current County Manager, states that he agrees to all of the sample inappropriate expenditures amounting to over \$46,000, the County needs to improve the auditing process, and there may actually be more than \$46,000 that the County is attempting to identify and develop potential solutions.

Senator Martin stated that he appreciates the efforts that have been made, and therefore, does not recommend any action on the Legislature's behalf this session, but he would like to follow-up

SENATE FINANCE AND HOUSE WAYS AND MEANS  
COMMITTEE OF REFERENCE

November 30, 2004

with the Auditor General's Office and possibly hold another Committee meeting if the issues have not been worked out and reimbursement made.

### Sunset of the Board of Tax Appeals

Ruben Medina, Executive Director, Arizona State Board of Tax Appeals, conveyed that he has been in this position since BOTA was created in 1974 and has handled many thousands of tax appeals in all areas of taxation. The sunset review report submitted to the COR on September 1, 2004 addresses all of the factors requested by the Committee. The Board consists of three members and staff includes himself, a hearing officer, and a secretary. There were previously five full-time employees, but now there are only three due to budget reductions. The caseload can only be handled because of a decrease in cases from previous years.

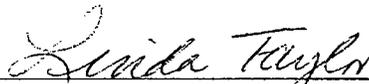
He stated that the type of cases that are heard are generally very complex after having gone through various appeals at DOR and the Office of Administrative Hearings (OAH), which handles sales and use tax type cases; however, BOTA has a very well qualified board of professionals. He conveyed that the number of months to process appeals was reduced from seven-and-a-half in 1999 to four-and-a-half presently. BOTA makes decisions within 30 days that are disseminated throughout the country because requests are constantly made since many times the decisions address issues of first impression. In 2002, BOTA completely revised the rules and procedures, shortening the appeals process.

He anticipated additional appeals to be filed, not only later this fiscal year, but next fiscal year, mainly because of a \$6.5 million appropriation by the Legislature to DOR for the revenue-generating program. With that, an additional 153 FTEs were appropriated, which will cause more audits and protests to DOR, and eventually, more appeals to BOTA. If additional funding is needed for another hearing office, a supplemental may be requested from the Joint Legislative Budget Committee, but until that happens, additional funding will not be requested.

He indicated to Ms. Reagan that BOTA rules for DOR about 80 percent of the time. From tracking through the Attorney General's Office, the courts upheld BOTA's decisions about 90 percent of the time.

**Mr. Huffman moved that the Committee recommend continuation of the Board of Tax Appeals for an additional 10 years. The motion carried.**

Without objection, the meeting adjourned at 10:48 a.m.



Linda Taylor, Committee Secretary  
December 3, 2004

(Original minutes, attachment, and tape are on file in the Office of the Chief Clerk.)

## **Agency Response**

# MUNICIPAL TAX CODE COMMISSION



**JANET NAPOLITANO**  
GOVERNOR

**CAROL W. WEST**  
VICE-CHAIR

**KERRY BALLARD**  
MEMBER

**GINNY HANDORF**  
MEMBER

**GREG STANTON**  
MEMBER

**KEN FORGIA**  
CHAIRPERSON

**GILBERT LOPEZ**  
MEMBER

**CLAUDIA WALTERS**  
MEMBER

**ELAINE SCRUGGS**  
MEMBER

**ROWLE SIMMONS**  
MEMBER

**VINCENT G. PEREZ**  
EX-OFFICIO MEMBER

November 16, 2004

Dean Martin, State Senator  
Chair, Senate Finance Committee of Reference  
Arizona State Senate  
1700 West Washington  
Phoenix, AZ 85007

RE: Sunset review of the Municipal Tax Code Commission

Dear Senator Martin:

I have been asked to respond on behalf of Ken Forgia, Chairman of the Municipal Tax Code Commission to your letter of August 24, 2004, with its accompanying questionnaire regarding the sunset review of the Municipal Tax Code Commission. The answer to your questions are as follows:

1. *The objective and purpose of establishing the agency.*

The objective and purpose of establishing the Municipal Tax Code Commission was to provide, through the public hearing process, review and comment on proposed changes to the Model City Tax Code adopted by the cities and towns in the State of Arizona.

The role of the Municipal Tax Code Commission is to review and comment on any changes in language to the Model Cities Tax Code ("Code") proposed by the Public, the Unified Audit Committee or any city that has adopted the Code. The types of changes reviewed by the Commission is any language for the purpose of describing, defining, deleting, adding or otherwise modifying taxable activities, exemptions, administrative procedures or regulations as defined in A.R.S. §42-6053.B.

The Commission may hold public hearings for the purpose of reviewing and receiving comments on the proposed changes from the Cities and any interested parties. Once all the facts have been presented to the Commission, the changes are evaluated and if any changes are deemed appropriate the Commission recommends those changes. The Commission's decision on any particular issue and cities and towns are required to abide by those decisions.

2. *The effectiveness with which the agency has met its objective and purpose and the efficiency with which it has operated.*

The Commission has been an effective review body for all issues and changes pertaining to the Model City Tax Code.

3. *The extent to which the agency has operated within the public interest.*

The Commission has met its obligation to the public interest in following its purpose and meeting its objectives.

4. *The extent to which rules adopted by the agency are consistent with the legislative mandate.*

The Commission has adopted no rules.

5. *The extent to which the agency has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.*

The Commission has encouraged input from the public by holding public hearings on changes proposed to the Model City Tax Code. The Commission also maintains a database of interested parties that are notified of any meetings. The Commission, through its staff continually updates the public on changes made to the Model City Tax Code, including changes in rates of taxation which are not subject to any recommendations of the Commission.

6. *The extent to which the agency has been able to investigate and resolve complaints that are within its jurisdiction.*

No complaints, within the purview of the Commission have been brought before it.

7. *The extent to which the attorney general or any other applicable agency of state government has the authority to prosecute actions under the enabling legislation.*

There are no provisions under the enabling legislation for prosecution by the attorney general.

8. *The extent to which agencies have addressed deficiencies in their enabling statutes which prevent them from fulfilling their statutory mandate.*

There have been no problems fulfilling the Commission's statutory mandate.

9. *The extent to which changes are necessary in the laws of the agency to adequately comply with the factors listed in this subsection.*

At this time there are no perceived changes necessary to allow the Commission to adequately comply with the factors listed in this subsection.

10. *The extent to which the termination of the agency would significantly harm the public health, safety or welfare.*

Termination of the Commission would leave a gap in the checks and balances necessary to avoid conflicting changes to the cities taxing statutes and to maintain consistency in the Model City Tax Code.

11. *The extent to which the level of regulation exercised by the agency is appropriate and whether less or more stringent levels of regulation would be appropriate.*

The Commission acts as a deterrent to the enactment of arbitrary changes in the city/town taxing statutes by individual city/town councils. This is accomplished by bringing other than routine housekeeping changes to the public awareness and providing an evaluation of the changes from a source independent of city/town politics.

12. *The extent to which the agency has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.*

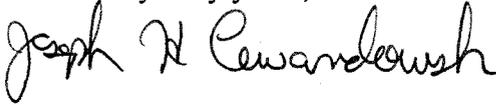
The Commission has not used private contractors in the performance of its duties.

The membership of the Municipal Tax Code Commission is regulated by A.R.S. §42-6052 and A.R.S. §42-6053. The Director of the Department of Revenue (or his designee) is ex-officio member, without a vote. Five members are appointed by the Governor, Two members are appointed by the President of the Senate and two members are appointed by the Speaker of the House of Representatives totaling nine members who are mayors or council members of cities or towns that have adopted the model city tax code. The current Commission is made up as follows: Vice-Mayor Ken Forgia of Peoria (Chairman), Mayor Elaine Scruggs of Glendale, Councilmember Carol W. West of Tucson, Mayor Rowle Simmons of Prescott, Councilmember Greg Stanton of Phoenix, Vice-Mayor Kerry L Ballard of Snowflake, Vice-Mayor Gilbert Lopez of Coolidge, Vice-Mayor Claudia Walters of Mesa, Councilmember Ginny Handorf of Pinetop-Lakeside and Vincent G. Perez, Assistant

Director, Department of Revenue sits as Ex-officio member. Joseph Lewandowski, Cities Program Manager of the Department of Revenue acts as staff for the Commission.

If I may be of further assistance or provide additional information, please do not hesitate to contact me.

Very truly yours,

A handwritten signature in cursive script that reads "Joseph H. Lewandowski".

Joseph H. Lewandowski  
Commission Staff  
Cities Program Manager

cc: J Elliott Hibbs, Director ADOR  
Ken Forgia, Chairman  
Commission members  
Vincent G. Perez, Assistant Director ADOR  
Kitty Decker, House Ways and Means Analyst  
Steven Huffman, Representative  
Sean Laux, Senate Finance Analyst



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Email: league@mg.state.az.us • Web site: www.azleague.org

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December 15, 2004

Mr. Sean Laux  
Senate Finance Committee Analyst  
1700 W. Washington St. - Senate Wing  
Phoenix, Arizona 85007

Dear Sean:

The Department of Revenue has asked the League to respond to six questions in Senator Martin's letter regarding the sunset of the Municipal Tax Code Commission (MTCC). This is our response.

1. Describe the role and function of the agency, including major activities/projects, accomplishments and obstacles to success.

As we stated in our September letter to Senator Martin, the Commission is an integral part of the compromise established in the late 1980's between the business community and the cities and towns of Arizona relating to the local sales tax. The initial oversight responsibility of the Commission over the Model City Tax Code and now the requirement of approval of changes to the tax code by the Commission gives the business community some consistency and certainty in dealing with the local sales tax structure. This role has also been a deterrent to individual city changes to the code meaning there are fewer differences between and among cities and how they tax.

By its nature, the Commission reacts to proposed changes although it has in the past, when appropriate, assumed the role of overseer to required changes to the code. For example, after the last round of changes pursuant to amendment to state law, the Commission met and discussed progress toward implementation of the changes. In addition to the Commission, this also gave the business community and interested taxpayers an opportunity to comment or complain about how the changes were being implemented or the schedule for completion. This "forum" concept is an important part of the Commission's role.

In contrast to their work and major accomplishment of implementation of the various changes to the tax code necessitated by the changes to state law, the Commission has not been particularly active during the last year or so because no changes were brought forward by either the cities or the business community. Their work will continue to ebb and flow depending on issues presented. I do not see any obstacles to their success.

2. There are no full time employees of the Commission. The staffing has been done by the cities program liaison at the Department of Revenue with only a very minor part of his time dedicated to the Commission. There are no revenues or fees.
3. The problem or need the Commission is intended to address is the oversight role outlined in our answer to the first question above.
4. The objectives of the Commission cannot really be quantified since it is set up to react to proposed changes. Its anticipated accomplishments are to provide the oversight role also outlined above.
5. There is no other agency with similar, conflicting or duplicate objectives.
6. If the Commission would be eliminated then the important oversight role would be lost risking the possibility of numerous changes to the tax code by individual cities and towns thereby creating even more differences among cities and between the cities and the State. Because of the unique role this Commission plays, I know of no other agency with which it could be consolidated.

I hope this provides you with the information you need. If not, please let me know and we will do our best to respond.

Sincerely,



Catherine E. Connolly  
Executive Director

cc: Vince Perez

**League of Arizona Cities & Towns Response**



1820 W. Washington • Phoenix, AZ 85007 • Phone: (602) 258-5786 • Fax: (602) 253-3874  
Email: [league@mg.state.az.us](mailto:league@mg.state.az.us) • Web site: [www.azleague.org](http://www.azleague.org)

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September 16, 2004

Honorable Dean Martin  
Chairman  
Senate Finance Committee  
1700 W. Washington St.  
Phoenix, Arizona 85007

Dear Senator Martin:

The Municipal Tax Code Commission (Commission) is an integral part of the compromise established in the late 1980's between the business community and the cities and towns of Arizona. The oversight responsibility of the Commission over the Model City Tax Code (MCTC) provides an excellent forum for municipalities and the business community to discuss and work on improvements to the local sales tax system in Arizona.

The League of Arizona Cities and Towns interacts with the Commission on a regular basis. Any changes to the MCTC must be approved by the Commission before a city or town can make any change that deviates from the current language. The municipalities cannot make changes to the MCTC without having those changes approved by the Commission. In this role the Commission has been a great place for industry representatives to bring forward changes they are interested in and for the Commission, currently made up of locally elected officials, to provide feedback to the industry on how potential changes might affect the incorporated cities and towns of Arizona.

This role of mediator over the provisions of the MCTC has proven to be valuable and produced consensus on all of the changes brought before the Commission over the past 15 years. The Commission has seemed to balance fairly the needs of municipalities with the needs of the business community. Authorizing the continuation of this commission would be an essential element to continuing the functioning balance between local control and uniformity. With this we urge the members of this committee of reference to continue the Commission and allow them to continue to play the role of mediator.

If you have any further questions regarding the Commission, please do not hesitate to contact us.

Sincerely,

Catherine F. Connolly  
Executive Director

## **2003 MTCC Annual Report**

# MUNICIPAL TAX CODE COMMISSION



**JANET NAPOLITANO**  
GOVERNOR

**CAROL W. WEST**  
VICE-CHAIR

**KERRY BALLARD**  
MEMBER

**GINNY HANDORF**  
MEMBER

**GREG STANTON**  
MEMBER

**KEN FORGIA**  
CHAIRPERSON

**GILBERT LOPEZ**  
MEMBER

**CLAUDIA WALTERS**  
MEMBER

**ELAINE SCRUGGS**  
MEMBER

**ROWLE SIMMONS**  
MEMBER

**VINCENT G. PEREZ**  
EX-OFFICIO MEMBER

December 31, 2003  
**ANNUAL REPORT**  
**MUNICIPAL TAX CODE COMMISSION**

## MEMBERS

Ken Forgia, Vice Mayor, City of Peoria – Chairman  
Carol W. West, Councilmember, City of Tucson – Vice-Chair  
Elaine Scruggs, Mayor, City of Glendale – Member  
Claudia Walters, Vice Mayor, City of Mesa - Member  
Kerry Ballard, Vice Mayor, Town of Snowflake - Member  
Gilbert Lopez, Vice Mayor, City of Coolidge - Member  
Rowle Simmons, Mayor, City of Prescott – Member  
Ginny Handorf, Councilmember, Town of Pinetop-Lakeside – Member  
Greg Stanton, Councilmember, City of Phoenix-Member  
Vincent G. Perez, Department of Revenue - Ex-officio Member

## STAFF

Miguel Teposte, Administrator TPT, DOR  
Joseph Lewandowski, DOR Cities Program Liaison

## PURPOSE

The Municipal Tax Code Commission was created as a result of Laws 1988, Chapter 107, extended by Laws 1991, Chapter 160 (Appendix 1), and amended by Laws 1994, Chapter 305. It was again amended by Laws 1997, Chapter 150, amended by House Bill 2193 Chapter 225 in 1999 and further amended by Senate Bill 1513, Chapter 297 in 2000. Through the public hearing process, the Commission is required to review and comment on proposed changes to the Model City Tax Code adopted by the cities and towns in the State of Arizona. The Model City Tax Code, on file with the Secretary of State's Office, is a uniform transaction privilege (sales) tax code that contains varying options within a taxable activity that a city or town can select without the approval of the Commission. The Commission, in addition to reviewing and commenting on proposed changes to the Code, may

recommend changes to language presented and may recommend changes to the Code to all cities and towns. Specifically excluded from review by the Commission is any increase in rate. All changes adopted by a city or town are required to be kept on file.

### **2003 ACTIVITIES**

The Municipal Tax Code Commission met once during the 2003 calendar year. The Commission's meeting was held on September 12, 2003.

The Commission appointed a new chairman and vice-chairman. The new chairman is Mr. Ken Forgia Vice Mayor of Peoria and the vice-chairman is Ms. Carol W. West Councilmember of Tucson. The Commission heard a presentation from Byron Smith of the League of Arizona Cities and Towns. Mr. Smith presented for approval an amendment to Regulation 520 of the Model City Tax Code. The recommended change will allow taxpayers alternative methods for signing or verifying any report made to the city.

### **OTHER ITEMS**

There were three new members appointed to the Commission: Councilmember Greg Stanton of Phoenix. He replaces Councilmember Doug Lingner of Phoenix. Vice Mayor Gilbert Lopez. Vice Mayor Lopez of Coolidge replaces Robert Mitchell of Casa Grande. Mayor Rowle Simmons. Mayor Simmons of Prescott replaces Tom Eggleston of Glendale. There were also changes made to rates and options by various cities. However, none required Commission action. The tentative meeting schedule for the 2004 Municipal Tax Code Commission is listed below.

- January 9, 2004
- March 12, 2004
- May 14, 2004
- July 9, 2004
- September 10, 2004
- November 19, 2004