

NOTICE OF INTENT – PROPOSED NEW OR INCREASED FEES
Notice of Intent to Increase Sales, Use, and Bed Tax Rates

Pursuant to A.R.S. §§ 9-499.15, public notice is hereby given that the Gilbert Town Council will hold a public hearing to discuss and review an increase to the Sales, Use, and Bed Tax rates charged within the Town of Gilbert.

A public hearing on the proposed increase will be held at the regularly-scheduled Town Council meeting on October 22, 2024, at 6:30 PM at the Gilbert Council Chambers at 50 E. Civic Center Dr., Gilbert, Arizona to hear and receive written comments regarding the proposed increases to the Sales, Use, and Bed Tax rates. Following this public hearing, the Town Council may adopt the proposed increases or any lesser increase. If approved, the increases would become effective on January 1, 2025.

The proposed rates, as well as the written report in support of the increase, are available at the Town Clerk's office during normal office hours, Monday through Thursday, 7:00 AM-6:00 PM, and on Gilbert's website (www.gilbertaz.gov).

Category	Current Rates	Proposed Rates
Retail	1.5%	2.0%
Food for Home Consumption	1.5%	2.0%
Restaurant and Bars	1.5%	2.0%
Hotels	1.5%	2.0%
Hotel/Motel (Bed Tax)	2.8%	5.0%
Commercial Rental	1.5%	2.0%
Residential Rental	1.5%	*Residential Rental Removed by State Legislature starting January 1, 2025.
Construction	1.5%	2.0%
Communications & Utilities	1.5%	2.0%
Use Tax	-	2.0%
Other	1.5%	2.0%

Questions related to the proposed Sales, Use, and Bed Tax rates should be directed to Kelly Pfof, Budget Director, at Kelly.Pfof@gilbertaz.gov or 480-503-6828.

Posted August 21, 2024

Proposed Sales, Use, and Bed Tax Changes for Gilbert

Collectively, Parks and Recreation, Police and Fire departments contribute to the overall well-being and quality of life in a community. Their services and initiatives promote safety, physical and mental well-being, community engagement, and a sense of belonging, making the community a desirable place to live, work, and raise a family. As a community grows and the needs of the community change, there is a need to continue to provide for critical infrastructure in Parks, Police and Fire to maintain the community's quality of life. Recent discussions between the Town Council, town staff, and the community at large has identified critical infrastructure needs in these areas.

Park Infrastructure Needs

The Gilbert Parks and Recreation system faces capacity challenges as our community grows, with over 5.3 million annual visits. The system is under strain and requires expansion to meet resident demand. In 2023, as part of the Parks and Recreation Master Plan, the Town of Gilbert reached out to the community to gather input on future parks, trails, and program offerings under the initiative "Plan Where You Play." In 2024, the Town Council approved the master plan. This 10-year plan is crucial for the sustainable development and improvement of community spaces. It provides long-term strategic direction, ensuring that recreational facilities and programs meet the increasing and changing needs of residents. This forward-thinking plan establishes a foundation for a vibrant Parks and Recreation system by effectively allocating resources and planning for the future.

The Parks and Recreation Master Plan utilized community feedback along with extensive data and research to prioritize the following projects as the most important to meet the residents' current needs and future demands:

1. Expand and develop Gilbert Regional Park and Desert Sky Park
2. Establish a new recreation center in Southern Gilbert
3. Establish a Riparian Education Center at the Riparian Preserve
4. Add additional splash pads
5. Develop additional sports fields
6. Expand multi-use paths and trails
7. Create additional pickleball courts

Fire Infrastructure Needs

Maintaining or improving public safety service levels is a prime directive of Town and fire department leadership. Response times are the cornerstone of measuring a fire department's effectiveness. Community surveys completed by our residents and businesses reinforce this cornerstone, listing response times as their number one priority for the fire department. To maintain response times, the fire department needs to place the most effective response unit in the most strategic and optimal location with a reliable apparatus. Existing fire stations need to be expanded to support the placement of units at the best locations to reduce response times to the greatest number of residents and businesses. Additionally, the construction of a fire

fleet/large and specialty apparatus maintenance facility will improve the reliability of our fire apparatus while significantly improving the current substandard working conditions.

Police Infrastructure Needs

As the Town of Gilbert continues to grow, it is imperative for the Gilbert Police Department to keep up with this growth and prepare for the future needs of our community. The Police Department has prioritized four projects (Advocacy Center; Crime Lab; Central Police Station; and San Tan Police Station) needed to maintain and improve the safety of our community. These projects will enhance the safety of our community and improve the efficiency of police services.

An Advocacy Center is a specialized facility designed to provide comprehensive support and services to individuals and families who have experienced domestic violence, child abuse, sexual assault, or other forms of interpersonal violence. These centers aim to streamline and coordinate services to ensure that survivors receive the help they need in a compassionate and efficient manner that minimizes re-traumatization of the victims to the greatest extent possible. Gilbert's Advocacy Center will also provide an added therapy component for ongoing visitors. Currently, Gilbert Police use advocacy centers and care facilities in adjacent municipalities for various victim services.

Forensic analysis of evidence is a key component to maintaining and improving community safety. A Crime Lab ensures that the Gilbert Police Department's cases are the highest priority. Bringing a quality and innovation-infused scientific facility to the community substantially enhances Gilbert Police Department's ability to better serve victims of crime and additionally, to reach its own performance goals. Staff continue to explore potential partnerships with nearby agencies that would achieve the same objective of prioritizing Gilbert's caseload while potentially saving cost.

Gilbert Police Department personnel work out of two buildings which are at or exceed current maximum capacity. This capacity also does not address future capacity needs. Gilbert Police needs to update and expand the Central Police Station. The existing San Tan Police Station is well beyond capacity and there is insufficient space to expand the existing facility. A new San Tan Police Station will need to be built to replace the current building.

Planned Projects

In December 2023, Council discussed the upcoming infrastructure needs for Parks, Police, and Fire. Thirty-three high priority projects costing over \$1 billion total were identified. Over the next several months, and at the February 2024 Financial Retreat, staff worked diligently with Council to create a plan that prioritized the critical infrastructure investments based on urgency and magnitude of consequences should a lack of investment occur. Additionally, input from citizens, master plan engagement, community impact, geographic accessibility, the Parks and Recreation Advisory Board, and Council were all considered in prioritizing these projects. Of the original list of crucial infrastructure needs, 23 projects representing over \$700 million were identified as the highest time-sensitive and most needed to move forward. The plan for prioritized projects includes Park, Police, and Fire infrastructure projects needed to meet

Gilbert's operational needs and to maintain Gilbert's quality of life into the future; the unresolved 10 projects remain vitally needed and will require future funding strategies. The projects and project costs will continue to be refined as design and scope are solidified.

Project #	Project Name	Anticipated Sales Tax Cash/Bonds	Other Funding Sources	Total Project Budget
MF2470	Public Safety Center Expansion	\$9,798,000	\$29,393,000	\$39,191,000
MF2491	Advocacy Center Phase 2 and 3	\$55,126,000	-	\$55,126,000
MF2510	Fire Station 4 Rebuild	\$18,426,000	\$2,178,000	\$20,604,000
MF2524	Crime Lab	\$76,843,000	\$4,155,000	\$80,998,000
MF2537	Fire Station 5 Remodel	\$3,228,000	\$13,888,000	\$17,116,000
MF2538	Fire Station 8 Remodel	\$3,708,000	\$12,146,000	\$15,854,000
MF2539	Fire Station 2 Remodel	\$3,708,000	\$10,891,000	\$14,599,000
MF2541	Fire Station 1 Remodel	\$2,146,000	\$18,861,000	\$21,007,000
MF2542	Fire Station 3 Remodel	\$2,813,000	\$12,497,000	\$15,310,000
MF2546	Fire Administration Remodel	\$11,739,000	\$3,853,000	\$15,592,000
MF2550	Fire Station 6 Remodel	\$3,653,000	\$13,341,000	\$16,994,000
MF2553	San Tan Police Substation	\$90,662,000	\$1,700,000	\$92,362,000
MF2557	Fire Fleet Facility	\$23,796,000	-	\$23,796,000
PR0330	Marathon Trail Improvements	\$45,116,000	\$4,000,000	\$49,116,000
PR0710	Riparian Education Center	\$13,173,000	\$340,000	\$13,513,000
PR1230	Canal Trail Lighting	\$26,201,000	-	\$26,201,000
PR1321	Gilbert Regional Park Phase 2 and 3	\$203,427,000	\$64,000,000	\$267,427,000
PR1322	Desert Sky Park Phase 2	\$104,477,000	\$11,429,000	\$115,906,000
PR1323	Marathon Trail Crossing at Power	\$3,535,000	\$147,000	\$3,682,000
PR1326	Freestone Park Pickleball Complex	\$16,208,000	-	\$16,208,000
PR1360	South Gilbert Recreation Center	\$37,852,000	-	\$37,852,000
PR1361	Freestone Park Splash Pad	\$4,808,000	-	\$4,808,000
RD2090	Western Powerline Shrd Use Path	\$7,807,000	-	\$7,807,000
	Total	\$768,250,000	\$202,819,000	\$971,069,000

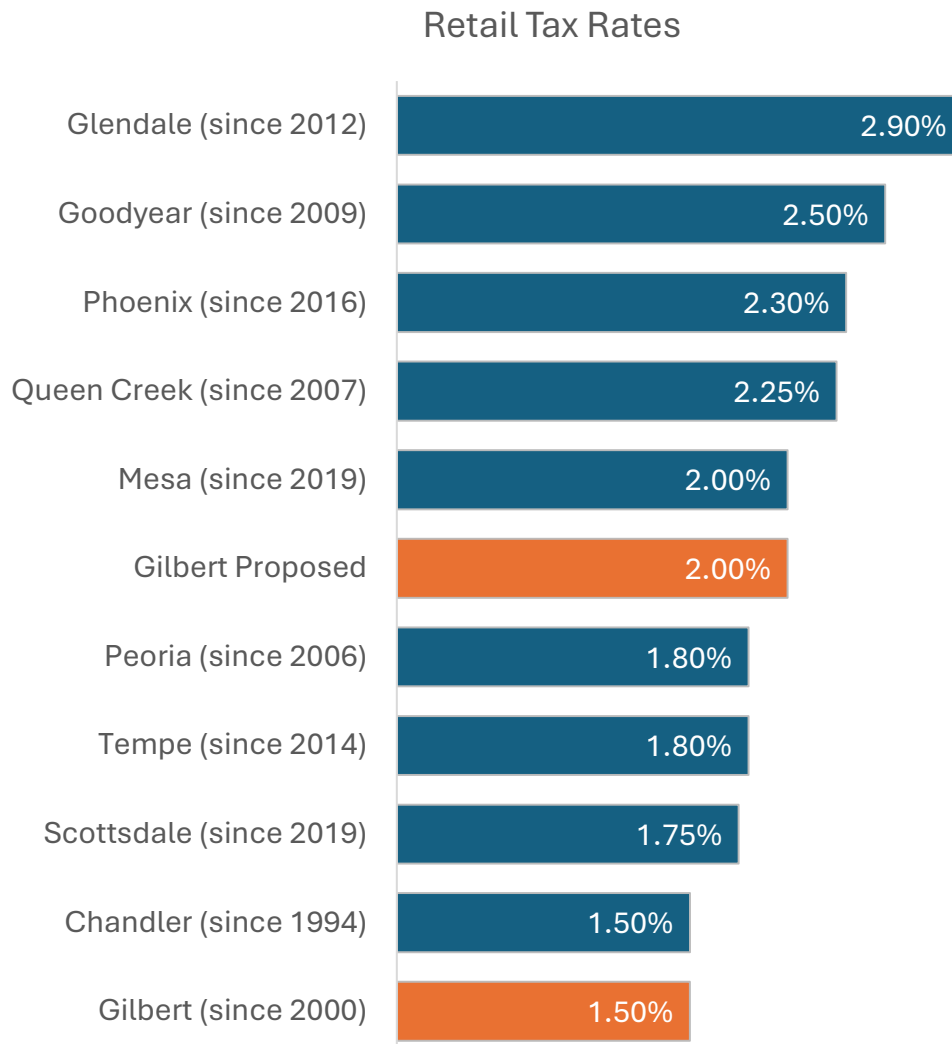
Proposed Funding

Multiple funding options were discussed for the needed infrastructure and operations investments. After weighing and discussing options, Council decided to pursue increases to the sales, use, and bed tax rates. Despite a continuously changing economic landscape as well as continued inflation and cost escalation over the past two decades, Gilbert's sales tax has not been increased since 2000. Some of the primary benefits of the sales tax option include:

- Infrastructure can be either cash-funded or bond-funded through sales tax revenues. A cash-funded approach avoids any unnecessary interest payments.

- Infrastructure repaid through secondary property tax must be bond funded. Due to the timing of current infrastructure needs, some bond funding will be needed but the Town plans to cash fund (to reduce interest and repayment costs) as much as possible.
- Sales, use, and bed taxes are paid by residents, businesses, and visitors. Allowing visitors to help pay the cost of the infrastructure they benefit from while in Gilbert reduces the overall costs to residents and businesses.
- There remain critically needed infrastructure and operations investments outside of this immediately prioritized list. As an ongoing revenue source, sales tax may be able to support further infrastructure repair and replacement through buildout.

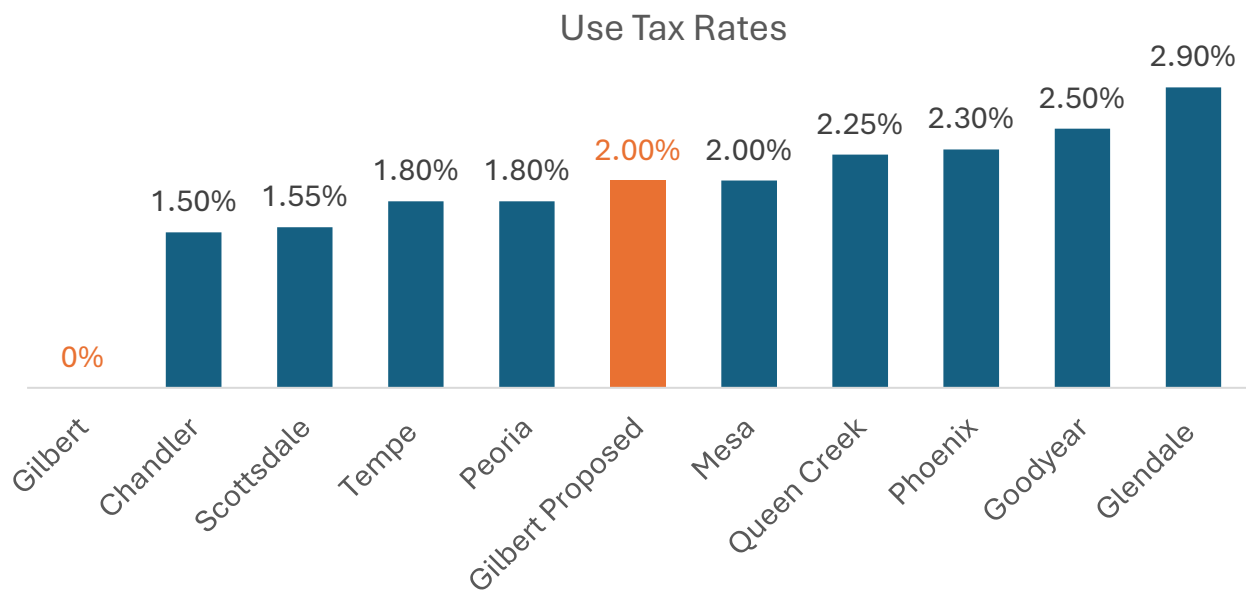
Gilbert's tax rate on retail sales was 1.00% from 1973 to 2000 and 1.50% from 2000 to current. This is low compared to the regional peer communities.



Closely related to sales tax, is the use tax. Use tax is paid when purchases are made online with vendors who do less than \$100k of sales in Arizona per year.



Currently, Gilbert's use tax rate is 0%. All other peer communities in the valley charge a use tax rate between 1.5% and 2.9%.



The bed tax is charged in addition to the base sales tax for hotel, motel, vacation rental, or similar accommodations where a person obtains lodging for a period less than 30 consecutive days. All of the increased revenue from this tax will be restricted for tourism-related purposes in accordance with state law (ARS §9-500.06). Allowed tourism-related purposes include:

- Direct expenditures by the town to promote tourism, including but not limited to sporting events or cultural exhibits.
- Contracts between the town and nonprofit organizations for the promotion of tourism.
- Expenditures by the town to develop, improve, or operate tourism related attractions or facilities or assist in the planning and promotion of such attractions and facilities.

The chart below the anticipated financial impact of the sales, use, and bed tax rate changes.

Category	Current Rates	Proposed Rates	Total Taxable Sales (Est.) (a)	Change in Revenue (Est.)
Retail	1.5%	2.0%	\$5,290,278,133	\$26,451,391
Food for Home Consumption	1.5%	2.0%	\$1,112,463,733	\$5,562,319
Restaurant and Bars	1.5%	2.0%	\$907,087,533	\$4,535,438
Hotels	1.5%	2.0%	\$67,495,667	\$337,478
Hotel/Motel (Bed Tax)	2.8%	5.0%	\$65,160,250	\$1,433,526 (b)
Commercial Rental	1.5%	2.0%	\$443,327,200	\$2,216,636
Residential Rental	1.5%	*Residential Rental Removed by State Legislature starting January 1, 2025.		
Construction	1.5%	2.0%	\$660,000,000 (c)	\$3,300,000
Communications & Utilities	1.5%	2.0%	\$439,107,800	\$2,195,539
Use Tax	-	2.0%	\$350,000,000 (d)	\$7,000,000
Other	1.5%	2.0%	\$325,739,140	\$1,628,696
			\$9,660,659,457	\$54,661,022

(a) Total sales were generally estimated based on actual sales from FY2023.

(b) A portion of the additional revenue from bed tax will be restricted for tourism-related purposes in accordance with ARS 9-500.06.

(c) Construction sales estimates were reduced by about 40% because FY2023 was a historically high year and construction sales are likely to decline as Gilbert reaches buildout.

(d) Use tax sales were estimated using an average from Chandler, Mesa, and Queen Creek since Gilbert had no use tax in FY2023.

The proposed changes in sales, use, and bed tax rates are estimated to produce approximately \$55m per year. A small portion of the anticipated revenue would be restricted bed tax which would be used for tourism-related purposes. The unrestricted revenue will be used for Town needs and infrastructure, at Council's direction.

Although the anticipated cash flow supports bonding to cover over at least some portion of the \$700m in projects, the Town strongly anticipates working to cash fund as much of the infrastructure as possible to reduce interest costs and maximize the value to taxpayers.

The general impact for every \$100 of spending is estimated to be about \$0.50.

Gilbert Town Council is scheduled to vote on these rate changes at the October 22, 2024, Council Meeting. If approved, the new rates would go into effect starting January 1, 2025.