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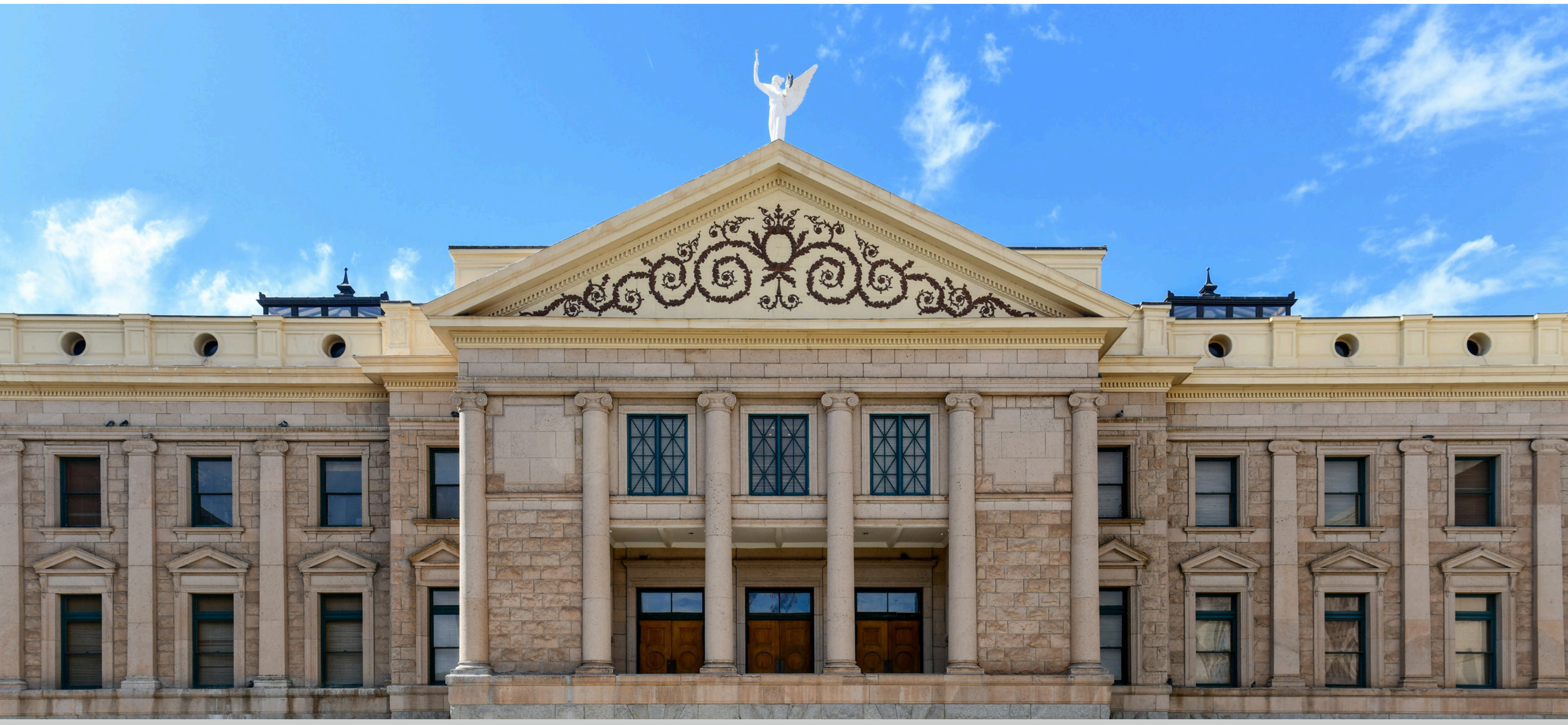
Sunset Review

Arizona Municipal Tax Code Commission

The Arizona Municipal Tax Code Commission delegated its responsibility for reviewing proposed Model City Tax Code amendments to an entity not recognized in statute, without clear statutory authority to do so, limiting public transparency



Report 26-107
August 2026

Lindsey A. Perry
Auditor General

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ARIZONA AUDITOR GENERAL

Lindsey A. Perry, Auditor General

August 11, 2026

Members of the Arizona State Legislature

The Honorable Katie Hobbs, Governor

Commission Chair Somers
Arizona Municipal Tax Code Commission

Director Woods
Arizona Department of Revenue

Transmitted herewith is a report of the Auditor General, *A Sunset Review of the Arizona Municipal Tax Code Commission*. This report is in response to an October 7, 2025, resolution of the Joint Legislative Audit Committee. The sunset review was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

As outlined in their responses, the Commission and the Arizona Department of Revenue (Department) agree with all the findings and plan to implement or implement in a different manner all of the recommendations directed to them. My Office will follow up with the Commission and Department in 6 months to assess their progress in implementing the recommendations. I express my appreciation to Commission Chair Somers, Director Woods, and Department staff for their cooperation and assistance throughout the audit.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry

Lindsey A. Perry, CPA, CFE
Auditor General

cc: Arizona Municipal Tax Code Commission members

Arizona Municipal Tax Code Commission

Sunset Review

The Arizona Municipal Tax Code Commission delegated its responsibility for reviewing proposed Model City Tax Code amendments to an entity not recognized in statute, without clear statutory authority to do so, limiting public transparency

Audit purpose

To determine whether the Commission met its statutory objective and purpose to review, hold public hearings on, and approve or deny proposed amendments to the Model City Tax Code (Code) and to respond to the 10 statutory sunset factors.[1]

Key findings

- Commission's purpose is to review, hold public hearings on, and approve or deny proposed amendments to the Code, a uniform sales and use tax act that Arizona cities and towns may adopt intended to facilitate uniform city taxes while providing cities/towns with options to tax or exempt certain items; Arizona Department of Revenue (Department) staff provide administrative support for the Commission.
- In December 2025, the Commission held a public meeting to consider and approve 5 proposed Code amendments, the first time it has done so since May 2019.
- Without explicit authority to do so, the Commission delegated its responsibility to review proposed Code amendments to the City Tax Administrators Council (CTAC), an entity not recognized in statute or required to follow open meeting laws, limiting public transparency.
- A statutory change to require the Commission to hold informational public hearings on all proposed Code amendments could help improve public transparency.

Key recommendations to the Department and Legislature

- The Department should coordinate with the Commission to request an Attorney General opinion about whether the Commission may lawfully delegate its responsibilities to CTAC or alternatively work with the Legislature to clarify the Commission's statutory authority to delegate any of its responsibilities.
- The Legislature should consider revising statute to require the Commission to hold informational public hearings on all proposed Code amendments it receives.

[1] The Arizona Auditor General conducted this sunset review of the Department pursuant to an October 7, 2025, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq.

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The Arizona Auditor General has completed a sunset review of the Arizona Municipal Tax Code Commission (Commission). This sunset review determined whether the Commission has met its statutory objective and purpose to review, hold public hearings on, and approve or deny proposed amendments to the Model City Tax Code and provides responses to the statutory sunset factors.

Commission's purpose is to promote uniform and consistent tax codes among cities and towns through the Model City Tax Code

The Commission was established in 1988, and pursuant to Laws 2023, Ch. 192, its purpose is to promote uniformity and consistency among Arizona cities' and towns' transaction privilege tax codes through the Model City Tax Code, provide a forum for both taxpayers and municipalities to present recommended changes to the Model City Tax Code, and to listen to general taxpayer concerns.[1] Its statutory objectives include reviewing, holding public hearings on, and approving or denying proposed amendments to the Model City Tax Code.[2] Specifically, according to A.R.S. §42-6052, any Arizona city or town, taxpayer, or the Arizona Department of Revenue (Department) may submit a proposed Model City Tax Code amendment to the Commission for review and consideration for approval.[3] Statute also requires the Commission to hold a public hearing at least 60 days after receiving a proposed amendment to consider adopting the amendment.[4] See Sunset Factor 2, pages 8 through 13, for issues we identified with the Commission not meeting its statutory responsibilities.

Key terms

Model City Tax Code: A uniform sales and use tax act that Arizona cities and towns may adopt. Although intended to facilitate uniformity among city taxes, the Model City Tax Code provides cities with options to tax or exempt certain items that are not part of the model language of the Model City Tax Code.

Transaction Privilege Tax (TPT): A tax imposed on a seller for the privilege of doing business in the State, regardless of whether the seller passes on the economic burden of the tax to the buyer. Because it is usually passed on to the buyer, this tax is commonly referred to as a sales tax. Statutes define various business activities that are subject to TPT, such as retail sales and hotel/motel lodging.

Source: Auditor General staff review of A.R.S. §42-6052, Arizona Administrative Code (AAC) R15-5-2002, Arizona Joint Legislative Budget Committee. (2024). *State of Arizona: 2024 tax handbook.* Retrieved 8/20/2025 from https://www.azjlbc.gov/revenues/24taxbk.pdf

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1 Laws 2023, Ch. 192, §4.

2 Arizona Revised Statutes (A.R.S.) §42-6052.

3 Effective October 30, 2023, A.R.S. §42-6052 requires a two-thirds vote of the Commission to approve a proposed amendment to the Model City Tax Code that either (a) repeals a model or local tax exemption or (b) expands the types of business activities that are considered taxable.

4 According to A.R.S. §42-6052, at least 30 days after receiving a proposed amendment, and at the request of a city or town, taxpayer, or the Department, the Commission must hold an informational public hearing to review and receive comments on the proposed amendment. The Department is also required to provide a legal analysis of the proposed amendment to the Commission at the informational public hearing (see page 2 for additional Department responsibilities).

According to A.R.S. §42-6052, all cities and towns must adopt changes to the Model City Tax Code approved by the Commission, with the following 2 exceptions:

- The Commission may approve an amendment to the Model City Tax Code submitted by a city or town that does not apply to any other city or town. For example, the Model City Tax Code includes articles that apply only to the cities of Phoenix and Mesa, both of which included a temporary tax assessment on certain hospital revenues.

- The Commission may approve an optional amendment to the Model City Tax Code to be adopted only by those cities and towns that choose to do so. For example, cities and towns may choose to adopt an option not to exempt livestock, feed, and agricultural chemicals purchased by ranchers and farmers from TPT.

A.R.S. §42-6052 further states that a city or town may not adopt an amendment to any provision of the Model City Tax Code unless the Commission has approved the amendment.

Finally, A.R.S. §42-6003 states that TPT-related disputes between 2 or more cities and/or towns, such as disputes related to the right to tax a transaction, the right to collect tax, or tax rates may be submitted to the Commission for resolution. Any party aggrieved by a Commission order or decision may appeal to the State Board of Tax Appeals within 30 days after receiving notice of the Commission order or decision.[5] In April 2026, the State Board of Tax Appeals reported it has not received any appeals of Commission orders or decisions based on its review of records between January 2020 and April 2026.

Department responsible for maintaining and incorporating changes to Model City Tax Code

A.R.S. §42-6052(D) requires the Department to:

- Maintain the official copy of the Model City Tax Code.[6]

- Incorporate statutory changes to the Model City Tax Code within 30 days of the effective date of the statutory changes.

- Post the official copy of the Model City Tax Code on its website.

- Maintain a mailing list for meeting notices, send required notices, and provide staff support and meeting accommodations for the Commission.

5 Per A.R.S. §42-1252, the State Board of Tax Appeals is established as an independent agency that consists of 3 members appointed by the Governor based on their knowledge of and experience in taxation. The State Board of Tax Appeals has full power to hear and decide all appeals from the Department's decisions.

6 Per A.R.S. §42-6052, if the Commission approves a proposed amendment, the Department must update the official copy of the Model City Tax Code within 10 days to reflect the amendment the Commission approved.

Statute requires the Commission to consist of 9 members

A.R.S. §42-6052 requires the Commission to consist of 9 voting members who are mayors or members of the governing bodies of Arizona cities and towns. According to statute, the Governor appoints 5 Commission members, the Arizona Senate President appoints 2 Commission members, and the Speaker of the Arizona House of Representatives appoints 2 Commission members. Commission members serve 3-year terms and are not eligible to receive compensation for their service. The Department director or the director's designee serves as a nonvoting ex officio Commission member.

As shown in Table 1, as of December 2025, the Commission had 7 filled and 2 vacant positions, with a quorum of members as of January 2024.[7] As of April 2026, 3 members' terms have expired. Pursuant to A.R.S. §38-295, Commission members whose terms have expired shall continue to serve until a successor is appointed. According to the Department, it has notified the Governor's Office about these 3 expired appointments. See Sunset Factor 2, page 8, for risks we identified concerning the expired Commission member appointments and its ability to have a quorum of members to hold public hearings.

Table 1

Commission comprised 7 filled and 2 vacant positions as of December 2025

Appointing authority	Member municipality[1]	Appointment date	Expiration date
Governor	Flagstaff	1/24/2024	1/19/2026[2]
	Goodyear	1/24/2024	1/18/2027
	Mesa	1/24/2024	1/19/2026[2]
	Phoenix	1/24/2024	1/19/2026[2]
	Queen Creek	1/24/2024	1/18/2027
Speaker of the Arizona House of Representatives	Glendale	6/21/2024	6/20/2027
	Vacant	N/A	N/A
Senate President	Queen Creek	8/26/2024	6/30/2026[2]
	Vacant	N/A	N/A

1 Per A.R.S. §42-6052(B), not more than 2 members of the Commission may be from the same city or town.

2 Although A.R.S. §42-6052(B) states that appointed members shall serve a term of 3 years, some appointments were made with retroactive term beginning dates. For example, on August 26, 2024, the Senate President appointed a member with a retroactive effective date of July 1, 2023, resulting in a term expiration date of June 30, 2026.

Source: Auditor General staff review of Commission member appointment letters, the *Notice: Vacancies and Appointments Report* by Arizona Office of the Governor, dated July 8, 2025, and the Department website as of December 2025.

7 Per A.R.S. §1-216, a majority of a board or commission shall constitute a quorum.

Statute requires Department to provide administrative and staff support for Commission

A.R.S. §42-6052 requires the Department to provide administrative and staff support for the Commission. The Department reported that, depending on the amount of Commission activity, between 6 and 9 Department staff, including administrative, city services team, and policy/legal employees, provide part-time support for Commission-related business in addition to their other duties and responsibilities. According to the Department, the most variable aspect is the legal and technical nature of the analysis required based on the specific amendments proposed to the Commission.

Neither the Commission nor the Department receive State General Fund appropriations or other revenues for the Commission

The Commission does not receive any State General Fund appropriations or revenues, and the Department reported it does not receive any revenues intended to pay for the costs of providing administrative support to the Commission. According to the Department, it has not been reimbursed for the costs of providing administrative services; therefore, it has not tracked Commission-related expenditures, including the time staff spent supporting the Commission.

Pursuant to A.R.S. §41-2954, the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation, consolidation, modification, or termination of the Commission.

Sunset factor 1: The key statutory objectives and purposes in establishing the Commission.

The Commission was established in 1988, and its purpose is to promote uniformity and consistency among Arizona cities' and towns' transaction privilege tax (TPT) codes through the Model City Tax Code, provide a forum for both taxpayers and municipalities to present recommended changes to the Model City Tax Code, and to listen to general taxpayer concerns (see Introduction, page 1, for additional information about the Model City Tax Code).

Specifically, the Commission's key statutory responsibilities include:

- Holding public hearings to review, receive public comments on, and consider for approval proposed changes to the Model City Tax Code.
- Approving or denying proposed amendments to the Model City Tax Code.
- Resolving tax disputes between 2 or more cities and/or towns.

Sunset factor 2: The Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

The Commission has taken steps to fulfill its key statutory objectives and purposes in 1 area we reviewed, and we identified a risk related to expired member terms that could impact the Commission's ability to meet its key objective and purpose and deficiencies in some Commission/Department processes that have impacted the Commission's ability to effectively and efficiently fulfill its key statutory objective and purpose.

First, although our September 2022 Commission sunset review found that it had not met its statutory objective and purpose because it lacked the required quorum of members to hold a public meeting, during this review, we found that the Commission:

- **Held a public hearing in December 2025 to consider and approve 5 Model City Tax Code amendments, its first time doing so since May 2019**

  Statute requires the Commission to review, hold public hearings on, and approve or deny proposed amendments to the Model City Tax Code.[1] Our review found that the

[1] A.R.S. §42-6052.

Commission held a public hearing on December 12, 2025, where it considered and approved 5 amendments that had been submitted to it, which was its first time doing so since May 2019.[2] As shown in Table 2, the Commission approved amendments pertaining to rental properties, telecommunication services, software application services for schools, independent functional utility equipment and property, and a rental occupancy tax classification.

Table 2

Commission reviewed and approved 5 Model City Tax Code amendments

December 2025

Amendment	Amendment proposer[1]	Amendment presenter	Key changes in amendment
2019 Rental of Real Property Amendment[2]	Unknown	League of Arizona Cities and Towns (League) staff[3]	▸ Adds a tax exemption for life care contracts, which are insurance products for long-term nursing, medical, or health-related services. ▸ Removes a tax exemption for real property rented, leased, or licensed to corporations.
2019 Telecommunications Amendment[2]	Unknown	League staff	▸ Made changes to conform the code to statute, which prohibits taxing over-the-top services.[4] ▸ Establishes provisions for calculating gross income derived from telecommunication services.
2025 Application Services Amendment	Unspecified taxpayer	League staff	▸ Adds an exemption for software application services that are rented, leased, or licensed by or for any school district, charter school, community college, or State university.

[2] A total of 6 proposed amendments were listed on the Commission's December 12, 2025, hearing agenda; however, 1 proposed amendment was not considered during the hearing because the taxpayer representative requested it be removed from consideration.

Table 2 continued

Amendment	Amendment proposer[1]	Amendment presenter	Key changes in amendment
2025 Independent Functional Utility Amendment	Taxpayer representative	League staff	▶ Makes changes to conform the code to statute for deductions and exemptions of gross income derived from machinery, equipment, or other property that has independent functional utility.
2025 Rental Occupancy Classification (Local Option Q) Repeal	Unspecified cities/towns	League staff	▶ Repeals rental occupancy tax classification for leases or rental agreements entered into prior to December 1, 1967.

1 To identify who proposed the amendment, we reviewed the agendas for and listened to the December 12, 2025 and May 31, 2019, public hearing recordings and reviewed draft proposals (see footnote 2 for additional information about why we reviewed the May 31, 2019, materials, and see Appendix B, pages b-1 and b-2, for additional information about the draft proposals we reviewed). See page 11 for issues we identified with the public and Commission's ability to understand who prepared the draft amendments. Additionally, according to the Commission's December 12, 2025, agenda, all proposals were submitted by the City of Mesa; however, as discussed further in Sunset Factor 5, pages 15 and 16, we identified inaccuracies with the agenda.

2 The Commission first approved the 2019 Rental of Real Property and 2019 Telecommunications amendments in its May 31, 2019, public hearing; however, it had to reapprove these 2 amendments at its December 12, 2025, public hearing (see pages 12 and 13 for issues we found with the Department not timely updating the Model City Tax Code, requiring the Commission to reapprove these 2 amendments). As a result, we listened to both the May 31, 2019 and December 12, 2025, public hearing recordings to prepare information in this table.

3 According to its website, the League is a voluntary membership organization for incorporated Arizona municipalities and exists to provide services to its members.

4 According to A.R.S. §42-6004(G), over-the-top services are audio or video programming services that a purchaser receives via an internet connection, that include linear or live programming, and that are generally considered comparable to programming provided by a radio or television broadcast station and includes related on-demand programming that is provided at no additional charge, regardless of whether the services are provided independently or packaged with other audio or video programming.

Source: Auditor General staff review of 5 proposed amendments on the Department's website, the Commission's December 12, 2025 and May 31, 2019, public hearing agendas and recordings, and the League's website. See Appendix B, pages b-1 and b-2, for additional information on the proposed amendments we reviewed.

Second, we identified a risk that could impact the Commission's ability to meet its statutory objective and purpose of reviewing, holding public hearings on, and approving or denying proposed amendments to the Model City Tax Code as follows:

- **Commission at risk of lacking a quorum of members to hold public hearings to review and approve amendments to Model City Tax Code, increasing risk that Model City Tax Code cannot be amended and becomes obsolete**

  As discussed in the Introduction (see page 3), as of December 2025, the Commission had 7 filled and 2 vacant positions, with a quorum of members as of January 2024.[3] However, as of July 2026, 4 of the 7 Commission members' terms have expired, and the Commission has 2 vacancies.[4] As a result, there is an increased risk that the Commission may lack a quorum to hold public hearings going forward if the members whose terms have expired decide to no longer continue serving before a successor is appointed.[5] Similarly, our September 2022 sunset review found that the Commission did not meet its statutory objective and purpose because it lacked the required quorum of members to hold a public meeting.[6] Absent the ability to hold a public hearing, the Commission is not able to meet its statutory objective and purpose of holding public hearings to review and approve or deny proposed amendments to the Model City Tax Code. As a result, the Model City Tax Code cannot be amended, and thus, the Model City Tax Code is at risk of becoming obsolete and/or no longer meeting the needs of Arizona cities and towns, businesses, and other taxpayers.

  As shown in Table 1, page 3, the 3 members' terms expired in January 2026 and were appointed by the Governor. In April 2026, the Department reported it had notified the Governor's Office about the 3 expired appointments. However, the Senate President and the Speaker of the Arizona House of Representative are responsible for appointing 1 member each to the vacant positions, as required by A.R.S. §42-6052. Reappointing Commission members whose terms have expired or appointing new Commission members will help ensure the Commission has the necessary quorum to hold public meetings to meet its statutory purpose and objective.

Finally, we identified deficiencies in some Commission and Department processes we reviewed that impact the Commission's ability to effectively and/or efficiently fulfill its key statutory objective and purpose of reviewing, holding public hearings on, and approving or denying proposed amendments to the Model City Tax Code (see Introduction, pages 2 through 4, for more information on the Department's responsibility for maintaining the Model City Tax Code and providing staff support to the Commission).

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3 Per A.R.S. §1-216, a majority of a board or commission shall constitute a quorum.

4 Per A.R.S. §42-6052, the Governor appoints 5 Commission members, the Arizona Senate President appoints 2 Commission members, and the Speaker of the Arizona House of Representatives appoints 2 Commission members.

5 Per A.R.S. §38-295, Commission members whose terms have expired shall continue to serve until a successor is appointed.

6 See Arizona Auditor General report 22-108 *Arizona Municipal Tax Code Commission—Sunset Review*.

Specifically:

- **Without explicit authority to do so, the Commission delegated responsibility for reviewing proposed Model City Tax Code amendments and other responsibilities to an entity not established by or recognized in statute, limiting public transparency and our ability to assess the effectiveness and efficiency of its statutory objectives and purposes**

  Statute requires the Commission to review, hold public hearings on, and approve or deny proposed amendments to the Model City Tax Code (see Figure 1, page 10, for the process required by statute); however, the Commission has delegated its responsibility to review proposed amendments and other responsibilities to the City Tax Administrators Council (CTAC), without clear statutory authority to do so.[7]

  Specifically:

  - The Commission Chair reported that the Commission assigned CTAC to review and assess proposed amendments prior to them being added to a hearing agenda for the Commission to review and consider for adoption.[8] The Commission Chair further reported that CTAC's process includes drafting language for the proposed amendments, working with cities and towns to obtain consensus on the draft language, and holding informal meetings with interested taxpayers and their advocates to review draft language, answer questions, and solicit input on suggested changes.

  - In February 2019, the Commission signed a resolution authorizing CTAC to draft interpretations of the Model City Tax Code on the Commission's behalf.[9] The resolution states that interpretations are often needed more frequently than the Commission meets and therefore designates CTAC to draft the interpretations, coordinate its work with the Department, and present significant interpretations to the Commission in meetings for its approval and adoption. However, it does not specify what is considered a significant interpretation, and our review of the agendas for the 3 meetings the Commission held since passing the resolution found no instances of CTAC presenting significant interpretations to the Commission for approval and adoption.

  However, CTAC is not a government entity required to follow public meeting laws or established or recognized in statute, and statute does not explicitly authorize the Commission to delegate its responsibility for reviewing proposed Model City Tax Code amendments to another entity. Further, the Commission does not have a contract or other written agreement with CTAC specifying requirements for reviewing and assessing proposed amendments to or interpretations of the Model City Tax Code. As a result, we could not assess CTAC's effectiveness and efficiency of reviewing proposed amendments to or drafting interpretations of the Model City Tax Code as delegated to it by the Commission.

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7 According to the Commission Chair, CTAC is a municipal work group that includes city and town tax administrators, contract auditors, and other tax professionals. Further, according to the Chair, the League is part of CTAC, and League staff participate in CTAC to assist cities and towns that do not have dedicated tax administrators.

8 In March 2026, the Commission Chair reported that CTAC has reviewed every proposed amendment to the Model City Tax Code since its inception; however, the Commission has never formally designated CTAC to do so, nor did it have explicit authority to do so.

9 The resolution specified that since the Commission is responsible for approving all changes to the Model City Tax Code, by extension, it is responsible for interpreting Model City Tax Code language that is unique to the cities and towns.

Figure 1

Statistical process to propose, review, approve, and implement amendments to the Model City Tax Code

Eligible entity submits proposed amendment for Commission review

Cities and towns, taxpayers, and the Department may submit proposed amendments to the Commission for review and consideration at least 60 days before the Commission approves or denies them at a public hearing.

Eligible entity may request informational public hearing

At the request of a city or town, taxpayer, or the Department, the Commission must hold an informational public hearing to review and receive comments on a proposed amendment, at which time the Department is required to provide a legal analysis of the proposed amendment to the Commission. At least 30 days before the informational public hearing, the Department must post the proposed amendment, meeting notice, and meeting agenda on its website.

Department must post revised proposed amendment

If testimony presented at the informational public hearing requires changes to the proposed amendment, the Department must post the revised version on its website within 5 days after the informational public hearing.

Department must post proposed amendment and required public hearing notice

The Department must post proposed amendments, a meeting notice, and meeting agenda on its website at least 60 days before a public hearing for the Commission to approve or deny a proposed amendment.

Commission holds public hearing

At least 60 days after the Commission receives a proposed amendment, it shall hold a public hearing to consider any information and testimony presented at the informational meeting, if requested, and to consider approving the proposed amendment.

Department must post Commission-adopted amendments to its website within 10 days

If the Commission approves an amendment, the Department must update the official copy of the Model City Tax Code on its website within 10 days.

Source: Auditor General staff review of A.R.S. §42-6052.

The Commission's practice of delegating its responsibilities for reviewing and assessing proposed Model City Tax Code amendments to CTAC outside of public hearings may have limited public transparency, and absent an agreement with CTAC, we could not determine if the Commission met the Legislature's intended purpose of providing a public forum for taxpayers to voice concerns about the Model City Tax Code (see Introduction, page 1, for additional information about the Legislature's intended Commission purpose).

For example, our review of the Commission's receipt, review, and approval of 5 proposed Model City Tax Code amendments at its December 2025 hearing identified the following issues related to the public's and the Commission's ability to understand and provide input on the proposed amendments:

- CTAC's 77ed process for drafting, reviewing, assessing, and obtaining input on proposed amendments prior to the Commission's public hearing did not include a public meeting notification, so we were not aware of and could not observe the process.

- The Commission's December 2025 hearing lacked information demonstrating if and how stakeholders, cities and towns, and taxpayers impacted by proposed amendments were included in CTAC's meetings and what input they provided.[10] Further, as shown in Table 2, pages 6 and 7, all 5 proposals were presented by a League staff member; however, it was not always clear who proposed the amendments to the Model City Tax Code, and therefore, we could not determine if they were proposed by parties authorized to do so (see Figure 1, page 10, for information about which parties can submit proposed amendments to the Model City Tax Code). Further, in June 2026, the Commission reported that it planned to accept proposed amendment presentations during its public hearings from city, town, and/or taxpayer representatives, such as attorneys or certified public accountants who represent taxpayers. As such, having the representative(s) accurately report the taxpayer or entity that submitted the proposed amendment during their presentation will help the Commission ensure that the proposed amendments were proposed by parties authorized to do so.

The Commission reported it has historically relied on CTAC to provide it with technical assistance for reviewing proposed amendments, despite statutory changes in 2020 assigning the Department to assist and support the Commission. Specifically, the Commission reported the members who make up the Commission are generally not TPT experts (see Introduction, page 1, for additional information about TPT). However, effective August 25, 2020, the Legislature revised statute to provide the Department with a greater role in providing support to the Commission, including providing legal analysis of proposed amendments at informational public hearings when they are requested.[11] As such, the Commission's continued reliance on CTAC for support instead of the Department may be unallowable.

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[10] During the December 2025 public hearing, a CTAC representative presented information about the 5 proposals to the Commission but did not specify if or how it incorporated any feedback it received from specific cities, towns, or taxpayers into the proposed amendments.

[11] Laws 2020, Ch. 71, §1.

Department did not request informational public hearing to discuss 2 proposed amendments, thereby limiting transparency

As shown in Figure 1, page 10, according to statute, the Commission must hold an informational public hearing to review and receive comments on proposed amendments if requested by a city or town, taxpayer, or the Department.[12] However, despite having questions concerning 2 proposed amendments submitted to the Commission for its review and consideration at the December 2025 public hearing, the Department did not request an informational public hearing to discuss these 2 proposals. Instead, the Department reported that it called and requested that the City of Mesa remove the 2 proposed amendments from the December 2025 public hearing agenda because it had concerns about their impact when considering related tax repeals. Although the Department could have requested the Commission hold an informational public hearing to publicly discuss its questions, as authorized by statute, the City of Mesa agreed to withdraw the proposed amendments until it could have further discussions and reported it would work with CTAC to discuss possible changes to the proposed amendments based on its conversation with the Department (see pages 9 through 11 for issues we found with CTAC's process for reviewing proposed amendments that limits transparency).[13] As a result, neither the Commission's members nor the public were able to hear the Department's questions about the proposed amendments in a public forum or to understand what changes would be made to address those questions.

Department did not timely update Model City Tax Code after Commission approved 2 amendments in 2019, requiring Commission to reapprove the 2 amendments in December 2025, thereby duplicating Commission efforts and delaying implementation of the approved amendments

As shown in Figure 1, page 10, statute requires the Department to update the official copy of the Model City Tax Code on its website within 10 days after the Commission approves an amendment. Further, any changes that are not reflected in the official copy on the website within the required time frame are considered void and have no effect.[14] Despite the Commission approving 2 proposed amendments in its May 2019 hearing, the Department's 2019 administration did not timely reflect these approved changes in the Model City Tax Code, thereby requiring the Commission to reapprove these proposals at its December 2025 hearing and delaying the cities from implementing these Model City Tax Code changes (see Table 2, pages 6 and 7, for an overview of the 2019 Rental of Real Property Amendment and the 2019 Telecommunications Amendment that had to

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12 A.R.S. §42-6052(F).

13 According to Department staff, had the City of Mesa disagreed with the Department's request to remove the proposed amendments from the agenda, it would have requested an informational public hearing to allow it to comment on those 2 proposals.

14 A.R.S. §42-6052.

be reapproved).[15,16] Although the amendments approved at the Commission's December 2025 meeting were reflected in the Model City Tax Code as of December 23, 2025, the Department lacked written procedures outlining its responsibility for updating the Model City Tax Code within 10 days of the Commission approving amendments, thereby increasing the risk that the Department could miss the 10-day time frame in the future.

In the fall of 2025, Department staff began revising a guidance document for fulfilling Commission administration duties, including the statutory time frame for updating the Model City Tax Code when amendments are approved by the Commission. However, our review of the revised draft guidance found that it included information inconsistent with statute, including incorrectly identifying the entities that can submit a proposed amendment, the number of commissioners needed for a quorum, and time frames for posting informational and public hearing notices and agendas on the Department's website (see Figure 1, page 10, for information about the time frames for posting notices and agendas).[17,18] Additionally, according to Department staff responsible for providing administrative support to the Commission, there was no formal training provided on the Department's administrative responsibilities. As of February 2026, Department leadership reported it had not yet reviewed the revised draft guidance document but reported it would do so and provide training to applicable staff once the revisions are finalized.

Recommendation to the Governor, Arizona Senate President, and Speaker of the Arizona House of Representatives

1. The Governor, Senate President, and Speaker of the House should reappoint Commission members whose terms have expired and/or appoint new Commission members, as applicable.

Recommendation to the Commission

1. Ensure that proposed amendments to the Model City Tax Code submitted to it for review and consideration for approval are submitted by only a city or town, taxpayer, or the Department, as authorized by A.R.S. §42-6052(E), including those that are presented to the Commission in public hearings by a city, town, and/or taxpayer representative.

Commission response: As outlined in its **response**, the Commission agrees with the finding and will implement the recommendation.

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15 Department administration responsible for supporting the Commission during our audit were not in their positions in 2019. Specifically, according to the Department's website, the director was appointed in March 2021 and joined the Department in January 2020, which was after the May 2019 Commission hearing.

16 The Commission reported that it uses retroactive effective dates for amendments that clarify, expand on, or add an exemption for taxpayers, but if the amendment increased the tax liability for any taxpayer, it would have a prospective effective date as required by Model City Tax Code §542. Although the 2 amendments the Commission reapproved in December 2025 have retroactive effective dates of January 1, 2012 and July 1, 2019, A.R.S. §42-6055 allows municipalities to amend the effective date of any provision of the Model City Tax Code to any date after the effective date if the city or town believes a substantial number of taxpayers may not have received a fair notice as to the applicability of the tax or in instances where prospective application of the provision may further substantial justice.

17 A.R.S. §42-6052 states that cities and towns, taxpayers, and the Department may submit proposed amendments to the Commission for review and consideration for adoption. However, the Department's draft policy included unallowed entities, such as the Arizona League of Cities and Towns.

18 As discussed in the Introduction, page 3, the Commission shall consist of 9 voting members, and pursuant to A.R.S. §1-216(B), a majority of commission members shall constitute a quorum. As such, the Commission needs 5 members present for a quorum; however, the Department's draft policy incorrectly identified 4 members as a quorum.

Recommendations to the Department

1. In coordination with the Commission, request a formal opinion from the Attorney General pursuant to A.R.S. §41-193(A)(7) about whether the Commission may lawfully delegate its responsibilities to CTAC. Alternatively, or if the Attorney General declines to opine on any portion of the question, work with the Legislature to clarify in statute what authority, if any, the Commission has to delegate its statutory responsibilities related to the Model City Tax Code, and the scope of such authority.

2. Request informational public hearings with the Commission to provide comments on proposed amendments, as authorized by A.R.S. §42-6052(F), to improve Commission and public transparency.

Revise and implement Department policies and procedures for fulfilling Commission administration duties, including:

3. Updating the Model City Tax Code with those amendments approved by the Commission within the time frame required by A.R.S. §42-6052.

4. Ensuring the guidance includes information consistent with statutory requirements, including identifying who can submit proposed amendments, the number of Commission members needed for a quorum, and the applicable time frames for posting informational and public hearing notices and agendas on its website.

5. Provide training to all existing and any new staff responsible for supporting the Commission on using Department policies and procedures for fulfilling Commission administration duties.

Department response: As outlined in its **response**, the Department agrees with the findings and will implement or implement in a different manner the recommendations.

Sunset factor 3: The extent to which the Commission's key statutory objectives and purposes duplicate the objectives and purposes of other governmental agencies or private enterprises.

Our review did not identify any other governmental entities or private enterprises that duplicate the Commission's key statutory objectives and purposes of providing a forum for both taxpayers and municipalities to propose Model City Tax Code changes, approving or denying proposed amendments to the Model City Tax Code, and resolving tax disputes between 2 or more cities and/or towns.

Sunset factor 4: The extent to which rules adopted by the Commission are consistent with the legislative mandate.

This factor is not applicable because our review of the Commission's statutes found that the Commission does not have statutory authority to adopt rules.

Sunset factor 5: The extent to which the Commission has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Commission did not receive any public records requests during our review time frame and is not statutorily authorized to adopt rules; however, although the Commission complied with open meeting law requirements we reviewed, it can improve the accuracy of information it provides to the public.

Specifically:

- Although the Department has a process for receiving and responding to public records requests, including those related to the Commission, our review of Department public record requests from January 2022 to September 2025 found the Department had not received any Commission-related requests. As a result, we could not assess the Commission's compliance with statutory public records request requirements.

- As previously discussed in Sunset factor 4, the Commission does not have statutory authority to adopt rules; therefore, it did not need to obtain public input for this purpose.

- Our review of the 1 public hearing the Commission held during our audit, in December 2025, found that the Commission complied with the following open meeting law requirements we reviewed:[19]

  Specifically:

  - As of October 2025, the Department website included a statement identifying where all public notices of Commission hearings will be posted, including the physical and electronic locations, as required by A.R.S. §38-431.02(A)(1)(a).

  - The Department posted the proposed amendment(s), hearing notice, and hearing agenda on its official website at least 60 days before the public hearing for consideration to adopt the proposed amendment(s), as required by A.R.S. §42-6052(E).

[19] The Commission is a public body and therefore must comply with the State's open meeting law. Further, the Department is responsible for providing administrative support to the Commission, including posting meeting notices, proposed amendments, and meeting agendas on its website.

- The Commission's hearing notice and agenda included statutorily required information, such as the date, time, and location of the hearing, and the specific matters to be discussed and considered during the hearing.

- The Commission recorded the hearing, and the recording was available on the Department's website within 3 days, as required by A.R.S. §38-431.01(E).

However, we did identify an area in which the Commission can improve the accuracy of information it provides the public. The Commission indicated that 6 amendments on its December 2025 hearing agenda had been submitted by the City of Mesa; however, at least 2 proposals were originally submitted by a taxpayer representative and not the City of Mesa. Specifically, the taxpayer representative requested that 1 of the proposed amendments be removed from the Commission's December 2025 meeting 1 day prior to the meeting, and our review of the December 12, 2025, public hearing recording found that the taxpayer representative submitted the proposal and not the City of Mesa. Additionally, as discussed on page 11, the Commission reported that it planned to accept proposed amendment presentations during its public hearings from city, town, and/or taxpayer representatives. Accurately reporting the taxpayer or entity that submits a proposed amendment to the Commission for review and approval, including those instances where proposed amendments may be presented by a representative, would improve transparency for the public and the Commission.

Recommendation to the Commission

2. Ensure Commission hearing agendas provide accurate information, such as accurately identifying the taxpayer or entity that submitted a proposed amendment, including those instances where proposed amendment may be presented by a representative.

Commission response: As outlined in its **response**, the Commission agrees with the finding and will implement the recommendation in a different manner.

Sunset factor 6: The extent to which the Commission timely investigated and resolved complaints that are within its jurisdiction.

Although the Commission does not have statutory authority to investigate complaints, A.R.S. §42-6003 states that TPT-related disputes between 2 or more cities and/or towns, such as disputes related to the right to tax a transaction, collect tax monies, or adjust tax rates, may be submitted to the Commission for resolution. However, our review of Commission agendas and meeting minutes indicated that no such disputes were discussed at Commission meetings held between September 2012 and December 2025.[20]

[20] We first assessed whether the Commission resolved tax disputes between cities and towns at its 2012 through 2019 meetings during our 2022 sunset review. In December 2025, we assessed whether it resolved tax disputes between cities and towns during its June 2024 and December 2025 meetings, as these were the only Commission meetings held since 2019.

Sunset factor 7: The extent to which the level of regulation exercised by the Commission is appropriate as compared to other states or best practices, or both.

This factor does not apply because the Commission is not a regulatory agency.

Sunset factor 8: The extent to which the Commission has established safeguards against possible conflicts of interest.

Statute requires public officers and employees of public agencies to avoid conflicts of interest that might influence or affect their official conduct.[21] These laws require employees/public officers to disclose substantial financial or decision-making interests and then refrain from participating in matters related to the disclosed interests. Our review of the Commission's conflict-of-interest practices found that it complied with State conflict-of-interest requirements we reviewed. For example, the Department has developed and implemented a conflict-of-interest process that includes a policy requiring public officers, including the Commission members, to complete conflict-of-interest disclosure forms to disclose substantial financial or decision-making interests annually. We found all Commission members and the Commission's ex officio member complied with this requirement in 2024 and 2025.[22] Additionally, the Department maintains a special file of substantial interest disclosure statements available for public inspection.

Sunset factor 9: The extent to which changes are necessary for the Commission to more efficiently and effectively fulfill its key statutory objectives and purposes or to eliminate statutory responsibilities that are no longer necessary.

We identified a statutory change that may help the Commission improve transparency when fulfilling its key statutory responsibilities, including ensuring it receives legal analyses from the Department on all proposed amendments to the Model City Tax Code. Specifically, although statute allows the Commission to hold an informational public hearing to review and receive comments on proposed Model City Tax Code amendments and requires the Department to provide a legal analysis on the proposed amendments at the informational public hearing, statute requires that the Commission first receive a request from a city or town, taxpayer, or the Department to do so. However, as discussed in Sunset Factor 2, pages 9 through 13, Commission and Department practices may have limited transparency, including constraining the use of public hearings for stakeholders to voice concerns about proposed amendments to the Model City Tax Code. Revising statute to require the Commission to hold an informational meeting for all proposed Model City Tax Code amendments could increase transparency related

[21] A.R.S. §38-503.

[22] The Department provided completed annual disclosure statements for all 8 filled Commission positions in 2024 and all 7 filled Commissioner positions in 2025.

to the review and revision of proposed amendments, help ensure the Commission receives input on the proposed amendments from relevant parties, and ensure the Commission receives a legal analysis from the Department for each proposed amendment.

Recommendation to the Legislature

1. The Legislature should consider revising A.R.S. §42-6052(F) to require the Commission to hold informational public hearings on all proposed amendments it receives prior to the Commission hearing to review and consider for approval proposed amendments to the Model City Tax Code.

Sunset factor 10: The extent to which the termination of the Commission would significantly affect the public health, safety, or welfare.

Termination of the Commission would not likely affect public health, safety, or welfare. Although the Commission is uniquely positioned to receive, review, hold public hearings on, and approve or deny proposed amendments to the Model City Tax Code, our analysis of the Commission's hearings, amendment adoption, and dispute resolution activity may not demonstrate its continued public need.

Specifically:

- **Commission has met infrequently over the span of 14 years with meetings averaging a length of 27 minutes**

  As shown in Table 3, page 19, between September 2012 and December 2025, the Commission met a total of 12 times in 7 of those years, including 11 times in 6 years to consider proposed amendments to the Model City Tax Code, with several time gaps between the hearings. Specifically, the Commission did not meet at all in 7 of those years, and although it met once in 2024, it did not consider any proposed amendments to the Model City Tax Code at that meeting. Further, our review of 10 of 12 meetings held between September 2012 and December 2025 that had posted minutes or recordings found that the estimated length of the hearings ranged from 7 to 43 minutes, with an average meeting time of 27 minutes.[23]

[23] Although no minutes were posted for 2 of its hearings, according to the posted agendas, the Commission met on October 19, 2012, to determine if the Phoenix access-of-care ordinance belonged in the Model City Tax Code and on March 29, 2013, to determine retail-classification conformity for nuclear fuels and food sales to schools, separation of food for home consumption from the retail classification, and incorporation of wastewater removal services into the model code.

Table 3

In the span of 14 years, the Commission met a total of 12 times in 7 years, including 11 times in 6 years to consider and approve a total of 40 amendments to the Model City Tax Code, but did not meet to discuss amendments in 8 of those years

Calendar year	Number of meetings held	Number of amendments heard	Number of amendments approved without Commission modification
2012	2	1	1
2013	4	13	13
2014	1	2	2
2015	0	N/A	N/A
2016	0	N/A	N/A
2017	0	N/A	N/A
2018	1	15	15
2019	2	4	4
2020	0	N/A	N/A
2021	0	N/A	N/A
2022	0	N/A	N/A
2023	0	N/A	N/A
2024	1	None[1]	None[1]
2025	1	5	5
Total	**12**	**40**	**40**

1 The Commission held a public hearing on June 25, 2024, to provide a Commission overview to new members and to vote on a Commission chair. No proposals were discussed or considered at this meeting.

Source: Auditor General staff review of Commission meeting agendas and minutes from September 21, 2012 through December 12, 2025.

Commission has approved all proposed amendments to the Model City Tax Code without modification or public comment

Despite part of the Commission's purpose being to provide a forum for both taxpayers and municipalities to present recommendations for changes to the Model City Tax Code and to listen to taxpayer concerns, the Commission has not received any public comments concerning the proposed amendments and has approved all amendments as proposed without Commission modification.[24] Specifically, our review of Commission meeting recordings and/or minutes for meetings held between September 2012 and December 2025 found that the Commission has not received any public comments or taxpayer concerns expressed in the public hearings.[25] Additionally, the Commission has approved all 40 proposed amendments without modifying them.

Further, statutory changes in 2020 allow the Commission to hold informational public hearings to review and receive comments on the proposed amendments that may require changes to the language presented at the hearing.[26] However, the Commission reported it has not received a request for an informational public hearing (see Sunset Factor 9, pages 17 and 18, for issues we identified related to the informational public hearings). Instead, as discussed in Sunset Factor 2, pages 9 through 12, the proposals that require further discussion may have been inappropriately discussed with other parties outside of the Commission's public hearings.

Commission has not received any requests to resolve tax disputes

Between September 2012 and December 2025, the Commission did not receive any requests to resolve any tax disputes between municipalities.

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24 During the September 20, 2013, hearing, a member of the public requested to speak during the hearing to thank the Commission.

25 We reviewed meeting minutes or recordings from 9 of 12 hearings held between September 2012 and December 2025. We could not review meeting minutes or recordings for 3 of the 12 hearings because there were no meeting minutes or recordings posted on the Department's website for the October 19, 2012 and March 29, 2013, hearings, and the recording for the January 11, 2013, hearing did not include a call to the public.

26 Laws 2020, Ch. 71, §1.

The Arizona Auditor General makes 1 recommendation to the Governor, Arizona Senate President, and Speaker of the Arizona House of Representatives; 2 recommendations to the Commission; 5 recommendations to the Department; and 1 recommendation to the Legislature

Click on a finding, recommendation, or its page number to the right to go directly to that finding or recommendation in the report.

Recommendation to the Governor, Arizona Senate President, and Speaker of the Arizona House of Representatives

Recommendations to the Commission

Recommendations to the Department

SUNSET FACTORS 5

1. In coordination with the Commission, request a formal opinion from the Attorney General pursuant to A.R.S. §41-193(A)(7) about whether the Commission may lawfully delegate its responsibilities to CTAC. Alternatively, or if the Attorney General declines to opine on any portion of the question, work with the Legislature to clarify in statute what authority, if any, the Commission has to delegate its statutory responsibilities related to the Model City Tax Code, and the scope of such authority. **14**

2. Request informational public hearings with the Commission to provide comments on proposed amendments, as authorized by A.R.S. §42-6052(F), to improve Commission and public transparency. **14**

Revise and implement Department policies and procedures for fulfilling Commission administration duties, including:

3. Updating the Model City Tax Code with those amendments approved by the Commission within the time frame required by A.R.S. §42-6052. **14**

4. Ensuring the guidance includes information consistent with statutory requirements, including identifying who can submit proposed amendments, the number of Commission members needed for a quorum, and the applicable time frames for posting informational and public hearing notices and agendas on its website. **14**

5. Provide training to all existing and any new staff responsible for supporting the Commission on using Department policies and procedures for fulfilling Commission administration duties. **14**

Recommendation to the Legislature

SUNSET FACTORS 5

1. The Legislature should consider revising A.R.S. §42-6052(F) to require the Commission to hold informational public hearings on all proposed amendments it receives prior to the Commission hearing to review and consider for approval proposed amendments to the Model City Tax Code. **18**

Prior recommendations

Commission has implemented outstanding recommendation from our 2022 sunset review

Our September 2022 sunset review found that the Commission had not met its statutory purpose to review, hold hearings on, and approve or deny amendments to the Model City Tax Code because it lacked a quorum of members to hold public meetings.[1] We made 1 recommendation to the Governor, Arizona Senate President, and the Speaker of the House, which was partially implemented at the time of our 18-month followup. We also made 2 recommendations to the Commission, 1 that was implemented, and 1 that was in the process of being implemented at the time of our 18-month followup.

During this audit, we followed up on the 1 outstanding recommendation the Commission had not fully implemented, and the Commission's status in implementing this recommendation is as follows:

Commission's status in implementing 1 recommendation

Implementation status	Number of recommendations
Implemented	1 recommendation

Sunset Factor 2: The extent to which the Commission has met its statutory objective and purpose and the efficiency with which it operated.

2. The Commission/Commission members should, once its members have been appointed and it has a quorum of members, meet to review and consider, for approval or disapproval, any proposed amendments to the Model City Tax Code that have been submitted to it, as required by statute.

- Status: **Implemented at 38 months.**

  As discussed in our 18-month followup, in June 2024, the Commission had a quorum of 7 voting members and held its first public meeting since we issued our audit in September 2022. During the June 2024 meeting, the Commission elected a Commission chair and received a briefing from Department staff on Commission members' roles and responsibilities and pending matters before the Commission. Since September 2024 when we issued our 18-month followup, the Commission has held

[1] See Arizona Auditor General report 22-108 *Arizona Municipal Tax Code Commission—Sunset Review.*

1 subsequent meeting in December 2025, during which it considered and approved 5 amendments to the Model City Tax Code that had been submitted to it.

Although the Commission implemented our recommendation at 38 months, during this audit, we found that the Commission is at risk of lacking a quorum of members to hold public hearings to review and approve or deny proposed amendments to the Model City Tax Code (see Sunset Factor 2, page 8, for additional information about this risk). As a result, if the Commission lacks a quorum, this recommendation would no longer be implemented.

Scope and methodology

The Arizona Auditor General has conducted this sunset review of the Commission pursuant to a October 7, 2025, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to address the objectives of this sunset review of the Commission. These methods included reviewing the Commission's statutes, interviewing the Commission's chairman and Department staff, and reviewing information from the Department's website.

In addition, we used the following specific methods to meet the audit objectives:

- To obtain information for the Introduction, we reviewed the State of Arizona 2024 Tax Handbook regarding the Model City Tax Code; Department-provided information regarding Commission member appointments and vacancies; and the fiscal year 2026 general appropriations bill.[1]
- To assess the Commission's efficiency and effectiveness in reviewing, holding public hearings on, and approving or denying proposed amendments, we reviewed 5 proposed amendments that were presented to and approved by the Commission at its December 12, 2025, public hearing and the hearing recording. Specifically, we reviewed the following:
  - 2019 Rental of Real Property Amendment.
  - 2019 Telecommunications Amendment.
  - 2025 Application Services Amendment.
  - 2025 Independent Functional Utility Amendment.
  - 2025 Rental Occupancy Classification (Local Option Q) Repeal.
- To determine if the public and Commission received information about who prepared the proposals, including if and how stakeholders, cities and towns, and taxpayers impacted by proposed amendments were included in developing the proposed amendments, we reviewed:
  - Agendas and hearing recordings for the Commission's December 12, 2025 and May 31, 2019, public hearings.[2]

1 Arizona Joint Legislative Budget Committee. (2024). *State of Arizona: 2024 tax handbook*. Retrieved 8/20/2025 from https://www.azjlbc.gov/revenues/24taxbk.pdf; and Laws 2025, Ch. 233.

2 As previously discussed in Sunset Factor 2, page 11, the Department did not timely update the Model City Tax Code after the Commission approved the Rental of Real Property and the Telecommunications amendments at its May 31, 2019, public hearing. As a result, the Commission reapproved these 2 amendments—2019 Rental of Real Property and 2019 Telecommunications—in its December 12, 2025, public hearing. As such, we reviewed the agenda and public hearing recordings for both the May 31, 2019 and December 12, 2025, hearings for these 2 amendments.

- The 5 proposals the Commission approved on December 12, 2025 (see prior bullet for a list of these 5 amendments).

- Draft proposals for 3 of the 5 amendments that were initially posted on the Department's website with CTAC commentary on the proposed language. Specifically, we reviewed October 8, 2025 and October 15, 2025, versions of the 2025 Application Services Amendment, the 2025 Independent Functional Utility Amendment, and the 2025 Rental Occupancy Classification (Local Option Q) Repeal to determine if these versions included additional information about who proposed the amendment or how stakeholders, cities and towns, or taxpayers were included in developing the proposed amendments.[3]

- To determine the frequency of meetings and number of amendments heard and approved, and identify the number of amendments approved without modification or public comment between calendar years 2012 and 2025, we reviewed Commission meeting agendas and minutes or recordings and the proposed amendments posted on the Department's website.[4]

- To assess the Commission's compliance with open meeting law requirements, we observed the December 12, 2025, meeting, which was the only meeting held during the audit period.

- To assess the Commission's compliance with State conflict-of-interest requirements, we reviewed statute, Department conflict-of-interest policy, and Commission members' conflict-of-interest disclosure forms. We also observed the statutorily required special disclosure file. To determine if the conflict-of-interest disclosure forms were completed annually as required by Department policy, we reviewed all active Commission members' disclosure forms for calendar years 2024 and 2025.

Our work on internal controls included reviewing and testing the Commission's compliance with statutory requirements related to its responsibilities and the Department's conflict-of-interest policy. We reported our conclusions on applicable internal controls in our responses to the statutory Sunset Factors (see pages 5 through 20).

We conducted this sunset audit of the Commission in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to Commission Chair Somers, the Commission's members, Department Director Woods, and Department staff for their cooperation and assistance throughout the audit.

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3 Proposed amendments posted on the Department website as of October 8, 2025, included commentary CTAC prepared. On October 15, 2025, the proposed amendments were reposted on the Department's website without the commentary. We reviewed both versions of the proposed amendments.

4 We reviewed meeting minutes or recordings from 10 of 12 hearings held between September 2012 and December 2025. We could not review meeting minutes or recordings for 2 of the 12 hearings because there were no meeting minutes or recordings posted on the Department's website for the October 19, 2012 and March 29, 2013, hearings. Additionally, the January 11, 2013, hearing did not include a call to the public; however, the recording starts after the Commission generally calls for public comment.

COMMISSION RESPONSE

The subsequent pages were written by the Commission to provide a response to each of the findings and to indicate its intention regarding implementation of the recommendations resulting from the audit conducted by the Arizona Auditor General.

MUNICIPAL TAX CODE COMMISSION

July 23, 2026

Lindsey Perry, Auditor General
Office of the Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Perry,

On behalf of the Municipal Tax Code Commission, please accept the Commission's final response to the Auditor General's performance audit report.

The Commission appreciates the opportunity to review the report, discuss the findings and recommendations, and provide additional information regarding its role and responsibilities. We remain committed to maintaining clear procedures and strong coordination among participating agencies to ensure the Model City Tax Code continues to serve Arizona's municipalities, taxpayers, and businesses.

Thank you to you and your team for your professionalism and coordination throughout the audit process.

Sincerely,

Scott Somers
Chairman
Municipal Tax Code Commission

Recommendations to the Commission

Sunset factor 2: The Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Without explicit authority to do so, the Commission delegated responsibility for reviewing proposed Model City Tax Code amendments and other responsibilities to an entity not established by or recognized in statute, limiting public transparency and our ability to assess the effectiveness and efficiency of its statutory objectives and purposes

Commission response: The Auditor General's finding is agreed to.

Response explanation: The Model City Tax Code is a standardized municipal code created and amended by the cities and towns of Arizona as the basis for preparing and approving a local ordinance in each city and town. The Department's role is to maintain the official copy of the code and update it when changes are approved by the Commission. The League of Arizona Cities and Towns, along with city and town tax administrators and staff that comprise the City Tax Administrators Council (CTAC), are the subject-matter experts who understand how proposed amendments will impact each jurisdiction and interplay with other MCTC sections and regulations. Their analysis is essential when reviewing potential changes to the code. Because any amendment could affect all 92 cities and towns, the League serves as the representative voice for the majority, especially for those jurisdictions that do not have the resources or staff to participate directly. The League and other members of CTAC are the appropriate subject matter experts to review the proposed amendments and present to the Commission the effect of the proposed amendments. Cities and towns have always engaged with the public to reach agreement on proposed amendments prior to any item being presented to the commission and will continue to do so by inviting the public to participate in appropriate informal discussions and working meetings before any proposed amendment is placed on a Commission agenda.

Recommendation 1: Ensure that proposed amendments to the Model City Tax Code submitted to it for review and consideration for approval are submitted by only a city or town, taxpayer, or the Department, as authorized by A.R.S. §42-6052(E), including those that are presented to the Commission in public hearings by a city, town, and/or taxpayer representative.

Commission response: The audit recommendation will be implemented.

Response explanation: A.R.S. 42-6052(E) allows a city or town, a taxpayer, or the Department to submit proposed amendments to the Model City Tax Code. The Commission may accept representatives of those entities to present proposed amendments on their behalf. This includes, but is not limited to, attorneys or CPAs representing taxpayers, and the League of Arizona Cities and Towns representing a city or town. The Commission will ensure proposals are only accepted from "a taxpayer" or their representatives but will only identify individual taxpayers as the proposer if they request it. All other "taxpayer" submissions will be identified as such without identifying a specific taxpayer or representative group. Similarly, the Commission will ensure proposals are only accepted from "a city or town" but will only identify an individual city or town when appropriate and requested. All other submissions, such as those originating through the cities and towns collectively, will be associated with the city or town represented by the chair of the Commission.

Sunset factor 5: The extent to which the Commission has provided appropriate public access to records, meetings, and rulemakings, including soliciting public input in making rules and decisions.

The Commission did not receive any public records requests during our review time frame and is not statutorily authorized to adopt rules; however, although the Commission complied with open meeting law requirements we reviewed, it can improve the accuracy of information it provides to the public

<u>Commission response:</u> The Auditor General's finding is agreed to.

<u>Response explanation:</u> A.R.S. 42 6052(E) allows a city or town, a taxpayer, or the Department to submit proposed amendments to the Model City Tax Code. The Commission may accept representatives of those entities to present proposed amendments on their behalf. This includes, but is not limited to, attorneys or CPAs representing taxpayers, and the League of Arizona Cities and Towns representing a city or town. The Commission will ensure all accepted proposals are submitted by a permitted entity or group, and agenda items will identify the source of each proposed amendment. Meetings of city and town representatives where proposals are reviewed and discussed will continue to include the participation of taxpayers and the Department when appropriate. CTAC will continue to hold an informal discussion(s) to receive input and consider potential changes to proposals with all interested taxpayers and representatives registered with the Department to receive notice and information regarding the Commission.

Recommendation 2: Ensure Commission hearing agendas provide accurate information, such as accurately identifying the taxpayer or entity that submitted a proposed amendment, including those instances where proposed amendments may be presented by a representative.

<u>Commission response:</u> The audit recommendation will be implemented in a different manner.

<u>Response explanation:</u> It must be noted that proposed amendments submitted by "a taxpayer" are commonly submitted on behalf of several taxpayers collectively or an industry group rather than a specific taxpayer. As with most bills proposed in the legislature, individual taxpayers rarely wish to be identified or directly associated with a proposed Code amendment. The Commission will ensure proposals are only accepted from a taxpayer(s) or their representatives and the agenda will indicate which items originated with "taxpayers", but the Commission will only identify individual taxpayers if they request it. Similarly, issues proposed by "a city or town" are typically drafted on behalf of all cities and towns via collective effort. Through the review process of the CTAC, proposals submitted by the cities and towns represent the consensus of all cities and towns. The Commission will identify an individual city or town when appropriate and requested, but all other submissions originating through the cities and towns collectively will be associated with the city or town represented by the chair of the Commission.

DEPARTMENT RESPONSE

The subsequent pages were written by the Department to provide a response to each of the findings and to indicate its intention regarding implementation of the recommendations resulting from the audit conducted by the Arizona Auditor General.

Katie Hobbs
Governor

Robert Woods
Director

July 27, 2026

Lindsey Perry, Auditor General
Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry,

Thank you for the opportunity to review and respond to the sunset audit report for the Municipal Tax Code Commission. The Arizona Department of Revenue appreciates the courtesy and professionalism demonstrated by your audit team throughout this review process. The Department concurs with the audit findings and is fully committed to implementing all of the report's recommendations. Enclosed with this letter is our detailed response outlining the specific corrective actions planned.

Thank you and your staff for your thorough work and continued support of efficient and effective government operations.

Sincerely,

Robert Woods (Jul 27, 2026 17:42:43 PDT)

Robert Woods, Director
Arizona Department of Revenue

Recommendations to the Department

Sunset factor 2: The Commission's effectiveness and efficiency in fulfilling its key statutory objectives and purposes.

Without explicit authority to do so, the Commission delegated responsibility for reviewing proposed Model City Tax Code amendments and other responsibilities to an entity not established by or recognized in statute, limiting public transparency and our ability to assess the effectiveness and efficiency of its statutory objectives and purposes

Department response: The Auditor General's finding is agreed to.

Response explanation: The Auditor General's finding is agreed to and the recommendation will be implemented.

Recommendation 1: In coordination with the Commission, request a formal opinion from the Attorney General pursuant to A.R.S. §41-193(A)(7) about whether the Commission may lawfully delegate its responsibilities to CTAC. Alternatively, or if the Attorney General declines to opine on any portion of the question, work with the Legislature to clarify in statute what authority, if any, the Commission has to delegate its statutory responsibilities related to the Model City Tax Code, and the scope of such authority.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will work with the Commission to request a formal opinion from the Attorney General regarding the Commission's ability to lawfully delegate its responsibilities to CTAC; or work with the Legislature to clarify in statute what authority, if any, the Commission has to delegate its statutory responsibilities related to the Model City Tax Code, and the scope of such authority.

Department did not request informational public hearing to discuss 2 proposed amendments, thereby limiting transparency

Department response: The Auditor General's finding is agreed to.

Response explanation: The Auditor General's finding is agreed to and the recommendation will be implemented in a different manner.

Recommendation 2: Request informational public hearings with the Commission to provide comments on proposed amendments, as authorized by A.R.S. §42-6052(F), to improve Commission and public transparency.

Department response: The audit recommendation will be implemented in a different manner.

Response explanation: As part of the policies and procedures it is revising for Commission administration (see responses to Recommendations 3 through 5), the Department will establish a documented standard to guide its consideration of whether to request an informational public hearing under A.R.S. § 42-6052(F). When a proposed amendment raises questions or concerns, the Department will assess whether an informational public hearing would aid the Commission's and the public's consideration of the amendment, taking into account relevant factors (e.g., significance of issues presented, the extent to which a hearing would serve public transparency, whether public discussion and stakeholder input would assist the Commission, broader policy and intergovernmental context of the proposed amendment). The Department will request a hearing where it determines in light of these considerations, that doing so is appropriate. Consistent with the discretion conferred by A.R.S. § 42-6052(F), the Department will make this determination on a case-by-case basis.

Department did not timely update Model City Tax Code after Commission approved 2 amendments in 2019, requiring Commission to reapprove the 2 amendments in December 2025, thereby duplicating Commission efforts and delaying implementation of the approved amendments

Department response: The Auditor General's finding is agreed to.

Response explanation: The Auditor General's finding is agreed to and the recommendations will be implemented.

Recommendation 3: Revise and implement Department policies and procedures for fulfilling Commission administration duties, including updating the Model City Tax Code with those amendments approved by the Commission within the time frame required by A.R.S. §42-6052.

Department response: The audit recommendation will be implemented.

Response explanation: The audit recommendation will be implemented per statutory deadlines; 10 days for Commission-approved amendments, 30 days for statutory changes.

Recommendation 4: Revise and implement Department policies and procedures for fulfilling Commission administration duties, including ensuring the guidance includes information consistent with statutory requirements, including identifying who can submit proposed amendments, the number of Commission members needed for a quorum, and the applicable time frames for posting informational and public hearing notices and agendas on its website.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will revise and implement policies and procedures for fulfilling Commission administration duties as recommended.

Recommendation 5: Provide training to all existing and any new staff responsible for supporting the Commission on using Department policies and procedures for fulfilling Commission administration duties.

Department response: The audit recommendation will be implemented.

Response explanation: The Department will provide training to all existing and any new staff responsible for supporting the Commission on using Department policies and procedures for fulfilling Commission administration duties as recommended.