

Budget Considerations for Proposed Commercial Rental Tax, Telecommunications Tax and Use Tax Increases and/or Implementation

The Town of Oro Valley was founded in 1974 and is located in Southern Arizona, northwest of Tucson, Arizona. It is home to close to 50,000 residents. Oro Valley has experienced significant population growth and geographic size in the past 40 years and relies heavily on local transaction privilege (sales) tax revenues to provide the resources necessary to pay for essential programs and services desired by Town Council and residents. The General Fund pays for critical core services the community relies upon every day including but not limited to Police, Parks and Recreation, Public Works (including transit), and Planning and Development.

Oro Valley (Town) has significant operational, and infrastructure needs and has experienced high inflation in the past few years, increasing the cost-of-service delivery. Additionally, the State legislature has taken actions limiting local control and reducing ongoing transaction privilege tax (TPT) and state shared income tax revenue. Further, the Town is quickly approaching build-out for residential land development and growth-related revenues are declining as a result. To ensure the Town can continue delivering excellent services to the community and maintain a statutorily required balanced budget, a Commercial Rental Tax, Telecommunications Tax and Use Tax increase and/or implementation may be considered by Town Council on January 14, 2026, to increase resources. Budget reductions have already occurred and will continue through the upcoming budget cycle for next fiscal year in attempt to address structural imbalances.

Oro Valley's local TPT structure has not been modified since March 1, 2015, when a half-cent sales tax was implemented to address losses from a community center and golf acquisition. Since that time, General Fund programs and services costs have grown 78% from the adopted budget in Fiscal Year 2015 to the adopted budget in Fiscal Year 2026.

A history of Oro Valley's tax code changes is provided below:

Effective Date	Action
May 1, 1990	Impose an additional 1.00% Bed Tax
September 1, 2001	Impose an additional 3.00% Bed Tax
May 1, 2004	Impose a 4.00% rate on Construction Contracting
January 1, 2006	Impose an additional 6.00% Bed Tax
August 1, 2011	Impose a 4.00% rate on Utility Services
March 1, 2015	Increase TPT to 2.50%

In 2021, the State enacted Senate Bill 1828 which reduces individual income tax rates beginning in tax year 2022. The Town receives state shared income taxes based on actual

collections from two years prior and is distributed entirely to the General Fund. Finance staff rely on projections from the Joint Legislative Budget Committee (JLBC) to estimate this revenue stream for budget development. This action by the State is expected to result in less ongoing state shared income tax revenue to the General Fund compared to prior projections had the tax rate not been decreased.

Other Budget Challenges and Unfunded Needs

Pavement preservation and escalating public safety costs are causing a pinch point on Town finances. Since fiscal year ended June 30, 2021, pavement preservation costs have risen 107%. The dollar impact of this inflation exceeds \$1,500,000 per year. Over that same time frame, gas tax revenue growth has been less than 15%. As a result, ongoing and growing transfers-in to the Highway Fund from the General Fund have been necessary to keep the Town Highway Fund solvent. The increased utilization of electric vehicles, which do not require gasoline, and the unwillingness of the State legislature to address the road-funding formula are issues that don't appear to be resolved anytime soon.

With respect to public safety costs, since fiscal year ended June 30, 2021, public safety costs have risen 23%, absorbing 80% of total General Fund revenue growth. Sales taxes, which comprise the largest percentage of Town operational revenues, have not yielded any growth since fiscal year 2022, and have actually declined slightly by \$1.27 million. This situation only appears to be becoming worse with a new police memorandum of understanding agreement taking effect in fiscal year 2026 which will serve to further increase public safety costs this year.

Additionally, the Town recently purchased a new police headquarters which added over 50,000 square feet to its building inventory. There currently is no funding or resources for reconfiguring and outfitting the building to properly suit police needs.

Estimated Revenue Increase by Category

Town staff have calculated some rough estimates on the additional requested tax categories and the potential annual impact they may have on Town revenues. These estimates are as follows:

Use Tax – \$375,000-\$600,000

Telecommunications Tax – \$130,000-\$280,000

Commercial Rental Tax – \$425,000-\$1,000,000

Total for all three – \$930,000-\$1,880,000