



February 8, 2022

Dear Senator Livingston and Members of the Senate Finance Committee,

On behalf of nearly one thousand ICSC members in the State of Arizona, I am writing today to express our strong opposition to SB 1266 and ask that it be removed from further consideration or action by the Senate Finance Committee.

ICSC members' properties support local neighborhoods by generating jobs, providing vital products and services, contributing to the sales tax base and enhancing a sense of community. For the last two years of the pandemic-related economic downturn, our members' marketplaces and their tenants represented some of the most severely impacted businesses throughout the Grand Canyon State. In 2020, our industry lost 40,400 jobs in Arizona and \$1.2 billion in sales. While the COVID economy created unprecedented market fluctuations, the SLBR (Straight Line Building Residual) method of valuing properties that is currently permitted by statute helped many ICSC member properties during the pandemic's economic volatility.

SLBR is an accounting method primarily applied and used to value income producing properties. It is recognized by the Appraisal Institute and used by various states for assessment valuation. SLBR takes into account the unique challenges of shopping centers compared to other real estate assets and thereby has helped encourage the development of retail focused projects and contributed to the stability of our industry.

Arizona recognized that many of our members properties are "different" and statutorily (ARS §42-13201, 13203, 13204) made SLBR available to qualified shopping centers to help small businesses and support local community services. SLBR is also reported to increase municipal revenue to communities based on actual retail commerce.

Why does SLBR exist as a statutory valuation method?

SLBR means qualified shopping centers are valued based on actual market pressures –

- *Valued based on actual, current use;*
- *Valued to allow for income stream stability of a qualified shopping center in times of economic downturn or marketplace disruption;*
- *Acts as an incentive for commercial centers to be built;*
- *Assists tenants to stay open in times of economic hardships in retail sectors;*
- *Maintains important marketplaces that provide access to products and services such as:*
 - *Groceries*
 - *Pharmacies*
 - *Cost sensitive products*
 - *Urgent cares and other healthcare providing retail formats*



To whom is SLBR available?

*If a commercial property qualifies as a shopping center (ARS §42-13201), under ARS §§42-13203, 42-13204 - **it may elect** to be valued by the income SLBR technique/method by submitting AZ DOR Form 82300 to the county assessor before September 1. The AZ DOR teaches SLBR as a method to value considering actual income. It separates land value to income producing improvements to derive a total overall property value.*

SLBR allows qualified shopping centers and other income producing properties to be valued on actual, not perceived, market conditions. The removal of this valuation method would both hurt the ability of commercial centers to adapt to marketplace disruptions (such as a pandemic) and negatively impact related small businesses and retail tenants.

As many small businesses, retailers, and property owners are still recovering from significant economic hardships, this simply is not the time to implement a tax increase on an industry that has taken more than its share of impact from the pandemic.

Property owners are aware of their property tax obligations and are willing to pay their fair share. We ask the Committee to ensure this equitable approach stays in place whether market conditions are strong and robust or under duress.

Please reject SB 1266. Thank you for your consideration.

Sincerely,

Jim Hill

Vice President, State & Local Government Relations
ICSC Office of Global Public Policy