

MINUTES OF THE SPECIAL MEETING OF THE HONORABLE MAYOR AND CITY COUNCIL OF THE CITY OF CHANDLER, ARIZONA, held at on Monday, March 24, 2014 in the Council Conference Room, 88 E. Chicago Street, Chandler, Arizona.

The meeting was called to order by Mayor Tibshraeny at approximately 6:04 p.m.

The following members were present:

Jay Tibshraeny	Mayor
Rick Heumann	Vice Mayor
Jack Sellers	Councilmember
Kevin Hartke	Councilmember
Jeff Weninger	Councilmember
Trinity Donovan	Councilmember
Nora Ellen	Councilmember

Also present: City Clerk Marla Paddock, City Attorney Kay Bigelow, Budget Manager Greg Westrum, Mgmt. Services Director Dawn Lang, City Manager Rich Dlugas, Asst. City Manager Marsha Reed, Intergovernmental Affairs Coordinator Patrice Kraus, Revenue and Tax Manager Matt Dunbar.

MS. DAWN LANG, Management Services Director, stated that it was their intent to update the elected body on the effects of HB2111, State Administration of Transaction Privilege Sales Tax, and HB 2389 that also relates to this change.

Ms. Lang stated that while all the cities and towns in Arizona are affected, more directly are the 18 self-collecting non program cities.

She explained that currently, the Arizona Department of Revenue (DOR) collects 23% of the cities TPT taxes statewide. This bill will increase their collections to include the other 77%. She commented that is a tremendous increase in workload before January 1, 2015 effective date.

In response to a question from Councilmember Donovan, MS. KRAUS explained the Senate budget includes \$1 million this year and for each of the next two years. She clarified that all taxpayers pay the state portion of their taxes to the DOR. This is just adding the cities portion – 77% of the cities collection.

COUNCILMEMBER WENINGER asked about the infrastructure needed to facilitate a payment from the DOR to the city. MS. KRAUS said she did not know if infrastructure was needed for that, but the importance of remitting money to the city as soon as possible has been stressed. MS. LANG added that probably would not be done on a daily basis, although it hasn't been concluded, it would be preferred to be in the shortest time as possible. MS. KRAUS said concerns have been expressed to DOR on cash flow issues. Members of the City Council expressed their concerns with the amount allocated to upgrade the DOR computer system to the potential expense actually needed.

MS. LANG added the DOR has made a hire for a Project Manager, several programmers and temporary staff. She stated there have been several working groups formed to assist with the implementation.

She reported the three main areas affected by HB 2111 are Audits, Prime Contracting, and Privilege Tax Administration.

MR. MATT DUNBAR explained the Tax Division staff would now be performing audits on behalf of the State of Arizona. City auditors would require training from the DOR on procedures. If a business is only located in the city, the City could audit that business. If that business has a location in another city in addition to Chandler, the City would require approval from the State to perform that audit. The specific process is being identified.

In response to a question on corporations and multiple locations of businesses, Mr. Dunbar explained each entity would be looked at on an entity basis. All the businesses owned by that "entity" will be audited. If they are multi-jurisdictional, approval will be needed from the State for all locations that the entity owns. If there was a penalty owed, it is based on where the tax is due. Mr. Dunbar said many issues such as responsiveness to issues, will be addressed in the Intergovernmental Agreement.

He highlighted the progress being made with the Audit Process:

- Audit Manual has been created and is in final review stage.
- Software testing and auditor training in September
- Creation of audit letters, notifications and audit manual has begun
- Create processes for audit selection to be completed
- Create desk review manual to be completed
- Begin the IGA process in May with the State
- Taxpayer education

COUNCILMEMBER DONOVAN asked about rental properties and if an individual had rentals in multiple jurisdictions, but didn't have a company how they are defined. MR. DUNBAR said they are considered an "entity". If they have rental properties in multiple locations, they would be under audit in multiple locations and approval from the State would be sought to perform the audit. Councilmember Donovan asked how that would be known. Mr. Dunbar said a search would be conducted through the Recorder's office. She noted that currently, Chandler would not have to seek that information.

MR. DUNBAR reviewed the Construction / Contracting Tax. He said basically what has been done is they have taken trade, repair or replacement type contractors and excluded them from privilege tax on a gross receipt. He gave an example of an electrician installing a ceiling fan. The customer would pay the tax when purchasing the ceiling fan at the retail store and there would be no tax on the trade-type contracting. He said currently there is a tax on materials and labor.

He noted that Exemption Certificates for new construction will now be based on a project. He stated the State is currently drafting a plan on how to manage this. Currently, the exemption certificate is online and can be printed out. Under the new requirements, the contractor will have to go to the State, give them information on the project and obtain the exemption certificate.

He reviewed the Prime Contracting timeline.

VICE MAYOR HEUMANN asked who or what would be the determining factor in deciding if the switch over is not ready. MS. KRAUS said in talking to the League staff, they have set an internal date in June where key testing and stress testing need to be complete and what the delay may

be. Ms. Kraus said she believed at the State level, the Governor's office would probably need to make the decision.

Mr. Dunbar reiterated the need for taxpayer education to explain the changes.

Discussion ensued on the amount of information and at what level of detail will the tax files be transferred from the State. MS. LANG said the City will need software in place to be able to decipher this data. She noted the good news is the staff knows the revenues and trends and knows what to look and watch for. She said there will be mistakes and they will be diligent in looking for that.

MR. DUNBAR said the Privilege Tax Administration impacts Chandler significantly. The DOR will receive, process and collect the applications and payments for the City of Chandler. They have heard that while there could be weekly payments from the DOR, there is a lag of 2-3 weeks from the date they deposit the check. DOR will also provide an online reporting system so taxpayers can pay taxes. It is currently being offered at the State level and for the program cities; however, they will need to add the non-program cities.

MAYOR TIBSHRAENY noted that the Town of Gilbert was probably the biggest municipality currently on the system and asked if Gilbert had an audit department. MR. DUNBAR replied they have had a small audit department for about 2 years. They have two auditors with plans to add another.

Mayor and Council members expressed concern with lag time in any of the processes. MS. LANG said currently the city deposits within 1-3 days. She said this is a significant change and will cause a big cash flow issue when this goes live and has to be planned for. She said the Budget Stabilization Reserve could be put into play.

MR. DUNBAR reviewed the tasks and progress with the administration. He noted currently the State has six budgeted license inspectors for the State of Arizona, and currently there are only three people in those positions. The DOR is very interested in partnering with the cities.

In response to a question from Councilmember Donovan on non-profits, MS. LANG noted that the State only issues licenses for those businesses that pay taxes. The City of Chandler issues licenses to every business regardless of whether taxes are paid. The City will lose the ability to track each of those individual businesses. She stated they would explain more later in the presentation. Ms. Lang said extra effort has been made to match databases in the State system with the different codes for each tax categories. MR. DUNBAR added that 80% of Chandler's tax comes from the top 300 taxpayers. 90% comes from the top 700 taxpayers. The goal will be to verify the top 90% of the tax coming in and ensuring the State has them on the record.

Mr. Dunbar reviewed the changes proposed by HB 2389 that help to resolve issues such as confidentiality, annual renewals, location based reporting, online filing requirements, and State collection on residential rental TPT.

RECESS: The Mayor recessed the meeting at 6:59 p.m. and reconvened at 7:55 p.m.

MS. KRAUS said the question was asked about who or what entity would decide when to "go live" and Ms. Kraus said there was language inserted in the House Bill that states that collections aren't turned over until they (DOR) can demonstrate they can provide the data that is needed by

the cities. She said she hoped there would be consensus among those involved to make that decision.

Ms. Lang addressed the areas of concern and noted the dates listed have been verbally committed to by the DOR to the League of Cities. She stated the post-implementation areas of concern is revenue loss and reduced cash flow through increased non-payment of collections, increase noncompliance, and confusion in construction contracting and the availability of detailed taxpayer data.

Ms. Lang emphasized the need to continue communicating needs among the parties involved in conjunction with monitoring checkpoints and deadlines. She stated the implementation of a Chandler business license to ensure compliance with the City Code will also be critical.

She stated post implementation it will be equally important to monitor revenue, taxpayer compliance and to provide license inspection assistance.

Adjournment: The Mayor adjourned the meeting at 8:21 p.m.

ATTEST:

City Clerk

Mayor

Approval Date of Minutes: April 10, 2014

CERTIFICATION

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Special Meeting of the City Council of Chandler, Arizona held on March 24, 2014. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this _____ day of April 2014

City Clerk