

# Alternative Expenditure Limitation

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Home Rule Primary Election  
July 21, 2026



# What is the Expenditure Limit?

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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

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- 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

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- Most recently approved by Sedona voters in August 2022
- 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?

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## 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)

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- 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

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- 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

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## 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?

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- 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

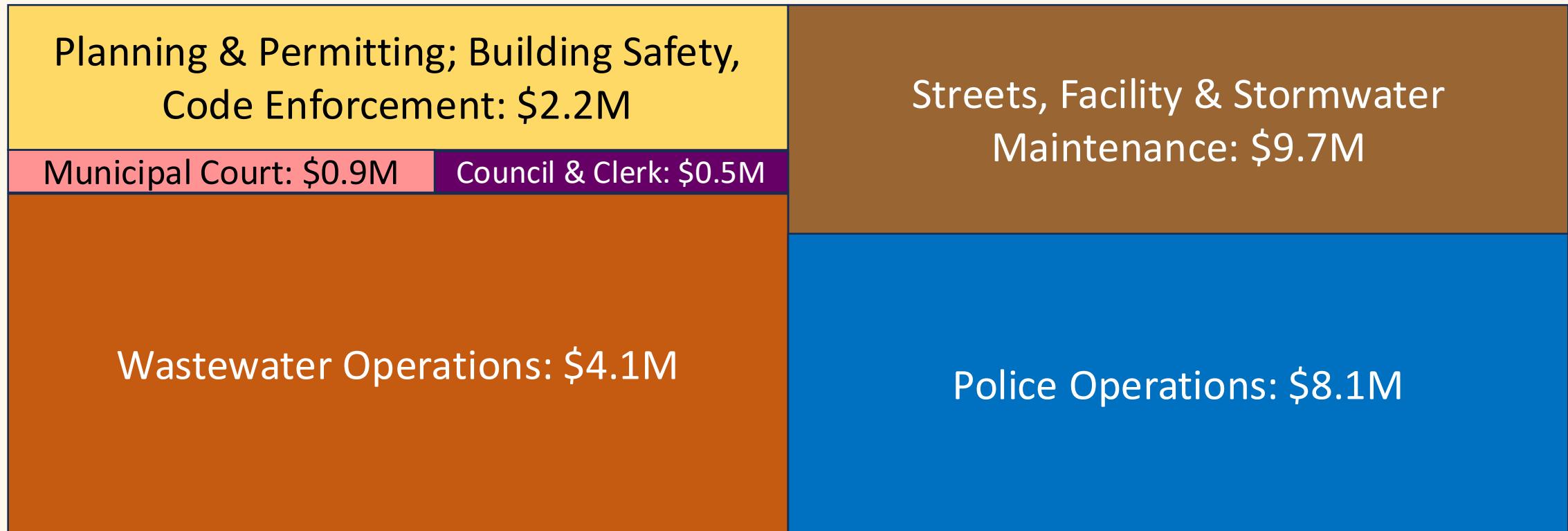


# State Limit versus Sedona Budget

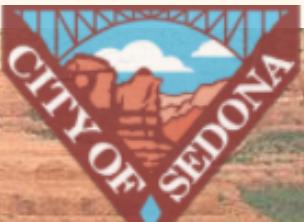
FY 2025-26 State Expenditure Limit for Sedona	\$ 15,411,542
FY 2025-26 Adopted Budget	\$ 103,291,695
Estimated City Exemptions -debt service, grants, AZ Highway User Revenue Fund (HURF)	\$ 16,280,895
Estimated Sedona FY26 Budget Subject to Limit	\$ 87,010,800
Amount in excess of Limit	\$ (70,729,905)



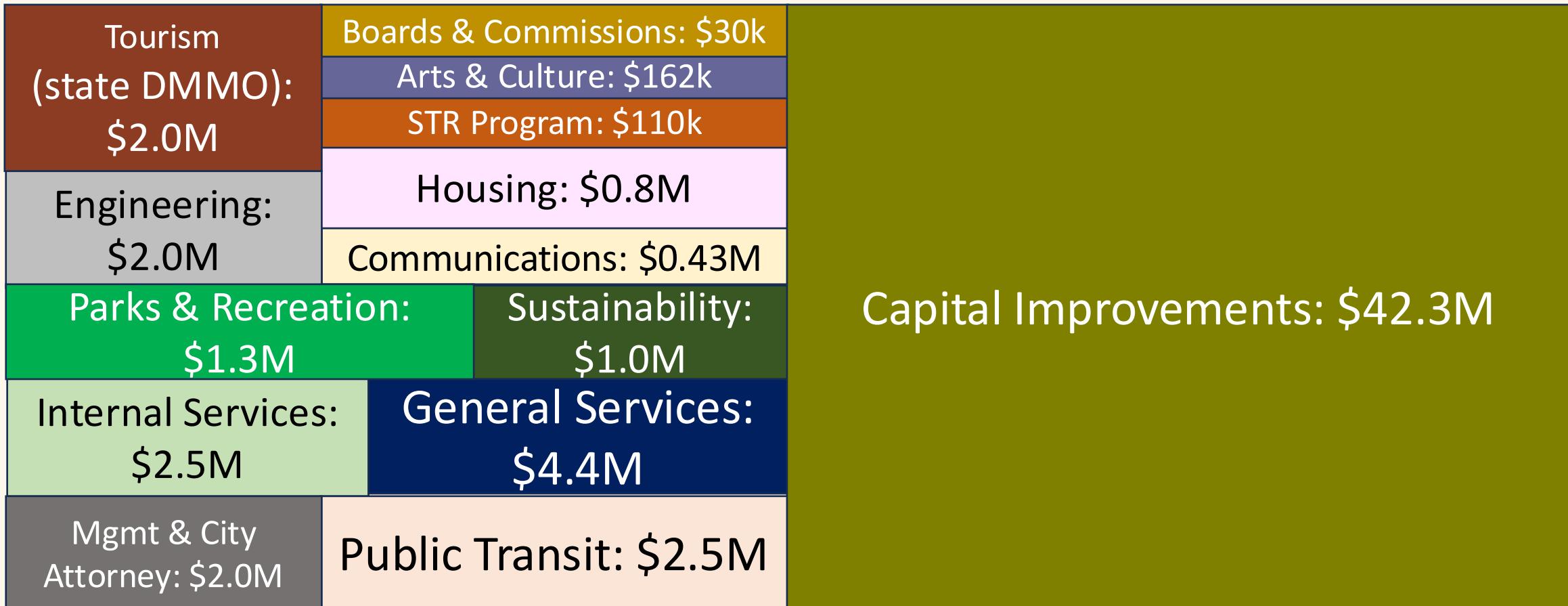
# Required Functions of local government (FY26)



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



# Other Functions (FY26)



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

