

FREQUENTLY ASKED QUESTIONS

ALTERNATIVE EXPENDITURE LIMITATION (HOME RULE OPTION)

What is the *Expenditure Limitation*?

- Chino Valley, like all cities and towns in Arizona, is required to have a balanced budget where spending (expenditures) cannot exceed available revenues.
- Additionally, in 1980, Arizona voters approved a constitutional amendment designed to limit the annual expenditures of all Arizona cities and towns. The law requires that each municipality adopt a limit on its annual expenditures based on a formula that is set by the state. This is known as the *state-imposed expenditure limitation*.
- As Arizona's municipalities began experiencing the growth that we still see today, with their revenues and budget demands growing, it became clear that the state formula, set according to the economic climate of the late seventies, no longer reflected the revenue and expenditure needs of a rapidly growing state.
- The Arizona Constitution was then amended to provide options to accommodate these growing financial needs. One of these options allows voters to authorize the Town Council to adopt an alternative method for setting the Town's expenditure limit. This is known as the *Alternative Expenditure Limitation (Home Rule Option)* ("Home Rule").
- When the Town's voter have approved Home Rule, each fiscal year, the Town Council adopts the expenditure limitation option in conjunction with adoption of the Town's annual budget. Expenditures cannot exceed that limitation, thereby creating the required balanced budget.

What are the Options authorized by law that allow the town to exceed its state-imposed expenditure limitation?

- Emergency Override – Provides for the Town Council to allow for expenditures in excess of the state-imposed limitation in the event of a disaster.
- One-Time Override – Allows the town to exceed the state-imposed limitation for one year for a specific purpose.
- Capital Projects Accumulation – This option is most appropriate for communities where the state-imposed limitation is sufficient except in the area of capital outlays. This option is not currently being used by any Arizona municipalities.
- Permanent Base Adjustment – Allows a municipality to permanently adjust the state's base expenditure amount based on current needs, rather than using 1979 base amount as required by the 1980 voter-approved proposition. Once approved by the voters, it does not expire.
- Home Rule Option – Allows a municipality to set its own spending limitation based upon current and projected revenues and local service demands. It is effective for four years. At the end of the four-year term, if a new Home Rule is not approved by the voters, the expenditure limitation reverts to the state-imposed limitation.

MUNICIPALITIES & EXPENDITURE LIMITATIONS – 2020

STATE-IMPOSED	CAPITAL PROJECTS	PERMANENT BASE	HOME RULE
19	0	33	45

Why Home Rule for Chino Valley?

- Home Rule permits the Town Council to set a spending limit based upon local priorities instead of making budget decisions based on a state-imposed formula. Hence, budget decisions are made “at home.”
- Home Rule does *not* enable the Town to spend more than the revenues it receives. Should the Town receive fewer revenues than budget projections, Town officials are required by law to reduce expenditures to maintain a balanced budget.
- Chino Valley operated under the state limitation until 1985 until the Town’s citizens voted to approve the Home Rule Option for the first time. Chino Valley voters have extended the Home Rule Option every four years since then.
- The Town’s current Home Rule expires in June 2021 and the Town Council will be asking the voters to extend it another four years at the Town’s Primary Election on August 4, 2020.
- The Town is recommending the Home Rule Option over the other options, because it best fits the Town’s current circumstances. More specifically:
 - The One-Time Override does not apply to the Town at this time.
 - The state-imposed limitation under the Capital Projects Accumulation is not sufficient for the Town at this time.
 - The Permanent Base Adjustment requires a longer-term commitment, would bind future Town Councils, and tends to be more favorable during a stable economy.

What effect does Home Rule have on revenues and taxes?

- Home Rule does not increase or decrease the revenues that the Town receives from sales taxes and state shared revenues or from any other source.
- Home Rule has *no* impact on taxes or tax rates. It does not change the Town’s sales tax rate.

What is the difference between Home Rule and the state-imposed limitation?

- The expenditure limitation was originally adopted in 1980 and the formula for the state limitation is based on revenues and population from 1979.
- While the state limitation for subsequent years permits increased spending limits using a population growth factor and an inflation factor, those factors are *not* calculated from *actual* revenues, population growth, or inflation.
- When the state limitation formula was originally developed in 1980, Chino Valley had a population of 2,400 and revenues of \$255,094.

- As the Town has grown, so have its revenues, operating costs, and demand for services. Today, the Town has a population between 11,000-12,000 and it projects to receive approximately \$23,590,700 in revenues during fiscal year 2021-2022.

STATE LIMIT VS. HOME RULE – PROJECTIONS – 2021-2025

	FY 2021-2022	FY 2022-2023	FY 2023-2024	FY 2024-2025
State imposed expenditure limitation plus exclusions	\$9,707,846	\$9,874,865	\$10,834,835	\$10,265,504
Estimated revenues received from any source	\$23,590,700	\$24,084,600	\$24,943,200	\$21,112,900
Additional dollars available with Home Rule	\$13,882,854	\$14,209,735	\$14,508,365	\$14,847,396

What happens if the voters APPROVE the Home Rule?

- The Home Rule will remain in effect for the next four consecutive fiscal years.
- The voters will authorize the Council to set the Town’s expenditure limitation based on current and projected revenues and needs while remaining within the broad budgetary limits prescribed by the state.
- The Town will adopt an expenditure limitation based on the Home Rule each of the next four fiscal years during the budget process.
- After four years, the Mayor and Council may ask the voters to extend it again or propose another alternative expenditure limitation option available at that time.

What happens if the voters DO NOT APPROVE the Home Rule Option?

- The Town will lose the ability to set its budget based on current needs and revenues and will be required to limit Town expenditures to the state imposed formula for at least two consecutive fiscal years (until it can be approved by the voters at another election).
- Projections indicate that approximately 59% of the Town’s overall budget for the next two years would have to be eliminated.
- Although the Town will still *receive* revenues approximating the estimates above, revenue amounts in excess of the state limitation will remain unavailable for two years, as state law will prevent the Town from allocating those funds to provide general government services.

What do we need to know about voting on the proposal?

- The Town is proposing to place the proposal on the August 4, 2020 ballot.
- Registered voters will receive a voter information pamphlet with much of the material presented here on Home Rule, as well as general voting information.
- Individuals or a group can file an “argument” (statement for or against the Home Rule) to be published in the voter information pamphlet. Submit arguments to the Town Clerk’s office by May 6, 2020. For guidelines on submitting an argument, refer to the document entitled “Voter Information Pamphlet—Argument Submittal Guidelines” on the Town’s website at <http://www.chinoaz.net/468/>.