
Alternative Expenditure Limitation

Home Rule

Primary Election – August 2, 2022



What is Home Rule?

- In 1980, voters approved spending limits for Arizona cities and towns
 - Expenditures from fiscal year 1979-1980 were used as a baseline, then adjusted for inflation and estimated population growth each year
- Home Rule authorizes a city to set its own budget limits based on community priorities



Other Options to the State-Imposed Limit

- Home Rule: Alternative Expenditure Limitation allows a city/town to set its own spending limitation based upon current and project revenues and local service demand
- Permanent Base Adjustment: Allows a city/town to permanently adjust the state's budget expenditure limit amount based on current needs
- Other One-Time Options:
 - One Time Override
 - Emergency Override



History of Home Rule in Sedona

- 90% of all Arizona cities and towns have adopted an alternative to the state-imposed expenditure limit
 - Only 9 cities/towns are under the state-imposed limitation
- Sedona's Home Rule was most recently approved by voters in August 2018
- An alternative expenditure limitation must be approved by the voters and renewed every 4 years
- Sedona has been operating under Home Rule since 1996 – last 26 years



Why Home Rule?

- 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%

Why not a Permanent Base Adjustment (PBA)?

- **Uncertainty of service needs:** New regulations (wastewater, stormwater, etc), changes in activity (development review, building inspection, etc), demands for services (traffic control aids, transit, etc)
- **Volatility in costs:** Capital projects, equipment replacement, vehicle replacement and major maintenance needs vary year to year
- **Encourages debt-financing:** Saving cash for major projects risks exceeding the spending limit while debt is excluded from the limit
- **A low PBA risks leaving revenues in the bank:** Revenues from growing tax base or retired debt could exceed the spending limit



One-Time Override

- If voters do not approve Home Rule, the City could hold a special election on the third Tuesday in May for a one-time override
 - The voters would vote on the override amount (Yes or No)
- A one-time override would not allow residents the ability to dictate line items in the City budget
- The one-time override would allow the City to exceed its constitutional expenditure limitation by a specific amount the fiscal year AFTER the election
- If the budget override is approved the following May, the City budget would be limited to the budget override
- The timing of the election would create uncertainty for the budget project process and projects that have been ongoing for several years
- Only reason to do a one-time override is to complete projects in process



City Budgeting Practices

- Citizen committee reviews budget plans. City Council receives input, holds two days of open hearings with public comment. Two public hearings held prior to adoption of balanced budget.
- Certificate of Achievement for Excellence in Financial Reporting – Government Finance Officers Association (past 21 years) , Government Finance Officers Association Distinguished Budget Presentation Award (past 9 years)
- Regular independent audits – CliftonLarsonAllen LLP
 - Annual Finance Audit, Annual Expenditure Limitation Audit, Annual Highway User Revenue Fund Audit, Triennial court procedures review
- Bond rating is AA-: Standard and Poor's



Frequently Asked Questions

- What will happen to the City's budget if Home Rule does not pass?
 - The City will adopt a budget based on the FY 24 State-Imposed Expenditure Limitation (Estimated to be \$14,346,750)
- If Home Rule passes, will my taxes increase?
 - No, taxes and fees will not be impacted by your vote. Taxes and fees will continue to be collected
- What will happen with revenue collected in excess if Home Rule does not pass?
 - Revenues in excess of any limit will sit in the bank and will not be spent on community priorities



More Information/Questions?

- Sedona Home Rule Information
 - Sedonaaz.gov/homerule
- More information about the Alternative Expenditure Limitation
 - azauditor.gov

