



Requesting Department: Finance

TO: HONORABLE MAYOR AND TOWN COUNCIL

THROUGH: BRUCE GARDNER, TOWN MANAGER

FROM: SCOTT MCCARTY, FINANCE DIRECTOR

RE: Consideration and possible approval of Ordinance 839-24 to repeal the 0.25% Town Center Sales Tax, effective October 1, 2024.

DATE: June 5, 2024

Proposed Motion:

Motion to approve Ordinance #839-24 to repeal the 0.25% Town Center Sales Tax, effective October 1, 2024.

Relevant Council Goals:

Effective Government: KRA Financial Stability

Discussion:

During the April 9, 2024 Town Council budget meeting, the Town Council directed staff to prepare the steps necessary to repeal the 0.25% Town Center sales tax and come back to the Town Council at a later date with the required actions to repeal the tax.

History of Town Center Sales Tax

On August 1, 2007, the Town Council approved Ordinance 402-07 that levied an additional 0.25% sales tax within the Town Center geographical areas known as Queen Creek Marketplace, QC District, and Cornerstone at Queen Creek. This increase to the existing sales tax rate was related to requirements outlined in two development agreements the Town had entered into in 2005 and 2006 with Vestar Arizona XXXIX LLC (Vestar) and WDP/Town Center LLC (WDP). These development agreements included the following language:

“To take account of the infrastructure, maintenance, operations obligations of the Town as a result of the scale and intensity of this development, a surcharge in the amount of 0.25% will be added to each sale subject to a Transaction Privilege Tax generated on the site. Said surcharge shall be used for key infrastructure, operations and maintenance or other programming or projects the Town deems necessary exclusive to and within ‘Town Center’ as defined in the Town’s General Plan. This paragraph shall survive the expiration of this agreement.”

These agreements and the concept of the additional sales tax were both related to the initial development of the Town Center area and the realignment of Ellsworth Road. That roadway project created Ellsworth Loop Road and with that came additional commercial and office frontage with the opportunity for more development in the future. The other major benefit of the development and infrastructure was enhanced ingress and egress through the community that improved traffic flow and allowed for additional residential and commercial growth.

The infrastructure commitments in the development agreements required the issuance of debt for which the Town had proportional responsibility. To finance the debt, the Town created an Improvement District to levy assessments on property owners who benefited from the new infrastructure. These assessments were expected to cover the annual debt service costs on the debt until it was paid off in 2032.

The sales tax increase's primary purpose was to first be used to service a portion of the Town's obligations under the Improvement District debt, which was assigned to the Town Center Fund. The share of the Town's annual debt payments from the Town Center sales tax in that fund has totaled approximately \$330,000 each year.

Other purposes contemplated by the sales tax included signage, art, business rehabilitation loans, marketing and property acquisition. The additional sales tax was a mechanism to reinvest from the new large retail centers into the older parts of Town Center to preserve and activate the core so that the entire Town Center gained momentum towards the long-term vision of the Town Council.

As retail development has grown, the Town Center sales tax receipts have benefitted as well. This has allowed the Town to use the sales tax revenue towards the vision of the Town Center, such as the Town's façade improvement program, holiday lighting, holiday parade, repairs and maintenance of Town-owned buildings in the Town Center, purchase of property for future resale to development, design of drainage improvements, and other infrastructure-related expenses.

Repeal of Town Center Sales Tax

Over time, the Town Center Fund has built a cash balance that is now sufficient to service the remaining debt. This means additional Town Center sales tax revenues are not required for debt service. The current outstanding principal balance of the Town Center Fund's debt is \$2.4 million. The debt can be legally called and paid off in August 2026 using resources in the Town Center fund already on hand. Staff is developing a plan to defease this debt as soon as possible and will bring such options to the Town Council at a later date.

Given the financial condition of the Town Center Fund, and the accomplishments and successes that have occurred in the Town Center since its inception, the Town Council has determined that the original intent of the sales tax has been achieved and the necessity for the tax has run its course. By repealing this tax, Town Council is further enhancing the financial strength of its residents through additional tax relief, while still committing to efforts to maintain growth and development in the Town Center area using other available resources.

The Town is seeking to repeal this sales tax effective October 1, 2024. This requires a public hearing and adoption of an Ordinance at a Town Council meeting, which is followed by a 30-day waiting period, The Arizona Department of Revenue requires a 60-day notification, and this process will be in tandem with notifying all affected businesses which reside within the Town Center Sales Tax collection area.

Fiscal Impact:

Revenues

The Town will receive the full estimated revenue for FY2023-24 of \$1.4 million. Beginning in FY 2024-25, it is estimated the Town will receive sales tax receipts for the first 4 months of the fiscal year, representing business activity through September 30, 2024. This time period does not include the holiday season which historically delivers a larger proportion of the sales tax receipts. Beginning in FY 2025-26 the Town will no longer receive these sales tax receipts and the forecasted revenue will be removed from future long-range forecasts.

Expenses

Certain expenses will be offset by the remaining revenues which exist within the Town Center Fund and include facade improvements, as the Town has ongoing commitments. However, with the repeal of this sales tax, the Town will move to the General Fund the remaining ongoing expenses that were previously funded through the receipt of this sales tax. These expenses are estimated to be \$271,500 in FY 2024-25 and include utilities and maintenance of Town-owned property in the Downtown area, holiday lighting and parade events, new roadway banners, and studies of future needs for zoning in the Downtown Core.

The FY 2024-25 budget was developed assuming the sales tax would be repealed and these expenses would be moved to the General Fund.

Fund Balance

The existing Town Center Fund balance holds the capacity to service the remaining debt. This will come forward to Council at a later time and provide options for defeasing the related debt. The Town Center Fund also will continue to hold proceeds from sales of Town-owned land until such time as the Town Council directs these funds to be spent or transferred to another fund.

Effect on Pledged Revenue for the Town's Excise Tax Bonds

In November 2019, the 0.25% Town Center sales tax revenues were added as a component of the Town's Pledged Revenue for outstanding and future excise tax debt obligations. The objective at that time was to improve the Town's debt service coverage ratio (other revenues added at that time were the Dedicated 2% Construction Sales Tax and the 0.25% Public Safety Sales Tax). This change was one of many factors that contributed to the Town's upgraded bond rating in March 2022.

The total Pledged Revenue for FY 2023-24 is forecasted at \$141.4M, with the Town Center Sales Tax making up \$1.4M, or approximately 1% of Pledged Revenue. Staff believes that repealing the Town Center tax will not materially affect the Town's Pledged

Revenue coverage ratio, the Town's bond rating, or our ability to issue more debt in the future.

Alternatives:

The Town Council could choose to continue collecting the 0.25% Town Center Sales Tax and continue operations in the Town Center Fund.

Attachment:

1. Ordinance 839-24 Repealing the 0.25% Town Center Sales Tax