

The Annual Expenditure Limitation Report

GFOAz Winter Conference
February 8, 2024

Arizona Constitution

- Article 9, Section 20 – Cities, towns, counties
- Article 9, Section 21 – School districts, community college districts

Purpose

- Control expenditures of local revenues
- Limit future increases in spending to adjustments for inflation and population growth

State-Imposed Limit

- Economic Estimates Commission (EEC) established base limit from FY 1979-80 actual expenditures of local revenues
- Each year, EEC calculates expenditure limit adjusting for:
 - Voter-approved permanent base adjustments (PBAs)
 - Annexations
 - Changes in population
 - Inflation

Local Revenues

- Expenditure limit applies only to expenditures of local revenues
 - Defined in Arizona Constitution, Article IX, §20(3)(d)
- Constitution excludes some monies from local revenues definition
- Everything not specifically excluded is included under state-imposed expenditure limitation

AELR - Reconciliation

Description	Governmental funds	Enterprise funds	Internal service funds	Fiduciary funds	Total
<u>A.</u> Total expenditures/expenses/deductions and applicable other financing uses, special items, and extraordinary items reported within the fund financial statements	\$-	\$-	\$-	\$-	\$-
<u>B.</u> Subtractions:					
<u>1.</u> Items not requiring use of current financial resources:					
<u>a.</u> Depreciation					-
<u>b.</u> Loss on disposal of capital assets					-
<u>c.</u> Bad debt expense					-
<u>d.</u> Pension and other postemployment benefits (OPEB) expense					-
<u>e.</u> Claims incurred but not reported (IBNR)					-
<u>f.</u> Landfill closure and postclosure care costs and pollution remediation					-
<u>2.</u> Expenditures of separate legal entities established under Arizona Revised Statutes					-
<u>3.</u> Required fees paid to the Industrial Commission of Arizona					-
<u>4.</u> Present value of net minimum lease, financed purchase, and subscription-based information technology arrangement (SBITA) contract payments recorded as expenditures at the agreements' inception					-
<u>5.</u> Involuntary court judgments					-
<u>6.</u> Total subtractions	-	-	-	-	-
<u>C.</u> Additions:					
<u>1.</u> Principal payments on long-term debt					-
<u>2.</u> Capital asset acquisitions					-
<u>3.</u> Amounts paid in the current year but reported as expenses in previous years:					
<u>a.</u> Claims previously recognized as IBNR					-
<u>b.</u> Landfill closure and postclosure care costs and pollution remediation					-
<u>4.</u> Pension and OPEB contributions paid in the current year					-
<u>5.</u> Transfers to separate legal entities					-
<u>6.</u> Total additions	-	-	-	-	-
<u>D.</u> Amounts reported on Part II, line A	\$-	\$-	\$-	\$-	\$-

Part II – Allowable Exclusions

- Expenditures paid from debt proceeds
- Debt repayment expenditures
- Expenditures paid from dividends, interest, and gains on sale/redemption of investment securities
- Expenditures of any amounts received in the capacity of trustee, custodian, or agent
 - Fiduciary funds
 - County contributions to AHCCCS
- Expenditures paid from grants and aid from federal government

Part II – Allowable Exclusions

- Expenditures paid from grants/aid/ contributions/gifts from private agency/ organization/individual, not including amounts received in lieu of taxes
- Expenditures paid from amounts received from state included in state's appropriation limit
 - Not excludable – state sales tax, state income tax, vehicle license tax, liquor license fees, court time payment fees
- Expenditures paid from revenues due to quasi-external interfund transactions

Part II – Allowable Exclusions

- Expenditures paid from amounts accumulated for purchase of land, and purchase/construction of buildings/improvements, if such accumulation and purpose approved by the voters
- Expenditures paid from HURF revenues in excess of HURF revenues received in FY 1979-80
- Expenditures paid from revenues derived from contracts with other political subdivisions

Part II – Allowable Exclusions

- Expenditures paid from refunds/ reimbursements/other recoveries of expenditures applied against expenditure limit of a prior fiscal year
- Expenditures of any of aforementioned excludable revenue sources expended in fiscal year subsequent to fiscal year when revenue received - carryforwards
- Expenditures for capital improvements subsequently repaid from bond proceeds or other long-term debt obligations

Carryforwards Example 1

	Scenario A	Scenario B	Scenario C
Adjusted Expenditures	\$500,000	\$500,000	\$500,000
Excludable Revenues:			
Interest income	\$50,000	\$50,000	\$50,000
Donations	\$10,000	\$10,000	\$10,000
Nonexcludable Revenues	\$100,000	\$100,000	\$100,000
Ending Fund Balance	\$80,000	\$80,000	\$80,000
Part II – Exclusions:			
Debt service requirements	\$450,000	\$450,000	\$450,000
Exp. from interest income	\$50,000	\$40,000	\$0
Exp. from donations	\$0	\$10,000	\$0
Total exclusions	\$500,000	\$500,000	\$450,000
Carryforward Balance:			
Interest income	\$0	\$10,000	\$10,000
Donations	\$10,000	\$0	\$50,000

Carryforwards Example 2

	Scenario A	Scenario B	Scenario C
Adjusted Expenditures	\$500,000	\$500,000	\$500,000
Excludable Revenues:			
Interest income	\$50,000	\$50,000	\$50,000
Donations	\$10,000	\$10,000	\$10,000
Nonexcludable Revenues	\$100,000	\$100,000	\$100,000
Ending Fund Balance	\$0	\$0	\$0
Part II – Exclusions:			
Debt service requirements	\$450,000	\$450,000	\$450,000
Exp. from interest income	\$50,000	\$40,000	\$0
Exp. from donations	\$0	\$10,000	\$0
Total exclusions	\$500,000	\$500,000	\$450,000
Carryforward Balance:			
Interest income	\$0	\$0	\$0
Donations	\$0	\$0	\$0

Other Expenditure Limit Options

- Alternative options
 - Alternative Expenditure Limitation (Home Rule Option) – cities/towns
 - Permanent Base Adjustment
 - Capital Projects Accumulation Fund
 - One-Time Override
 - Emergency Override
- All, except governor-declared emergencies, require voter approval
 - Cannot use entity resources, including monies, personnel, equipment, materials, buildings or other things of value to influence outcome of any election
 - Employees cannot use authority of their position to influence the vote or political activities of a subordinate

Home Rule – Cities/Towns

- Arizona Constitution, Article IX, §20(g)
- Voter approval required
- Home Rule option free from any ties to the state-imposed expenditure limitation
- Annual adopted budget becomes alternative expenditure limitation
- May use any exclusions specifically identified in voter-approved Home Rule proposal
- When adopted, remains in effect for four years

Permanent Base Adjustment (PBA)

- Arizona Constitution, Article IX, §20(6)
- Permanently adjust base limit with voter approval
- Applies to all future years
- Voters may adopt additional adjustments
- Constitutionally allowable exclusions apply

Capital Projects Accumulation Fund

- Arizona Constitution, Article IX, §20(3)(d)(viii)
- Voter approval required for both accumulation and purpose
- Becomes an exclusion

One-Time Override

- Arizona Constitution, Article IX, §20(2)(c)
- Exceed expenditure limitation with voter approval
- Not alternative expenditure limitation for one year
- Exceed by specific amount in fiscal year after election

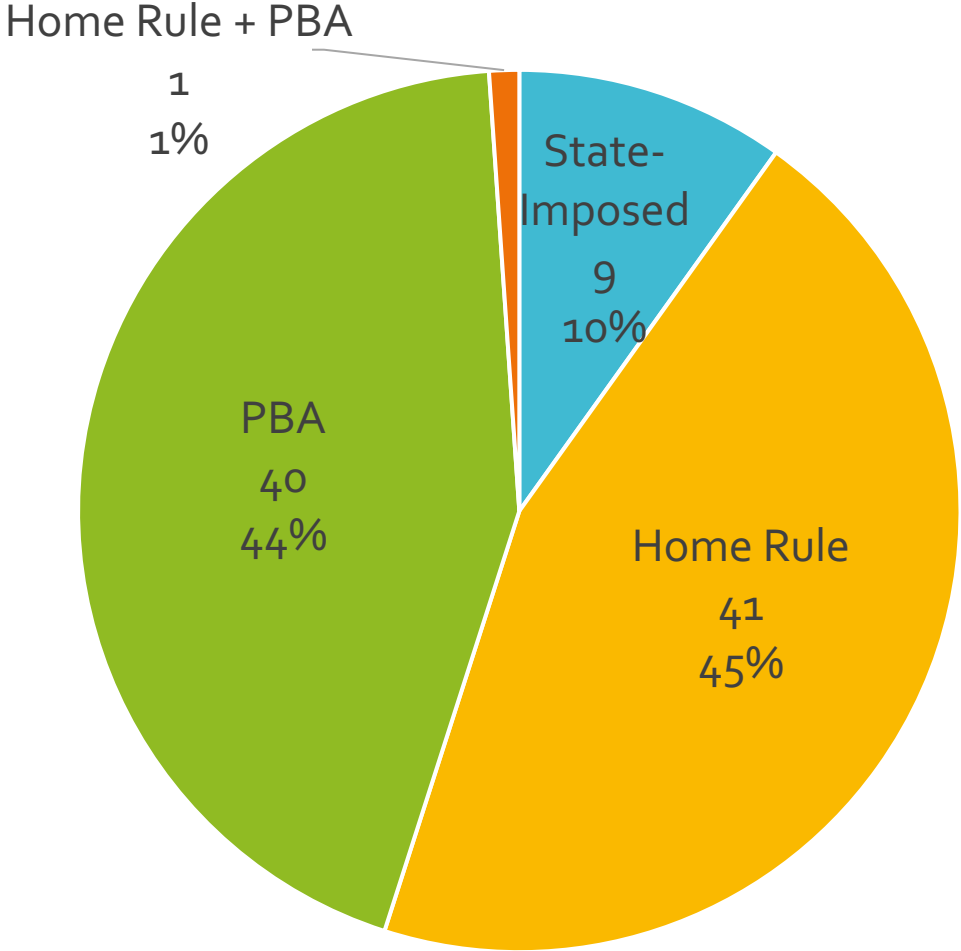
Emergency Override

- Governor-declared man-made/natural disaster can exceed limit by amount necessitated by disaster with 2/3 vote of local governing body
- Natural/man-made disaster not declared by governor needs 70% vote of local governing body to exceed limit by amount necessitated by disaster
 - If do not want to reduce budget the year following disaster by amount of money expended on disaster, must seek voter approval for authorization to expend the funds after the fact
 - If do not present issue of emergency override to the voters or if the voters do not approve override, must reduce budget in fiscal year following disaster by amount of excess funds expended due to disaster

Combining Home Rule and PBA

- A city/town under Home Rule may adopt a PBA
- EEC will use adjusted base limit to calculate expenditure limit for the year following PBA approval
- Still subject to Home Rule if Home Rule authority not expired
- A city/town that has adjusted base limit may adopt Home Rule
 - The PBA does not affect Home Rule process
 - If voters do not approve Home Rule, constitutional expenditure limitation applies
 - May not submit new Home Rule proposal to the voters for at least two years
 - However, may submit to the voters a PBA or one-time override

Options Selected by Cities/Towns



Quick Reference Guide

Expenditure Limitation Options Quick Reference Guide



EXPENDITURE LIMITATION OPTIONS*

STATE-IMPOSED LIMIT

Adjusted annually for:

- Changes in population (increases or decreases)
- Inflation
- Annexations
- Voter-approved permanent base adjustments

ALTERNATIVE LIMIT (HOME RULE OPTION)

- Voter approval required
- Free from any ties to the state-imposed expenditure limitation
- Annual adopted budget is limit
- Exclusions only apply if specifically identified in voter-approved Home Rule proposal
- In effect for four years
- If not approved by the voters, may not submit new Home Rule proposal for at least two years

PERMANENT BASE ADJUSTMENT (PBA)

- Voter approval required
- Allows city/town to permanently adjust its base limit
- Applies to all future years
- Voters may adopt additional PBAs
- Constitutionally allowable exclusions apply

* Can adopt both Home Rule and PBA – will be subject to Home Rule if Home Rule authority has not expired

CAPITAL PROJECTS ACCUMULATION FUND

- Voter approval required
- Becomes an exclusion (see #2h of Constitutionally Allowable Exclusions below)

ONE-TIME OVERRIDE

- Voter approval required
- Allows city/town to exceed its constitutional expenditure limitation by specific amount in fiscal year after election

EMERGENCY OVERRIDE – GOVERNOR DECLARED

Can exceed expenditure limitation by amount necessitated by disaster if two-thirds of city/town council vote in favor of excess

EMERGENCY OVERRIDE – LOCAL GOVERNING BOARD DECLARED

Needs affirmative vote of 70% city/town council to exceed expenditure limitation by amount necessitated by disaster

Options:

- Reduce budget in fiscal year following disaster by amount of excess funds expended due to disaster, or
- Seek voter approval for authorization to expend the funds after the fact

CONSTITUTIONALLY ALLOWABLE EXCLUSIONS

- 1) Debt repayment expenditures
- 2) Expenditures paid from:
 - a) Debt proceeds
 - b) Dividends, interest, and gains on sale or redemption of investment securities
 - c) Amounts received in capacity as trustee, custodian, or agent
 - d) Grants and aid from federal government
 - e) Grants, aid, contributions, or gifts from private agency, organization, or individual, except amounts received in lieu of taxes
 - f) Amounts received from state included in state's appropriation limit
 - g) Revenues due to quasi-external interfund transactions
- 3) Expenditures for capital improvements subsequently repaid from bond proceeds or other long-term debt obligations
 - h) Amounts accumulated for purchase of land, and purchase or construction of buildings or improvements, if such accumulation and purpose have been approved by the voters
 - i) Highway User Revenue Fund (HURF) revenues in excess of HURF revenues received in FY 1979-80
 - j) Revenues derived from contracts with other political subdivisions
 - k) Refunds, reimbursements, and other recoveries of expenditures applied against expenditure limit of a prior fiscal year
 - l) Any excludable revenue sources expended in fiscal year subsequent to fiscal year when revenue received

AELR – Part I

<u>1.</u> Economic Estimates Commission expenditure limitation	\$ _____	
<u>2.</u> Voter-approved alternative expenditure limitation (approved _____)	_____	
<u>3.</u> Enter applicable amount from line 1 or line 2		\$ _____
<u>4.</u> Amount subject to the expenditure limitation (total amount from Part II, line C)	\$ _____ -	
<u>5.</u> Board-authorized expenditures necessitated by a disaster the Governor declared	- _____	
<u>6.</u> Board-authorized expenditures necessitated by a disaster the Governor did not declare	- _____	
<u>7.</u> Prior-year, voter-approved expenditures to exceed the expenditure limitation for the reporting fiscal year	- _____	
<u>8.</u> Subtotal		\$ _____ -
<u>9.</u> Board-authorized excess expenditures for the previous fiscal year necessitated by a disaster the Governor did not declare and the voters did not approve	+ _____	
<u>10.</u> Total adjusted amount subject to the expenditure limitation		\$ _____ -
<u>11.</u> Amount under (in excess of) the expenditure limitation		\$ _____ -

*If excess expenditures are reported, provide an explanation here.
Delete all line item descriptions not used.*

I hereby certify, to the best of my knowledge and belief, that the information contained in this report is accurate and in accordance with the requirements of the Uniform Expenditure Reporting System.

Signature of chief fiscal officer: _____

Name and title: _____

Telephone number: _____

Date: _____

CFO Designation

Notice of Chief Fiscal Officer Designated to Officially Submit the Expenditure Limitation Report

For the year ending June 30,

As required by Arizona Revised Statutes §41-1279.07(E), annually by July 31 each county, city, town, and community college district must provide the Auditor General the name of the chief fiscal officer (CFO) the governing body designates to officially submit the current fiscal year's Annual Expenditure Limitation Report (AELR) on behalf of the governing body and certify to the accuracy of the report.

Political subdivision

Designated CFO's name

Title

Phone num...

Email address

Date governing body designated the ...

The governing body-approved and signed resolution naming the designated CFO must be attached or this form will not be accepted.

[CCD Template](#)

[City-Town Template](#)

[County Template](#)

Attachment(s):

The attached resolution must agree to our resolution template or this form will not be accepted.

Click or drop files here to upload.

Political subdivisions must submit an updated form and resolution for any changes in individuals designated to officially submit the AELR.

I'm not a robot



Print Form

Submit button will appear once verification is complete.

Resources

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- asd@azauditor.gov
- 602-977-2796

Thank you for
your time!

- Cherie R. White, CPA, CGFM
 - cwhite@sedonaaz.gov
 - 928-203-5193