

## **ATTACHMENT B**

### **Expenditure Limit**

### **Frequently Asked Questions**

#### **1. What is the State expenditure limit?**

It is a State Constitutional limit approved by voters in 1980 which restricts annual spending limits of cities and towns. The limit applies to all local revenues.

- Limits spending to 1979-80 levels adjusted for:
  - Population; including annexations
  - Inflation; gross domestic product and inflation price deflator
  - Population and inflation factors are provided by the State
- Exempts certain expenditures:
  - Federal funds
  - Bond proceeds
  - Debt service
  - Arizona Highway User Revenue (AHUR)
  - Local Transportation Assistance (LTA)
  - Other jurisdictions' contributions (e.g. the Sub-Regional Operating Group for the 91<sup>st</sup> Avenue wastewater treatment plant)

#### **2. What happens if we exceed the spending limitation?**

The State will withhold state-shared income tax revenues in a formula-based amount set by statute. For Phoenix, this could result in the General Fund losing about \$145 million per year which would be redistributed to all other cities and towns in Arizona.

#### **3. What options do cities have to change the limits?**

There are four methods for obtaining approval to change the limits.

##### Alternative Expenditure Limitation (Home Rule Option)

- Only in effect for four years, then must be reapproved by voters.
- Any and all expenditures can be exempted from the limit.
- Must be voted on in the year preceding the first fiscal year to which the alternative expenditure limit will apply.
- Can only be voted on at a regularly scheduled election of the local governing board (city council).
- If the voters do not approve the alternative expenditure limitation, the city must wait two years before putting it on the ballot again.

##### Permanent Base Adjustment

- Permanently increases the base from which future spending limits are calculated.

- Does not provide for any increase in exemptions other than those constitutionally allowed.
- Can only be voted on at a regularly scheduled election of the local governing board (city council).

#### One-Time Override

- Applies in the following circumstances:
  - In the event of a natural or man-made disaster and approval by council – may exceed limit for expenditures directly necessitated by the disaster.
  - Upon affirmative vote of two-thirds of the council and approval by a majority of voters – may exceed limit by the specific amount approved.
- Can be voted on at either a regular or special election.
- Only good for the following fiscal year.

#### Capital Accumulation Exclusion

- Authorizes a permanent exclusion of a fixed level of operating funds for pay-as-you-go capital. Limited exclusions for Aviation, Water, Wastewater and Streets were authorized in 1981.

#### **4. Can Phoenix go to another approach besides the Home Rule Option?**

Phoenix could go to a permanent base adjustment. Concerns identified through prior citizen discussions include:

- This approach does not require periodic review by a citizens' group.
- A permanent base adjustment may not be truly permanent. Each year the expenditure limit will be calculated based on inflation and local population. At some point, it is possible that expenditures would again exceed the limit. All spending is subject to pressures not addressed by population and inflation factors such as environmental mandates and regional issues. This is especially true of Enterprise Departments, particularly the airport. Additionally, the ability to improve services in accordance with regional economic conditions and residents' wishes would be limited.
- Phoenix' previous attempts at permanent base adjustments have all failed. Permanent base adjustments for replacement of Federal Transit Assistance and Federal Revenue Sharing funds were defeated in 1985. A permanent base adjustment for transit expenditures was defeated in 1997.

Phoenix voters have approved local Home Rule Options ten times; 1981, 1985, 1991, 1995, 1999, 2003, 2007, 2011, 2015 and 2020. The first Home Rule Option excluded Aviation, Water, Wastewater and Civic Plaza operations. The next two Home Rule Options excluded Aviation, Water, Wastewater and Refuse funds. The 1995 Home Rule Option excluded Aviation, Water and Wastewater funds. In 1999, 2003, 2007, 2011, 2015 and 2020 the Home Rule Option was set at the adopted budget, which follows a thorough community-based process. Several other cities in the State use a similar Home Rule Option.

A history of Home Rule Option and Permanent Base Adjustment Initiatives is included in **Attachment C**.

In 1999, for the first time we saw the impact of the expenditure limit on funds other than Aviation, Water, Wastewater and Solid Waste (formerly the Refuse fund). These impacts continue today and have two major causes:

- The use of a national inflation indicator as a measure of economic growth prohibited us from responding to what was, until the 2007 recession, a robust Phoenix economy.
- New funding such as the voter-approved Transit 2050, Public Safety Expansion and Parks and Preserves taxes.

**5. When does our current authorization expire?**

Our authorization for an alternative expenditure limit expires June 30, 2025.

To implement a new Home Rule covering July 1, 2025 through June 30, 2029, the option must be approved by voters on the November 2024 ballot.

**6. What local cities and towns have approved alternatives to the expenditure limitation?**

The list of cities and towns that have approved alternatives/exemptions to the state expenditure limitation is attached and is the most recent information available from the League of Arizona Cities and Towns (Feb. 2023).

**FINANCE**
**Rev (02/2023)**

NAME	Type of Alternative Expenditure Limit	Year Effective	Next Home Rule Election
APACHE JUNCTION	Permanent Base Adjustment	2019-2020	
AVONDALE	Home Rule	2021-2022	Fall 2024
BENSON	Home Rule	2021-2022	Fall 2024
BISBEE	Home Rule	2019-2022	Fall 2022
BUCKEYE	Permanent Base Adjustment	2015-2016	
BULLHEAD CITY	None		
CAMP VERDE	Permanent Base Adjustment	2021-2022	
CAREFREE	Permanent Base Adjustment	1999-2000	
CASA GRANDE	Permanent Base Adjustment	2009-2010	
CAVE CREEK	Home Rule	2021-2022	Fall 2024
CHANDLER	Home Rule	2019-2020	Fall 2022
CHINO VALLEY	Home Rule	2021-2022	Fall 2024
CLARKDALE	Permanent Base Adjustment	2019-2020	
CLIFTON	Home Rule	2019-2020	Fall 2022
COLORADO CITY	Permanent Base Adjustment	2002-2003	
COOLIDGE	Home Rule	2019-2020	Fall 2022
COTTONWOOD	Permanent Base Adjustment	2013-2014	
DEWEY-HUMBOLDT	None		
DOUGLAS	Permanent Base Adjustment	2008-2009	
DUNCAN	Home Rule	2021-2022	Fall 2024
EAGAR	Home Rule	2019-2020	Fall 2022
EL MIRAGE	Permanent Base Adjustment	2015-2016	
ELOY	Permanent Base Adjustment	2021-2022	
FLAGSTAFF	Permanent Base Adjustment	2021-2022	
FLORENCE	Permanent Base Adjustment	2019-2020	
FOUNTAIN HILLS	Permanent Base Adjustment	2006-2007	
FREDONIA	Home Rule	2019-2020	Fall 2022
GILA BEND	Home Rule	2019-2020	Fall 2022
GILBERT	Permanent Base Adjustment	1997-1998	
GLENDALE	Permanent Base Adjustment	2000-2001	
GLOBE	Home Rule	2021-2022	Fall 2024
GOODYEAR	Permanent Base Adjustment	2003-2004	
GUADALUPE	Home Rule	2021-2022	Fall 2024
HAYDEN	Permanent Base Adjustment	2019-2020	
HOLBROOK	Home Rule	2019-2020	Spring 2024
HUACHUCA CITY	Home Rule	2021-2022	Fall 2024
JEROME	Home Rule	2021-2022	Fall 2024
KEARNY	Permanent Base Adjustment	1982-1983	
	Home Rule	2019-2020	Fall 2022
KINGMAN	Permanent Base Adjustment	2021-2022	
LAKE HAVASU CITY	Permanent Base Adjustment	2019-2020	
LITCHFIELD PARK	Permanent Base Adjustment	2005-2006	
MAMMOTH	Home Rule	2021-2022	Fall 2024
MARANA	Home Rule	2021-2022	Fall 2024
MARICOPA	Permanent Base Adjustment	2005-2006	
MESA	Home Rule	2019-2020	Fall 2022
MIAMI	Home Rule	2021-2022	Fall 2024
NOGALES	Home Rule	2019-2020	Fall 2022
ORO VALLEY	Permanent Base Adjustment	2019-2020	
PAGE	Permanent Base Adjustment	2005-2006	
PARADISE VALLEY	Permanent Base Adjustment	2006-2007	
PARKER	Home Rule	2021-2022	Fall 2024
PATAGONIA	Home Rule	2019-2020	Fall 2022
PAYSON	Home Rule	2019-2020	Fall 2022
PEORIA	Permanent Base Adjustment	2003-2004	
PHOENIX	Home Rule	2021-2022	Fall 2024
PIMA	Permanent Base Adjustment	2017-2018	
PINETOP-LAKESIDE	Home Rule	2019-2020	Fall 2022
PRESCOTT	Home Rule	2022-2023	Fall 2025
PRESCOTT VALLEY	Home Rule	2021-2022	Fall 2024
QUARTZSITE	None		
QUEEN CREEK	Home Rule	2019-2020	Fall 2022
SAFFORD	Permanent Base Adjustment	2008-2009	
SAHUARITA	None		
SAN LUIS	None		
SCOTTSDALE	Permanent Base Adjustment	2006-2007	
SEDONA	Home Rule	2019-2020	Fall 2022
SHOW LOW	Permanent Base Adjustment	2017-2018	

NAME	Type of Alternative Expenditure Limit	Year Effective	Next Home Rule Election
SIERRA VISTA	Permanent Base Adjustment	2001-2002	
SNOWFLAKE	Home Rule	2021-2022	Fall 2024
SOMERTON	Home Rule	2021-2022	Fall 2024
SOUTH TUCSON	Home Rule	2021-2022	Fall 2024
SPRINGERVILLE	Permanent Base Adjustment	2019-2020	
ST. JOHNS	Home Rule	2021-2022	Fall 2024
STAR VALLEY	Home Rule	2019-2020	Fall 2022
SUPERIOR	Home Rule	2021-2022	Fall 2024
SURPRISE	Permanent Base Adjustment	2007-2008	
TAYLOR	Home Rule	2021-2022	Fall 2024
TEMPE	Permanent Base Adjustment	2002-2003	
THATCHER	Permanent Base Adjustment	1998-1999	
TOLLESON	Home Rule	2021-2022	Fall 2024
TOMBSTONE	Home Rule	2021-2022	Fall 2024
TUCSON	Permanent Base Adjustment	2014-2015	
TUSAYAN	Home Rule	2021-2022	Fall 2024
WELLTON	None		
WICKENBURG	Permanent Base Adjustment	2006-2007	
WILLCOX	None		
WILLIAMS	Home Rule	2019-2020	Fall 2022
WINKELMAN	Permanent Base Adjustment	2019-2020	
WINSLOW	None		
YOUNGTOWN	Permanent Base Adjustment	2013-2014	
YUMA	None		