

Alternative Expenditure Limitation

Home Rule Primary Election
July 21, 2026



What is the Expenditure Limit?

In 1980, voters approved spending limits for Arizona counties and cities

- State-Set Limit
- Two Alternatives to the State-Set Limit
 - Home Rule
 - Permanent Base Adjustment
- One-Time Override Options
- 90% of all Arizona cities and towns use an alternative (82 out of 92 municipalities)



Alternatives to the State-Set Limit

- Home Rule: Alternative Expenditure Limitation allows a city to set its own spending limitation based on current and projected revenue and local service demands
- Permanent Base Adjustment: Alternative Expenditure Limitation allows a city to “permanently” adjust the base amount (1980 Budget), and calculates the limit based on the State formula



History of Home Rule in Sedona

- Most recently approved by Sedona voters in August 2022 (64% in favor)
- Must be approved by the voters and renewed every four years
- Sedona has been operating under Home Rule since 1996 – last 30 years
- Public Hearings for the 2026 Home Rule election:
Feb. 24, 2026 and March 10, 2026



Why Home Rule?

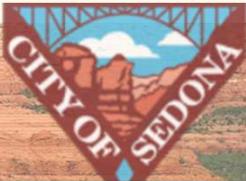
Why did voters approve a Home Rule option?

- State calculation uses a population-growth formula and state-wide inflation factor
 - Does not consider visitor population and other commercial growth
 - Does not account for new and differing sources of revenue
 - New utilities
 - Increased bed and sales tax
 - New sources of revenue (e.g., paid parking)



Why Home Rule? (continued)

- State Calculated Limit
 - Not adjusted for additional services resulting from citizen and visitor demand and community priorities
 - i.e., Affordable Housing, Sustainability, Transit
 - Formula based on 1978 population and 1980 budget
 - Sedona was not incorporated until 1988
 - 1980 budget based on other cities per capita average; not specific to Sedona



One-Time Options Under the State Limit

- If voters do not approve Home Rule, the City could hold a special election the third Tuesday in May 2027 for a one-time override
 - Voters would vote on the override amount (Yes or No)
 - A one-time override does not allow residents to dictate line items in the budget
 - If the override is approved, it allows the City to exceed the State limit for the NEXT fiscal year (FY27/28)
 - The timing of the election would create uncertainty for the budget and projects that are ongoing
 - A one-time override would be used to allow the completion of projects in process



City Budgeting Practices

Multi-Layered Review

- Citizens Budget Work Group
- City Council public meetings, workshops and two public hearings
- Annual independent financial audit
- Annual Expenditure Limitation audit
- Annual Highway User Revenue Fund audit
- Triennial court procedures review

Best Practices & Awards

- Governmental Finance Officers Association (GFOA)
 - Certificate of Achievement for Excellence in Financial Reporting – 25 years
 - Distinguished Budget Presentation Award – 13 years
- Investment grade AA- Bond Rating (S&P)



What if Sedona did not have Home Rule?

- Revenue would still be collected – there is no change to tax rates, charges to services or other revenue streams
- Revenue collected above the limit would remain unavailable for a minimum of two years
- There would be significant service level reductions
- Governments have required functions and desirable, community benefit functions
 - Priority for limited funding would be required functions

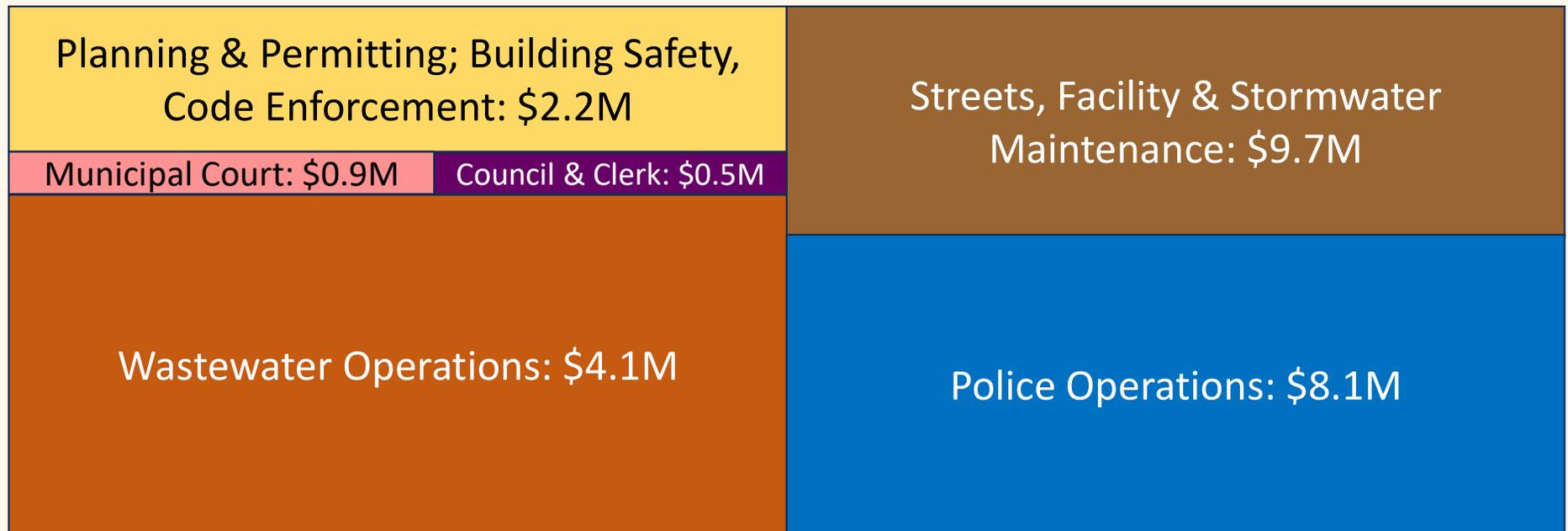


State Limit versus Sedona Budget

FY 2025-26 State Expenditure Limit for Sedona	\$ 15,411,542
FY 2025-26 Adopted Budget	\$ 103,291,695
Estimated City Exemptions -debt service, grants, AZ Highway User Revenue Fund (HURF)	\$ 16,280,895
Estimated Sedona FY26 Budget Subject to Limit	\$ 87,010,800
Amount in excess of Limit	\$ (70,729,905)



Required Functions of local government (FY26)



Required functions subject to the limit, total: \$25.5M



Other Functions (FY26)

Tourism (state DMMO): \$2.0M	Boards & Commissions: \$30k	Capital Improvements: \$42.3M
	Arts & Culture: \$162k	
	STR Program: \$110k	
Engineering: \$2.0M	Housing: \$0.8M	
	Communications: \$0.43M	
Parks & Recreation: \$1.3M	Sustainability: \$1.0M	
Internal Services: \$2.5M	General Services: \$4.4M	
Mgmt & City Attorney: \$2.0M	Public Transit: \$2.5M	

Other functions subject to the limit, total: \$61.5M



Service Impact

Required functions: \$25.5M

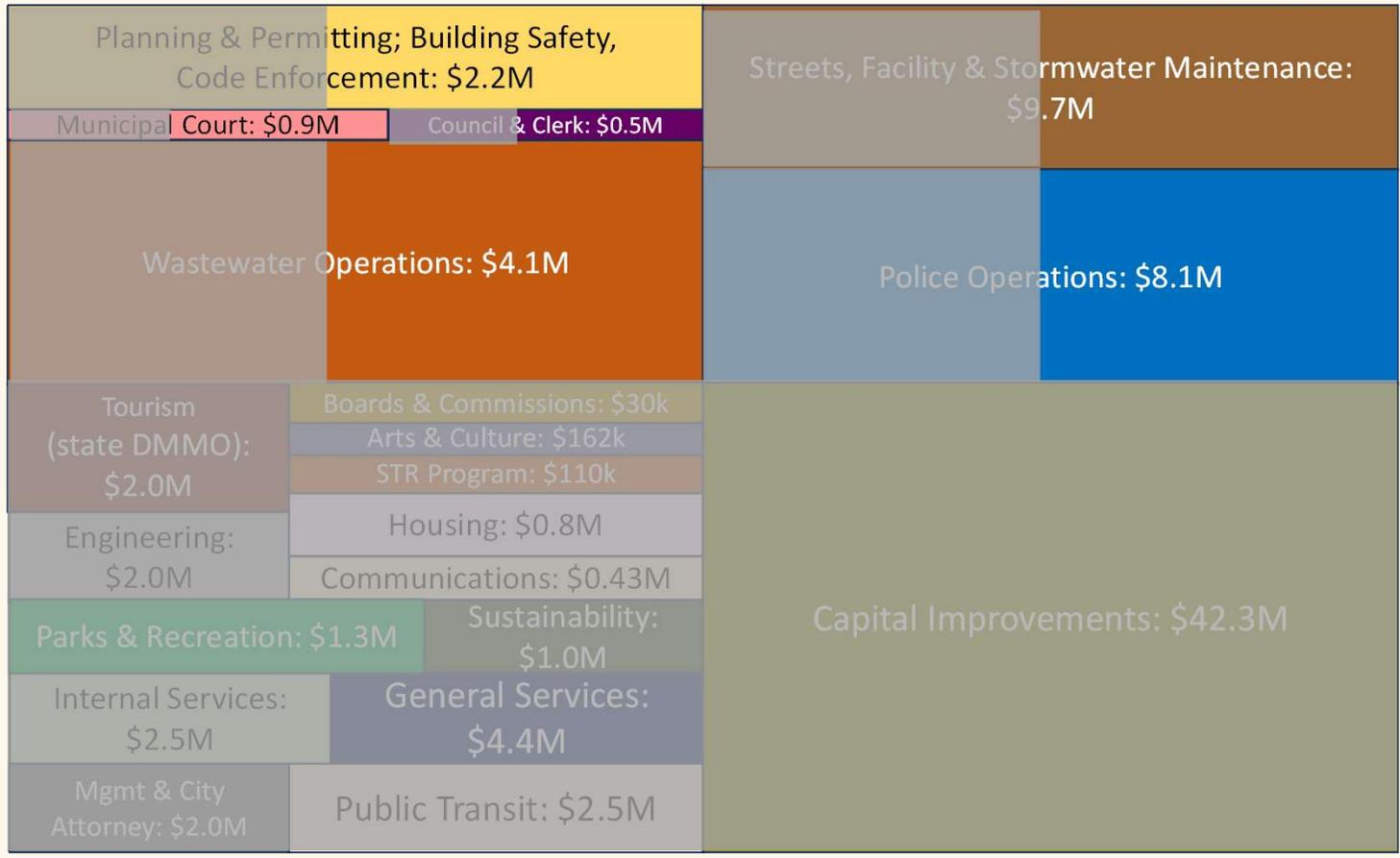
- \$10.1M, 40%, over the adjusted limit
- Priority for funding

Other functions: \$61.5M

- Programs and Services: \$19.2M
- Capital Projects: \$42.3M
- Secondary for funding

State Limit:
\$15.4M

Expenditures
subject to Limit:
\$87.0M



Required Functions:
\$25.5M

Other Functions:
\$61.5M



