

September 8, 2004

TO: Members of the MAG Executive Committee
FROM: Tom Remes, Senior Policy Planner
SUBJECT: SALES TAX INCENTIVES FOR RETAIL DEVELOPMENT

At the July 19, 2004 Executive Committee meeting, the issue of municipal sales tax incentives was discussed. Staff was directed to provide a report at the next Executive Committee meeting. One option being considered by the Cities of Phoenix and Peoria was to strengthen intergovernmental agreement (IGA) laws to clarify the ability to have revenue sharing agreements between municipalities. At the August 31, 2004 League of Arizona Cities and Towns Resolutions Committee, this revenue sharing agreement resolution was introduced, but did not pass. It is anticipated that a legislative measure to preempt municipalities from using development incentives will be introduced during next year's legislative session and may have the support to pass. In order to continue the Executive Committee discussion, staff has prepared four options for consideration:

Option 1: No action on this issue to be taken by the MAG Regional Council.

Individual member agencies may pursue legislation on their own.

Option 2: Seek authority to clarify the IGA laws by amending A.R.S. § 11-952 to ensure the present power of public agencies to adopt revenue sharing agreements that may include all schemes of revenue sharing between two or more public agencies and that these agreements shall be legally binding .

This option would be similar to the League of Arizona Cities and Towns Resolution #24 on revenue sharing agreements (Attachment 5A). The intent would be to have a more explicit definition in State statute.

Option 3: Adopt a MAG Resolution to have MAG member agencies meet and discuss when certain types of projects are proposed in border areas.

A model resolution could outline criteria that would trigger a meeting between municipalities. Criteria could include: type and size of development, and distance from neighboring communities. This option encourages discussions at the local level, and does not encourage State intervention. The resolution would reflect a local effort to consider revenue sharing when applicable.

Option 4: Pilot program between two member agencies.

This option would demonstrate that revenue agreements that reflect unique community needs are possible.

Due to the complex and unique nature of the Arizona tax structure, it is difficult to find states, counties, cities or towns with similar sales tax dependence and incentive challenges. The State of California has enacted legislation regarding financial assistance to automobile dealerships and big box retailers (Attachment 5B), but their experience is not analogous to Arizona's.

Guidance on this topic from the Executive Committee is requested. If you have any questions or suggestions, please call me at the MAG office.