

APRIL 10, 2017

MEMORANDUM TO: HONORABLE MAYOR AND COUNCIL  
THROUGH: BRYANT POWELL, CITY MANAGER  
FROM: KATHLEEN CONNELLY, CITY CLERK  
SUBJECT: WORK SESSION ITEM FOR APRIL 17, 2017  
DISCUSSION ON CITY CODE CHAPTER 8 BUSINESS  
AND CITY TAX CODE

On January 1, 2017, the Arizona Department of Revenue took over collection of city sales and use taxes for Apache Junction and all other Arizona non-program municipalities. They have put in place numerous rules and procedures for this collection process including the requirement that all new tax license applications and renewals must go to the Arizona Department of Revenue leaving a void when it comes to business information on our end.

The city council first adopted a business licensing program in early 1980 through City Code Chapter 8. The licensing process was supported by the Apache Junction Chamber of Commerce which in November 1979 asked the city council to take action to ensure that all businesses pay the city sales tax with the licensing procedure being a means to do so. The city code authorized and required licensing for all types of businesses either located in or coming into the city. It included tiered fees based on business type and created a no fee license for IRS 501C non-profit organizations. An updated fee process shortly after made most license fees the same with some exceptions. The newly-adopted license requirements were put before city voters at a March 24, 1981 primary election and subsequently received city voter approval.

In 1987 all Arizona municipalities were required to adopt the Arizona Model City Tax Code which created uniformity in tax code language, collections, audit procedures and definitions while still allowing for some local options. Apache Junction did so in 1987. One of these local options was to collect our own sales tax or have it done by the Arizona Department of Revenue. The council then opted to have the state collect the city sales tax.

The city licensing program and tax code had minor adjustments until July 1992 at which time the council adopted Ordinance No. 833 allowing for supplementary local audits. An outside firm was hired to canvass in-city businesses by literally going door-to-door. The information was used to conduct audits with a return of almost one-half million dollars in unpaid city sales tax. The information was subsequently used to update the city's license program which was revised and used extensively to verify tax payments.

By regularly checking the city's license information against the tax payment journals we received from the Arizona Department of Revenue, it became increasingly apparent that there were inconsistencies between city and state records. For example, the predecessor to Village Inn was the restaurant called Sambo's. Sambo's did not appear on the state journals. I contacted the Arizona Department of Revenue and was told that there was no Sambo's in Apache Junction. I told them that there was. It took months to get the record corrected. Finally, the city council decided to adopt a local tax code option which allowed us to collect our own sales tax. We began doing so in July 2007 using the existing city license data base. The transition went smoothly and our tax collections increased.

In 2013 Governor Brewer and the state legislature went forward with a tax simplification process which eventually required all authority for the collection of local taxes be returned to the state.

On January 1, 2017, the Arizona Department of Revenue resumed collection of our local sales and use tax. The city taxpayers must now report directly to the Arizona Department of Revenue for initial and renewal licenses. We no longer have the opportunity to see the detailed business information as we did before.

The lack of this business information has already had a negative impact on our ability to identify existing and new taxpayers. We do not have application information to forward to development services for zoning verification and building code inquiries. We have no application information to provide to the police department for issues of public safety and neighborhood protection. We no longer have application information for use by Superstition Fire and Medical for fire and safety inspections. We no longer have application information to forward to the county health department for facility and food handler approvals. And because the information we receive from the Arizona Department of Revenue is confidential, we are limited in our ability to confirm that someone is/is not in business for potential customers which could be a hindrance to the local economy. At this time I am asking that the council consider changes to City Code Chapter 8 and the city tax code to reinstate the pre-2007 manner of licensing taxable businesses by putting them back into the code similar to what existed prior to July 2007. This would include modifications to some of the definitions, establishing a local business license fee, lowering the tax license fee currently paid to the state and creating a city business license application that provides information needed by several departments, etc. By going back to our local license program you can also create license fees that are more practical for small events and bring the overall license fees back to the city instead of channeling them through the Arizona Department of Revenue.

In addition to the copies of Chapter 8, Chapter 8 2015 amendments and the local tax license cost option which you find at the front of your book, I am also attaching

1. Current fiscal year revenue report which shows business license fees collected at 19.2% of projected. As of January 2017, the \$50 annual tax license fee is being collected by the Arizona Department of Revenue. It is intended to come back to us at some point as part of their collections.
2. The tax license fees chart showing fees being charged by the various Arizona municipalities. Apache Junction is currently at \$50.00. If you were to go back to pre-July 2007, the fee payable to the state would be \$2.00 and the \$50.00 fee would be payable directly to the city through a business license program. We have over 4,000 taxable businesses as of the end of 2016.
3. Current Department of Liquor Licenses and Control categories for liquor licenses. At one time our city code matched these categories for a liquor license permit which is in addition to a liquor license business license. Our permit fees no longer line up with the state categories.

The item on the April 17 work session is discussion only. It will come back at your May 2<sup>nd</sup> meeting for direction to staff. Please contact me if you have any questions.

Note: Please leave the copies of Chapter 8, Chapter 8 2015 Amendments and Tax Code Section 320 in the front of your council packet for future reference.

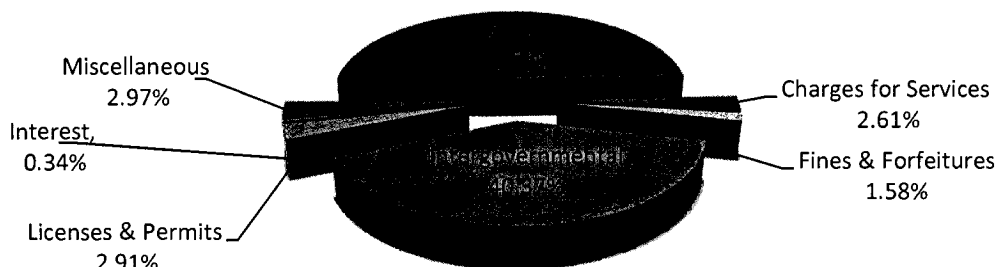
## Current Fiscal Year Revenue - General Fund

### February 2017

**% of Budget - Eight months or 66.7% of the fiscal year reported**

Source of Revenue	Through the Month of February 2017				Annual	
	Actual thru 02/2017	Accrued 02/2017	Projected 02/2017	% of Projected	Budgeted FY 16/17	Projected FY 16/17
<b><u>Taxes</u></b>						
City Sales Tax	6,398,495	1,395,575	7,794,070	64.8%	12,035,000	12,035,000
City Sales Tax Audit	92,930	-	92,930	62.0%	300,000	150,000
Tax Incentive Rebates *	(63,910)	-	(63,910)	39.9%	(160,000)	(160,000)
Exclusive License Fee	52,387	-	52,387	52.4%	100,000	100,000
Use Tax	50,642	-	50,642	56.3%	150,000	90,000
<b>Total City Taxes</b>	<b>6,530,544</b>	<b>1,395,575</b>	<b>7,926,119</b>	<b>64.9%</b>	<b>12,425,000</b>	<b>12,215,000</b>
<b><u>Intergovernmental Revenue</u></b>						
<b>State Taxes</b>						
State Sales Tax	2,009,701	256,770	2,266,471	63.2%	3,587,975	3,587,975
State Revenue Sharing	3,107,371	-	3,107,371	66.6%	4,663,590	4,663,590
Other State Revenue	-	-	-	0.0%	-	-
<b>Total State Taxes</b>	<b>5,117,072</b>	<b>256,770</b>	<b>5,373,842</b>	<b>65.1%</b>	<b>8,251,565</b>	<b>8,251,565</b>
<b>County Taxes</b>						
Vehicle License Tax	1,233,192	166,110	1,399,302	70.9%	1,938,755	1,975,000
<b>Total County Taxes</b>	<b>1,233,192</b>	<b>166,110</b>	<b>1,399,302</b>	<b>70.9%</b>	<b>1,938,755</b>	<b>1,975,000</b>
<b>Total Intergov't Revenue</b>	<b>6,350,264</b>	<b>422,880</b>	<b>6,773,144</b>	<b>66.2%</b>	<b>10,190,320</b>	<b>10,226,565</b>
<b>Total Taxes</b>	<b>12,880,808</b>	<b>1,818,455</b>	<b>14,699,263</b>	<b>65.5%</b>	<b>22,615,320</b>	<b>22,441,565</b>
<b><u>Licenses &amp; Permits</u></b>						
Business License	47,914	-	47,914	19.2%	270,000	250,000
Building Fees	293,437	-	293,437	78.2%	375,000	375,000
Animal Control	64,658	-	64,658	71.8%	90,000	90,000
Other Licenses	300	-	300	75.0%	400	400
<b>Total Licenses &amp; Permits</b>	<b>406,309</b>	<b>-</b>	<b>406,309</b>	<b>56.8%</b>	<b>735,400</b>	<b>715,400</b>
<b><u>Charges for Services</u></b>						
Planning & Zoning	7,260	-	7,260	90.8%	8,000	8,000
Recreation	325,042	-	325,042	54.2%	600,000	600,000
Library	26,545	-	26,545	53.1%	50,000	50,000
Returned Item Fees	374	-	374	20.8%	1,800	1,800
<b>Total Charges for Services</b>	<b>359,221</b>	<b>-</b>	<b>359,221</b>	<b>54.4%</b>	<b>659,800</b>	<b>659,800</b>
<b><u>Fines and Forfeitures</u></b>						
Magistrate Court Fees	345,772	-	345,772	86.4%	400,000	400,000
Interest on Investments	24,902	-	24,902	62.3%	85,000	40,000
<b><u>Miscellaneous Revenue</u></b>						
Miscellaneous	251,880	-	251,880	45.8%	750,000	550,000
<b>Total General Fund Revenue</b>	<b>14,268,892</b>	<b>1,818,455</b>	<b>16,087,347</b>	<b>64.9%</b>	<b>25,245,520</b>	<b>24,806,765</b>

## Source of Budgeted Revenue - General Fund



Name (as shown on page 1)

FEIN or SSN (as shown on page 1)

**SECTION I: State/County & City License Fee Worksheet**ALL FEES ARE SUBJECT TO CHANGE. Check for updates at [www.azdor.gov](http://www.azdor.gov).**IMPORTANT LICENSE FEE INFORMATION:** If you are licensing for a city that has an additional city license fee, the city license fee per location may be billed to you separately within 45 days.To calculate **CITY FEE:** Multiply **No. of Locations** by the **License Fee** and enter sum in **License Subtotal**.

City/Town	Code	No. of Loc's	License Fee	License Subtotal	City/Town	Code	No. of Loc's	License Fee	License Subtotal	City/Town	Code	No. of Loc's	License Fee	License Subtotal
Apache Junction	AJ		\$50.00		Goodyear	GY		\$5.00		Sahuarita	SA		\$5.00	
Avondale	AV		\$0.00		Guadalupe	GU		\$2.00		San Luis	SU		\$2.00	
Benson	BS		\$5.00		Hayden	HY		\$5.00		Scottsdale	SC		\$50.00	
Bisbee	BB		\$1.00		Holbrook	HB		\$1.00		Sedona	SE		\$2.00	
Buckeye	BE		\$2.00		Huachuca City	HC		\$2.00		Show Low	SL		\$2.00	
Bullhead City	BH		\$2.00		Jerome	JO		\$2.00		Sierra Vista	SR		\$1.00	
Camp Verde	CE		\$2.00		Kearny	KN		\$2.00		Snowflake	SN		\$2.00	
Carefree	CA		\$10.00		Kingman	KM		\$2.00		Somerton	SO		\$2.00	
Casa Grande	CG		\$2.00		Lake Havasu	LH		\$5.00		South Tucson	ST		\$2.00	
Cave Creek	CK		\$20.00		Litchfield Park	LP		\$2.00		Springerville	SV		\$5.00	
Chandler	CH		\$50.00		Mammoth	MH		\$2.00		St. Johns	SJ		\$2.00	
Chino Valley	CV		\$2.00		Marana	MA		\$5.00		Star Valley	SY		\$2.00	
Clarkdale	CD		\$2.00		Maricopa	MP		\$2.00		Superior	SI		\$2.00	
Clifton	CF		\$2.00		Mesa	ME		\$20.00		Surprise	SP		\$10.00	
Colorado City	CC		\$2.00		Miami	MM		\$2.00		Taylor	TL		\$2.00	
Coolidge	CL		\$2.00		Nogales	NO		\$0.00		Tempe	TE		\$50.00	
Cottonwood	CW		\$2.00		Oro Valley	OR		\$12.00		Thatcher	TC		\$2.00	
Dewey/Humboldt	DH		\$2.00		Page	PG		\$2.00		Tolleson	TN		\$2.00	
Douglas	DL		\$5.00		Paradise Valley	PV		\$2.00		Tombstone	TS		\$1.00	
Duncan	DC		\$2.00		Parker	PK		\$2.00		Tucson	TU		\$20.00	
Eagar	EG		\$10.00		Patagonia	PA		\$0.00		Tusayan	TY		\$2.00	
El Mirage	EM		\$15.00		Payson	PS		\$2.00		Wellton	WT		\$2.00	
Eloy	EL		\$10.00		Peoria	PE		\$50.00		Wickenburg	WB		\$2.00	
Flagstaff	FS		\$46.00		Phoenix**	PX		\$50.00		Willcox	WC		\$1.00	
Florence	FL		\$2.00		Pima	PM		\$2.00		Williams	WL		\$2.00	
Fountain Hills	FH		\$2.00		Pinetop/Lakeside	PP		\$2.00		Winkelman	WM		\$2.00	
Fredonia	FD		\$10.00		Prescott	PR		\$5.00		Winslow	WS		\$10.00	
Gila Bend	GI		\$2.00		Prescott Valley	PL		\$2.00		Youngtown	YT		\$10.00	
Gilbert	GB		\$2.00		Quartzsite	QZ		\$2.00		Yuma	YM		\$2.00	
Glendale	GE		\$35.00		Queen Creek	QC		\$2.00						
Globe	GL		\$2.00		Safford	SF		\$2.00						

Subtotal City License Fees  
(column 1) \$Subtotal City License Fees  
(column 2) \$Subtotal City License Fees  
(column 3) \$**AA TOTAL City License Fee(s) (column 1 + 2 + 3)**.....

\$

**BB TOTAL State License Fee(s):** Calculate by multiplying number of business locations by \$12.00

No. of Loc's	Fee per Location	TOTAL
	\$12.00	\$

**Residential Rental License Fees - Only Chandler, Phoenix, and Scottsdale**

Multiply the number of units per locations by \$2.00 (\$50.00 Annual Cap per license).

No. of Units	No. of Loc's	City Fee
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**ONLY CHANDLER, PHOENIX, and SCOTTSDALE**  
should use this section.  
**DO NOT** use the fee chart above to calculate license fees.  
The amount for each city CANNOT EXCEED \$50.00

Residential Rental License-Chandler

Residential Rental License-Phoenix

Residential Rental License-Scottsdale

		\$
		\$
		\$

**CC TOTAL City Residential Rental License Fees (Add Chandler, Phoenix, & Scottsdale)**.....

\$

**DD TOTAL DUE (Add lines AA + BB + CC)**.....

\$

- Make check payable to Arizona Department of Revenue.
- Include FEIN or SSN on payment.

- Do not send cash.
- License will not be issued without full payment of fee(s).

\*\*If your only business is under Class 213, Commercial Lease, there is no license fee due.

**Series#****Type of License**

<b>01</b>	<b><u>In-State Producer</u></b>
<b>02</b>	<b><u>Out of State Producer</u></b>
<b>03</b>	<b><u>Microbrewery***</u></b>
<b>04</b>	<b><u>Wholesaler</u></b>
<b>05</b>	<b><u>Government*</u></b>
<b>06</b>	<b><u>Bar***</u></b>
<b>07</b>	<b><u>Beer and Wine Bar***</u></b>
<b>08</b>	<b><u>Conveyance*</u></b>
<b>09</b>	<b><u>Liquor Store** (S)</u></b>
<b>10</b>	<b><u>Beer and Wine Store** (S)</u></b>
<b>11</b>	<b><u>Hotel License*</u></b>
<b>12</b>	<b><u>Restaurant*</u></b>
<b>13</b>	<b><u>Farm Winery***</u></b>
<b>14</b>	<b><u>Private Club*</u></b>
<b>15</b>	<b><u>Special Event* (Auction)</u></b>
<b>16</b>	<b><u>Wine / Craft Distillery Festival***</u></b>
<b>17</b>	<b><u>Direct Shipment</u></b>
<b>18</b>	<b><u>In-State Craft Distillery***</u></b>
<b>19</b>	<b><u>Tasting Room (13 &amp; 18)***</u></b>
<b>20</b>	<b><u>Alternating Proprietor</u></b>
<b>21</b>	<b><u>Custom Crush</u></b>

= On Premise only

= Off Premise only

= On and Off

