

AGENDA

4:30 P.M.

CITY OF SEDONA, CITY COUNCIL MEETING

TUESDAY, JUNE 28, 2016

NOTES:

- Public Forum:
Comments are generally limited to **3 minutes**.
- Consent Items:
Items listed under Consent Items have been distributed to Council Members in advance for study and will be enacted by one motion. Any member of the Council, staff or the public may remove an item from the Consent Items for discussion. Items removed from the Consent Items may be acted upon before proceeding to the next agenda item.
- Meeting room is wheelchair accessible. American Disabilities Act (ADA) accommodations are available upon request. Please phone 928-282-3113 at least two (2) business days in advance.
- City Council Meeting Agenda Packets are available on the City's website at:
www.SedonaAZ.gov

GUIDELINES FOR PUBLIC COMMENT

PURPOSE:

- To allow the public to provide input to the City Council on a particular subject scheduled on the agenda.
- This is not a question/answer session.

PROCEDURES:

- Fill out a "Comment Card" and deliver it to the City Clerk.
- When recognized, use the podium/microphone.
- State your:
 1. Name and
 2. City of Residence
- Limit comments to **3 MINUTES**.
- Submit written comments to the City Clerk.

1. CALL TO ORDER/PLEDGE OF ALLEGIANCE/MOMENT OF SILENCE/ROLL CALL

2. CITY'S VISION

3. CONSENT ITEMS - APPROVE

LINK TO DOCUMENT = 

- a. Minutes - June 14, 2016 City Council Special Meeting. 
- b. Minutes - June 14, 2016 City Council Regular Meeting. 
- c. Minutes - June 15, 2016 City Council Special Meeting. 
- d. AB 2130 Approval of action to authorize the City's representative to the Verde River Basin Partnership to cast a vote in favor of the proposed organizational conversion from a member-governed body to a Board-governed body. 

4. APPOINTMENTS

- a. AB 2134 Discussion/possible action on appointment of a Vice Mayor. 

5. SUMMARY OF CURRENT EVENTS BY MAYOR/COUNCILORS/CITY MANAGER

6. PUBLIC FORUM

(This is the time for the public to comment on matters not listed on the agenda. The City Council may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to A.R.S. § 38-431.01(H), action taken as a result of public comment will be limited to directing staff to study the matter, responding to any criticism, or scheduling the matter for further consideration and decision at a later date.)

7. PROCLAMATIONS, RECOGNITIONS, & AWARDS - None.

8. REGULAR BUSINESS

- a. AB 2124 Discussion/possible direction resulting from the implementation of SB 1350 regarding short term vacation rentals. 
- b. AB 2131 Discussion/possible direction regarding Docket E-01345A-16-0036, the rate case filed with the Arizona Corporation Commission by Arizona Public Service on June 1, 2016. 
- c. Reports/discussion on Council assignments.
- d. Discussion/possible action on future meeting/agenda items.

9. EXECUTIVE SESSION

If an Executive Session is necessary, it will be held in the Vultee Conference Room at 106 Roadrunner Drive. Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

- a. To consult with legal counsel for advice on matters listed on this agenda per A.R.S. § 38-431.03(A)(3).
- b. Return to open session. Discussion/possible action on executive session items.

10. ADJOURNMENT

CITY COUNCIL CHAMBERS
102 ROADRUNNER DRIVE, SEDONA, AZ

The mission of the City of Sedona government is to provide exemplary municipal services that are consistent with our values, history, culture and unique beauty.

AGENDA

4:30 P.M.

CITY OF SEDONA, CITY COUNCIL MEETING

TUESDAY, JUNE 28, 2016

Page 2, City Council Meeting Agenda Continued

Posted: _____

By: _____

Susan L. Irvine, CMC
City Clerk

Note: Pursuant to A.R.S. § 38-431.02(B) notice is hereby given to the members of the City Council and to the general public that the Council will hold the above open meeting. Members of the City Council will attend either in person or by telephone, video, or internet communications. The Council may vote to go into executive session on any agenda item, pursuant to A.R.S. § 38-431.03(A)(3) and (4) for discussion and consultation for legal advice with the City Attorney. Because various other commissions, committees and/or boards may speak at Council meetings, notice is also given that four or more members of these other City commissions, boards, or committees may be in attendance.

A copy of the packet with material relating to the agenda items is typically available for review by the public in the Clerk's office after 1:00 p.m. the Thursday prior to the Council meeting and on the City's website at www.SedonaAZ.gov. The Council Chambers is accessible to people with disabilities, in compliance with the Federal 504 and ADA laws. Those with needs for special typeface print, may request these at the Clerk's Office. All requests should be made **forty-eight hours** prior to the meeting.

CITY COUNCIL CHAMBERS
102 ROADRUNNER DRIVE, SEDONA, AZ

The mission of the City of Sedona government is to provide exemplary municipal services that are consistent with our values, history, culture and unique beauty.

**Action Minutes
Special City Council Meeting
Vultee Conference Room, Sedona City Hall,
106 Roadrunner Drive, Sedona, Arizona
Tuesday, June 14, 2016, 3:00 p.m.**

1. Call to Order

Mayor Moriarty called the meeting to order at 3:01 p.m.

2. Roll Call

Roll Call: Mayor Sandy Moriarty, Vice Mayor Mark DiNunzio, Councilor Scott Jablow, Councilor John Martinez, Councilor Jon Thompson, Councilor Jessica Williamson. Councilor Tom Lamkin was absent and unexcused.

Staff in attendance: City Manager Justin Clifton, City Clerk Susan Irvine

3. Executive Session

Motion: Councilor Martinez moved to enter into Executive Session at 3:01 p.m. Seconded by Councilor Williamson. Vote: Motion carried unanimously with six (6) in favor and zero (0) opposed.

Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

- a. **Discussion and consultation regarding personnel matters per A.R.S. § 38-431.03(A)(1), specifically to discuss City Manager Justin Clifton's annual evaluation.**
- b. **Return to open session. Discussion/possible action on executive session items.**

Susan Irvine gave the admonition.

Motion: Councilor Jablow moved to provide the City Manager's request for a salary increase to \$165,000 annually and an increase of the vacation accrual limit to 220 hours. Seconded by Councilor Williamson. Vote: Motion carried unanimously with six (6) in favor and zero (0) opposed.

4. Adjournment

Mayor Moriarty adjourned the meeting at 3:55 p.m.

I certify that the above are the true and correct actions of the Special City Council Meeting held on June 14, 2016.

Susan L. Irvine, CMC, City Clerk

Date

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Action Minutes
Regular City Council Meeting
City Council Chambers, Sedona City Hall,
102 Roadrunner Drive, Sedona, Arizona
Tuesday, June 14, 2016, 4:30 p.m.

1. Call to Order/Pledge of Allegiance/Moment of Silence/Roll Call

Mayor Moriarty called the meeting to order at 4:30 p.m.

Roll Call: Mayor Sandy Moriarty, Vice Mayor Mark DiNunzio, Councilor Scott Jablow, Councilor Tom Lamkin, Councilor John Martinez, Councilor Jon Thompson, Councilor Jessica Williamson.

Staff Present: City Manager Justin Clifton, Assistant City Manager Karen Osburn, City Attorney Robert Pickels, Jr., Interim Chief of Police Ron Wheeler, Parks and Recreation Manager Rachel Murdoch, City Clerk Susan Irvine.

2. City's Vision/Moment of Art

A video of the City's vision was played.

Nancy Lattanzi introduced Beverly Kievman Copen, a native of Atlanta and a Sedona resident for 12 years. She is an entrepreneur, author, and photographer. She is the author of four published books. Her latest is an educational e-book titled "Your Eyes are your Windows to the World". It is this book that inspired the current exhibit in City Council Chambers called "Portraits, Portals, and Magical Moments". Ms. Copen played a slideshow of her photographs.

3. Consent Items

- a. **Minutes - May 24, 2016 City Council Special Meeting.**
- b. **Minutes - May 24, 2016 City Council Regular Meeting.**
- c. **Minutes - May 25, 2016 City Council Special Meeting.**
- d. **Approval of Proclamation, Participate with Pride Month, June 2016.**
- e. **AB 2118 Approval of a recommendation regarding an Interim Permit and new Series 11 Hotel/Motel Liquor License for Los Abrigados Hotel located at 160 Portal Lane, Sedona, AZ (License #11033057).**
- f. **AB 2119 Approval of an Extension of Premises/Patio Permit for The Art of Wine located at 101 N. Highway 89A, Suite B9, Sedona, AZ (License #07030060).**
- g. **AB 2111 Approval of revisions to Rule 7 of the City Council Rules of Procedure and Policies to further clarify liaison appointments and roles.**
- h. **AB 2122 Approval of the renewal of undercover license plates for existing undercover vehicles.**
- i. **AB 2126 Approval of an Intergovernmental Agreement for the provision of services by the Coconino County Elections Department.**

Motion: Councilor Martinez moved to approve consent items 3a, 3b, 3c, 3d, 3e, 3f, 3g, 3h, and 3i. Seconded by Councilor Williamson. Vote: Motion carried unanimously with seven (7) in favor and zero (0) opposed.

4. Appointments - None.

5. Summary of Current Events by Mayor/Councilors/City Manager

Councilor Jablow advised that they broke ground last week on the 9-11 Memorial at Fire Station #6. He advised that they have raised over \$60,000 to date to fund the Memorial, and they will be unveiling it on September 11th. Councilor Williamson stated that she is pleased that Yavapai College has chosen to keep the Sedona campus. They will be opening a culinary and hospitality school there soon. She stated that the Verde Valley Advisory Committee to the Governing Board will have a meeting tomorrow at 8:30 a.m. Dr. James Perry will be presenting and interacting at this meeting and seems enthusiastic about the prospects for the Verde Valley. Mayor Moriarty advised that Yavapai College has a couple of hospitality classes in their newest brochure and hopes that the classes will be filled.

6. Public Forum – None.

7. Proclamations, Recognitions and Awards - None.

8. Regular Business

a. **AB 2112 Presentation/discussion on the "Senior Valuation Freeze" and "Exemptions for Disabilities and Widow/Widowers" Property Tax Assistance Programs by Pamela Pearsall, Yavapai County Assessor.**

No presentation took place due to illness of Pamela Pearsall. This item was rescheduled for the August 9, 2016 meeting.

b. **AB 2078 Discussion/possible action regarding the approval of certain contract documents with the Sedona Chamber of Commerce and Tourism Bureau for destination marketing and tourism promotion services for FY2017, including a Marketing and Product Development Plan, Performance Measures document, and Tourism Promotion Budget.**

Presentation by Sedona Chamber of Commerce and Tourism Bureau Chair Linda Goldenstein and President/CEO Jennifer Wesselhoff.

Questions from Council.

Opened to the public at 6:02 p.m.

Martin Glinsky, Sedona, stated that he is a bicycle enthusiast and was pleased with the Chamber and City's support of the need for trail maintenance. Sustainability of the forest trails is vital to the area, and the Chamber is a wonderful partner in this. He asked the Council to think five to ten years ahead on what will be required to maintain the forests.

Dan Blaettler, Village of Oak Creek, advised that they are concerned as cyclists and trail users with the issue of maintaining the trails in the area. He believes this is a community concern and not just a Forest Service concern. He asked the City, Chamber and community user groups to look at this as a community issue.

Dalton Zanetti, Flagstaff, Oak Creek Watershed Council employee, asked for more funding for environmental education for visitors who visit the area. They have collected over 6,000 pounds of waste near Oak Creek in the past year that was not placed in trash receptacles.

Jean Turocy, Village of Oak Creek, Education and Outreach Coordinator for Sedona Recycles, stated that she would like to see the Chamber and Tourism Bureau spend funds on mitigating the environmental impact of tourists on the area. She asked that they add some form of an environmental statement to the Chamber visitor guide. She wanted to see fair and even investment in all area non-profits.

Pete Sanders, Jr., Sedona, stated that the Chamber benefits Sedona through volunteerism without receiving any money from the City. A conference will take place in the Spring of 2017 and for many years to come that focuses on brain health throughout the life cycle. This will bring top brain researchers in the country to the area for many years to come.

Brought back to Council at 6:15 p.m.

Comments from Council.

Motion: Councilor Martinez moved to approve Exhibit A which includes the Fiscal Year 2017 Marketing and Product Development Plan, Performance Measures Document, and Tourism Promotion Budget. These serve as supporting documents to the existing contractual agreement between the Sedona Chamber of Commerce and Tourism Bureau and the City of Sedona, for FY2017 tourism promotion services. Seconded by Councilor Thompson. Vote: Motion carried unanimously with seven (7) in favor and zero (0) opposed.

Break at 6:40 p.m. Reconvened at 7:00 p.m.

c. AB 2127 Public hearing/discussion/possible action regarding a resolution approving the transfer of the City cable license to Altice S.A.

Presentation by Robert Pickels, Jr.

Questions from Council.

Opened the Public Hearing at 7:02 p.m.

No comments were heard.

Closed the Public hearing and brought back to Council at 7:02 p.m.

Motion: Councilor Williamson moved to approve Resolution 2016-21, a Resolution of the City of Sedona, Arizona approving the change of control of the cable television license. Seconded by Councilor Jablow. Vote: Motion carried unanimously with seven (7) in favor and zero (0) opposed.

d. AB 2108 Discussion/possible action regarding an Ordinance revising Chapter 12.30.160 of the Sedona City Code.

Presentation by Rachel Murdoch.

Motion: After 1st reading, Councilor Thompson moved to approve Ordinance 2016-04, revising Chapter 12.30.160 of the Sedona City Code. Seconded by Councilor Martinez. Vote: Motion carried unanimously with seven (7) in favor and zero (0) opposed.

e. Reports/discussion on Council assignments

Councilor Martinez advised that Yavapai Water Advisory Council requested approximately \$2,200 from the City of Sedona for funding. A meeting was convened to

explain the need for the funding to City officials. The City has agreed to fund this amount, and it will likely be needed for four to five more years.

f. Discussion/possible action on future meeting/agenda items

Mayor Moriarty advised that there is a meeting tomorrow at 3:00 p.m.

9. Executive Session

Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

- a. To consult with legal counsel for advice on matters listed on this agenda per A.R.S. § 38-431.03(A)(3).**
- b. Return to open session. Discussion/possible action on executive session items.**

No Executive Session was held.

10. Adjournment

Mayor Moriarty adjourned the meeting at 7:08 p.m. without objection.

I certify that the above are the true and correct actions of the Regular City Council Meeting held on June 14, 2016.

Susan L. Irvine, CMC, City Clerk

Date

**Action Minutes
Special City Council Meeting
City Council Chambers, Sedona City Hall,
102 Roadrunner Drive, Sedona, Arizona
Wednesday, June 15, 2016, 3:00 p.m.**

1. Call to Order/Pledge of Allegiance/Moment of Silence

Mayor Moriarty called the meeting to order at 3:00 p.m.

2. Roll Call

Roll Call: Mayor Sandy Moriarty, Vice Mayor Mark DiNunzio, Councilor Scott Jablow, Councilor Tom Lamkin, Councilor John Martinez, Councilor Jon Thompson, Councilor Jessica Williamson.

Staff Present: City Manager Justin Clifton, Assistant City Manager Karen Osburn, City Attorney Robert Pickels Jr., Director of Public Works/City Engineer Andy Dickey, Sergeant Stephanie Foley, Detective Michael Dominguez, Engineering Supervisor Stephen Craver, Chief of Police Ron Wheeler, Deputy City Clerk JoAnne Cook.

3. Special Business

a. AB 2120 Discussion/possible direction regarding the impact to neighborhoods from trailhead parking on City streets.

Introduction by Justin Clifton. Presentation by Justin Clifton, Andy Dickey, and Sergeant Foley. Coconino National Forest Service Recreation Staff Officer Adam Barnett was available to answer questions.

Questions and comments from Council.

Opened to the public at 4:24 p.m.

Kirk Landauer, Sedona, spoke about the negative impact of trailhead parking. He stated that there used to be a no parking sign on the north side of Buena Vista. He said that he has helped redirect tourist parking and his assistance has not been well received at times. He stated that vehicles often drive at high speeds on the roads.

Noreen Weinges, Sedona, Shadow Estates Home Owner Association member spoke about the negative impacts of trailhead parking in her neighborhood. She asked how the noise ordinance is being enforced with the off road vehicles. She stated her concerns with the possible fire hazards from cigarettes being discarded. She stated that the City needs to designate appropriate parking lots to resolve this issue.

Craig Sigler, Sedona, spoke about the negative impacts of trailhead parking. He voiced his concerns with early morning parking along the road due to the trailhead parking lot being closed. He believes that the neighborhood quality of life has been negatively impacted and that the issue is getting worse.

Del Weston, Sedona, and a member of Shadow Estates Home Owners Association. He believes the traffic issue is getting worse and that it has become dangerous. He advised that there are more cars parked along the streets early in the morning before the trailhead parking lots open. He stated that there have been issues with garbage hauling trucks not being able to access trash cans.

Sedona City Council
Special Meeting
Wednesday, June 15, 2016
3:00 p.m.

Brought back to Council at 4:38 p.m.

Questions and comments from Council.

By majority consensus Council directed staff to consider the need to improve parking signage, to gather more information, and to develop possible options that will be presented to Council at a future date.

b. Discussion/possible action on Future Meeting/Agenda items- None.

4. Executive Session

Upon a public majority vote of the members constituting a quorum, the Council may hold an Executive Session that is not open to the public for the following purposes:

a. To consult with legal counsel for advice on matters listed on this agenda per A.R.S. § 38-431.03(A)(3).

b. Return to open session. Discussion/possible action on executive session items.

No Executive Session was held.

5. Adjournment

Mayor Moriarty adjourned the meeting at 5:15 p.m. without objection.

I certify that the above are the true and correct actions of the Special City Council Meeting held on June 15, 2016.

JoAnne Cook, Deputy City Clerk

Date



**CITY COUNCIL
AGENDA BILL**

**AB 2130
June 28, 2016
Consent Items**

Agenda Item: 3d
Proposed Action & Subject: Approval of action to authorize the City’s representative to the Verde River Basin Partnership to cast a vote in favor of the proposed organizational conversion from a member-governed body to a Board-governed body.

Department	Legal
Time to Present	N/A
Total Time for Item	
Other Council Meetings	N/A
Exhibits	A. Proposed Amendments to Bylaws

City Attorney Approval	Reviewed 6/21/16 RCR	Expenditure Required	\$ 0
City Manager’s Recommendation	Consider authorizing a vote for a change in governance of the Verde River Basin Partnership.	Amount Budgeted	\$ 0
		Account No. (Description)	N/A
		Finance Approval	<input checked="" type="checkbox"/>

SUMMARY STATEMENT

Background: The City of Sedona is one of the original voting member organizations of the Verde River Basin Partnership (Partnership). Historically, the City has been represented in the Partnership through an appointed liaison. The liaison responsibility is now limited to voluntary and informal participation. However, the City retains voting rights in the Partnership as of this date.

The City’s representative in the Partnership, Councilor Jon Thompson, recently received documents indicating that a change in the governance structure was being considered for the Partnership. The Partnership currently operates as a member-governed organization wherein each partner-member has eligible voting rights. The proposed change is to a board-governed organization whereby an elected board would have exclusive voting rights on behalf of the Partnership.

The proposed change is seen by the Board of Directors as an opportunity for the Partnership to “evolve from its present primary goal of science-based education about the workings and limitations of our Verde River Basin water resources to an increased role in seeking and

addressing science-based collaborative water-management solutions that will support the long-term survival of a perennially flowing Verde River in a productive economy”.

Authorizing an affirmative vote in support of the proposed change will be consistent with Council’s decision to have its representation in the Partnership be voluntary and informal.

Community Plan Consistent: Yes - No - Not Applicable

Board/Commission Recommendation: Applicable - Not Applicable

Alternative(s):

MOTION

I move to: authorize the City’s representative to the Verde River Basin Partnership to cast a vote in favor of the proposed organizational conversion from a member-governed body to a board-governed body.

Attachment 3a. Proposed Amendments to the Verde River Basin Partnership Bylaws.

Note: This version shows edits.



**Proposed Amendments
May 18, 2016**

Organizational Bylaws

October 11, 2007

Amended June 19, 2010

Amended November 15, 2010

Amended February 19, 2013

Amended October 16, 2013

ARTICLE 1
PURPOSE AND ORGANIZATIONAL STRUCTURE

1.1 **Purpose.** The purpose of the Verde River Basin Partnership (“the Partnership”) as a charitable, scientific, and educational non-profit corporation is to accomplish the goals of Title II of Public Law No: 109-110. The goals include finding the support to complete the scientific mandate of Title II as well as finding the resources to carry out the legislation’s goal of a collaborative and science-based water resource advisory partnership. **to promote the goal of a perennially flowing Verde River by raising awareness among citizens and community leaders about the workings and limitations of the Verde River Basin’s interconnected groundwater and surface-water systems, the life they support, and exploring and promoting water-management options that can be implemented to protect the Verde River’s perennial flow in perpetuity.** Accordingly, the activities of the Verde River Basin Partnership as a charitable, scientific and educational non-profit corporation will be **entirely** are directed to: (1) promotion of scientific studies of the hydrology and hydrogeology of the Verde River Basin, Arizona, in particular as they address the long-term viability of the Verde River and its tributaries in relation to human use, riparian habitat, wildlife, and quality of life; **(2) exploration and promotion of water-management strategies that may contribute to protecting the Verde River’s perennial flow in perpetuity;** and (3) education of the public and public officials about the scientific results and implications of the above topics. These objectives will be accomplished through: (a) existing and new studies and reports by governmental agencies, universities, or other contractors as appropriate; and (b) public presentations, public forums, published articles, press releases, or any other form of effective communication to the public and public officials that may become available. The work will be financed as possible by grants, gifts, governmental appropriations, and in-kind services in order to develop and explain planning and water-management options.

~~1.2 **Organizational Structure.** The Verde River Basin Partnership is a coalition of stakeholders that have water interests in the Verde River Basin. Voting members may include such Verde River Basin stakeholder organizations as counties, incorporated municipalities, state agencies, federal agencies, Native American tribes, federal reclamation projects, the Arizona Water Well Association, water utilities, and water rights holders, as well as caucuses, which are groups of organizations with common interests. Each member organization and each caucus has one vote. Caucuses may represent such interests as: Agriculture, Economic Development, National Environmental Groups, Grassroots Environmental Groups, and Unincorporated Communities and Community Water Interests. Organizations that elect to be non-voting as well as individuals who volunteer time expertise, or agree with the mission of the Partnership and are non-voting may also be members. New members are always welcome. The Partnership’s business and affairs shall be managed and conducted pursuant to these bylaws.~~

ARTICLE 2
MEMBERSHIP & CONTRIBUTIONS

2.1 **Membership.** Membership in the Partnership shall **may** consist of federal, state, tribal, and local governments and agencies; ~~and~~ economic, environmental, and community water interests; ~~and~~ interested citizens in the Verde River Basin, who are signatories to the Charter who **support the Partnership’s activities.** ~~agree to operate~~

under the principles of these bylaws. ~~Membership consists solely of non-voting Members. Non-voting organizations are those who volunteer time and/or expertise to the Partnership. Non-voting individual members are those who volunteer time, expertise or agree with the mission of the Partnership and are signatories to the Partnership's Guiding Principles.~~

2.2 Members. Members will be non-voting.

~~2.2 — Initial Eligible Members. Initial members are defined in Appendix A, Initial Eligible Members. These members were identified based on language within Title II of Public Law No: 109-110~~

~~2.3 — Initial Seated Charter Members. Initial seated charter members are listed in Appendix B, Initial Seated Charter Members. These are Initial Eligible Members that have signatories to the Charter.~~

~~2.3 Contributions. Contributions from Members shall be determined annually by the Board, and are subject to ratification by the Partnership. Contributions to the Partnership shall be strictly voluntary and subject to the discretion of each Member.~~

~~2.5 — Classes of Members. Members shall be divided into two classes: voting and non-voting Members.~~

Non-voting Members	Non-voting organizations that volunteer time and/or expertise to the Partnership. Individuals who agree with the Partnership's mission and sign the Guiding Principles.
Voting Members	Organizations meeting the criteria laid out in Title II of PL. 109-110 that are represented either directly or through a caucus

~~2.5 — Rights of Members. Each Voting Member is entitled to one vote (except members of a caucus where the caucus has one vote). Each group that is a Member and each caucus shall designate one individual and an alternate to cast one vote on behalf of the group. A Voting Member's right to vote shall cease upon lapse of membership pursuant to Section 2.6. Voting by proxy is prohibited.~~

~~2.6 — Removal of Representatives. Representatives of any members whose actions and/or statements consistently demonstrate positions disruptive to the goals and purposes of the Partnership may be removed as a representative by approval of two-thirds of the Voting Members present and voting at a meeting of the Partnership at which a quorum is present. Upon removal of a representative, the member will be notified of the need to appoint a new representative.~~

ARTICLE 3
MEMBER ADVISORY COUNCIL

3.1 Advisory Council. The Verde River Basin Partnership will establish an Advisory Council, whose membership will be appointed by the Board and include members, stakeholders and experts whose experience is relevant to provide guidance and input to the Partnership.

3.2 Quarterly Periodic Public Meeting. The Partnership shall hold Quarterly Public Meetings periodic meetings of the Advisory Council at a time and place to be fixed by the Board of Directors (Board). The Board shall set the agenda for the quarterly periodic meetings and shall conduct such meetings.

~~3.1 — Quarterly Public Meeting. The Partnership shall hold Quarterly Public Meetings at a time and place to be fixed by the Board of Directors (Board). The Board shall set the agenda for the quarterly meetings and shall conduct such meetings.~~

~~3.2 — Special Meetings. Special meetings of the Members may be held at the call or the request or the request of a majority of the Board, or at least 25 percent of the Members. Notice of the time and place shall be given in sufficient time for the convenient assembly of the Members. The Board shall set the agenda for any special meeting and shall conduct such meetings.~~

~~3.3 — Attendance and Voting. The attendance at the Quarterly Public Meetings and any special Meeting is open to all Members and the public. In accordance with Section 2.5, each voting Member (as defined in Article 2) is entitled to one vote. Unless otherwise stated in these Bylaws, matters submitted to the Members are determined by a majority vote of those present and voting at a meeting at which a quorum is present. Changes to bylaws and charter or removal of members requires approval of two-thirds of the Voting Members present and voting at any meeting of the Partnership at which a quorum is present.~~

~~3.4 — Quorum for Member Meeting. Except as otherwise provided in these Bylaws, the presence in person of 10 or more Members constitutes a quorum at all meetings of the Members.~~

3.35 Conduct of Meetings of the Advisory Council. The Chairperson of the Board or an alternate from the Board shall preside over all meetings of the Members Advisory Council to the extent such Rules do not conflict with these Bylaws. To the extent any conflict is found, these Bylaws shall be controlling.

3.46 Notice of Meetings of the Advisory Council. Notice and agenda of all Member periodic meetings of the Advisory Council shall be given to each Member of the Council, stating the time and place of the meeting,; provided, however, that Members who cannot receive notices electronically shall receive notice via mail or personal delivery. Notice of any meeting can be waived in writing by any Member.

ARTICLE 4 BOARD OF DIRECTORS

4.1 General Powers. The management, control, and operation of the affairs and assets of the Partnership are vested in the Board of Directors, an elected

Committee. The Board is responsible for planning, coordinating, communicating, and managing all Partnership activities, **including election of new Board Members**. Once the Board is chosen, it shall elect by a majority vote of the Board, the following officers who shall perform the duties designated herein.

4.1.1 Chairperson. The Chairperson will have the necessary authority and responsibility for the administration of the affairs of the Board subject only to such Bylaws as may be adopted and such direction as may be given by the Board. The Chairperson will advise and make recommendations to the Board relating to the operation and long-range planning of the Partnership. The Chairperson may sign with the Secretary or other proper officer of the Partnership authorized by the Board any deeds, bonds, contracts or other instruments which the Board has authorized to be executed, and shall perform all duties incident to the office of Chairperson and such other duties as may be prescribed by the Board.

4.1.2 Vice Chairperson. The Vice Chairperson shall be authorized to perform all duties of the Chairperson in his or her absence, unavailability or incapacity. The Vice Chairperson shall serve as interim Chairperson in the event of resignation or removal of the Chairperson, until a new Board Member is selected and a vote to fill the vacancy of the Chairperson is conducted by the Board.

4.1.3 Secretary. The Secretary will sign documents of the Partnership and Board from time to time as required, perform such duties as may be assigned by the Chairperson, and will keep the minutes of the meetings of the Board in one or more books provided for that purpose; see that all notices are duly given in accordance with the provisions of these Bylaws, or as required by law; and be custodian of the Board and Partnership records.

4.1.4 Treasurer. The Treasurer will be responsible for the custody of the funds and securities of the Partnership which will come into the Treasurer's hands working with any designated fiduciary agent, will advise the Board and the Partnership respecting its financial condition and the handling of its monies and investments, and will perform such additional duties as may be assigned to the Treasurer by the Chairperson.

4.2 Number of and Qualifications for Board Members. The Board will consist of **no fewer than 9 persons**. The number of Board Members shall be set from time to time by resolution of the Board Members. Board Members **may** ~~must~~ represent Members of the Partnership **or other community interests**. ~~who meet the criteria set forth in Section 4.5 of these Bylaws. Other qualifications for Board Members and criteria for the selection process may be established from time to time by the Board.~~

4.3 Term. Members of the Board shall serve two-year terms that expire at the **end of the appropriate calendar year**. ~~Annual Meeting in the year their term expires. Chairs of the standing committees shall be appointed by the Board.~~ In order to implement alternating year terms, the first election will consist of 50% of Members elected to a two-year term and 50% of Members elected for a three-year term. When vacancies among the Members of the Board occur by reason of death, resignation, failure of qualification, or otherwise, the number shall be reduced by such vacancies until qualified replacements are appointed. Replacement for Board positions shall be

appointed by a two-thirds vote of Board Members. The replacement Member will serve out the remaining term of the vacancy.

4.4 Election of Board Members. All Members of the Board shall be selected from the slate of nominees put forward by the Nominating Committee pursuant to Section 4.5 of these Bylaws. The nominees with the greatest numbers of votes are elected.

4.5 Nomination of Board Members. The shall appoint a nominating committee of three ~~Members, at least two of which shall be~~ Board Members. Recommendations for nominees may be submitted by ~~Members, Board Members, or any other interested persons, unless otherwise determined by the Board.~~ The Nominating Committee shall select a slate of candidates based on the following criteria and any other criteria determined by the Board from time to time: A demonstrated commitment to the purpose of the organization as stated in Article 1 plus:

- a) An ability to make a positive and material contribution to the operation of the organization; and,
- b) A commitment to participate actively as a director by attending meetings, serving on committees, promoting the goals of the organization, and participating in the activities of the organization.

~~The slate of nominees shall be included with the notice of the Partnership's Annual Meeting of Members and shall be sent at least seven [7] days in advance of the Annual Meeting.~~

4.6 Resignation, Removal, and Vacancies. A Member's resignation from the Board must be in writing and is effective when received by the Chair. A Board Member may be removed by a majority vote of the other Board Members present at a meeting at which a quorum is present if that Member has three ~~(3)~~ unexcused absences from meetings of the Board in a single year. A Board Member may be removed from the Board for any reason by a vote of two-thirds ~~(2/3)~~ of the other Board Members present at a meeting at which a quorum is present. If a Board Member is removed from the Board for any reason, the ~~Coordinating Committee~~ Board may elect a replacement to fill that vacancy under the provisions of Section 4.3.

4.7 Regular and Special Meetings. Regular meetings of the Board shall be held at such times and places as the Chairperson may designate. Special meetings of the Board may be called by the Chairperson, or by at least two Board Members at such time and place as the Chairperson or Board Members calling the meeting may specify and in accordance with the notice requirements of these Bylaws. Notice of any meeting can be waived in writing by any Member.

4.8 Quorum. A majority of the Board Members, either personally present or attending the meeting via conference call shall constitute a quorum for the transaction of business at any meeting of the Board, provided that if less than majority of the Board Members are present personally or telephonically, those Board Members present may adjourn the meeting from time to time without further notice.

4.9 Manner of Acting. The act of the majority of the Board Members present at a meeting at which a quorum is present shall be the act of the Board except where otherwise provided by law or by these Bylaws.

4.10 Compensation. Board Members will not be paid compensation for their services as Board Members. Provided, however, this section shall not be construed to prohibit payment of compensation to an individual who serves as a Board Member for services rendered to the Partnership in another capacity and the Board may, from time to time, approve reimbursement of out-of-pocket expenses incurred by any Member in the direct pursuit of the Partnership's business.

4.11 Meetings by Electronic Means of Communication. Members of the Board or any committee of the Board may conduct any regular or special meeting by use of any electronic means of communication provided, (1) all participating Board Members may simultaneously hear or read each other's communications during the meeting or (2) all communication during the meeting is immediately transmitted to each participating Board Member and each participating Board Member is able to immediately send messages to all other participating Board Members. Before the commencement of any business at a meeting at which any Board Members do not participate in person, all participating Board Members shall be informed that a meeting is taking place at which official business may be transacted. Participation in such manner shall constitute presence in person at such meeting for the purposes of these Bylaws.

4.12 Notice. Meetings must be preceded by at least ~~forty eight (48)~~ 48 hours written notice to each Board Member if personally delivered or if given by electronic mail, or seventy two (72) 72 hours notice if given by mail or private carrier. Written notice shall be deemed given at the earlier of the time it is received or at the time it is deposited with postage prepaid in the United States mail or delivered to the private carrier. Notice may be given by electronic mail; provided, however, Board Members who cannot receive notices electronically shall receive notice via mail or personal delivery.

4.13 Conflict of Interest. No contract or other transaction between the Partnership and one or more of its Board Members or any other corporation, firm, association, or entity in which one or more of the Board Members has a material financial interest shall be entered into by the Partnership unless the fact of such relationship or interest is disclosed or known to the Board and the Board authorizes, approves or ratifies the contract or transaction by a majority vote or consent sufficient for the purpose. Any Member of the Board who has the conflict of interest shall declare any conflict on the record prior to any discussion of the agenda item and shall abstain from any vote relating to or approving the contract or transaction.

ARTICLE 5

COMMITTEES OF THE PARTNERSHIP, UNDER THE BOARD OF DIRECTORS

5.1 Committees. The Board shall create, eliminate, manage, or administer such committees, sub-committees, task forces, or any such other similar bodies as it see fit. The Board shall, in its sole discretion, decide on the goals, objectives, duties, and responsibilities of such bodies. It is understood that the purpose of such bodies shall be to further the goals and objectives of the Partnership.

The Board shall have the power to appoint, remove, direct, and otherwise manage the Chairs and membership of such bodies. The Board may delegate such managerial and administrative powers to the committee Chair as it, in its sole discretion, sees fit.

5.2 Meetings. Committee meetings shall be noticed by way of mail, email or similar methods at least 48 hours in advance to all Board and Committee Members. Sub-committees, task forces, and other similar bodies shall not be required to provide such notice unless directed to do so by the Board.

Committees shall prepare minutes for each meeting and distribute them to the Board and Committee Members in a timely manner. Sub-committees, task forces, and similar bodies shall not be required to prepare minutes unless directed to so by the Board.

ARTICLE 6

CONTRACTS, CHECKS, DEPOSIT, AND FUNDS

6.1 Contracts. The Board may authorize any officer or officers, agent or agents of the Partnership in addition to the officers so authorized by these Bylaws, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Partnership, and such authority may be general or confined to specific instances.

6.2 Checks, Drafts, Etc. All checks, drafts or orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Partnership will be signed, pursuant to approval by the Board, by the Secretary Treasurer of the Board and or one of the following acting as a designated alternate to the Treasurer: Chairperson, or Vice-Chairperson or Secretary of the Board. Partnership may enter into an agreement with any entity willing to act as a fiduciary for the Partnership funds. The Board is authorized to negotiate any agreement or amendments thereto with any fiduciary for the management of any Partnership funds.

6.3 Deposits. All funds of the Partnership will be deposited from time to time to the credit of the Partnership in such banks, trust companies or other depositaries depositories as the Board or the fiduciary agent may elect.

6.4 Gifts. The Board may accept on behalf of the Partnership any contribution, gift, bequest or devise for the general purposes or for any special purposes of the Partnership. ~~Any voting member of the Partnership may call for vote of the majority of members present at any Partnership meeting to ratify or reject a gift accepted by the Board.~~

6.5 Books and Accounts. The Partnership will keep or cause to be kept correct and complete books and records of account and also keep minutes of the proceedings of the Board and its committees, and the meetings of the Members. In addition, the Partnership will cause to be filed the necessary reports, tax returns or other documents as may be required by law on its own behalf.

6.6 Annual Audit. The Board will appoint annually an Audit Committee consisting of at least two auditors to conduct an audit of the Partnership book of records. Membership in the audit committee shall not include anyone with Partnership signatory authority.

ARTICLE 7

INDEMNIFICATION

The Partnership shall, to the fullest extent practical, indemnify each officer of the Partnership against reasonable expenses and against liability incurred by an officer in a proceeding in which he/she was a party because he/she was an officer of the Partnership. These indemnification rights shall not be deemed to exclude any other rights to which the officer may otherwise be entitled. The Partnership shall, to the fullest extent authorized, indemnify any employee who is not an officer of the Partnership, to the extent the employee has been successful on the merits or otherwise in defense of a proceeding, for all reasonable expenses incurred in the proceeding if the employee was a party because he or she was an employee of the Partnership. The Partnership may, to the fullest extent authorized, indemnify, reimburse, or advance expenses of Board Members, officers, or employees.

ARTICLE 8 **FISCAL YEAR**

The fiscal year of the Partnership is the calendar year.

ARTICLE 9 **DISSOLUTION**

Upon the dissolution of the corporation, the Board shall, after paying or making provision for the payment of all of the liabilities of the corporation, dispose of all its assets exclusively for the purposes of the corporation in such a manner, or to such organizations organized and operated exclusively for charitable, educational, religious or scientific purpose as shall at the time qualify as an exempt organization or organizations under Section 501(c)(3) of the United States Internal Revenue Code (or the corresponding provision of any future United States Internal Revenue Laws) as the Board shall determine. Any such assets not disposed of shall be disposed of by the Superior Court of the county in which the principal office of the corporation is then located, exclusively for such purpose or to such organization or organizations, as said Court shall determine, which are organized and operated exclusively for such purpose.

ARTICLE 10 **OFFICES**

The Partnership shall have and continuously maintain in this state, a registered office and registered agent whose office is identical with such registered office, and may have other offices within or without the State of Arizona as the Board may from time to time determine.

ARTICLE 11 **AMENDMENTS**

These Bylaws may be amended or repealed and new Bylaws may be adopted by a **majority** vote of **2/3 a quorum** of the **Voting Board** Members present and voting at an **Annual a regular** or special meeting **of the Board**, provided that notice of the meeting is given in accordance with these Bylaws, stating the proposed amendment, repeal or new Bylaws to be considered.

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CITY COUNCIL
AGENDA BILL

AB 2134
June 28, 2016
Appointments

Agenda Item: 4a
Proposed Action & Subject: Discussion/possible action on appointment of a Vice Mayor.

Table with 2 columns: Field Name and Value. Fields include Department (City Clerk), Time to Present (N/A), Total Time for Item (15 minutes), Other Council Meetings (N/A), Exhibits (None).

Table with 3 columns: City Attorney Approval, City Manager's Recommendation, and Expenditure Required/Amount Budgeted. Includes details on RCR review and Finance Approval.

SUMMARY STATEMENT

Background: Mark DiNunzio resigned from his seat on City Council effective June 17, 2016. Per our City Code Section 2.15.040.B., his seat on City Council will not be filled until the new City Council is seated following the Fall 2016 election cycle.

City Council will nominate from the five eligible Councilors and a vote will be taken to select a new Vice Mayor.

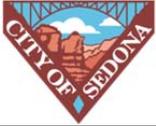
Community Plan Consistent: [] Yes - [] No - [x] Not Applicable

Board/Commission Recommendation: [x] Applicable - [] Not Applicable

Alternative(s):

MOTION

I move to: appoint _____ to fill the office of Vice Mayor for a term ending when the Vice Mayor is selected following the Fall 2016 election cycle.



**CITY COUNCIL
AGENDA BILL**

**AB 2124
June 28, 2016
Regular Business**

Agenda Item: 8a
Proposed Action & Subject: Discussion/possible direction resulting from the implementation of SB 1350 regarding short term vacation rentals.

Department	Legal
Time to Present	15 Minutes
Total Time for Item	60 Minutes
Other Council Meetings	N/A
Exhibits	A. Senate Bill 1350

City Attorney Approval	Reviewed 6/21/16 RCR	Expenditure Required	\$ 0
City Manager's Recommendation	Discuss and provide direction concerning SB 1350.	Amount Budgeted	\$ 0
		Account No. (Description)	N/A
		Finance Approval	<input checked="" type="checkbox"/>

SUMMARY STATEMENT

Background: In 1995, the City of Sedona adopted its first ordinance prohibiting short term vacation rentals in residentially zoned areas. The ordinance generally prohibited “rentals of single-family dwellings for periods of less than 30 consecutive days.” Enforcement activity pursuant to the general prohibition proved to be difficult in that specific actions and responsible individuals were not identified.

In 2008, in an effort to strengthen the enforceability of the ban on short term vacation rentals, the City adopted its current ordinance. The stated purpose of the ordinance was to safeguard the peace, safety, and general welfare of the residents of Sedona and their visitors and guests by eliminating noise, vandalism, overcrowding, neighborhood uncertainty, high occupant turnover, diminution of neighborhood character and other secondary effects that have become associated with the illegal short-term rental of single-family dwellings.

During the 2016 state legislative session, Senate Bill 1350 was introduced with the intent of streamlining the collection and distribution of transaction privilege taxes for online booking agencies that marketed short term vacation rental properties. As the bill progressed, an amendment was offered by Sen. Debbie Lesko that would have the effect of prohibiting local

government entities from enacting or maintaining local ordinances that would disallow short term vacation rental activity within their jurisdictional boundaries.

SB 1350 was signed by the Governor on May 12, 2016 with an effective date of December 31, 2016. The referendum period will expire on August 6, 2016.

The intent of this discussion is to acknowledge the impact of SB 1350 on the Sedona short term vacation rental ordinance; to contemplate what regulatory action may still be available to the City; and to identify preferences that Council may have moving forward.

Important Context:

- SB 1350 renders Sedona’s ordinance prohibiting short term rental invalid
- Any new regulations must demonstrate a health, safety, and welfare issue AND must be consistent with regulations applied to other residential uses
- SB 1350 authorizes the City to require an emergency contact for a rental property, which could prove a valuable mechanism to track short term rental activity
- It remains unclear if rental activity will proliferate or whether the activity will cause negative impacts greater than those experienced with other residential uses
- SB 1350 contemplates collection of sales tax
- It is not clear how the state will enforces sales tax collection

Community Plan Consistent: Yes - No - Not Applicable

Board/Commission Recommendation: Applicable - Not Applicable

Alternative(s):

MOTION

I move to: for discussion and possible direction only.

State of Arizona
Senate
Fifty-second Legislature
Second Regular Session
2016

SENATE BILL 1350

AN ACT

AMENDING TITLE 9, CHAPTER 4, ARTICLE 8, ARIZONA REVISED STATUTES, BY ADDING SECTION 9-500.38; AMENDING TITLE 11, CHAPTER 2, ARTICLE 4, ARIZONA REVISED STATUTES, BY ADDING SECTION 11-269.15; AMENDING TITLE 15, CHAPTER 13, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 15-1650.01; AMENDING SECTIONS 42-2003, 42-5005, 42-5009, 42-5010, 42-5014 AND 42-5070, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5076; AMENDING TITLE 42, CHAPTER 6, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 42-6009 AND 42-6013; AMENDING SECTIONS 42-12003 AND 42-12004, ARIZONA REVISED STATUTES; RELATING TO ONLINE LODGING.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 9, chapter 4, article 8, Arizona Revised Statutes, is
3 amended by adding section 9-500.38, to read:

4 9-500.38. Limitations on regulation of vacation rentals and
5 short-term rentals; state preemption; definitions

6 A. A CITY OR TOWN MAY NOT PROHIBIT VACATION RENTALS OR SHORT-TERM
7 RENTALS.

8 B. A CITY OR TOWN MAY NOT RESTRICT THE USE OF OR REGULATE VACATION
9 RENTALS OR SHORT-TERM RENTALS BASED ON THEIR CLASSIFICATION, USE OR
10 OCCUPANCY. A CITY OR TOWN MAY REGULATE VACATION RENTALS OR SHORT-TERM
11 RENTALS FOR THE FOLLOWING PURPOSES:

12 1. PROTECTION OF THE PUBLIC'S HEALTH AND SAFETY, INCLUDING RULES AND
13 REGULATIONS RELATED TO FIRE AND BUILDING CODES, HEALTH AND SANITATION,
14 TRANSPORTATION OR TRAFFIC CONTROL, SOLID OR HAZARDOUS WASTE AND POLLUTION
15 CONTROL, AND DESIGNATION OF AN EMERGENCY POINT OF CONTACT, IF THE CITY OR
16 TOWN DEMONSTRATES THAT THE RULE OR REGULATION IS FOR THE PRIMARY PURPOSE OF
17 PROTECTING THE PUBLIC'S HEALTH AND SAFETY.

18 2. ADOPTING AND ENFORCING RESIDENTIAL USE AND ZONING ORDINANCES,
19 INCLUDING ORDINANCES RELATED TO NOISE, PROTECTION OF WELFARE, PROPERTY
20 MAINTENANCE AND OTHER NUISANCE ISSUES, IF THE ORDINANCE IS APPLIED IN THE
21 SAME MANNER AS OTHER PROPERTY CLASSIFIED UNDER SECTIONS 42-12003 AND
22 42-12004.

23 3. LIMITING OR PROHIBITING THE USE OF A VACATION RENTAL OR SHORT-TERM
24 RENTAL FOR THE PURPOSES OF HOUSING SEX OFFENDERS, OPERATING OR MAINTAINING A
25 STRUCTURED SOBER LIVING HOME, SELLING ILLEGAL DRUGS, LIQUOR CONTROL OR
26 PORNOGRAPHY, OBSCENITY, NUDE OR TOPLESS DANCING AND OTHER ADULT-ORIENTED
27 BUSINESSES.

28 C. THIS SECTION DOES NOT EXEMPT AN OWNER OF A RESIDENTIAL RENTAL
29 PROPERTY, AS DEFINED IN SECTION 33-1901, FROM MAINTAINING WITH THE ASSESSOR
30 OF THE COUNTY IN WHICH THE PROPERTY IS LOCATED INFORMATION REQUIRED UNDER
31 TITLE 33, CHAPTER 17, ARTICLE 1.

32 D. FOR THE PURPOSES OF THIS SECTION:

33 1. "TRANSIENT" HAS THE SAME MEANING PRESCRIBED IN SECTION 42-5070.

34 2. "VACATION RENTAL" OR "SHORT-TERM RENTAL" MEANS ANY INDIVIDUALLY OR
35 COLLECTIVELY OWNED SINGLE-FAMILY OR ONE-TO-FOUR-FAMILY HOUSE OR DWELLING UNIT
36 OR ANY UNIT OR GROUP OF UNITS IN A CONDOMINIUM, COOPERATIVE OR TIMESHARE,
37 THAT IS ALSO A TRANSIENT PUBLIC LODGING ESTABLISHMENT OR OWNER-OCCUPIED
38 RESIDENTIAL HOME OFFERED FOR TRANSIENT USE IF THE ACCOMMODATIONS ARE NOT
39 CLASSIFIED FOR PROPERTY TAXATION UNDER SECTION 42-12001. VACATION RENTAL AND
40 SHORT-TERM RENTAL DO NOT INCLUDE A UNIT THAT IS USED FOR ANY NONRESIDENTIAL
41 USE, INCLUDING RETAIL, RESTAURANT, BANQUET SPACE, EVENT CENTER OR ANOTHER
42 SIMILAR USE.

1 OF REGENTS SHALL ADMINISTER THE FUND AND MAY PARTNER WITH ANY STATEWIDE
2 LODGING AND TOURISM ASSOCIATION THAT PROVIDES MATCHING MONIES IN
3 ADMINISTERING THE FUND. MONIES IN THE FUND ARE SUBJECT TO LEGISLATIVE
4 APPROPRIATION FOR THE PURPOSES OF THIS SECTION AND ARE EXEMPT FROM THE
5 PROVISIONS OF SECTION 35-190 RELATING TO LAPSING OF APPROPRIATIONS.

6 B. THE BOARD SHALL USE THE MONIES IN THE FUND TO PROVIDE SCHOLARSHIPS
7 AND OTHER FINANCIAL ASSISTANCE TO STUDENTS ENTERING INTO OR ENROLLED IN A
8 HOSPITALITY STUDIES PROGRAM AT ANY UNIVERSITY UNDER THE JURISDICTION OF THE
9 BOARD. THE FINANCIAL ASSISTANCE SHALL BE USED TO DEFRAY EDUCATIONAL
10 EXPENSES, INCLUDING ROOM AND BOARD. IF A RECIPIENT WITHDRAWS FROM SCHOOL OR
11 FROM THE HOSPITALITY STUDIES PROGRAM BEFORE RECEIVING A DEGREE, THE RECIPIENT
12 MUST REPAY ALL SCHOLARSHIP MONIES PREVIOUSLY AWARDED TO THE RECIPIENT. IF
13 THE RECIPIENT IS DISMISSED FROM THE UNIVERSITY, THE BOARD SHALL NEGOTIATE AN
14 APPROPRIATE REPAYMENT SCHEDULE PLUS EIGHT PERCENT SIMPLE INTEREST.

15 C. FOR THE PURPOSES OF THIS SECTION, "HOSPITALITY STUDIES PROGRAM"
16 MEANS ANY UNDERGRADUATE OR GRADUATE ACADEMIC STUDIES PROGRAM RELATING TO
17 OPERATION OR MANAGEMENT OF HOTELS, MOTELS OR OTHER FACILITIES FOR TRANSIENT
18 LODGING AS DESCRIBED IN SECTION 42-5070, SUBSECTION A OR RESTAURANTS AS
19 DESCRIBED IN SECTION 42-5074.

20 Sec. 4. Section 42-2003, Arizona Revised Statutes, is amended to read:
21 42-2003. Authorized disclosure of confidential information

22 A. Confidential information relating to:

23 1. A taxpayer may be disclosed to the taxpayer, its successor in
24 interest or a designee of the taxpayer who is authorized in writing by the
25 taxpayer. A principal corporate officer of a parent corporation may execute
26 a written authorization for a controlled subsidiary.

27 2. A corporate taxpayer may be disclosed to any principal officer, any
28 person designated by a principal officer or any person designated in a
29 resolution by the corporate board of directors or other similar governing
30 body.

31 3. A partnership may be disclosed to any partner of the partnership.
32 This exception does not include disclosure of confidential information of a
33 particular partner unless otherwise authorized.

34 4. An estate may be disclosed to the personal representative of the
35 estate and to any heir, next of kin or beneficiary under the will of the
36 decedent if the department finds that the heir, next of kin or beneficiary
37 has a material interest ~~which~~ THAT will be affected by the confidential
38 information.

39 5. A trust may be disclosed to the trustee or trustees, jointly or
40 separately, and to the grantor or any beneficiary of the trust if the
41 department finds that the grantor or beneficiary has a material interest that
42 will be affected by the confidential information.

43 6. Any taxpayer may be disclosed if the taxpayer has waived any rights
44 to confidentiality either in writing or on the record in any administrative
45 or judicial proceeding.

1 7. The name and taxpayer identification numbers of persons issued
2 direct payment permits may be publicly disclosed.

3 B. Confidential information may be disclosed to:

4 1. Any employee of the department whose official duties involve tax
5 administration.

6 2. The office of the attorney general solely for its use in
7 preparation for, or in an investigation that may result in, any proceeding
8 involving tax administration before the department or any other agency or
9 board of this state, or before any grand jury or any state or federal court.

10 3. The department of liquor licenses and control for its use in
11 determining whether a spirituous liquor licensee has paid all transaction
12 privilege taxes and affiliated excise taxes incurred as a result of the sale
13 of spirituous liquor, as defined in section 4-101, at the licensed
14 establishment and imposed on the licensed establishments by this state and
15 its political subdivisions.

16 4. Other state tax officials whose official duties require the
17 disclosure for proper tax administration purposes if the information is
18 sought in connection with an investigation or any other proceeding conducted
19 by the official. Any disclosure is limited to information of a taxpayer who
20 is being investigated or who is a party to a proceeding conducted by the
21 official.

22 5. The following agencies, officials and organizations, if they grant
23 substantially similar privileges to the department for the type of
24 information being sought, pursuant to statute and a written agreement between
25 the department and the foreign country, agency, state, Indian tribe or
26 organization:

27 (a) The United States internal revenue service, alcohol and tobacco
28 tax and trade bureau of the United States treasury, United States bureau of
29 alcohol, tobacco, firearms and explosives of the United States department of
30 justice, United States drug enforcement agency and federal bureau of
31 investigation.

32 (b) A state tax official of another state.

33 (c) An organization of states, federation of tax administrators or
34 multistate tax commission that operates an information exchange for tax
35 administration purposes.

36 (d) An agency, official or organization of a foreign country with
37 responsibilities that are comparable to those listed in subdivision (a), (b)
38 or (c) of this paragraph.

39 (e) An agency, official or organization of an Indian tribal government
40 with responsibilities comparable to the responsibilities of the agencies,
41 officials or organizations identified in subdivision (a), (b) or (c) of this
42 paragraph.

43 6. The auditor general, in connection with any audit of the department
44 subject to the restrictions in section 42-2002, subsection D.

1 7. Any person to the extent necessary for effective tax administration
2 in connection with:

3 (a) The processing, storage, transmission, destruction and
4 reproduction of the information.

5 (b) The programming, maintenance, repair, testing and procurement of
6 equipment for purposes of tax administration.

7 (c) The collection of the taxpayer's civil liability.

8 8. The office of administrative hearings relating to taxes
9 administered by the department pursuant to section 42-1101, but the
10 department shall not disclose any confidential information:

11 (a) Regarding income tax or withholding tax.

12 (b) On any tax issue relating to information associated with the
13 reporting of income tax or withholding tax.

14 9. The United States treasury inspector general for tax administration
15 for the purpose of reporting a violation of internal revenue code section
16 7213A (26 United States Code section 7213A), unauthorized inspection of
17 returns or return information.

18 10. The financial management service of the United States treasury
19 department for use in the treasury offset program.

20 11. The United States treasury department or its authorized agent for
21 use in the state income tax levy program and in the electronic federal tax
22 payment system.

23 12. The Arizona commerce authority for its use in:

24 (a) Qualifying renewable energy operations for the tax incentives
25 under sections 42-12006, 43-1083.01 and 43-1164.01.

26 (b) Qualifying businesses with a qualified facility for income tax
27 credits under sections 43-1083.03 and 43-1164.04.

28 (c) Fulfilling its annual reporting responsibility pursuant to section
29 41-1511, subsections U and V and section 41-1512, subsections U and V.

30 (d) Certifying computer data centers for tax relief under section
31 41-1519.

32 13. A prosecutor for purposes of section 32-1164, subsection C.

33 14. The state fire marshal for use in determining compliance with and
34 enforcing title 41, chapter 16, article 3.1.

35 15. The department of transportation for its use in administering
36 taxes, surcharges and penalties prescribed by title 28.

37 16. The Arizona health care cost containment system administration for
38 its use in administering nursing facility provider assessments.

39 C. Confidential information may be disclosed in any state or federal
40 judicial or administrative proceeding pertaining to tax administration
41 pursuant to the following conditions:

42 1. One or more of the following circumstances must apply:

43 (a) The taxpayer is a party to the proceeding.

44 (b) The proceeding arose out of, or in connection with, determining
45 the taxpayer's civil or criminal liability, or the collection of the

1 taxpayer's civil liability, with respect to any tax imposed under this title
2 or title 43.

3 (c) The treatment of an item reflected on the taxpayer's return is
4 directly related to the resolution of an issue in the proceeding.

5 (d) Return information directly relates to a transactional
6 relationship between a person who is a party to the proceeding and the
7 taxpayer and directly affects the resolution of an issue in the proceeding.

8 2. Confidential information may not be disclosed under this subsection
9 if the disclosure is prohibited by section 42-2002, subsection C or D.

10 D. Identity information may be disclosed for purposes of notifying
11 persons entitled to tax refunds if the department is unable to locate the
12 persons after reasonable effort.

13 E. The department, on the request of any person, shall provide the
14 names and addresses of bingo licensees as defined in section 5-401, verify
15 whether or not a person has a privilege license and number, a tobacco product
16 distributor's license and number or a withholding license and number or
17 disclose the information to be posted on the department's website or
18 otherwise publicly accessible pursuant to section 42-1124, subsection F and
19 section 42-3401.

20 F. A department employee, in connection with the official duties
21 relating to any audit, collection activity or civil or criminal
22 investigation, may disclose return information to the extent that disclosure
23 is necessary to obtain information that is not otherwise reasonably
24 available. These official duties include the correct determination of and
25 liability for tax, the amount to be collected or the enforcement of other
26 state tax revenue laws.

27 G. If an organization is exempt from this state's income tax as
28 provided in section 43-1201 for any taxable year, the name and address of the
29 organization and the application filed by the organization on which the
30 department made its determination for exemption together with any papers
31 submitted in support of the application and any letter or document issued by
32 the department concerning the application are open to public inspection.

33 H. Confidential information relating to transaction privilege tax, use
34 tax, severance tax, jet fuel excise and use tax and any other tax collected
35 by the department on behalf of any jurisdiction may be disclosed to any
36 county, city or town tax official if the information relates to a taxpayer
37 who is or may be taxable by a county, city or town or who may be subject to
38 audit by the department pursuant to section 42-6002. Any taxpayer
39 information released by the department to the county, city or town:

40 1. May only be used for internal purposes, including audits.

41 2. May not be disclosed to the public in any manner that does not
42 comply with confidentiality standards established by the department. The
43 county, city or town shall agree in writing with the department that any
44 release of confidential information that violates the confidentiality
45 standards adopted by the department will result in the immediate suspension

1 of any rights of the county, city or town to receive taxpayer information
2 under this subsection.

3 I. The department may disclose statistical information gathered from
4 confidential information if it does not disclose confidential information
5 attributable to any one taxpayer. The department may disclose statistical
6 information gathered from confidential information, even if it discloses
7 confidential information attributable to a taxpayer, to:

8 1. The state treasurer in order to comply with the requirements of
9 section 42-5029, subsection A, paragraph 3.

10 2. The joint legislative income tax credit review committee, the joint
11 legislative budget committee staff and the legislative staff in order to
12 comply with the requirements of section 43-221.

13 J. The department may disclose the aggregate amounts of any tax
14 credit, tax deduction or tax exemption enacted after January 1, 1994.
15 Information subject to disclosure under this subsection shall not be
16 disclosed if a taxpayer demonstrates to the department that such information
17 would give an unfair advantage to competitors.

18 K. Except as provided in section 42-2002, subsection C, confidential
19 information, described in section 42-2001, paragraph 1, subdivision (a), item
20 (ii), may be disclosed to law enforcement agencies for law enforcement
21 purposes.

22 L. The department may provide transaction privilege tax license
23 information to property tax officials in a county for the purpose of
24 identification and verification of the tax status of commercial property.

25 M. The department may provide transaction privilege tax, luxury tax,
26 use tax, property tax and severance tax information to the ombudsman-citizens
27 aide pursuant to title 41, chapter 8, article 5.

28 N. Except as provided in section 42-2002, subsection D, a court may
29 order the department to disclose confidential information pertaining to a
30 party to an action. An order shall be made only ~~upon~~ ON a showing of good
31 cause and that the party seeking the information has made demand ~~upon~~ ON the
32 taxpayer for the information.

33 O. This section does not prohibit the disclosure by the department of
34 any information or documents submitted to the department by a bingo licensee.
35 Before disclosing the information the department shall obtain the name and
36 address of the person requesting the information.

37 P. If the department is required or permitted to disclose confidential
38 information, it may charge the person or agency requesting the information
39 for the reasonable cost of its services.

40 Q. Except as provided in section 42-2002, subsection D, the department
41 of revenue shall release confidential information as requested by the
42 department of economic security pursuant to section 42-1122 or 46-291.
43 Information disclosed under this subsection is limited to the same type of
44 information that the United States internal revenue service is authorized to
45 disclose under section 6103(1)(6) of the internal revenue code.

1 R. Except as provided in section 42-2002, subsection D, the department
2 of revenue shall release confidential information as requested by the courts
3 and clerks of the court pursuant to section 42-1122.

4 S. To comply with the requirements of section 42-5031, the department
5 may disclose to the state treasurer, to the county stadium district board of
6 directors and to any city or town tax official that is part of the county
7 stadium district confidential information attributable to a taxpayer's
8 business activity conducted in the county stadium district.

9 T. The department shall release to the attorney general confidential
10 information as requested by the attorney general for purposes of determining
11 compliance with or enforcing any of the following:

12 1. Any public health control law relating to tobacco sales as provided
13 under title 36, chapter 6, article 14.

14 2. Any law relating to reduced cigarette ignition propensity standards
15 as provided under title 41, chapter 16, article 3.1.

16 3. Sections 44-7101 and 44-7111, the master settlement agreement
17 referred to in those sections and all agreements regarding disputes under the
18 master settlement agreement.

19 U. For proceedings before the department, the office of administrative
20 hearings, the board of tax appeals or any state or federal court involving
21 penalties that were assessed against a return preparer, an electronic return
22 preparer or a payroll service company pursuant to section 42-1103.02,
23 42-1125.01 or 43-419, confidential information may be disclosed only before
24 the judge or administrative law judge adjudicating the proceeding, the
25 parties to the proceeding and the parties' representatives in the proceeding
26 prior to its introduction into evidence in the proceeding. The confidential
27 information may be introduced as evidence in the proceeding only if the
28 taxpayer's name, the names of any dependents listed on the return, all social
29 security numbers, the taxpayer's address, the taxpayer's signature and any
30 attachments containing any of the foregoing information are redacted and if
31 either:

32 1. The treatment of an item reflected on such return is or may be
33 related to the resolution of an issue in the proceeding.

34 2. Such A return or THE return information relates or may relate to a
35 transactional relationship between a person who is a party to the proceeding
36 and the taxpayer ~~which~~ THAT directly affects the resolution of an issue in
37 the proceeding.

38 3. The method of payment of the taxpayer's withholding tax liability
39 or the method of filing the taxpayer's withholding tax return is an issue for
40 the period.

41 V. The department and attorney general may share the information
42 specified in subsection T of this section with any of the following:

43 1. Federal, state or local agencies for the purposes of enforcement of
44 corresponding laws of other states.

1 2. A court, arbitrator, data clearinghouse or similar entity for the
2 purpose of assessing compliance with or making calculations required by the
3 master settlement agreement or agreements regarding disputes under the master
4 settlement agreement, and with counsel for the parties or expert witnesses in
5 any such proceeding, if the information otherwise remains confidential.

6 W. The department may provide the name and address of qualifying
7 hospitals and qualifying health care organizations, as defined in section
8 42-5001, to a business classified and reporting transaction privilege tax
9 under the utilities classification.

10 X. The department may disclose to an official of any city, town or
11 county in a current agreement or considering a prospective agreement with the
12 department as described in section 42-5032.02, subsection F any information
13 relating to amounts subject to distribution required by section 42-5032.02.
14 Information disclosed by the department under this subsection:

15 1. May only be used by the city, town or county for internal purposes.

16 2. May not be disclosed to the public in any manner that does not
17 comply with confidentiality standards established by the department. The
18 city, town or county must agree with the department in writing that any
19 release of confidential information that violates the confidentiality
20 standards will result in the immediate suspension of any rights of the city,
21 town or county to receive information under this subsection.

22 Y. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE DEPARTMENT
23 MAY NOT DISCLOSE INFORMATION PROVIDED BY AN ONLINE LODGING MARKETPLACE, AS
24 DEFINED IN SECTION 42-5076, WITHOUT THE WRITTEN CONSENT OF THE ONLINE LODGING
25 MARKETPLACE, AND THE INFORMATION MAY BE DISCLOSED ONLY PURSUANT TO SUBSECTION
26 A, PARAGRAPHS 1 THROUGH 6, SUBSECTION B, PARAGRAPHS 1, 2, 7 AND 8 AND
27 SUBSECTIONS C AND D OF THIS SECTION. SUCH INFORMATION:

28 1. IS NOT SUBJECT TO DISCLOSURE PURSUANT TO TITLE 39, RELATING TO
29 PUBLIC RECORDS.

30 2. MAY NOT BE DISCLOSED TO ANY AGENCY OF THIS STATE OR OF ANY COUNTY,
31 CITY, TOWN OR OTHER POLITICAL SUBDIVISION OF THIS STATE.

32 Sec. 5. Section 42-5005, Arizona Revised Statutes, is amended to read:

33 42-5005. Transaction privilege tax and municipal privilege tax
34 licenses; fees; renewal; revocation; violation;
35 classification

36 A. Every person who receives gross proceeds of sales or gross income
37 on which a transaction privilege tax is imposed by this article and who
38 desires to engage or continue in business shall apply to the department for
39 an annual transaction privilege tax license accompanied by a fee of twelve
40 dollars. A person shall not engage or continue in business until the person
41 has obtained a transaction privilege tax license.

42 B. A person desiring to engage or continue in business within a city
43 or town that imposes a municipal privilege tax shall apply to the department
44 of revenue for an annual municipal privilege tax license accompanied by a fee
45 of up to fifty dollars, as established by ordinance of the city or town. The

1 person shall submit the fee with each new license application. The person
2 may not engage or continue in business until the person has obtained a
3 municipal privilege tax license. The department must collect, hold, pay and
4 manage the fees in trust for the city or town and may not use the monies for
5 any other purposes.

6 C. A transaction privilege tax license is valid only for the calendar
7 year in which it is issued, but it may be renewed for the following calendar
8 year. There is no fee for the renewal of the transaction privilege tax
9 license. The transaction privilege tax license must be renewed at the same
10 time and in the manner as the municipal privilege tax license renewal.

11 D. A municipal privilege tax license is valid only for the calendar
12 year in which it is issued, but it may be renewed for the following calendar
13 year by the payment of a license renewal fee of up to fifty dollars. The
14 renewal fee is due and payable on January 1 and is considered delinquent if
15 not received on or before the last business day of January. The department
16 must collect, hold, pay and manage the fees in trust for the city or town and
17 may not use the monies for any other purposes.

18 E. A licensee that remains in business after the municipal privilege
19 tax license has expired is subject to the payment of the license renewal fee
20 and the civil penalty prescribed in section 42-1125, subsection R.

21 F. If the applicant is not in arrears in payment of any tax imposed by
22 this article, the department shall issue a license authorizing the applicant
23 to engage and continue in business on the condition that the applicant
24 complies with this article. The license number shall be continuous.

25 G. The transaction privilege tax license and the municipal privilege
26 tax license are not transferable on a complete change of ownership or change
27 of location of the business. For the purposes of this subsection:

28 1. "Location" means the business address appearing in the application
29 for the license and on the transaction privilege tax or municipal privilege
30 tax license.

31 2. "Ownership" means any right, title or interest in the business.

32 3. "Transferable" means the ability to convey or change the right or
33 privilege to engage or continue in business by virtue of the issuance of the
34 transaction privilege tax or municipal privilege tax license.

35 H. When the ownership or location of a business on which a transaction
36 privilege tax or municipal privilege tax is imposed has been changed within
37 the meaning of subsection G of this section, the licensee shall surrender the
38 license to the department. The license shall be reissued to the new owners
39 or for the new location on application by the taxpayer and payment of the
40 twelve-dollar fee for a transaction privilege tax license and a fee of up to
41 fifty dollars per jurisdiction for a municipal privilege tax license. The
42 department must collect, hold, pay and manage the fees in trust for the city
43 or town and may not use the monies for any other purposes.

44 I. A person who is engaged in or conducting a business in two or more
45 locations or under two or more business names shall procure a transaction

1 privilege tax license for each location or business name regardless of
2 whether all locations or business names are reported on a consolidated return
3 under a single transaction privilege tax license number. This requirement
4 shall not be construed as conflicting with section 42-5020.

5 J. A person who is engaged in or conducting a business in two or more
6 locations or under two or more business names shall procure a municipal
7 privilege tax license for each location or business name regardless of
8 whether all locations or business names are reported on a consolidated
9 return.

10 K. A person who is engaged in or conducting business at two or more
11 locations or under two or more business names and who files a consolidated
12 return under a single transaction privilege tax license number as provided by
13 section 42-5020 is required to pay only a single municipal privilege tax
14 license renewal fee for each local jurisdiction pursuant to subsection D of
15 this section. A person who is engaged in or conducting business at two or
16 more locations or under two or more business names and who does not file a
17 consolidated return under a single license number is required to pay a
18 license renewal fee for each location or license in a local jurisdiction.

19 L. FOR THE PURPOSES OF THIS CHAPTER AND CHAPTER 6 OF THIS TITLE, AN
20 ONLINE LODGING MARKETPLACE, AS DEFINED IN SECTION 42-5076, MAY REGISTER WITH
21 THE DEPARTMENT FOR A LICENSE FOR THE PAYMENT OF TAXES LEVIED BY THIS STATE
22 AND ONE OR MORE COUNTIES, CITIES, TOWNS OR SPECIAL TAXING DISTRICTS, AT THE
23 ELECTION OF THE ONLINE LODGING MARKETPLACE, FOR TAXES DUE FROM AN ONLINE
24 LODGING OPERATOR ON ANY ONLINE LODGING TRANSACTION FACILITATED BY THE ONLINE
25 LODGING MARKETPLACE, SUBJECT TO SECTIONS 42-5076 AND 42-6009.

26 M. FOR THE PURPOSES OF THIS CHAPTER AND CHAPTER 6 OF THIS TITLE, A
27 PERSON WHO IS LICENSED PURSUANT TO TITLE 32, CHAPTER 20 AND WHO FILES AN
28 ELECTRONIC CONSOLIDATED TAX RETURN FOR INDIVIDUAL REAL PROPERTIES UNDER
29 MANAGEMENT ON BEHALF OF THE PROPERTY OWNERS MAY BE LICENSED WITH THE
30 DEPARTMENT FOR THE PAYMENT OF TAXES LEVIED BY THIS STATE AND BY ANY COUNTY,
31 CITY OR TOWN WITH RESPECT TO THOSE PROPERTIES.

32 N. If a person violates this article or any rule adopted under
33 this article, the department upon hearing may revoke any transaction
34 privilege tax or municipal privilege tax license issued to the person. The
35 department shall provide ten days' written notice of the hearing, stating the
36 time and place and requiring the person to appear and show cause why the
37 license or licenses should not be revoked. The department shall provide
38 written notice to the person of the revocation of the license. The notices
39 may be served personally or by mail pursuant to section 42-5037. After
40 revocation, the department shall not issue a new license to the person unless
41 the person presents evidence satisfactory to the department that the person
42 will comply with this article and with the rules adopted under this article.
43 The department may prescribe the terms under which a revoked license may be
44 reissued.

1 E. If a seller is entitled to a deduction by complying with subsection
2 B of this section, the department may require the purchaser to establish the
3 accuracy and completeness of the information provided to the seller that
4 entitled the seller to the deduction. If the purchaser cannot establish the
5 accuracy and completeness of the information, the purchaser is liable in an
6 amount equal to any tax, penalty and interest that the seller would have been
7 required to pay under this article if the seller had not complied with
8 subsection B of this section. Payment of the amount under this subsection
9 exempts the purchaser from liability for any tax imposed under article 4 of
10 this chapter. The amount shall be treated as tax revenues collected from the
11 seller in order to designate the distribution base for purposes of section
12 42-5029.

13 F. The department may prescribe a form for a certificate used to
14 establish entitlement to the deductions described in section 42-5061,
15 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.
16 Under rules the department may prescribe, the department may also require
17 additional information for the seller to be entitled to the deduction. If a
18 seller is entitled to the deductions described in section 42-5061, subsection
19 A, paragraph 46 and section 42-5063, subsection B, paragraph 3, the
20 department may require the purchaser who executed the certificate to
21 establish the accuracy and completeness of the information contained in the
22 certificate that would entitle the seller to the deduction. If the purchaser
23 cannot establish the accuracy and completeness of the information, the
24 purchaser is liable in an amount equal to any tax, penalty and interest that
25 the seller would have been required to pay under this article. Payment of
26 the amount under this subsection exempts the purchaser from liability for any
27 tax imposed under article 4 of this chapter. The amount shall be treated as
28 tax revenues collected from the seller in order to designate the distribution
29 base for purposes of section 42-5029.

30 G. If a seller claims a deduction under section 42-5061, subsection A,
31 paragraph 25 and establishes entitlement to the deduction with an exemption
32 letter that the purchaser received from the department and the exemption
33 letter was based on a contingent event, the department may require the
34 purchaser that received the exemption letter to establish the satisfaction of
35 the contingent event within a reasonable time. If the purchaser cannot
36 establish the satisfaction of the event, the purchaser is liable in an amount
37 equal to any tax, penalty and interest that the seller would have been
38 required to pay under this article if the seller had not been furnished the
39 exemption letter. Payment of the amount under this subsection exempts the
40 purchaser from liability for any tax imposed under article 4 of this chapter.
41 The amount shall be treated as tax revenues collected from the seller in
42 order to designate the distribution base for purposes of section 42-5029.
43 For the purposes of this subsection, "reasonable time" means a time
44 limitation that the department determines and that does not exceed the time
45 limitations pursuant to section 42-1104.

1 H. The department shall prescribe forms for certificates used to
2 establish the satisfaction of the criteria necessary to qualify the sale of a
3 motor vehicle for the deductions described in section 42-5061, subsection A,
4 paragraph 14, paragraph 28, subdivision (a) and paragraph 44 and subsection
5 U. Except as provided in subsection J of this section, to establish
6 entitlement to these deductions, a motor vehicle dealer shall retain:

7 1. A valid certificate as prescribed by this subsection completed by
8 the purchaser and obtained prior to the issuance of the nonresident
9 registration permit authorized by section 28-2154.

10 2. A copy of the nonresident registration permit authorized by section
11 28-2154.

12 3. A legible copy of a current valid driver license issued to the
13 purchaser by another state or foreign country that indicates an address
14 outside of this state. For the sale of a motor vehicle to a nonresident
15 entity, the entity's representative must have a current valid driver license
16 issued by the same jurisdiction as that in which the entity is located.

17 4. For the purposes of the deduction provided by section 42-5061,
18 subsection A, paragraph 14, a certificate documenting the delivery of the
19 motor vehicle to an out-of-state location.

20 I. Notwithstanding subsection A, paragraph 2 of this section, if a
21 motor vehicle dealer has established entitlement to a deduction by complying
22 with subsection H of this section, the department may require the purchaser
23 who executed the certificate to establish the accuracy and completeness of
24 the information contained in the certificate that entitled the motor vehicle
25 dealer to the deduction. If the purchaser cannot establish the accuracy and
26 completeness of the information, the purchaser is liable in an amount equal
27 to any tax, penalty and interest that the motor vehicle dealer would have
28 been required to pay under this article and under articles IV and V of the
29 model city tax code as defined in section 42-6051. Payment of the amount
30 under this subsection exempts the purchaser from liability for any tax
31 imposed under article 4 of this chapter and any tax imposed under article VI
32 of the model city tax code as defined in section 42-6051. The amount shall
33 be treated as tax revenues collected from the motor vehicle dealer in order
34 to designate the distribution base for purposes of section 42-5029.

35 J. To establish entitlement to the deduction described in section
36 42-5061, subsection A, paragraph 44, a public consignment auction dealer as
37 defined in section 28-4301 shall submit the valid certificate prescribed by
38 subsection H of this section to the department and retain a copy for its
39 records.

40 K. Notwithstanding any other law, compliance with subsection H of this
41 section by a motor vehicle dealer entitles the motor vehicle dealer to the
42 exemption provided in section 42-6004, subsection A, paragraph 4.

43 L. The department shall prescribe a form for a certificate to be used
44 by a person that is not subject to tax under section 42-5075 when the person
45 is engaged by a contractor that is subject to tax under section 42-5075 for a

1 project that is taxable under section 42-5075. The certificate permits the
2 person purchasing tangible personal property to be incorporated or fabricated
3 by the person into any real property, structure, project, development or
4 improvement to provide documentation to a retailer that the sale of tangible
5 personal property qualifies for the deduction under section 42-5061,
6 subsection A, paragraph 27, subdivision (b). A prime contractor shall obtain
7 the certificate from the department and shall provide a copy to any such
8 person working on the project. The prime contractor shall obtain a new
9 certificate for each project to which this subsection applies. For the
10 purposes of this subsection, the following apply:

11 1. The person that is not subject to tax under section 42-5075 may use
12 the certificate issued pursuant to this subsection only with respect to
13 tangible personal property that will be incorporated into a project for which
14 the gross receipts are subject to tax under section 42-5075.

15 2. The department shall issue the certificate to the prime contractor
16 on receiving sufficient documentation to establish that the prime contractor
17 meets the requirements of this subsection.

18 3. If any person uses the certificate provided under this subsection
19 to purchase tangible personal property to be used in a project that is not
20 subject to tax under section 42-5075, the person is liable in an amount equal
21 to any tax, penalty and interest that the seller would have been required to
22 pay under this article if the seller had not complied with subsection A of
23 this section. Payment of the amount under this section exempts the person
24 from liability for any tax imposed under article 4 of this chapter. The
25 amount shall be sourced under section 42-5040, subsection A, paragraph 2.

26 M. Notwithstanding any other law, compliance with subsection L of this
27 section by a person that is not subject to tax under section 42-5075 entitles
28 the person to the exemption allowed by section 465, subsection (k) of the
29 model city tax code when purchasing tangible personal property to be
30 incorporated or fabricated by the person into any real property, structure,
31 project, development or improvement.

32 N. NOTWITHSTANDING ANY OTHER LAW, AN ONLINE LODGING OPERATOR, AS
33 DEFINED IN SECTION 42-5076, SHALL BE ENTITLED TO AN EXCLUSION FROM ANY
34 APPLICABLE TAXES FOR ANY ONLINE LODGING TRANSACTION, AS DEFINED IN SECTION
35 42-5076, FACILITATED BY AN ONLINE LODGING MARKETPLACE, AS DEFINED IN SECTION
36 42-5076, FOR WHICH THE ONLINE LODGING OPERATOR HAS OBTAINED FROM THE ONLINE
37 LODGING MARKETPLACE WRITTEN NOTICE THAT THE ONLINE LODGING MARKETPLACE IS
38 REGISTERED WITH THE DEPARTMENT TO COLLECT APPLICABLE TAXES FOR ALL ONLINE
39 LODGING TRANSACTIONS FACILITATED BY THE ONLINE LODGING MARKETPLACE, AND
40 TRANSACTION HISTORY DOCUMENTING TAX COLLECTED BY THE ONLINE LODGING
41 MARKETPLACE, PURSUANT TO SECTION 42-5005, SUBSECTION L.

42 Sec. 7. Section 42-5010, Arizona Revised Statutes, is amended to read:
43 42-5010. Rates; distribution base

44 A. The tax imposed by this article is levied and shall be collected at
45 the following rates:

- 1 1. Five percent of the tax base as computed for the business of every
2 person engaging or continuing in this state in the following business
3 classifications described in article 2 of this chapter:
 - 4 (a) Transporting classification.
 - 5 (b) Utilities classification.
 - 6 (c) Telecommunications classification.
 - 7 (d) Pipeline classification.
 - 8 (e) Private car line classification.
 - 9 (f) Publication classification.
 - 10 (g) Job printing classification.
 - 11 (h) Prime contracting classification.
 - 12 (i) Amusement classification.
 - 13 (j) Restaurant classification.
 - 14 (k) Personal property rental classification.
 - 15 (l) Retail classification and amounts equal to retail transaction
16 privilege tax due pursuant to section 42-5008.01.
- 17 2. Five and one-half percent of the tax base as computed for the
18 business of every person engaging or continuing in this state in:
 - 19 (a) The transient lodging classification described in section 42-5070.
 - 20 (b) THE ONLINE LODGING MARKETPLACE CLASSIFICATION DESCRIBED IN SECTION
21 42-5076 WHO HAS ENTERED INTO AN AGREEMENT WITH THE DEPARTMENT TO REGISTER
22 FOR, OR HAS OTHERWISE OBTAINED FROM THE DEPARTMENT, A LICENSE TO COLLECT TAX
23 PURSUANT TO SECTION 42-5005, SUBSECTION L.
- 24 3. Three and one-eighth percent of the tax base as computed for the
25 business of every person engaging or continuing in this state in the mining
26 classification described in section 42-5072.
- 27 4. Zero percent of the tax base as computed for the business of every
28 person engaging or continuing in this state in the commercial lease
29 classification described in section 42-5069.
- 30 B. Except as provided by subsection J of this section, twenty percent
31 of the tax revenues collected at the rate prescribed by subsection A,
32 paragraph 1 of this section from persons on account of engaging in business
33 under the business classifications listed in subsection A, paragraph 1,
34 subdivisions (a) through (h) of this section is designated as distribution
35 base for purposes of section 42-5029.
- 36 C. Forty percent of the tax revenues collected at the rate prescribed
37 by subsection A, paragraph 1 of this section from persons on account of
38 engaging in business under the business classifications listed in subsection
39 A, paragraph 1, subdivisions (i) through (l) of this section is designated as
40 distribution base for purposes of section 42-5029.
- 41 D. Thirty-two percent of the tax revenues collected from persons on
42 account of engaging in business under the business classification listed in
43 subsection A, paragraph 3 of this section is designated as distribution base
44 for purposes of section 42-5029.

1 E. Fifty-three and one-third percent of the tax revenues collected
2 from persons on account of engaging in business under the business
3 classification listed in subsection A, paragraph 4 of this section is
4 designated as distribution base for purposes of section 42-5029.

5 F. Fifty percent of the tax revenues collected from persons on account
6 of engaging in business under the business classification listed in
7 subsection A, paragraph 2 of this section is designated as distribution base
8 for purposes of section 42-5029.

9 G. In addition to the rates prescribed by subsection A of this
10 section, if approved by the qualified electors voting at a statewide general
11 election, an additional rate increment is imposed and shall be collected
12 through June 30, 2021. The taxpayer shall pay taxes pursuant to this
13 subsection at the same time and in the same manner as under subsection A of
14 this section. The department shall separately account for the revenues
15 collected with respect to the rates imposed pursuant to this subsection and
16 the state treasurer shall distribute all of those revenues in the manner
17 prescribed by section 42-5029, subsection E. The rates imposed pursuant to
18 this subsection shall not be considered local revenues for purposes of
19 article IX, section 21, Constitution of Arizona. The additional tax rate
20 increment is levied at the rate of six-tenths of one per cent of the tax base
21 of every person engaging or continuing in this state in a business
22 classification listed in subsection A, paragraph 1 of this section.

23 H. Any increase in the rate of tax that is imposed by this chapter and
24 that is enacted by the legislature or by a vote of the people does not apply
25 with respect to contracts entered into by prime contractors or pursuant to
26 written bids made by prime contractors on or before the effective date of the
27 legislation or the date of the election enacting the increase. To qualify
28 for the exemption under this subsection, the prime contractor must maintain
29 sufficient documentation, in a manner and form prescribed by the department,
30 to verify the date of the contract or written bid.

31 I. For taxpayers taxable under this chapter other than prime
32 contractors taxable pursuant to section 42-5075:

33 1. Any increase in the rate of tax that is levied by this article or
34 article 2 of this chapter enacted by the legislature or by a vote of the
35 people does not apply for a period of one hundred twenty days from the date
36 of the tax rate increase to the gross proceeds of sales or gross income from
37 the business of the taxpayer with respect to written contracts entered into
38 before the effective date of the tax rate increase unless the taxpayer has
39 entered into a contract that contains a provision that entitles the taxpayer
40 to recover from the purchaser the amount of the additional tax levied.

41 2. The provisions of this subsection apply without regard to the
42 accounting method used by the taxpayer to report the taxes imposed under
43 article 2 of this chapter.

44 3. The provisions of this subsection shall not be considered in
45 determining the rate of tax imposed under chapter 6, article 3 of this title.

1 J. Zero percent of the tax revenues that are collected at the rate
2 prescribed by subsection A, paragraph 1 of this section from persons on
3 account of engaging in business under the business classification listed in
4 subsection A, paragraph 1, subdivision (h) of this section, and that are
5 subject to any distribution required by section 42-5032.02, is designated as
6 distribution base for the purposes of section 42-5029 until the total amount
7 subject to distribution pursuant to section 42-5032.02 has reached the
8 maximum amount prescribed by section 42-5032.02, subsection C. Thereafter,
9 twenty percent of the remaining tax revenues is designated as distribution
10 base for the purposes of section 42-5029 as provided by subsection B of this
11 section.

12 Sec. 8. Section 42-5014, Arizona Revised Statutes, is amended to read:
13 42-5014. Return and payment of tax; estimated tax; extensions;
14 abatements

15 A. Except as provided in subsection B, C, ~~or~~ D, E OR F of this
16 section, the taxes levied under this article:

17 1. Are due and payable monthly in the form required by section 42-5018
18 for the amount of the tax, to the department, on or before the twentieth day
19 of the month next succeeding the month in which the tax accrues.

20 2. Are delinquent as follows:

21 (a) For taxpayers that are required or elect to file and pay
22 electronically in any month, if not received by the department on or before
23 the last business day of the month.

24 (b) For all other taxpayers, if not received by the department on or
25 before the business day preceding the last business day of the month.

26 B. The department, for any taxpayer whose estimated annual liability
27 for taxes imposed or administered by this article or chapter 6 of this title
28 is between two thousand dollars and eight thousand dollars, shall authorize
29 such taxpayer to pay such taxes on a quarterly basis. The department, for
30 any taxpayer whose estimated annual liability for taxes imposed by this
31 article is less than two thousand dollars, shall authorize such taxpayer to
32 pay such taxes on an annual basis. For the purposes of this subsection, the
33 taxes due under this article:

34 1. For taxpayers that are authorized to pay on a quarterly basis, are
35 due and payable monthly in the form required by section 42-5018 for the
36 amount of the tax, to the department, on or before the twentieth day of the
37 month next succeeding the quarter in which the tax accrues.

38 2. For taxpayers that are authorized to pay on an annual basis, are
39 due and payable monthly in the form required by section 42-5018 for the
40 amount of the tax, to the department, on or before the twentieth day of
41 January next succeeding the year in which the tax accrues.

42 3. Are delinquent as follows:

43 (a) For taxpayers that are required or elect to file and pay
44 electronically in any quarter, if not received by the department on or before
45 the last business day of the month.

1 (b) For all other taxpayers that are required to file and pay
2 quarterly, if not received by the department on or before the business day
3 preceding the last business day of the month.

4 (c) For taxpayers that are required or elect to file and pay
5 electronically on an annual basis, if not received by the department on or
6 before the last business day of January.

7 (d) For all other taxpayers that are required to file and pay
8 annually, if not received by the department on or before the business day
9 preceding the last business day of January.

10 C. The department may require a taxpayer whose business is of a
11 transient character to file the return and remit the taxes imposed by this
12 article on a daily, a weekly or a transaction by transaction basis, and those
13 returns and payments are due and payable on the date fixed by the department
14 without a grace period otherwise allowed by this section. For the purposes
15 of this subsection, "business of a transient character" means sales activity
16 by a taxpayer not regularly engaged in selling within the state conducted
17 from vehicles, portable stands, rented spaces, structures or booths, or
18 concessions at fairs, carnivals, circuses, festivals or similar activities
19 for not more than thirty consecutive days.

20 D. If the business entity under which a taxpayer reports and pays
21 income tax under title 43 has an annual total tax liability under this
22 article, article 6 of this chapter and chapter 6, article 3 of this title of
23 one million dollars or more, based on the actual tax liability in the
24 preceding calendar year, regardless of the number of offices at which the
25 taxes imposed by this article, article 6 of this chapter or chapter 6,
26 article 3 of this title are collected, or if the taxpayer can reasonably
27 anticipate such liability in the current year, the taxpayer shall report on a
28 form prescribed by the department and pay an estimated tax payment each June.
29 Any other taxpayer may voluntarily elect to pay the estimated tax payment
30 pursuant to this subsection. The payment shall be made on or before June 20
31 and is delinquent if not received by the department on or before the business
32 day preceding the last business day of June for those taxpayers electing to
33 file by mail, or delinquent if not received by the department on the business
34 day preceding the last business day of June for those taxpayers electing to
35 file in person. The estimated tax paid shall be credited against the
36 taxpayer's tax liability under this article, article 6 of this chapter and
37 chapter 6, article 3 of this title for the month of June for the current
38 calendar year. The estimated tax payment shall equal either:

39 1. One-half of the actual tax liability under this article plus
40 one-half of any tax liability under article 6 of this chapter and chapter 6,
41 article 3 of this title for May of the current calendar year.

42 2. The actual tax liability under this article plus any tax liability
43 under article 6 of this chapter and chapter 6, article 3 of this title for
44 the first fifteen days of June of the current calendar year.

1 E. AN ONLINE LODGING MARKETPLACE, AS DEFINED IN SECTION 42-5076, THAT
2 IS REGISTERED WITH THE DEPARTMENT PURSUANT TO SECTION 42-5005, SUBSECTION L:

3 1. SHALL REMIT TO THE DEPARTMENT THE APPLICABLE TAXES PAYABLE PURSUANT
4 TO SECTION 42-5076 AND CHAPTER 6 OF THIS TITLE WITH RESPECT TO EACH ONLINE
5 LODGING TRANSACTION, AS DEFINED IN SECTION 42-5076, FACILITATED BY THE ONLINE
6 LODGING MARKETPLACE.

7 2. SHALL REPORT THE TAXES MONTHLY AND REMIT THE AGGREGATE TOTAL
8 AMOUNTS FOR EACH OF THE RESPECTIVE TAXING JURISDICTIONS.

9 3. SHALL NOT BE REQUIRED TO LIST OR OTHERWISE IDENTIFY ANY INDIVIDUAL
10 ONLINE LODGING OPERATOR, AS DEFINED IN SECTION 42-5076, ON ANY RETURN OR ANY
11 ATTACHMENT TO A RETURN.

12 F. A PERSON WHO IS LICENSED PURSUANT TO TITLE 32, CHAPTER 20 AND WHO
13 IS LICENSED WITH THE DEPARTMENT PURSUANT TO SECTION 42-5005, SUBSECTION M
14 SHALL:

15 1. FILE A CONSOLIDATED RETURN MONTHLY WITH RESPECT TO ALL MANAGED
16 PROPERTIES FOR WHICH THE LICENSEE FILES AN ELECTRONIC CONSOLIDATED TAX RETURN
17 PURSUANT TO SECTION 42-6013.

18 2. REMIT TO THE DEPARTMENT THE AGGREGATE TOTAL AMOUNT OF THE
19 APPLICABLE TAXES PAYABLE PURSUANT TO THIS CHAPTER AND CHAPTER 6 OF THIS TITLE
20 FOR ALL OF THE RESPECTIVE TAXING JURISDICTIONS WITH RESPECT TO THE MANAGED
21 PROPERTIES.

22 ~~E.~~ G. The taxpayer shall prepare a return showing the amount of the
23 tax for which the taxpayer is liable for the preceding month, and shall mail
24 or deliver the return to the department in the same manner and time as
25 prescribed for the payment of taxes in subsection A of this section. If the
26 taxpayer fails to file the return in the manner and time as prescribed for
27 the payment of taxes in subsection A of this section, the amount of the tax
28 required to be shown on the return is subject to the penalty imposed pursuant
29 to section 42-1125, subsection A, without any reduction for taxes paid on or
30 before the due date of the return. The return shall be verified by the oath
31 of the taxpayer or an authorized agent or as prescribed by the department
32 pursuant to section 42-1105, subsection B.

33 ~~F.~~ H. Any person who is taxable under this article and who makes cash
34 and credit sales shall report such cash and credit sales separately and on
35 making application may obtain from the department an extension of time for
36 payment of taxes due on the credit sales. The extension shall be granted by
37 the department under such rules as the department prescribes. When the
38 extension is granted, the taxpayer shall thereafter include in each monthly
39 report all collections made on such credit sales during the month next
40 preceding and shall pay the taxes due at the time of filing such report.

41 ~~G.~~ I. The returns required under this article shall be made on forms
42 prescribed by the department and shall capture data with sufficient
43 specificity to meet the needs of all taxing jurisdictions.

1 ~~H~~. J. Any person who is engaged in or conducting business in two or
2 more locations or under two or more business names shall file the return
3 required under this article by electronic means.

4 ~~I~~. K. The department, for good cause, may extend the time for making
5 any return required by this article and may grant such reasonable additional
6 time within which to make the return as it deems proper, but the time for
7 filing the return shall not be extended beyond the first day of the third
8 month next succeeding the regular due date of the return.

9 ~~J~~. L. The department, with the approval of the attorney general, may
10 abate small tax balances if the administration costs exceed the amount of tax
11 due.

12 ~~K~~. M. For the purposes of subsection D of this section, "taxpayer"
13 means the business entity under which the business reports and pays state
14 income taxes regardless of the number of offices at which the taxes imposed
15 by this article, article 6 of this chapter or chapter 6, article 3 of this
16 title are collected.

17 Sec. 9. Section 42-5070, Arizona Revised Statutes, is amended to read:
18 42-5070. Transient lodging classification; definition

19 A. The transient lodging classification is comprised of the business
20 of operating, for occupancy by transients, a hotel or motel, including an
21 inn, tourist home or house, dude ranch, resort, campground, studio or
22 bachelor hotel, lodging house, rooming house, apartment house, dormitory,
23 public or private club, mobile home or house trailer at a fixed location or
24 other similar structure, and also including a space, lot or slab that is
25 occupied or intended or designed for occupancy by transients in a mobile home
26 or house trailer furnished by them for such occupancy.

27 B. The transient lodging classification does not include:

28 1. Operating a convalescent home or facility, home for the aged,
29 hospital, jail, military installation or fraternity or sorority house or
30 operating any structure exclusively by an association, institution,
31 governmental agency or corporation for religious, charitable or educational
32 purposes, if no part of the net earnings of the association, corporation or
33 other entity inures to the benefit of any private shareholder or individual.

34 2. A lease or rental of a mobile home or house trailer at a fixed
35 location or any other similar structure, and also including a space, lot or
36 slab that is occupied or intended or designed for occupancy by transients in
37 a mobile home or house trailer furnished by them for such occupancy for
38 thirty or more consecutive days.

39 3. Leasing or renting four or fewer rooms of an owner-occupied
40 residential home, together with furnishing no more than a breakfast meal, to
41 transient lodgers at no more than a fifty ~~per cent~~ PERCENT average annual
42 occupancy rate.

43 4. THE ACTIVITIES OF ANY ONLINE LODGING MARKETPLACE, AS DEFINED IN
44 SECTION 42-5076.

1 C. The tax base for the transient lodging classification is the gross
2 proceeds of sales or gross income derived from the business, except that the
3 tax base does not include:

4 1. THE gross proceeds of sales or gross income derived from business
5 activity that is properly included in another business classification under
6 this article and that is taxable to the person engaged in that business
7 classification, but the gross proceeds of sales or gross income to be
8 deducted shall not exceed the consideration paid to the person conducting the
9 activity.

10 2. THE GROSS PROCEEDS OR GROSS INCOME RECEIVED BY AN ONLINE LODGING
11 OPERATOR, AS DEFINED IN SECTION 42-5076, FROM ANY ONLINE LODGING
12 TRANSACTIONS, AS DEFINED IN SECTION 42-5076, FOR WHICH THE ONLINE LODGING
13 OPERATOR HAS RECEIVED DOCUMENTATION FROM A REGISTERED ONLINE LODGING
14 MARKETPLACE, AS DEFINED IN SECTION 42-5076, PURSUANT TO SECTION 42-5009,
15 SUBSECTION N THAT THE ONLINE LODGING MARKETPLACE HAS REMITTED OR WILL REMIT
16 THE APPLICABLE TAX TO THE DEPARTMENT PURSUANT TO SECTION 42-5014,
17 SUBSECTION E.

18 D. For the purposes of this section, the tax base for the transient
19 lodging classification does not include gross proceeds of sales or gross
20 income derived from:

21 1. Transactions or activities that are not limited to transients and
22 that would not be taxable if engaged in by a person not subject to tax under
23 this article.

24 2. Transactions or activities that are not limited to transients and
25 that would not be taxable if engaged in by a person subject to taxation under
26 section 42-5062 or 42-5073 due to an exclusion, exemption or deduction.

27 3. Commissions paid to a person that is engaged in transient lodging
28 business subject to taxation under this section by a person providing
29 services or property to the customers of the person engaging in the transient
30 lodging business.

31 E. The department shall separately account for revenues collected
32 under the transient lodging classification for the purposes of section
33 42-5029, subsection D, paragraph 4, subdivision (b).

34 F. For the purposes of this section, "transient" means any person who
35 either at the person's own expense or at the expense of another obtains
36 lodging space or the use of lodging space on a daily or weekly basis, or on
37 any other basis for less than thirty consecutive days.

38 Sec. 10. Title 42, chapter 5, article 2, Arizona Revised Statutes, is
39 amended by adding section 42-5076, to read:

40 42-5076. Online lodging marketplace classification; definitions

41 A. THE ONLINE LODGING MARKETPLACE CLASSIFICATION IS COMPRISED OF THE
42 BUSINESS OF OPERATING AN ONLINE LODGING MARKETPLACE.

43 B. THE TAX BASE FOR THE ONLINE LODGING MARKETPLACE CLASSIFICATION IS
44 THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM THE BUSINESS

1 MEASURED BY THE TOTAL AMOUNT CHARGED FOR AN ONLINE TRANSIENT LODGING
2 TRANSACTION BY THE ONLINE LODGING OPERATOR.

3 C. THE ONLINE LODGING MARKETPLACE CLASSIFICATION DOES NOT INCLUDE ANY
4 ONLINE LODGING MARKETPLACE THAT HAS NOT ENTERED INTO AN AGREEMENT WITH THE
5 DEPARTMENT TO REGISTER FOR, OR HAS NOT OTHERWISE OBTAINED FROM THE
6 DEPARTMENT, A LICENSE TO COLLECT TAX PURSUANT TO SECTION 42-5005,
7 SUBSECTION L.

8 D. FOR THE PURPOSES OF THIS SECTION:

9 1. "ONLINE LODGING MARKETPLACE" MEANS A PERSON THAT PROVIDES A DIGITAL
10 PLATFORM FOR COMPENSATION THROUGH WHICH AN UNAFFILIATED THIRD PARTY OFFERS TO
11 RENT LODGING ACCOMMODATIONS TO AN OCCUPANT, INCLUDING A TRANSIENT, AS DEFINED
12 IN SECTION 42-5070, AND THE ACCOMMODATIONS ARE NOT CLASSIFIED FOR PROPERTY
13 TAX PURPOSES UNDER SECTION 42-12001. FOR THE PURPOSES OF THIS PARAGRAPH:

14 (a) "LODGING ACCOMMODATIONS" MEANS ANY SPACE OFFERED TO THE PUBLIC FOR
15 LODGING, INCLUDING ANY HOTEL, MOTEL, INN, TOURIST HOME OR HOUSE, DUDE RANCH,
16 RESORT, CAMPGROUND, STUDIO OR BACHELOR HOTEL, LODGING HOUSE, ROOMING HOUSE,
17 RESIDENTIAL HOME, APARTMENT HOUSE, DORMITORY, PUBLIC OR PRIVATE CLUB, MOBILE
18 HOME OR HOUSE TRAILER AT A FIXED LOCATION OR OTHER SIMILAR STRUCTURE OR
19 SPACE.

20 (b) "UNAFFILIATED THIRD PARTY" MEANS A PERSON THAT IS NOT OWNED OR
21 CONTROLLED, DIRECTLY OR INDIRECTLY, BY THE SAME INTERESTS.

22 2. "ONLINE LODGING OPERATOR" MEANS A PERSON THAT IS ENGAGED IN THE
23 BUSINESS OF RENTING TO AN OCCUPANT, INCLUDING A TRANSIENT AS DEFINED IN
24 SECTION 42-5070, ANY LODGING ACCOMMODATION OFFERED THROUGH AN ONLINE LODGING
25 MARKETPLACE.

26 3. "ONLINE LODGING TRANSACTION" MEANS A CHARGE TO AN OCCUPANT,
27 INCLUDING A TRANSIENT AS DEFINED IN SECTION 42-5070, BY AN ONLINE LODGING
28 OPERATOR FOR THE OCCUPANCY OF ANY LODGING ACCOMMODATION AND INCLUDES AN
29 ONLINE TRANSIENT LODGING TRANSACTION.

30 4. "ONLINE TRANSIENT LODGING TRANSACTION" MEANS A CHARGE TO AN
31 OCCUPANT WHO IS A TRANSIENT AS DEFINED IN SECTION 42-5070 BY AN ONLINE
32 LODGING OPERATOR FOR THE OCCUPANCY OF ANY LODGING ACCOMMODATION.

33 Sec. 11. Title 42, chapter 6, article 1, Arizona Revised Statutes, is
34 amended by adding sections 42-6009 and 42-6013, to read:

35 42-6009. Online lodging; definitions

36 A. EXCEPT AS PROVIDED BY THIS SECTION, A CITY, TOWN OR OTHER TAXING
37 JURISDICTION MAY NOT LEVY A TRANSACTION PRIVILEGE, SALES, USE, FRANCHISE OR
38 OTHER SIMILAR TAX OR FEE, HOWEVER DENOMINATED, ON THE BUSINESS OF OPERATING
39 AN ONLINE LODGING MARKETPLACE OR, IN THE CASE OF AN ONLINE LODGING
40 MARKETPLACE THAT IS LICENSED PURSUANT TO SECTION 42-5005, SUBSECTION L, ON
41 ANY ONLINE LODGING TRANSACTION FACILITATED BY THE ONLINE LODGING MARKETPLACE
42 OR ON ANY ONLINE LODGING OPERATOR WITH RESPECT TO ANY ONLINE LODGING
43 TRANSACTION FOR WHICH IT HAS RECEIVED DOCUMENTATION THAT THE ONLINE LODGING
44 MARKETPLACE HAS OR WILL REMIT THE APPLICABLE TAX TO THE DEPARTMENT PURSUANT
45 TO SECTION 42-5014, SUBSECTION E.

1 B. IN THE CASE OF AN ONLINE LODGING MARKETPLACE THAT IS LICENSED
2 PURSUANT TO SECTION 42-5005, SUBSECTION L, A CITY, TOWN OR OTHER TAXING
3 JURISDICTION MAY LEVY A TRANSACTION PRIVILEGE, SALES, USE, FRANCHISE OR OTHER
4 SIMILAR TAX OR FEE AS PROVIDED BY THE MODEL CITY TAX CODE ON THE ONLINE
5 LODGING MARKETPLACE SUBJECT TO THE FOLLOWING CONDITIONS:

6 1. THE ADOPTED TAX MUST BE ADMINISTERED IN A MANNER THAT IS UNIFORM
7 WITH THE TREATMENT OF ONLINE LODGING MARKETPLACES, ONLINE LODGING OPERATORS
8 AND ONLINE LODGING TRANSACTIONS PROVIDED BY CHAPTER 5 OF THIS TITLE, EXCEPT
9 THAT:

10 (a) THE ADOPTED TAX RATE MAY BE DIFFERENT FROM THE STATE TAX RATE
11 PRESCRIBED BY SECTION 42-5010.

12 (b) THE ADOPTED TAX MAY APPLY TO ONLINE LODGING TRANSACTIONS INVOLVING
13 RENTALS OF LODGING ACCOMMODATIONS FOR MORE THAN TWENTY-NINE CONSECUTIVE DAYS.
14 WITH RESPECT TO ANY TAX ON RENTALS OF LODGING ACCOMMODATIONS FOR MORE THAN
15 TWENTY-NINE CONSECUTIVE DAYS, IN THE CASE OF AN ONLINE LODGING MARKETPLACE
16 THAT HAS REGISTERED PURSUANT TO SECTION 42-5005, SUBSECTION L, THE ADOPTED
17 TAX MUST UNIFORMLY APPLY TO ALL LODGING ACCOMMODATIONS FOR THIRTY CONSECUTIVE
18 DAYS OR MORE, AND THE TAX BASE FOR THE TAX MUST BE LIMITED EXCLUSIVELY TO
19 ONLINE LODGING TRANSACTIONS FACILITATED BY AN ONLINE LODGING MARKETPLACE FOR
20 RENTALS OF LODGING ACCOMMODATIONS FOR THIRTY CONSECUTIVE DAYS OR MORE AND
21 LOCATED IN THE APPLICABLE CITY, TOWN OR OTHER TAXING JURISDICTION.

22 2. THE ADOPTED TAX SHALL BE ADMINISTERED, COLLECTED AND ENFORCED BY
23 THE DEPARTMENT AND REMITTED TO THE CITY, TOWN OR OTHER TAXING JURISDICTION IN
24 A UNIFORM MANNER.

25 3. THE ADOPTED TAX MUST BE UNIFORM ON ONLINE LODGING MARKETPLACES,
26 ONLINE LODGING OPERATORS AND OTHER TAXPAYERS OF THE SAME CLASS WITHIN THE
27 JURISDICTIONAL BOUNDARIES OF THE CITY, TOWN OR OTHER TAXING JURISDICTION.

28 4. ANY ADOPTED TAX IS SUBJECT TO:

29 (a) SECTION 42-6002, RELATING TO AUDITS.

30 (b) SECTION 42-2003, SUBSECTION Y, RELATING TO CONFIDENTIAL
31 INFORMATION.

32 (c) SECTION 42-5003, SUBSECTION B, RELATING TO JUDICIAL ENFORCEMENT.

33 (d) SECTION 42-5005, SUBSECTION L, RELATING TO REGISTRATION OF ONLINE
34 LODGING MARKETPLACES.

35 (e) SECTION 42-5014, SUBSECTION E, RELATING TO TAX RETURNS.

36 5. THE TAX MAY NOT BE COLLECTED FROM AN ONLINE LODGING OPERATOR WITH
37 RESPECT TO ANY ONLINE LODGING TRANSACTION OR TRANSACTIONS FOR WHICH THE
38 ONLINE LODGING OPERATOR HAS RECEIVED WRITTEN NOTICE OR DOCUMENTATION FROM A
39 REGISTERED ONLINE LODGING MARKETPLACE THAT IT HAS OR WILL REMIT THE
40 APPLICABLE TAX WITH RESPECT TO THOSE TRANSACTIONS TO THE DEPARTMENT PURSUANT
41 TO SECTION 42-5014, SUBSECTION E.

42 C. FOR THE PURPOSES OF THIS SECTION, "LODGING ACCOMMODATIONS", "ONLINE
43 LODGING MARKETPLACE", "ONLINE LODGING OPERATOR" AND "ONLINE LODGING
44 TRANSACTION" HAVE THE SAME MEANINGS PRESCRIBED IN SECTION 42-5076.

1 42-6013. Electronic consolidated real property management tax
2 returns; definition

3 A. FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2017, A
4 CITY OR TOWN THAT LEVIES A TRANSACTION PRIVILEGE TAX UNDER THIS SECTION SHALL
5 ALLOW PERSONS WHO ARE LICENSED PURSUANT TO TITLE 32, CHAPTER 20 AND WHO ARE
6 LICENSED WITH THE DEPARTMENT PURSUANT TO SECTION 42-5005, SUBSECTION M TO
7 FILE ELECTRONIC CONSOLIDATED TAX RETURNS WITH THE DEPARTMENT WITH RESPECT TO
8 GROSS PROCEEDS OR GROSS INCOME DERIVED FROM THE INDIVIDUAL PROPERTIES UNDER
9 MANAGEMENT ON BEHALF OF THE PROPERTY OWNERS, SUBJECT TO THE FOLLOWING
10 CONDITIONS AND REQUIREMENTS:

11 1. THE DEPARTMENT SHALL ADMINISTER, COLLECT AND ENFORCE THE TAX THAT
12 IS REPORTED AND PAID PURSUANT TO AN ELECTRONIC CONSOLIDATED RETURN AND REMIT
13 THE COLLECTED REVENUES TO THE APPROPRIATE CITY OR TOWN.

14 2. THE TAX MAY NOT BE COLLECTED FROM ANY PROPERTY OWNER WHOSE LICENSEE
15 HAS PROVIDED WRITTEN DOCUMENTATION TO THE PROPERTY OWNER AND TO THE CITY OR
16 TOWN THAT THE LICENSEE HAS REPORTED AND REMITTED OR WILL REPORT AND REMIT THE
17 APPLICABLE TAX WITH RESPECT TO THE PROPERTY UNDER MANAGEMENT.

18 3. THE DEPARTMENT SHALL DEVELOP AN ELECTRONIC CONSOLIDATED RETURN FORM
19 THAT SEPARATELY IDENTIFIES EACH OWNER'S PROPERTY LOCATIONS AND THE GROSS
20 INCOME AND DEDUCTIONS FOR EACH PROPERTY LOCATION. THE LICENSEE SHALL FILE
21 THE RETURN ELECTRONICALLY USING THE CONSOLIDATED RETURN FORM DEVELOPED BY THE
22 DEPARTMENT.

23 4. ALL PARTICIPATING PROPERTY OWNERS INCLUDED IN THE SAME ELECTRONIC
24 CONSOLIDATED RETURN MUST BE ON THE SAME TAX PAYMENT SCHEDULE AND USE THE SAME
25 CASH RECEIPTS OR ACCRUAL BASIS OF REPORTING.

26 5. A LICENSEE FILING AN ELECTRONIC CONSOLIDATED RETURN:

27 (a) ACTS IN A FIDUCIARY CAPACITY AS THE PROPERTY OWNERS' AGENT.

28 (b) IS RESPONSIBLE AND ACCOUNTABLE TO THE PROPERTY OWNERS AND TO THE
29 CITY OR TOWN FOR FULLY AND ACCURATELY REPORTING AND PAYING TO THE DEPARTMENT
30 THE TAX AND ANY OTHER AMOUNTS DUE.

31 (c) IS SUBJECT TO AUDIT, AS PROVIDED BY LAW, OF THE ELECTRONIC
32 CONSOLIDATED RETURNS, INCLUDING DATA IN THE LICENSEE'S POSSESSION THAT IS
33 USED IN COMPILING AND FILING THE ELECTRONIC CONSOLIDATED RETURNS.

34 6. A PROPERTY OWNER:

35 (a) REMAINS ULTIMATELY RESPONSIBLE, ACCOUNTABLE AND LIABLE FOR BOTH:

36 (i) THE ACCURACY OF INFORMATION THE PROPERTY OWNER FURNISHES TO THE
37 LICENSEE.

38 (ii) THE RETURN AND PAYMENT OF THE FULL TAX LIABILITY.

39 (b) IS SUBJECT TO AUDIT, AS PROVIDED BY LAW, OF THE RECORDS IN THE
40 PROPERTY OWNER'S POSSESSION THAT ARE SUBMITTED TO THE LICENSEE FOR THE
41 PURPOSES OF THE ELECTRONIC CONSOLIDATED RETURN.

42 (c) MAY WITHDRAW ANY OF THE PROPERTY OWNER'S PROPERTIES FROM THE
43 ELECTRONIC CONSOLIDATED RETURN ON THIRTY DAYS' WRITTEN NOTICE TO THE
44 LICENSEE, THE DEPARTMENT AND THE TAX COLLECTOR OF THE CITY OR TOWN.

1 B. FOR THE PURPOSES OF THIS SECTION, "LICENSEE" MEANS A PERSON WHO IS
2 LICENSED PURSUANT TO TITLE 32, CHAPTER 20 AND WHO IS LICENSED WITH THE
3 DEPARTMENT PURSUANT TO SECTION 42-5005, SUBSECTION M.

4 Sec. 12. Section 42-12003, Arizona Revised Statutes, is amended to
5 read:

6 42-12003. Class three property; definition

7 A. For purposes of taxation, class three is established consisting of:

8 1. Real and personal property and improvements to the property that
9 are used as the owner's primary residence, that are not otherwise included in
10 class one, two, four, six, seven or eight and that are valued at full cash
11 value.

12 2. Real and personal property that is occupied by a relative of the
13 owner, as provided by section 42-12053, and used as the relative's primary
14 residence, that is not otherwise included in class one, two, four, six, seven
15 or eight and that is valued at full cash value.

16 3. REAL AND PERSONAL PROPERTY THAT IS OWNED AND OCCUPIED AS THE
17 PRIMARY RESIDENCE OF THE OWNER WHO ALSO USES THE PROPERTY FOR LEASE OR RENT
18 TO LODGERS.

19 B. For the purposes of this section, a homesite that is included in
20 class three may include:

21 1. Up to ten acres on a single parcel of real property on which the
22 residential improvement is located.

23 2. More than ten, but not more than forty, acres on a single parcel of
24 real property on which the residential improvement is located if it is zoned
25 exclusively for residential purposes or contains legal restrictions or
26 physical conditions that prevent the division of the parcel.

27 C. For the purposes of this section, "physical conditions" means
28 topography, mountains, washes, rivers, roads or any other configuration that
29 limits the residential usable land area.

30 Sec. 13. Section 42-12004, Arizona Revised Statutes, is amended to
31 read:

32 42-12004. Class four property

33 A. For purposes of taxation, class four is established consisting of:

34 1. Real and personal property and improvements to the property that
35 are used for residential purposes, including residential property that is
36 owned in foreclosure by a financial institution, that is not otherwise
37 included in another classification and that is valued at full cash value.

38 The homesite that is included in class four may include:

39 (a) Up to ten acres on a single parcel of real property on which the
40 residential improvement is located.

41 (b) More than ten, but not more than forty, acres on a single parcel
42 of real property on which the residential improvement is located if it is
43 zoned exclusively for residential purposes or contains legal restrictions or
44 physical conditions that prevent the division of the parcel. For the
45 purposes of this subdivision, "physical conditions" means topography,

1 mountains, washes, rivers, roads or any other configuration that limits the
2 residential usable land area.

3 2. Real and personal property and improvements to the property that
4 are used solely as leased or rented property for residential purposes, that
5 are not included in class one, two, three, six, seven or eight and that are
6 valued at full cash value.

7 3. Child care facilities that are licensed under title 36, chapter 7.1
8 and that are valued at full cash value.

9 4. Real and personal property and improvements to property that are
10 used to operate nonprofit residential housing facilities that are structured
11 to house or care for persons with disabilities or who are sixty-two years of
12 age or older and that are valued at full cash value.

13 5. Real and personal property and improvements that are used to
14 operate licensed residential care institutions or licensed nursing care
15 institutions that provide medical services, nursing services or health
16 related services and that are structured to house or care for persons with
17 disabilities or who are sixty-two years of age or older and that are valued
18 at full cash value.

19 6. Real and personal property consisting of no more than eight rooms
20 of residential property that are leased or rented to transient lodgers,
21 together with furnishing no more than a breakfast meal, by the owner who
22 resides on the property and that is valued at full cash value.

23 7. Real and personal property consisting of residential dwellings that
24 are maintained for occupancy by agricultural employees as a condition of
25 employment or as a convenience to the employer, that is not included in class
26 three and that is valued at full cash value. The land associated with these
27 dwellings shall be valued as agricultural land pursuant to chapter 13,
28 article 3 of this title.

29 8. Real property and improvements to property constituting common
30 areas that are valued pursuant to chapter 13, article 9 of this title.

31 9. Real and personal property that is defined as timeshare property by
32 section 32-2197 and valued pursuant to chapter 13, article 10 of this title,
33 except for any property used for commercial, industrial or transient
34 occupancy purposes and included in class one to the extent of that use.

35 10. REAL AND PERSONAL PROPERTY AND IMPROVEMENTS THAT ARE USED FOR
36 RESIDENTIAL PURPOSES, THAT ARE LEASED OR RENTED TO LODGERS, EXCEPT FOR:

37 (a) PROPERTY OCCUPIED BY THE OWNER OF THE PROPERTY AS THE OWNER'S
38 PRIMARY RESIDENCE AND INCLUDED IN CLASS THREE.

39 (b) PROPERTY USED FOR COMMERCIAL PURPOSES AND INCLUDED IN CLASS ONE.

40 B. Subsection A, paragraphs 4 and 5 of this section shall not be
41 construed to limit eligibility for exemption from taxation under chapter 11,
42 article 3 of this title.

1 Sec. 14. Joint legislative study committee on transient
2 lodging; report; repeal

3 A. The joint legislative study committee on transient lodging is
4 established consisting of the following members:

5 1. Three members of the senate who are appointed by the president of
6 the senate, not more than two of whom are members of the same political party
7 and one of whom shall serve as co-chair.

8 2. Three members of the house of representatives who are appointed by
9 the speaker of the house of representatives, not more than two of whom are
10 members of the same political party and one of whom shall serve as co-chair.

11 3. One member who uses a residential home as a short term rental
12 through an online lodging marketplace, as defined in section 42-5076, Arizona
13 Revised Statutes, as added by this act, and who is appointed by the president
14 of the senate.

15 4. One member who manages or operates a hotel, motel or bed and
16 breakfast business and who is appointed by the speaker of the house of
17 representatives.

18 5. One representative of an association of cities and towns in this
19 state who is appointed by the president of the senate.

20 6. One representative of an association of counties in this state that
21 represents county boards of supervisors and who is appointed by the speaker
22 of the house of representatives.

23 7. One representative of an online lodging marketplace, as defined in
24 section 42-5076, Arizona Revised Statutes, as added by this act, and who is
25 appointed by the president of the senate.

26 8. One representative of a statewide lodging and tourism association
27 who is appointed by the speaker of the house of representatives.

28 9. One representative of a taxpayer organization in this state who is
29 appointed by the president of the senate.

30 10. One representative of a statewide association representing
31 licensed real estate professionals who is appointed by the speaker of the
32 house of representatives.

33 11. One representative of a statewide multihousing association who is
34 appointed by the president of the senate.

35 12. One representative of a convention and visitor's bureau in this
36 state who is appointed by the speaker of the house of representatives.

37 B. The committee shall consider current state and local government
38 laws and regulations on the various types of accommodations used for the
39 purposes of transient lodging. The committee shall consider the economic,
40 business and consumer impact of the laws and regulations, including whether a
41 regulation is the least burdensome to ensure compliance and whether there are
42 viable alternatives for regulatory relief.

43 C. The committee may request industry data from relevant state
44 agencies during an annual committee meeting to be held on or before September
45 15, 2017 and annually thereafter.

1 D. The committee shall submit a report of the committee's findings and
2 any recommendations on or before December 15, 2017, and each year thereafter,
3 to the president of the senate, the speaker of the house of representatives
4 and the governor and provide a copy of this report to the secretary of state.

5 E. This section is repealed and the committee terminates for all
6 purposes from and after December 31, 2020.

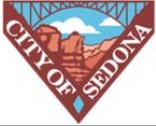
7 Sec. 15. Applicability; savings

8 A. This act does not affect the rights and obligations under any
9 existing agreement to pay taxes to a taxing jurisdiction in effect before the
10 effective date of this act.

11 B. This act does not entitle an online lodging marketplace, as defined
12 in section 42-5076, Arizona Revised Statutes, as added by this act, to a
13 refund of any taxes or fees collected and paid to a taxing jurisdiction
14 before the effective date of this act.

15 Sec. 16. Effective date

16 This act is effective from and after December 31, 2016.



**CITY COUNCIL
AGENDA BILL**

**AB 2131
June 28, 2016
Regular Business**

Agenda Item: 8b

Proposed Action & Subject: Discussion/possible direction regarding Docket E-01345A-16-0036, the rate case filed with the Arizona Corporation Commission by Arizona Public Service on June 1, 2016.

Department	Legal
Time to Present	5 Minutes
Total Time for Item	45 Minutes
Other Council Meetings	N/A
Exhibits	A. APS Presentation

City Attorney Approval	Reviewed 6/21/16 RCR	Expenditure Required	\$ 0
City Manager's Recommendation	For discussion and possible direction only.	Amount Budgeted	\$ 0
		Account No. (Description)	N/A
		Finance Approval	<input checked="" type="checkbox"/>

SUMMARY STATEMENT

Background: Arizona Public Service (APS) has filed a rate case with the Arizona Corporation Commission which addresses both demand charges for residential customers and the net metering program for rooftop solar customers.

APS wants the Commission to approve a new rate structure with three demand charge rates — R-1, R-2, and R-3. The new rates would include the higher fixed charges, lower volumetric rates, and the demand charge. In Docket E-01345A-16-0036, APS is seeking changes to residential customers' rates, shifting nearly all of them to one of three demand charge options, accompanied by a lower per-kWh volumetric charge. Under the rate plan, net metering credits for rooftop solar would fall from the retail rate, presently \$0.128/kWh, to an avoided cost rate of \$0.0299/kWh. Customers who have already installed rooftop solar and those who install before July 1, 2017, would be "grandfathered" and allowed to keep the retail rate credit for the full life of their solar arrays.¹ The rate case also proposes implementing news fees meant to recover costs associated with manual meter reading for those who have opted out of smart meters.

¹ Source: [Top Utility Storage Weekly Newsletter](#), June 7, 2016.

Discussion on this matter is intended to elicit direction from Council on what, if any, role the City of Sedona may take in the rate case, either directly or indirectly.

Key Questions:

- Does council have concerns about the proposed rate case?
- Does council want to pursue citizen input on this matter?
- If council does have concerns, how should they be addressed?

Community Plan Consistent: Yes - No - Not Applicable

Board/Commission Recommendation: Applicable - Not Applicable

Alternative(s):

MOTION

I move to: for discussion and possible direction only.



APS 2016 Rate Review Executive Summary

BRIDGE TO THE FUTURE

Summary of Rate Review Filing

Financial	Rate Design (see appendix)
5.74% average customer bill increase (see below)	3 p.m. – 8 p.m. Monday through Friday on-peak hours, excluding holidays
8.13% weighted average cost of capital (includes a 10.5% return on equity)	Three-part (demand) rates for most residential and small commercial customers
1% return on fair value increment	Grandfather existing solar customers
\$6.8 billion ACC adjusted rate base, including 18 months of post-Test Year plant	Economic development rate
Base fuel rate of 2.9882 ¢/kWh	Extra-high load factor rate

Adjustors	Other
PSA: Include environmental chemical costs, cost of water to supply our generation plants, and contracts with third-party suppliers of electrical storage (batteries)	Ocotillo Modernization Project: Cost deferral from date of commercial operation in 2018 and 2019 to the effective date of rates in next rate case
LFCR: Update to improve the recovery of lost fixed costs associated with energy efficiency and distributed generation	SCR installation at Four Corners: Cost deferral from the time of installation to incorporation of the SCR costs in rates using a step increase requested to be effective by January 1, 2019
EIS: Increase cap to \$10 million year over year	Arizona Property tax deferral for any changes in the Arizona property tax rate until the next rate case
TCA: Add balancing account	AMI opt-out: fee \$70 one-time set-up fee; \$15 per month meter-reading fee

Overview of Rate Increase (\$ in Millions)		
Total stated base rate increase (inclusive of existing adjustor transfers)	\$433.434	15.00%
Less: Transfer to base rates of various adjustors already in effect	\$267.551	9.26%
Net customer bill impact	\$165.883	5.74%

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Introduction

In 2016, APS celebrated 130 years of providing its customers safe, reliable and low-cost electricity. Our proud commitment to quality and service has helped power Arizona through more than a century of change and we look forward to the opportunities and growth for the state and our customers that lie ahead.

The 2016 rate review is the first rate review in five years. Much has changed in the world and in energy since 2011. From the development of low-cost natural gas through fracking to the explosive growth of rooftop solar, little, in fact, remains unchanged. To adapt to this changing landscape, APS has made and continues to make strategic investments that make our operations more efficient and enable customer choice.

Building on the foundation established in previous rate reviews, the investments and proposals discussed in this rate review provide a clear and compelling vision of the future. In many respects, this case serves as a transition from the challenges of the present to the opportunities of the future—it is a bridge to the future for APS and its customers.

The pace of change is accelerating in many aspects of our lives and the generation and delivery of energy is certainly no exception. Customers are increasingly utilizing new technologies to better control their use of energy. Sending the right price signals will help customers make informed decisions about the types of technology that will lower costs for everyone.

New rate designs are necessary to ensure that the price a customer pays more accurately reflects the way that customer uses the electric grid. A modernized pricing structure will allow APS to continue investing in our communities and updating infrastructure to maintain reliability, support emerging technologies, and create a cleaner energy for our customers and Arizona.

That is why APS's 2016 Rate Case is so important to the company and our customers. Our proposals in this case are based on four core values—the pursuit of clean energy, customer choice, innovation, and sustainability. This includes continuing our transition to clean generation sources, modernizing our energy infrastructure, and utilizing innovative technologies like solar, energy storage, and smart thermostats. Building on these values connects today's accomplishments with tomorrow needs; it builds a bridge to the future.

Framing the Issue

Rate design modernization and reform, especially for residential customers, is not just important, it is critical. Adding a third billing element, called demand, in addition to making the basic service charge itself more cost-based, will reduce intra-class subsidies, better reflect the cost of service, and provide incentives for the deployment of new customer technologies.

The total cost shift to non-solar customers already totals **\$42.7 million** and is growing rapidly. It is especially notable that this subsidy already exceeds the total annual subsidy currently provided to limited income customers.

Making progress on the rooftop solar cross-subsidization issue is critical in this proceeding. In just the time it takes to process this case, that number will grow approximately \$20.1 million assuming the current pace of installations continues. Although APS has not requested recovery of those incremental costs in this case, we reserve the right to revise our request to include those costs if installations continue at such a rapid pace.

If no progress is made in this case and the issue is deferred until APS's next case (assuming that case is 3 years after this case), the total annual cost shift will have ballooned to **\$102.9 million per year**. The following table summarizes the annual and nominal 20 year cost shift.

Cost Shift Summary	
Cost shift for installations through 12/31/2015	\$42.7 million/yr
Additional cost shift through 7/1/2017	\$20.1 million/yr
Additional cost shift from 7/1/2017 to 7/1/2020	\$40.1 million/yr
Nominal incremental value of 20 year cost shift	\$740,000/day
Nominal total value of 20 year cost shift through 7/1/2017	\$1 billion

All of these cost shift numbers are specifically related to net energy metering and are in addition to the over \$800 million in cash incentive committed or already paid to rooftop solar customers.

Daniel Froetscher

APS Senior Vice President, Transmission, Distribution and Customer Service

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Froetscher's direct testimony introduces APS, and the role the Company plays in Arizona's communities. He describes the core principles driving APS, and the context behind this rate Application. His testimony concludes with a high-level discussion of what APS seeks with this filing, and how the requested relief will help APS build a bridge to the future of clean, sustainable energy in Arizona.

Direct Testimony Key Points

- Mr. Froetscher's direct testimony begins by describing the large number of significant changes occurring within the electric industry. Despite pressures imposed by these myriad changes, APS remains optimistic and committed to its core principles of safe, reliable, and affordable electricity for its customers while focusing on a sustainable energy future.
- APS has experienced slow retail sales growth over the past five years since its last rate case. Slow growth coupled with outdated volumetric rate design has complicated the recovery of fixed costs needed to maintain the grid and fulfill APS's responsibilities to its customers. Nevertheless, APS has a sustained responsibility to continue supplying customers with reliable electric service at a reasonable cost. The proposals set forth in this rate Application are designed to ensure that APS can continue fulfilling its core responsibilities even as the industry transformation continues.
- APS has aggressively managed costs since its last rate case through the hard work of its employees and the thoughtful application of a rigorous cost management framework.
- Each component of this rate Application feeds into and is critical to achieving three overarching outcomes:
 - 1 APS needs to be financially healthy and stable to continue supplying reliable power at reasonable prices. This includes the approval of new rates that reflect APS's costs, and to reflect the investments APS has made on behalf of its customers since its last rate case.
 - 2 APS requires a reasonable return on its invested capital to continue investing in the grid that makes clean energy a reality. A reasonable return can send a positive message to investors that Arizona is a good state in which to invest capital.
 - 3 The design of APS's rates must be modernized to achieve a sustainable path forward for all types of clean energy and developing technologies. The current structure of cross subsidies does not promote the cost-effective development of distributed technologies, and raises serious questions about equity among customers.
- APS's vision for the future of energy in Arizona is rooted in four areas: clean energy, sustainability, innovation, and technological options for customers. APS envisions a flexible, dynamic distribution platform—a next-generation grid that enables technological solutions and options

for customers and encourages distributed technologies and effective demand-side management.

- APS is pursuing a long-term business strategy that supports the adoption of cost-effective renewable energy by APS and its customers. Achieving this outcome will require upgrading physical facilities, refining operational practices, and modernizing regulatory policies. Specifically, sustainable clean energy requires:
 - A flexible grid that can react to changing and often unpredictable conditions.
 - An infrastructure that readily integrates the unpredictable deployment and operating characteristics of distributed technologies.
 - A focus on cost-based pricing to encourage, rather than discourage, new technologies.

- Approval of APS's rate Application is critical for the Company to accomplish its pursuit of clean energy, customer choice, innovation, and sustainability—all of which are essential to building a bridge to the future for Arizona.

With this Application, APS is asking the Commission to support its vision of a sustainable environment for clean energy, new technologies, and customer options. This support entails approval of new rates that permit healthy and stable financial strength, a reasonable return on investments made for the benefit of APS customers, and modernized regulatory policies and rate structures that incentivize all forms of technology and produce equitable results for APS's entire customer base.

Barbara D. Lockwood APS Vice President of Regulation

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

In her direct testimony Ms. Lockwood discusses the challenges and opportunities that APS experienced in the five years since its last general rate case, as well as the environment APS and the Commission will face in the next five years and beyond.

She also provides an overview of the Company's rate request, including the initial steps of rate modernization, and shows how this is essential for APS to meet its long-term goal of providing a sustainable energy future for its customers and the state as a whole.

Direct Testimony Key Points

- APS is requesting a net increase of \$165.9 million in base rates, or 5.74% on average. Ms. Lockwood terms the request a "net increase" because APS is seeking to "zero out" or significantly reduce several current rate adjuster mechanisms and surcharges by folding these costs, already born by APS customers, into base rates. The average annual bill impact for a typical APS residential customer would be \$11.09 per month, or 7.96%. General Service customers will see lower percentage increases in their bills. It is also important to note that APS is seeking a second or "step" increase in rates for 2019 to reflect the completion and integration into rates of the Company's investment in selective catalytic reduction (SCR) equipment for Four Corners.
- Residential rates are proposed to increase more than the overall average increase due in large part to absorbing "grandfathered" Net Energy

Metering (NEM) customers and the resultant \$27.3 million in cost shift to other residential customers since the Company's last rate case.

- APS is also requesting a 10.5% return on equity as supported by witness Dr. Bente Villadsen, resulting in an 8.13% weighted average cost of capital when combined with APS's embedded cost of debt of 5.13% at the end of the test year. APS's proposed 5.84% return on fair value rate base includes a 1% return on the Fair Value Increment of such rate base.
- The first SCR at Four Corners will be placed in service in late 2017 and the second in early 2018. APS's share of this investment is approximately \$400 million of direct construction costs. APS is requesting a cost deferral order from the time of installation to incorporation of the SCR costs in rates and a step increase in rates. APS estimates this will require an additional approximately 2% across-the-board increase in rates beginning in 2019, or approximately \$3.00 per month for a typical APS residential customer.
- APS does not seek rate recovery of the Ocotillo Modernization Project (OMP) in this proceeding. Rather, the Company asks for an accounting order running from the date of commercial operation of the OMP in 2018 and 2019 to the effective date of rates in APS's next rate case.
- Although APS continues to believe that full per-customer revenue decoupling is a superior and more comprehensive answer to fluctuations in sales and thus cost recovery, APS will instead propose changes to the LFCR to make it more

effective in recovering unrecovered fixed costs attributable to rooftop solar and energy efficiency. These include:

- Inclusion of fixed costs attributable to generation not otherwise recovered through production-related demand charges;
 - Inclusion of regulatory asset costs (the ultimate example of a fixed cost); and,
 - Elimination of transmission costs now included in base rates if the Commission accepts the Company's proposal to add a balancing account feature to the TCA.
- APS is also requesting a modest expansion of the environmental improvement surcharge (EIS) from the current effective cap of \$5 million to an annual year-over-year cap of \$10 million. Improvements to the power supply adjustor (PSA) and the transmission cost adjustor (TCA) are likewise requested in this Application as is the continued deferral of increases in Arizona property taxes beyond the levels allowed in rates by the Commission in this proceeding.
 - A critical part of the Company's rate proposal is a gradual modernization of its residential and extra small commercial rate plans. These new rate proposals will make substantial progress on the recovery of fixed costs and meeting system demand, as well as address the specific subsidization of rooftop solar customers who, based on the cost of service study sponsored by witness Leland Snook, are currently only paying approximately 38% of the cost to provide them service.

- APS will expand its limited income support from \$35.6 million during the Test Year to approximately \$48 million and provide an alternative metering program for residential customers opposed to AMI meters.
- APS proposes to eliminate the alternative generation, or AG-1, option for large commercial and industrial customers. At the same time, APS wants to offer new rate options for these types of customers, including a high load factor rate, an aggregation rate and an economic development Rate Rider. Other general service rates will have very few changes because the Company believes they are already properly structured and reflect the cost of service.

For APS, this case represents a critical milestone in our effort to shape the next-generation power grid for our customers. The Company takes pride in its leadership in solar energy, rate reform and energy efficiency, all having delivered significant benefits to our customers. We seek to continue innovating, to continue taking the industry forward, and to continue making our state a great place to live. To do all of that, we're proposing changes that benefit APS customers and the Company, and, if approved, they will serve as a bridge to the future for Arizona, its residents and the entire region.

John R. Lucas

APS General Manager of Generation Engineering and Projects

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

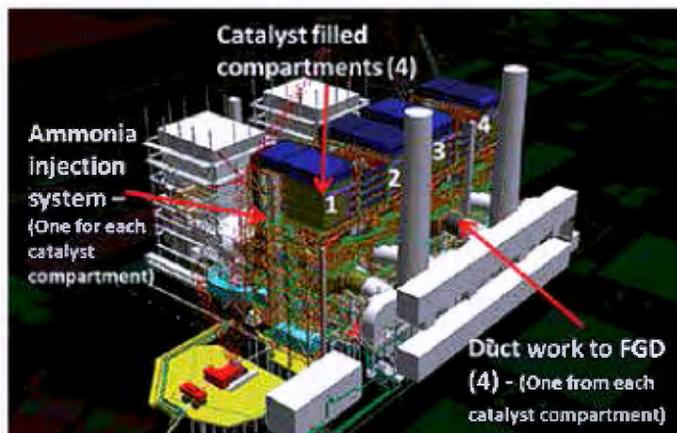
Direct Testimony Overview

Mr. Lucas' direct testimony provides a general overview of APS's Fossil Generation business unit, and provides a high-level picture of what is required to safely and reliably generate electricity at the Company's fossil-fueled power plants. Specifically, he discusses:

- The Selective Catalytic Reduction (SCR) project at Four Corners;
- Projects completed in the 2015 Test Year and planned through June 30, 2017; and,
- Fossil Generation's contribution to the Company's post-Test Year Plant Adjustment, which adds \$160.6 million to gross utility plant in service.

Direct Testimony Key Points

- APS has been focused on actions needed to comply with the standards for the Clean Air Act:
 - Mercury and Air Toxics Standards for Utilities
 - Regional Haze Regulations
 - Reasonably Available Control Technology
 - New Source Performance Standards and New Source Review
 - In alignment with the EPA's Federal Implementation Plan and the Consent Decree issued June 24, 2015 for Four Corners Power Plant Units 4 and 5, APS must install SCR technology to reduce the NOx emissions and replace sections of the Flue Gas Desulfurization (FGD) systems to meet SO2 emissions removal standards.
- APS began the SCR project in early 2014. Its share of the SCR project is estimated at \$400 million, and an estimated \$35 million is to upgrade the condition of the FGD. The SCR must be operational at Four Corners for one of the units by March 31, 2018 and for the remaining unit by July 31, 2018.
 - Project expenditures in 2015 that ensure compliance with environmental regulations totaled \$41 million.
 - Two of the main environmental projects being completed in the post-Test Year Plant period include:
 - Overhaul of Four Corners Units 4 and 5 absorber modules to meet 95% SO2 removal and reduce moisture carry-over to the steam stack. The scope of these projects is estimated to cost more than \$20 million.
 - Installation of an activated carbon injection system to reduce mercury emissions on Cholla Units 1 and 3. The scope of these projects is estimated to cost \$6.7 million.



John J. Cadogan, Jr.
APS Vice President of Nuclear Engineering

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Cadogan's direct testimony begins with a description of Palo Verde Nuclear Generating Station, including a discussion of some of the unique aspects of nuclear power and, in particular, Palo Verde's Water Reclamation Facility that supplies cooling tower makeup water to the station. Next he describes Palo Verde's budgeting and cost management practices for both capital and Operations and Management (O&M), followed by a general summary of those capital projects will be placed in service during the post-Test Year period January 1, 2016, through June 30, 2017. Finally, he briefly summarizes the impact that rigorous cost oversight and management have had on Palo Verde non-fuel O&M costs.

Direct Testimony Key Points

- APS is seeking \$278.6 million in rate base additions for Palo Verde through the end of the 2015 Test Year. Each of these additions will enhance the reliability, safety or efficiency of Palo Verde's operations.
- Palo Verde expects to add approximately \$124 million of plant by June 30, 2017. These additions contribute to the Company's overall proposed post-Test Year Plant adjustment.

As with the \$278.6 million referenced above, the following five projects, which total \$50 million, will enhance the reliability, safety or efficiency of Palo Verde's operations:

- 1** Improving administrative procedures governing Palo Verde.
 - 2** Adding a seventh clarifier train to the Water Reclamation Facility to allow for extended outages to repair and refurbish the six original clarifier trains.
 - 3** Repairing concrete in the Unit 1 ultimate heat sink or spray pond.
 - 4** Replacing the originally installed Unit 3 main generator excitation system.
 - 5** Refurbishing Water Reclamation Facility clarifiers.
- The amount of non-fuel, unadjusted total O&M for the Test Year was \$635.7 million. The APS share of this was approximately 29.1%.
 - O&M costs during the Test Year compare favorably to the five-year average from 2010 to 2014. Rigorous cost controls and management oversight have kept the increase over the five-year average to below 2%.

Jacob Tetlow

APS General Manager, Transmission and Distribution Operations and Maintenance

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Tetlow's direct testimony describes the Company's ongoing commitment to operate and maintain the Transmission and Distribution (T&D) system in a cost-effective and sustainable manner. He further explains that the infrastructure replacement and upgrade projects that incorporate the latest available technologies will strengthen APS's ability to reliably serve its customers. Lastly, he outlines the Company's planned capital expenditures within the T&D organization that are included in the 18-month post-Test Year plant pro forma.

Direct Testimony Key Points

- Project Illuminate is a major initiative that will enhance system reliability by allowing distribution system operators to remotely monitor and control the system and its associated devices, and will provide greater situational awareness of the system in real time. The cornerstone of the project is the Advanced Distribution Management System (ADMS) that will allow for automation of distribution field devices and significantly enhanced visibility into APS's system.
- APS is proposing that approximately \$470 million in Total Company capital expenditures be included in the Company's post-Test Year plant pro forma adjustment for distribution, information technology, and facilities projects.
- Of the \$470 million in capital expenditures, \$46.5 million is directly related to installation of ADMS system components. During the post-Test Year period, APS will install supervisory control and data acquisition (SCADA) devices, communications facilities, and Distribution Management System and Outage Management System software applications associated with ADMS.
- The majority of the distribution system capital expenditures, some \$164.7 million, will be necessary to meet expected growth in the Company's service territory. New customers require new distribution feeders, substations, capacitors, regulators, meters, and other equipment necessary to ensure the Company fulfills its obligation to serve and supports the energy needs of these customers.
- The proposed information technology and facilities capital expenditures for projects that will be in service through June 30, 2017, total \$200 million.
- Beyond ADMS system components, the largest expenditure in this category during the post-Test Year period will be approximately \$25.7 million related to the implementation of Energy Imbalance Market (EIM) protocols and software. The EIM is a sub-hourly real-time energy market that will expand the Company's ability to efficiently dispatch its generating resources, and will provide additional tools to manage the impact of rooftop solar intermittency on the APS system.

Stacy L. Derstine

APS Vice President of Customer Service and Chief Customer Officer

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Ms. Derstine's direct testimony discusses the key Customer Service initiatives during the Test Year and post-Test Year period through June 30, 2017, including the Company's deployment of the new customer information and billing system (New CIS), technology upgrades and enhancements that make it more convenient and efficient for customers to do business with APS, and changes to the limited income program. Also, she will discuss the Company's current and future plans to inform and educate customers about three-part rates and its plan regarding the transition of customers to three-part rates.

Direct Testimony Key Points

- APS has upgraded the notification features of aps.com. Customers can now log on to aps.com and elect to receive notifications regarding outages, kW and kWh usage amounts and bill amounts and via text, phone or email. The notifications are customizable and customers can elect what alerts they want to receive, as well as how and when they want to receive them.
- APS is working on the deployment of short, customized videos that can be sent to customers via email periodically or after a triggering event. The videos could also be used to explain bill and payment options and educate customers regarding energy efficiency, renewable energy and three-part rates.

3 ways to save during on-peak hours Weekdays, 3-8 pm

The infographic consists of three overlapping circles. The left circle is orange and features an alarm clock icon. The middle circle is blue and features icons of a dishwasher, a washing machine, a dryer, and a water heater. The right circle is green and features an LED light bulb icon.

shift
from on-peak to off-peak
For example, set your dishwasher to run on a delay cycle, run your pool pump at night or do your laundry on the weekend

stagger
Avoid running large appliances at the same time during on-peak hours. For example, instead of using the oven and doing laundry at the same time, stagger use of one after the other to save.

save
with tips and tools
Remember to turn off appliances and lights when not in use. Replace lights with energy-saving LEDs. For more tips, visit aps.com

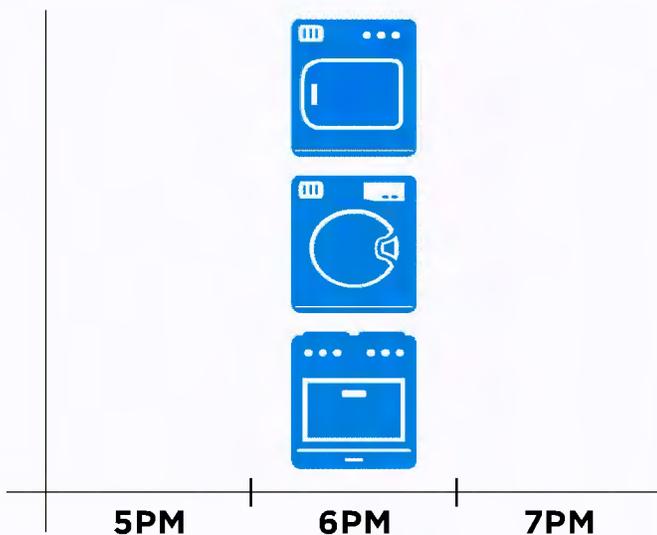
Off-peak hours Weekdays, 8 pm - 3 pm and weekends, 24/7 No On-Peak, No Peak Usage

- Most customers are not interested in knowing the technical definition of a kilowatt or kilowatt hour. They simply want APS to help them understand what they need to know to manage their energy, which helps them manage their energy costs. To help customers save money on a demand rate APS's message is simple: "Shift, Stagger and Save." (see sample message on previous page)
- Most customers already understand that it often makes sense to "shift" to off-peak times when they do their laundry, run their dishwasher or run their pool pump. What's new for customers with a demand rate is learning to "stagger" those high-energy use activities that a customer cannot shift to off-peak times or chooses to not shift to off-peak times. For example, a customer could stagger using the oven to make dinner with running the dishwasher or doing laundry. (see sample scenarios below)
- APS is using multiple channels to get information to customers about demand rates. The "Saving Money is Easy" brochure and other printed materials about demand and demand rates are available on aps.com and the azenergyfuture.com websites. Printed materials are also available in

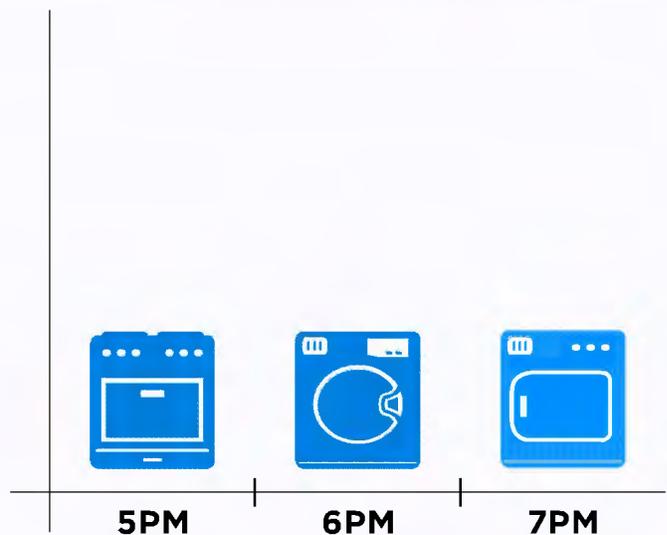
APS offices and field personnel carry copies in their trucks, so they can share this information with customers who happen to ask them.

- APS is also conducting community outreach with stakeholders and community leaders to discuss its rate case as well as the proposed demand rates. In addition, APS has pulled together a Community Outreach team to present at town halls, Rotary clubs, homeowner associations, chambers of commerce and other organizations throughout the community. This outreach began prior to filing this rate case and will continue before any customer transitions to a new rate.
- APS needs a New CIS system that can meet the changing technology needs of its customers and the business.
- The New CIS will also allow for a tailored customer experience. This includes customized communications, customized website visits and overall enablement giving the customer a more relevant and better experience. What's more, the New CIS will improve operational efficiencies and allow APS to implement more advanced billing structures that promote energy technologies customers want.

STACKED USAGE



STAGGERED USAGE



- The New CIS system is expected to have a total cost of approximately \$120 million.
- APS will implement an education plan regarding changes to its service plans and will work with customers to refine its messaging. This targeted campaign will include bill inserts, website content, emails and direct mail.
- APS will develop communications that are simple and easy to understand and not only describe the specifics of the new plans, but also allow customers to be aware of behavioral actions they can take and programs they can participate in to help manage their demand and energy usage.
- APS plans to transition its customers to the new proposed rate plans in phases. APS will move customers to the new plans based upon their billing cycle. No residential customers will be migrated during the three peak summer months of June, July and August; months that can be avoided with a mid-2017 rate case decision.
- APS will move all residential customers to the plan that is best for them, provided they are eligible for that plan. Any time after the new rate plans first go into effect, a customer may voluntarily select one of the new plans. They do not need to wait to be migrated.

James C. Wilde

APS Director of Resource Planning

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

In his direct testimony, Mr. Wilde discusses the changing nature of customer demand patterns and a general shift from electric resources that provide energy year-round, to resources that are highly dispatchable for meeting customers' peak summer-time demands. He outlines the need for flexible peaking resources in the APS portfolio and the benefits of participating in the Energy Imbalance Market (EIM), as well as a need to re-align APS's demand side management (DSM) programs with an emphasis on shifting energy savings toward meeting demand.

Mr. Wilde also illustrates the need to update customer price signals through demand-based rates and updated time-of-use (TOU) rates. He then discusses APS's Coal Strategy and demonstrates the customer benefits of retiring Cholla Unit 2.

Direct Testimony Key Points

- The Ocotillo Modernization Project (OMP) and customer-sited microgrid resources provide the flexible dispatch characteristics APS's system needs today and will increasingly need in the future.
- APS expects to need more than 3,500 MW of new resources by 2022.
- APS is re-evaluating its portfolio of DSM programs to make them more focused on reducing peak demand, rather than simply reducing energy across all hours of the year. Such refocused programs will not only align better with actual resource needs, but will also provide additional

education and resource options to customers if they choose to manage their demand in response to APS's proposed three-part rates.

- Because APS must build or procure sufficient resources to meet summer-time peak demand, a rate structure that coincides with high use periods would be appropriate. By aligning customer price signals with high use periods, APS could defer building or procuring resources in the future since customers would be incentivized to reduce peak demand.
- By participating in the EIM, APS will have more opportunities to take advantage of beneficial pricing opportunities on behalf of customers. The EIM enables APS to transact power in five-minute increments, which provides utilities not only opportunities to purchase power at low prices, but also opportunities to sell power at higher prices. The anticipated annual benefit to APS customers is expected to be in the range of \$7 million to \$18.1 million per year.
- The closure of Cholla Unit 2 delivered important economic and environmental benefits for APS customers. Cholla Unit 2 required significant and expensive upgrades to comply with the federal Mercury and Air Toxics Standards and the Regional Haze Rule. Unlike the Four Corners generating plant, Cholla has much smaller units and as a result it was not cost effective to implement the environmental upgrades.

Scott Bordenkircher

APS Director of Transmission and Distribution Technology Innovation and Integration

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Bordenkircher's direct testimony describes key technology investments APS has made and is making in the electric grid to enhance reliability and performance, increase efficiency, enable alternative energy and distributed energy resources, and empower customer choice.

His testimony discusses the Transmission and Distribution Operations Vision Plan and the benefits of the included advanced grid technologies. He further describes key customer programs including the Solar Partner Program and the Solar Innovation Study, Red Rock Solar, and the newly launched microgrid program. Lastly, Mr. Bordenkircher identifies projects planned through June 30, 2017, and discusses Technology Innovation and Integration's contribution to the company's post-Test Year plant adjustment.

Direct Testimony Key Points

- APS developed a Transmission and Distribution Operations Vision Plan (Ops Vision Plan) in 2013 to address APS's advanced grid technology needs on a five-year rolling basis. These technologies permit APS to receive near real-time operational data and more accurate information about its facilities, infrastructure and customer power quality. APS's advanced-grid technologies include:
 - **Fire mitigation technologies.** These include Downed Conductor Detectors (DCD), a combination of sensors and automation technology that provides real-time alerts

to distribution operators when a power line has fallen to the ground.

- **Supervisory capacitor bank controls.** Capacitor banks improve the overall efficiency of the utility system and ensure power quality for customer end-use equipment.
- **Integrated Volt-VAR Control.** IVVC is an automated system of capacitors and voltage regulators that can autonomously control voltage levels along a distribution feeder.
- **Distribution substation health monitoring.** Adding real-time monitoring and analysis devices to APS's substations allows APS to better predict equipment failures and make necessary adjustments, prolonging the life of the equipment.
- **Network backbone.** Launched in 2013, this program implements long-distance, high-bandwidth, secure data communications between APS's operations centers and field installations. The use of APS's private network backbone better ensures cybersecurity and provides additional reliability and bandwidth necessary to carry the company's critical data.
- APS has implemented Advanced Data Analytics programs to more accurately predict rooftop solar production, monitor and trend power quality, provide outage intelligence, and perform predictive and preventative asset health analysis.
- The Solar Partner Program enables APS to gain a greater understanding of how increased penetration of various customer-

sited technologies affects the grid. Consistent with Decision No. 74878, APS has installed approximately 10 MW of rooftop solar on approximately 1,600 homes at targeted locations. SPP is exploring how to optimize the grid and increase reliability for the long-term benefit of all customers.

- APS's Solar Innovation Study is a 75-customer home energy management and rate research and development field program designed to examine the integration of customer-sided advanced technologies—including rooftop solar, advanced inverters, home energy management systems—with demand-based rates.
- Advanced Metering Infrastructure (AMI) has resulted in a significant increase in efficiencies, reductions in O&M costs and vehicle emissions, as well as an increased opportunity for customers to gain more knowledge of their energy use. AMI meters also provide power quality data which is used to ensure that electricity is delivered to customers at the correct voltage. This grants APS operators a greater level of system visibility and situational awareness, and makes AMI a foundational platform for many future advanced grid programs.
- Microgrids increase the reliability of the distribution grid; especially in the local area. APS will have two microgrids in service by the third quarter of 2016, a 25 MW partnership with Marine Corps Air Station Yuma and a 62.5 MW partnership with Aligned Data Center in Phoenix.
- Red Rock Solar is a 40-megawatt single-axis tracking, grid-scale solar facility. APS will own, operate, and maintain the plant, and over the 20 year term of the agreement, ASU and PayPal will purchase the Renewable Energy Credits and equivalent energy to what Red Rock Solar is producing.
- APS is proposing that approximately \$239 million in Total Company capital expenditures be included in the Company's post-Test Year plant pro forma adjustment for renewables, microgrid and technology projects. These projects contribute \$101 million to the Company's proposed Total Company rate base.

Peter M. Ewen

APS Director of Financial Planning and Forecasts

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Ewen's direct testimony covers three main areas: APS's financial projections, the system average cost of fuel for generation and purchased power, and modifications to the Power Supply Adjuster (PSA). Specifically, he discusses the benefits resulting from the regulatory framework established for APS by the 2012 Settlement Agreement and explains why, because of the Settlement's financial design, APS is seeking a rate increase now.

Additionally, he sponsors the Company's Base Fuel and Purchased Power pro forma, which sets forth the base rate level of fuel and purchased power expenses. This requested base fuel rate reflects conditions expected to exist at the time the requested rates are likely to be in effect, which, in this proceeding, represents a decrease from the current authorized rate. The testimony explains the reasons for this decrease.

Mr. Ewen also discusses a few modifications to the PSA Plan of Administration (POA). Specifically, he explains why the inclusion of environmental chemical costs and generation-related water costs in the PSA are appropriate, and also explains how the POA should be adjusted to enable the Company to potentially take advantage of energy storage opportunities, if cost effective and necessary for reliability purposes.

Direct Testimony Key Points

- The 2012 Settlement Agreement led directly to a perceived improvement in APS's financial condition and, indeed, APS's actual financial performance improved as well. For the last four years, the Company has been able to earn close to its authorized return on equity (ROE) for the first time in more than 15 years. Notably, during this period the Company has not earned more than its authorized ROE.
- As a consequence, APS's bond ratings have improved substantially, with material benefits in lowering the Company's borrowing costs. Those cost savings are being passed back to customers in the current rate request. With the improved financial performance, APS was able to extend the rate case moratorium period by an additional year.
- The Settlement Agreement was not expected to extend financial support forever, and APS's financial metrics are now reflecting the limits of the mechanisms created to facilitate the desired rate gradualism.
- In the absence of base rate relief and/or other regulatory support, APS again faces Total Company ROE projections of 9.0% in 2017, 8.4% in 2018, and 7.7% in 2019. Returns like these are far below not only the 10.5% authorized ROE APS is requesting in this case, but also the 10.46% average ROE actually earned in 2015 by other investor-owned utilities throughout the country.

- Without new rate relief that sustains APS's actual earned ROE at a reasonable level, APS will face challenges in raising the capital needed to invest in its system so it can provide safe and reliable electric service to APS customers and fulfill Arizona's efficiency, renewable energy, and other policy objectives.
- APS's current base fuel recovery amount of 3.21¢ per kilowatt-hour (kWh), established in Decision No. 73183 (May 24, 2012), was premised on expected 2012 cost levels at the time of the settlement in that case.
- Given the modest decrease in fuel costs that has occurred since fuel rates were last set, the Company proposes that the base fuel recovery rate be set at 2.99¢/kWh, which reflects normalized levels of plant performance, expected 2017 fuel and purchased power prices, and a credit for anticipated off-system sales margins.
- APS is proposing to include in the PSA environmental chemical costs that directly correlate to the use of fuel. Chemicals, such as lime, ammonia, and sulfur are used to scrub the emissions from a coal plant and are dependent upon the amount of fuel burned. As production from the power plants varies, so too does the amount of chemicals used. The Company therefore proposes that annual changes in the chemical cost expense associated with power plant emission controls be recovered through the PSA.
- APS uses water to produce steam power at several of its generating plants, and this water consumption and the chemicals and chemical processes used to treat the water vary directly with the amount of electricity being produced at the plants on an annual basis. As production from these power plants varies, so too does the amount of water and water-related chemicals used. The Company therefore proposes that annual changes in the water-related purchase expense associated with power plant production be recovered through the PSA.
- The Company may have cost-effective opportunities between rate cases to procure energy storage products from third-party providers. These storage products would likely substitute for capacity purchases from other resources, thereby displacing costs which would be recovered through the PSA. Including storage costs in the PSA will put these costs on the same footing as more conventional capacity purchase costs. The Company proposes that the PSA POA be modified to allow such costs, if incurred, to be recovered in the PSA.

Dr. Bente Villadsen
Principal, The Brattle Group

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

Dr. Villadsen determined and presents the Company’s cost of equity and recommends the specific return on equity that should be included in its rates. Her testimony also offers an opinion on the fair value of APS’s rate base and an appropriate fair value rate of return.

Direct Testimony Key Points

- The standard for establishing a fair rate of return on equity requires that a regulated utility be allowed to earn a return equivalent to what an investor could expect to earn on an alternative investment of equivalent risk. Therefore, Dr. Villadsen’s approach to estimating the cost of equity for APS focuses on measuring the expected returns required by investors to invest in companies that face business and financial risks comparable to those faced by APS.
- To determine APS’s cost of equity Dr. Villadsen selects a relevant sample of integrated electric utilities that are subject to regulation as well as a utility sample whose assets are similar to those of APS. She calculates the cost of equity for the sample using standard Capital Asset Pricing Models (CAPM), Discounted Cash Flow (DCF) models and a risk premium model. Having estimated the cost of equity for the sample, she then considers specific risks of APS to derive a range of cost of equity estimates for the Company. Dr. Villadsen concludes that a range of reasonable return on equity (ROE) estimates are as indicated as follows:

	Reasonable Range for Proxy Group
CAPM-based Methods	10.0% - 10.5%
DCF-based Methods	9.9% - 10.8%
Risk Premium Method	10.3%

- Dr. Villadsen concludes that APS should be in the upper half of the range because of, among other factors, the Company’s significant portfolio of nuclear generation. She notes that APS has been unable to achieve its allowed ROE since 2002 and currently faces substantial business uncertainty in connection with unresolved economic and regulatory issues surrounding distributed generation. Therefore, she recommend that an ROE of 10.5% is appropriate for setting rates in this case.
- Dr. Villadsen finds that the ACC jurisdiction fair value rate base for APS is \$9.976 billion using the Commission’s traditional weighting of original cost and reconstruction cost new. She then checks the reasonableness of that figure using the market value of comparable benchmark transactions. These transactions indicate that the APS figure was reasonable, although toward the bottom of the range.
- Dr. Villadsen proposes a rate of return on the fair value rate base of 8.13%. She also concludes that a standalone return on the Fair Value Increment of 6.04% is appropriate, which would produce a Fair Value Rate of Return of 7.46%. APS’s proposal of 5.84% is far below this appropriate level, and thus conservative.

Leland R. Snook

APS Director of Rates and Rate Strategy

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Snook's direct testimony supports the Company's request in this rate case for a net increase in base rate revenue. His testimony also describes why the Commission should approve APS's request for Accounting Deferral Orders regarding the Ocotillo Modernization Project (OMP) and the installation of Selective Catalytic Reduction (SCR) emissions control technology at the Four Corners Power Plant.

Mr. Snook outlines the Company's Cost of Service Study (COSS) that is used to support rate designs in the Company's Application, as well as the jurisdictional allocation of costs. Additionally, he discusses APS's proposed modifications to its existing Lost Fixed Cost Recovery (LFCR), Environmental Improvement Surcharge (EIS) and Transmission Cost Adjustor (TCA) mechanisms.

He also reviews the Company's fair value increment and a new Extra-High Load Factor (XHLF) rate for extra-large customers. His testimony concludes with APS's economic development service schedule and a determination that the AG-1 buy-through rate program should not be renewed.

Direct Testimony Key Points

- APS is requesting a net increase in base rate revenue requirements of \$433,434,000. This amount includes transferring \$267,551,000 of revenue currently collected in various adjustors to base rates. These adjustor transfers are revenue neutral and do not change the amount collected.

- If proposed rates are effective on July 1, 2017, this requested revenue will allow APS to earn a rate of return of 5.84% on a fair-value rate base of \$9,976,023,000. The additional revenue, excluding the "fair value increment," results in an 8.13% rate of return on an adjusted Original Cost Rate Base of \$6,771,151,000.
- The components of the base rate increase inclusive of adjustor transfers are as follows:

Overview of Rate Increase (\$ in thousands)		
Total base rate increase (inclusive of adjustor transfers)	\$433,434	15.00%
Less: Transfer to base rates of various adjustors	\$267,551	9.26%
Net customer bill impact	\$165,883	5.74%

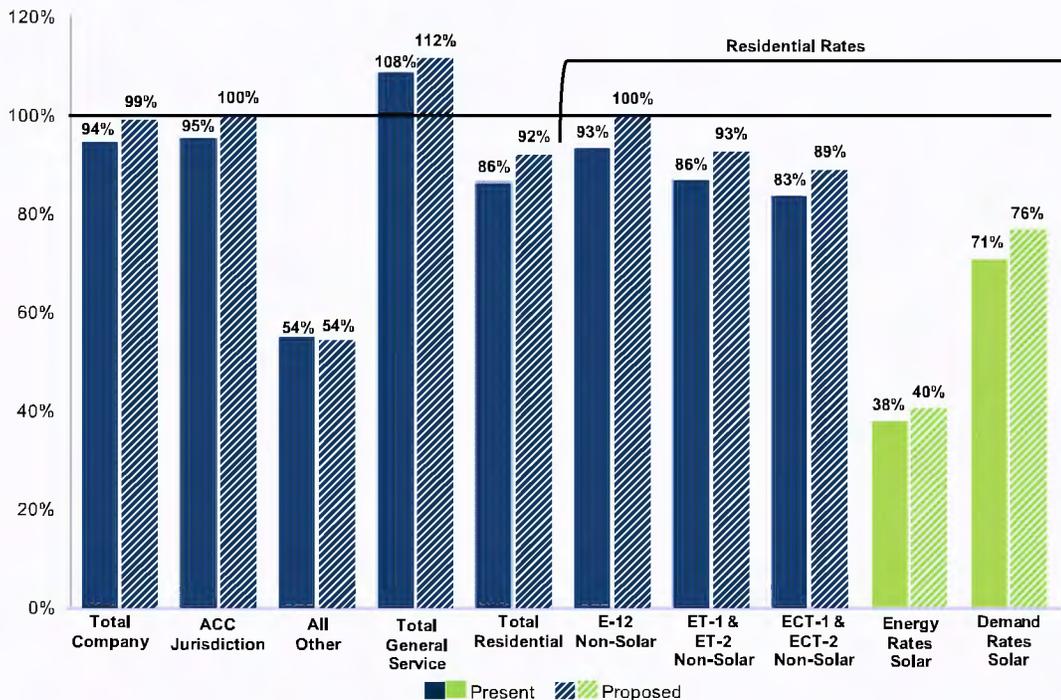
- APS requests an Accounting Deferral Order from the Commission to defer for possible subsequent recovery the costs associated with constructing the OMP. APS also requests a deferral and step rate increase for its SCR project.
- Mr. Snook describes the COSS that is used to support APS's rate designs as well as the jurisdictional allocation of costs. The COSS shows:
 - Why it is appropriate to place residential customers taking service under APS's Net Metering Rate Rider into a separate sub-class of customers;
 - That under current rates, the revenue from the residential class covers approximately 86%

of the cost to serve while the general service class covers 108% of the cost to serve; and

- After accounting for APS's proposed rebalancing of the residential cost of service up to historical levels of 92%, 57% of the increase in residential rates is directly related to the cost shift resulting from residential rooftop solar that has occurred since APS's last rate case. (see chart below)
- APS proposes modifications to three of its existing adjustor mechanisms:
 - **LFCR** - Improve the LFCR's ability to collect lost fixed costs, and adjust the LFCR compliance filing process.
 - **EIS** - Provide flexibility to recover environmental costs by creating a \$10 million year-over-year cap to account for increasing costs.
 - **TCA** - Add a balancing account for the amounts collected through the adjustor to be consistent with all of APS's other adjustor mechanisms.

- APS's proposed XHLF general service rate to customers with at least 5 MW of load and a monthly average load factor of 92% or more. Transmission service options would be available to customers with a minimum size of 15,000 kW.
- After a near-five year pilot, APS analyzed the cost implications of the AG-1 rate experiment to other customers and can only conclude that it should not be renewed. APS has had unmitigated lost margins from the program every year it has been in place. This revenue shortfall annually has ranged in magnitude from \$4.5 million to \$11.7 million per year.
- To support commercial and industrial economic development in the APS service territory, the Company proposes to provide a bill discount over a period up to six years for new customers with at least 2 MW or increasing loads of at least 1 MW and a load factor of 55% or more. The program will be capped at 100 MW or 50 new customers, whichever is less (on a MW basis).

**APS Customer Classes % of Cost to Serve
2015 Test Year**



Dr. Ahmad Faruqui
Principal, The Brattle Group

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

The purpose of Dr. Faruqui’s direct testimony is to comment on the merits of APS’s proposal to make demand charges a universal rate feature of the residential rate.

An overriding principle of electric rate design is that of cost causation: revenue collection should match cost generation.

It is possible that in response to rising energy prices, some customers might reduce the volume of electricity they consume but not reduce the demand they place on the grid, since they never see a price for demand. Consequently, much of the fixed costs required to meet their demand would go unpaid. The net result is that cost-causers would not pay for all of the costs they create. Those unrecovered costs would be shifted to customers who use more volume, creating inequities and cross subsidies between customers.

With a three-part rate design, customers more efficiently use the electric grid in a way that also reduces the cost shift. In addition, demand rates provide a price signal that would incentivize the introduction of technologies that reduce demand. If policy-makers wish to encourage innovative distributed technologies, demand rates offer an efficient and equitable method of doing so.

Direct Testimony Key Points

• Each of APS’s proposed three-part rates more closely match demand, fixed, and variable costs with demand, fixed, and variable charges so that all customers will pay their fair share.

- The cost-based price signals in the three-part rates proposed by APS provide customers with the financial incentive to make investments in technologies or otherwise change their behavior in ways that are most beneficial to the system. Technologies and behaviors that reduce a customer’s demand should ultimately lead to a more efficient use of the grid, reduced costs, and lower bills.
- APS has the most highly subscribed residential three-part rate in the U.S., with over 120,000 customers on its Combined Advantage tariff. This represents more than 10% of its residential customer base and more than 20% of its residential energy sales. When new rate designs are introduced on a voluntary basis, they rarely achieve enrollment levels in excess of 10%. Considering that APS has been offering its three-part rate on a voluntary basis among several other rate options, and considering that enrollment in the three-part rate has grown over the past several years, this is a very strong indication that APS’s customers are interested in and prepared for rates with demand charges.
- The introduction of a cost-based demand charge is a significant and necessary improvement over two-part rate offerings. APS has shown that residential customers can respond to demand charges.
- The introduction of a three-part rate will not change APS’s revenues.

Charles A. Miessner
APS Manager of Rates

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

Mr. Miessner’s direct testimony explains why there is a compelling need to restructure rates for residential and small-business customers, and he provides the specific proposals for new rates. In addition, Mr. Miessner’s testimony describes how the proposed revenue is allocated to individual rate classes.

Direct Testimony Key Points

- Mr. Miessner explains that the higher requested increase for the residential class is caused in part by the cost shift from the solar net metering program, where subsidized bill savings for solar customers create higher rates for other residential customers. While this was true in the last rate case, the volume of installations since the last case has made this a critical issue.
- The new portfolio of residential rates proposed by APS includes the following:
 - 1 **R-1** — a time of use (TOU) rate with a small demand charge of \$6.60/kW during the on-peak hours and a basic service charge of approximately \$24 per month.
 - 2 **R-2** — a TOU rate with a modest demand charge of \$8.40/kW during on-peak hours and lower basic service charge of approximately \$14.50 per month.
 - 3 **R-3** — a TOU rate with lower kWh charges and seasonally differentiated demand charges of \$16.40/kW in the summer and \$11.50/kW in the winter, and a basic service charge

of approximately \$24 per month. This rate is very similar to APS’s current demand rate.

- 4 **Extra Small** — a two-part rate for extra-small customers with no demand charge and an \$18 per month basic service charge.
- The three primary rate options proposed for residential customers will have lower kWh charges, a higher basic service charge, and a demand charge component. The TOU on-peak hours will be revised to 3 p.m. to 8 p.m. weekdays to better reflect the highest system load hours. The demand will be measured on the highest average use over an on-peak hour.



- APS also proposes to modify its present NEM (Net Energy Metering) program for all but “grandfathered” residential rooftop solar customers. Power generated and concurrently consumed on site would still be credited at the fully-bundled retail energy rate. But APS proposes that “exported” generation be (i) measured on an instantaneous basis; and

- (ii) paid through the PSA at an avoided cost rate to ensure that all other customers only pay an amount for exported energy that equals the costs saved due to the exported energy.
- APS proposes to “grandfather” solar systems for which APS has received a complete interconnection application by July 1, 2017 that are installed within 180 days. APS proposes that these grandfathered customers retain their current rate plans and net metering arrangements for 20 years after the system was first interconnected to the APS system.
 - APS proposes to simplify the discount structure for the limited-income bill discount program and provide for increased program participation.
 - Mr. Miessner also describes some of the proposed rate changes for business customers, which include:
 - 1 Improving the time-of-use rate options to work better with the operating schedules of many businesses by updating the time-of-use on-peak hours to 3 p.m. to 8 p.m. weekdays; and
 - 2 Adding a demand charge component for extra-small business customers.
 - The adoption of future technologies depends on effective prices that reflect cost. When rates reflect cost, technologies that reduce utility cost will also provide customers the opportunity to obtain bill savings that don't involve the cost shift occurring under the current rate design.
 - APS has extensive experience with residential three-part demand rates. APS has offered a three-part demand rate to residential customers for decades and is currently serving more than 120,000 customers on the rate. When customers switch to that rate, they typically reduce both their demand and energy consumption.
 - Mr. Miessner concludes that residential rates should be reformed and modernized to better align rates with costs, provide appropriate price signals to customers, and improve the efficient use of, and funding for, the grid.

Elizabeth A. Blankenship
APS Director of Accounting Operations

Direct Testimony Submitted June 1, 2016
Docket No. E-01345A-16-0036

Direct Testimony Overview

Ms. Blankenship’s direct testimony addresses the historical accounting information and pro forma adjustments required by the Standard Filing Requirements (SFR) of the Arizona Corporation Commission in support of the Company’s rate case filing. She sponsors historical information for the 12-month period ending December 31, 2015, which was used as the Test Year in this proceeding and any prior years presented on the SFR Schedules.

She presents testimony concerning the capital structure of the Company and provides APS’s actual overall cost of capital. This will include information on the cost of equity and debt capital, as provided by Dr. Bente Villadsen, APS’s cost of capital and return on equity (ROE) witness.

Direct Testimony Key Points

- Ms. Blankenship’s direct testimony covers historical accounting data, including the actual data for the Test Year. The majority of this information is disclosed directly or indirectly in both the consolidated APS and consolidated Pinnacle West audited financial statements, which are included in filings made with the Securities and Exchange Commission and other government agencies for the relevant years.
- In large part, her direct testimony supports the testimony of other APS witnesses. The direct testimony of APS witness Peter Ewen addresses

financial projections to actual Test Year data. APS witness Leland Snook focuses on the jurisdictional allocation of APS revenues, costs, and Rate Base items for the actual Test Year and all pro forma adjustments. Dr. Villadsen’s direct testimony addresses the Company’s requested ROE and overall cost of capital.

- Ms. Blankenship sponsors more than 40 rate base and income statement pro forma adjustments. Because the Company has used a historical test year, it is necessary to adjust recorded revenues and expenses for known and measurable changes. Pro forma adjustments include normalizations, annualization and out-of-period adjustments. All of the pro forma adjustments discussed in her testimony reflect Total Company amounts prior to any jurisdictional allocation.
- Ms. Blankenship’s direct testimony also discusses APS’s request for continuation of the property tax deferral. The 2012 Settlement approved a property tax deferral that helped to alleviate risk of changes to property tax rates within Arizona. APS proposes to defer for future recovery 100% of all changes to Arizona property tax expense above or below the Adjusted Test Year level of \$181 million caused by changes to the applicable Arizona composite property tax rate.

Dr. Ronald E. White

President, Foster Associates Consultants, LLC

Direct Testimony Submitted June 1, 2016

Docket No. E-01345A-16-0036

Direct Testimony Overview

The purpose of Dr. White's direct testimony is to sponsor and describe the 2016 depreciation rate study conducted by Foster Associates at the request of APS.

Depreciation rates currently used by APS were approved by the Arizona Corporation Commission pursuant to a Settlement Agreement in Docket No. E-01345A-11-0224. (Decision No. 73183, dated May 24, 2012).

Direct Testimony Key Points

- The goal of depreciation accounting is to charge to operations a reasonable estimate of the cost of the service potential of an asset (or group of assets) consumed during an accounting interval. A number of depreciation systems have been developed to achieve this objective, most of which employ time as the apportionment base.
- The need for periodic depreciation studies is also a derivative of the ratemaking process which establishes prices for utility services based on costs. Absent regulation, deficient or excessive depreciation rates will produce no adverse consequence other than a systematic over or understatement of the accounting measurement of earnings.

- It is the opinion of Foster Associates that a redistribution of recorded reserves is again appropriate for APS. Offsetting reserve imbalances attributable to both the passage of time and parameter adjustments recommended in the current study should be realigned among primary accounts to reduce offsetting imbalances and increase depreciation rate stability.
- Foster Associates is recommending primary account depreciation rates equivalent to a composite rate of 2.99%. Depreciation expense is currently accrued at rates that composite to 2.45%. The recommended change in the composite depreciation rate is, therefore, an increase of 0.54 percentage points.

Appendix: Rate Design Proposal

Residential Rate Design

- Change on-peak time-of-use period from noon – 7 p.m. to 3 p.m. – 8 p.m. Monday through Friday, excluding holidays.
- Reduce the difference in the on- and off-peak energy prices and lower all energy charges.
- Offer four rate plan options:

	Basic Service Charge (per month)	Demand Charge (\$/kW)**	Summer Energy Charge (On/Off Peak \$/kWh)	Winter Energy Charge (On/Off Peak \$/kWh)
Extra Small*	\$18	None	\$0.10324	\$0.10324
R-1	\$24	\$6.60/kW	\$0.1516/ \$0.08070	\$0.12730/ \$0.08070
R-2	\$14.50	\$8.40/kW	\$0.1516/ \$0.0808	\$0.12730/ \$0.0808
R-3	\$24	\$16.40/kW summer \$11.50/kW winter	\$0.0909/ \$0.05475	\$0.06670/ \$0.05475

*Extra Small option is available for customers using less than 600kWh per month on average. Partial requirements customers are not eligible for this rate.

**Demand charge calculated as the average over one hour during the on-peak window only.

- Offer a flat bill option where the customer pays the same amount every month regardless of how much energy they use or when they use it.
- New rooftop solar customers are eligible for the R-3 customer rate only.
- Existing solar customers will be grandfathered on their existing rate plans for 20 years from the date of interconnection.
- Modify net metering with a retail rate credit for solar customers offsetting their own load, and an export rate that credits all energy delivered to the grid.

Cost Shift Facts

- The total cost shift from solar customers to non-solar customers already totals **\$42.7 million annually.**
- The rooftop solar subsidy continues to grow by **\$740,000 per day.**
- By the time this case is resolved in mid-2017, the 20 year subsidy will total **over \$1 billion.**
- If the cost shift issue is deferred until APS's next case, the total annual cost shift will have ballooned to **\$102.9 million per year.**

Commercial and Industrial Rate Design

- Change time-of-use period for small, medium and large general service customers to 3 p.m. – 8 p.m. Monday through Friday.
- Allow the current AG-1 program to expire.
- Transition extra small business customers to a three-part rate with a \$35.28 basic service charge, \$6.90/kW demand charge, a summer energy charge of \$0.11129/kWh and a winter energy charge of \$0.07147/kWh for secondary service.
- Offer an aggregation rider that allows large (E-32L) customers with at least 5 MW total load to qualify for a reduced rate.
- Offer an extra-high load factor rate schedule for customers with at least 5 MW of load and monthly average load factor of 92% or more. Transmission service options available for customers with 15 MW or more.
- Offer an economic development rate for new loads of at least 2 MW or increasing loads of at least 1 MW and a load factor of 55% or more. Set a six-year limit with a program cap of 100 MW or 50 new customers, whichever is less (on MW basis).



Customer Education and Transition Plan

Customer Education

- Customer education material will describe the new rate plans and provide information to help customers manage their demand. APS will use multiple channels and touch points to communicate with customers, including:
 - Bill inserts
 - Website content
 - Videos
 - Printed material
 - Peak usage brochures
 - Email
 - Direct mail
- The education plan will also include community outreach events, stakeholder briefings and open houses to discuss demand rates and peak usage with community leaders and customers.
- Information related to demand will be available on aps.com and azenergyfuture.com.
- Printed materials will be available in APS offices, and with APS field personnel.

Tools and Technology

- APS.com will feature:
 - Customer demand and energy usage information (also available on the APS mobile app)
 - A summary of the new rate plans and a link to the tariffs
 - Hints and tips for managing demand
- APS has requested approval of a new smart thermostat program that will allow customers to receive an incentive for purchasing a qualifying smart thermostat of their choice.

Transition Plan

- Customers will be transitioned to new rates in phases.
- Once new rate plans are available, customers may choose any plan for which they are eligible.
- If customers do not choose a rate plan, APS will move each customer to the most beneficial rate plan for that customer based on past usage.
- Transition communication to customers will explain:
 - New rates
 - Timing of the change
 - Tips on how to “Shift, Stagger and Save”



