

PUBLIC HEARING FOR THE PROPOSED
EXTENSION OF THE ALTERNATIVE
EXPENDITURE LIMITATION
(HOME RULE OPTION)



City Council Meeting
March 22, 2022

Background - What is the State-Imposed Expenditure Limitation?

- In 1980, Arizona voters approved a tax reform package that placed an expenditure limitation on all cities and towns
 - Also allows local voters to override those limits
- Expenditures from fiscal year 1979-80 used as a baseline, then adjusted by inflation and estimated population growth each year
- Not included in the limit:
 - Bond Proceeds/Debt Service
 - Intergovernmental Revenue
 - Highway Users Revenue Funds (HURF) funds
 - Grants
- City may spend only a certain amount regardless of available local revenues or local needs
- Does not reduce existing taxes or fees or limit the ability to collect existing revenue sources

What is Home Rule?

- Alternative to the state imposed expenditure limitation
- Provides the City the ability to determine its own expenditures each year based on a budget set locally
- City Council, with input from community, sets budget level based on
 - estimated revenues available
 - service level demands
 - community wants/needs
 - necessary infrastructure improvements
- Allows the City to expend the revenues it receives to provide services to residents
- Allows the City to make choices that best fit local conditions
- Does not impose, nor give City authority to impose, new taxes or fees
- City must continue to balance its budget each year

Challenges

- Population based formula does not consider visitor population and other commercial growth
- Does not account for new sources of local revenue
 - New utilities
 - Increased bed and sales tax rates
 - New sources of revenue, ex.) paid parking
- Not adjusted for additional services provided as a result of citizen and visitor demand, ex.) affordable housing initiatives, sustainability initiatives, new transit system, Sedona in Motion (SIM) projects
- Revenue collected above the limit would remain unavailable for a minimum of two years
- City of Sedona wasn't incorporated in 1980
 - Calculation is based on other cities per capita average which is not comparable to Sedona
- Would result in significant service level reductions

Estimated Expenditure Limitation Impact

	Projected shortfall based on FY22 budget
FY 2022 State-Imposed Expenditure Limitation	\$13,730,112
Estimated City Exemptions (debt service payments, grants, HURF)	\$15,792,246
Estimated FY 2022 total allowable expenditures under state limit	\$29,522,358
Adopted Budget FY 2022	(\$62,692,843)
Amount above Expenditure limit for FY 2022	(\$33,170,485)
Percent Difference	112%

More on Home Rule

- Most recently approved by voters in August 2018
- Must be approved by the voters and renewed every 4 years
- Sedona has been operating under Home Rule since 1996 – last 26 years
- 77 of 91 other cities/towns have adopted an alternative to the state-imposed expenditure limit (87% of all AZ cities and towns)
- Public Hearings, March 8, 2022, and March 22, 2022
- 3/22 public hearing will be followed by City Council vote to consider putting the AEL on the ballot
- August 2, 2022 election date
- Supporting and opposing arguments may be submitted to include in the publicity pamphlet - due to City Clerk by April 28, 2022

Questions?

Open Public Hearing