

TOWN OF EAGAR
MEMORANDUM

TO: Eagar Town Council

FROM: Kate Brady, Finance Director

DATE: February 15, 2022

SUBJECT: ALTERNATIVE EXPENDITURE LIMITATION “HOME RULE OPTION”

In 2018 the voters of Eagar approved the continuance of the Home Rule Option. We are currently operating under voter approved alternative expenditure limitation until the fiscal year 2022-2023. The voter approval we are seeking, if passed and adopted, will cover the fiscal years 2023-2024, 2024-2025, 2025-2026, and 2026-2027.

BACKGROUND OF THE HOMERULE OPTION

In the summer of 1980 the State Legislature referred to the voters a constitutional amendment designed to limit the annual expenditures of all Arizona cities and towns by a formula. To determine the expenditure limitation, the State established 1979-1980 as a “base year.’ Added to this base year is an adjustment for population growth and inflation.

The Base Year: The base year is critical because it is the foundation upon which all-future budget adjustments are made.

If voters passed Home Rule in the up coming election: It will not affect balancing the budget. Eagar is already required by State law to have a balanced budget. What it will do is allow the Town to spend the general fund monies it already has for programs and services its citizens today feel are essential. The general fund is what is used to pay for police, parks, and general government services.

If voters reject Home Rule: It means that Eagar must set its annual budget under a State-imposed formula. This formula penalizes Eagar wherein inflation and old population figures do not reflect current needs and demand for services. Failure means the State imposed expenditure limitation will continue to limit how funds are spent.

WHAT HOME RULE IS-

- Home Rule is the option under which citizens and the Town Council adopts an annual budget for their Town “at home” rather than by using the State-imposed limitation
- Home Rule is not new for Eagar, Town voters have approved this local option since 2006, this issue must be re-submitted to Town voters every four years
- Eagar is limited by the “base year” of 1979-80 used by the State Legislature to determine the expenditure limitation

- Without the Home Rule local option, Eagar conforms to the State imposed expenditure limitation. Currently we raise more revenue than we legally can spend
- The Home Rule Option means that local citizens will control how existing revenues are allocated in setting the Town budget, using local needs and priorities as seen by the community rather than by a State-imposed formula
- The Home Rule Expenditure Limitation Option enables the Town to expend the revenues generated. Under this option the Town will create a balanced budget with community input, which is published and audited
- A “Yes” vote means that you are for the Home Rule option, and for setting a balanced Town budget locally through your elected representatives
- A “No” vote means that you are against the Home Rule option and would prefer to see the Town operate under the State-imposed budget limitation

WHAT HOME RULE ISN'T-

- The Home Rule Option does not empower the Town Council to create new and additional taxes, nor does it enable the Town to spend beyond the revenue it currently receives.

Expenditure limitations

 [azauditor.gov/reports-publications/cities-and-towns/faqs/expenditure-limitations](https://www.azauditor.gov/reports-publications/cities-and-towns/faqs/expenditure-limitations)

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1. What is the origin and purpose of expenditure limitation reports?

On June 3, 1980, Arizona voters approved Arizona Constitution, Article IX, §20, prescribing an expenditure limitation for each city and town. The expenditure limitation's purpose is to control expenditures of local revenues and limit future increases in spending to adjustments for inflation and population growth. Cities and towns were subject to the expenditure limitation effective in the fiscal year following the first regularly scheduled governing board member election after July 1, 1980.

Arizona Revised Statutes (A.R.S.) §41-1279.07 requires the Auditor General to prescribe a uniform expenditure reporting system (UERS) for all political subdivisions subject to the constitutional expenditure limitations Article IX, §20, prescribed. As that statute required, our Office developed the UERS forms to provide detailed instructions for completing and submitting expenditure limitation reports.

2. How is the expenditure limitation determined for a city or town?

The Constitution required the Economic Estimates Commission (Commission) to establish for each city and town a base limit from actual expenditures of local revenues for fiscal year 1980. Each year, the Commission calculates the constitutional expenditure limitation for all cities and towns by adjusting their base limits for any voter-approved permanent base adjustments or annexations, changes in population, and inflation since the base year.

3. Where can a city or town obtain its constitutional expenditure limitation?

Cities and towns can obtain constitutional expenditure limitations from the Arizona Department of Revenue's Economic Estimates Commission web page. The Commission should notify cities and towns of their actual expenditure limitations by April 1 for the following fiscal year.

4. Are all expenditures subject to the limitation?

No. The expenditure limitation applies only to expenditures of local revenues as defined by Arizona Constitution, Article IX, §20(3)(d). Generally, local revenues include all monies received by or for the account of the city or town; however, the Constitution excludes some monies such as grants and aid from the federal government and certain revenues received from the State from the local revenues definition. For a detailed explanation of expenditures not subject to the limitation, see the instructions for UERS forms—part II. In addition, see the exclusions (part II) FAQs for further discussion of expenditures subject to the limitation.

5. What is the penalty for exceeding the expenditure limitation?

In accordance with A.R.S. §41-1279.07(H), a city or town that exceeds its expenditure limitation without authorization will have the following amount of state income tax (urban revenue sharing monies) withheld based on the percentage of the excess expenditures:

- If the excess expenditures are less than 5 percent of the limitation, the amount withheld is equal to the excess expenditures.
- If the excess expenditures are between 5 percent and 10 percent of the limitation or are less than 5 percent of the limitation but it is at least the second consecutive instance of excess expenditures, the amount withheld is equal to three times the excess expenditures.
- If the excess expenditures are equal to 10 percent or more of the limitation, the amount withheld is equal to five times the excess expenditures or one-third of its allocation of state income tax, whichever is less.

Before state monies are withheld, the Auditor General must hold a hearing to determine if the city or town has exceeded the expenditure limitation without authorization. To ensure due process, the city or town representatives are invited to attend and participate in this hearing. The State Treasurer withholds the penalty in the fiscal year following the Auditor General's hearing.

6. Are there any provisions that allow a city or town to authorize expenditures in excess of its constitutional expenditure limitation?

Arizona Constitution, Article IX, §20, includes provisions that allow cities and towns to authorize expenditures in excess of their expenditure limitations for expenditures a natural or manmade disaster directly necessitates. The governing board and possibly voters must approve the excess expenditures. See the instructions for UERS form—part I for detailed information on these constitutional provisions.

The Constitution also provides cities and towns several voter-approved options to alter their expenditure limitation. These options include exceeding the expenditure limit for 1 year (one-time override), permanently adjusting the base limit used to calculate the expenditure limitation (permanent base adjustment), or a temporary alternative expenditure limitation (home rule). See the voter-approved expenditure limitations FAQs for detailed information on these constitutional provisions.

2023-2024 EXPENDITURE LIMITATION CALCULATION

One of the most important steps in determining whether you will need to seek an alternative to the state-imposed limitation is the calculation of your 2023-2024 expenditure limitation. This calculation will be accomplished for you by the Economic Estimates Commission (EEC). The EEC must provide you with a preliminary limit by February 1 and a final figure by April 1.

Because these dates may not be in time for you to determine whether you must seek an alternative to the state-imposed limitation, we have provided the formula for estimation of your state-imposed limitation for 2023-2024.

Before you proceed to the actual calculation, let us caution you on a couple of points. Population figures used in your calculations must be from the Department of Administration. We do not have current published projections. To obtain the projections needed, contact Jim Chang, Department of Administration (see address and phone number on page 20). The population figures provided will include estimates and projections. In projecting your expenditure limitation for fiscal year 2023-2024, you will start with the latest population estimate available from the Department of Administration.

We have provided a listing of DES 1978 populations as well as the Economic Estimates Commission (EEC) 1979-80 Base Limitations necessary for the calculation of your expenditure limitation on the following page.

In addition, the percent change in the GDP implicit price deflator provided in the calculation format below may change between when this Guide is prepared and the time you are actually doing the calculations for your submission to the Auditor General' s Office. The changes are usually provided to cities and towns in March and September from the Arizona Department of Revenue. Accordingly, the deflator figure noted below should only be used for this calculation. We now suggest that you proceed with the calculation to estimate your 2023-2024 expenditure limitation by inserting the appropriate information and multiplying or dividing as directed:

2023-2024 EXPENDITURE LIMITATION

$$\begin{array}{rcccl}
 \frac{4,540}{\text{Population}} & \div & \frac{2,450}{\text{Population}} & = & \frac{1.8531}{\text{Population}} \times \frac{627,266}{\text{Base Limitation}} \\
 \text{(latest estimate)} & & \text{(1978)} & & \text{Factor} & & \text{(1979-80)} \\
 \\
 = \frac{1,162,390}{\text{Population}} & \times & \frac{3.3951}{\% \text{ Change in GDP}} & = & \frac{3,946,431}{\text{2023-2024 Expenditure}} \\
 & & \text{Price Deflator} & & \text{Limitation}
 \end{array}$$

This 2023-2024 expenditure limitation figure is only an estimate due to the possible adjustments in your population figures and the percent of change in the GDP deflators. It should, however, assist you in determining whether your community wants or needs to seek an alternative to the state-imposed limit.

RESOLUTION NO. 2022-03

**A RESOLUTION OF THE TOWN OF EAGAR, ARIZONA PROPOSING AN
EXTENSION OF THE ALTERNATIVE EXPENDITURE LIMITATION.**

WHEREAS, the Arizona State Constitution permits the submission to the voters of a city or town of an alternative expenditure limitation; and

WHEREAS, the voters of the Town of Eagar, Arizona in 2018 adopted an alternative expenditure limitation; and

WHEREAS, the Town Council of Eagar, Arizona after two public hearings, has determined that an extension of the alternative expenditure limitation is necessary for the Town of Eagar, Arizona.

NOW, THEREFORE, BE IT RESOLVED by the Town Council of Eagar, Arizona that the following alternative expenditure limitation be submitted to the voters of the Town of Eagar, Arizona.

Shall the following be adopted by the Town of Eagar, Arizona as an alternative expenditure limitation:

"The Mayor and Common Council of the Town of Eagar, Arizona shall annually, as part of the annual budget adoption process, adopt an alternative expenditure limitation equal to the total amount of budgeted expenditures/expenses as it appears on the annual budget as adopted by the Council to apply to the Town of Eagar, Arizona for each of the four fiscal years immediately following adoption of the alternative expenditure limitation. The alternative expenditure limitation shall be adopted each year after a public hearing at which the citizens of the Town of Eagar, Arizona may comment on the proposed alternative expenditure limitation. No expenditures may be made in violation of such alternative expenditure limitation, nor may any proposed expenditures be in excess of estimated available revenues, except that the Mayor and the Common Council may, by three-fourths vote, declare an emergency and suspend the alternative expenditure limitation. The suspension of the alternative expenditure limitation shall be in effect for only one fiscal year at a time."

PASSED AND ADOPTED by the Town Council of Eagar, Arizona, this 15th day of March 2022.

Bryce Hamblin, Mayor

ATTEST:

Jessica Vaughan, Town Clerk

APPROVED AS TO FORM:

Brett Rigg, Town Attorney

RESOLUCION 2022-03

UNA RESOLUCION DE EL PUEBLO DE EAGAR PROPONIENDO UNA EXTENCION SOBRE LA ALTERNATIVA DEL LIMITE DEL GASTO.

CONSIDERANDO QUE, la Constitución Estatal de Arizona permite la sumisión a los votantes de una ciudad o pueblo una alternativa sobre una limitación de gasto; y

CONSIDERANDO QUE, los votantes de el Pueblo de Eagar, Arizona en 2018 adoptaron una alternativa sobre el limite de gasto – una opcion de auto reglamento; y

CONSIDERANDO QUE, el consejo de el Pueblo de Eagar, Arizona después de dos audiencias publicas ha determinado que una extensión sobre la alternativa del limite de gasto es necesaria par el Pueblo de Eagar, Arizona.

AHORA, POR LO TANTO, SEA RESUELTO por el consejo de el Pueblo de Eagar, Arizona que la siguiente alternativa sobre el limite del gasto sea sometida a los votantes de el Pueblo de Eagar, Arizona.

Debera ser adoptado lo siguiente por el consejo de el Pueblo de Eagar, Arizona como una alternativa del limite de gasto:

"El alcalde y el consejo comun de el Pueblo de Eagar, Arizona deberan anualmente, como parte del proceso de la adopción del presupuesto anual, adoptar una limitación alternativa de gasto igual a la cantidad total prepuesta de gastos como aparece en el presupuesto anual como adaptado por el cousejo para aplicar al presupuesto de el Pueblo de Eagar, Arizona para cada de los cuatros anos fiscales inmediatamente después de tal adopción. La alternativa sobre la limitación de gasto debera ser adoptaca cada ano después de una audiencia publica en la cual los ciudadanos de el Puebloe de Eagar Arizona puedan comentar sobre la propuesta alternativa sobre una limitación de gasto. Ningun gasto podra ser echo en violación de la alternativa sobre una limitación de gasto, ni podra ningun gasto propuesto ser en exceso de entradas estimadas disponibles, excepto las que el alcalde y el consejo comun puedan, por voto de tres-cuartos, declarar como una emergencia y suspendan la alternativa sobre la limitación de gastos. La suspensión de la alternativa sobre la limitación de gasto debera estar solamente en efecto por un ano fiscal a la vez."

PASADO Y ADOPTADO por el consejo de el Pueblo de Eagar, Arizona, este 15th dia de marzo, 2022.

Bryce Hamblin, Alcalde

ATESTIGUA:

Jessica Vaughan, Secretary de el Pueblo

APROBADO EN FORMA:

Brett Rigg, Procurador de el Pueblo

**ALTERNATIVE EXPENDITURE LIMITATION
(Home Rule Option)
DETAILED ANALYSIS**

Pursuant to the Arizona State Constitution, the Town of Eagar as authorized by Resolution # 2022-03 passed on March 17, 2022, will seek voter approval to adopt an alternative expenditure limitation (Home Rule Option) to apply to the Town of Eagar for the next four years beginning in 2023-2024

Under a Home Rule Option if approved by the voters, the town estimates it will be allowed to expend approximately \$7,309,554 in 2023-2024, \$6,748,238 in 2024-2025, \$6,713,464 in 2025-2026 and \$6,780,599 in 2026-2027.

With approval of the Home Rule Option, the town will utilize the expenditure authority for all local budgetary purposes including general government, police, fire, parks, facilities, fleet, street construction, street maintenance, water, sewer and grant matching. We estimate that the expenditures for the next four years under the Home Rule Option will be as follows:

ESTIMATED AMOUNTS TO BE EXPENDED IN SPECIFIC AREAS

Purpose	2023-2024	2024-2025	2025-2026	2026-2027
General Government	4,326,738	4,270,753	4,240,817	4,283,225
Streets & Roads	1,740,732	1,281,035	1,258,696	1,271,283
Water & Sewer	1,242,084	1,196,450	1,213,951	1,226,091
Total Expenditures	7,309,554	6,748,238	6,713,464	6,780,599

If approved, the expenditures authorized will be funded from revenues obtained from federal, state and local sources. It is estimated that the amount of revenue from each source for the next four years will be as follows:

ESTIMATED AMOUNTS OF REVENUE FROM EACH AND ANY SOURCE

Source	2023-2024	2024-2025	2025-2026	2026-2027
Federal	2,123,550	1,500,000	1,500,000	1,500,000
State	3,702,216	3,653,440	3,689,974	3,726,874
Local	1,617,356	1,627,673	1,638,146	1,654,528
Total Revenues	7,443,122	6,781,113	6,828,120	6,881,402

In determining the revenue sources to fund the authorized additional expenditures under the alternative expenditure limitation, it is assumed that the federal, state and local revenues received by the city/town will continue to be available in 2023-2024 as they have for the past 69 years. Their continued availability is also assumed for the next three consecutive years following 2023-2024.

Any and all dollar figures shown in this analysis are estimated figures only and are based upon information available at the time of preparation of this report. The budgets and actual expenditures in any given year may be more or less than the figures noted above depending on available revenues. The actual expenditure limitation for each fiscal year shall be adopted as an integral part of the budget for that fiscal year.

**ALTERNATIVE EXPENDITURE LIMITATION
(Home Rule Option)
SUMMARY ANALYSIS**

(The voters of the Town of Eagar in 2018 adopted an alternative expenditure limitation (Home Rule Option). The purpose of this election is for the continued use of the Home Rule Option.)

Pursuant to the Arizona State Constitution, the Town of Eagar seeks voter approval to adopt a Home Rule Option to apply to the town for the next four years beginning in 2023-2024. Under a Home Rule Option if approved by the voters, the town estimates it will be allowed to expend approximately \$7,309,554 in 2023-2024, \$6,748,238 in 2024-2025, \$6,713,464 in 2025-2026 and \$6,780,599 in 2026-2027.

With approval of the Home Rule Option, the town will utilize the expenditure authority for all local budgetary purposes including general government, police, fire, parks, facilities, fleet, street construction, street maintenance, water, sewer and grant matching.

Under the state-imposed limitation the town estimates it will be allowed to expend approximately \$4,196,431 in 2023-2024, \$4,343,640 in 2024-2025, \$4,492,972 in 2025-2026 and \$4,647,953 in 2026-2027 for the operation of your local government. These expenditure estimates include expenditures of constitutionally excludable revenues.

The amount of revenue estimated to be available to fund the operation of your city/town government is \$7,443,122 in 2023-2024, \$6,781,113 in 2024-2025, \$6,828,120 in 2025-2026 and \$6,881,402 in 2026-2027. These revenue estimates are the same under the Home Rule Option or the state-imposed expenditure limitation.

Any and all dollar figures presented in this summary are estimates only and are based upon information available at the time of preparation of this analysis. The budget and actual expenditures in any of the four years may be more or less than the expenditures noted above depending on available revenue.

If no alternative expenditure limitation is approved, the state-imposed expenditure limitation will apply to the town.

2023-2024 EXPENDITURE LIMITATION (see page 8)

$$\frac{4,540}{\text{Population (latest estimate)}} \div \frac{2,450}{\text{Population (1978)}} = \frac{1,8531}{\text{Population Factor}} \times \frac{627,268}{\text{Base Limitation (1979-80)}} =$$

$$1,162,390 \times 3,3951 = \frac{3,946,431}{\text{2018-2019 Expenditure Limitation}} \times \frac{\% \text{ Change in GDP Price Deflator}^*}{\text{2018-2019 Expenditure Limitation}}$$

POPULATION FACTOR COMPUTATION (see page 21)

Fiscal Year	Prior Fiscal Year Population	+	1978 Population	=	Population Factor
2023-2024	4,540	+	2,450	=	1.8531
2024-2025	4,610	+	2,450	=	1.8816
2025-2026	4,680	+	2,450	=	1.9102
2026-2027	4,750	+	2,450	=	1.9388

STATE-IMPOSED EXPENDITURE LIMITATION (See Page 21)

Fiscal Year	1979-80 Base Limit	x	Population Factor	=	Inflation Factor*	=	Projected State-Imposed Expenditure Limitation	+	Estimated Exclusions	=	Total Expenditures Under State-Imposed Limit
2023-2024	627,268	x	1.8531	x	3.3951	=	3,946,431	+	250,000	=	4,196,431
2024-2025	627,268	x	1.8816	x	3.4684	=	4,093,640	+	250,000	=	4,343,640
2025-2026	627,268	x	1.9102	x	3.5411	=	4,242,972	+	250,000	=	4,492,972
2026-2027	627,268	x	1.9388	x	3.6163	=	4,397,953	+	250,000	=	4,647,953

* The percent change in the GDP implicit price deflator provided in the calculation format below may change between when this Guide is prepared and the time you are actually doing the calculations for your submission to the Auditor General's Office. The changes are usually provided to cities and towns in March and September from the Arizona Department of Revenue.

DOUGLAS A. DUCEY
Governor



SANDRA WATSON
Director

OFFICE OF ECONOMIC OPPORTUNITY

100 NORTH SEVENTH AVENUE • SUITE 400
PHOENIX, ARIZONA 85007
(602) 771-2222

January 10, 2022

Kate Brady, Finance Director
Town of Eagar
PO Box 1300
Eagar, AZ 85925

Dear Ms. Brady:

Please find in the table below population estimates for 2021 and population projections for 2022 – 2027 for the Town of Eagar. Population numbers refer to July 1 resident population. Projections are rounded to the nearest ten. The latest published population projections were released in September 2019. Please be advised that the 2022 – 2027 population projections have been revised so that they are consistent with the July 1, 2021 population estimate. These population numbers may be used for future expenditure limitation calculations (Home Rule). Please choose the appropriate years based on the timing of your election and the legal counsel you receive.

Town of Eagar – July 1 Population

Year	Population
2021	4,474
2022	4,540
2023	4,610
2024	4,680
2025	4,750
2026	4,820
2027	4,900

Please feel free to contact me at (602) 771-1236 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Qigui Chang".

Jim Qigui Chang, Ph.D.
State Demographer

cc: Arizona Auditor General's Office
Chris Fetzer, Northern Arizona Council of Governments

STATE OF ARIZONA

Department of Revenue
Support Division



Memorandum

DATE: October 4, 2021

TO: Tom Belshe, League of Arizona Cities and Towns
Megan Smith, Auditor General's Office
Megan Kintner, Arizona Association of Counties

FROM: Elizabeth St.Clair, Office of Economic Research & Analysis

SUBJECT: Expenditure Limit Inflation Factors

Listed below are the estimated inflation factors, as of October 2021, to be used in calculating future expenditure limitations. This memo revises the numbers sent in March 2021. Both the GDP implicit price deflator and the corresponding expenditure limit inflation factor are included for reference.

	GDP Implicit Price Deflator	Inflation Factor for Expenditure Limitation 1
CY 2020	112.279	3.1365
CY 2021 (est.)	117.934	3.2944
CY 2022 (est.)	121.537	3.3951
CY 2023 (est.)	124.161	3.4684
CY 2024 (est.)	126.764	3.5411
CY 2025 (est.)	129.458	3.6163
CY 2026 (est.)	132.026	3.6881
CY 2027 (est.)	134.541	3.7583

*Need updated sheet.
out 4/1/22*

Source: Bureau of Economic Analysis, September 2021 (actuals)
Moody's Analytics: September 2021 (estimates)

If you have any questions or need additional information, please contact me at est.clair@azdor.gov.

¹ Base year 1978