NOTICE OF A REGULAR MEETING OF THE
LEAGUE OF ARIZONA CITIES & TOWNS
EXECUTIVE COMMITTEE

Friday, November 9, 2012 at 10:00 a.m.
League Office Building
1820 West Washington, Phoenix

Notice is hereby given to the members of the Executive Committee and to the general public that the Executive Committee will hold a meeting open to the public on Friday, November 9, 2012 at 10:00 a.m. Members of the Executive Committee will attend either in person or by telephone conference call. The Executive Committee may vote to recess the meeting and move into Executive Session on any item on this agenda. Upon completion of Executive Session, the Executive Committee may resume the meeting, open to the public, to address the remaining items on the agenda. A copy of the agenda is available at the League office building in Suite 200 or on the League website at www.azleague.org.

Agenda

All items on this agenda are scheduled for discussion and possible action, unless otherwise noted.

1. Review and Adoption of Minutes
2. TPT Work Group Report
3. Legislative Report and Look Ahead
4. League Annual Survey Results
5. League Transparency
6. Report of League Communications Subcommittee
7. Recap of 2012 Annual Conference; Future Conference Locations
8. 2011-2012 Audit Report; Audit Firm Contract

Additional informational materials are included in the agenda packet but are not part of the agenda.
Agenda Item #1 Review and Adoption of Minutes

Summary: Minutes of the previous meeting and minutes from the annual business meeting are enclosed for your review and approval.

Responsible Person: President Doug Von Gausig

Attachments: August 29, 2012 Executive Committee Minutes
August 30, 2012 Annual Business Meeting Minutes

Action Requested: Approval
President Doug Von Gausig called the meeting to order at 11:45 a.m. He welcomed everyone and led them in the Pledge of Allegiance.

1. REVIEW AND ADOPTION OF MINUTES

President Doug Von Gausig asked for review and approval of the minutes as presented. Lynne Skelton noted that she was in attendance in the last meeting. Mayor Adams moved that the minutes of the May 11, 2012 and June 6, 2012, Executive Committee meeting be approved as amended. Mayor Krieger seconded the motion and it carried unanimously.

2. TPT WORK GROUP REPORT

President Von Gausig recognized League Executive Director Ken Strobeck to report on the TPT work group. Mr. Strobeck said that we have had good representation from the League, City of Gilbert and City of Phoenix on the Governor’s TPT Simplification Tax Force. He reported on the first meeting held at the governor’s conference room which included a presentation that was given by the City of
Chandler’s Tax Audit Supervisor Lee Grafstrom. The task force created three subcommittee workgroups. The groups are meeting at the League offices and are open to the public. Mr. Strobeck then recognized League Deputy Director Tom Belshe to report on the subcommittee workgroups. Mr. Belshe said that one group is discussing an online retail sales tax. The other is the standardization of the state base with the Model City Tax Code. These are the focuses that the task force is working on. The first four weeks went well and included meetings with the business community and the Arizona Tax Research Association (ATRA). The online group is discussing the concept of a single point of administration, potentially expanding on the portal idea.

Mr. Belshe noted that the issue of prime contracting is the subject of the third workgroup and is likely to be the most controversial. The group is discussing ways to streamline the construction contracting tax, making it easier to comply with while maintaining revenue to the state and municipalities. Mayor Jay Tibshraeny noted that the simplest way is to continue the way it is being done now.

3. REPORT ON LEGISLATIVE TOUR/LEAGUE OUTREACH/LEGISLATIVE ISSUES

President Von Gausig recognized Mr. Strobeck to further discuss League outreach and legislative issues. Mr. Strobeck said that Dale, Jim, René and he went on an annual legislative tour to 11 different cities to give a legislative report and they had a great turnout. Mr. Strobeck also informed the Executive Committee that the New Laws Report is now available online and that the Municipal Budget and Finance Manual has also been updated.

Mayor Rothschild asked for discussion on the League position on initiatives such as Proposition 204 and the state sovereignty issue, which he felt was a direct threat to cities and towns. President Von Gausig said the primary test is how any proposal affects the operations of cities, and that any member of the Executive Committee can ask for discussion of an issue by either the League Officers or the full Executive Committee. Mayor Scruggs recounted the chronology of the discussion of Proposition 204 and the Executive Committee meeting when the proponents presented it. She noted that the majority of the Executive Committee believed the proposition had a direct impact because it did not include the shared revenue distribution of the existing state sales tax and that that opinion was reflected in their vote to oppose the measure. Mayor Rothschild said he wants to have outreach to other stakeholders on these kinds of issues. Mayor Stanton said he would have preferred that the League would have taken a neutral position on Proposition 204. Mayor Von Gausig asked all committee members to communicate with the League when they hear about proposals that may impact cities and towns. Mayor Lane added that there needs to be discussion on various issues about whether they do in fact impact local control.

Mr. Strobeck asked if the Committee had decided to take a position in support of Proposition 118, as requested by State Treasurer Ducey. The Committee felt the proposition did not have direct impact on cities and towns and declined to take a position on the issue.

4. HB 2826 (CONSOLIDATED ELECTIONS) REPORT

Mr. Strobeck noted that there was a meeting of a work group to discuss implementation issues and legislative changes that would be necessary to implement the legislation; a summary of the work group discussion was included in the packet. League General Counsel Joni Hoffman also issued two opinions on the legislation, one saying that general law cities and towns did not likely have a basis for a legal challenge and the other opinion discussed the issue of whether councilmember terms should be shortened or lengthened to comply with the new law.
5. **REPORT OF LEAGUE COMMUNICATIONS SUBCOMMITTEE**

Mayor Salem thanked the committee members that have participated and reported that the committee was making good progress on the directive given at the Executive Committee retreat in January to have both a short-term and long-term communications strategy. The Scutari & Cieslak firm has been retained year-round to be focused on legislative issues and topical media strategy. An RFP has been issued to more conventional PR firms to continue with an overall campaign building on the “Strong Cities” effort from several years ago and presentations will be made in upcoming weeks.

6. **LIFE MEMBER NOMINATIONS (SCRUGGS, WALKUP)**

President Von Gausig read the Life Member Resolution for Glendale Mayor and former League President Elaine Scruggs and asked for a motion to approve it. Mayor Stanton asked that an additional clause be added to the resolution to recognize Mayor Scruggs’ efforts in supporting the presence and mission of Luke Air Force Base. The committee agreed, a motion was made and seconded and the resolution passed unanimously.

President Von Gausig read the Life Member Resolution for former Tucson Mayor and former League President Bob Walkup. Andrew Greenhill from Tucson noted Mr. Walkup would be at the Awards Dinner Thursday night, and that he appreciated the resolution. A motion was made and seconded and the resolution passed unanimously.

7. **EXECUTIVE SESSION: EXECUTIVE DIRECTOR EVALUATION**

The committee convened in executive session at 12:50 p.m. to conduct the annual evaluation of Executive Director Ken Strobeck.

The committee re-convened in open session at 1:45 p.m.

Seeing no further business, President Von Gausig adjourned the meeting at 1:46 p.m.
MINUTES OF THE  
ANNUAL BUSINESS MEETING  
of the  
LEAGUE OF ARIZONA CITIES AND TOWNS  
Thursday, August 30, 2012 
Hyatt Regency at Gainey Ranch  
Scottsdale, Arizona

IN ATTENDANCE

Voting Delegates from Member Cities and Towns as follows:

MEMBERS

Marie Lopez Rogers, Mayor, Avondale  
Jackie Meck, Mayor, Buckeye  
David Schwan, Mayor, Carefree  
Jay Tibshraeny, Mayor, Chandler  
Doug Von Gausig, Mayor, Clarkdale  
Gilbert Lopez, Vice Mayor, Coolidge  
John Lewis, Mayor, Gilbert  
Elaine Scruggs, Mayor, Glendale  
Georgia Lord, Mayor, Goodyear  
Thomas Schoaf, Mayor, Litchfield Park

Kenny Evans, Mayor, Payson  
Bob Barrett, Mayor, Peoria  
Greg Stanton, Mayor, Phoenix  
Harvey Skoog, Mayor, Prescott Valley  
Patricia Anderson, Councilmember, Quartzsite  
Gerry Whipple, Councilmember, Show Low  
Rick Mueller, Mayor, Sierra Vista  
James Deemer, Mayor, Wellton  
Mike Levault, Mayor, Youngtown  
Alan Krieger, Mayor, Yuma

I. CALL TO ORDER

President Doug Von Gausig, Mayor of Clarkdale, called the meeting to order at 4:02 p.m.

II. INTRODUCTORY REMARKS

President Von Gausig welcomed the delegates to the meeting and reminded everyone that each city and town has one vote.

III. REPORT OF RESOLUTIONS COMMITTEE AND ADOPTION OF 2013 MUNICIPAL POLICY STATEMENT

Mayor Jay Tibshraeny of Chandler, Chairman of the Resolutions Committee, was recognized by President Von Gausig to give the Resolution Committee’s report. Mayor Tibshraeny reported that the resolutions adopted by the Resolutions Committee were before them and asked if there were any objections. Mayor Tibshraeny then moved to adopt the Resolutions as adopted by the Resolutions Committee. Mayor Bob Rivera of Thatcher, seconded and the motion carried. The Resolutions are attached and made a part of these minutes.
IV. REPORT OF NOMINATING COMMITTEE AND ELECTION OF EXECUTIVE COMMITTEE OFFICERS AND MEMBERS

Mayor Bob Barrett of Peoria, Chairman of the Nominating Committee, was recognized by President Von Gausig to give the Nominating Committee's report.

Mayor Barrett thanked the Nominating Committee members for their participation and all the applicants for their interest in serving. He then read the recommendations for the Executive Committee officer and member positions and made a motion to adopt the report of the Nominating Committee. President Von Gausig then asked if there were any nominations from the floor. There were none. Mayor Harvey Skoog of Prescott Valley seconded the motion and those nominated were elected without objection. The report of the Nominating Committee is attached and made a part of these minutes.

V. OTHER BUSINESS

President Von Gausig asked if there was any other business to bring before the body. There was none.

VI. ADJOURNMENT

The meeting was adjourned at 4:08 p.m.

_________________________________________
              PRESIDENT

_________________________________________
    Executive Director
<table>
<thead>
<tr>
<th>No.</th>
<th>Summary</th>
<th>Sponsor</th>
<th>Co-Sponsor</th>
<th>Resolutions Committee Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Keep local funding formulas intact. (A merger of original resolutions 1 and 11.)</td>
<td>Bullhead City</td>
<td>Kingman, Lake Havasu City</td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>2</td>
<td>Support economic development tools. (A merger of original Resolutions 2 and 3.)</td>
<td>Yuma</td>
<td>Bullhead City, Sierra Vista</td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>3</td>
<td>Credit for excess solar generation.</td>
<td>Sedona</td>
<td>Flagstaff, Clarkdale, Kingman</td>
<td>Significant Municipal Issue</td>
</tr>
<tr>
<td>4</td>
<td>Alternative Delivery Methods.</td>
<td>Sedona</td>
<td>Camp Verde, Clarkdale</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>5</td>
<td>Alternative Contribution Rate (ACR)/Arizona State Retirement System (ASRS).</td>
<td>Queen Creek</td>
<td>Apache Junction, Kingman</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>6</td>
<td>Public record requests.</td>
<td>Yuma</td>
<td>Oro Valley, Apache Junction, Bullhead City</td>
<td>Significant Municipal Issue</td>
</tr>
<tr>
<td>7</td>
<td>Repeal ARS 9-441.01.</td>
<td>Sedona</td>
<td>Clarkdale</td>
<td>Recommend with Amendments</td>
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<td>8</td>
<td>Greater flexibility in annexing county islands.</td>
<td>Marana</td>
<td>Sierra Vista, Oro Valley, Tucson</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>9</td>
<td>Urges the Legislature to fund state parks and work with cities and towns in partnership for the operation and maintenance of Arizona State Parks.</td>
<td>Yuma</td>
<td>Oro Valley, Camp Verde, Kingman, Bullhead City</td>
<td>Recommend with Amendments</td>
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<tr>
<td>10</td>
<td>Allow an incorporated city or town and a county within the unincorporated areas of the county to regulate the sale and use of permissible consumer fireworks.</td>
<td>Prescott</td>
<td>Prescott Valley, Chino Valley, Camp Verde, Clarkdale, Sedona.</td>
<td>Recommend for Adoption</td>
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<td>11</td>
<td>Improve forest health and reduce wildfire threats.</td>
<td>Flagstaff</td>
<td>Sedona, Scottsdale, Sierra Vista</td>
<td>Recommend for Adoption</td>
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<td>12</td>
<td>Reduce the shortage of physicians, physicians assistants and nurse practitioners.</td>
<td>Sierra Vista</td>
<td>Bisbee, Yuma, Marana, Douglas, Flagstaff, Clarkdale</td>
<td>Significant Municipal Issue with Amendments</td>
</tr>
<tr>
<td>13</td>
<td>Resources to improve Arizona’s ports of entry with Mexico and related</td>
<td>Sierra Vista</td>
<td>Douglas, Bisbee</td>
<td>Recommend for Adoption</td>
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<td></td>
<td>Resolution Committee Meeting Recommendations</td>
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<td><strong>infrastructure.</strong></td>
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<td>14</td>
<td>Support the long-term retention of Arizona’s military installations.</td>
<td>Vista</td>
<td>Sierra Vista</td>
<td>Bisbee, Peoria, Yuma, Marana, Flagstaff, Clarkdale</td>
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<tr>
<td>15</td>
<td>Restrict trucks to the two right-most lanes.</td>
<td>Apache Junction</td>
<td>Douglas</td>
<td>Significant Municipal Issue</td>
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<tr>
<td>16</td>
<td>Criminal damage by graffiti/restitution.</td>
<td>Yuma</td>
<td>Sierra Vista</td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>17</td>
<td>Amend §42-5010, as enacted in SB1442 last session, so that the recapture of construction sales tax to be used for funding infrastructure projects is made after the distribution of state shared revenues.</td>
<td>Chandler</td>
<td>Peoria</td>
<td>Recommend for Adoption</td>
</tr>
</tbody>
</table>
League Staff Recommendations

<table>
<thead>
<tr>
<th>No.</th>
<th>Summary</th>
<th>Subcommittee Recommendation</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Repeal HB2826, consolidated elections dates; political subdivision.</td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>2</td>
<td>Support regulatory reform.</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>3</td>
<td>Oppose unfunded mandates and preserve local authority.</td>
<td>Recommend for Adoption</td>
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</tbody>
</table>

Key to Committee Recommendations

**Recommend for Adoption** – Becomes a part of the Municipal Policy Statement, and will help guide legislative activity in the coming session.

**Recommend with Amendments** - Becomes a part of the Municipal Policy Statement, and will help guide legislative activity in the coming session, but needed amending for either content or technical reasons.

**Significant Municipal Issue** – Although an important concept to cities and towns, does not quite rise to the level of legislative activity. League staff may address the issue with state agencies and/or other stakeholders.

**Not Recommended for Passage** – The resolution may be too confined to one community, be on its face contrary to core principles, or not in line with current agreements with other stakeholders.

**Staff Recommendations** – Resolutions submitted by League staff.
OFFICERS AND EXECUTIVE COMMITTEE MEMBERS

NOMINATING COMMITTEE RECOMMENDATIONS FOR OFFICERS AND EXECUTIVE COMMITTEE MEMBERS

<table>
<thead>
<tr>
<th>Name</th>
<th>Term</th>
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<tbody>
<tr>
<td>Doug Von Gausig, Mayor, Clarkdale</td>
<td>PRESIDENT</td>
</tr>
<tr>
<td>Mark Mitchell, Mayor, Tempe</td>
<td>VICE PRESIDENT</td>
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<tr>
<td>Jay Tibshraeny, Mayor, Chandler</td>
<td>TREASURER</td>
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<tr>
<td>Marie Lopez Rogers, Mayor, Avondale</td>
<td>TWO YEAR TERM</td>
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<td>John Lewis, Mayor, Gilbert</td>
<td>TWO YEAR TERM</td>
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<td>Elaine M. Scruggs, Mayor, Glendale</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Mark Nexsen, Mayor, Lake Havasu City</td>
<td>TWO YEAR TERM</td>
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<td>Scott Smith, Mayor, Mesa</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Lynn Skelton, Vice Mayor, Sahuarita</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>W. J. “Jim” Lane, Mayor, Scottsdale</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Rob Adams, Mayor, Sedona</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Gerry Whipple, Councilmember, Show Low</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Jonathan Rothschild, Mayor, Tucson</td>
<td>TWO YEAR TERM</td>
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<tr>
<td>Alan Krieger, Mayor, Yuma</td>
<td>TWO YEAR TERM</td>
</tr>
<tr>
<td>Ed Honea, Mayor, Marana</td>
<td>ONE YEAR TERM</td>
</tr>
</tbody>
</table>

Officers and members of the Executive Committee are elected for two year overlapping terms. The following officials are currently serving terms on the Executive Committee which expire in August 2013:

Gilbert Lopez, Vice Mayor, Coolidge
Lana Mook, Mayor, El Mirage
John Salem, Mayor, Kingman
Thomas L. Schoaf, Mayor, Litchfield Park
Kenny Evans, Mayor, Payson
Bob Barrett, Mayor, Peoria
Greg Stanton, Mayor, Phoenix
Harvey Skoog, Mayor, Prescott Valley
Rick Mueller, Mayor, Sierra Vista
Bob Rivera, Mayor, Thatcher
Agenda Item #2  

TPT Work Group Report

Summary:
The twelve-member task force appointed by Governor Brewer is charged with examining the state’s TPT tax and recommending ways to make it easier to administer, more convenient for businesses to comply and eventually pave the way for implementation of state and local sales taxes for online purchases. Deputy Director Tom Belshe represents the League on the task force.

This report will include discussions from the three working groups of the TPT Simplification Task Force: State and Local Standardization, Online Retail Sales and Construction Contracting. It will also include possible recommendations that have been discussed by all members of the task force as well as those being developed by representatives of cities and towns.

Responsible Person:  
Tom Belshe, Deputy Director

Attachments:  
Meeting agendas, draft minutes
TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

State and Local Standardization Working Group

For additional information: www.azgovernor.gov/TPT/
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

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STATE AND LOCAL STANDARDIZATION WORKING GROUP AGENDA
TUESDAY, SEPTEMBER 4, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order
2. Welcome and Introduction of Working Group Chair
3. State and Local Taxation and Administration in Other States
   a. Presentations
   b. Working Group Discussion and Public Comment
4. Differences Between the State Code and the MCTC that Cause Difficulty for Taxpayers
   a. Presentations
   b. Working Group Discussion and Public Comment
5. Licensing Differences Between State and Cities
   a. Working Group Discussion and Public Comment
6. Future Working Group Meetings Regarding State and Local Standardization
7. Adjournment

August 31, 2012
A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on September 4, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

<table>
<thead>
<tr>
<th>Members Present</th>
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<tbody>
<tr>
<td>Michael Hunter (Chair)</td>
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<tr>
<td>John Olsen</td>
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<td>Miguel Teposte</td>
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<td>Tom Belshe</td>
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<td>Steve Barela</td>
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<td>Lynne Herndon</td>
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<tr>
<td>Linda Stanfield</td>
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<td>Keely Hitt</td>
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<td>Vince Perez</td>
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<td>Kevin McCarthy</td>
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<td>Senator John McComish</td>
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<td>Representative Rick Gray</td>
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<table>
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<tr>
<th>Members Absent</th>
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<tr>
<td>No members were absent.</td>
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<table>
<thead>
<tr>
<th>Staff Present</th>
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<tr>
<td>Lorna Romero, Governor’s Office</td>
</tr>
</tbody>
</table>

1. **Call to Order**
   Michael Hunter called the meeting to order at 1:33 p.m.

2. **Welcome & Introduction of Working Group Chair**
   Patrick Irvine, the Chair of the State and Local Standardization Working Group, welcomed everyone to the September meeting. He acknowledged that cities and stakeholders outside of the task force have been putting in good work to determine the real issues and differences in the Model City Tax Code.

3. **State and Local Taxation and Administration in Other States**
   Mr. Irvine explained that the working group is going to look at other states for any practices Arizona could emulate.

   a) **Presentations**
   Mr. Irvine introduced Keely Hitt from Circle K as the first presenter.

   Ms. Hitt presented on sales and use taxation at the local level. She stated that as a multi state taxpayer she has a unique perspective on sales tax administration. She explained that during her
presentation she would focus on Arizona, Louisiana and Florida, comparing contact points, audits and bases.

Mr. Irvine asked why there are 50 monthly returns in Arizona.

Ms. Hitt responded in Glendale there has to be one return generated for each site. Phoenix allows consolidated return filing for the sites and program cities are all under one filing.

Representative Gray asked how much man power is needed to file returns.

Ms. Hitt answered they have one lead and two analysts.

Mr. Irvine asked if cities and towns impose separate rates.

Ms. Hitt responded counties have a surtax that can be imposed.

Linda Stanfield asked if Florida was different in the past.

Ms. Hitt answered the tax base has been in place for at least ten years.

Miguel Teposte asked why the state of Louisiana was not part of the parish portal.

Ms. Hitt responded she was unsure, but the state created their portal prior to the parishes.

Lee Grafstrom from the Arizona League of Cities and Towns contributed that there were two projects and two different tracks, which is why there are two systems.

Ms. Hitt pulled up excel workbooks to demonstrate that expensive tax software is not necessary to comply with the law. She continued that contingency fee auditors are the downside to the system in Louisiana.

Mr. Irvine asked if the category has to be determined when Circle K comes out with a new product.

Ms. Hitt answered yes.

Kevin McCarthy asked what some of the challenges are in Colorado.

Ms. Hitt responded Colorado used to have a tax on tobacco. That changed and only some jurisdictions kept it. She continued not all jurisdictions have a use tax.

Candice Bartle from Ernst and Young gave a presentation on the impact of Arizona’s current tax system on taxpayers. She explained she began her career in Texas and then had to adjust to the Arizona system. Her purpose is to show what is happening in other states and to provide guidance to her clients. Ms. Bartle discussed the following items in her presentation:

- State and local inconsistencies
- Four types of sales tax: seller privilege, gross receipts, consumer levy and transaction
- Local tax sourcing
b) Working Group Discussion and Public Comment

Tom Belshe commented that the Department of Revenue has made great strides in getting revenue distributed to the cities, but there is still a time lapse.

Mr. Grafstrom stated that he gets direct requests to explore specific types of taxpayers and needs to be able to define a specific area and pull the tax information. He continued that he is not meaning to disrespect the Department of Revenue, but their system is created in a way that he cannot do that. Chandler has a history of tracking the information for each parcel and the tax history.

Mr. Belshe stated many of those components exist in the Department of Revenue’s reporting to cities. If this function is taken away from the cities, then the Department of Revenue will have to take on all of the reporting. He continued if all of the program cities and the state are on the portal, the data will be improved. Mr. Belshe commented there may be an opportunity for compromise. The Department of Revenue has not always had the resources it needs. The Task Force needs to take their time in doing this work to understand all of the impacts.

Vince Perez commented it is important to look at proper funding for the Department of Revenue. In 2009, staffing levels were cut by 30%. He continued the staffing level is down and that gets to the problem of the Department of Revenue doing what the cities would like.

Representative Gray stated he envisions that the online portal could produce a spreadsheet of all the taxpayers. He asked if that would provide all of the needed information.

Mr. Grafstrom answered that the state has a license per taxpayer system, while he works with a license per location system. His data is tied to location and he would have all the information he needs.

Representative Gray commented each city should have that information and it should be done through the computer.

Mr. Perez stated once the portal is up and running theoretically all of the table driven data could be added. The only things that would run through the Department of Revenue would be the state, special taxing districts and the county.

Mr. Belshe commented there is a multi-jurisdiction audit committee and when a business is audited it would all be in one jurisdiction.

Mr. Irvine asked how many participants there are.

Mr. Grafstrom answered not many, only 15-20%.

Mr. Irvine asked if the audit rate in Chandler is similar to the state.

Mr. Grafstrom responded yes.
Mr. McCarthy commented that multi-jurisdictional audits do not work. He stated he is stunned that the current chaotic system is rationalized on float. The cost, burdens and impacts on business have to be compared to the cost of the cities.

Mr. Irvine commented the purpose of this group is to discuss all of the implications, minor or otherwise.

Mr. Perez stated the Department of Revenue has extensive efforts on audits on behalf of program cities. For an overall state perspective, the compliance rate is 90%. He continued the group cannot only look at the enforcement side of the issue.

Michelle Ahlmer from the Arizona Retailers Association stated many retailers operate in many states. Alabama, Louisiana and Colorado cost more to collect than all of the other states combined.

4. **Differences Between the State Code and the MCTC that Cause Difficulty for Taxpayers**

   a) **Presentations**
   Gabe Soto from Ernst and Young presented on state and city inconsistencies and the impact on taxpayers. His presentation covered the following issues:
   - Classification differences
   - Exemptions
   - Nexus
   - Sourcing
   - Licensing
   - VDA, Audits
   - Procedural issues

   b) **Working Group Discussion and Public Comment**
   Mr. Irvine asked if the health spa exemption really affects cities.

   Mr. Grafstrom responded it is much bigger than it seems. It includes 350 taxpayers in Chandler alone.

   Mr. Belshe stated in 1985 the bases were similar. The state has made changes away from cities. One of the complaints is that sales tax rates are too high. He continued it may make sense for the state to move closer to cities. Mr. Belshe asked if it would be a big deal to businesses if there was the same rate for annual fees for all cities. He added the League thinks it would be a great way to keep track of businesses.

   Craig McPike from Snell & Wilmer asked what records are needed.

   Mr. Grafstrom answered changing legal ownership and location is needed.

   Ms. Hitt stated if annual licensing is done through the portal it can easily be done by business owners.

   Ms. Stanfield stated the less paperwork, the better.
Representative Gray commented when he had his business he would have loved to have everything the same. With the portal, a variance is allowed in the system. All businesses have to do is complete the initial form and then click on the respective cities.

Mr. Belshe stated the League is moving to have all of the self collecting cities do it the same way.

Representative Gray responded that will not be necessary if there is one portal with the information built in.

Mr. Irvine stated this conversation highlights the importance of making the portal as useful and easy as possible.

5. Licensing Differences Between State and Cities
   Mr. Irvine skipped this agenda item because the information was discussed in earlier presentations.

   a) Working Group Discussion and Public Comment
   There were no comments made.

6. Future Working Group Meetings Regarding State and Local Standardization
   Mr. Perez stated he will be returning with one spreadsheet of differences and recommendations.

   Mr. Belshe commented the League has been focused on retail differences, but hopes to continue this process for every area.

   Mr. Irvine stated the next step is to look at the best practices. He commented he appreciates all of the work done by the presenters.

   Mr. Hunter commented the Governor greatly appreciates everyone’s work.

7. Adjournment
   Mr. Hunter adjourned the meeting at 3:40 p.m.
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

STATE AND LOCAL STANDARDIZATION WORKING GROUP AGENDA
TUESDAY, OCTOBER 2, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order Task Force Chair

2. Progress on TPT Portal
   a. Presentation: E-Gov Systems
   b. Working Group Discussion and Public Comment
   Patrick Irvine

3. Green Page and Model Code Options Efforts
   a. Presentation: Tom Belshe, Lee Graffstrom
   b. Working Group Discussion and Public Comment
   Patrick Irvine

4. Proposed Federal Legislation
   a. Presentation: Department of Revenue
   b. Working Group Discussion and Public Comment
   Patrick Irvine

5. Future Working Group Meetings Regarding State and Local Standardization
   Patrick Irvine

6. Adjournment Task Force Chair

September 28, 2012
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE
STATE AND LOCAL STANDARDIZATION WORKING GROUP MINUTES
Tuesday, October 2, 2012
1:30 PM
1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on October 2, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

<table>
<thead>
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<th>Members Present</th>
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<td>Michael Hunter (Chair)</td>
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<td>John Olsen</td>
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<td>Miguel Teposte</td>
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<td>Tom Belshe</td>
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<td>Steve Barela</td>
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<td>Lynne Herndon</td>
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<td>Linda Stanfield</td>
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<td>Keely Hitt</td>
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<td>Vince Perez</td>
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<td>Kevin McCarthy</td>
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<td>Senator John McComish</td>
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<td>Representative Rick Gray</td>
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<th>Members Absent</th>
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<td>No members were absent.</td>
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<th>Staff Present</th>
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<td>Lorna Romero, Governor’s Office</td>
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<td>Lindsay Scornavacco, Governor’s Office</td>
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1. **Call to Order**
   Michael Hunter called the meeting to order at 1:31 p.m.

2. **Progress on TPT Portal**
   Patrick Irvine, Chair of the State and Local Standardization Working Group, stated the online portal will facilitate the effort toward uniformity and standardization and make things easier for taxpayers.

   Tom Belshe commented that a vendor has not yet been chosen. He stated there are several vendors still under consideration.

a) **Presentation: E-Gov Systems**
   Chelsea Roberts from E-Gov Systems began the presentation on their online portal in Louisiana. All 63 collectors, 62 parishes and the state, can be accessed on one website. The portal does not automatically push money into a city’s or the state’s account, but creates a file the collector can send to the bank. She explained the current portal has the following features:
   - 24/7 availability
   - Licensing and registration
Data import for large businesses
Filing history of all online taxpayers

Future features of the portal include:
- Address validation
- Tax rates for specific addresses
- Exemption certificate renewal
- Links to mesh paper filings with online filings

b) Working Group Discussion and Public Comment
Mr. Hunter stated potential clients for E-Gov Systems include states where complex tax systems and a lack of uniformity are present. He continued that it seems their portal is an answer to the lack of uniformity to allow one point of contact for the taxpayer. Mr. Hunter asked Ms. Roberts if it was fair to say the portal itself does not contribute to uniformity except that some of the data can help a state guide its policy.

Ms. Roberts answered yes. E-Gov Systems is not in the business of creating uniformity, but establishing a one-stop-shop for the taxpayer regardless of what each jurisdiction’s policy is.

Mr. Hunter asked if it is true that the potential client base for E-Gov Systems is limited to Alabama, Arizona, Colorado and Louisiana. He also asked what the company would do for the state.

George Harris from E-Gov Systems responded that Kansas is also a client and its tax system is very uniform. He continued the state collects everything and then disperses it. Each city can have their own tax rates, but not their own collection. The portal is a consistent interface for the taxpayer.

Steve Barela asked where the data is housed.

Mr. Harris stated the company has a Tier-4 data center as well as a host site.

Ms. Roberts stated the Louisiana Department of Revenue has its own online portal, but that state filing is also available on their portal.

Kevin McCarthy asked how the portal is financed.

Ms. Roberts explained it is financed by tax administrators. There are also subscription based models and options for taxpayers to pay a convenience fee.

Keely Hitt stated Circle K has difficulty with the portal because it requires them to pay for each parish and print returns separately. She also stated Circle K finds the state filing process through the Department of Revenue to be easier.

Ms. Roberts responded E-Gov Systems is almost ready to implement a streamlined system for large taxpayers. Large taxpayers will be able to import 62 pages of data and pay all in one place.

Ms. Hitt asked if there would be 62 payments coming out of Circle K’s account at different times.
Ms. Roberts answered it depends on when the collectors go to the bank.

Mr. Hunter asked if E-Gov Systems has ever dealt with two sales tax bases.

Ms. Roberts responded that it would be an exciting challenge.

Representative Gray asked what the timeframe would be to have a portal for Arizona up and running.

Ms. Roberts stated E-Gov Systems already has a good idea of what several jurisdictions are doing. The time would be spent on ensuring cities are able to receive the XML files and that each has online banking set up. She continued it would probably take a year.

Mr. Harris explained when the portal began in Louisiana they had a target date for everyone to participate, but they slowly phased in collectors that were ready prior to that date.

Ms. Hitt stated it was incredibly challenging to have some parishes online and others not during that period. She continued she hopes Arizona would go online all at once.

Representative Gray asked if a geocode feature would be available to contractors where one could plug in an address and find out which taxing district they were in.

Mr. Harris answered that it all depends on how the contract is worked out for the portal.

Ms. Roberts added that the mapping component would have to come first.

Mr. Harris stated their company would need to get updates on a regular basis.

Craig McPike from Snell & Wilmer asked if the portal could be accessed remotely.

Mr. Harris answered that it can be accessed anywhere there is internet.

Ms. Roberts stated E-Gov Systems created an i-Phone app and is working on one for android phones.

A member of the public asked if jurisdictions will be able to make changes on their own within the software when tax rates change.

Ms. Roberts stated it will depend on the contract. The portal can allow jurisdictions to make changes on their own or there can be a middle man. In Louisiana the Department of Revenue functions as the middle man between the jurisdictions and the development team.

Miguel Teposte asked if the portal could do amended returns.

Mr. Harris answered yes.

Mr. Barela asked what happens with short paid returns.
Ms. Roberts stated they calculate what filers should have paid and ask them to pay the difference.

Vince Perez asked how money is split among jurisdictions if a taxpayer were to only pay $2,000 but actually owed $10,000.

Mr. Harris answered the site is designed to require taxpayers to pay the full amount.

3. Green Page and Model Code Options Efforts
   a) Presentation: Tom Belshe, Lee Grafstrom
   Mr. Belshe presented a handout that showed the progress on eliminating green pages and options. He also explained the retail differences between the Model City Tax Code and state law. The goal is to eliminate green pages and have one set of options that are few and numbered.

   b) Working Group Discussion and Public Comment
   Lynne Herndon asked what the timeline was for reaching that goal.

   Mr. Belshe answered that there is a dual track to this goal. The green sheets will be more difficult to work out than the options. The options should be included in the model language within a year. The language has to go through the Municipal Code Tax Commission, which will also take time.

   Mr. Irvine asked how changing options will work with the online portal.

   Mr. Belshe stated all of the vendors have said they can make changes immediately and it will be easier for businesses to comply.

   Lee Grafstrom from the Arizona League of Cities and Towns commented that while a vendor is being selected there needs to be the capability for cities to pick and choose taxable items and exemptions. The 18 self-collecting cities would have to provide the vendor with a complete set of definitions.

   Mr. Irvine stated he hopes the portal serves an informational function for the taxpayer as well. The narrower exemptions get, the easier it will be to use the portal. There may not be a single base by the 2015 timeline for the portal, but the portal needs to be structured in a way that is taxpayer friendly.

   Mr. Belshe stated he wants it to be clear that just because a new category for food is being considered it does not mean all problems will be solved that way. He continued that having the portal would be helpful with identifying impacts on cities.

4. Proposed Federal Legislation
   a) Presentation: Department of Revenue
   Christie Comanita from the Department of Revenue explained there are three pieces of federal legislation that have been introduced, the most popular being S.B. 1832, the Marketplace Fairness Act. She continued there is a fourth piece of legislation being drafted that will most likely be a mix of the three already introduced. Information about the fourth version has not been made public, but New York, California and Texas are very involved in the effort. These are states that have not participated in streamline in any way.
b) Working Group Discussion and Public Comment
Mr. Belshe commented it would be helpful to have a comparison of what is included in the streamline base versus Arizona’s base.

Ms. Comanita responded that it is the definitions that are much broader in streamline and not the base. Business groups came forward and wanted uniform definitions across the states. This would be significant because something could be defined as a prosthetic, for example, under streamline and not under Arizona’s definition. This item would then be exempt and Arizona would lose revenue. There are far more exemptions under streamline.

Mr. Irvine asked if Christie had a comparison of those definitional differences.

Ms. Comanita stated she would update the document she has.

Mr. Teposte asked which movement has the strongest momentum.

Ms. Comanita answered the fourth one that no one has seen has the most momentum.

5. Future Working Group Meetings Regarding State and Local Standardization
Mr. Irvine stated the next working group will look at recommendations to present to the full Task Force. The next State and Local Standardization Working Group meeting is scheduled for November 6th and is the final meeting for the working group.

6. Adjournment
Mr. Belshe adjourned the meeting at 3:12 p.m.
TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Online Retail Working Group

For additional information: www.azgovernor.gov/TPT/
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

ONLINE RETAIL WORKING GROUP AGENDA
TUESDAY, AUGUST 14, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order
   Task Force Chair

2. Welcome and Introduction of Working Group Chair
   Task Force Chair

3. Overview and Scope of Working Group
   a. Working Group Discussion and Public Comment
   Dennis Hoffman

4. Presentation from Department of Revenue
   a. Working Group Discussion and Public Comment
   Vince Perez and Christie Commanita

5. Presentation from the Arizona League of Cities and Towns
   a. Working Group Discussion and Public Comment
   Tom Belshe

6. Presentation from the Arizona Retailer’s Association
   a. Working Group Discussion and Public Comment
   Jay Kaprosy

7. Measuring the Economic Consequences
   a. Presentation: Dan Court, Pollack Report
   b. Working Group Discussion and Public Comment
   Dennis Hoffman

August 10, 2012
8. Understanding the Legal Context
   a. Working Group Discussion and Public Comment

9. Topics for Future Meetings
   a. Working Group Discussion and Public Comment

10. Adjournment

Dennis Hoffman

Task Force Chair
A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on August 14, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

### Members Present

- Michael Hunter (Chair)
- John Olsen
- Miguel Teposte
- Tom Belshe
- Steve Barela
- Kevin McCarthy
- Lynne Herndon
- Keely Hitt
- Vince Perez
- Senator John McComish
- Representative Rick Gray

### Members Absent

- Linda Stanfield

### Staff Present

- Lorna Romero, Governor’s Office
- Lindsay Scornavacco, Governor’s Office

1. **Call to Order**
   
   Michael Hunter called the meeting to order at 1:32 p.m.

2. **Welcome & Introduction of Working Group Chair**
   
   Mr. Hunter explained the format of working group meetings. He emphasized that these working groups are very focused on giving the public the opportunity to be on record so that the Task Force can understand the public interest and perspective. Mr. Hunter introduced Dennis Hoffman as the working group chairman for the Online Retail Working Group.

3. **Overview and Scope of Working Group**
   
   Mr. Hoffman clarified that the opinions and personal positions expressed in his papers and publications do not reflect the direction of the working group. He continued that the focus of this group is not about raising revenue or improving the current fiscal situation of the state but looking at the TPT base with respect to remote sales. Mr. Hoffman expects the working group to make recommendations which the Legislature may use to deal with fiscal problems should they occur.

   Mr. Hoffman expressed he would like the working group to look at the issue of Arizona’s tax base
and the Marketplace Fairness Act. He clarified that there is a distinction between ecommerce and remote sales and that ecommerce is a portion of all remote sales. He discussed that in a Wall Street Journal article data was used and labeled ecommerce when the actual numbers were for all remote sales and he cautioned the working group to be careful when discussing the issue. He believes this group can make recommendations to eliminate distortions if the group would like to go in such a direction. He continued that if completely eliminating these distortions is too noble of a goal for the group, then the group may recommend stages of remedy.

a) Working Group Discussion and Public Comment
Mr. Hoffman asked the Task Force and the public if they had anything to add to this agenda item.

Laura Magnus from the Arizona Lodging and Tourism Association introduced Debbie Johnson from the Arizona Lodging and Tourism Association and Mitch Bryk from Starwood Hotels.

Debbie Johnson from the Arizona Lodging and Tourism Association announced that she was available as a resource to the Task Force on the issue of booking hotels through online travel companies. She continued that she can answer questions about the collection of tax versus what is paid to the state or municipality.

Mr. Hoffman asked what the tax consequence is if he were to book a hotel room through Expedia instead of directly through the hotel.

Debbie Johnson from the Arizona Lodging and Tourism Association answered that Expedia only pays $80 for a room that they may sell for $100. Expedia then pays the tax on the $80 price and not the $100 price; Expedia pays $8 in taxes and not $10. That two dollar differential adds up to hundreds of millions of dollars around the country.

Mitch Bryk from Starwood Hotels announced that he is available as an industry resource. He offered to present an hour and a half long PowerPoint presentation to model how things work if someone books a room directly though Starwood, the Marriott or any other hotel. He continued that online travel companies get a discounted room rate and then charge what they call a facilitation fee. These companies then pay taxes on the discounted rate and remit the two dollar difference between what Starwood and the online travel companies pay.

Senator McComish asked what the consumer sees on the invoice from the online travel company.

Mitch Bryk from Starwood Hotels answered that the invoice is bundled to reflect a tax and service fee without allowing the consumer to see the breakout.

Representative Gray asked if this hotel tax rate is the same across the board for every city.

Mitch Bryk from Starwood Hotels responded that rates may vary.

4. Presentation from Department of Revenue
Mr. Hoffman introduced Christie Comanita from the Department of Revenue.

Ms. Comanita delivered a presentation on the taxation of online retail.
Mr. Hoffman, regarding a point in Ms. Comanita’s presentation where she said something is subject to tax depending on nexus, asked if tax is due under current law and is simply not collected.

Ms. Comanita answered that there is nothing in the tax base that would be considered not taxable simply because it was purchased online. She continued that it only becomes a question of whether TPT or use tax is owed.

Ms. Comanita explained that there are certain simplification requirements under the federal legislation that is being discussed. She stated that one of the efforts at the federal level requires states to join the National Streamline Sales Tax Group. The more popular bill supported by larger states is H.R. 3179 that does not require states to join the group. This bill still has the minimal requirements that state and local levels must have one single administration, that state and local levels have a single base and that states have a small seller exemption. These are significant because they have been the state’s hurdles in the past. Ms. Comanita continued that central administration is a huge issue for state and local governments.

Mr. Hoffman asked if state and local governments need uniform tax rates.

Ms. Comanita responded that under the streamline provision there needs to be a single rate per jurisdiction. Phoenix currently has one rate with the exception of taxes on food. Under the federal legislation there is no ability to have an exception for food.

Mr. Hoffman asked if Phoenix and Scottsdale could have different rates.

Ms. Comanita answered that they could have different rates. She pointed out that another issue is having a single base. Arizona doesn’t tax food; it doesn’t have a zero tax rate on food. She continued that under federal legislation to have a common base Arizona would have to impose a tax on food at the state level and then have the tax rate be zero percent.

Tom Belshe responded that he had a different view on the issue and suggested that the state could move food out of the retail category and not have an issue.

Ms. Comanita stated that that situation may be possible under the streamline regime but that she was not sure if that flexibility would exist under other federal legislation.

a) Working Group Discussion and Public Comment
Mr. Hoffman asked if it was Ms. Comanita’s opinion that in a considerable number of situations it is unlikely that tax is paid.

Ms. Comanita answered that she agreed with that opinion and explained that there is a misconception even with retailers exclusively operating in Arizona that if an item is sold online there is no tax owed. She continued that this needs to be clarified so that at least the in-state retailers would be in compliance.

Mr. Hoffman presented another scenario where a large business has an accounting system to trigger use tax. He asked if there was any evidence that inequities exist between large businesses and small
businesses or individuals with regards to their payment of use tax.

Vince Perez answered that businesses are more inclined to report use tax than individuals. He continued that auditing individuals is very difficult when the population of Arizona is compared to the size of the audit division. There are 300,000 businesses compared to multimillions of people. He stated that the fundamental most important question is if where the vendor is making the sale is liable for TPT. If it is liable, then that is where the tax should be collected and remitted.

Representative Gray asked if use tax is tracked or if it is lumped in with other taxes.

Mr. Perez answered that the Department of Revenue tracks two different codes, one for out-of-state removed from inventory and one for in-state.

Representative Gray asked to how much this amounted.

Elaine Smith from the Department of Revenue answered that in FY11 there was $229 million in use tax. In FY12 there was a growth in use tax that was higher than $320 million. All of this money goes into the general fund. She commented that the FY12 report is not complete.

Lynne Herndon asked for an example of a business having nexus without having a physical location in the state.

Ms. Comanita gave the example of a business having a sales representative in the state. Any continuing activities that enhance the business and allow the business to expand in the state are subject to TPT.

Ms. Herndon asked if mass marketing would trigger nexus.

Mr. Perez said that would be sufficient to trigger nexus.

Steve Barela explained how Arizona Public Service (APS) buys equipment all over the country and that the company constantly has to tell businesses to send a correct invoice with the proper tax. This process generally goes back and forth and there is one person within the company who calls businesses to have APS billed properly.

Mr. Perez emphasized that 100% of use tax is contributed to the general fund, but with TPT there are distributions.

Kevin McCarthy commented that in the business environment there are usually tax professionals dealing with vendors. If an individual goes online he or she may not have any idea if he or she has paid sales tax. He continued that an individual may see a sign advertising no sales tax as a marketing tool, but that this does not mean the consumer has not paid sales tax. The individual who shopped at this store with that advertisement does not then owe use tax. He claimed that it is an understatement that administration of this issue is problematic. Mr. McCarthy stated that this is not as big of a problem for businesses like Mr. Barela’s that have people to do the work for them.

Mr. Hoffman asked Mr. Barela what would help ease administrative burdens on his company.
Mr. Barela answered that he did not think there was a simple fix.

Miguel Teposte asked if small and medium sized businesses generally have the same tax knowledge as large companies like APS.

Mr. Barela answered no.

Mr. Perez responded that there is a level of complexity in large businesses where there are people well versed in tax law and explained that that does not happen with small and medium sized businesses.

Representative Gray commented that with small businesses their forte is their business and not taxes. Some may say a tax form is simple, but to a small business person it can be very confusing. Someone may be an expert in his or her field but constantly second guessing his or herself with taxes.

Senator McComish asked when the tax applies to individuals that are selling items on the internet. He continued that some of these individuals just about have a business of their own.

Ms. Comanita responded that if they meet the definition then they are subject to TPT. She explained that if someone has a garage sale it is not considered that he or she is engaging in business. If a person is operating a website and routinely puts items up for sale, then it is considered that he or she is engaging in business. The issue is having the resources to track these websites.

Senator McComish asked if these individuals would be subject to any federal taxes.

Ms. Comanita answered that she believes they would fall under the small seller exemption.

Mr. Hoffman underscored that taxes are still due on these transactions but that this size is just exempt. In this manner, distortions remain but are hopefully modest.

Mitch Bryk from Starwood Hotels commented that there is a misconception that if something is sold on the internet it is tax free. This comes from the Internet Tax Freedom Act passed in 1998. He continued that the collection mechanism is the problem. Large hotels have to determine if tax has been paid and if it has not they then have to accrue and remit the use tax to the state and local jurisdictions. Hotels have to go item by item to determine if the correct rate has been charged and it is a very difficult, manual process. Mr. Bryk stated that the Arizona Legislature passed a law to require taxpayers to remit use tax for internet purchases on their tax returns. He continued that individuals could simply look at their credit card statements and see what online purchases were made and if tax was paid. Mr. Bryk said the issue is that the state is asking for voluntary compliance.

Mr. Hunter interjected that the provision enacted by the Legislature was very unpopular and was repealed the next year. He continued that there were examples that this idea would be a problematic exercise and the Legislature quickly realized there were unintended consequences.
5. **Presentation from the Arizona League of Cities and Towns**

Mr. Belshe gave a presentation on the taxing difference between state and city levels. He commented that his presentation simply points out the differences and that he hopes to come back to a future meeting with recommendations to close the gap between the two levels. Many of the options at the city level are obsolete, but some are still very important. The League of Cities and Towns needs to go through these options one by one to determine if they need to be continued.

a) **Working Group Discussion and Public Comment**

Mr. Hoffman commented that it is his understanding that it is important to work toward commonality of the base to allow the state of Arizona to take advantage of pending federal legislation. He asked the Department of Revenue and the League of Cities and Towns if there were one or two areas they knew were going to be tough to work through.

Mr. Belshe responded that local option B does not make sense to the state but is something that is important to cities and towns. The criteria for nexus also matters to cities when determining which city receives the money, an issue the state does not have to handle. He continued that how food will be taxed will also be difficult and that the issues are not a matter of a difference in opinion with the state but only that some issues do not apply.

Mr. McCarthy asked if it was possible to have a third column in the handout dedicated to the streamline effort.

Ms. Comanita answered that if the current bill in Congress passes then the streamline effort will not matter. She continued that the streamline effort expands and broadens definitions of terms such as delivery charge. If states have to adopt the streamline definitions then there will be a revenue impact because the exemption is broader. She stated that the group needs to be cognizant of the definitions at the streamline level.

Mr. Belshe asked if it was true that the streamline definitions could also broaden taxability.

Ms. Comanita responded no. The taxability could not be broadened unless the item is already taxed. She continued that the streamline effort is geared toward defining exempt items.

The working group took a 10 minute break.

6. **Presentation from the Arizona Retailer’s Association**

Mr. Hoffman called the meeting back to order at 3:09 p.m.

Jay Kaprosy from the Arizona Retailer’s Association gave a presentation on an update of e-fairness in Arizona and at the federal level. He commented that 5,000 retail jobs currently do not exist due to the e-fairness issue. Customers often come into stores to touch and hold a product then leave to buy it online, an act that has been termed showroming. It is notable that Amazon has been in support of federal legislation because if laws are only made against Amazon then business may trickle out to other competitors. Mr. Kaprosy commented that there should be a sense of urgency when dealing with the issue to prevent significant damage to the retail community.

a) **Working Group Discussion and Public Comment**
Mr. Hunter assured the public that many of these presentations and materials will be found on the website but that they may not be posted yet. He continued that if anyone wanted something not yet on the website then they could contact the Governor’s Office for assistance.

Mr. McCarthy asked what entities were affected by the expanded nexus in 2012.

Mr. Kaprosy responded that there was not opposition to the 2012 legislation. EBay had issues with the 2011 legislation regarding affiliate nexus, but did not bring forward any opposition in 2012. He continued that the straight forward concept of expanded nexus did not bring forward any other online retailers.

Representative Gray asked how it was determined that 5,000 jobs were missing.

Mr. Kaprosy answered that it was not a cumulative number or a number over a certain period of time but just how many are missing from today’s economy. He continued that he believes it is a very conservative estimate and that less than one in every four dollars spent online would actually return.

7. Measuring the Economic Consequences
   a) Presentation: Dan Court, Pollack Report
   Dan Court gave a presentation on the economic and fiscal impact of uncollected taxes on ecommerce in Arizona.

   Mr. Hoffman commented that in the Tennessee study the focus is about all remote sales without breaking out ecommerce. He continued that Mr. Court’s 2012 estimates are in line for the impacts of ecommerce in the state and that if all remote sales were calculated it would be about double. Mr. Hoffman then asked if it was a fair estimate to conclude that the job consequences would be on the order of magnitude of double also.

   Mr. Court responded that this would be a fair estimate.

   b) Working Group Discussion and Public Comment
   Representative Gray asked if taxing Amazon would translate into the same factor.

   Mr. Court responded that the assumptions are not based on Amazon but on all online sales.

   Mr. McCarthy commented that this is a job issue for net job losses, pointing out that jobs in the United States are a part of a zero sum game. He asked what level of job loss would occur with taxing ecommerce.

   Mr. Court answered that the scope of the study did not estimate online employment in the state.

   Mr. McCarthy stated that the incentive to do online transactions in Arizona is very high and that one would assume the impact on online jobs would be higher here.

   Mr. Court responded that the study did account for how high the tax rate was in Arizona and how it affected the share of activity in the state.
Mr. Hoffman stated there would be more brick and mortar retail employment but perhaps fewer UPS drivers.

Mr. Kaprosy commented that the retail industry looks at the amount of jobs per million dollars and that brick and mortar retailers employ three to five workers per million dollars sold. Distribution centers employ only one employee per million dollars sold. He continued that Arizona is likely to be a distribution hub as a result of geography, not tax policy.

Tom Johnson from the Department of Revenue asked if the assumption is that taxing online retail will reverse the trend of online purchase behavior.

Mr. Court confirmed there would be a shift.

Tom Johnson from the Department of Revenue asked what other variables would cause the modified behavior other than taxation.

Mr. Court answered that only a minority of customers would shift and that it is expected that 76% of customers would continue to shop online.

Tom Johnson from the Department of Revenue took the $400 million figure from Mr. Court’s presentation and asked if it was practical that every citizen of Arizona is spending $1,000 on online purchases.

Mr. Court stated that the national data is very reliable and added that the figure is attributed to large businesses in the state and not just individuals.

Mr. McCarthy pointed out that what Mr. Kaprosy and Mr. Court are discussing are two different issues. One is regarding distribution centers, while the other is taxation on remote sellers. He continued that if the legislation being discussed were to be implemented the problem of 5,000 missing jobs would still not be solved. That issue could only be solved in the whole body of ecommerce.

Mr. Hoffman commented that fixing the nexus issue with respect to online only sellers takes a step toward dealing with distortion, but that distortion will get squeezed further down the line. Amazon is backing federal legislation because it is afraid dollars will shift to competitors. He continued that remote sales are important because if only ecommerce is addressed then someone could line up a sale online and make the final purchase over the phone to circumvent the issue.

8. Understanding the Legal Context
Mr. Hoffman stated that a lot of what was to be covered in this agenda item was discussed by Ms. Comanita and that the group would skip agenda item eight, provided there be no objection from the Task Force or the public.

a) Working Group Discussion and Public Comment
No comments were made.
9. **Topics for Future Meetings**
Mr. Hoffman asked the Task Force members and the public for topics they would like to hear about in future meetings.

   a) **Working Group Discussion and Public Comment**
   Representative Gray commented that he would like to hear from the hotel industry.

   Bill Molina from the Apollo Group suggested a presentation on the simplification of taxability regarding cloud computing and digital products.

   Mr. Belshe reiterated that he would like to come back to the group with the discussed recommendations.

   John Olsen stated that for meaningful simplification the group cannot sit around and wait for federal legislation.

   Mr. McCarthy commented that he can speak to the administrative costs of businesses trying to comply with tax law.

   Mr. Perez said the group needs to look at the sourcing shift in jurisdictions.

10. **Adjournment**
Mr. Hunter adjourned the meeting at 4:02 p.m.
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

ONLINE RETAIL WORKING GROUP AGENDA
MONDAY, SEPTEMBER 10, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order
   Task Force Chair

2. Overview of Current Issues
   Dennis Hoffman

   a. Working Group Discussion and Public Comment
   Stephen Kranz

4. Update on Discussions between Arizona League of Cities and Towns and Arizona Department of Revenue
   a. Working Group Discussion and Public Comment
   Tom Belshe, Vince Perez

5. Items for Future Discussion
   a. Working Group Discussion and Public Comment
   Dennis Hoffman

6. Adjournment
   Task Force Chair

September 6, 2012
A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on September 10, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

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<th>Members Present</th>
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<td>Michael Hunter (Chair)</td>
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<td>Lindsay Scornavacco, Governor’s Office</td>
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1. **Call to Order**
   Michael Hunter called the meeting to order at 1:30 p.m.

2. **Overview of Current Issues**
   Dennis Hoffman, Chairman of the Online Retail Working Group, opened the meeting with remarks that it is critical everyone read the approved minutes on the TPT website to look for errors and omissions. He hopes the final report from the working group will be reflective of the record of the working group meetings.

3. **Presentation: Taxation of Cloud Computing Services and Digital Goods**
   Stephen Kranz from Sutherland Asbill & Brennan LLP presented on current state tax issues for cloud computing and digital goods.

   Mr. Kranz began his presentation stating this was not going to be a discussion of nexus, but of taxability and what should be taxed. The state may impose a tax on something, but the nexus issue could prevent them from collecting. States could tax tee shirts, but if the tee shirt is bought from Amazon the tax may not be collected.

   Representative Gray asked if the transaction is taxable when a business located in Arizona buys
cloud based storage from a data center in Arizona.

Mr. Kranz answered yes. He stated there is not a lot of guidance and he disagrees with the guidance that does exist in the state. Departments of revenue around the country interpret laws from the 1940’s and 1950’s. He suggested these do not mean anything to a modern economy and way of doing business. He continued clear guidance is important. Mr. Kranz compared Vermont to Arizona, saying Vermont decided to repeal the Department of Revenue’s position because it was uncertain it was the right policy for the state. The question is if 1’s and 0’s are tangible personal property.

Mr. Hoffman stated he went to a brick and mortar retailer and bought a thumb drive to store data. He asserted Mr. Kranz’s position was that Mr. Hoffman should pay tax on a thumb drive but not to store data in a cloud. Mr. Hoffman asked for clarification on the issue.

Mr. Kranz responded in the first scenario Mr. Hoffman was buying an object in a store that he could pick up and throw.

Mr. Hoffman interjected the thumb drive serves a function.

Mr. Kranz explained sales tax began in order to tax things sold over the counter and not to tax services. He continued services are not widely taxed today; taxes are placed on things you can pick up and throw. A thumb drive is a tangible product of a manufacturing economy. There is nothing that can be picked up and thrown with cloud based storage. Mr. Kranz suggested no one knows where their cloud is located. With the cloud, the consumer gets storage, security, infrastructure, electricity, surge protection and a bunch of other services; it is not the same simple storage as a thumb drive. He gave the example that he brought his presentation on a thumb drive and had he lost the thumb drive he would have been without a presentation. Services come along with storage with the cloud.

Craig McPike from Snell & Wilmer stated the equipment used by the cloud storage provider is subject to tax.

Mr. Kranz responded some states try to incentivize data centers to build in state by providing exemptions for equipment used in data centers.

Mr. Kranz continued his presentation stating characterization drives everything when determining what is subject to tax. Characterization is easy with a thumb drive; you know what it is. Sourcing is easy with a thumb drive; you know where it is from. A fuzzier situation for example is advertising. The customer may be in Arizona paying an advertising agency in Arizona but the advertisement may be played all over the country. Mr. Kranz posed the question of who would then have jurisdiction. Sourcing determinations become very difficult.

Mr. Hoffman asked if everything in the cloud was considered a service. He continued to ask if there are products, which features Mr. Kranz would consider products.

Mr. Kranz responded there is no easy answer. He continued there are four high level definitions in cloud computing terminology: software as a service, platform as a service, infrastructure as a service and unified communications as a service. Each of these terms requires different contributions from
service providers and consumers. The cloud world is very difficult to define and there is no simple way to break it down. Usually someone has no idea where their cloud is located. Someone’s information could be backed up in three different locations across the country. Mr. Kranz stated when software was on a disk it was taxed and when software became downloadable from the internet most states agreed it was still subject to tax. With the cloud model, the consumer does not own software. Consumer information is only in the cloud for as long as it is paid.

a) Working Group Discussion and Public Comment
Christie Comanita from the Department of Revenue commented the Department’s administrative rule was amended in 2006 to specifically add that the sale of software regardless of how it is transferred or delivered is subject to retail use tax. She continued that she disagreed with Mr. Kranz’s comment about lack of guidance.

Mr. Kranz responded the problem is based on statutes to which he refers when advising clients.

Ms. Comanita responded there have been six private letter rulings since 2006 that all cite the administrative ruling. She continued it is unfortunate Mr. Kranz picked the one ruling prior to the amendment of the rule.

Mr. Hoffman commented his surprise that something was taxed in Texas and not in California, based on Mr. Kranz’s map.

Mr. Kranz explained California has a very robust high tech community and has been able to protect electronics from transaction tax with broad exemptions. There have been proposals across the country that have not been thought out to tax anything delivered or accessed electronically. Mr. Kranz posed the question of whether this could lead to ATM transactions being subject to sales tax. Consumers are paying for a cloud infrastructure to get cash and these things need to be considered. He continued the state of Washington put a lot of thought into their issues which resulted in a very long and complicated piece of legislation. This was necessary to cover all subject areas such as ATMs. Washington decided to tax all services unless there are exemptions, but this is flawed because every new business model then has to lobby for exemptions. Mr. Kranz continued origin based sourcing is extremely counterproductive because it discourages investment. It tells companies they will be taxed if they locate in state.

Keely Hitt asked if there was a state model of which Mr. Kranz approved.

Mr. Kranz answered no. He continued he could pick different elements from different states.

Ms. Comanita thanked Mr. Kranz for coming to the meeting. She continued there is a distinction between Arizona and 90% of the other states because of Arizona’s structure of TPT. There is the common thought that services are not taxed, but many are in Arizona. Electricity is not something you can pick up and throw but the courts have ruled it to be tangible personal property. Putting a quarter in a jukebox to hear a song was long ago considered tangible property. Statute was updated with exemptions in 2008. The Department of Revenue is not relying on outdated 60 year old definitions.

Vince Perez commented the group still needs to be mindful of Prop 204 and the impact it could have
on everything being discussed if the base is locked down.

Mr. Hoffman stated when cloud services avoid tax it contributes to the distortion issue regardless of nexus. He continued to completely eliminate distortion the tax rate would need to be zero in both places.

Senator McComish asked how much of a problem this issue is causing cities and the Department of Revenue.

Mr. Perez commented he does not see any issues for the Department of Revenue.

Mr. Hoffman encouraged public participation, stating he is not the only one concerned about distortions.

Michelle Ahlmer from the Arizona Retailers’ Association stated taxation on tangible goods is a real problem. She continued the discussion needs to include what services are delivered as a portion of the taxation process.

4. **Update on Discussions between Arizona League of Cities and Towns and Arizona Department of Revenue**

Tom Belshe stated that necessary changes to comply with federal legislation have been part of the discussion. One thing that is required is a uniform tax based related to retail sales. He continued his group has taken a look at both tax base models to see if there is any way the state and cities can move closer together and quite a bit of progress has been made. He stated he wishes his document be put on the website for everyone to review and digest so that it can be part of discussion at a future meeting. Mr. Belshe discussed three categories:

- Cities treating an item as the state does
- The state treating an item as the cities do
- City and state treating an item the same, but identical language needs to be drafted

Mr. Belshe stated his group is looking for things that would cause a significant impact on a city’s budget. The results of this will also be discussed at a future meeting.

Mr. Perez commented a number of people, including six or seven people from the Department of Revenue, have been thoroughly working through this issue. The group has gotten further than anticipated.

Mr. Belshe stated there are 30 items to work on and the group only has five remaining.

Mr. Hoffman asked if the groups were far apart on the last five.

Mr. Belshe responded there are a lot of things they simply don’t know the impact of yet. He gave the example that some cities tax textbooks and the state does not. The group has to see whose budgets would be affected and then determine how far apart they are.

a) **Working Group Discussion and Public Comment**

No comments were made.
5. **Items for Future Discussion**
   Mr. Hoffman opened up discussion for future meetings.

   a) **Working Group Discussion and Public Comment**
   Ms. Comanita commented she did not mean to shed a negative light on the progress being done between the state and cities but that she has concerns about the streamline effort’s requirements. The groups need to be involved in coming up with a common base. She stated she has been looking for an answer to who will determine if states have met the streamline requirements, but has been unsuccessful at the national level. Her major concern is the removal of food from the retail base. She stated that taking food out of the retail category could be a problem with creating a common base.

   Mr. Belshe stated he had heard food was taxable.

   Ms. Comanita responded the state can treat food however it wants and it is permissible to tax it at a lower rate. This was determined for food and electricity.

   Mr. Belshe asked if the state could choose not to tax food.

   Ms. Comanita answered the state could have food within its tax base and then each locality can tax at its own rate.

   Mr. Hoffman asked why food is not included and just made zero.

   Ms. Comanita stated she could not answer that and it is up to the Legislature. She continued letting cities choose could jeopardize eligibility.

   Mr. Belshe stated the only reason they considered pulling food out of retail was so it could be exempt or charged at the full rate. The whole reason for moving it was to get rid of green page language.

   Mr. McPike commented retail transactions are located under Article 4 in the Model City Tax Code as section 460. Could it be moved and called section 468 still within the TPT and fix the problem?

   Ms. Comanita responded the business community in the streamline effort would call that a replacement tax and it would not be allowed. The Marketplace Equality Act allows different rates, but the issue remains that food is not in the state base.

   Mr. Kranz stated he does not imagine replacement being a problem under the federal bill.

   Ms. Comanita asked if he saw an issue with food being in the cities’ base and not the state’s.

   Mr. Kranz asked if Arizona was like Illinois in that the state taxes food but at a zero rate.

   Mr. Belshe said that comment sounded like a recommendation.

   Mr. Perez asked since there is already the ability to tax under the current structure if the argument
could be made it is already imposed and it is simply being called a different section.

Ms. Comanita asked Mr. Kranz to answer that question.

Mr. Kranz responded the state should not be looking at the streamline movement. The federal drafts he has seen require a uniform base. He stated it may be safer to repeal the old one and create a new one even if they look, feel and act the same.

Lee Grafstrom from the Unified Audit Committee commented at the city level there is the option to have an exemption for food for home consumption or it is taxable at the same rate for all other retail transactions. The state has an exemption and cities do not, that is a conflict. Mr. Grafstrom asked if the state adopts a zero rate if it is considered a different base.

Mr. Kranz stated there is a difference between an exemption and an exclusion. If something was never in the base and food was moved, it is considered excluded from the base. The state issue sounds like an exemption. He continued he thinks the state could meet the requirements with an exemption.

Ms. Comanita asked if Mr. Kranz knew who will determine if states have met the requirements.

Mr. Kranz responded the answer has changed. Jurisdiction was originally given to the Court of Federal Claims. The current version of legislation says it will be up to the state courts. If a remote seller wanted to challenge the state, it would have to be done in Arizona courts.

Mr. Belshe commented the group should keep in mind that if the state uses the streamline requirements then there is a much broader base than what exists in Arizona. There are many things taxed under streamline that are exempted in Arizona. He continued his group is trying to fix things that are obviously different.

Mr. Kranz stated the federal legislation does require state level participation. Localities create and maintain separate state level points of administration.

Barry Aarons from Aarons Company commented he would still like to discuss online travel companies.

Mr. Perez stated there still needs to be a discussion on sourcing.

6. Adjournment
Mr. Hunter adjourned the meeting at 3:05 p.m.
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

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The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

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ONLINE RETAIL WORKING GROUP AGENDA
TUESDAY, OCTOBER 9, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order

2. Importance of a Uniform Base
   a. Working Group Discussion and Public Comment

3. Online Travel Company Issues
   a. Presentation: Mitch Bryk, Starwood Hotels & Resorts
   b. Working Group Discussion and Public Comment

4. Establishing Sourcing for Remote Sales
   a. Working Group Discussion and Public Comment

5. County vs. State Issues on Use Tax Due on Remote Sales
   a. Presentation: Mark Barnes, County Supervisors Association
   b. Working Group Discussion and Public Comment

6. Update on Federal Legislation
   a. Presentation: Joe Rinzel, Retail Industry Leaders Association
   b. Update from Department of Revenue
   c. Working Group Discussion and Public Comment

7. Adjournment

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Task Force Chair
Dennis Hoffman
Vince Perez, Christie Comanita
Task Force Chair

October 5, 2012
A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on October 9, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

### Members Present

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<td>Lynne Herndon</td>
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<td>John Olsen</td>
<td>Senator John McComish</td>
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### Members Absent

| Linda Stanfield         | Representative Rick Gray             |

### Staff Present

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<thead>
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<td>Lindsay Scornavacco, Governor’s Office</td>
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### Call to Order

Michael Hunter called the meeting to order at 1:31 p.m.

### Importance of a Uniform Base

Dennis Hoffman, Chair of the Online Retail Working Group, stated sales tax simplification would make an important contribution to the economic environment in Arizona. Establishing a uniform tax base is key to that effort. He continued that to eliminate distortions and to comply with federal legislation establishing a uniform tax base is important.

### Working Group Discussion and Public Comment

Kevin McCarthy stated Arizona has always been in the top ten in the country for sales tax revenues and one of the lowest for income tax revenues. Unless policy flips the state’s reliance on sales tax and income tax, Arizona needs to be mindful that people are incentivized to purchase items online with the current tax system. He continued that he agrees with the importance of having a uniform tax base and stated it will be an obvious requirement with federal legislation.

Tom Belshe stated he did not disagree with Mr. Hoffman’s and Mr. McCarthy’s comments, but the cities’ concern is how this will be done without disrupting budgets. The work the Arizona League of
Cities and Towns and the Department of Revenue have done on the retail classification will also be done for all other categories.

Vince Perez commented he is in agreement with Mr. McCarthy and Mr. Belshe. He continued there is still more work to be done.

3. **Online Travel Company Issues**
   a) **Presentation: Mitch Bryk, Starwood Hotels & Resorts**
   Mitch Bryk from Starwood Hotels & Resorts made a presentation on online travel companies and how hotel rooms are taxed differently when purchased from the hotel, through a travel agent or through an online travel company.

   b) **Working Group Discussion and Public Comment**
   Mr. Hoffman asked what the difference is between commission for travel agents and markups for online travel companies.

   Mr. Bryk answered the markup is treated as a service fee, not as a room fee, with online travel companies.

   Mr. Hoffman stated the arithmetic before taxation is identical. He asked if the difference is simply due to how the taxing jurisdiction treats the tax on commission versus markups.

   Mr. Bryk responded that is correct.

   Mr. Hoffman stated distortions would be eliminated if online travel companies were treated like travel agents. He asked what the impediment is to doing this.

   Christie Comanita from the Department of Revenue stated online travel companies are not taxed at the state level. For Arizona purposes, that question is a city issue.

   Miguel Teposte asked if all online travel companies follow the merchant model.

   Mr. Bryk answered yes. He continued that hotels are obligated to charge tax on the full room rate and online travel companies are not. If customers go to the hotel’s website, they will find the rates are within pennies of the online travel companies.

   Keely Hitt asked if it was realistic for the customer to expect to pay the same rate through the hotel website, a travel agent or an online travel company. She continued that she thought it would be cheaper through an online travel company.

   Mr. Bryk responded the room rates are the same and the final cost is typically within pennies through the different mechanisms. The difference is that through a hotel’s website the consumer’s credit card is not immediately charged and the consumer is subject to the hotel’s cancellation policy rather than the online travel company’s. He continued that the two dollar tax difference between the hotel’s and the online travel company’s taxes adds up to hundreds of millions of dollars around the country.
Mr. Teposte asked what the impact on hotels is when online travel companies buy their rooms.

Mr. Bryk answered that the sales from online travel companies amount to 6-7% of total room sales. For smaller hotels the impact can be 50-100%.

Ms. Hitt asked if the distortion could be fixed by saying there is no difference between online travel companies and the commission of travel agents.

Ms. Comanita stated the determining factor is what the hotel receives. The hotel is only receiving the discounted rate of $80 from the online travel company. With travel agents, the hotel receives $100 and the commission and cost of doing business is done in a separate agreement.

Mr. Hoffman asked if other states have taxed the online travel companies the difference.

Mr. Bryk responded there would need to be a change in statute.

Lee Grafstrom from the Unified Audit Committee stated it is the opinion of the Unified Audit Committee that the difference is already covered in statute under the broker provision. It is the cities’ perspective that the broker and principal are equally liable for the full amount charged to the consumer. He continued that the $100 would be taxable via any purchasing mechanism.

Mr. Bryk commented the City of Scottsdale sued on this issue and won.

Senator McComish stated a simple solution could be that online travel companies charge $112 instead of $110. He asked if there would be a consumer rebellion with the additional costs or if online travel companies would be in uproar if they were to lose two dollars.

Mr. Bryk stated that in New York online travel companies have not increased their rates. These companies must continue to operate in a competitive market.

Mr. Hoffman asked if Starwood has a recommendation on this matter.

Mr. Bryk stated Starwood believes the full amount should be taxed, but does not actively propose legislation. An online travel company in Missouri sought an exemption from tax and Starwood was vigorously opposed to that.

4. Establishing Sourcing for Remote Sales
Mr. Perez stated the Department of Revenue had put together draft language based on the streamline movement and Utah sourcing language.

Ms. Comanita stated that the original position of the streamline movement was to have all destination based sourcing. Texas, New Mexico, Ohio, Utah and California all have origin based sourcing similar to Arizona. Ohio, Utah and Tennessee were very involved in the streamline movement to maintain origin based sourcing. She explained that an Amish furniture maker does not operate through the internet and has no way of paying taxes throughout the state. Origin based sourcing was offered as an option in 2007. This option was allowed under the condition that five states adopted it, but this requirement was removed in 2011. Ms. Comanita stated this option is a
starting point for Arizona to maintain some of the local revenue.

a) Working Group Discussion and Public Comment
Mr. Grafstrom stated origin based sourcing is a concern to the cities because revenues will shift. As long as origin based sourcing is maintained for local sales, the cities are more than willing to accept destination based sourcing for out-of-state sales. He continued that he expects this language to be adopted for the Model City Tax Code.

Michelle Ahlmer from the Arizona Retailers Association asked if the draft language would impact an internet seller who works out of his or her home in Arizona selling to Arizona residents. She asked if this would be origin or destination based sourcing.

Mr. Grafstrom stated it is the cities’ perspective that it would be origin based because of its presence in Arizona.

Mr. Perez interjected that the language is drafted to capture all remote sales under destination based sourcing. The sale in Ms. Ahlmer’s example would be subject to destination based sourcing.

Ms. Comanita stated this language also changes taxes for items shipped out of state. There will no longer be a difference if the purchaser is a resident or nonresident of Arizona; if an item is bought in Arizona and shipped out of state, it is not subject to tax.

Mr. Perez commented it is probably impossible to calculate a number for the impact that will have. The idea is that the amount of out-of-state sales that will be able to be captured will significantly offset other losses.

The working group took a break at 2:36 p.m.

5. County vs. State Issues on Use Tax Due on Remote Sales
The working group reconvened at 2:50 p.m.

a) Presentation: Mark Barnes, County Supervisors Association
Mark Barnes from the County Supervisors Association stated the counties would like to be sure that excise taxes do not get lost in discussion regardless of what decisions are made. If they are not considered, there is no parity and distortions will continue to exist. He continued that the counties would like to have a use tax provision put in statute to satisfy their issue of nexus. This was done in the late 1990’s and would be appropriate again this session.

b) Working Group Discussion and Public Comment
Mr. Perez asked if the counties want the Department of Revenue to enact a use tax at the county level or to simply allow counties in statute to enact a use tax.

Mr. Barnes stated the statute would need to allow the counties to enact a use tax.

Ms. Comanita stated a subsection could be added to the statute that imposes use tax at the state level to allow counties to adopt that same mechanism.
Mr. McCarthy asked what the counties’ concern is about not being covered in the online retail discussion.

Mr. Barnes stated the counties would just like equal footing with respect to nexus on the issue.

Ms. Comanita commented the majority of states have sales tax and use tax rates set at equal rates. Arizona is unique in that the use tax rate is different from the TPT rate.

Ms. Ahlmer stated from a retail perspective there is a lot of spending occurring on county islands and it would be a distortion of markets to continue without parity.

6. Update on Federal Legislation
   a) Presentation: Joe Rinzel, Retail Industry Leaders Association
      Joe Rinzel from the Retail Industry Leaders Association presented an update on relevant federal legislation. He discussed the Main Street Fairness Act, the Marketplace Fairness Act and the Marketplace Equity Act in Congress. There is discussion of combining these bills to create a fourth bill with bipartisan support. The goal of the Alliance for Main Street Fairness is to create an environment where states solve their own issues without a federal mandate. Their opinion is that there will be an opportunity to make progress in the lame duck session.

      Mr. Grafstrom asked if the solutions the Task Force have proposed up to this point would satisfy federal requirements.

      Mr. Rinzel stated he thinks all requirements would be covered except the small seller exemption.

      Ms. Ahlmer encouraged the group to reach out to Arizona’s Congressional members.

      Mr. Hoffman asked if Mr. Rinzel knew the position of the Arizona delegation.

      Mr. Rinzel responded he did not know specifically, but there is a sense that Senator Kyl is more open to the ideas than Senator McCain.

      Ms. Hitt asked what the Governor’s position is on these bills.

      Mr. Hunter stated the Governor has been approached to take position on these bills, but she does not want to lose focus on what needs to happen in Arizona. There have also been conversations between a major online retailer and the Department of Revenue. These conversations have not been made public and it would be inappropriate and perhaps illegal to discuss them in the working group. He continued that the Governor is interested in the blended bill and has her staff member Ryan Serote in Washington D.C. to update her.

   b) Update from Department of Revenue
      Mr. Perez stated the compromise bill should be made available in mid November which will allow the Department of Revenue to discuss the issue with the Governor’s Office.

   c) Working Group Discussion and Public Comment
      No comments were made.
7. **Adjournment**

Mr. Grafstrom stated the Unified Audit Committee is working on a presentation of concepts and proposals for the working group to consider that should be made available two weeks before the next working group.

Mr. Hoffman stated the next working group meeting will be on Tuesday, November 13th at 9:00 a.m. at the League of Arizona Cities and Towns.

Mr. Hunter adjourned the meeting at 3:37 p.m.
TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Contracting Working Group

For additional information: www.azgovernor.gov/TPT/
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) §38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. §38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

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REVISED CONTRACTING WORKING GROUP AGENDA
TUESDAY, AUGUST 21, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order Task Force Chair
2. Welcome and Introduction of Working Group Chair Task Force Chair
3. Overview and Scope of Working Group
   a. Working Group Discussion and Public Comment Craig McPike
4. Tax on Contracting – Overview of Current Tax Scheme
   a. Presentation: Department of Revenue Craig McPike
   b. Presentation: Arizona League of Cities and Towns
   c. Working Group Discussion and Public Comment
5. Historical Context Barb Dickerson
   a. Working Group Discussion and Public Comment
6. Revenue Sharing – City and County Elaine Smith
   a. Working Group Discussion and Public Comment
7. Future Working Group Meetings Regarding Contracting Craig McPike
   a. Working Group Discussion and Public Comment
8. Adjournment Task Force Chair

August 17, 2012
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE
CONTRACTING WORKING GROUP MINUTES
Tuesday, August 21, 2012
1:30 PM
1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on August 21, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

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<th>Members Present</th>
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<td>Michael Hunter (Chair)</td>
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<td>Lorna Romero, Governor’s Office</td>
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<td>Lindsay Scornavacco, Governor’s Office</td>
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1) Call to Order
   Michael Hunter called the meeting to order at 1:31 p.m.

2) Welcome & Introduction of Working Group Chair
   Mr. Hunter introduced Craig McPike as the working group chairman for the Contracting Working Group.

3) Overview and Scope of Working Group
   Mr. McPike opened that tax law affecting contractors is very complex and that he hopes this group can determine the issues and help improve the system for everyone’s benefit. He continued that a lot of time and skill is required to comply with the tax law, which is challenging because a lot of contractors are small businesses. Mr. McPike pointed out that licensing is also a concern and that H.B. 2466 may help to ease the process. He continued that the revenue sharing formula is particularly complex and that one of the roadblocks to improvement of the system is how money is shared among jurisdictions.

   a) Working Group Discussion and Public Comment
No comments were made.

4) **Tax on Contracting – Overview of Current Tax Scheme**

Mr. McPike clarified that the tax structure for contracting taxes the gross proceeds of sale and that it is the business activity that is subject to tax and not that there is a tax on the person that needs the services. Mr. McPike explained that the tax liability is on the actual business conducting activities but that contractors can pass the economic burden on to customers. The courts have ruled it acceptable to pass on the burden contractually, which is how revenues are generated from federal contracts.

Kevin McCarthy interjected that this issue extends across TPT and is not limited to contracting. He explained that transitioning to a point of sale will not undo the process of extracting money from the federal government.

a) **Presentation: Department of Revenue**

Christie Comanita from the Department of Revenue gave a presentation on the overview of the current tax scheme, specifically the prime contracting classification under Title 42, from the view of the Department.

Mr. McPike asked if this presentation was referring to homes being built as opposed to buildings in the service industry.

Ms. Comanita responded that construction is limited to commercial or residential homebuilding.

Mr. McPike announced that all of the presentation materials can be found online on the TPT website.

b) **Presentation: Arizona League of Cities and Towns**

Lee Grafstrom from the Arizona League of Cities and Towns gave a presentation on the current tax scheme from the view of the Arizona League of Cities and Towns.

Mr. Hunter clarified that Mr. Grafstrom’s presentation was describing the Model City Tax Code without delving into variations, options and inconsistencies between the 18 non-program cities.

Mr. Grafstrom stated that he was speaking at a 50,000 foot level.

Mr. Hunter asked if different cities like Chandler, Phoenix and Mesa may look at the value arm differently.

Mr. Grafstrom stated that was not typically the case. When trying to find the value of the business piece, variations from city to city will not be found.

Mr. McPike asked Mr. Grafstrom to describe what happens in a situation when someone builds a property on their own land intending it for personal use but then decides to sell it after construction.

Mr. Grafstrom answered that if someone builds a property for personal use, never uses it and wants to sell it within 24 months of construction, then that person becomes a speculative builder. He
continued that the definition is a function of transaction and not of intent. If someone meets the definition of a speculative builder, then that is the category in which he or she is taxed.

Mr. McCarthy asked why this discussion was being brought up under the banner of prime contracting.

Mr. Grafstrom answered that cities do not have a prime contracting classification. There is construction contracting, speculative builder and owner builder which were in place in various cities prior to the adoption of the code. He continued that nobody falls under the owner builder category anymore because contractors are creating the contracting and marketing arm structure to avoid it. Section 417 applies to someone that was subject to speculative builder but failed to sell within the time period. After the 24th month it is switched to owner builder and the individual has to pay the taxes that should have been paid. This turns it from speculative builder to prime contracting.

Tom Johnson from the Department of Revenue clarified that this is commercial and not residential.

Mr. Grafstrom agreed, stating residential does not have a 24 month time period.

Miguel Teposte asked under owner builder if the state taxability of improvements falls on the prime contractor.

Ms. Comanita said that was correct but that the tax base is limited to the value of improvements. She continued that the owner builder statute is considered null and void in that case.

c) Working Group Discussion and Public Comment
Mark Minter from the Arizona Builders Alliance rose to thank the Arizona League of Cities and Towns for hosting the event and to thank the Task Force for coming together. He continued that he would like this effort to result in increased predictability for contractors, stating that prime contractors have to understand what is incorporated into a bid to be able to relay it to owners. Mr. Minter continued with the following comments:
- Moving toward a point of sale.
- Clarifying that engineering services are not subject to tax.
- Exploring service contracts and subcontractors getting taxed when they are hired for nothing but labor.
- Explaining the issue of contractors’ status unintentionally changing in the middle of a project, subjecting subcontractors to taxes as prime contractors unexpectedly years later.
- Strengthening the hospital exemption.

Mr. Hunter commented that many of the comments made by Mr. Minter demonstrate he represents Arizona business people. He continued that contracts are made with out of state businesses that bid on contracts not knowing what Arizona business is like. There are times when Arizona business may be at a competitive disadvantage because out-of-state businesses may not be on the radar screen for tax liability the way in-state businesses are.

Mark Minter from the Arizona Builders Alliance responded that contractors may follow an owner to Arizona, stop in and do a project and go home. They do not need a contractor’s license to work on a federal military base so they do not have to register with the Department of Revenue. They do the
project and leave. He continued that this puts the contractor working outside the base at a competitive disadvantage.

Ms. Comanita responded that these contractors are not required to pay the bond but are required to pay TPT.

Mark Minter from the Arizona Builders Alliance replied that nobody forces these out of state contractors to go to the Department of Revenue to get a license.

Mr. Grafstrom answered that they must in order to pull a building permit.

Mark Minter from the Arizona Builders Association responded that this was not the case on a military base.

Mr. McPike commented that he believes the point of the discussion is that out of state contractors do not include taxes into their bids because they do not understand the system in Arizona. They then get the contracts they are bidding for because their estimate is lower.

Mr. Hunter commented that a lot of what is being discussed with regard to reforms is if a transaction is taxable or not. This discussion is about changes to the tax base. Mr. Hunter reiterated that the Task Force is going to have to deal with certain provisions in Prop 204. He reminded the Task Force that a lot of the conversations being had at these meetings and potential clarifications may go through the Legislature and be a change to the state tax base. The Task Force has to look to see to what extent Prop 204 may tie the Legislature’s hands.

Tom Belshe asked if large residential materials are mostly purchased from in-state or out-of-state businesses.

Spencer Kamps from the Home Builders Association of Central Arizona responded that he has not looked at the issue closely, but from anecdotal experience he suggested many do not make major purchases out of the state. The projects are generally locally driven.

Representative Gray gave the example that his small company would buy in bulk in state.

Mr. Belshe commented that he would like more information on this because he had heard anecdotally that most of the materials are purchased out of state. Cities and towns would have to adopt a use tax to capture those sales.

Representative Gray commented that he likes the idea of switching to point of sale. He continued that the numbers may not line up, but it would be fairer.

Mr. Hunter commented that the mismatch in numbers may be offset by gaining missed opportunities.

Mr. McPike mentioned that leading up to this meeting he had met with a lot of contractors that want to do the right thing but because of the complexity have gone the easier route and have not paid the proper taxes. He suggested there may be revenues that could be realized.
Mr. McCarthy questioned why a homebuilder would purchase materials out of state if the Arizona exemption on materials would not be valid?

Mr. McPike interjected that this meeting may not be the best arena to discuss legal complexities.

Barb Dickerson from Deloitte Tax LLP responded that orders placed out of state are typically exempt. California, for example, has quirky laws on the issue and it is difficult to make a general statement of what is exempted because it depends on how the transaction comes down in the state where the purchase is made. She continued that there are use tax credits for sales tax paid in other states where a purchase may not be exempt.

Mr. McPike commented that there can be a situation where two different taxing schemes on the interstate level do not align and cost the Arizona taxpayers more money.

Ms. Comanita responded that the majority of states are destination states.

Mr. McPike stated that at the next meeting he would be interested in seeing what states take that position.

Vince Perez commented that one of the major things that need to be taken from this discussion is that cities have to enact a use tax to capture on materials. Another important piece of information is that 100% of the use tax goes into the general fund.

Elaine Smith from the Department of Revenue stated that use tax is not levied at the county level, so there would be a loss or they would need to be enabled to enact a use tax.

Mr. McPike commented that this conversation illustrates one of the issues that exist from a tax policy perspective. There is a use tax so people are not incentivized to shop out of state when TPT cannot be imposed. He continued that in ideal tax policy would have use tax and TPT at the same rate. There are a lot of jurisdictions where they differ, but from a policy perspective they should not.

Mr. Teposte suggested that the group needs to consider small jurisdictions that do not have a retail base, such as Casa Grande. All of the retailers are located in larger jurisdictions and there would be no tax if the tax is paid at the retail level.

The working group took a ten minute break.

5) Historical Context

Mr. McPike called the meeting back to order at 3:04 p.m.

Barb Dickerson from Deloitte Tax LLP gave a presentation on the historical context of contracting.

a) Working Group Discussion and Public Comment

Representative Gray asked what legally was supposed to be taxed besides materials when the Legislature wanted to tax construction in 1937. He questioned if the intent of the law was for the overhead of a company to be taxed.
Ms. Dickerson responded that it is difficult to say what the intent of the legislation was so long ago.

Representative Gray commented that he is trying to find the rational as to why the system should not go to a point of sale. Some cities may lose money, but contractors are paying the price everyday to go through this process. He suggested that prices may come down, leading to more construction and more jobs in the field.

Ms. Dickerson stated that it was her personal opinion that the state should tax materials and that a minority of states do it the way Arizona does. The system in Arizona leads to uncertainty for contractors and owners. She continued that inside a fixed fee contract there is often an indemnification clause. A contractor will state their amount of tax and the owner will indemnify the contractor. The contractor gets audited and if they do not do everything perfectly then the owner is on the hook as well. Ms. Dickerson reiterated that it was her personal opinion that the current system creates uncertainty at several levels.

6) **Revenue Sharing – City and County**
Elaine Smith from the Department of Revenue gave a presentation on revenue sharing.

   a) **Working Group Discussion and Public Comment**
   Mr. McPike noted that is it important to consider that prime contracting operates differently than the retail classification.

   Patrick Irvine from Fennemore Craig asked about the policy of exclusion of use tax.

   Ms. Smith responded that she did not find information about that.

   Mark Barnes from Barnes and Associates representing the County Supervisors Association of Arizona commented that the issue of where materials originate and the availability of retailers in rural areas is going to be difficult to solve.

   Mr. McPike highlighted how complicated the distribution formula is and that there will be gains and losses with change, but that in the end it will make the system easier to understand and administer.

7) **Future Working Group Meetings Regarding Contracting**
Mr. McPike asked the Task Force members and the public for topics they would like to hear about in future meetings.

   a) **Working Group Discussion and Public Comment**
   Linda Stanfield commented that many people are excited about this Task Force because this issue keeps a lot of business owners up at night. A lot of people do not have the money to hire a bookkeeper and do not have the software to tell them that at the city level something is taxed differently than at the state level. She continued that the business owners really need help and that the focus needs to be on simplification. Services are put at risk when one company does their business in one manner and another does business differently. The group needs to look at how to make this system fair.

8) **Adjournment**
Mr. Hunter adjourned the meeting at 4:25 p.m.
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

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The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

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CONTRACTING WORKING GROUP REVISED AGENDA
TUESDAY, SEPTEMBER 18, 2012
1:30 PM
ARIZONA LEAGUE OF CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order
   Task Force Chair

2. Presentation: Service Contracting Issues
   a. Working Group Discussion and Public Comment
   Linda Stanfield

3. Discussion of Possible Reform Recommendations
   b. Working Group Discussion and Public Comment
   Craig McPike

4. Topics for Future Meetings
   a. Working Group Discussion and Public Comment
   Task Force Chair

5. Adjournment
   September 14, 2012
A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on September 18, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

### Members Present

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### Others Present

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<th>Lorna Romero, Governor’s Office</th>
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<td>Craig McPike, Snell &amp; Wilmer</td>
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1) **Call to Order**

   Tom Belshe called the meeting to order at 1:33 p.m.

2) **Presentation: Service Contracting Issues**

   Craig McPike, the Contracting Working Group Chair, introduced Linda Stanfield as a presenter. Ms. Stanfield presented on contracting issues in the service industry. Her presentation covered the following topics:
   - A single area for service contractors to have their questions answered online.
   - Unclear and time-costly applications.
   - Software for easier reporting.
   - Costs and time businesses incur to comply

   a) **Working Group Discussion and Public Comment**

   No comments were made.

3) **Discussion of Possible Reform Recommendations**

   Mr. McPike called for a break at 2:18 p.m. to allow individuals to call in to the meeting. The
meeting resumed at 2:25 p.m.

Mr. McPike presented what he considers the reform options under serious consideration:
- Transitioning to a materials-based tax while allowing the cities to continue the speculative builder tax
- Adjusting revenue-sharing
- Equalizing use tax and TPT rates

b) Working Group Discussion and Public Comment
Barb Dickerson from Deloitte Tax LLP stated speculative builder is the most litigated area. It is good for attorneys, but not always easy for businesses to comply with. Ms. Dickerson asked if the group has looked at what other states have done as an alternative to speculative builder. She also asked how it could be made easier for businesses to comply with if it were kept.

Mr. McPike responded the group has not looked at other states.

Vince Perez stated not a lot of cities or states have gone from the current type of taxation to a materials-based tax.

Ms. Dickerson clarified she was asking what states did instead of speculative builder. She asked how other states fund their development of infrastructure and if there were other mechanisms.

Lee Grafstrom from the Unified Audit Committee stated in Illinois there is nothing similar to speculative builder but there is not a high reliance on sales tax. The speculative builder tax is not necessarily being used for infrastructure that it was developed for. It ends up going to the general fund to pay for more police and firemen.

Spencer Kamps from the Homebuilders Association of Central Arizona stated the speculative builder tax is problematic and offered that it may make more sense for it to be handled through a revenue sharing formula rather than one time revenue through speculative builder.

Mr. Grafstrom stated the only way for it to work would be to set up a timing structure so the Department of Revenue can see when money is coming in. It would have to capture building permits in some way because the City of Chandler would get nothing from the next Intel plant that is built. Funding is needed immediately, hence the speculative builder tax.

Mr. Kamps responded he is in agreement with Mr. Grafstrom, but stated he is less sympathetic to timing issues. He continued the Homebuilders Association of Central Arizona is willing to work with the cities.

Mr. Perez asked Mr. Grafstrom if his point was that any modification to the revenue sharing formula needs to take time into consideration.

Mr. Grafstrom stated the group is discussing 20% of sales tax revenue for most cities from contracting. The cities cannot weather a 20% reduction. It would be an immediate hit and there needs to be a backstop.
Jennifer Stielow from the Arizona Tax Research Association asked if the League has put together a list of the cities currently collecting speculative builder tax.

Mr. Grafstrom stated it is difficult to calculate and that their databases are not set up to sort different types of contractors.

Tom Belshe stated he has talked with Elaine Smith from the Department of Revenue and has given up on program cities.

Elaine Smith from the Department of Revenue stated it is difficult to sort through all of the contractors.

Mr. Grafstrom addressed Ms. Stanfield and agreed this process is a struggle for service contractors. He continued he supports letting service contractors move to a point of sale.

Mr. McPike asked Ms. Dickerson to bring up her other points they had discussed.

Ms. Dickerson stated if the proposal is that speculative builder tax be retained if it moves to a point of sale, then a working group can be created to figure out the gray areas. Speculative builder does not only affect homebuilders, retailers and investors, but sale lease backs as well.

Mr. McPike stated these conversations will most likely need to continue even after the task force has sent the final report to the Governor.

A representative from the City of Phoenix asked how services would be defined if they were carved out.

Mr. McPike responded he is not sure how to easily define it. He gave the example that there could be a contractor that performs services and is also a subcontractor on a project.

Mr. Grafstrom stated if the concept is to release trades from this issue, it has to be done through a dollar amount.

Mr. McPike stated that Mr. Grafstrom is still talking about putting two different hats on a contractor which would cause more confusion.

Mr. Grafstrom replied it would only be burdensome for a limited group of contractors, but would release hundreds of thousands of other contractors.

Mr. McPike stated it would be difficult for cities to tell which contractors have which services under a specific dollar amount. He asked if any information could be pulled to shed light on a potential threshold.

Representative Gray commented in the past there have been tweaks to make the system better but that he thinks the system needs to move all contracting to point of sale. With the service contractor only proposal, it is still complicated. Including all contracting is crystal clear. Trying to make exceptions here and there adds complexity without solving the problem.
Mr. Belshe stated if he were to build a home in the town of Eager with materials bought elsewhere then the town of Eager would lose out on revenue.

Mr. Perez responded that is the reason for making adjustments to shared revenue.

Mr. Belshe stated the origin of these materials is still unknown.

Mr. Grafstrom stated if the line were drawn at twenty-five thousand dollars per contractor, it would remove 1,211 out of 1,433 contractors in the City of Chandler.

Mr. McPike interjected that no solution is going to be perfect.

Mr. Kamps stated he recognizes the impact on cities and supports making adjustments to the distribution formula.

Mr. McPike stated the group needs to figure out a number so it can work toward a formula that addresses the delta.

Mr. Perez stated the group has only been told anecdotally that there are items purchased out of state. He asked Mr. Grafstrom if this was true.

Mr. Kamps responded he did not know if Mr. Perez wanted a notarized report from his builders, but every builder has been surveyed and all buy all of their materials in Arizona. The transportation costs for bringing materials from out of state is not worth it.

Mr. Grafstrom stated he is not trying to say he is only supportive of services and not of undoing speculative builder, but that his concern is how that is done.

Mr. McPike stated if the suppliers are in state then they should have a license to begin with. He continued that data should be available.

Mark Minter from the Arizona Builders Alliance stated these suppliers could be reporting under the retail classification.

Mark Barnes from Barnes & Associates stated he thinks a formula could be made that works, but there will be a hit to the TPT base in rural areas. He expressed concern for addressing that issue with counties. Leaving something similar to speculative builder at the state level should be considered.

Mr. McPike responded there is currently no speculative builder tax at the state level. If the group wants to discuss creating a new tax classification under the Department of Revenue that would be dead on arrival. With respect to revenue sharing adjustments, the concept is that the funds would be redistributed in a manner that gets everyone close to where they were initially.

Mr. Barnes commented he looks forward to seeing how that works out.

Phil Montalvo from the City of Scottsdale commented most cities do not allow a land deduction in
speculative builder. 25% of the price is contributed to land value.

Mr. McPike asked if Mr. Montalvo was talking about a situation where speculative builder is repealed.

Mr. Montalvo responded that if speculative builder goes away there is a land value issue.

Mr. Grafstrom stated the group needs to know what the material value is versus the contract value.

Mr. McPike commented there are a lot of issues at play.

Mr. Grafstrom stated if the group is trying to solve compliance issues, then more money needs to be given to the Department of Revenue for auditors.

Mr. Perez responded that Mr. Grafstrom is assuming a hit to the revenue pool. The Department has not crunched any numbers.

Ms. Dickerson stated noncompliance cannot be discarded. When the Anderson study was done, there was a significant amount of noncompliance when comparing all of the construction in the state versus the construction revenue. There was also abuse of exemption certificates. Current contracting revenue cannot be compared to a tax on materials. Noncompliance has to be taken into consideration on both the contracting and retail side.

Mr. Grafstrom stated that the exemption certificate issue is not seen anymore and was not seen in the last audit. No one can tell how much of an impact there will be on compliance. He continued that he needs the same amount of revenue in the new system that he has today.

Mr. McPike stated he understands Mr. Grafstrom’s point and if the group is going to make progress there needs to be some level of comfort from all levels of government. He also stated the group needs data.

Ms. Stielow commented the group needs to remember the purpose is to make things easier for taxpayers to comply. The group keeps talking about revenue impacts, but no one knows what the impact will be. The group needs estimates from cities and the state.

Mr. Grafstrom stated he would ask builders the cost of their materials.

Ms. Smith commented the group needs to know where the retail transactions are happening and needs to understand which cities would gain or lose revenue.

Mr. McPike stated he would reach out to people who can collect data after this meeting.

Nicky Tate from the City of Mesa commented she has done a lot of audits on commercial and residential homebuilders and they have a very detailed cost description system. She proposed reaching out to the industry to determine their costs.

Tom Abraham from Fulton Homes stated he does not know large general contractors that get a
material breakdown from subcontractors.

Miguel Teposte stated it is impossible to agree on a percentage.

Mr. Abraham responded an average could be taken from large residential contractors.

Mr. Grafstrom stated he is looking for a ballpark number. He continued he is not opposed to any of what is being discussed, but he is looking for a way to get good things done early. Mr. Grafstrom suggested working on the service contractors first and then moving on to the other contractors. There are a lot of moving parts.

Ms. Dickerson commented that during the Anderson study surveys were done on all different trades. A good cross sample can be created if surveys are developed and consistent questions are asked. The group needs to look at gross revenue if it is going to try and exclude the service contractors.

4) **Topics for Future Meetings**
   Mr. McPike stated the group has a relatively short timeframe to accomplish everything discussed. He suggested developing a conceptual proposal and then for the group to work together if the Governor would like to move forward.

   **a) Working Group Discussion and Public Comment**
   Steve Barela commented if Prop 204 passes the group needs to get together and figure out its implications.

   Mr. McPike stated there was great conversation today and that data needs to be pulled to figure out some of the question marks. The next Contracting Working Group Meeting is October 16th.

5) **Adjournment**
   Mr. Belshe adjourned the meeting at 4:03 p.m.
NOTICE OF PUBLIC MEETING
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE

Pursuant to Arizona Revised Statutes (A.R.S.) § 38-431.02, notice is hereby given to the members of the Transaction Privilege Tax Simplification Task Force and to the general public that the Task Force will hold a meeting, open to the public, as specified below. Pursuant to A.R.S. § 38-431.03 (A) (3), the Task Force may vote to go into Executive Session, which will not be open to the public, for legal advice concerning any item on this agenda.

Persons with a disability may request a reasonable accommodation such as a sign language interpreter, by contacting the Governor’s Office at (602) 542-1727. Requests should be made as early as possible to allow time to arrange the accommodation.

The Task Force will discuss and may take action on the following matters. Members will attend either in person or by telephone conference call.

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CONTRACTING WORKING GROUP AGENDA
TUESDAY, OCTOBER 16, 2012
1:30 PM
LEAGUE OF ARIZONA CITIES AND TOWNS
1820 W. WASHINGTON STREET, CONFERENCE ROOM 101
PHOENIX, ARIZONA 85007

1. Call to Order
   Task Force Chair

2. Analytical Framework for Transitioning from Contracting Taxes to Materials at Point of Sale
   a. Presentation from Department of Revenue
   b. Presentation from League of Arizona Cities and Towns
   c. Working Group Discussion and Public Comment
   Craig McPike

3. Topics for Future Working Group Meetings
   Craig McPike
   a. Working Group Discussion and Public Comment

4. Adjournment
   Task Force Chair

October 12, 2012
GOVERNOR’S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE
CONTRACTING WORKING GROUP MINUTES
Tuesday, October 16, 2012
1:30 PM
1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on October 16, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

<table>
<thead>
<tr>
<th>Members Present</th>
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<tbody>
<tr>
<td>Michael Hunter (Chair)</td>
<td>Steve Barela</td>
</tr>
<tr>
<td>Tom Belshe</td>
<td>Kevin McCarthy</td>
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<tr>
<td>John Olsen</td>
<td>Linda Stanfield</td>
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<tr>
<td>Miguel Teposte</td>
<td>Vince Perez</td>
</tr>
<tr>
<td>Keely Hitt</td>
<td>Senator McComish</td>
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<tr>
<td>Lynne Herndon</td>
<td>Representative Rick Gray</td>
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<table>
<thead>
<tr>
<th>Members Absent</th>
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<tbody>
<tr>
<td>No members were absent.</td>
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<table>
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<tr>
<th>Staff Present</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lindsay Scornavacco, Governor’s Office</td>
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</table>

1) Call to Order
Michael Hunter called the meeting to order at 1:35 p.m.

2) Analytical Framework for Transitioning from Contracting Taxes to Materials at Point of Sale
Craig McPike, the Contracting Working Group Chair, asked members of the working group and of the public to contribute any numbers or information that could assist the Department of Revenue in their efforts to predict fiscal impacts.

a) Presentation from Department of Revenue
Elaine Smith from the Department of Revenue gave a presentation analyzing the transition from contracting to materials tax.

Vince Perez commented the materials use tax is not a new tax. The Department is contemplating a new class code to track the tax differently for potential distribution in the event there are changes to revenue sharing. Currently, all use tax monies are put into the General Fund.

Mark Minter from the Arizona Homebuilders Association commented that he has taken a sample of out-of-state versus in-state sales and found a very low percentage of sales to be from out of state.
Mr. McPike stated there is a range of 5-15% of materials bought out of state. In-state vendors appear to be bringing in the materials and selling them to contractors.

Christie Comanita from the Department of Revenue asked what materials were being brought in from out of state.

Mr. McPike gave steel as an example.

Mr. Minter stated the importation of steel is an anomaly because Phoenix has the one of the largest steel erectors. 80% of the imported steel gets dressed in Phoenix and is then exported out of state.

Kevin McCarthy asked if the Department of Revenue could identify the top three areas of construction activity.

Ms. Smith stated she will get that data, which is distributed almost monthly.

b) Presentation from League of Arizona Cities and Towns
Lee Grafstrom from the Unified Audit Committee stated he looked at revenues from FY12 and found that $168 million comes from total contracting revenues. He emphasized that FY12 was not a typical year and that this number is generally higher. Of the $168 million, $28 million came from speculative builder, $88 million came from general and prime contracting and $53 million came from trade and services. That amounts to 17% of total contracting revenues coming from the speculative builder category, 52% from general and prime contracting and 31% from trade and services. Mr. Grafstrom continued that for many of the small towns almost 100% of the revenues come from trade and services. No new homes are being built and there are no large construction projects. The vast majority of revenue will move out of cities with a shift to a materials tax at the point of purchase. Businesses will move out of the cities and into the counties to avoid paying city taxes. This would result in $170 million leaving the coffers of the cities. He stated anyone who can move will move. Revenue from construction activity that occurs in the bulk of the little towns will be shifted to larger cities. Smaller towns traditionally have the major portion of their revenues based in contracting will lose a larger percentage of their General Fund revenues.

c) Working Group Discussion and Public Comment
Mr. McPike clarified Mr. Grafstrom was describing a problem with a shift in revenues because of the city tax in addition to needed revenue sharing adjustments.

Mr. Grafstrom stated that was correct. There will be a pure loss of $170 million to all 91 combined cities. He repeated that this number came from a year that was abnormally low and stated that a normal year may be closer to $250 million in contracting revenue.

Representative Gray stated Mr. Grafstrom’s assumption is logical, but that he does not see it happening in practice. He stated he lives in a county island and does not see it happening.

Mr. Grafstrom responded it may not be the business that relocates, but the competitor that establishes itself outside of the cities to gain a competitive advantage. He continued that another problem the cities will face is that there are no retailers in the vast majority of the state that relies on contracting revenues. This shift will create the need for increased shared revenues.
Mr. McPike stated it is important to make a reasonable estimate of what the current level of noncompliance is and how that affects the equation.

Mr. Grafstrom commented that there may be some noncompliance at the state level, but he knows who the contractors are in the cities.

Mr. McCarthy asked Mr. Grafstrom if he believed the cities will lose the $170 million they are currently receiving because business will be incentivized to move out of the cities.

Mr. Grafstrom answered yes.

Mr. McCarthy stated Arizona is one of the most incorporated states in the union. The notion that everyone will close up their supply houses and take on all of the costs of moving does not make sense.

Mr. Grafstrom responded businesses will go where the costs are the least. He also stated Chandler is surrounded by a lot of unincorporated areas.

Mr. McCarthy asked if Mr. Grafstrom believes it will be 100% of businesses.

Mr. Grafstrom answered that the Lowe’s and Home Depot’s will stay in place, but small shops and large ticket retailers will explore that option.

Tom Belshe stated a relatively small number of retailers are selling most of these items.

Mr. Grafstrom commented there are a minimal number of suppliers for large items, but a ton of small plumbing contractors. He stated that the estimate is not a 100% loss of the $170 million. He continued that the vast majority of cities have no speculative builder, general contracting or retail outlets for construction materials. The construction activity there is weighted heavier because they have no retailers.

Mr. McPike stated there will be a hit to cities and towns under any scenario.

Mr. Grafstrom stated the Unified Audit Committee’s biggest concern is shared revenue when contractors are taxed as retailers.

Mr. McPike commented there are other areas of the transaction privilege tax that this may simplify.

Mr. Grafstrom stated that states who tax contractors at the site have a much more complicated system than Arizona. The Unified Audit Committee is advocating for this to be done only for a couple of places to hold harmless all of the little towns. This would reduce the amount of shared revenue that needs to be backfilled. He continued that there are some ways to do it to create true simplification. A method could be to decide on a flat percentage for the value of materials. Large homebuilders could come to an agreement that 45% of the project is materials instead of counting every nut and bolt used. If a contractor’s cost of materials is less than 45%, they can then keep track of the materials in detail.
Mr. McPike stated when contractors have the option to use the deemed percentage or to keep detail records to come in under that percentage, it makes it difficult to estimate how many people will take the easy route. The revenue hit could be significant.

Mr. Grafstrom stated his preferred choice is still to have contractors pay tax at the point of purchase with exceptions for small towns.

Linda Stanfield commented there would still be grey areas with the deemed percentage system that Mr. Grafstrom described. She continued that it would be very difficult to bring the idea to her employees and bookkeeper.

Spencer Kamps from the Homebuilders Association of Central Arizona stated he assumes the 45% limit would not apply to speculative builder.

Mr. Grafstrom stated that would have to be worked out. He asked how much materials were.

Mr. Kamps replied that it is the million dollar question. He continued that surveys have been sent out to get some data on the issue. There are varying percentages depending on the trade. He stated he hopes to come back to the working group with more information.

Mr. McCarthy asked if the 45% figure was a studied number or if it was chosen at random.

Mr. Grafstrom stated the Anderson study used 41.8% and that he looked at a couple of audits that showed between 46% and 51% for materials. He continued that he does not see increased shared revenue as an option when looking at $170 million, especially because usually it may be about $250 million. If that number can be brought to $75 million, it is easier to handle.

Steve Tofel, a private citizen, stated that in Tucson about 44% of the land is unincorporated. It would be highly likely for businesses to move to these areas in Tucson. Estimating that 100% of them will move is not reasonable, but there will be a loss of revenue. He also stated that he has 30-45 subcontractors and a dozen suppliers and it would be near impossible to keep track of all materials used. He stated he likes Mr. Grafstrom’s idea of a two tiered system.

Mr. Minter stated he takes serious exception with the idea that businesses will relocate. Businesses stay in incorporated areas because it is convenient for the customer and they can get employees and products. When a vendor does businesses with contractors, it is a retail transaction that needs to be convenient. He continued that the big steel suppliers cannot pick up their entire operation and uproot a $50 million facility. They have to be near railways to be able to get materials in mass quantities. The idea they will relocate is false.

Mr. Kamps stated the assumption that everyone will move to a county island assumes that everyone is selling the same product. It would be highly unusual for suppliers to move to a location solely based on the cost of the tax rate. He continued that he appreciates Mr. Grafstrom’s comments and that everyone understands the cities’ concerns. He asked if the cities are ok with moving the contracting tax to the point of purchase if the financial impacts are addressed.
Mr. Grafstrom stated the Unified Audit Committee is open to whatever the Task Force is looking to do. He continued his goal is make sure everyone is mindful of the revenue impacts, but he knows there will be some losses. He is open to whatever changes will make things easier, fairer and will not devastate budgets of local governments. The only current option is to try and raise taxes in the communities that will accept it.

Mr. Belshe stated he was on a conference call with mayors and city managers and they expressed fear of the unknown. He explained there is worry about winners and losers and about how to explain that to the cities. Right now they have no information about the scope of the impact.

Representative Gray asked what cities will be affected that gain 100% of their revenues from contracting.

Mr. Belshe responded that he tried to work with Ms. Smith on this, but the data was not there. He continued that he is intimately close with the Town of Eagar and knows there have not been any new homes or new construction for a long time. Most of the activity is under trade and service. He stated he believes there is a way to make up losses with shared revenue and that a simple formula can be created to show small towns and cities the benefits of having construction in local communities.

Mr. Hunter stated he wants to be sure no one is losing sight of the overall task force effort of simplification. The labor has been divided into three working groups and there are opportunities for solutions to interrelate. He asked everyone to keep in mind there are issues in the other working groups that the Task Force has to grapple with.

Mr. McPike asked Mr. Belshe what would help the cities be more comfortable with the task force discussions.

Mr. Belshe answered it would help to know what other opportunities for revenue may be made available. It would also be helpful to know what a shared revenue system would look like.

Mr. McPike asked if anyone had thoughts on how to pull data on the locations of vendors around the state.

Mr. Hunter added that proxies and creative thinking would also be helpful for Ms. Smith to use as surrogate variables.

Mr. Belshe asked if there is a way to see from Mr. Minter’s survey where the retailers are selling products.

Mr. Minter stated that is what he is trying to accomplish.

Mr. Belshe commented everyone used to think the majority of sales were made out of state and that has since been dispelled. The assumption is now that purchases are being made in only a few large cities. He continued it would be great to have an idea if that was true.

Ms. Smith stated this information would be extremely useful in determining how point of sale will
affect county revenue sharing and city and county taxes.

Ms. Stanfield commented cities will compete to keep businesses.

Keely Hitt stated there are benefits cities provide to businesses that are being overlooked.

Mr. McPike stated there may be natural shifts over time of where new businesses decide to locate.

Ms. Comanita commented that when customers shop at a store they probably have no idea if it is located in a city or on a county island.

Mr. Minter stated often a consumer calls a store in one town, the product ships from another and the customer gets an invoice from a third location.

Mark Barnes from the County Supervisors Association stated it is difficult to determine what the revenue impacts on the counties will be from a long term perspective. There needs to be a mechanism for annual distribution to counties to make up for the loss and hold them harmless.

Mr. Hunter interjected there needs to be a limit on how many times everyone can use the phrase “hold harmless.” There is a lot of change happening outside of this reform effort, changes to the tax base and changes at the Legislature that sometimes benefit the counties and sometimes do not. He continued that benefits to different parties are not always a part of the dialogue when discussing good tax policy.

Mr. Barnes presented a handout to the working group.

Mr. Grafstrom clarified where the tax dollars would go in Mr. Minter’s example of having three different locations. The city tax applies where the order is received. If the permanent business is outside of the city then there is no city tax. A business would not have to move the entire steel plant, but only the sales office.

Mr. McCarthy asked Mr. Grafstrom if as an auditor he would allow such a tax avoidance scheme to happen. He commented that first the theory was that 100% of businesses would move and now that they all will set up tax avoidance schemes that would be pursued as illegal.

Mr. Grafstrom stated even if the tax avoidance is illegal it forces the issue back in court where superior nexus must be argued.

3) Topics for Future Working Group Meetings
Mr. McPike stated the next working group meeting will be on November 20th.

a) Working Group Discussion and Public Comment
No comments were made.

4) Adjournment
Mr. Hunter adjourned the meeting at 3:25 p.m.
Agenda Item #3  Legislative Report and Look Ahead

Summary: A discussion and update of elections results and legislative issues likely to appear in the next session.

Responsible Person: Ken Strobeck & League Staff

Attachments: 2013 Municipal Policy Statement
2013 League Resolutions Chart
Letter from Rep. Michelle Ugenti (back binder pocket)
CORE PRINCIPLES

The League of Arizona Cities and Towns, a voluntary membership organization of the 91 incorporated municipalities in Arizona, is governed by two core principles: protection of shared revenues and defense of local decision-making authority.

LOCAL CONTROL

A core principle of the League of Arizona Cities and Towns – indeed, one of the very reasons for its existence – is that local decision-making authority must be protected and preserved. Decentralized government at the local level, closest to the governed, represents a conservative principle of American democracy recognizing that, when it comes to community governance, one size does not fit all.

The League calls upon the Legislature to respect the authority of cities and towns to govern their communities in the best interests of their residents. The League further seeks rejection of legislation that conflicts with charter provisions of Arizona’s charter cities. For example, the League supports legislation that will return authority to municipalities to:

- Regulate the sale and use of consumer fireworks; and
- Determine the method, manner and timing of local elections.

BUDGETARY RESOURCES, ECONOMIC DEVELOPMENT AND FISCAL RESPONSIBILITY

The League is also determined to safeguard the economic resources cities and towns require to ensure safety and to provide high-quality services and amenities for their residents. To that end, the League calls upon the Legislature to:

- Enact a budget that respects existing statutory formulas for the distribution of state-collected funds to local governments;
- Discontinue diversions of Highway User Revenue Fund monies to fund the operations of state agencies; and
- Modify legislation, enacted last year to facilitate the construction of public infrastructure associated with large manufacturing facilities, to remove its burden on state-shared revenues distributed to municipalities.

The League seeks to partner with the state in creating an environment that encourages greater economic development. Cities and towns are actively investigating new ways to promote business growth and seeking an expansion of tools and resources available to municipalities for this purpose. In line with these imperatives, the League supports legislation to:

- Authorize the formation of Revenue Allocation Districts;
- Improve Arizona’s ports of entry with Mexico; and
- Support the long-term retention of Arizona’s military installations.

Members of the League remain committed to the responsible management and protection of precious budgetary resources. In line with this principle, the League supports a modification to recently enacted pension reform law to require that the Alternative Contribution Rate paid by employers to the Arizona State Retirement System (ASRS) for employees who retire from an employer participating in ASRS and later return to work for an employer participating in ASRS to be applicable only to employees hired after July 1, 2011.

NATURAL RESOURCES AND ENVIRONMENT

Cities and towns are committed to the preservation of Arizona’s extraordinary natural resources and recognize that there are economic opportunities associated with environmental protection. The League urges the passage of legislation to:

- Fully fund state parks and to work with cities and towns on developing mechanisms for the operation of select parks by municipalities under long term leases;
- Improve forest health and reduce wildfire threats; and
- Promote the economic engine of tourism.

REGULATORY AND PROCESS REFORM

Municipalities strongly support local business and have undertaken initiatives to promote economic development and to create a favorable environment for the creation, growth and expansion of business opportunities. Cities and towns continue to seek ways to improve and streamline their regulatory, licensing and acquisition processes to promote cost effectiveness and efficient service delivery. The League will oppose any regulatory reform proposal that does not promote greater efficiency, affect significant cost savings or improve existing regulatory frameworks for the mutual benefit of stakeholders.

In order to improve municipal licensing and permitting processes, the League supports changes to regulatory reform legislation enacted in 2011. Also, the League supports legislation to authorize municipal use of Alternative Delivery Methods with respect to the award of construction contracts.

COMMUNITY ENHANCEMENT

The League supports legislation to help cities enhance communities and improve the quality of life for their residents. The League endorses legislation to:

- Treat the crime of graffiti more seriously;
- Promote more flexibility in the annexation of county islands; and
- Relax state requirements for the extension of municipal assistance in the acquisition, construction or rehabilitation of housing.
<table>
<thead>
<tr>
<th>No.</th>
<th>Summary</th>
<th>Sponsor</th>
<th>Co-Sponsor</th>
<th>Resolutions Committee Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Keep local funding formulas intact. (A merger of original resolutions 1 and 11.)</td>
<td>Bullhead City, Kingman, Lake Havasu City</td>
<td></td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>2</td>
<td>Support economic development tools. (A merger of original Resolutions 2 and 3.)</td>
<td>Yuma Bullhead City, Sierra Vista</td>
<td></td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>3</td>
<td>Credit for excess solar generation.</td>
<td>Sedona Flagstaff, Clarkdale, Kingman</td>
<td></td>
<td>Significant Municipal Issue</td>
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<tr>
<td>4</td>
<td>Alternative Delivery Methods.</td>
<td>Sedona Camp Verde, Clarkdale</td>
<td></td>
<td>Recommend for Adoption</td>
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<tr>
<td>5</td>
<td>Alternative Contribution Rate (ACR)/Arizona State Retirement System (ASRS).</td>
<td>Queen Creek Apache Junction, Kingman</td>
<td></td>
<td>Recommend for Adoption</td>
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<tr>
<td>6</td>
<td>Public record requests.</td>
<td>Yuma Oro Valley, Apache Junction, Bullhead City</td>
<td></td>
<td>Significant Municipal Issue</td>
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<tr>
<td>7</td>
<td>Repeal ARS 9-441.01.</td>
<td>Sedona Clarkdale</td>
<td></td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>8</td>
<td>Greater flexibility in annexing county islands.</td>
<td>Marana Sierra Vista, Oro Valley, Tucson</td>
<td></td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>9</td>
<td>Urges the Legislature to fund state parks and work with cities and towns in partnership for the operation and maintenance of Arizona State Parks.</td>
<td>Yuma Oro Valley, Camp Verde, Kingman, Bullhead City</td>
<td></td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>10</td>
<td>Allow an incorporated city or town and a county within the unincorporated areas of the county to regulate the sale and use of permissible consumer fireworks.</td>
<td>Prescott Prescott Valley, Chino Valley, Camp Verde, Clarkdale, Sedona.</td>
<td></td>
<td>Recommend for Adoption</td>
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<tr>
<td>11</td>
<td>Improve forest health and reduce wildfire threats.</td>
<td>Flagstaff Sedona, Scottsdale, Sierra Vista</td>
<td></td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>12</td>
<td>Reduce the shortage of physicians, physicians’ assistants and nurse practitioners.</td>
<td>Sierra Vista Bisbee, Yuma, Marana, Douglas, Flagstaff, Clarkdale</td>
<td></td>
<td>Significant Municipal Issue with Amendments</td>
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<td></td>
<td>Recommendations</td>
<td>Supporting Cities</td>
<td>Recommendation</td>
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<td>13</td>
<td>Resources to improve Arizona’s ports of entry with Mexico and related infrastructure.</td>
<td>Sierra Vista</td>
<td>Douglas, Bisbee</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>14</td>
<td>Support the long-term retention of Arizona’s military installations.</td>
<td>Sierra Vista</td>
<td>Bisbee, Peoria, Yuma, Marana, Flagstaff, Clarkdale</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>15</td>
<td>Restrict trucks to the two right-most lanes.</td>
<td>Apache Junction</td>
<td>Douglas</td>
<td>Significant Municipal Issue</td>
</tr>
<tr>
<td>16</td>
<td>Criminal damage by graffiti/restitution.</td>
<td>Yuma</td>
<td>Sierra Vista</td>
<td>Recommend with Amendments</td>
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<tr>
<td>17</td>
<td>Amend §42-5010, as enacted in SB1442 last session, so that the recapture of construction sales tax to be used for funding infrastructure projects is made after the distribution of state shared revenues.</td>
<td>Chandler</td>
<td>Peoria</td>
<td>Recommend for Adoption</td>
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League Staff Recommendations

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<tr>
<th>No.</th>
<th>Summary</th>
<th>Subcommittee Recommendation</th>
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<tbody>
<tr>
<td>1</td>
<td>Repeals HB2826, consolidated elections dates; political subdivision.</td>
<td>Recommend with Amendments</td>
</tr>
<tr>
<td>2</td>
<td>Support regulatory reform.</td>
<td>Recommend for Adoption</td>
</tr>
<tr>
<td>3</td>
<td>Oppose unfunded mandates and preserve local authority.</td>
<td>Recommend for Adoption</td>
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Key to Committee Recommendations

**Recommend for Adoption** – Becomes a part of the Municipal Policy Statement, and will help guide legislative activity in the coming session.

**Recommend with Amendments** - Becomes a part of the Municipal Policy Statement, and will help guide legislative activity in the coming session, but needed amending for either content or technical reasons.

**Significant Municipal Issue** – Although an important concept to cities and towns, does not quite rise to the level of legislative activity. League staff may address the issue with state agencies and/or other stakeholders.

**Not Recommended for Passage** – The resolution may be too confined to one community, be on its face contrary to core principles, or not in line with current agreements with other stakeholders.

**Staff Recommendations** – Resolutions submitted by League staff.
Agenda Item #4  League Annual Survey Results

Summary: The eleventh annual survey of the League was e-mailed to mayors, council members, managers, clerks, attorneys, finance directors, public information officers and intergovernmental coordinators. Staff will present the 2012 League Annual Survey and answer any questions the Executive Committee has concerning the methods and results of the survey.

Responsible Person: Matt Lore, Communication & Education Director

Attachment: Survey Results
General Demographics

Three questions were asked in General Demographics: what the respondents’ role is in the city or town, how many years the respondent had served or worked for the city or town and the population category of the city or town they serve.

The highest numbers of respondents were city and town elected officials (32%) followed by city and town clerks (25%).
The majority of respondents have served in their city or town 5 years or less 47 (42%) with 12 (10%) respondents serving over 20 years in their community.

Respondents from cities and towns in the 10,000 to 100,000 population category had the largest participation 56 (50%) with the smallest number of respondents coming from those serving in cities over 100,000 in population 8 (7%).
Overall Performance

91% of the respondents rated the overall performance of the League as excellent or good. This compares to a 96% excellent or good rating last year, 94% in 2010, a 98% rating in 2009, and a 94% rating in 2008.

Cross Year Comparison of “Excellent/Good” Rating on Overall Performance
Comments on League's overall performance in serving cities and towns

- Please provide a few workshops dedicated to smaller communities. I love the workshops and the information given but it is hard to feel like what we are learning can apply when it is coming from a community/town of over 100,000 citizens.

- Always able to answer my questions or research and direct me to exactly where to find it.

- very good focused and successful

- There should be more emphasis on rural issues.

- The training we get is very good all the information is right on, i have meet a lot of good people at your conferences

- Always professional and helpful

- League staff is always willing to assist.

- Very good

- Good balance between interest of rural and urban cities & towns.

- Would like to see more initiatives that address concerns of small municipalities.

- Good info, great networking opportunity

- Excellent support system.

- Can always get a question to any answers, if they don't know the answer they'll find one. Provide so many services to municipalities that would take a whole division for us to take care of individually. Appreciate the salary surveys, and local government directory- one stop shopping!

- Small cities appreciate the League's assistance at the legislature, and with all of the functions of a city when we have a question.

- Good annual conference. Valuable source of information year around.

- Good and generally realistic
• The League is very responsive to the needs of Arizona communities. We find your legislative activities very helpful. We also value your election assistance and your staff support.

• Tom and the League are very prompt to respond to various questions we have throughout the year.

• Generally an outstanding job, especially in the area of member services. My only wish is that the League would sometimes take a proactive role in the legislative process rather than simply playing defense.

• League presentations and meetings have been helpful in vetting issues that need addressed collectively.

• The League does an amazing job advancing the interests of all municipalities without unnecessarily stepping on the toes of individual cities and towns.

• Excellent

• Staff is always helpful - if they don't already know the answer they will find it for you. Lots of good resources.

• Fantastic! Always there with the help I need.

• I would like to see the city and town clerks work closely together on common 2014 election issues through the League with our County and State election officials regarding the consolidation of elections.

• Excellent interaction and communication!!

• The past few years I have the impression that the League tended to expend more efforts on the big cities

• I have held public office in one form or another for almost 20 years. I have seen the League's effectiveness go up and down. I think the League has become more effective in the last few years, but I think the height of its effectiveness was during the Debolski era.

• The updates and heads up on issues and solutions is very much appreciated.

• Joni Hoffman is very helpful-I call on here regularly
- Couldn't ask for better support and communication.
- Do a great job!
- I think the League does a very good job of representing the cities and towns in Arizona.
- League staff is always willing to assist our City in any of our needs.
- Looks out for small Cities like ours interests.
- Your emails are always informative.
- The League is always available to jump in and help cities and towns
Legislative Program

90% of the respondents rated the Legislative Program as excellent or good. This compares to a 93% excellent or good rating last year, a 95% rating in 2010, a 94% excellent or good rating in 2009, and a 91% excellent or good rating in 2008.
Comments on Legislative Program

- Better than I would expect for this state
- Consider the needs of small cities.
- Well represented rural as well as urban
- League should get more involvement during the legislative session from members.
- You’re dealing with a difficult state legislature.
- The weekly calls and calls to action were a major improvement. Meetings between legislative leaders and Mayors will pay dividends in building bridges of trust.
- This must be difficult because large and small municipalities may have differing ideals. I must say that I have not always agreed with some issues League champions and vice versa. Very helpful with election issues and I have always agreed with the League’s support on election issues.
- We are well informed and the League in my opinion does what is best for all Cities not just a few
- You excel in helping us with legislative issues that affect our community.
- Need to get tougher with the legislature. When we play nice, they win.
- Not always fiscally realistic - there is no such thing a "free money" sometimes making towns wake up to the fact that what we try to do for them is with money taken from taxpayers.
- The league has historically provided election recommendations and direction to the clerk’s for consistency across the state. I am disappointed that was not the case at Elections training this year (of all years) given the new election consolidation law mandating the change in council terms and election dates effective in 2014. Candidates picking up packets November 1st to run in our 2013 Spring election are not going to know how long of a term they are running for!
- The resolutions process is great.
- The League is the voice of reason in the hurricane that is the Arizona Legislature.
- Tom and Ken doing call outs to the munis are great-keeping us well-informed.
• The call to action is extremely effective and serves rural Arizona cities and towns with one voice on issues that concern us. If cultivated and highly supportive by the league I believe our legislatures would hear us loud and clear. Thank You all for what you do, knowing it's not easy, makes this Mayor appreciate the League efforts.

• Good, reliable and timely information.

• I live for the reports.

• Clerks are involved more than with just elections; there needs to be an eye on other legislation that would affect the clerks' operation.

• Priceless

• Could be just a bit more convincing at the legislature - really get the messages out from the cities & towns.

• While the lobbying efforts have been criticized by some, those critics fail to realize the harsh realities of the legislative and fiscal environment we find ourselves in. With that in mind I think the League's efforts have been pretty good as of late.

• Appreciate the conference calls. Willcox would also use any web conferences that might be available. It's hard to hear on the meetings where we can listen in on the phone. It doesn't focus on the speaker, can't hear questions.

• Outstanding job of looking out for any issues that could impact our municipalities. Very professional and proactive!

• I think the League has done much to streamline the process for its members, and has done a good job of keeping everyone posted through the weekly conference calls, e-mails and summary documents. Please continue to provide this information in easy-to-understand terms.
Conference and Training

94% rated the Conference and Training Program as excellent or good. This compares to a 97% excellent or good rating last year, a 91% excellent or good rating in 2010, a 97% excellent or good rating in 2009, and a 98% rating of excellent or good in 2008.

Cross Year Comparison of “Excellent/Good” Rating on Conference and Training Program

Percent of Respondents that Rated the League's Conference and Training Program "Excellent/Good"
Comments on Conferences and Trainings

- I have not attended but several council members have and were very pleased especially newly elected official training.
- I find the annual conference rather boring.
- Would be beneficial to me as a clerk if I could attend the newly elected official training just once to see if my in-house training coincides with the League's.
- Very well done.
- The League consistently brings the best and most accomplished practitioners forward to present at its programs.
- Timely and well planned.
- Always first class!
- It would be beneficial to coordinate training opportunities between the various organizations that may be beneficial to more than one group and that are supported by the League.
- Only one comment, need to focus more on new election laws and less on campaign finance at Elections Training.
- Annual Conference needs to be re-worked. The same topics are offered every year.
- Appreciated.
- The League Conference is very well put-together. I haven't participated too much in training so am not able to rate that.
Technical Assistance

91% of the respondents rated the Technical Assistance Program as excellent or good. This compares with 93% rating of excellent or good last year, a 90% excellent or good rating in 2010, a 92% excellent or good rating in 2009, and a 97% excellent or good rating in 2008.
Comments on the Technical Assistance Program

- I know that I can count on the league to help us with any municipal governmental problem or give us direction.

- I’m not sure how much I really use this aspect of your services.

- Excellent.

- Can always find an answer to my questions, or refer me to someone who can help.

- I haven’t used this resource very much.

- I've saved hundreds of hours of research by consulting the League's library of publications.

- When I need something, the first place I call is the League.

- Always get an answer, even on short notice!

- Questions are answered promptly.

- Especially phone and e-mail assistance, the League staff always goes well above the call of duty to provide assistance to members and it is appreciated.
Communication and Outreach

91% of the respondents rated the Communication and Outreach Program as excellent or good. This compares to a 92% excellent or good rating last year, a 91% excellent or good rating in 2010, a 90% excellent or good rating in 2009, and a 96% excellent or good rating in 2008.

Cross Year Comparison of “Excellent/Good” Rating on Communication and Outreach Program

Percent of Respondents that Rated the League's Communication and Outreach Program "Excellent/Good"
Comments on Communication and Outreach Program

- E-mails are greatly appreciated. Although I do not communicate much they are read and found very helpful.

- Communication can always be done "better".

- You can never be too rich or too thin or over communicate.

- Arizona City and Town Magazine could be eliminated all information posted on website. I know it is a nice touch, but could save $ by electronic copy only.

- The League’s publications are always interesting and on point.

- I use the League website daily.

- Very informative, great resource material.

- The local spotlight is great.

- The League does a good job of communicating with everyone, especially through e-mails and e-newsletters.
League Services

Respondents were asked to rank the five most valuable services the League provides to our members. Below is a chart with each of our services in order of respondent rank.
Cross Year Comparison of Most Valuable Services League Provides To Members

Services that are most valuable to our members
(Respondents were asked to make 5 choices)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Legislative Lobbying</td>
<td>Legislative Lobbying</td>
<td>Legislative Lobbying</td>
<td>Legislative Lobbying</td>
<td>Training Seminars</td>
</tr>
<tr>
<td>2</td>
<td>Legislative Bulletin</td>
<td>Legislative Bulletin</td>
<td>Legislative Bulletin</td>
<td>Training Seminars</td>
<td>Legislative Lobbying</td>
</tr>
<tr>
<td>3</td>
<td>Annual Conference</td>
<td>Annual Conference</td>
<td>Annual Conference</td>
<td>Legislative Bulletin</td>
<td>Legislative Bulletin</td>
</tr>
<tr>
<td>4</td>
<td>Budget and Finance Information</td>
<td>Budget and Finance Information</td>
<td>Newly Elected Officials Training</td>
<td>Annual Conference/Model City Tax Code Admin</td>
<td>Budget and Finance Information</td>
</tr>
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</table>

Awareness of League Services

Were you aware of the various programs and services the League provides to cities and towns?

- Yes: 80.7% (62)
- No: 19.3% (22)
Additional Comments on different services the League provides to cities and towns

- I wasn’t aware till i started going to the seminars.
- I am now - I hadn't known about the Executive Recruitment option until we had to hire for a major administrator position.
- Not all.
- For the most part I knew what the League provided; however, the Clerk's Office does not utilize all the services - they would be spread out and utilized city wide.
- I think I'm aware of them but a reminder is always important, especially as staff turns over.
- More information would be good.
- I was not aware of everything listed above.

General Questions

How can the League improve our overall service to your city or town?

- I would like to see (in my opinion) for rural communities to make it mandatory for newly elected council members to receive training in meeting procedures, open meeting laws, etc.
- Push Reform for the PSRS to bring down costs.
- Come down to our city once in a while so you can see what. Nogales is like and tell us what we can do to better to be more active with the league.
- Just continue to monitor and lobby in the interest of Southern AZ.
- You are doing a great job!!!
- Initially let municipalities know which legislative bills you plan to champion.
- Be stronger in defending against legislative abuse of cities and towns.
• Keep up the good work.

• Continue Monday morning conference call with mayors regarding legislative issues.

• General training and updating for all city & town personnel on what's happening - i.e. how is prop 207 impacting cities and towns, etc.

• Continue to represent all the cities and towns in Arizona, and continue to keep staff and elected officials apprised of all things that are happening on the legislative and executive levels.

• None that I can think of.

**What additional services would you like the League to offer?**

• Workshops dedicated to the smaller communities and how we all work differently.

• More Legislative leader / city & Town elected official coordination.

• None

• More staff training i.e., discrimination, working w/elected officials

• Updates on any changes to elections rules

• How about... at the next league conference a seminar for rural cities and towns on how best to be engaged with one another?

• It might be helpful to review the new council orientation with the clerks so that if there are issues or areas that are of concern that the League may incorporate that somehow into the educational materials provided to the newly elected.

• Smaller training sessions throughout the state - some local

**END OF SURVEY**
Agenda Item #5  League Transparency

Summary: Overview of the League’s current policies and practices regarding Executive Committee meetings and records. Discussion of whether current policies are serving the needs of our members, and if any changes to those policies are necessary.

Responsible Person: Vice President Mark Mitchell

Attachments: Letter from Scottsdale Mayor Lane
Presentation of current League practices
Recommended motion for adoption
October 3, 2012

Honorable Doug Von Gausig
President of the League of Arizona Cities and Towns
1820 West Washington
Phoenix, Arizona 85007

Re: Executive Committee Agenda Request; Adoption of Open Meetings Provisions

Dear Mayor Von Gausig:

I am writing to you today to request that an important item be added to the next League of Arizona Cities and Towns Executive Committee agenda.

I am requesting that the Executive Committee discuss and take action to amend the League of Arizona Cities and Towns Constitution in order to adopt a provision requiring that Executive Committee meetings (and any subsequent subcommittee meetings) be conducted in a manner consistent with Arizona’s open meetings and records laws. I would also like the agenda item to include a discussion of other League functions where open meeting provisions would be appropriate.

Because the Executive Committee consists of elected officials, who are charged with making official policy decisions that may affect the residents of all 91 cities and towns, I believe it is vitally important to ensure the public that the League of Arizona Cities and Towns conducts its business in a transparent and open manner. Dues paid to the League each year are funds derived from taxpayers within our communities – and we owe it to them to enact strict measures of transparency to ensure that their tax dollars are being spent wisely, openly and efficiently.

Thank you for your consideration of this request. Please do not hesitate to contact me if you have any questions or would like to discuss this issue in more detail.

Sincerely,

W.J. “Jim” Lane
Mayor

Cc: Ken Strobeck, Executive Director
   Executive Committee Members
2013 Municipal Policy Statement

The League’s 2013 Municipal Policy Statement, comprised of the legislative policy positions and action items collaboratively chosen by Arizona’s 91 cities and towns, is now available. The 2013 Municipal Policy Statement was ratified at the Annual Business Meeting on August 30, 2012, at the League Annual Conference. A hard copy of the statement will be sent to all municipalities. You can view a PDF of the document here.

2012 Cities & Towns Week

The League’s 11th annual Cities & Towns Week will be October 22-26, 2012. This week is set aside each year to recognize the services that cities and towns provide, as well as to honor those who serve at all levels of municipal government. If your city or town is interested in participating, there are materials included below to assist you in organizing an event and promoting it to the media.

Download a list of suggested events.
Download a sample Cities & Towns Week resolution.
Download a sample press release.
Executive Committee Meetings, Agendas and Minutes
Executive Committee Meetings, Agendas and Minutes

Meeting Dates:
The next meeting of the Executive Committee will be held on November 9, 2012 at 10:00 am. Meetings of the Executive Committee are held at the League office, 1820 West Washington Street, Phoenix, AZ 85007.

Browse [Agendas and Minutes from past Executive Committee meetings](#).
Executive Committee Agendas and Minutes
Meeting Notices, Agendas and Minutes
Executive Committee Agendas and Minutes
Posted Meeting Notices
The League’s 2013 Municipal Policy Statement, comprised of the legislative policy positions and action items collaboratively chosen by Arizona’s 51 cities and towns, is now available. The 2013 Municipal Policy Statement was ratified at the Annual Business Meeting on August 30, 2012, at the League Annual Conference. A hard copy of the statement will be sent to all municipalities. You can view a PDF of the document here.
Staff-recommended motion for Executive Committee adoption

The League Executive Committee has always operated in an open and transparent way. In order to memorialize that existing policy, the following principles are recommended for formal adoption:

- All meetings of the Executive Committee and its subcommittees will be noticed at least 24 hours in advance.
- The meeting notices will include an agenda of the action scheduled to be considered.
- These meetings will be open to the public except when considering items subject to executive session.
- Minutes of the Executive Committee meetings and its subcommittee meetings will be posted on the League's website after each meeting.
- Materials presented to the Executive Committee or its subcommittees will be posted on the League website and are available to the public upon request.
The League Executive Committee has always operated in an open and transparent way. In order to memorialize that existing policy, the following principles are recommended for formal adoption:

- All meetings of the Executive Committee and its subcommittees will be noticed at least 24 hours in advance.
- The meeting notices will include an agenda of the action scheduled to be considered.
- These meetings will be open to the public except when considering items subject to executive session.
- Minutes of the Executive Committee meetings and its subcommittee meetings will be posted on the League's website after each meeting.
- Materials presented to the Executive Committee or its subcommittees will be posted on the League website and are available to the public upon request.
Agenda Item #6  Report of League Communications Subcommittee

Summary:  Update on latest activities of the League Communications Subcommittee.

Responsible Person:  Mayor John Salem, Subcommittee Chairman  
Matt Lore, Communication & Education Director

Attachments:  None
Agenda Item #7  Recap of 2012 Annual Conference; Future Conference Locations

Summary:  Staff will give a brief overview of the 2012 Annual Conference Survey and Financial Report. In addition, staff will discuss next year's event in Oro Valley.

Responsible Person:  Matt Lore, Communication & Education Director

Attachments:  Attendance Report
              Financial Report
              Survey results
2012 LEAGUE ANNUAL CONFERENCE
ATTENDANCE REPORT

Date: August 28-31, 2012

Location: Hyatt Regency At Gainey Ranch
Scottsdale, Arizona

1059 persons attended the conference. 85 of the 91 cities and towns (93%) were represented at the event. The following is a summary of those who attended.

<table>
<thead>
<tr>
<th>Position</th>
<th>Total Registrants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayors</td>
<td>70</td>
</tr>
<tr>
<td>Vice Mayors</td>
<td>42</td>
</tr>
<tr>
<td>Councilmembers</td>
<td>229</td>
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<tr>
<td>Manager/Assistant Manager</td>
<td>61</td>
</tr>
<tr>
<td>Clerk/Deputy Clerk</td>
<td>18</td>
</tr>
<tr>
<td>Attorney/Assistant Attorney</td>
<td>10</td>
</tr>
<tr>
<td>Magistrate/Assistant Magistrate</td>
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<tr>
<td>Police Chief/Public Safety Director</td>
<td>0</td>
</tr>
<tr>
<td>Finance Director</td>
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<tr>
<td>Fire Chief</td>
<td>1</td>
</tr>
<tr>
<td>Parks &amp; Recreation Director</td>
<td>0</td>
</tr>
<tr>
<td>Librarian</td>
<td>1</td>
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<tr>
<td>Public Works</td>
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<tr>
<td>Intergov</td>
<td>20</td>
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<tr>
<td>Other/City Town</td>
<td>28</td>
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<tr>
<td>Spouse (Includes 93 &quot;Badge Only&quot;; 18 Comps)</td>
<td>161</td>
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<tr>
<td>Complimentary</td>
<td>23</td>
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<tr>
<td>Life Member</td>
<td>8</td>
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<tr>
<td>COG Director</td>
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<tr>
<td>State Department</td>
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<td>State Representatives</td>
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<td>State Senators</td>
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<td>Speakers</td>
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<tr>
<td>Corporate Benefactors</td>
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<tr>
<td>Other</td>
<td>48</td>
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<tr>
<td>Youth (Includes 15 Chaperones)</td>
<td>90</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>1,059</strong></td>
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## 2012 Annual Conference
**Hyatt Gainey Ranch, Scottsdale**

### SPONSORS

<table>
<thead>
<tr>
<th>Level Contribution</th>
<th>Totals</th>
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<tr>
<td>APS Platinum $10,000</td>
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<tr>
<td>Arizona Pipe Trades 469 Platinum $10,000</td>
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<td>Rural/Metro Corporation Platinum $10,000</td>
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<td>smartworksplus, Inc. Gold $8,000</td>
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<tr>
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<tr>
<td>Arizona State University Office of Public Affairs Bronze $2,500</td>
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<td>Arizona Transit Association Bronze $2,500</td>
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<td>Central Arizona Project Bronze $2,500</td>
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<td>Charles Abbott Associates, Inc. Bronze $2,500</td>
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<td>Cox Communications Bronze $2,500</td>
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<td>Curtis, Goodwin, Sullivan, Udall &amp; Schwab, PLC Bronze $2,500</td>
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<tr>
<td>HighGround, Inc. Bronze $2,500</td>
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<tr>
<td>Mountain States Employers Council Bronze $2,500</td>
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<td>W.C. Scoutten Bronze $2,500</td>
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**SPONSORS** $174,000.00

### REGISTRATION FEES

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<td>Member</td>
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<tr>
<td>Non-Member (Early)</td>
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<td>$340</td>
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<td>Non-Member</td>
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<td>Spouse (Name Badge Only)</td>
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<td>Additional General Lunch Tickets Purchased</td>
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<td>Additional Dinner Tickets Purchased</td>
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<tr>
<td>Spouse (Full Program Registration - 44 on Taliesin Tour)</td>
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<tr>
<td>Showcase Booths (includes Cities with extra booth)</td>
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<tr>
<td>Showcase Booths (special pricing)</td>
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<tr>
<td>Showcase Booths (with electricity)</td>
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<tr>
<td>Showcase Booth (add extra table)</td>
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<tr>
<td>Mobile Workshops - Taliesin West (14 reg. 6 No Show)</td>
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<td>$25</td>
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<tr>
<td>Mobile Workshops - Scottsdale Water Campus (18 reg. 9 No Show)</td>
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<td>$25</td>
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<tr>
<td>Mobile Workshops - Scottsdale Water Campus (2 Missed bus refund)</td>
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<td>$25</td>
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<tr>
<td>Mobile Workshops - Taser International (12 reg. 1 No Show)</td>
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<td>$25</td>
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<tr>
<td>Youth Program</td>
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**Total Revenue** $386,005.00
# Expenditures

## Banquet / Hotel Charges
- Hyatt Gainey Ranch Hotel Deposit (May 2010) $5,000.00
- Food & Beverage $147,713.04
- Engineering $980.56
- Audio Visual $14,276.35
- Refunds -12,633.97 $155,335.98

## Gol
- Golf Course $7,379.72
- Best Buy (prizes - $50 for 1st place foursome; $25 for 2nd place foursome; 3 individual $25 prizes) $375.00 $7,754.72

## Spouse Program
- Talieson West (53) $1,378.00

## Showcase
- CSI etc. $1,449.86

## Transportation
- U-Haul van (one way + fuel) $111.66
- Corporate Transportation 'N Tours (bus for Water Campus Tour 8/29) $288.75
- Corporate Transportation 'N Tours (bus for Talieson Tour 8/30) $336.00
- Corporate Transportation 'N Tours (bus for Taser Int'l Tour 8/30) $288.75 $1,025.16

## Speaker Fees/Expenses, Entertainment
- ClearComm Consulting (Cary Pfeffer) $1,000.00
- Lowell Catlett $11,250.00
- Governor's video $5,029.00
- Guitar & Sax duo (Tuesday reception entertainment) $795.00
- The Groove Merchants (Thursday dinner entertainment) $5,000.00 $23,074.00

## Awards
- Award Mart - Service Award & Life Member plaques (19 plaques) $1,036.07
- Marco (wood frames) - 12 year Service Award (10) 10 @ 11.49 $114.90
- MTM Recognition - 8 year Service Award covers (33) 33 @ 10.00 $330.00
- Fusion Frames - Legislative Hero (28) & Sponsor Awards (38) 66 @ 16.47 $1,087.02
- Walgreens - photo printing for Legislators, Governor & Sponsors $45.13 $2,613.12

## Printing / Banners, Posters, Brochures, Flyers, etc.
- ImageWest (badges) $218.84
- ImageWest (golf sponsor sign) $52.42
- Panorami Press (program - 1,100) $1,659.17
- Marco (800 printed canvas bags) $4,771.36
- PLI (1000 custom printed hotel key cards) $1,150.00
- CSI - 2 roll up banners w/graphics (sponsor banners) 2 @ 85.50 $166.90
- CSI - 14 x14' banner (Sponsor banner) $581.47
- Alphagraphics (Annual Business Meeting materials) $99.18
- Black copy charges - resolutions, attendee list for bags, etc. 41,594 @ .06 $2,496.64
- Color copy charges 2,218 @ .12 $266.16
- Postage $686.51
- Marco (ribbons) $164.50
- Marco (black wallet badge holders) 964 @ 1.25 $1,205.00
- Marco (clear plastic badge holders) 161 @ .35 $56.35 $13,593.50

## Miscellaneous
- Cvent registration fees (2.65 per registrant/per event) - Regular Registration 964 @ 2.65 $2,554.60
- Cvent registration fees (2.65 per registrant/per event) - Golf 52 @ 2.65 $137.80
- Cvent registration fees (2.65 per registrant/per event) - Tours 29 @ 2.65 $76.85
- Cvent registration fees (2.65 per registrant/per event) - Parade & Festival 75 @ 2.65 $198.75
- Planning Committee Meeting (Duck & Decanter) $209.89
- Nominating Committee chairman meeting $19.35
- Mobile App $457.21
- Youth Program supplies & prizes $78.68
- Resolutions Subcommittee (Duck & Decanter) $447.67
- Miscellaneous supplies, tips $554.66
- Miscellaneous meals $253.95
- Aaron Hoskins Photography $1,428.05
- League 75th anniversary pins for bags & handout 1000 @ 1.44 $1,440.00
- League 75th anniversary memo pads for bags 800 @ 1.42 $1,136.00
- Boy Scouts donation for stuffing canvas bags $900.00 $9,893.46

**Total Expenses** $216,117.80

**Excess Revenue Over Expenditures** $169,887.20
Survey Results for Conference Sessions

### Opening General Session

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### Arizona Sustainability Update: Solar, Policy and Green Building Codes

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### Water and Wastewater Treatment: Two Successful Projects in Kingman and Scottsdale

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### State Agency Update - ASRS/PSPRS/EORP: Arizona's Pension System for Cities and Towns

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<tr>
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Mexico - Arizona’s #1 Trading Partner: Creating a Diverse Economy Through Improved Economic and Trade Relations with Mexico

Flinn-Brown Civic Leadership Academy: Focusing on Leadership in Arizona’s Future

Community Plan - Launching an Unprecedented Resource for Public Officials

State Agency Update: Working Effectively with the State and Liquor Board
Supreme Court Decision *City of Tucson v. State of Arizona*: What it Means for Arizona Cities and Towns

- Poor: 0 (0%)
- 2: 10 (32%)
- 3: 14 (45%)
- 4: 2 (7%)
- Excellent: 6 (16%)

O’Connor House Voter Participation Project

- Poor: 2 (7%)
- 2: 10 (33%)
- 3: 10 (33%)
- 4: 5 (17%)
- Excellent: 3 (10%)

Water Planning: Preparing for the Next 75 Years

- Poor: 4 (10%)
- 2: 5 (13%)
- 3: 9 (23%)
- 4: 5 (13%)
- Excellent: 16 (41%)

Website Design: Civic Engagement in a Digital World

- Poor: 0 (0%)
- 2: 6 (22%)
- 3: 5 (19%)
- 4: 7 (26%)
- Excellent: 9 (33%)
Councils Going Paperless: The Pros and Cons of Electronic Agendas

Arizona - A Hot Place for Cool People: Rethinking Your Community's Role in Economic Development

The Impact of Costly Claims: Improving Your City or Town's Overall Financial Perspective By Avoiding and Better Managing Claims and Lawsuits

League 2012 Legislative Report and Look Ahead to 2013 Legislative Session
Comments and suggestions on general session and concurrent workshops

- Spend less time on speaker bios. If they aren't qualified, they shouldn't be there.

- More useful content, less infomercial for the speaker's company, agency, or job.

- As is often the case, many of the sessions I wanted to attend were held at the same time. I would like to see the information provided ahead of time to review and then allow more time for question and answers. I think more is learned from Q&A time as the questions seem to be more relevant and not so academic.

- Though I loved hearing Dr. Catlett speak again. I would love the opportunity to have a Q&A with him. The speakers and events prior to his talk were too long, in my opinion.

- During the Q/A portion of the Effective Relationship Session it became clear that a session is needed on how to work with legal counsel and getting legal opinions.

- Most of the economic development examples did not seem to apply to rural towns that do not have the sales tax base, ownership of existing structures, or other resources necessary to create incubator zones or partnerships with developers. Also, I think your survey should have a "did not attend" choice as an answer. Really proud of the League and the impact you are having. Loved the keynote speaker. Thought Friday's sessions were better than any other I attended. Didn't think some of the panelists were qualified to add much to the discussion. Don't think you should put mayors on panels just to do
so. They should really have something to add. Otherwise they just take up precious time that those with something to impart could be using.

- The in the opening session was funny if you could sift through his ridiculously liberal bias. Unfortunately, due to the state the country is in that’s really hard to do. The opening general session has become too long. The program should get to the keynote speaker faster.

- I would suggest a breakout session on Parliamentary Procedure for future annual conferences.

- The hotel was continuously hot in all the lobbies and open spaces.

- Parking was terrible. I do not recommend using this facility for future meetings.

- Everything seemed cramped in the open spaces.

- The conference subjects were very good.

- Sorry for the negative comments but that was what I experienced.

- We would have liked to see the Closing session on ED sooner to allow discussion amongst all. Most discussions centered round large communities. Very little was applicable to small communities.

- Good job, Matt. I especially liked that the resolutions committee adopted firmer positions than last year.

- It was a great conference!

- The conference was great and very educational, the hotel is a beautiful, very adequate and accommodating with all the meeting room close by. The opening speaker charisma and humor was very helpful along with is pointer on the economy. The League with its programs and the conference does a great job in providing us elected officials and others the necessary tools for us to best serve out communities. Thank you and keep up the great work.

- I thought the conference in general was excellent. I felt some of the sessions were a little weak in the how and a little heavy in the pontificating, but as a professional presenter I am picky. The overall value of the conference from the networking and discussion point of view was excellent and I applaud the organization and general conduct. Some of my comments might be different if I were from a larger town and/or had more political experience.

- Thank you for the conference

- Good caliber speakers, please keep it up!

- The subject for the closing session with the panel was quite good. It was obvious that the topic was important because more people than in the past stayed for the session. This type of format was quite good.
• Be sure moderators make everyone use microphones when asking questions. Educate presenters to look at audience when speaking and not at each other. Most often good information and in some cases poorly presented.

• Economist and Pundits Panel were great as always. Room for pundit’s panel needs to be larger and that session should be scheduled later in the day so more people will attend.

• Some of the descriptions of the workshops were misleading. There were a couple of workshops that I was very disappointed in because of that point. Second, there were some great topics and sessions to choose from. Would it be possible to offer some of the workshops on two different days, especially if they are hot topic items?

• I found the Economic Development session was the most beneficial although having it on the last day made it rough.

• Something on understanding public safety management. I think Council Members, especially new Council members, get lobbied and strong armed by public safety unions for better benefits and pay. The impact of these decisions can prove costly in tough economic times.

• Economic development financing...what's working and what's not.

• #'s 12 & 17 ran at the same time = one should follow the other so they can both be attended AND in a bigger room.

• This questionnaire should have classes listed in the same order they were presented - I hope I got my answers right. 1. I liked the length of the sessions. This gave the presenters adequate time to develop their topic. 2. I appreciated that there was a good amount of time in-between sessions to allow for networking.

• Luncheon Program was great!

• The seminar on Water & Wastewater treatment turned out to be the most effective of the ones I attended. I felt I learned so much about the entire system just from this one seminar. Other seminars were not very effective. Econ Devel (Hot Spot) spent half the session on bios of the panel. Not much real info offered if you wanted tips on how to better your econ devel effort. The Trade with Mexico was disappointing. I went there to understand better ways to trade, not how to stop Florida from selling their tomatoes so we could favor Mexico. Wrong approach asking for Mexico favorable status over one of our own states. I didn't appreciate the "joke" about the tomatoes. It was more of an insult disguised as a joke. A gentleman had a question about the current drug violence being a true factor in destabilizing trade and he was not answered at all and that was an important factor they should have covered. All in all, a good conference but seminars should be more informative with real-world solutions.

• Not the worse conference I've attended, but close. The workshops were not up to par and the quality of information presented seemed not to be as worthwhile this year. We appreciate the conference as it gives us an opportunity to mingle with other officials, but this year was more about that instead of gaining valuable information from the sessions. The opening and closing sessions were by far the best part of the conference this year.
• A better Wi-Fi connection and more variety in workshops, they seem to repeat every year, also, similar workshops were scheduled at the same time and would have been better to have the on opposite times. Overall nice conference.

• Best annual meeting I have attended the last five years...great speakers and content.

• Need six selection DID NOT ATTEND the ones I left blank I did not attend.

• The small cities and towns need more attention regarding their roles, funding projects, better recognized by MAG and League. How does a small city or town compete with larger cities?

• Some of the workshops - left more questions than answers.

• Overcrowded workshops....boring.

• It was very nice to have the opportunity to attend the Greater Arizona Mayors Association meeting while at the league, as it was very convenient and productive. Thank you!

• The space for some sessions was too small. Having a breakfast drink other than coffee (which I don't drink) would be warranted and good. The festival space was too small, the isles in particular not wide enough.

• The guest speaker for the Opening Session was fantastic!

• I think a good workshop for next year would include a presentation from Ian Bingham of the Arizona Department of Environmental Quality regarding the Small Communities Compliance Assistance program.

• Another terrific and valuable conference! Thank you very much to Matt and the entire league team for creating this tremendous resource for all attendees. Looking forward to 2013 Conference!

• Once more wish I could have attended more of the sessions scheduled at the same times.

• Venue was very good, possibly a little small.

• Political pundits only talked about Maricopa County. There is more to the State than Phoenix and its outlying cities.

• The workshops were all good but that depended on your overall experience with the issue. I found that most were aimed at basic understanding rather than providing more thorough understanding and information. The opening session was good and the main speaker was entertaining and enjoyable but, again, little in the way of new information was included in his program.

• Showcase of Cities and Towns exhibit hall area needs to be larger to accommodate larger crowds.

• Concurrent workshops are becoming sales pitches for programs, products and vendors.
• In speaking with a great many first timers like me, the general consensus was that we received a plethora of new information we could take back to our organizations to discuss. Great conference!

• It seems that we hear the same thing year after year and nothing really changes. We need to hear something new!!!!

• Opening session speaker was amazing once again - much better than the economist from last year!!

• Workshop rooms were very crowded on the first day - not enough water in the lobby area.

• Session 22 would have been much improved by more than a single presenter. In particular it would have been good to have had a participant from a city or town who was working to implement some of these capabilities.

• First of all, thanks for all your hard work in providing a good conference. A couple of comments: A. The online retail sales tax hardly addressed online retail sales at all. In fact, it took nearly 45 minutes before the words were even mentioned. However, there were many other good points addressed! B. Perhaps a survey of each municipalities top 3 challenges/project for the year could be comprised and then create sessions that surround the recurring top themes being dealt with. Some suggestions based on some recurring conversations I had with other council persons could be; 1) How, When, and Why to Charter as a City. Could be a strong session in light of Tucson’s recent ruling and the attendance of this year’s session on its impact. 2) Grants: how to find and secure them (and grant writers). 3) Everyone has a place in Econ Dev. How to find yours. 4) District Distinctive: Maintaining Unity as a Council without Uniformity. 5) SWOT Analysis: A good process for determining what to do next. (Many municipalities (particularly the smaller ones) do not know what project to do next or how to agree on what to do. A SWOT Analysis strategy could help list several opportunities for deciding what to do and how to proceed together. 6) Several Helpful Steps for overcoming obstacles to effective Economic Dev. 7) Technology Opportunities: municipalities working smarter not harder. 8) Cloud Computing, Social Media, and mobile devices, oh my! Again, just a few thoughts from many conversations. Thanks again for all you do!

• All of them were far too long. Concurrent workshops could have been scaled down to 45 minutes at most and been more effective at keeping attention. The General Session was likewise too long and could have easily excluded some of the "politic-ing"

• My only disappointment was the workshop on water. While they talked about the millions of $ spent on studies, no one talked about where the water supply will come from some years down the road. The money has been used to identify the problem, but no solutions were offered.
Survey of the extra activities (golf, festival, spouse program)

- **Golf at the Gainey Ranch Club**
  - Excellent: 6 (46%)
  - Very Good: 4 (31%)
  - Good: 2 (15%)
  - Poor: 0 (0%)

- **Showcase of Cities and Towns**
  - Outstanding: 52 (48%)
  - Excellent: 35 (32%)
  - Very Good: 17 (16%)
  - Poor: 0 (0%)

- **Mobile Tour - Scottsdale's Water Camps**
  - Excellent: 3 (38%)
  - Very Good: 2 (25%)
  - Good: 2 (25%)
  - Poor: 1 (13%)

- **Spouse/Guest Mobile Tour - Taliesin West**
  - Excellent: 8 (53%)
  - Very Good: 3 (20%)
  - Good: 2 (13%)
  - Poor: 0 (0%)
Comments and suggestions on extra activities

- Did not participate. Thought swag at Showcase was down in quality from years past.

- Driver didn’t know where the Taliesin West as and ended up in a adult living parking low and a woman in the bust had to direct driver where to go. Time management for tour was bad and we got to the luncheon late. Just too hot for the tour.

- The Festival of Cities was very crowded. More space is needed to accommodate the number of attendees.

- The golf game was good and fun. It would be nice if at the special holes in the game a vendor or city was there to be recognized by the players.

- TOO-HOT!

- Festival although was a lot of fun, was crammed into a very small space. Especially the isles.

- Showcase was noisy and crowded, a virtual madhouse. I couldn’t get out of there fast enough.
Survey results on the receptions, lunch and dinners, including food and service

**Tuesday Welcome Reception**

- Poor: 0 (0%)
- 2: 0 (0%)
- 3: 17 (20%)
- 4: 35 (40%)
- Excellent: 35 (40%)

**Thursday General Luncheon**

- Poor: 1 (1%)
- 2: 5 (5%)
- 3: 21 (19%)
- 4: 51 (46%)
- Excellent: 34 (30%)

**Thursday Evening and Entertainment**

- Poor: 2 (2%)
- 2: 4 (4%)
- 3: 19 (21%)
- 4: 32 (36%)
- Excellent: 33 (37%)
Comments on the receptions, lunch and dinners, including food and service

- Food was very good

- Dinner was too loud

- The food is always excellent and beautifully prepared. I'd like to see some music that was quieter maybe a little more 40's to 60's. It was so loud I left and went to my room.

- Food was good, hotel was great. Existed on the continental breakfast made available. Great networking opportunities. Glad that you recognize the importance of networking.

- No Water station on Thursday

- Music too loud. Food appeared to be lunch leftovers (chicken and desert)

- Good bands this year

- food service excellent

- good job

- great food for chicken!

- Service was very good. I would have appreciated something other than chicken with the steak at the dinner since we had that for lunch. Also, in the future, a lighter lunch would be good.

- The bands were a bit loud...hard to converse with fellow attendees.

- Thursday's music was WAYYYYYY toooo loud, we left just after the music started.

- Very good over all.

- Service was great, food was good. It's not necessary to serve dessert with every meal. Missed having a featured speaker at the Luncheon. THANK YOU for the awesome coffee bar in the morning.

- Everything was excellent.

- The band did not seem to be a fit on Thursday night.

- Please tone the music down...too loud.

- Food was great.... Awards thing too long and "WHY" are public employees getting awards by the league now.... it is time to stop giving everybody an award for breathing.
• More water stations. Other drinks in the morning besides coffee and tea. Less sugary items, fruit would be nice.

• It would have been nice to be able to reserve at least one table per city to ensure that you could sit at these functions together. Too much of a "free for all."

• Don't need the entertainment

• Food and service was above average.

• The sweet bready offerings in the morning kinda cracked me out until lunchtime. Less sugar in the morning might be nice. Not that I wouldn't do it all over again.

• One of the best bands I have ever heard at a league conference

• Food was good. Especially the welcome reception.

• Odd to have the same meal (other than the addition of beef) for lunch and dinner. Lacked variety. The General Luncheon Session was good, but it seemed like we were missing a "keynote" speaker ... although I did like the addition of the Gabe Zimmerman awards, and maybe those can replace a Thursday lunch speaker.

• The same chicken entree twice in one day was totally uninspired. Adding a slice of beef to a plate doesn't create a new presentation.

• Couldn't get into the General Lunch... too full.

• Forget the live music; save your money!

• The meals were outstanding-the best in recent times. Thursday banquet seemed like a rerun. Wished I had ordered the vegetarian pasta.

• service very good  food O.K.

• We were essentially served the same meal. This was not well liked by most that I sat with.

• Thursday's lunch was the worse I have ever had.

• Food was great

• Would rather have had a speaker than simply the awards presentation at Thursday's lunch.

• mediocre food

• Great job as always!
• Food generally very good and service excellent. However chicken and similar desserts were served at both lunch and dinner Thursday. Should gave been more variety.

• At the dinner the band was to loud to be able to have conversations given the large tables. Tuesday night was great, the band played in the background and we could talk with people and network.

**Overall satisfaction with resort accommodations**

![Overall Satisfaction with Resort Accommodations](image)

**Comments on the resort accommodations**

• Beautiful accommodations but the parking was awful. I realize there was construction going on but it made finding a place to park extremely difficult.

• Upgraded me to a king size bed which I appreciated immensely. Did not even go outside until Friday morning to take a walk. Staff was very friendly and helpful. Great job.

• I was very disappointed in the hotel. The wallpaper was coming off the walls in my room. I also thought the way the larger conference rooms were divided out for breakout sessions looked very cheap.

• Not in resort accommodations.

• In overflow hotel.
• Could have used instructions on AC, shower, alarm, phone, TV, well, pretty much everything, as I live historically in Jerome. There's no place like home.

• Great helpful staff

• It was a treat to be at this resort. I liked the location of the breakout sessions with a main hall being formed from the large conference room. It was certainly more convenient. The only downside was that there didn't seem to be much room for the vendors. But, I did like the more intimate feeling with everything within easy reach.

• Excellent. Coffee assortment ought to include fruit and yogurt.

• Great.

• they need to plan better and not upgrade while the hotel is 95% occupied

• Excellent and comfortable. Great service from all staff.

• Fantastic choice! Staff was excellent and helpful, grounds were beautiful.

• WIFI and cellular coverage was terrible in the basement. There was no shuttle between the conference resort and the overflow hotel, making it necessary to coordinate private transportation.

• Accommodations were much better than the last three years. I was very satisfied with the location selection.

• Showcase ballroom seemed more "cramped" than in previous years.

• Excellent. Like the closer smaller feel. Food was excellent!

• excellent location

• The resort itself is poorly laid out, accommodations are too far from meeting rooms, traffic flow is confusing.

• We were put up at the 2nd overflow which was approximately 4 miles away and it was very inconvenient to go and come.

• Did not stay in rooms. The meeting areas were excellent and well kept.

• When it is 105 outside, why do you keep the front doors open? What a waste of energy. Too far to walk in the heat to get to my car

• Service was great! Appearance of resort was a little dated but nice.

• The conference ballrooms and session rooms were extremely cold...even the men were complaining!
• Fabulous!

• pool under construction tv problems

• I did get a lot of walking in.

Please let us know what worked well and what we can do to improve the annual conference for next year

• Getting the information to attendees ahead of time would allow the opportunity to have a better Q&A period. Perhaps fewer choices of sessions and some longer sessions to allow more questions.

• I loved the conference. Think though that the presenters on the panels were mediocre in many instances. Maybe that's a reflection on the difficult times with few fresh ideas. I think the times require discussions that might be difficult and uncomfortable, but necessary and useful. I didn't attend the sessions where the league was able to really showcase their legislative effectiveness other than the general sessions. I think more of that is good for the members to realize what an effective job you are doing. Maybe showcase the league staff a little more and get the word out about what they are doing. Don't limit that to the sessions as much. You are doing a great job for Cities and Towns. Shout it out!!

• As mentioned earlier, the opening session really needs to be shortened. There is too much packed into it.

• Try and accommodate everybody inn the conference hotel. This year was only a 5 minute drive but 2011 (Tucson) was a 30 to 45 minute drive.

• Perhaps Doug would pick an environmental, sustainability theme next year? I see no harm in Conference planners leading members' educations.

• I was very happy with the conference. I think the staff did an excellent job. As far as the sessions go they cannot be all things to all people.

• I liked the topics a great deal this year and found them to be very relevant to the times.

• Well done Matt!

• Have enough rooms for all participants to stay at the conference hotel.

• More classes that can help an elected official "learn" and grow should be offered. Ethics and open meeting law classes should NEVER overlap each other.

• Other morning drinks besides coffee

• More factual seminars to increase knowledge and not just showcase. You didn't ask about the sponsors but I appreciate their sponsorship of the event very much and learned a lot just talking to them at their
tables. Also the special invites to the receptions gave me an opportunity to network with the service industries that are present in my town and discuss some issues. Just putting faces to names was good. With the Resolutions Committee, more up-to-date in advance. The numbering on the resolutions was different and more explanation of the groupings should have been sent in advance. Good conference...I will come again. Thank you for all your hard work in putting this together. This is a monumental task and while it can be improved on, your staff did a great job.

- Matt, you and your staff did a great job. A job well done.
- All of YOU staff members did a great job!!!!!!
- This was my first conference and I plan on attending future events.
- The overall quality of the breakout sessions still needs to be improved...fewer but more interesting presentations.
- Build on the I pad App. great start.
- To have more accommodations available.
- Always excellent! You do a great job.
- Larger break out rooms and more parking for vehicles. rooms were too crowded. No place to park unless you paid a lot of money. Other than that it was very good.
- I know this is not the most important.
  A larger facility for the Showcase would make it more enjoyable. Seems a lot more participation from the all the way around during this event.
- The general comments that I received from others was, it seemed like a big advertisement from the vendors. I felt the same way.
- The best thing about all these types of meetings is the people you meet.
- I don't have any suggestions, but I probably won't attend next year, only because the same workshops/presenters are repeated each time - limited "new" topics.
- I think the conference could very well be shortened by a day and the concurrent sessions reduced to new, fresh ideas!!
- The opening session was way too long. If we must have the parade of flags at this time then perhaps fewer speakers would make sense. . . .
- Create an intentional event, the earlier the better, where you mix up the attendees at different tables. Making a game during a lunch or dinner challenges people to mingle and make friends making it and even stronger social event. There will always be a new group of elected officials and any opportunity to connect new faces with old will enhance the quality of relationships overall among municipalities and cultivate a variety of opportunities as a result. The may be able to begin and end with their
"preferred group" but challenging people to get to know others in the middle would be wonderful!

- Shorten the sessions. Also heard the comment that it was the same topics as previous years
- Just my comments about the band at the dinner. Other than that the league did a great job as usual!
Agenda Item #8  2011-2012 Audit Report; Audit Firm Contract

Summary: The report from the League's auditors is presented for your review and approval.

The Property Corporation of Cities and Towns is a separate nonprofit organization which owns and operates the League building. However, rather than prepare a separate audit for the Property Corporation, our auditors have recommended that it be included in the League's financial statement. The audit report you have implements that recommendation.

The League contracts with a private accounting firm to perform the annual audits. The contract length is three years. The contract with CliftonLarsonAllen (formerly LarsonAllen) expires at the end of the 2012 audit. Staff recommends renewing the contract with CliftonLarsonAllen for another three years.

Responsible Person: Ken Strobeck

Attachments: Audit Report for FY ended June 30, 2012
Letter from CliftonLarsonAllen
Audit cost history

Action Requested: Approval of Audit Report
Approval of new 3-year contract
Board of Directors  
League of Arizona Cities and Towns  
Phoenix, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the League of Arizona Cities and Towns (the League) for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated April 25, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the League. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the League’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

1. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

2. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Planned scope and timing of the audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on September 21, 2012.

**Significant audit findings**

**Qualitative aspects of accounting practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the League are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.
We noted no transactions entered into by the League during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period. Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management’s estimate of the useful lives and remaining useful lives of capital assets is based on the League’s previous experience and current condition of capital assets. We evaluated the key factors and assumptions used to develop the useful lives and remaining useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

Management’s estimate of compensated absences is based on employees who have currently vested and those who are expected to vest. We evaluated the key factors and assumptions used to develop compensated absences balance in determining that it is reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

**Difficulties encountered in performing the audit**
We encountered no significant difficulties in dealing with management in performing and completing our audit.

**Corrected and uncorrected misstatements**
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit’s financial statements taken as a whole.

**Disagreements with management**
For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors’ report. We are pleased to report that no such disagreements arose during the course of our audit.

**Management representations**
We have requested certain representations from management that are included in the management representation letter dated October 3, 2012.

**Management consultations with other independent accountants**
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the League’s financial statements or a determination of the type of auditors’ opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.
**Other audit findings or issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the League’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Other information in documents containing audited financial statements**

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management’s responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Our auditors’ opinion, the audited financial statements, and the notes to financial statements should only be used in their entirety. Inclusion of the audited financial statements in a document you prepare, such as an annual report, should be done only with our prior approval and review of the document.

* * * * * *

This information is intended solely for the use of the Board of Directors and management of the League of Arizona Cities and Towns and is not intended to be and should not be used by anyone other than these specified parties.

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Mesa, Arizona
October 3, 2012
# LEAGUE OF ARIZONA CITIES AND TOWNS
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- BASIC FINANCIAL STATEMENTS
  - STATEMENT OF NET ASSETS
  - STATEMENT OF ACTIVITIES
  - BALANCE SHEET – GOVERNMENTAL FUNDS
  - RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
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FINANCIAL SECTION
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INDEPENDENT AUDITORS’ REPORT

Board of Directors
League of Arizona Cities and Towns
Phoenix, Arizona

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the League of Arizona Cities and Towns (the League), as of and for the year ended June 30, 2012, which collectively comprise the League’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the League’s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of the League of Arizona Cities and Towns, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 3, 2012, on our consideration of the League of Arizona Cities and Towns’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.
Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Mesa, Arizona
October 3, 2012
We, the League of Arizona Cities and Towns (the League), are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2012. The intended purpose of the Management Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, and significant economic factors.

FINANCIAL HIGHLIGHTS

♦ While the League is not a governmental agency, it is governed by a board of city and town officials and its membership is made up of all the incorporated communities in Arizona. Therefore, the League reports under Government Accounting Standards based on the composition of the board. The terms are not intended to imply that the League itself is a unit of government.
♦ The assets of the League of Arizona Cities and Towns exceeded its liabilities at the close of the most recent fiscal year by $1,774,040 (net assets). Of this amount $1,473,346 (unrestricted net assets) may be used to meet the League’s ongoing obligations to citizens and creditors.
♦ As of the close of the current fiscal year, the League of Arizona Cities and Towns’ governmental funds reported combined ending fund balances of $1,458,676, an increase of $200,953 in comparison with the prior year.
♦ At the end of the current fiscal year, unassigned fund balance for the General Fund was $1,423,286 or 59 percent of total General Fund expenditures.
♦ General Fund revenues exceeded budgeted revenues by $161,643 for fiscal year 2012. Additionally, expenditures fell below the budget by $3,511 in the General Fund.
♦ General Fund revenues were more than expenditures by $200,953; a positive variance of $165,154 from the budget.
♦ The League includes one separate legal entity in its report - The Property Corporation of Arizona Cities and Towns. Although legally separate, the “component unit” is important because the League is financially accountable. A description of the component unit is available in Note 1 on page 20. Separate Financial Statements are not available for this entity.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the League’s basic financial statements. The League’s financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, this report also includes a Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit Performed in Accordance with Government Auditing Standards.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the League of Arizona Cities and Towns’ finances, in a manner similar to private-sector business.
The statement of net assets presents information on all of the League of Arizona Cities and Towns' assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the League of Arizona Cities and Towns is improving or deteriorating.

The statement of activities presents information showing how the League’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected dues or fees and earned but unused vacation leave).

The governmental activities of the League of Arizona Cities and Towns include general government expenses provided to support Arizona governments. The government-wide financial statements also include the activity of the Property Corporation, reported as an internal service fund and included as a blended component unit.

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund Financial Statements
Also presented are the traditional fund financial statements for governmental funds. The fund financial statements focus on major funds of the League, rather than fund type. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The League of Arizona Cities and Towns, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the League of Arizona Cities and Towns can be divided into two categories: governmental funds and proprietary funds.

**Governmental Funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements. Since the governmental fund financial statements focus on near-term spendable resources, while the governmental activities on the government-wide financial statements have a longer term focus, a reconciliation of the differences between the two is provided with the fund financial statements.

The basic governmental fund financial statements can be found on pages 12 - 16 of this report.

**Proprietary Funds** – The League of Arizona Cities and Towns maintains one type of proprietary fund. The *internal service fund* is an accounting device used to account for the activity of the Property Corporation that owns and operates the League’s office space. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements can be found on pages 17 - 19 of this report.
Notes to Basic Financial Statements

The notes to the basic financial statements (pages 20 - 29) provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements and should be read with the financial statements.

Required Supplementary Information Other Than MD&A

Governments have an option of including the budgetary comparison statements for the General Fund and major special revenue funds as either part of the fund financial statements within the basic financial statements, or as required supplementary information after the footnotes. The League has chosen to present these budgetary statements as part of the basic financial statements.

Government-Wide Financial Analysis

Net Assets

Net assets may serve over time as a useful indicator of a government’s financial position. Table A-1 reflects the condensed Statement of Net Assets of the League at June 30, 2012 showing that assets exceeded liabilities by $1,774,040. The League does not currently have any enterprise funds that would otherwise be classified as business-type activities; all funds are considered governmental activities.

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current and Other Assets</td>
<td>$1,994,272</td>
<td>$1,630,811</td>
<td>22.3%</td>
</tr>
<tr>
<td>Capital Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Depreciable</td>
<td>51,611</td>
<td>51,611</td>
<td>-</td>
</tr>
<tr>
<td>Depreciable (Net)</td>
<td>251,429</td>
<td>248,902</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Assets</td>
<td>2,297,312</td>
<td>1,931,324</td>
<td>19.0</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>451,296</td>
<td>289,024</td>
<td>56.1</td>
</tr>
<tr>
<td>Due Within One Year</td>
<td>71,136</td>
<td>54,753</td>
<td>29.9</td>
</tr>
<tr>
<td>Due in More Than One Year</td>
<td>380</td>
<td>2,346</td>
<td>(64.2)</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>523,272</td>
<td>346,123</td>
<td>51.2</td>
</tr>
<tr>
<td>Invested in Capital Assets, Net</td>
<td>300,694</td>
<td>296,867</td>
<td>1.3</td>
</tr>
<tr>
<td>of Related Debt</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>1,473,346</td>
<td>1,288,334</td>
<td>14.4</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>$1,774,040</td>
<td>$1,585,201</td>
<td>11.9</td>
</tr>
</tbody>
</table>

Net assets consist of two components. The League of Arizona Cities and Towns’ net assets invested in capital assets (e.g., land, buildings, furniture, fixtures and equipment), less any related debt used to acquire those assets that is still outstanding reflects 17% of the League’s total net assets. The League of Arizona Cities and Towns uses these capital assets to provide services to Arizona governments and its members; consequently, these assets are not available for future spending. Net assets invested in capital assets increased as a result of the net effect of current year depreciation expense and current year additions.
The League of Arizona Cities and Towns does not have any restricted net assets, other than those invested in capital assets. The remaining balance, unrestricted net assets ($1,473,346) may be used to meet the League’s ongoing obligations to Arizona governments and its members.

At the end of the current fiscal year, the League of Arizona Cities and Towns is able to report positive balances in both categories of net assets for the League as a whole.

Changes in Net Assets

Governmental Activities. Table A-2 compares the revenue and expenses for the current and previous fiscal year.

The program revenues include charges for services and intergovernmental revenues that are clearly identifiable to an operating function of governmental activities. The League’s revenues are not identified with any operating function and are therefore reported as general revenues.

Table A-2
Changes in Net Assets

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>2012</th>
<th>2011</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Revenues:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliate Group Contributions</td>
<td>130,250</td>
<td>126,000</td>
<td>3.4%</td>
</tr>
<tr>
<td>Annual Conference</td>
<td>418,343</td>
<td>402,374</td>
<td>4.0</td>
</tr>
<tr>
<td>Membership Dues</td>
<td>1,817,053</td>
<td>1,492,530</td>
<td>21.7</td>
</tr>
<tr>
<td>Local Government Directory</td>
<td>1,825</td>
<td>3,850</td>
<td>(52.6)</td>
</tr>
<tr>
<td>Risk Management</td>
<td>131,923</td>
<td>130,050</td>
<td>1.4</td>
</tr>
<tr>
<td>Rental Revenue</td>
<td>20,415</td>
<td>20,918</td>
<td>(2.4)</td>
</tr>
<tr>
<td>Seminars and Meetings</td>
<td>67,371</td>
<td>57,963</td>
<td>16.2</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>64,987</td>
<td>49,276</td>
<td>31.9</td>
</tr>
<tr>
<td>Investment Income</td>
<td>4,200</td>
<td>3,939</td>
<td>6.6</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>2,656,367</td>
<td>2,286,900</td>
<td>16.2</td>
</tr>
<tr>
<td>EXPENSES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and Employee Benefits</td>
<td>1,600,734</td>
<td>1,434,562</td>
<td>11.6</td>
</tr>
<tr>
<td>Annual Conference, Seminars and Travel</td>
<td>362,348</td>
<td>415,021</td>
<td>(12.7)</td>
</tr>
<tr>
<td>Consultant and Professional Services</td>
<td>184,236</td>
<td>150,983</td>
<td>22.0</td>
</tr>
<tr>
<td>Executive Committee and General Counsel</td>
<td>25,574</td>
<td>30,348</td>
<td>(15.7)</td>
</tr>
<tr>
<td>Insurance</td>
<td>12,181</td>
<td>12,435</td>
<td>(2.0)</td>
</tr>
<tr>
<td>Membership Dues and Subscriptions</td>
<td>50,238</td>
<td>48,685</td>
<td>3.2</td>
</tr>
<tr>
<td>Office Supplies, Printing and Rentals</td>
<td>72,797</td>
<td>68,230</td>
<td>6.7</td>
</tr>
<tr>
<td>Postage and Shipping</td>
<td>5,567</td>
<td>6,502</td>
<td>(14.4)</td>
</tr>
<tr>
<td>Rent, Utilities and Communication</td>
<td>68,856</td>
<td>68,731</td>
<td>0.2</td>
</tr>
<tr>
<td>Maintenance Services and Agreements</td>
<td>50,852</td>
<td>55,122</td>
<td>(7.7)</td>
</tr>
<tr>
<td>Interest</td>
<td>455</td>
<td>636</td>
<td>(28.5)</td>
</tr>
<tr>
<td>Depreciation</td>
<td>33,690</td>
<td>34,944</td>
<td>(3.6)</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>2,467,528</td>
<td>2,326,199</td>
<td>6.1</td>
</tr>
<tr>
<td>CHANGE IN NET ASSETS</td>
<td>188,839</td>
<td>(39,299)</td>
<td>(580.5)</td>
</tr>
<tr>
<td>Net Assets - Beginning of Year</td>
<td>1,585,201</td>
<td>1,624,500</td>
<td>(2.4)</td>
</tr>
<tr>
<td>NET ASSETS - END OF YEAR</td>
<td>$1,774,040</td>
<td>$1,585,201</td>
<td>11.9</td>
</tr>
</tbody>
</table>
Revenues increased $369,467. The major factors contributing to this increase included a $15,969 increase in annual conference revenue, $324,523 increase in membership dues, a $9,408 increase in seminars and meetings revenue, and a $15,711 increase in miscellaneous revenues.

The increase in annual conference revenues is attributed to increased number of sponsorships.

The increase in membership dues was due to a base increase to $3,500; a per capita increase of .025 on dues figures calculated using the 2009 DES estimate figures and a 3% increase to the cap amounts. This increase was adopted by the Executive Committee at its February 11, 2011 meeting.

The $9,408 increase in revenues from seminars and meetings was primarily due to increased workshop attendance as well as assisting the Department of Commerce with its annual Governor’s Arizona Rural Development conference by processing its registrations.

The increase in miscellaneous revenue was due to the League entering into a new agreement with Valley Schools Insurance Trust to market a health insurance program to cities and towns. An annual fee of $25,000 is for the League’s sponsorship, marketing and promotion of the program.

Expenses increased $141,329. The major factors contributing to this increase included a $166,172 increase in salaries and employee benefits, a $33,253 increase in consultants and professional services, and a $52,673 decrease in annual conference expenses.

The increase in salaries and employee benefit expenses is attributed to the addition of a full-time General Counsel position and increases to health insurance premiums and ASRS contributions.

The $33,253 increase in expenses related to consultants and professional services was primarily due to retaining legal services for work on issues related to impact fee legislation.

The decrease in annual conference expenses is attributed to the difference in facility costs at the Starr Pass Resort in comparison to the costs of the previous year’s host hotel, the Renaissance Glendale.

FINANCIAL ANALYSIS OF THE LEAGUE’S FUNDS
The focus of the League’s governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the League’s financing requirements. In particular, unassigned fund balance may serve as a useful measure of the League’s net resources available for spending at the end of the fiscal year. The League only reports one governmental fund - the General Fund. The General Fund is the chief operating fund of the League of Arizona Cities and Towns.

As of the end of the current fiscal year, the League’s General Fund reported an ending fund balance of $1,458,676, an increase of $200,953 in comparison with the prior year. As a measure of the General Fund’s liquidity, it may be useful to compare the General Fund fund balance and total fund expenditures. The General Fund unassigned fund balance represents 59 percent of total General Fund expenditures.
During the current fiscal year, the League had an increase of $324,523 in membership dues as a result of an increase in the per capita rate charged to members by 2.5%, plus a base rate increase from $2,250 to $3,500. Membership dues are based on the member’s City/Town population. The League experienced other minor increases in various revenue line items, which were offset by a decrease in seminar costs. Seminar costs decreased in the current year due to a decrease in hotel fees where the seminars were held, as well as a decrease in speaker fees. The League’s annual conference was moved from the Renaissance in Glendale in the prior year to the Star Pass Resort in the current year, resulting in reduced conference fees of approximately $26,000. An additional $20,000 accounted for the cancellation of the public relations contract.

BUDGETARY HIGHLIGHTS
The League’s annual budget is the legally adopted expenditure control document of the League. Budgetary comparison statements are required for the General Fund and all major special revenue funds and may be found on page 16. This statement compares the original adopted budget, the budget if amended throughout the fiscal year, and the actual expenditures prepared on a budgetary basis. The League did not amend its budget during the fiscal year.

General Fund revenues of $2,633,542 exceeded budgeted revenues of $2,471,899 by $161,643 and expenditures of $2,432,589 fell below budgeted expenditures by $3,511.

The increase in revenues was mainly due to increased sponsorships in Annual Conference revenues.

Actual expenses did not exceed budgeted expenditures for FY 12. Annual Conference expenses were nearly $20,000 less than the previous year. This was primarily due to the difference in facility costs at the Starr Pass Resort in comparison to the costs of the previous year’s host hotel, the Renaissance Glendale. Other contributing factors were an increase to the Executive Committee budget for its retreat and additional costs in the Professional Services budget to retain legal services for work on issues related to impact fee legislation. The League did, however, experience savings in other budgeted line item expenditures, including capital outlay, contingency, equipment rental and maintenance, public relations and communications, printing and travel.

CAPITAL ASSET AND DEBT ADMINISTRATION
The League’s capital assets for its governmental activities as of June 30, 2012 amount to $303,040 (net of accumulated depreciation), an increase of less than 1%. For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Governmental fund financial statements record capital asset purchases as expenditures, whereas the proprietary fund financial statements record capital asset purchases as assets. See Note 3.A. in the Notes to the Financial Statements for further information regarding capital assets.

Major capital asset events during the current fiscal year included the following:

♦ The acquisition of computers, printers and software totaling $12,716.
♦ Various building improvements totaling $28,115 which included remodeling the bathrooms, replacing the laminate tile floors, and replacing the building’s backflow valve.
The following table provides a breakdown of the capital assets of the League at June 30, 2012 and 2011.

Table A-3
Capital Assets (Net)

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$51,611</td>
<td>$51,611</td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>218,653</td>
<td>208,166</td>
</tr>
<tr>
<td>Equipment and Furniture</td>
<td>32,776</td>
<td>40,736</td>
</tr>
<tr>
<td>Total Capital Assets</td>
<td>$303,040</td>
<td>$300,513</td>
</tr>
</tbody>
</table>

The League did not have any outstanding bonded indebtedness, and has one lease-purchase agreement for the acquisition of a copier.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES
The 2013 budget was constructed with minimal increases to overall expected revenues and expenses. Spending will continue to be conservative, however there will be an additional focus on Public Relations and Communications.

REQUESTS FOR INFORMATION
This financial report is designed to provide a general overview of the League’s finances for all of those with an interest in the League’s finances and to demonstrate accountability for the use of those funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

League of Arizona Cities and Towns
1820 West Washington Street
Phoenix, AZ 85007

Or visit our website at:

http://www.azleague.org
BASIC FINANCIAL STATEMENTS
### LEAGUE OF ARIZONA CITIES AND TOWNS
#### STATEMENT OF NET ASSETS
##### JUNE 30, 2012

See accompanying Notes to Basic Financial Statements.

<table>
<thead>
<tr>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Investments</td>
</tr>
<tr>
<td>Restricted Cash and Investments</td>
</tr>
<tr>
<td>Receivables:</td>
</tr>
<tr>
<td>Accounts Receivable, Net</td>
</tr>
<tr>
<td>Prepaid Items</td>
</tr>
<tr>
<td>Capital Assets:</td>
</tr>
<tr>
<td>Non-depreciable</td>
</tr>
<tr>
<td>Depreciable Assets</td>
</tr>
<tr>
<td>Total Capital Assets</td>
</tr>
<tr>
<td>Total Assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Unearned Revenue</td>
</tr>
<tr>
<td>Long-Term Liabilities:</td>
</tr>
<tr>
<td>Due Within One Year</td>
</tr>
<tr>
<td>Due in More Than One Year</td>
</tr>
<tr>
<td>Total Liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>NET ASSETS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invested in Capital Assets, Net of Related Debt</td>
</tr>
<tr>
<td>Unrestricted</td>
</tr>
<tr>
<td>Total Net Assets</td>
</tr>
</tbody>
</table>
Functions/Programs
Governmental Activities:
General Government:
Expenses:
  Salaries and Employee Benefits  $ 1,600,734
  Annual Conference, Seminars and Travel  362,348
  Consultant and Professional Services  184,236
  Executive Committee and General Counsel  25,574
  Insurance  12,181
  Membership Dues and Subscriptions  50,238
  Office Supplies, Printing and Rentals  72,797
  Postage and Shipping  5,567
  Rent, Utilities and Communication  68,856
  Maintenance Services and Agreements  50,852
  Interest  455
  Depreciation  33,690
  Total Expenses  2,467,528

General Revenues:
  Affiliate Group Contributions  130,250
  Annual Conference  418,343
  Membership Dues  1,817,053
  Local Government Directory  1,825
  Risk Management  131,923
  Rental Revenue  20,415
  Seminars and Meetings  67,371
  Miscellaneous  64,987
  Investment Income  4,200
  Total General Revenues  2,656,367

Change in Net Assets  188,839
Net Assets, Beginning of Year  1,585,201
Net Assets, End of Year  $ 1,774,040

See accompanying Notes to Basic Financial Statements.
LEAGUE OF ARIZONA CITIES AND TOWNS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2012

<table>
<thead>
<tr>
<th>General Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td>Cash and Investments</td>
<td>$1,848,222</td>
</tr>
<tr>
<td>Restricted Cash and Investments</td>
<td>4,017</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>13,319</td>
</tr>
<tr>
<td>Prepaid Items</td>
<td>35,390</td>
</tr>
<tr>
<td>Total Assets</td>
<td>$1,900,948</td>
</tr>
<tr>
<td><strong>LIABILITIES AND FUND BALANCE</strong></td>
<td></td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$40,311</td>
</tr>
<tr>
<td>Deferred Revenue</td>
<td>401,961</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>442,272</td>
</tr>
<tr>
<td>Fund Balances:</td>
<td></td>
</tr>
<tr>
<td>Nonspendable for Prepaid Items</td>
<td>35,390</td>
</tr>
<tr>
<td>Unassigned</td>
<td>1,423,286</td>
</tr>
<tr>
<td>Total Fund Balance</td>
<td>1,458,676</td>
</tr>
<tr>
<td>Total Liabilities and Balance</td>
<td>$1,900,948</td>
</tr>
</tbody>
</table>

See accompanying Notes to Basic Financial Statements.
Total Fund Balances for Governmental Funds $ 1,458,676

Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the governmental funds. Those assets consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental Capital Assets</td>
<td>$133,255</td>
</tr>
<tr>
<td>Less: Accumulated Depreciation</td>
<td>$(103,129)</td>
</tr>
<tr>
<td>Capital Assets used in Governmental Activities</td>
<td>$30,126</td>
</tr>
</tbody>
</table>

Long-term liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the governmental funds.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Lease Payable</td>
<td>$(2,346)</td>
</tr>
<tr>
<td>Compensated Absence Payable</td>
<td>$(69,630)</td>
</tr>
<tr>
<td>Total Long-Term Liabilities</td>
<td>$(71,976)</td>
</tr>
</tbody>
</table>

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets.

Total Net Assets of Governmental Activities $1,774,040
LEAGUE OF ARIZONA CITIES AND TOWNS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2012

<table>
<thead>
<tr>
<th>General Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues:</td>
</tr>
<tr>
<td>Affiliate Group Contributions $ 130,250</td>
</tr>
<tr>
<td>Annual Conference 418,343</td>
</tr>
<tr>
<td>Membership Dues 1,817,053</td>
</tr>
<tr>
<td>Local Government Directory 1,825</td>
</tr>
<tr>
<td>Risk Management 131,923</td>
</tr>
<tr>
<td>Seminars and Meetings 67,371</td>
</tr>
<tr>
<td>Miscellaneous 62,641</td>
</tr>
<tr>
<td>Investment Income 4,136</td>
</tr>
<tr>
<td>Total Revenues 2,633,542</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditures:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current:</td>
</tr>
<tr>
<td>Salaries and Employee Benefits 1,584,557</td>
</tr>
<tr>
<td>Annual Conference, Seminars and Travel 362,348</td>
</tr>
<tr>
<td>Consultant and Professional Services 178,286</td>
</tr>
<tr>
<td>Executive Committee and General Counsel 25,574</td>
</tr>
<tr>
<td>Insurance 7,441</td>
</tr>
<tr>
<td>Membership Dues and Subscriptions 50,238</td>
</tr>
<tr>
<td>Office Supplies, Printing and Rentals 72,797</td>
</tr>
<tr>
<td>Postage and Shipping 5,567</td>
</tr>
<tr>
<td>Rent, Utilities and Communication 131,309</td>
</tr>
<tr>
<td>Debt Service:</td>
</tr>
<tr>
<td>Principal 1,300</td>
</tr>
<tr>
<td>Interest 455</td>
</tr>
<tr>
<td>Capital Outlay 12,717</td>
</tr>
<tr>
<td>Total Expenditures 2,432,589</td>
</tr>
</tbody>
</table>

| Excess of Revenues Over/(Under) Expenditures 200,953 |

| Fund Balance, Beginning of Year 1,257,723 |
| Fund Balance, End of Year $ 1,458,676 |

See accompanying Notes to Basic Financial Statements. (14)
LEAGUE OF ARIZONA CITIES AND TOWNS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

Net Change in Fund Balances-Total Governmental Funds $ 200,953

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Outlays - Improvement Costs</td>
<td>8,102</td>
</tr>
<tr>
<td>Depreciation Expense</td>
<td>(14,027)</td>
</tr>
<tr>
<td><strong>Net Change in Capital Assets</strong></td>
<td>(5,925)</td>
</tr>
</tbody>
</table>

The governmental funds report the issuance of long-term debt as financing sources, while repayment of long-term debt is reported as an expenditure. In the governmental funds; however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. The net effect of these differences in the treatment of capital leases is as

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of Capital Lease Principal</td>
<td>1,300</td>
</tr>
</tbody>
</table>

Compensated absences do not require the use of current financial resources in the governmental funds and are therefore not reported as expenditures in the governmental funds; however, the net change in compensated absences is reported as a net increase or decrease in the government-wide financial statements.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Internal Service Funds</strong></td>
<td>(16,177)</td>
</tr>
</tbody>
</table>

Internal service funds are used by management to charge the costs of insurance to individual funds. The net revenue of the Internal Service Funds is reported with governmental activities.

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in Net Assets of Governmental Activities</td>
<td>8,688</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in Net Assets of Governmental Activities</strong></td>
<td>$ 188,839</td>
</tr>
</tbody>
</table>

See accompanying Notes to Basic Financial Statements.
## Revenues:

<table>
<thead>
<tr>
<th>Revenues:</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affiliate Group Contributions</td>
<td>$ 127,500</td>
<td>$ 130,250</td>
<td>$ 2,750</td>
</tr>
<tr>
<td>Annual Conference</td>
<td>320,000</td>
<td>418,343</td>
<td>98,343</td>
</tr>
<tr>
<td>Membership Dues</td>
<td>1,817,349</td>
<td>1,817,053</td>
<td>(296)</td>
</tr>
<tr>
<td>Local Government Directory</td>
<td>5,000</td>
<td>1,825</td>
<td>(3,175)</td>
</tr>
<tr>
<td>Risk Management</td>
<td>130,050</td>
<td>131,923</td>
<td>1,873</td>
</tr>
<tr>
<td>Seminars and Meetings</td>
<td>40,000</td>
<td>67,371</td>
<td>27,371</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>27,000</td>
<td>62,641</td>
<td>35,641</td>
</tr>
<tr>
<td>Investment Income</td>
<td>5,000</td>
<td>4,136</td>
<td>(864)</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>2,471,899</strong></td>
<td><strong>2,633,542</strong></td>
<td><strong>161,643</strong></td>
</tr>
</tbody>
</table>

## Expenditures:

### Current:

<table>
<thead>
<tr>
<th>Expenditures: Current:</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Employee Benefits</td>
<td>1,611,000</td>
<td>1,584,557</td>
<td>26,443</td>
</tr>
<tr>
<td>Annual Conference, Seminars and Travel</td>
<td>295,000</td>
<td>362,348</td>
<td>(67,348)</td>
</tr>
<tr>
<td>Consultant and Professional Services</td>
<td>150,000</td>
<td>178,286</td>
<td>(28,286)</td>
</tr>
<tr>
<td>Executive Committee and General Counsel</td>
<td>14,000</td>
<td>25,574</td>
<td>(11,574)</td>
</tr>
<tr>
<td>Insurance</td>
<td>7,600</td>
<td>7,441</td>
<td>159</td>
</tr>
<tr>
<td>Membership Dues and Subscriptions</td>
<td>50,000</td>
<td>50,238</td>
<td>(238)</td>
</tr>
<tr>
<td>Office Supplies, Printing and Rentals</td>
<td>90,000</td>
<td>72,797</td>
<td>17,203</td>
</tr>
<tr>
<td>Postage and Shipping</td>
<td>6,500</td>
<td>5,567</td>
<td>933</td>
</tr>
<tr>
<td>Rent, Utilities and Communication</td>
<td>182,000</td>
<td>131,309</td>
<td>50,691</td>
</tr>
<tr>
<td>Contingency</td>
<td>10,000</td>
<td>-</td>
<td>10,000</td>
</tr>
</tbody>
</table>

### Debt Service:

<table>
<thead>
<tr>
<th>Debt Service:</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principal</td>
<td>-</td>
<td>1,300</td>
<td>(1,300)</td>
</tr>
<tr>
<td>Interest</td>
<td>-</td>
<td>455</td>
<td>(455)</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>20,000</td>
<td>12,717</td>
<td>7,283</td>
</tr>
<tr>
<td><strong>Total Expenditures</strong></td>
<td><strong>2,436,100</strong></td>
<td><strong>2,432,589</strong></td>
<td><strong>3,511</strong></td>
</tr>
</tbody>
</table>

## Excess of Revenues Over/(Under) Expenditures:

<table>
<thead>
<tr>
<th>Excess of Revenues Over/(Under) Expenditures</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>35,799</td>
<td>200,953</td>
<td>165,154</td>
</tr>
</tbody>
</table>

## Fund Balance:

<table>
<thead>
<tr>
<th>Fund Balance, Beginning of Year</th>
<th>Original and Final Budget</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 35,799</td>
<td>$ 1,257,723</td>
<td>$ 1,257,723</td>
<td></td>
</tr>
<tr>
<td>Fund Balance, End of Year</td>
<td>$ 35,799</td>
<td>$ 1,458,676</td>
<td>$ 1,415,855</td>
</tr>
</tbody>
</table>

---

See accompanying Notes to Basic Financial Statements.
LEAGUE OF ARIZONA CITIES AND TOWNS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012

ASSETS
Current Assets:
Cash and Cash Equivalents $ 87,006
Receivables, Net:
 Accounts Receivable 2,346
 Prepaid Items 3,972
 Total Current Assets 93,324

Noncurrent Assets:
Capital Assets:
 Non-Depreciable 51,611
 Depreciable (Net) 221,303
 Total Noncurrent Assets 272,914
 Total Assets 366,238

LIABILITIES
Current Liabilities:
 Accounts Payable 7,177
 Unearned Revenue 1,847
 Total Liabilities 9,024

NET ASSETS
Invested in Capital Assets 272,914
Unrestricted 84,300
 Total Net Assets $ 357,214

See accompanying Notes to Basic Financial Statements.
(17)
### LEAGUE OF ARIZONA CITIES AND TOWNS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2012

<table>
<thead>
<tr>
<th>Governmental Activities - Internal Service Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Revenues:</td>
</tr>
<tr>
<td>Rental Revenue</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
</tr>
<tr>
<td>Operating Expenses:</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
<tr>
<td>Repairs and Maintenance Services and Agreements</td>
</tr>
<tr>
<td>Accounting and Auditing</td>
</tr>
<tr>
<td>Insurance</td>
</tr>
<tr>
<td>Depreciation</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
</tr>
<tr>
<td>Operating Income</td>
</tr>
</tbody>
</table>

| Nonoperating Revenues:                        |
| Investment Income                             | 64        |

| Change in Net Assets                          | 8,688     |

| Net Assets, Beginning of Year                 | 348,526   |
| Net Assets, End of Year                       | $ 357,214 |
LEAGUE OF ARIZONA CITIES AND TOWNS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2012

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES
Receipts from Customers $127,218
Payments to Suppliers (97,648)
Net Cash Flows from Operating Activities 29,570

CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES
Purchases of Capital Assets (28,115)

CASH FLOWS FROM INVESTING ACTIVITIES
Investment Income 64

NET CHANGE IN CASH AND CASH EQUIVALENTS 1,519

Cash and Cash Equivalents - Beginning of Year $85,487

CASH AND CASH EQUIVALENTS - END OF YEAR $87,006

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES
Operating Income $8,624

ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES
Depreciation Expense 19,663
Change in Assets/Liabilities:
   Receivables (1,787)
   Prepaid Items 2,092
   Accounts Payable (266)
   Unearned Revenue 1,244
Net Cash Provided For Operating Activities $29,570

See accompanying Notes to Basic Financial Statements.
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NOTES TO BASIC FINANCIAL STATEMENTS
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the League of Arizona Cities and Towns (the League) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the League’s more significant accounting policies follows.

A. Reporting Entity

The League of Arizona Cities and Towns was established in 1937, and is a voluntary association of all the incorporated cities and towns in Arizona. The League is comprised of 90 members and provides legislative framework for municipal needs and concerns and is a technical assistance resource for all of the incorporated communities in Arizona. League policy is established by all members at the annual meeting and policy direction is provided during the year by a 25 member Executive Committee composed of elected officials from cities and towns around the state.

The accompanying financial statements present the League and its component unit, entity for which the League is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the League’s operations.

Included within the reporting entity:

The Property Corporation of Arizona Cities and Towns is a not-for-profit corporation which was incorporated in 1970 as a 501(c)(4) by the incorporated cities and towns in the State of Arizona to construct and operate the office space for the League and other governmental units. The Corporation’s officers and board of directors consist of officers and members of the Executive Committee for the League. The operations of the Property Corporation of Arizona Cities and Towns are reported as an internal service fund because the Property Corporation largely charges rent to the League and other governmental entities. The activity is included in the governmental activities on the League’s financial statements. Separate financial statements are not prepared for the Property Corporation of Arizona Cities and Towns.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which are normally supported by intergovernmental revenues are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The League did not have any business-type activities.
NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Government-Wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources such as intergovernmental, membership dues, fees and other items are reported as general revenues rather than as program revenues. All revenues of the League are considered to be general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Significant revenues susceptible to accrual include dues, seminars and meetings, risk management, annual conference and investment income and so have been recognized as revenues of the current fiscal period. Monies received in advance of the revenue recognition criteria are reported as deferred revenues. All other revenue items are considered to be measurable and available only when cash is received by the League.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the League considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, except expenditures related to compensated absences which are recorded only when payment is due.
NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The League reports the following major governmental funds:

Major Governmental Funds

General Fund
The General Fund is the League’s primary operating fund. It accounts for all financial resources of the League, except those required to be accounted for in another fund.

Additionally, the League reports the following fund type:

Internal Service Fund
The Internal Service Fund accounts for the Property Corporation’s financing of operating and maintaining office space provided to the League and other governmental entities.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the proprietary funds, subject to this same limitation. The League has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the internal service fund are rental income charged to the League and other governmental entities. Operating expenses for the internal service fund include the cost of maintaining the facilities and utilities. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When restricted, committed, assigned or unassigned resources are available for use, for governmental activities it is the League’s policy to use restricted resources first, then committed, assigned and unassigned resources as they are needed.
D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The League’s cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

State statutes authorize the League to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositaries, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, towns or duly organized school districts, improvement districts in this state and the State Treasurer’s Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All receivables are shown net of an allowance for uncollectibles.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include land, buildings and improvements, and furniture, fixtures and equipment are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the League as assets with an initial, individual cost of more than $750 and an estimated useful life in excess of one year.

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

- Buildings and Improvements: 10-40 Years
- Furniture, Fixtures and Equipment: 3-10 Years
NOTE 1  SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

5. Compensated Absences

The liability for compensated absences reported in the government-wide statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

6. Net Assets

In the government-wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt is separately reported because the League reports all of the League assets which make up a significant portion of total net assets. Restricted net assets account for the portion of net assets restricted by parties outside the League. Unrestricted net assets are the remaining net assets not included in the previous two categories. The League reported no restricted net assets.

7. Fund Equity

In the fund financial statements, governmental funds report non-spendable fund balance for amounts that are not available for appropriation. The League has not adopted a fund balance policy defining restricted, committed, assigned and unassigned fund balances. The League therefore, does not define the terms under which committed fund balances become committed or are released from such a commitment. In addition, the Board has not designated an individual or group of individuals the authority to assign fund balances. The League did not report any restricted, committed or assigned fund balances.

NOTE 2  STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The League’s budget policy provides that the Executive Committee adopt and approve an annual budget. The budget for the General Fund is prepared on the modified accrual basis of accounting.
NOTE 3  DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

Deposits and investments at June 30, 2012 consist of the following:

<table>
<thead>
<tr>
<th>Deposits:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Hand</td>
<td>$100</td>
</tr>
<tr>
<td>Cash in Bank</td>
<td>273,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investments:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>State Treasurer's Investment Pool</td>
<td>1,665,845</td>
</tr>
</tbody>
</table>

Total Cash and Investments 1,939,245
Less: Restricted Cash and Investments (4,017)
Total Cash and Cash Equivalents $1,935,228

Deposits
At June 30, 2012, the carrying amount of the League’s deposits was $273,300 and the bank balance was $276,478. Of the bank balance, the entire amount was insured by federal depository insurance.

Investments
The League’s investments consist of only funds invested with the Local Government Investment Pool.

Interest Rate Risk – The League does not have an investment policy that addresses interest rate risk; however, the League manages its exposure to declines in fair values by limiting its investments to the Local Government Investment Pool which has a weighted average maturity of 19 days.

Credit Risk – The State Board of Deposit provides oversight for the State Treasurer’s pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the Treasurer. The fair value of a participant’s position in the pool approximates the value of that participant’s pool shares. The shares are not identified with specific investments and are not subject to custodial credit risk. The LGIP maintains a rating of AAAF/SI+.

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of the counterparty, the League will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The League currently does not have a policy with regard to custodial credit risk. However, the League’s investments consist only of funds deposited with the Local Government Investment Pool which is overseen by the State Board of Deposits.
NOTE 3  DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Assets (Continued)

2. Restricted Cash and Investments

Restricted cash and investments of $4,017 represents unused sick leave restricted for reimbursement of employee medical expenses in accordance with the League's sick leave policy.

3. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

<table>
<thead>
<tr>
<th>Governmental Activities:</th>
<th>Beginning Balance</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Assets, Not Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$51,611</td>
<td>$-</td>
<td>$-</td>
<td>$51,611</td>
</tr>
<tr>
<td>Capital Assets, Being Depreciated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>636,361</td>
<td>28,115</td>
<td>-</td>
<td>664,476</td>
</tr>
<tr>
<td>Equipment and Furniture</td>
<td>247,552</td>
<td>8,102</td>
<td>(86,159)</td>
<td>169,495</td>
</tr>
<tr>
<td>Total Capital Assets, Being Depreciated</td>
<td>883,913</td>
<td>36,217</td>
<td>(86,159)</td>
<td>833,971</td>
</tr>
<tr>
<td>Accumulated Depreciation for:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and Building Improvements</td>
<td>(428,195)</td>
<td>(17,628)</td>
<td>-</td>
<td>(445,823)</td>
</tr>
<tr>
<td>Equipment and Furniture</td>
<td>(206,816)</td>
<td>(16,062)</td>
<td>86,159</td>
<td>(136,719)</td>
</tr>
<tr>
<td>Total Accumulated Depreciation</td>
<td>(635,011)</td>
<td>(33,690)</td>
<td>86,159</td>
<td>(582,542)</td>
</tr>
<tr>
<td>Total Capital Assets, Being Depreciated, Net</td>
<td>248,902</td>
<td>2,527</td>
<td>-</td>
<td>251,429</td>
</tr>
<tr>
<td>Governmental Activities Capital Assets, Net</td>
<td>$300,513</td>
<td>$2,527</td>
<td>$-</td>
<td>$303,040</td>
</tr>
</tbody>
</table>

Depreciation expense was charged to functions/programs as follows:

| Governmental Activities: | | | | |
| General Government | $14,027 | | | |
| Internal Service Fund | 19,663 | | | |
| Total Depreciation Expense, Governmental Activities | | | | $33,690 |

B. Deferred Revenue

Resources received are recognized as deferred revenue to the extent that the earnings process has not been completed. These resources are recorded as revenue when the related obligations have been satisfied. As of June 30, 2012, The League reported $401,961 of deferred revenue (unearned) in the governmental funds and $403,808 of unearned revenues in the governmental activities.
NOTE 3  DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Obligations under Leases

**Operating Lease**
The League leases copiers and other equipment under the provisions of long-term lease agreements classified as operating leases. Rental expenditures under the terms of the operating leases totaled $7,923 for the year ended June 30, 2012.

The future minimum lease payments for these leases are as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 7,923</td>
</tr>
<tr>
<td>2014</td>
<td>7,923</td>
</tr>
<tr>
<td>2015</td>
<td>7,923</td>
</tr>
<tr>
<td>2016</td>
<td>6,583</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 30,352</strong></td>
</tr>
</tbody>
</table>

**Capital Lease**
The Organization has acquired a copier under the provisions of a long-term lease agreement classified as a capital lease for accounting purposes because the lease provides for a bargain purchase option or a transfer of ownership by the end of the lease term. Accordingly, the asset totaling $6,169, at June 30, 2012, is capitalized.

The following table summarizes the asset and the accumulated depreciation:

<table>
<thead>
<tr>
<th>Equipment</th>
<th>$ 6,169</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulated Depreciation</td>
<td>(4,421)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 1,748</strong></td>
</tr>
</tbody>
</table>

The future minimum lease payments under the capital lease, together with the present value of the net minimum lease payments as of June 30, 2012, were as follows:

<table>
<thead>
<tr>
<th>Year Ending June 30,</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$ 1,755</td>
</tr>
<tr>
<td>2014</td>
<td>877</td>
</tr>
<tr>
<td><strong>Total Minimum Capital Lease Payments Required</strong></td>
<td><strong>2,632</strong></td>
</tr>
<tr>
<td><strong>Less: Amount Representing Interest</strong></td>
<td>(286)</td>
</tr>
<tr>
<td><strong>Present Value of Net Minimum Capital Lease Payments</strong></td>
<td><strong>$ 2,346</strong></td>
</tr>
</tbody>
</table>
NOTE 3  DETAILED NOTES ON ALL FUNDS (CONTINUED)

D. Long-term Debt

The capital lease and compensated absences are paid entirely by the General Fund of the League. Changes in long-term debt for the year ended June 30, 2012 are as follows:

<table>
<thead>
<tr>
<th>Governmental Activities:</th>
<th>Beginning of Year</th>
<th>Additions</th>
<th>Retirements</th>
<th>End of Year</th>
<th>Due within One Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Leases</td>
<td>$3,646</td>
<td>$-</td>
<td>$- (1,300)</td>
<td>$2,346</td>
<td>$1,506</td>
</tr>
<tr>
<td>Compensated Absences</td>
<td>53,453</td>
<td>102,807</td>
<td>(86,630)</td>
<td>69,630</td>
<td>69,630</td>
</tr>
<tr>
<td>Total Governmental Activities</td>
<td>$57,099</td>
<td>$102,807</td>
<td>$(87,930)</td>
<td>$71,976</td>
<td>$71,136</td>
</tr>
</tbody>
</table>

NOTE 4  OTHER INFORMATION

A. Risk management

The League of Arizona Cities and Towns is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters.

The League carries commercial insurance for all risks of loss, including workers’ compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage during any of the past three fiscal years and no significant reduction in insurance coverage during the last fiscal year.

B. Commitments

On March 22, 2010, the League signed a commitment with a hotel for the 2012 Annual Conference. At June 30, 2012, the League is liable for $106,847 (80% of contracted net room revenue and 100% of net food and beverage revenue) if the League cancels the agreement.

On June 29, 2010, the League signed a commitment with a hotel for the 2013 Annual Conference. At June 30, 2012, the League is liable for $22,888 (20% of anticipated room revenue) if the League cancels the agreement.

C. Economic Dependence

The League receives 68% of its revenues from membership dues and 15% from its annual conference. The League’s operations depend on continued support from these funding sources.
NOTE 4  OTHER INFORMATION (CONTINUED)

D. Retirement plans

Arizona State Retirement System

**Plan Description**
The League contributes to a cost-sharing multiple employer defined benefit pension plan administered by the Arizona State Retirement System. Benefits are established by state statute and generally provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2.

The System issues a comprehensive annual financial report that includes financial statements and required supplementary information. The most recent report may be obtained by writing the System, 3300 North Central Avenue, P.O. Box 33910, Phoenix, AZ 85067-3910 or by calling (602) 240-2001 or (800) 621-3778.

**Funding Policy**
The Arizona State Legislature establishes and may amend active plan members’ and the League’s contribution rate. For the year ended June 30, 2012, active plan members and the League were each required by statute to contribute at the actuarially determined rate of 10.74 percent (9.87 percent retirement, 0.63 percent for health insurance premium, and 0.24 percent long-term disability) of the members’ annual covered payroll. The League’s contributions to the System for the years ended June 30, 2012 and prior two fiscal years are as follows:

<table>
<thead>
<tr>
<th>Year Ended June 30</th>
<th>Retirement Fund</th>
<th>Health Benefit Supplement Fund</th>
<th>Long-Term Disability Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$110,982</td>
<td>$7,084</td>
<td>$2,699</td>
</tr>
<tr>
<td>2011</td>
<td>91,047</td>
<td>5,962</td>
<td>2,526</td>
</tr>
<tr>
<td>2010</td>
<td>78,438</td>
<td>10,137</td>
<td>3,937</td>
</tr>
</tbody>
</table>
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
League of Arizona Cities and Towns
Phoenix, Arizona

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the League of Arizona Cities and Towns (the League) as of and for the year ended June 30, 2012, which collectively comprise the League of Arizona Cities and Towns’ basic financial statements and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the League of Arizona Cities and Towns internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the League of Arizona Cities and Towns’ internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the League of Arizona Cities and Towns internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the League’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.
Compliance and Other Matters
As part of obtaining reasonable assurance about whether the League of Arizona Cities and Towns financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted a matter that we reported to management of the League of Arizona Cities and Towns in a separate letter dated October 3, 2012.

This report is intended solely for the information and use of management, Board of Directors, and others within the League and is not intended to be and should not be used by anyone other than these specified parties.

Mesa, Arizona
October 3, 2012
Senior Management of
The League of Arizona Cities and Towns
Phoenix, Arizona

In planning and performing our audit of the financial statements of the League of Arizona Cities and Towns (League) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the League’s internal control. Accordingly, we do not express an opinion on the effectiveness of the League’s internal control.

However, during our audit we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. The matter discussed below summarizes our comment and suggestion regarding this matter. This letter does not affect our report dated October 3, 2012, on the financial statements of the League.

**GASB 54 Policies**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement went into effect for financial statement periods beginning after June 15, 2010. This statement requires governmental entities to report fund balances as nonspendable, restricted, committed, assigned or unassigned. We consider it to be best practices for the League to adopt new fund balance policies that address the new fund balance reporting. We would recommend that the League create new fund balance policies related to the new classifications.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestion with the League’s personnel, and we will be pleased to discuss it in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation.
October 5, 2012

Mr. Ken Strobeck, Executive Director
The League of Arizona Cities and Towns
1820 West Washington Street
Phoenix, Arizona 85007

Dear Mr. Strobeck:

Thank you for the opportunity to submit a quote to The League of Arizona Cities and Towns and its component unit (The League), GFOAz, and ACMA to continue our relationship. This quote is to perform the annual audit for the fiscal years ended June 30, 2013, 2014 and 2015. Our audits will be completed in accordance with Generally Accepted Auditing Standards for GFOAz and ACMA and in accordance with Generally Accepted Auditing Standards and Government Auditing Standards for the League of Arizona Cities and Towns and its component unit.

CliftonLarsonAllen LLP (CLA) is a top 10 accounting firm formed through the union of Clifton Gunderson LLP and LarsonAllen LLP, who have each been serving nonprofit and government clients for more than 50 years. Our two peer firms joined together to create a new kind of professional services company: one with an exceptional level of knowledge, insight, and industry experience and the number one firm performing single audits in the United States. CLA has been serving governments and nonprofits in Arizona for more than 23 years and has conducted the previous three years of audits for The League, GFOAz and ACMA.

Although CLA has more than 90 office locations throughout the United States and provides services to all but three states, your audit will be conducted out of our Phoenix location and staffed by auditors from our local offices. The partner assigned to your audit (Dennis Osuch) only provides services to governmental and nonprofit entities; therefore we understand your need for technical assistance during the audit and throughout the fiscal year and have the expertise to provide that advice and assistance which is specific to your industry.

We often answer questions of our clients during the year and pride ourselves on being easy to reach and returning calls quickly. We will answer your questions at no additional charge during the year as long as no significant research is necessary. We will also work closely with you regarding any audit recommendations that we may have and assist you in putting together a plan for implementing them that meets your cost-benefit requirements.

We understand that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about appropriate accounting principles and their application and will prepare your financial statements, but the responsibility for the underlying records remains with you. This responsibility includes the maintenance of adequate records and related internal control structure policies and procedures, the selection and application of accounting principles, and the safeguarding of assets. We understand that your employees will locate all supporting documentation selected by us for testing.
We understand that price in our current economy is a significant factor when selecting a firm to provide professional services. At CLA, we don’t promise to be the lowest price, but we are committed to providing high quality services that are noticeably different. Our prices are not always the lowest because we ensure that you are provided qualified, experienced staff. Many accounting firms can cut prices by providing entry level staff with little supervision and minimal partner participation. At CLA, you will receive a team of auditors selected to fit your needs. We will ensure that the team is comprised of a highly experienced senior and experienced staff to go along with any entry level accounts that may be assigned to the audit. You can be assured that the partner assigned to your audit will be materially involved throughout the process.

Based on our previous experience with the League, GFOAz and ACMA, we are proposing the following pricing for the next three years:

<table>
<thead>
<tr>
<th>Year ended</th>
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<th>MPC</th>
<th>Total League</th>
<th>GFOAz</th>
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Please note, that our proposed fees for the 2013 year remained unchanged from the fiscal year 2012 year. We are proposing small increases for the subsequent two years.

Thank you again for this opportunity to be of service to the League, GFOAz, and ACMA. If you have any questions, please feel free to call.

Sincerely,

Dennis J. Osuch, CPA
Partner
480-615-2333
Dennis.Osuch@CliftonLarsonAllen.com
### Audit Costs for Fiscal Years Ending . . .

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Additional Informational Materials
Not Part of the Agenda
Executive Committee

2013 Meeting Schedule

February 15, 2013  (League Office)

May 10, 2013  (League Office)

August 28, 2013  (League Conference)

November 22, 2013  (League Office)

Meetings start at 10:00 a.m.  Lunch is served upon adjournment of the meeting.  The meeting held at the League Annual Conference is a lunch meeting starting at approximately 11:45 a.m.
Gerry Whipple
(April 21, 1953 - October 29, 2012)

Gerry Wendell Whipple, 59, entered into eternal life on Monday, October 29, 2012. Gerry was born April 21, 1953, in McNary, Arizona to Wendell Oliver “Winkie” Whipple and Ione “Babe” Pearce, along with his twin brother, Terry. Gerry was the second of nine children. Gerry grew up in Show Low, Arizona. He attended Show Low Elementary with his twin brother and cousins. He enjoyed riding horses, 4-H, getting into mischief and helping his Dad. He attended high school in Snowflake where he loved to play football, basketball and run track. Gerry graduated from high school in 1971. He attended a year of school at Eastern Arizona College in Thatcher. Gerry served a two year mission for the Church of Jesus Christ of Latter-Day Saints, serving in the Portland Oregon Mission. After returning home from his mission, Gerry attended Brigham Young University in Utah, where he also played rugby. In 1976, Gerry fell in love with his beloved eternal sweetheart, Marcia Perkins. They were married and sealed together for time and all eternity that same year on November 6th in the Mesa, Arizona LDS temple. Gerry and Marcia are the parents of 16 children and 12 grandchildren. Shortly after he was married, Gerry began to work as an electrician. In 1985, Gerry opened his own business and called it “Twin Electric,” as Gerry was a twin himself and was blessed with twin sons that same year. Gerry always loved the outdoors, camping, and working with the Boy Scouts of America, where he served in numerous positions and donated many hours of service to the scouts. In 1990, Gerry was elected to the Show Low City Council, where he served for 12 years as the Mayor of the city he loved. During that time, he was responsible for developing friendships across the state, country, and world by starting a Sister City program with Spisske Podhradie, Slovakia. After serving as Mayor and a two year break, Gerry continued to serve on the city council as a Councilman from 2004 to present. He was appointed to the Show Low School Board in 2003, where he has since given his service to the community of Show Low until the day he passed away. Gerry also served on the League of Arizona Cities and Towns and became President in 2002 with a lifetime membership. He was a member of the Crime and Prevention Committee for National League of Cities. He continued to serve on state and national committees over the past years. In 2008 he was given the Arizona Parks and Recreation Association Outstanding Public Official Award for his years of dedication, service and leadership to the City of Show Low, as well as the state of Arizona. Gerry made friends with everyone he rubbed shoulders with. He loved his large family and the business where he worked for 27 years. Gerry was currently serving as the Bishop of the Show Low 1st Ward for The Church of Jesus Christ of Latter-Day Saints and he
will be greatly missed by everyone in the community, state, country and world. Gerry loved the people he served and believed in setting an example for others. He loved his family and has left a great legacy of faith and example of service. Gerry enjoyed spending time with his family taking trips and going on campouts. He had a deep appreciation for America, as well as deep faith in Christ. He shared this love with all those he met. Gerry was a beloved son, brother, husband, father and grandfather. He is survived by his wife Marcia and children Gerry Paul (Richelle), Jaida (Todd) Westover, Cynthia, Derik (Stephanie), Alden (Kari), Allan, Shaina (Ian) Farnsworth, Natalia, Gerryn, Alaina (Robert) Petrie, Claren, Alex, Marina, Benjamin, Nikolai, Callie; eleven grandchildren- Audrey, Kevin, Heather, Kira, Kinlee, Trigger, Abbie, Viollet, Brinley, Raya, Demetri; mother- Ione “Babe” Pearce; brothers- Terry, Dale, Jerald, Marion, and Ludene; sisters- Lisa, Amy, and Sara. Gerry was preceded in death by his father Wendell Oliver “Winkie” Whipple and his grandson Daniel Whipple. A viewing for Gerry will be held from 6 to 8:30 pm Friday, November 02, at the Show Low Downtown Chapel of the Church of Jesus Christ of Latter-Day Saints. The funeral services will be held at 10 a.m. Saturday, November 03, at the Show Low Church of Jesus Christ of Latter-Day Saints Stake Center with a viewing from 8:00 to 9:30 a.m. Silver Creek Mortuary of Taylor handled the arrangements. Memories can be shared at Silvercreekmortuary.net
Gilbert mayor gets seat on key regional panel

by Parker Leavitt - Sept. 10, 2012 12:49 PM
The Republic | azcentral.com

For the first time in four years, a Gilbert mayor is on the League of Arizona Cities and Towns executive committee, giving the town a stronger voice in regional policy making, officials say.

Only days after a successful bid for a second term, Mayor John Lewis last week was elected to the League's 25-member governing committee, which meets at least four times a year to set policy, priorities and approve a budget.

Lewis and Marana Mayor Ed Honea are joining the committee -- Lewis with a two-year term, Honea with a one-year term, according to league officials. Lewis joins a handful of other Southeast Valley mayors on the committee, including Tempe Mayor Mark Mitchell, Chandler Mayor Jay Tibshraeny and Mesa Mayor Scott Smith.

Lewis said he and other Gilbert officials have been heavily pursuing new opportunities for regional leadership over the past few years. Lewis also sits on the Maricopa Association of Governments Economic Development Committee and the Greater Phoenix Economic Council board of directors.

"Specifically, I have been targeting strategically to be involved in economic development during the last three years," Lewis said.

Looking to expand that influence, Lewis applied for a seat on the league's executive committee and was among 12 applicants interviewed for two spots.

All the applicants were "excellent candidates," Lewis said, adding that Gilbert's unique blend of urban and rural development and fast-paced growth may have tipped the scale in his favor.

"We're the fastest-growing community in the state," Lewis said. "That gives an impression that it would be important for a community like Gilbert to be actively involved in the league, to have a voice and to share our concerns, our frustrations and our vision."

The last time Gilbert had a representative on the committee was from 2004 to 2008, with then-Mayor Steve Berman, League Executive Director Ken Strobeck said. A couple Gilbert mayors also served on the committee in the 1980s, he said.

"I think the nominating committee was very impressed with his (Lewis') presentation and with the quality of the leadership he has shown," Strobeck said.
PHOENIX'S REGIONAL ROLE

Phoenix will not take its football and go home. Instead of leaving the League of Arizona Cities and Towns, as it threatened several weeks ago, the City Council has agreed to pay its membership dues for another year, preserving a key opportunity for the state's largest city to work with its neighbors.

That's good news. But the 5-4 vote Wednesday was hardly a stamp of approval for the league, much less for Mayor Greg Stanton's brand of regionalism, which at times asks cities to take one for the team.

Clearly, there is more work to do.

The controversy arose last month after a 5-4 vote not to pay the requested $142,250. Some council members questioned what the league had done for Phoenix, while others alleged it had purposefully withheld information on a controversial election bill.

Such strong and unexpected criticism sent the message that Phoenix was eager to throw its weight around, regardless of the fallout. If left to fester, that perception would have cost the city much more than this contract.

The league isn't perfect; even Stanton admits as much. But it's the only statewide outlet for city leaders to trade notes. It's too bad some council members don't see the value in that.

Thankfully, the mayor recognizes that cities need one another to effectively fight for local control in the Legislature, play up our economic strengths, avoid costly incentive wars and find new, more efficient ways to provide city services.

That's why he worked so hard after that first vote to smooth the waters with other cities. Stanton also met with Councilman Tom Simplot, a longtime league critic and one of the original "no" votes, to explain why he thought membership was important.

Simplot, to his credit, met with the league's leadership to air his differences, and on Wednesday, was the sole council member to change his vote.

That's how it should have been from the start. If council members agree with policy or feel neglected, they should do more than complain. If Phoenix truly wants to lead this region, its council members should make an honest effort to work it out.