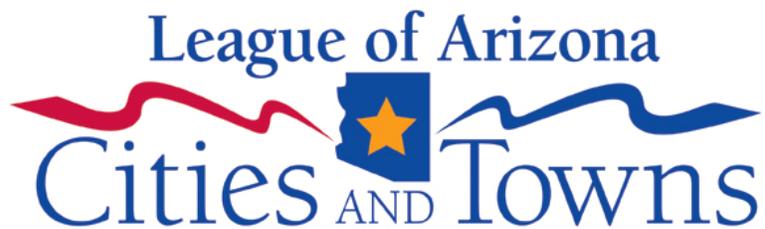


municipal budget & finance manual



**MUNICIPAL
BUDGET AND FINANCE
MANUAL**

Prepared by



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(Annual Updates Included)

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FOREWORD

The unique nature and complexity of Arizona's State budget law for cities and towns first prompted the publication of a Budget Manual by the League in 1963. Since that time there have been several updates to the original publication. The spending and property tax limitations passed by the Legislature and by the people through a constitutional amendment in 1980 led to the publication of the last edition. Since that time the publication has been updated to reflect the authorization of the local transportation assistance fund, amendments to the uniform expenditure reporting system, and amendments to other budget and finance related areas. In order to simplify future updates of this manual, we have published this new edition on our computer system. The text has been updated to reflect minor changes in the law.

We hope this publication will be a useful document for elected officials and staff members concerned with the municipal budgetary process. Any comments, criticisms or suggestions on the publication will be appreciated.

Ken Strobeck
Executive Director

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INTRODUCTION

Municipal finance and the municipal budgetary process are, of necessity, central concerns for every city and town official. The mayor and council, as well as administrators, must have a basic understanding of these subject areas in order to govern and manage effectively and in compliance with State law.

A city or town budget should be more than a simple accounting mechanism. It is actually a policy statement outlining priorities for expenditure, needs of the citizens, proposed capital improvements, problem areas within the municipality, programs which will be initiated or abandoned and most importantly, the basic level of public services which the citizens will receive from their government.

The budget can and does express all of the above characteristics of a city or town, but in Arizona the State constitution and State law govern, to a large degree, the contents of the municipal budget and the methods for financing city operations.

This publication is designed to provide a basic outline of the budgetary process and general finance information for Arizona cities and towns. The manual is divided into three main areas covering the topics of Budget Preparation, State Budget Law Requirements and Financial Management. The manual also contains an appendix with a number of documents helpful to the financial management of a city or town.

CHAPTER ONE

BUDGET PREPARATION

The first section of this chapter will list and explain the main revenue sources available to city and town governments in Arizona. Secondly, the chapter will provide some suggestions about the preliminary groundwork necessary to prepare a municipal budget.

REVENUE SOURCES

There are a variety of funding sources available to units of local government. This section is divided into the revenue sources available from the Federal and State governments as well as the revenues, which can be raised by the local government itself.

State Shared Revenues

Cities and towns in Arizona are fortunate to be involved in a fairly progressive State shared revenue program which passes through funds to Arizona municipalities from five State revenue sources. As a rule, municipalities in other States do not receive as great a share of State revenues. The following are sources of State shared revenue.

State Transaction Privilege Tax (Sales Tax). The current rate of the State sales tax is five and six-tenths percent (5.6%). Cities and towns share in a portion of the collection total. A municipality receives its share of the State shared sales tax based on the relation of its population to the total population of all incorporated cities and towns in the State according to the decennial census.¹ This money may be expended for any municipal public purpose; outside of this stipulation, there is no restriction on the expenditure of these revenues. The State sales tax revenues are distributed on a monthly basis.

State Income Tax. A 1972 citizen's initiative gave the cities and towns a percentage share of the state income tax. This source of money is officially called urban revenue sharing. The percentage has fluctuated in the past but returned to 15% in FY2004-2005, the percentage established by the original initiative. This money is distributed to a city or town based on its population in relation to the total population of all incorporated cities and towns according to the decennial census.² The annual amount of urban revenue sharing money distributed is based on income tax collections from two years prior to the fiscal year in which the city or town receives these funds. There is no restriction on the expenditure of urban revenue sharing funds, except that they must be expended for a municipal public purpose. Revenues from this source are distributed on a monthly basis.

Highway User Revenues. This revenue source is commonly referred to as the gasoline tax; however, there are a number of additional transportation related fees including a portion of vehicle license taxes which are placed in the highway user revenue fund. Cities and towns receive 27.5 % of the highway user revenues.³ One-half of the monies which a city or town receives under this formula is distributed on the basis of the municipality's population in relation to the population of all incorporated cities and towns in the State according to the decennial census.⁴ The remaining half of the highway user revenue monies is allocated on the basis of "county of origin" of gasoline sales and the relation of a municipality's population to the population of all incorporated cities and towns in the county. (The "county of origin" factor used in the formula is determined on the basis of the gasoline and other fuel sales in a county in relation to the

¹ A.R.S. § 42-5029 D (1), § 42-5033 and § 42-5033.01

² A.R.S. § 43-206, § 42-5033 and § 42-5033.01

³ A.R.S. § 28-6538 A (3)

⁴ A.R.S. § 28-6532, § 28-6540 and § 42-5033.01

sale of gasoline and other fuels in other counties in the State). The intent of the distribution formula is to spread a portion of the money across the State solely on the basis of population while the remaining money flows to those areas with the highest gasoline and other fuel sales. 3% of the State portion of this fund is directed to cities with a population of over 300,000.⁵ Also, 7.67% of the State portion is allocated to certain projects in Maricopa and Pima Counties.⁶ These monies are distributed on a monthly basis.

There is a State constitutional restriction on the use of the highway user revenues, which requires that these funds be used solely for street and highway purposes. Eligible expenditures would include the cost of right-of-way acquisition, construction, reconstruction, maintenance, repair, roadside development of city and town roads, streets and bridges and payment of the interest and principal on highway and street bonds.

It is the opinion of the League General Counsel that the use of these funds for street and highway purposes would include any construction or reconstruction occurring in the entire area defined as the public right-of-way.⁷ This would include specific activities such as the paving of streets, construction of sidewalks, curbs, gutters, street lighting and placement of traffic signs. In 1999 a new law was passed that specifically prohibits the use of highway user revenues for the enforcement of traffic laws or the administration of traffic safety programs.

At the same time a provision was added that gives the Auditor General the authority, if requested by the joint legislative audit committee, to conduct performance audits of a city, town or county receiving highway user revenue fund monies to determine if the monies are being spent according to the constitutional and statutory provisions explained above.

There is a statutory requirement on the expenditure of highway user revenue by cities with a population over 30,000 in Maricopa and Pima Counties. The affected cities are required to maintain expenditures of local revenue for streets at a level to be computed as an average of local funds expended for any four of the fiscal years 1981-1982 through 1985-1986.⁸ This average expenditure of local revenues does not include distributions from the highway user revenue fund and the local transportation assistance fund. For the purposes of this calculation, the term "local revenues" is defined by reference to the definition contained in the Constitution for the expenditure limit on cities and towns.⁹ Thus, for example, bond funds expended for streets would not be included, while general fund expenditures would be included.

For those cities affected, your chief financial officer must certify that you have met the local effort requirement. A copy of your chief financial officer's certification must be sent to the Chief Financial Officer of the State Department of Transportation at 206 S. 17th Avenue, Mail Drop 200B, Phoenix, AZ 85007 and filed before December 31, following the completion of each fiscal year. Failure to file will be considered noncompliance.

The penalty for noncompliance with this requirement will be computed by subtracting the amount a city received in 1969-70 from the city's annual HURF distribution for the year of the violation. The resulting difference is the total amount to be deducted from future distributions. The penalty is applied to the monthly distributions for the fiscal year following the violation. A reduction of 1/12 of the penalty is applied to each of the city's monthly distributions.

Some jurisdictions have experienced serious fluctuations in HURF distributions. These happen for various reasons; many times they are due to amended reports filed by gasoline distributors. The Arizona Department of Transportation (ADOT), as the collection and distribution agency, has the authority to adjust distributions as amended reports are filed. However, they can only take up to 25 percent of a jurisdiction's normal monthly allocation in a given month to make up the adjustment. For further

⁵ A.R.S. § 28-6538 A (4)

⁶ A.R.S. § 28-6538 B (1)(2)

⁷ General Counsel Opinion 4-20-1987

⁸ A.R.S. § 28-6543

⁹ Article IX, Section 20, Arizona State Constitution

information contact **Robert Carlisle, Revenue Accounting Manager, Department of Transportation, Motor Vehicle Division, 1801 W. Jefferson St., Mail Drop 519M, Phoenix, AZ 85007. Phone: 602.712.8975. Fax: 602.712.3230. E-mail: rcarlisle@dot.state.az.us.**

Local Transportation Assistance Fund. This source of State shared revenue is the State lottery. Distribution of the fund is based on population, with all cities and towns receiving at least \$10,000. A minimum total distribution is guaranteed to cities and towns in the amount of \$20.5 million for each fiscal year. This minimum distribution was established as a guaranteed appropriation from the State general fund. In addition, a maximum distribution of \$23 million will be distributed to cities and towns if this amount is generated by the lottery. Eligible expenditures of these funds would include street and highway projects for any construction or reconstruction in the public right-of-way as well as transit programs such as the purchase of buses. These funds however could not be used for the purchase of police cars and other law enforcement equipment. Communities with a population of more than 300,000 must use this revenue for public transportation (mass transit) purposes, except for 10% which may be used as specified below.

If the fund does reach the \$23 million amount, then 10% of the local transportation assistance fund monies received by each community may be used for cultural, educational, historical, recreational or scientific facilities or programs. This portion of the lottery monies may also be used for programs or services for non-residential outpatients who are developmentally disabled. However, before this percentage may be spent, an equal match must be obtained from non-public monies.

The Attorney General has issued an opinion, which states that these 10% monies may be spent in subsequent years if you authorize the expenditure in the year the monies are received.¹⁰ Of course, distributions from the fund must reach \$23 million and you must obtain a non-public match. Also, in regard to the non-public match, the Attorney General states in the opinion that the match may not be in-kind. The match must be made in cash.

It is no longer necessary for cities and towns to apply each year to the Arizona Department of Transportation in order to receive local transportation assistance fund monies. The State Treasurer's office distributes the city and town share of these monies as they receive them.

Secondary LTAF (LTAF II) has been established that is eligible to receive revenue from the Powerball lottery. After the state lottery director determines that deposits to the state general fund from multistate lottery game (Powerball) revenues have reached \$21 million, a maximum of \$18 million is to be paid to the secondary LTAF from this source. **In the 2006 legislative session, the threshold going to the state general fund was increased to \$37 million.**¹¹

The monies in this secondary LTAF are distributed differently than the original LTAF. From this fund ADOT will award grants to cities, towns and counties according to the following matching requirements: Maricopa County, Pima County and cities with a population of 50,000 or more persons must provide a one to one match; for the other 13 counties and cities and towns with a population of less than 50,000 persons - a one to four match must be provided. All monies awarded from the secondary LTAF can only be used for public transit services, including operating and capital purposes except for cities or towns that receive less than \$2,500, which can use it for any transportation purpose. Contact your local Council of Governments (COG) for more information regarding this fund.

Vehicle License Tax. Approximately twenty percent of the revenues collected for the licensing of motor vehicles are distributed to incorporated cities and towns. (Thirty-eight percent of the total revenues from this source are distributed to the highway user revenue fund and four percent to the state highway fund.) A city or town receives its share of the vehicle license tax collections based on its population in relation to the total incorporated population of the county. These monies are distributed on a monthly basis. The only stipulation on the use of this revenue is that it must be expended for a public purpose.

¹⁰ Attorney General Opinion R83-116

¹¹ Chapter 351, 2006 Legislative Session

Population Reporting for State Shared Revenue Purposes (Annexations)

The census bureau has restarted its program of geographically updated population certification. The program will involve a fee and an application process. The application and detailed information is available at the following website: www.census.gov/mso/www/certification/. These procedures affect the updating of populations for distribution of all types of State shared revenue except for LTAF which is explained below.

Mid-Decade Populations

2003 legislative changes make it possible to use an alternative population for distribution of most types of state shared revenues.¹² There are three alternative options available. Jurisdictions can have a full mid-decade census, a census survey or use the estimate discussed below that is produced by the Department of Economic Security (POPTAC).

The LTAF distribution uses a different population number. Instead of the U.S. Census Bureau number, an annually adjusted Department of Economic Security population estimate is used. These estimates are available at www.workforce.az.gov. A city or town needs to make sure that the Council of Governments, which represents the cities and towns in their region on the population estimates committee, is fully aware of the annexation and gets it reflected in the population for both the LTAF monies and expenditure limitation purposes. Since the calculation of LTAF money is done annually, the additional amount to reflect the annexation would not begin to be distributed until the first full fiscal year following annexation.

Federal Revenues

The Federal government has curtailed a number of programs, which had revenues available for cities and towns. The amount of Federal assistance, type of programs and the projects for which the money can be expended from other sources are constantly changing. Summarized below are the two general categories of Federal revenue sources which remain.

Block Grant Programs. A block grant program, in theory, is designed to fund various Federal programs within a broadly defined area. An example of a block grant program is the Community Development Block Grant program (CDBG). This particular block grant program is designed to fund a variety of housing, public works and physical construction projects.

A portion of the CDBG program is directed to smaller cities and towns. Under this portion of the program, the State allocates community development monies to cities and towns with populations of less than 50,000 persons. This is not an entitlement program, cities and towns must apply to receive these grants. In most areas, the council of governments receives the applications and determines the allocation from this program.

Categorical Grants. Categorical grants are special Federal appropriations of money to fund specific projects of a definite limitation and scope. For example, a Federal grant to fund the construction of a wastewater treatment facility would be a categorical grant, since the construction of this facility would have the limited use and scope of "wastewater treatment." Categorical grants are usually awarded within a strict framework of Federal guidelines governing this single purpose program. Cities and towns must meet specific guideline requirements to receive Federal money. Securing a Federal categorical grant also involves competition between various levels of government. At one point in time, categorical grants were more prevalent; however, this source of funding has become very limited in recent years.

¹² A.R.S. § 42-5033.01

Local Revenue Sources

Arizona's cities and towns under State law have the authority to establish certain taxes for revenue purposes. In addition to this power of taxation, there are a number of other fees and finance mechanisms available to cities and towns to support local service programs.

Property Tax. The property tax has been a traditional means of financing city and town services. While the importance of the property tax has been decreasing in recent years due to the increased revenues from sales taxes, it still is an important source of local revenue for many of Arizona cities and towns. The property tax has also been one of the most stable sources of revenue, because it is not subject to the same fluctuations sometimes experienced with excise taxes.

Beginning with the 1980 tax year, property tax levies were divided into a primary property tax levy and a secondary property tax levy. A secondary property tax may only be levied to pay the principal and interest charges on bonds. The primary property tax levy is for all other purposes. There are no limits on the amount of secondary property taxes, while there are strict limits placed on the primary property tax.¹³ These limitations are discussed in detail in Chapter Two of this manual.

Any city or town which wants to initiate a primary property tax must submit the proposed amount to be raised from the tax to the voters at an election to be held on the third Tuesday in May.¹⁴ The amount approved by the voters will constitute the base on which future limitations on levies will be determined. If the voters approve the levy, the city or town council may levy the tax in the fiscal year immediately following the election. The city or town, however, is not required to levy the entire amount approved by the voters in the first year. Caution should be exercised in establishing this base levy because not only will it be used as the base for future limitations but also cities currently have no authority to override the limit once it is established. Procedures for establishing a primary property tax are discussed in greater detail in Chapter Two.

The Property Tax Oversight Commission was formed in 1988 to review the primary property tax levy limitations of each city, town, county and community college district in the State.¹⁵ The county assessor is required to transmit and certify to the Property Tax Oversight Commission and the city or town council the values necessary to calculate the levy limit. Those values are to be transmitted on or before the tenth day of February (These values are to be used in calculating the property tax levy limit and the Truth in Taxation requirements).¹⁶ Each city or town is required to notify the Property Tax Oversight Commission in writing within ten days of its agreement or disagreement with the final levy limit. If a city receives notification of a violation of the levy limit, the city has until October 1 to appeal to the Commission. If the city continues to dispute the findings of the Commission after the hearing, it may appeal the decision to Superior Court within thirty days after the decision.

A city or town that incorporates or annexes land must give proper notice before levying a property tax in the next fiscal year. State law requires that notice must be given to the Department of Revenue and the appropriate county assessor. A map showing the boundaries of the newly incorporated or annexed area should be included along with the report. This notice must be given by November 1 of the year prior to the fiscal year when the tax will be levied.¹⁷

Local Transaction Privilege Tax (Sales Tax). In recent years, the local sales tax, as a means of financing municipal services, has been increasing in importance. All incorporated cities and towns presently have a local sales tax. As the name implies, this is a tax on retail sales and other activities such as contracting. The statewide average local sales tax rate is two and one-quarter percent (2.25%). Rates range from one percent to three and one-half percent. The State law authority for a local sales tax is contained in state statutes.¹⁸ A city or town may establish a local sales tax through adoption of an ordinance. The initiation of this tax does not have to be submitted to a vote of the people in the community. However, there are a number of charter cities with charter provisions requiring voter

¹³ Article IX, Section 19, subsection 1, Arizona State Constitution

¹⁴ A.R.S. § 42-17056

¹⁵ A.R.S. § 42-17002

¹⁶ A.R.S. § 42-17052

¹⁷ A.R.S. § 42-17257

¹⁸ A.R.S. § 9-240 (B)(18)

approval to increase the sales tax above a specified limit. Cities and towns adopting a local sales tax may join the sales tax collection system administered by the State by entering into an intergovernmental agreement with the Department of Revenue. Under the system, the local sales tax is collected by the State Department of Revenue at the same time the State sales tax is collected. The local sales tax collections are then returned to the city or town. Approximately eighty-seven percent of the municipalities are in the State collection system.

All of the cities and towns in the state that impose a local sales tax have adopted the model city tax code with various options. In order to keep taxpayers up to date on what a particular city either taxes or exempts, we have prepared a document which consists of a master version of the model city tax code with both model options and local options displayed within the code, a chart displaying which options each particular city or town has chosen and a section showing other specific information pertaining to each city and town. This document is available on a subscription basis from the League office; the charge on July 1, 2006 was \$30 (plus shipping) for the first year and \$25/year for quarterly updates after the first year. The model city tax code is also available on the internet at www.modelcitytaxcode.org.

The Municipal Tax Code Commission was created by the State Legislature during the 1988 legislative session to act as a forum for discussion of all changes to the model city tax code.¹⁹ All changes to the model city tax code must be submitted to the commission at least 60 days prior to any city taking action to change their code. The commission can hold hearings and **must** approve any changes before any city/town may make changes to its code and any changes approved by the commission **must** be adopted by each city/town council.²⁰ Changes in sales tax rates or adoption of model city tax code local or model options do not have to be reviewed, but such changes must be filed with the commission within ten days after council action. All correspondence with the commission should be sent to: Cities Program Liaison, Arizona Department of Revenue, 1600 West Monroe, Phoenix, Arizona 85007.

A Guide for Amending Your Tax Code has been prepared and appears in the appendix as [Exhibit K](#).

Use Tax. Another revenue source which is being used more in recent years is the use tax. Essentially, a use tax is an excise tax on the use or consumption of tangible personal property that is purchased without payment of a municipal tax to any city or town. In other words, it is a mechanism for taxing property which cannot be taxed using a local sales tax since the purchase was made outside the boundaries of the municipality where the personal property is used. The use tax, if enacted, is part of the model tax code discussed above.

Bed Tax. Most cities and towns have adopted a bed tax in addition to their local sales tax. A bed tax is a special excise tax on hotel and motel room rentals. Increases in the bed tax rate by cities which had a population of more than 100,000 by the most recent decennial census are governed by state statute which specifies how the proceeds from such increases must be used.²¹ The imposition of this tax in most cities and towns comes under the model city tax code discussed above.

Business License Tax. The general law authority for a city or town to initiate a local sales tax is the same authority which allows a municipality to place a license tax on professions, occupations or businesses within the community. The State law stipulates that a business license tax can only be issued for the period of one year and may not be less than ten dollars nor more than five thousand dollars.²² However, charter cities are not necessarily subject to this stipulation. Most cities and towns in Arizona have a business license tax structure of some type. There have been, traditionally, two means of levying these taxes on local businesses - a flat rate charge on a quarterly or annual basis or a flat rate charge based on the gross proceeds of sales. While most cities and towns have this type of tax, it has not been an important source of revenue. The tax has been used primarily as a means of regulating businesses within the community.

A city or town which had a population in excess of 100,000 by the most recent decennial census cannot increase business license taxes or fees on "hospitality industry businesses" without a corresponding equal dollar increase in the business license tax or fees imposed on all other businesses in the city or town.

¹⁹ A.R.S. § 42-6052

²⁰ A.R.S. § 42-6053

²¹ A.R.S. § 9-500.06

²² A.R.S. § 9-240 (B)(19)

“Hospitality industry businesses” means a restaurant, bar, hotel, motel, liquor store, grocery store, convenience store or recreational vehicle park. This definition was amended to include rental car companies located within a county stadium district which has imposed a car rental surcharge.²³

Franchise Tax. Cities and towns in Arizona are given exclusive control over all rights-of-way dedicated to the municipality. This exclusive control enables the municipality to grant franchise agreements to utilities using the city or town's streets in the distribution of utility services. As an example, many cities and towns in Arizona have granted franchises to natural gas companies to place gas lines underground within the public right-of-way. In conjunction with this franchise, a franchise tax can be charged by the municipality. While there is no specific amount or limitation in State law, the traditional amount for a franchise tax has been two percent of the gross proceeds from the sale of utility services within the city or town. To grant a franchise, the municipality must place the question before the voters of the community for approval. State law also limits the term of a franchise agreement to a maximum of twenty-five years.

Magistrate Court Fines. Another revenue source for Arizona cities and towns is the money from fines paid to the municipal magistrate court. Specifically, this revenue would come from traffic violations and other fines paid for the violation of municipal ordinances. The courts, counties, cities and towns have the authority to contract with the Motor Vehicle Division to require payment of traffic fines, sanctions and penalties that total in excess of \$200 prior to the renewal of automobile registrations.

User Fees. User fees are collected from municipal residents for the use of certain city and town facilities or services. Examples of user fees would include the amounts charged to use lighting in city or town parks or fees charged for the use of the sewer system. NOTE: Cities and towns considering a rate increase for water and sewer service are required to prepare a written report or supply data supporting the rate increase, to give at least 30 days notice of a rate increase and hold a public hearing on the proposal. A copy of the written report or data must be available to the public and must be filed in the clerk's office at least 30 days before the public hearing. Also, a copy of the notice of intention must be published one time in a newspaper of general circulation within the city or town at least 20 days before the public hearing date. A rate increase may be adopted by ordinance or resolution and becomes effective thirty days after adoption.²⁴ **Beginning in September 2006, there is a vague new requirement that all rates and charges for water and wastewater service shall be “just and reasonable.”**²⁵ **Because “just and reasonable” are not defined in the statute it is difficult to say what this new statute requires.**

Permit Fees. Revenues from this source include the fees collected from building permits, zoning permits and a variety of other programs.

Development (Impact) Fees. Cities and towns have the authority to impose fees that provide a direct benefit to the newly developed area such as infrastructure, improvements, real property, engineering and architectural services, financing, other capital costs, equipment, vehicles, furnishings and other personal property. There are specific requirements behind the development of these fees and special attention should be paid to state statute.²⁶ Each city and town imposing impact fees must develop an annual report to account for the collection and use of development fees. The report is due within 90 days of the end of each fiscal year and is required to be maintained in the clerk's office. Copies of the report are required to be made available to the public upon request. The law allows the report to contain financial information that has not been audited.

In 2007, significant legislation passed amending the development fee statutes. The new legislation requires that an Infrastructure Improvement Plan (IIP) be adopted before assessment of a new or modified fee. An IIP is one or more written plans that individually or collectively identify each public service that is proposed to be the subject of a development fee and otherwise complies with the requirements of this section, and may be the municipality's capital improvements plan.

²³ A.R.S. § 48-4234 & § 9-500.06

²⁴ A.R.S. § 9-511.01

²⁵ A.R.S. § 9-511.01

²⁶ A.R.S. § 9-463.05

The IIP must estimate:

- Any items for which development fees will be required
- The costs of those improvements
- The time required to finance and provide the service

Before impact fees may be adopted or amended, a city or town must develop an initial impact fee report that: identifies the methodology for calculating the amount of the fee, explains the relationship between the fee and the IIP, includes documentation that supports the assessment of a new or modified fee, and any index or indices to be used for automatic adjustment and the timing of those adjustments. However, the legislation also allows a city or town to automatically adjust a development fee on an annual basis without a public hearing if the adjustment is based on a nationally recognized index applicable to the cost of the service and the adjustment mechanism is identified in the Report.

The legislation also makes significant changes to the timeline establishing or amending impact fees. A graphical representation of this timeline is located in appendix as [Exhibit M](#).

There are six specific areas that the Development (Impact) Fee report is required to address:

1. The amount of each type of development fee assessed by a city or town.
2. The balance of each fund, at the beginning and end of the fiscal year, maintained for each type of development fee.
3. The amount of interest or other earnings on monies in each fund as of the end of the fiscal year.
4. The amount of development fees used to repay either (a) bonds issued by the municipality to pay the cost of a capital improvement project for which the development fee was assessed or (b) monies advanced by the city or town from funds other than development fee funds to pay for a capital improvement project for which a development fee was assessed.
5. The amount of development fees spent on each capital improvement project for which a development fee was assessed and the physical location of each capital improvement project.
6. The amount of development fees spent for each purpose other than a capital improvement project for which a development fee was assessed.

Failing to comply with these reporting requirements will prohibit the municipality from collecting development fees until the report is filed. The reporting requirements become effective on August 12, 2005. The first development fee report is due on September 28, 2005 and will cover development fees assessed in FY 2004-2005.

Government Property Lease Excise Tax. The State Legislature passed a law during the 1996 legislative session which establishes an excise tax as the successor to the tax on possessory interests which was repealed in 1995.²⁷ The law imposes a tax on buildings which are owned by a city or town, leased by a private party and occupied and used for commercial, residential rental or industrial purposes. There are a number of exemptions including property used for airports, public housing, utility easements, convention and recreational facilities. It requires that a city or town collect this tax on a per square foot basis with different rates for different uses, act as the collection agent for the tax and distribute the revenues to the county, school district and community college district in which the property is located. However, the city or town is allowed to abate the tax for a period of eight years, from the date that the certificate of occupancy was issued, for both existing and new projects within redevelopment areas that are part of a single central business district.

²⁷ A.R.S. § 42-6202

Therefore, a city or town must collect the tax and distribute it if the following conditions exist:

- The building is owned of record by the city or town.
- The building is leased in whole or part by a private party.
- The leased space is occupied for commercial, residential rental or industrial purposes.
- The duration of the lease is at least thirty days.
- The age of the building is less than fifty years.
- The abatement provisions in the law do not apply.
- The exemption provisions in the law do not apply.

Bonding

While bonding is definitely a source of revenue for Arizona cities and towns, this finance mechanism differs from the above mentioned revenues because once bonds are issued and revenue secured, a commitment is required from the municipality to repay the debt on the bonds. Revenues generated from bond sales must be spent only for the purposes specified in the call for the bond election. Also, after satisfying the purposes of a bond issue, unexpended monies can only be used to retire the bonded indebtedness. There are a number of different types of bonds that are discussed below.

General Obligation Bonds. General obligation bonds are perhaps the most common method used to raise revenues for large scale municipal projects. The bonds are referred to as general obligation or full faith and credit bonds because they are guaranteed by the full taxing power of the city or town. These bonds are usually retired from secondary property tax funds. The amount of indebtedness which a city or town can incur through the issuance of general obligation bonds is limited in the State constitution. The constitution states that for general municipal purposes a municipality cannot incur a debt exceeding six percent of the assessed valuation of taxable property in the city or town. Additional bonds amounting to twenty percent of the assessed valuation of taxable property can be issued for supplying such specific city and town services as water, artificial light, sewers, and for the acquisition and development of land for open space preserves, parks, playgrounds and recreational facilities. **In November 2006, the voters elected to allow projects concerning public safety, law enforcement, fire and emergency service facilities and streets and transportation facilities to be included in this twenty percent category.**²⁸ In other words, a total of twenty-six percent of the assessed valuation can be bonded for these latter projects. Because the full taxing power of a municipality is pledged, general obligation bonds are considered more secure than other bonds. This tends to give them lower interest rates in comparison to other bonds. The issuance of general obligation bonds must be submitted to the voters for approval.

Revenue Bonds. This type of bond is used to finance a revenue producing facility such as a public utility or airport. The bonds are usually secured from revenues produced by the facility for which they were issued. Thus, if these revenues are insufficient to cover the repayment of the bonds, the city or town is not obligated to provide tax funds for repayment. Because these bonds are not secured by taxing authority, they represent a somewhat greater risk for the investor; therefore, revenue bonds usually have a higher interest rate than do general obligation securities. Revenue bonds may be issued for such utility undertakings as electric light or power, water, sewer, gas, common carrier of passengers, garbage or rubbish plant or system, buildings, incinerators, dams and reservoirs, airport buildings or other airport facilities or buildings or structures to provide off-street parking of motor vehicles and such recreational facilities as swimming pools, parks, playgrounds, municipal golf courses and ballparks. Revenue bonds are not subject to the debt limitation in the State constitution; however, they must still be submitted to the voters of the community for approval.

²⁸ Article IX, Section 8, paragraph 1, Arizona State Constitution

Street Improvement Bonds. Arizona cities and towns may also issue bonds for constructing streets and highways within the municipality. To pay the principal and interest on this type of bond, the municipality may use its share of the highway user revenues. There are limitations on the issuance of these bonds for which HURF revenues are pledged for repayment depending on the bond rating. These bonds are not subject to the debt limitation in the State constitution; however, to issue the bonds, the voters first must approve them. Street improvement bonds may also be secured by the full taxing power of a city or town; however, this is not required.

Special Improvement District Bonds. Special improvement district bonds can be issued by a city or town to finance improvements in specific areas of the municipality. The property owners benefiting from the improvements to the area are assessed to cover the cost of retiring the bonds. This type of finance mechanism has been used generally on such projects as paving streets, placement of sidewalks, extension of sewer and water lines and similar projects. State law permits a city or town by resolution to combine two or more municipal improvement district projects. The law also allows the construction of the improvements to be under one contract and allows for one series of improvement bonds.

Non-Profit Corporation. One of the more innovative methods of funding major municipal projects is the use of a non-profit corporation. There are a number of ways which nonprofit corporations can be used to finance a local government project. However, in most instances to date, a non-profit corporation has been formed and bonds issued to complete a revenue producing project. The revenue which is collected from the project is then used to retire the interest and principal on the bonds. When the bonds are retired, the title to the facility is then turned over to the city or town. Citizens of the community do not have to vote on this means of financing nor are the bonds subject to the constitutional debt limitation. Also, the revenues used to retire the bonds for the project will not affect local taxation if the project produces its own revenues.

Bonding Assistance

There are two state agencies that have specific programs that can improve a city or town's ability to use bonding as a revenue source. [The Greater Arizona Development Authority \(GADA\)](#) and the [Water Infrastructure Finance Authority \(WIFA\)](#) have statutory charges to help smaller to medium-sized communities pool their bond issues together to help lower the costs of issuing debt. They also have monies set aside to help secure the debt and allow the bonds to be issued at the lowest interest rate possible. WIFA's charge is specifically with water and wastewater projects. GADA's charge is broader to include public infrastructure projects.

The Department of Transportation (ADOT) has established a loan program called the [Highway Extension and Expansion Loan Program \(HELP\)](#) with at or below market interest rates to accelerate state highway projects. This program utilizes the new federally authorized concept of state infrastructure bank to assist communities in completing needed highway projects. For further information contact Steve Schaefer at ADOT, (602) 712-8036.

The revenues mentioned in this section are the major sources of funding available to Arizona cities and towns. Of course, there are other sources since a municipality can initiate a number of different revenue producing activities.

Bond Election Publicity Pamphlet

Beginning July 1, 2007, any election to authorize bonded indebtedness through the use of secondary property taxes must be held at the November general election. Along with other bond election requirements state law requires the preparation and dissemination to all voters of an informational pamphlet not less than ten days and not more than fifty days prior to a general obligation bond election. It is not clear whether this requirement applies to revenue bond elections. We suggest that you consult your bond attorney on this issue.

The pamphlet must contain information on the:

1. Amount of the bond authorization.
2. Maximum interest rate of the bonds.
3. Estimated debt retirement schedules for the proposed bond authorization and the current amount of bonds outstanding, showing both principal and interest payments and the current adopted tax rates, including the estimated average annual tax rate for the proposed bond authorization. In preparing this information, the projected total increase in secondary assessed valuation for any future year shall not exceed:
 - (A) Five percent if the average of the annual total increases in secondary assessed valuation in the political subdivision for the past five years is at least ten percent.
 - (B) Two and one-half percent if the average of the annual total increases in secondary assessed valuation in the political subdivision for the past five years is less than ten percent.
4. Source of repayment.
5. Estimated issuance costs.
6. **Estimated tax rate impact of debt service on owner-occupied residence and class one commercial property for the current year in the political subdivision, assuming the assessed valuation of the property remains constant over the term of the bonds using the average annual tax rate determined in #3 above. (Any written information provided by the political subdivision pertaining to the bond election shall include financial information showing the estimated average tax rate for the proposed bond authorization). The tax impact shall be shown for an owner-occupied residence with a full cash value of two hundred and fifty thousand dollars or commercial property valued at \$2.5 million.** The tax impact shall show the projected average annual cost of the proposed bond authorization, including principal and interest, over the life of the proposed bond authorization. The information on estimated tax impact shall be set forth in substantially the form found in A.R.S. § 35-454 using a table for each type of property.²⁹
7. In bold-faced type, estimated total cost of the proposed bond authorization, including principal and interest.
8. Current outstanding general obligation debt and constitutional debt limitation.
9. Purpose for which the bonds are to be issued.
10. Polling location for the addressee.
11. Hours during the day when the polls will be open.
12. Arguments for or against the authorization for one or more of the bond propositions.

A copy of the informational pamphlet must be submitted to the Department of Revenue within thirty days after the bond election. The Department of Revenue will maintain copies of the pamphlets. Failure of any one or more electors to receive the informational pamphlet will not be grounds to invalidate the election. Variations between the estimates are required to be in the pamphlet and the actual debt retirement schedule, issuance costs and tax rates will not invalidate the election or the bonds.

It is critical to note that a city or town cannot use its personnel, equipment, materials, buildings or other resources to influence the outcome of any election and city or town employees cannot use the authority of their position to influence the vote or political activities of a subordinate.³⁰

²⁹ A.R.S. § 35-454

³⁰ A.R.S. § 9-500.14

Bonded Indebtedness Report

The Department of Revenue (DOR) requires a yearly bonded indebtedness report which includes information concerning the date of issuance, amount, denomination, rates of interest, maturity, dates of the bonds, certificates of participation or securities and other information the department requires.³¹ Municipal property corporation debt must be reported. State law requires cities and towns to report to DOR, within sixty days of issuance of bonds and securities, a report containing the following information:

1. The par amount of the bonds or securities.
2. The interest rate, by maturity of the bonds or securities.
3. The repayment schedule, showing both principal and interest for the issue.
4. The sources of repayment.
5. The original issue price and any premium or discount, by maturity, for the issue.
6. A detailed listing of all issuance costs, regardless of source of payment, including underwriter's compensation, bond counsel fees, financial advisor fees, verification agent fees, placement agent fees, investment securities brokerage fees, registrar fees, trustee fees, credit enhancement fees, rating agency fees, printing costs, registration fees, transfer and recording fees and any other costs directly or indirectly earned or paid as a result of the issuance of the bonds or securities, as determined by the department.
7. The total amount of parity bonds or securities outstanding, including the issue, at the time of issuance.
8. The total amount of any bonds or securities, senior or subordinate to the issue outstanding at the time of issuance.
9. The amount of any constitutional or statutory limitation on the issuance of bonds or securities of the type issued.
10. The remaining amount of bonds or securities that may be issued within the constitutional and statutory limitations.
11. The amount of any constitutional or statutory voter authorization applicable to the issuance of bonds or securities of the type issued.
12. The remaining amount of bonds or securities that may be issued within the constitutional and statutory authorization.
13. Any other similar or related information the department may determine.

State law defines the "outstanding indebtedness," for the purposes of calculating debt capacity, as the total principal amount of all bonds outstanding at the time of calculation exclusive of any premium or discount.³² It also limits the use of premium associated with original issue and refunding bonds and requires net premium not used to pay the costs of the bond issue to be deposited in a debt service fund and used to pay interest on the bonds.

³¹ A.R.S. § 35-502

³² A.R.S. §35-503

CHAPTER TWO

STATE BUDGET LAW REQUIREMENTS

While the general concept behind the budgetary process in a city or town is relatively simple, there are a number of requirements in Arizona State law which adds a certain amount of complexity to this process. To familiarize local officials with the State budget law, this chapter will cover the topics of funds, the State imposed expenditure limitation, alternatives to the State expenditure limitation, the property tax levy limitation and budget deadlines.

FUNDS

A fund within a municipal budget is a sum of money set aside as a separate and independent fiscal and accounting mechanism. Since a fund is only an accounting mechanism, a separate bank account is not required for each fund. State law requires only two budgetary funds, however, as indicated later in this chapter; additional budgetary funds may be created.

First of all, a city or town must have what is commonly called a “general fund.” The term general fund is only a descriptive name, and there is no specific legal requirement to establish an account by this particular name. A general fund is required by state statute, which stipulates that each city or town “prepare a full and complete statement of the financial affairs of such political subdivision for the preceding fiscal year and an estimate of the different amounts which will be required to meet the public expense of each such political subdivision for the current fiscal year.”³³

The second fund which each city and town in the State of Arizona must establish is the “highway user revenue fund.”³⁴ The monies which go into this fund are collected by the State from the tax on the sale of gasoline, diesel fuels and other transportation related fees. The State then passes a certain amount of this revenue on to cities and towns. As mentioned in Chapter One, the expenditure of highway user revenues is limited to projects within the public right-of-way.³⁵

As indicated in the foregoing paragraphs, a total of two funds are required as a minimum in a city or town budget. This, however, does not restrict a city or town budget to only two funds as optional funds are a common occurrence in Arizona municipal budgets.

There are several national accounting standards which may be used as a guide to fund types you may wish to establish. For example, you may wish to establish a library or utility fund. If bonds are outstanding, certain funds may be required by the bond resolution, and there are also special requirements for improvement districts.

STATE IMPOSED EXPENDITURE LIMITATION

Provisions of the State imposed expenditure limitation appear in both the State Constitution and the Arizona Revised Statutes.³⁶ The constitution sets forth the framework in some detail of the expenditure limit and the remaining details are provided in State law.

³³ A.R.S. § 42-17101

³⁴ A.R.S. § 28-6533

³⁵ General Counsel Opinion 4-20-1987

³⁶ Article IX, Section 20, Arizona State Constitution

The State imposed limitation uses actual payments of local revenues for FY 1979-80 as the base limit. The Economic Estimates Commission has determined this **base limit** for every city and town based on information supplied by each community in 1980. This base consists of those expenditures “controlled” by the State limitation and does not include those revenues specifically exempted from the limitation. The **UERS Manual** clarifies that the expending of development/impact fees are not excludable expenditures and this will be enforced beginning FY 2000-2001.

As a blanket statement, everything not specifically excluded is included under the expenditure limitation. Consequently, only the following items are exempt from the expenditure limit:³⁷

1. Revenues received from the issuance of bonds or other long-term obligations. Bond principal and interest payments are also exempt.
2. Revenues received as payment of dividends or interest.
3. Trust and agency accounts.
4. Federal grants and aid of any type.
5. Other grants, aid, contributions or gifts of any type.
6. Amounts received from the State that is included under the State's own appropriations limitation. Unfortunately, this does not exclude revenues received from regular State shared sources, but it does exempt such things as flood control money appropriated by the State and distributed to a particular city. It also exempts local transportation assistance funds (lottery money) from the local expenditure limit.
7. Interagency or interdepartmental transfers which are funded with monies already subject to the expenditure limit. This means that you won't have to double count expenditures within the limit.
8. Amounts or property accumulated for the purchase of land, buildings or improvements or for constructing buildings or improvements if the voters have approved such accumulation and purpose. This is a voter approved public works reserve fund for limited purposes.
9. Amounts received from the highway user revenue fund over and above that received in 1979-80.
10. Revenues received from another political subdivision pursuant to an intergovernmental contract as long as the other entity includes the payments under their expenditure limit, if applicable. Political subdivision as used for this exemption includes a city or town, county, school district or community college district. Intergovernmental contracts with the State are also exempt under this provision.
11. Amounts expended for the construction, reconstruction, operation or maintenance of a hospital financially supported by a city or town prior to January 1, 1980.
12. Amounts to pay off warrants issued prior to July 1, 1979.
13. Refunds, reimbursements or other recoveries of amounts expended which were already included once under the expenditure limit or otherwise excluded from the limit.

In addition to the constitutionally specified exemptions from the expenditure limit, involuntary tort judgments are not subject to the expenditure limitation.³⁸

³⁷ Article IX, Section 20, subsection 3 D, Arizona State Constitution

³⁸ Attorney General Opinion (I86-031)

The Economic Estimates Commission (EEC) will determine each year just how much each city and town under the State imposed limit can increase its budget for the next fiscal year. This determination will be made on the basis of a standard increase in inflation and the population growth of your particular community.³⁹ The inflation increase is to be measured by an index called the GDP implicit price deflator which is a U.S. Department of Commerce statistic. Population figures to be used in the calculation will be supplied by the Arizona Department of Economic Security (DES).

State law requires that the EEC provide each city and town with a preliminary estimated expenditure limit for the coming fiscal year by February 1, and a final expenditure limit figure by April 1. If the estimate received by February 1 is felt to be inaccurate for any reason, you may appeal to the EEC for an adjustment through a process detailed in [Exhibit B](#) in the appendix.

In addition, cities and towns should report all annexations to the Population Statistics Unit at the Department of Economic Security and your local council of governments (COG). The population in the annexed area will be considered when developing the population estimate which is used in determining the expenditure limitations by the EEC as well as for distribution of lottery funds.

Annexations occurring after the EEC determines your expenditure limit (on or before April 1) but before the beginning of the fiscal year can also be used to adjust your population estimate for that year if they are submitted in time for both DES and the EEC to act. The EEC requires that requests for such adjustments be provided to them at least three weeks prior to the adoption of that city's tentative budget. Also, prior to action by the EEC, DES must review the requested population increase. The necessary materials should be provided to DES with sufficient lead time for their review.

If, on the other hand, the estimated State imposed limit appears to be correct but does not allow for the expenditure of sufficient funds to meet local needs, the budget law provides four options to potentially solve this problem:

1. A Local Home Rule (Alternative Expenditure) Limitation.⁴⁰
2. A Permanent Base Adjustment.⁴¹
3. A Capital Projects Accumulation Fund.⁴²
4. A One-time Override.⁴³

All of these options require voter approval and, therefore, entail a certain amount of risk. If the voters say "no," then the city or town will be under or subject to the State imposed limitation. Procedures required to seek each of these options are detailed later in this chapter.

It is critical to note that a city or town cannot use its personnel, equipment, materials, buildings or other resources to influence the outcome of any election and city or town employees cannot use the authority of their position to influence the vote or political activities of a subordinate.⁴⁴

NEW CITY OR TOWN LIMITATION

The Economic Estimates Commission by law must determine the base limit of a newly incorporated city or town. This will be accomplished by calculating the average amount of actual FY 1979-80 per capita payments of local revenues for all cities and towns within the county in which the new city or town is located. This average per capita figure will then be multiplied by the population of the new city or town resulting in the base limit for such community.⁴⁵

³⁹ A.R.S. § 41-563

⁴⁰ Article IX, Section 20, subsection 9, Arizona State Constitution

⁴¹ Article IX, Section 20, subsection 6, Arizona State Constitution

⁴² Article IX, Section 20, subsection 3 d viii, Arizona State Constitution

⁴³ Article IX, Section 20, subsection 2, paragraph C, Arizona State Constitution

⁴⁴ A.R.S. § 9-500.14

⁴⁵ A.R.S. § 41-563 A (6)

EXPENDITURE LIMITATION OPTIONS

Home Rule (Alternative Expenditure Limitation) Option

Any city or town can adopt its own “alternative” expenditure limitation that is free from any ties to the State imposed limitation if a majority of the qualified electors voting on the issue at a city/town regular election vote in favor of the alternative limitation. In other words, there are no limitations on the form of this alternative limitation. An alternative limitation may be referred to the city/town voters by an affirmative vote of two-thirds of the members of the city/town council or qualified electors of the city/town may offer an alternative limitation through the initiative process.⁴⁶

The city/town council contemplating the adoption of an alternative expenditure limitation must hold two public hearings on the proposed action. Notice of these hearings must be published once a week for at least two consecutive weeks in a newspaper of general circulation within the city/town. Immediately following the second hearing, the city/town council must convene in special meeting and vote on the proposed alternative expenditure limitation. A record of the vote and, if approved, the amount of expenditure in excess of the State limitation and purposes for the excess expenditure must be published in a newspaper of general circulation within the city or town ([Exhibit C](#)).⁴⁷

At least 60 days prior to the city/town election, the council or a person or group using the initiative process proposing the alternative expenditure limitation must submit a detailed analysis and summary of the alternative to the Auditor General for review. The Auditor General may request additional information necessary to clarify or correct the submitted materials. Within 15 working days of receiving these reports, the Auditor General must correct any errors or deficiencies in the analysis and summary and provide the city/town council with a copy of their reports. No revisions of the analysis or summary can be made after the Auditor General review is complete.⁴⁸ [Exhibit C](#) contains a sample detailed analysis and summary analysis.

Arguments supporting or opposing the alternative expenditure limitation, if any, must be filed with the city/town clerk not less than 60 days before the election.⁴⁹

Not less than 10 days prior to the election, the city/town council must provide a publicity pamphlet which includes the summary of the alternative (as received from the Auditor General) to each household within the city or town containing a registered voter.⁵⁰ A copy of the printed publicity pamphlet must also be provided to the Auditor General prior to the election. In addition to the summary, the pamphlet must contain several items ranging from the date of the election to a section comparing the proposed alternative limitation to the State imposed limitation ([Exhibit C](#)).⁵¹ Also, the detailed analysis of the alternative must be made available to registered voters upon voter request.

The ballot used for the election must contain a section comparing the proposed alternative to the State imposed limitation. If only one alternative limitation is offered to the voters, the ballot should be in the form used for initiatives and referendums ([Exhibit C](#)).⁵² If there is more than one alternative, the ballot must be in a form that allows electors the opportunity to vote on each proposed alternative expenditure limitation.⁵³ If more than one alternative is approved, the alternative limitation receiving the highest number of votes will apply to the city or town. The city or town clerk must notify the Auditor General and the Economic Estimates Commission of the results of the election.⁵⁴

⁴⁶ Article IX, Section 20, subsection 9, Arizona State Constitution

⁴⁷ A.R.S. § 41-563.01

⁴⁸ A.R.S. § 41-563.03 E

⁴⁹ A.R.S. § 19-141 B

⁵⁰ A.R.S. § 19-141 A

⁵¹ A.R.S. § 41-563.03 C

⁵² A.R.S. § 19-125

⁵³ A.R.S. § 41-563.03 G

⁵⁴ A.R.S. § 41-563.03 F

When an alternative expenditure limitation is adopted it will be in effect for four consecutive years. Following the fourth year, the city/town alternative must be “reapproved” or a new alternative may be proposed. In other words, you must repeat the detailed procedure involving the Auditor General, publications, election, etc. every four years whether you are “reaffirming” a previously approved alternative limitation or adopting a new one. If the alternative limitation is defeated by a majority of the qualified electors, no new alternative expenditure limitation may be submitted to the voters for at least two years, and the city/town will be subject to the State limitation.⁵⁵

See [Exhibit D](#) for a chronology of events that must occur when seeking the home rule option.

Permanent Adjustment of Expenditure Base

Any city or town can permanently adjust its State imposed expenditure limitation base if a majority of the qualified electors voting on the issue at a regular city/town election vote in favor of the adjustment. The issue can also be placed on a State general election ballot. A base adjustment may be referred to the voters by an affirmative vote of two-thirds of the members of the city/town council, or qualified electors of the city/town may propose an adjustment through the initiative process.⁵⁶

Formerly, a city/town council contemplating the adoption of a permanent base adjustment was required to hold two public hearings on the proposed action, and to publish a record of the vote on the proposed permanent base adjustment. The Auditor General’s office’s has issued an interpretation stating that A.R.S. § 41-563.01 does not apply to permanent base adjustment elections and thus the requirements for hearings and publications in that section are not applicable. However, the city/town council is still required to pass a resolution on the proposed permanent base adjustment in an open meeting, but no record of that vote needs to be published ([Exhibit C](#)).

At least 60 days prior to a regular election, the council or a person or group using the initiative process proposing the base adjustment must submit a detailed analysis and summary of the adjustment to the Auditor General for review. Within 15 working days of receiving these reports, the Auditor General must correct any errors or deficiencies in the detailed analysis and summary and provide the city/town council with a copy of each report. No revisions of the analysis or summary can be made after the Auditor General Review is complete ([Exhibit C](#)).⁵⁷

Arguments supporting or opposing the proposed base adjustment, if any, must be filed with the city/town clerk not less than 60 days before the election.⁵⁸

Not less than 10 days prior to the election, the city/town council must provide a publicity pamphlet which includes the summary of the adjustment (as received from the Auditor General) to each household within the city or town containing a registered voter. ⁵⁹ A copy of the printed publicity pamphlet must also be provided to the Auditor General prior to the election. In addition to the summary, the pamphlet must contain several items ranging from the date of the election to a section stating the impact of the base modification ([Exhibit C](#)).⁶⁰ The detailed analysis of the base adjustment must also be made available to registered voters by the city/town clerk upon voter request.

The ballot used for the election must contain a section stating the impact of the modification. If only one proposed adjustment is offered to the voters, the ballot should be in the form used for initiatives and referendums ([Exhibit C](#)).⁶¹ If there is more than one proposed adjustment, the ballot must be in a form that allows electors the opportunity to vote on each base limitation adjustment.⁶²

⁵⁵ Article IX, Section 20, subsection 9, Arizona State Constitution

⁵⁶ Article IX, Section 20, subsection 6, Arizona State Constitution

⁵⁷ A.R.S. § 41-563.03 D

⁵⁸ A.R.S. § 19-141 B

⁵⁹ A.R.S. § 19-141 A

⁶⁰ A.R.S. § 41-563.03 B

⁶¹ A.R.S. § 19-125

⁶² A.R.S. § 41-563.03 G

Any approved permanent base limitation adjustment must be used in determining a city or town's expenditure limitation beginning with the fiscal year immediately following the approval and every year thereafter or until the city/town again adopts a new base.⁶³

Auditor General Review

As mentioned previously, the Auditor General must review your detailed and summary analysis. The Auditor General must correct any errors or deficiencies in the detailed analysis and summary and provide the city/town council with a copy of each report within 15 working days of receiving the reports. The procedures the Auditor General's staff follows in the review are as follows:

1. Review of the financial information contained in the analysis and summary submitted to determine if it complies with the requirements set forth in state statute.⁶⁴
2. Determine if assumptions, factors or derived amounts are internally consistent.
3. Determine the mathematical accuracy of calculations and totals.
4. Compare the amounts in the detailed analysis to the summary analysis.
5. Determine if historical or independently determined data such as the base limit agree with the indicated sources.

If the Auditor General's staff finds any error or has any questions on the report, telephone contact with the city or town is made for corrections. The Auditor General may request additional information necessary to clarify or correct the submitted materials. After the Auditor General's staff completes the review they will notify you of acceptance of the report.

As a final note, the address and fax number of the Auditor General is 2910 North 44th Street, Suite 410, Phoenix, Arizona 85018, (602) 553-9702. Your reports must be delivered or mailed to this address so that they arrive at the Auditor General at least sixty days prior to the election at which the local voters will be asked to approve either a home rule option or a permanent base adjustment.

Capital Projects Accumulation Fund

A capital projects accumulation fund is another option under the State imposed expenditure limitation. This option is particularly appropriate for communities where the State expenditure limit is sufficient except in the area of capital outlays.

If the voters approve, you may exclude from your limited or "controlled" expenditures, revenues accumulated to pay for certain capital projects. The voters have to approve both the project and the accumulation of revenue. The project can be the purchase of land or the purchase or construction of buildings or improvements.

The only specific reference to establishing a capital projects accumulation fund is located in the State Constitution.⁶⁵ It appears that the notice and hearing requirements do apply as well.⁶⁶ Elections for such a fund may be held at either a regular city election or a special election. However, in response to one city, we developed a suggested set of procedures. These are composed of general election and spending limit election requirements. The procedures include holding two public hearings, publishing notice prior to the hearings and preparing a publicity pamphlet.

⁶³ Article IX, Section 20, subsection 6, Arizona State Constitution

⁶⁴ A.R.S. § 41-563.03

⁶⁵ Article IX, Section 20, Subsection 3 d viii, Arizona State Constitution

⁶⁶ A.R.S. § 41-563.01

These steps outline a suggested process for adopting a capital projects accumulation fund.

1. Call election.
2. Publish notice of two public hearings once a week for two consecutive weeks in a newspaper of general circulation, prior to the hearings.⁶⁷
3. Hold public hearings after publishing the second notice.⁶⁸
4. Vote by the council on the capital projects accumulation fund immediately following the second public hearing.⁶⁹
5. Publish record of the vote and other required information immediately following the council's vote.⁷⁰
6. Receive supporting or opposing arguments to be published in the publicity pamphlet for the capital projects accumulation fund not less than 60 days prior to the election.
7. Post sample ballots not less than 10 days prior to the election.
8. Distribute publicity pamphlets not less than 10 days prior to the election.
9. Hold election at either a regular or special election.

As noted above, some of these procedures are only suggested not necessarily required. You may wish to review the applicable statutes with your attorney.

ONE-TIME OVERRIDE

Any city or town may exceed its State imposed expenditure limitation by a one-time override. This override is effective for one year only and has no effect on your expenditure limitation base or any subsequent fiscal year expenditure limitation.

The one-time override can be sought if two-thirds of the members of the city/town council vote to present the proposed override to the qualified electors of the city or town. A majority of qualified electors voting at either a special election (to be held the third Tuesday in May) or at a regular election in the fiscal year prior to the fiscal year in which the excess is to occur must give their approval in order to expend the additional amount.⁷¹

A city/town council contemplating a one-time override must hold two public hearings on the proposed action. Notice of these hearings must be published once a week for at least two consecutive weeks in a newspaper of general circulation within the city or town ([Exhibit E](#)). Immediately following the second public hearing, the city/town council must convene in special meeting and vote on the proposed excess expenditure. A record of the vote and, if approved, the purposes for the excess expenditure must be published in a newspaper of general circulation within the city or town ([Exhibit E](#)).⁷²

⁶⁷ A.R.S. § 41-563.01

⁶⁸ A.R.S. § 41-563.01

⁶⁹ A.R.S. § 41-563.01

⁷⁰ A.R.S. § 41-563.01

⁷¹ Article IX, Section 20, subsection 2, paragraph C, Arizona State Constitution and A.R.S. § 41-563.02

⁷² A.R.S. § 41-563.01

The city/town council seeking a one-time override must provide arguments in support of the excess expenditure and must receive arguments against the override at least 30 days prior to the election.⁷³ These arguments must be included in the publicity pamphlet concerning the override which must be distributed to each household within the city or town containing a registered voter not less than 10 days nor more than 30 days before the election.⁷⁴ In addition to the arguments, the publicity pamphlet must contain several items ranging from the date of the election to a statement of the purpose or purposes for the excess amount to be expended.⁷⁵

It should be emphasized that the one-time override election may be held at a regular election or at a special election to be held on the third Tuesday in May in the fiscal year prior to the year in which the excess expenditure is to occur.

State law requires that expenditures for amounts authorized by an override election can only be made for purposes stated in the publicity pamphlet for such an election. Expenditures approved pursuant to a one-time override election have to be budgeted separately by the city or town. Although the auditor general's office is not required by law to review the materials for the one-time override, submitting them to their office can be helpful in making sure the materials are prepared properly.

EMERGENCY OVERRIDES OF STATE LIMIT

The budget law provides for emergency overrides of the State imposed expenditure limitation in two situations:

1. In the case of a governor-declared emergency.⁷⁶
2. In the case of a local governing board-declared emergency not declared by the governor.⁷⁷

A city or town faced with a governor-declared man-made or natural disaster can exceed its expenditure limitation by an amount necessitated by the disaster if two-thirds of the members of the city/town council vote in favor of the excess. However, prior to a vote of the council to authorize such an emergency override, the council must hold two public hearings on the proposed action. Notice of these hearings must be published once a week for at least two consecutive weeks in a newspaper of general circulation within the city or town ([Exhibit E](#)). Immediately following the second public hearing, the council must convene in special meeting and vote on the proposed excess expenditure necessitated by the disaster. A record of the vote and, if approved, the amount of excess above the city/town's expenditure limitation and purposes for the excess expenditure must be published in a newspaper of general circulation within the city or town ([Exhibit E](#)).⁷⁸ If the governor declares the disaster, you do not need to take the emergency override to the people for a vote.⁷⁹

A city/town faced with a natural or man-made disaster that is not declared by the governor needs an affirmative vote of 70% of the members of the council to exceed its expenditure limitation by an amount necessitated by the disaster. Again, prior to a vote of the council to authorize such an override, the council must hold two public hearings on the proposed action. Notice of these hearings must be published once a week for at least two consecutive weeks in a newspaper of general circulation within the city or town ([Exhibit E](#)). Immediately following the second public hearing, the council must convene in special meeting and vote on the proposed excess expenditure necessitated by the disaster. A record of the vote and, if approved, the amount of excess above the city/town's expenditure limitation and purposes for the excess expenditure must be published in a newspaper of general circulation within the city or town ([Exhibit E](#)).⁸⁰

⁷³ A.R.S. § 41-563.02 B (8)

⁷⁴ A.R.S. § 41-563.02 A

⁷⁵ A.R.S. § 41-563.02 B

⁷⁶ Article IX, Section 20, subsection 2, paragraph a, Arizona State Constitution

⁷⁷ Article IX, Section 20, subsection 2, paragraph b, Arizona State Constitution

⁷⁸ A.R.S. § 41-563.01

⁷⁹ Article IX, Section 20, subsection 2, paragraph a, Arizona State Constitution

⁸⁰ A.R.S. § 41-563.01

If the council does not want to have to reduce the budget the year following the disaster by the amount of money expended on the disaster, they must seek voter approval for their authorization to expend the funds, after the fact. A majority of the qualified electors voting at either a special election (to be held on the third Tuesday in May) or at the city/town's next regular election following the disaster must approve the emergency override. It should be emphasized that if the council does not present the issue of the emergency override to the voters or if the voters do not approve the override at the election, the city or town must reduce its budget in the fiscal year following the disaster by the amount of excess funds expended due to the disaster.⁸¹

Should a natural or man-made disaster not declared by the governor resulting in excess expenditures occur within 90 days of the third Tuesday in May or within 90 days of the city/town regular election, such expenditures cannot be put to a vote of the people until the next subsequent regular or special election.⁸²

A council seeking voter approval for excess expenditures due to an emergency not declared by the governor must provide publicity pamphlets concerning the excess to each household within the city or town containing a registered voter not less than 10 days or more than 30 days before the election.⁸³

It should be emphasized that if the voters do not approve the excess expenditures, necessitated by a disaster not declared by the governor, the city or town must reduce its budget in the fiscal year following the disaster by the amount of excess expended due to the disaster.

UNIFORM EXPENDITURE REPORTING SYSTEM

To ensure compliance with the State imposed expenditure limitation the Office of the Auditor General has been directed to develop forms and procedures for a uniform expenditure reporting system.⁸⁴ The uniform expenditure report must be filed by all cities and towns even if the community has adopted an alternative to the State imposed expenditure limit.

Specifically, the uniform reporting system establishes the following reporting requirements for cities and towns:

1. Annual expenditure limitation report,
2. Financial statements prepared in conformity with generally accepted accounting principles, and
3. Reconciliation of total expenditures from the financial statements to total expenditures on the expenditure limitation report for cities and towns.

Annual expenditure limitation reports, together with audited financial statements and the reconciliation report are to be submitted by cities to the Auditor General within four months after the close of the fiscal year. The expenditure limitation reports for towns are to be submitted within four months after the close of the fiscal year and the financial statements and reconciliation reports annually or biannually when audits are performed.

Figures used in these reports are to be audited figures. To meet the four month filing deadline you should contact your auditor soon after the close of the fiscal year. If you cannot meet this October 31 filing deadline, an extension of up to 120 days may be granted by the Auditor General. Such an extension must be requested in writing. An example of an extenuating circumstance may be that you were unable to obtain audited figures by the October filing deadline.

Examples of the required forms and instructions for completing them are contained in a manual prepared by the Auditor General entitled the "Uniform Expenditure Reporting System" (UERS). These forms are to be used to complete the three reports which make up the expenditure reporting system.

⁸¹ Article IX, Section 20, subsection 2, paragraph b, Arizona State Constitution

⁸² A.R.S. § 41-563.02 E

⁸³ A.R.S. § 41-563.02 A

⁸⁴ A.R.S. § 41-1279.07

Expenditure Limitation Report

The expenditure limitation report is an annual report which includes budget totals expended for the fiscal year. The Auditor General has developed forms for completing this report which appear in the [UERS Manual](#).

The first part of the report is a comparison between actual expenditures and the State expenditure limit or alternative a city or town has adopted. This form is a simple summary of expenditures.

The second form in the expenditure limitation report is a sample auditor opinion attesting that the report presents the information fairly.⁸⁵

Total expenditures must be detailed by fund on the third form. Cities and towns that have adopted an alternative expenditure limitation are only required to fill out lines A and C of this form. Again, the expenditure limitation report must be filed annually by the October deadline unless an extension has been granted.

Financial Statement

Financial statements must be prepared in accordance with generally accepted accounting principles.⁸⁶ The financial statement must “. . . set forth the financial position and results of the operations for each fund and account of the city or town.”⁸⁷ The auditor preparing the financial statement must also state an opinion on the financial statements and a justification must be given if no opinion can be expressed.

The two sections of law cited above also affect the filing date of your financial audits. State law requires that your annual or biannual audit must be filed with the Auditor General by October 31 as part of your uniform expenditure report unless an extension for filing is requested in writing.⁸⁸ On the other hand, State law also requires that your audit be complete by December 31 when audits are performed.⁸⁹ This means that even if you request the 120 day extension for filing your financial statement, your audit must be complete by December 31. Detailed instructions for this report are included in the [UERS Manual](#).

Reconciliation Report

The third report that must be filed is a reconciliation of total expenditures reported on the expenditure limitation report and expenditures reported on the financial statement. Differences between expenditures listed on these two reports must be identified and the reasons for the differences must be included on the reconciliation. This report must be submitted along with your financial statement. Details for completing this report may be found in the Auditor General's manual.

Responsibility for Filing Reports

An individual designated by the city or town council as responsible for submitting the annual expenditure limitation report, financial statements and reconciliation report must certify to the accuracy of the reports. The responsible individual's name needs to be provided to the Auditor General annually, by July 31.

Additionally, state law directs that the uniform reporting system include sanctions and penalties for violating such provisions.⁹⁰ The sanctions and penalties provided in the uniform reporting system are specified by law. The designated chief fiscal officer who refuses to file reports within the prescribed time, or who intentionally files erroneous reports, will be guilty of a class 1 misdemeanor. A city or town exceeding its expenditure limitation without authorization will have a portion of its allocation of State income tax withheld and redistributed to the other incorporated communities in the State. This penalty will be imposed in the fiscal year subsequent to the hearing held by the Auditor General on such a violation.⁹¹ The amount of State income tax to be withheld for exceeding the expenditure limitation will be determined as follows:

⁸⁵ A.R.S. § 41-1279.07

⁸⁶ A.R.S. § 41-1279.07

⁸⁷ A.R.S. § 9-481

⁸⁸ A.R.S. § 41-1279.07

⁸⁹ A.R.S. § 9-481

⁹⁰ A.R.S. § 41-1279.07

⁹¹ A.R.S. § 41-1279.07 G & H

1. If the excess expenditures are less than 5% of the limitation, an amount equal to the excess expenditure will be withheld.
2. If the excess expenditures are equal to or greater than 5% but less than 10% of the limitation, an amount equal to triple the excess expenditures will be withheld.
3. If the excess expenditures are less than 5% of the limitation but it is at least the second consecutive instance of excess expenditures for the city or town, an amount equal to triple the excess expenditures will be withheld.
4. If the excess expenditures are equal to or greater than 10% of the limitation, an amount equal to five times the excess expenditures or one-third of the allocation of a city or town's State income tax will be withheld, whichever is less.

PROPERTY TAX LEVY LIMITATION

The State Constitution and State law also specify a property tax levy limitation system. This system consists of two levies, a limited levy known as the primary property tax levy and an unlimited levy referred to as the secondary property tax levy. The primary levy may be imposed for all purposes, while the secondary levy in cities and towns may only be used to retire the principal and interest or redemption charges on bonded indebtedness.

Primary Property Tax Levy Limit

There is a strict limitation on just how much a city or town can levy as a primary property tax. This primary tax levy is limited to an increase of 2% over the previous year's maximum allowable primary levy plus an increased dollar amount due to a net gain in property not taxed the previous year.⁹² **In November 2006, voters elected to reset the "base year" from which annual levy increases are calculated from 1979-80 to 2005-06.**⁹³

Note that the 2% increase is based on a city or town's "maximum allowable levy" for the prior year. That is, even if you do not adopt the maximum allowable levy from year to year, the 2% allowable increase will be based on the prior year's "maximum allowable levy" anyway. Also, it should be pointed out that the "net new property" factor is included in the calculation to take into account all new construction and any additional property added to a community due to an annexation. There is an Attorney General's Opinion that has been interpreted to state that a city or town can levy in excess of its maximum allowable levy limit for involuntary tort judgments.⁹⁴ The Property Tax Oversight Commission will recognize an involuntary tort judgment if:

1. The judgment is pursuant to a court order or settlement agreement; and
2. The judgment is approved for payment by the city or town council; and
3. The Attorney General certifies that the judgment is an involuntary tort judgment; and
4. The city or town submits copies of the court order or settlement agreement and the minutes of the meeting at which the council approved payment on or before the first Monday in July.

The primary property tax from all taxing jurisdictions for homeowners may not exceed 1% of their home's primary assessed value.⁹⁵ If the combined primary property tax (for the city/town, county, etc.) exceeds 1% of the primary assessed value of the home, the school districts will reduce their rate until the homeowners aggregate rate is equal to or less than the allowable 1%. The State will then subsidize the school district for the reduced revenue. Note that this 1% limitation only applies to primary property taxes and does not affect the secondary property tax levy.

⁹² A.R.S. § 42-17051

⁹³ Article IX, Section 19, paragraph 4, Arizona State Constitution

⁹⁴ Attorney General Opinion (I86-031) (R85-121)

⁹⁵ Article IX, Section 18, Arizona State Constitution and A.R.S. § 42-17152

Secondary Property Tax Levy

The two-tiered system includes a primary levy, discussed above, and a secondary property tax levy. The secondary property tax allows a city or town to levy a property tax for the purpose of retiring the principal and interest on bonded indebtedness. This levy is referred to as the “unlimited” levy. In other words, this property tax may be levied in an amount necessary to retire the bonded indebtedness of a city or town as is deemed necessary by the city or town.⁹⁶

Not only is the dollar amount of the secondary property tax levy “unlimited,” the actual full cash value of property will be used in determining the tax rate.⁹⁷ This is unlike the primary tax system which uses a controlled assessment system to determine the tax rate for primary property tax purposes.

The bottom line on the secondary property tax system is that a city or town can levy the amount necessary to pay off its debt service.

ESTABLISHMENT OF A NEW PRIMARY PROPERTY TAX LEVY

A number of cities and towns in Arizona do not currently impose a primary property tax. Therefore, a method to establish such a tax if the city or town desires to do so has been provided in State law.

To establish a primary property tax, a city or town must present the proposed levy to the voters at an election on the third Tuesday in May. The ballot must state that the amount on the ballot will be the base for determining levy limitations for the city or town in subsequent years.

These steps outline the process to initiate a primary property tax.

1. The council passes a resolution ordering the election to be held at the regular voting places. The order must state that the election is to establish a primary property tax. There is no longer a time requirement related to the order of election, but we suggest that it be done not less than thirty nor more than 150 days before the date of the election.⁹⁸
2. The election conforms to the general election laws.⁹⁹
3. The election is held on the third Tuesday in May.¹⁰⁰
4. The returns are made to the council within twelve days after the election.¹⁰¹
5. The council meets within seven days from the twelfth day after the election to canvass and certify the vote.¹⁰²
6. A certificate is filed with the county recorder, giving the purpose of the election, the total number of votes cast and the total number of votes for and against establishing the primary property tax and stating that the tax has been ordered by the council.¹⁰³

As mentioned in Chapter 1, a city or town that incorporates or annexes land must give proper notice to the Department of Revenue and appropriate county assessor prior to levying the tax. State law requires that notice be given by November 1 of the year prior to the fiscal year when the tax will be initiated.

⁹⁶ Article IX, Section 19, subsection 2, paragraph a, Arizona State Constitution

⁹⁷ A.R.S. § 42-13304

⁹⁸ A.R.S. § 35-453 & § 35-454

⁹⁹ A.R.S. § 35-454

¹⁰⁰ A.R.S. § 42-17056

¹⁰¹ A.R.S. § 35-454

¹⁰² A.R.S. § 35-454

¹⁰³ A.R.S. § 35-454

BUDGET/TAX LEVY

The preparation of a municipal budget is a long and detailed process. The council and the staff will undoubtedly have to set a number of administrative deadlines to make sure that the budget has been given full consideration prior to its final adoption. There are, however, a number of specific dates set in State law with which a city or town must comply when preparing a budget ([Exhibit F](#)). In this section the most important dates are outlined.

Developing the Budget

The budget process is initiated by obtaining accurate estimates of incoming revenues. Estimates of projected State-shared revenues for the upcoming fiscal year are usually provided in lump sum figures from the State departments actually distributing the funds. If the estimates are made available in a reasonable amount of time prior to the preparation of the budget, the League will publish an estimate of revenues going to each city and town from the State sales tax, the State income tax, the highway user revenue fund and the local transportation assistance fund. Estimates on the amount of vehicle license tax revenues must be obtained from the appropriate county government.

Estimates of revenues raised from local sources will again have to be developed by each city or town. Some municipalities prepare a budget report on a regular basis throughout the fiscal year which gives an up-to-date comparison of incoming revenues and expenditures. The budget report is mentioned in Chapter III and an example of the form to use for this report is included in [Exhibit G](#). This type of document is one of the most useful monitoring tools for detecting any trends in collection totals which might affect revenues during the upcoming year. Monitoring would be particularly helpful on local sales tax, building permits and other revenue sources which are highly dependent on the "state of the economy." Local revenue estimates or any other revenue estimates which turn out to be too generous can come back to haunt city and town administrators. This is why it is extremely important that estimates be reasonably accurate or even conservative.

Once the finance officer is confident of the revenue estimates, the next step is to analyze the anticipated expenditures for the upcoming year. These estimates should have been developed in the budget preparation phase and will be based on some of the following considerations:

1. The variety, type and level of services which the city or town wants to provide. This would include the maintenance or abandonment of current programs as well as the initiation of any new services. This is an area where the city or town council should play a significant role.
2. Known cost factors would include such items as postal rate increases, social security costs, contribution rates to employee pension and retirement funds, industrial compensation rates and other similar costs.
3. A fairly comprehensive price list should be developed for anticipated costs on items in the general category of supplies and contractual services. This list should include costs for any anticipated major capital expenditures because expenditures of this nature usually require a considerable amount of budget planning. Cost factors in this area tend to be more susceptible to inflation, and this should be anticipated when making estimates.
4. The cost of employee salaries is one of the largest if not the largest expenditure in the city or town budget. Therefore, careful attention should be given to any cost-of-living or merit increases or any other major change in the employees' salary schedule.
5. Insurance costs have been steadily increasing for city and town governments. Your insurance agents should be able to provide reasonable estimates of anticipated costs for insurance.
6. Changes in employee fringe benefits would include any changes affecting vacation policy, overtime, holidays, uniform allowances, health insurance and sick leave. Changes in any of these areas could affect expenditures.

7. General economic fluctuations will be one of the most difficult considerations when preparing a budget. The most sophisticated economists in the world have difficulty predicting slow-downs and upswings in the economy. This consideration is mentioned only as a precaution and while economic fluctuations cannot be calculated accurately, administrators should be aware of the potential impact of general economic conditions on the local budget. Also, any local events impacting significantly on the local economy should be taken into consideration. The failure to consider this has been known to cause administrative and political problems.

Once all anticipated expenditures have been taken into consideration, the problem then becomes adjusting the expenditures to the available revenues. This process may involve cutting some expenditure appropriations while expanding others. Again, this is a policy area where the city or town council must provide active leadership.

Budget Adoption

State law requires that on or before the third Monday in July of each fiscal year, the city or town council must adopt a tentative budget.¹⁰⁴ Once this tentative budget has been adopted, the expenditures may not be increased upon final adoption, however, they may be decreased.¹⁰⁵ Actually, with the adoption of the tentative budget, the council has set its maximum “limits” for expenditure, but these limits may be reduced upon final adoption. The tentative budget must be fully itemized in conformance with forms supplied by the Auditor General and entered upon the council meeting minutes.¹⁰⁶ A copy of the Auditor General budget forms required by law are mailed to each jurisdiction in the spring of each calendar year and are available on the Auditor General’s website, www.auditorgen.state.az.us. These budget forms include schedules A through E. These budget forms provide a framework for the development of a city or town budget.

Once the tentative budget has been adopted, it must be published once a week for at least two consecutive weeks following the adoption.¹⁰⁷ The complete set of auditor general forms can be published or a summary of those forms can be published. The summary must show sources and uses of funds, and include consolidated revenues and expenditures by category, department and fund.¹⁰⁸ It must also include truth in taxation calculations and primary and secondary property tax levies. If a summary is published, the complete budget must be made available at city or town libraries, and city or town administrative offices.¹⁰⁹ Along with publication of the budget as outlined, a notice of the final budget adoption meeting should also be published.¹¹⁰

Final Budget Adoption

There is no specific date set by state law for adoption of the final budget. However, for those of you with a property tax, there is a deadline for adoption of the property tax levy - the third Monday in August. Since state law requires a period of at least fourteen days between adoption of the final budget and adoption of the tax levy, the deadline becomes the first Monday in August. For those without a property tax, it is still recommended that final budget adoption take place by mid-August. The adoption of the final budget may take place through a simple motion approved by the council.

¹⁰⁴ A.R.S. § 42-17101

¹⁰⁵ A.R.S. § 42-17105 (C)

¹⁰⁶ A.R.S. § 42-17102 (B) & § 42-17105

¹⁰⁷ A.R.S. § 42-17103 (B)

¹⁰⁸ A.R.S. § 42-17103 (A)

¹⁰⁹ A.R.S. § 42-17103 (A)

¹¹⁰ A.R.S. § 42-17104

Adoption of Tax Levy

Before adopting the property tax levy, the council must receive property value information from the county assessor. These values must be provided to the council on or before February 10 of the tax year.¹¹¹ These values must be made available for public inspection on or before February 15 of the tax year.¹¹² Along with the property values, the county assessor will transmit the final levy limit worksheet and each city or town levying a property tax is required to notify the Property Tax Oversight Commission in writing within ten days of its agreement or disagreement with the final levy limit. After adoption of the levy the Property Tax Oversight Commission will review the primary property tax levy to determine the adequacy of compliance.¹¹³ Notice of any violation of the levy limit will be sent by September 15.¹¹⁴ If a city or town disputes the findings of the commission it may request, on or before October 1, a hearing before the commission to attempt to resolve the dispute. If the city or town continues to dispute the findings of the commission after the hearing it may appeal the matter to Superior Court within thirty days after the decision of the commission.¹¹⁵

Any money received in excess of the maximum allowable limit must be maintained in a separate fund and used to reduce the primary property tax levy in the following year.¹¹⁶ However, additional amounts collected from escaped property and monies which are received from the payment of delinquent property taxes properly assessed in prior years are exempted from this requirement.¹¹⁷ Escaped property are those parcels which did not appear on the assessment rolls for the tax year, but which would have appeared if they had been identified.

As mentioned previously, the tax levy for a city or town must be adopted on or before the third Monday in August.¹¹⁸ Using the information provided by the county assessor, the council must specify the amount that will be levied in an ordinance which will become effective immediately.¹¹⁹ The tax levy ordinance does not require a three-fourths vote or an extraordinary vote to make the levy effective immediately because this is an administrative matter and not an act of legislation. This determination is based on a State Supreme court decision in which the court ruled that the State general appropriation bill was not legislation, but merely an administrative method of setting apart funds necessary for use and maintenance of State government.¹²⁰ This case also applies to the municipal budgetary process. The main dates and deadlines in the budgetary process are also outlined in the budget calendar ([Exhibit F](#)). See also the discussion in [Chapter One](#) of the property tax.

Property Tax Refund in Budget

Any affected political subdivision, including cities and towns, must include in their budgets for the next fiscal year the proportional amount of any property tax refund for which they are liable when the refund is for overpayment as a result of a change in the tax roll pursuant to state statute authorizing such change.¹²¹

Truth in Taxation

It is required that the county assessor, on or before February 10 of each year, transmit to each city and town an estimate of the total net assessed valuation of the city or town, including new property added to the tax roll.¹²² If the proposed primary tax levy, excluding amounts attributable to new construction, is greater than the amount levied by the city or town in the previous year the council must publish a notice that meets the following requirements:¹²³

¹¹¹ A.R.S. § 42-17052

¹¹² A.R.S. § 42-17055

¹¹³ A.R.S. § 42-17055

¹¹⁴ A.R.S. § 42-17005

¹¹⁵ A.R.S. § 42-17004

¹¹⁶ A.R.S. § 42-17005 (C)

¹¹⁷ A.R.S. § 42-17051 (B)

¹¹⁸ A.R.S. § 42-17151

¹¹⁹ A.R.S. § 42-17151

¹²⁰ *Sellers v. Frohmiller*, 42 Arizona 239, 24 Pac. (2d) 666

¹²¹ A.R.S. § 42-18061

¹²² A.R.S. § 42-17107

¹²³ A.R.S. § 42-17107

1. The notice has to be published twice in a newspaper of general circulation in the city or town. The first publication shall be at least fourteen but not more than twenty days before the date on which the proposed levy is to be discussed. The second publication must be at least seven but not more than ten days before the hearing.
2. The notice has to be published in a location other than the classified or legal advertising section of the newspaper.
3. The notice must be at least one-fourth page in size and shall be surrounded by a solid black border at least one-eighth inch in width.
4. The headline of the notice must read "Truth in Taxation Hearing - Notification of Tax Increase" in at least eighteen point type and the text must be in substantially the same form as the statute ([Exhibit L](#)).
5. In addition to publishing the notice according to the above requirements, it is required that the city or town to issue a press release with the same information included in the notice required above.¹²⁴

The law does provide that in lieu of publishing the notice that it may be mailed to all registered voters in the city or town at least ten but not more than twenty days before the hearing on the proposed levy.¹²⁵ The hearing is to be held on or before adoption of the city budget.¹²⁶ It also requires that a roll call vote be taken on the matter of adoption of the primary property tax levy if an increase is proposed.¹²⁷ Following the public hearing, the city or town must, within three days of the hearing, mail a copy of the truth in taxation notice, a statement of its publication or mailing and the result of the council's vote to the property tax oversight commission.¹²⁸ Both the hearing and the notice can be combined with the regular budget notices.¹²⁹

The Legislature added a penalty to the truth in taxation law. If a city or town failed to comply with the notice and hearing requirements, then the next year the jurisdiction is prohibited from levying more than was levied in the prior year.¹³⁰

Encumbrances

Occasionally there are costs which are still outstanding at the end of a fiscal year. Cities and towns now have the authority to encumber funds for any of these costs which are incurred during the fiscal year but still outstanding after the fiscal year closes.¹³¹ Encumbering is an accounting tool which is required pursuant to generally accepted accounting principles (GAAP). This tool provides a uniform procedure for handling expenses which are incurred toward the end of a budget year, but may not be paid until after the fiscal year closes. Payments may be made from encumbered funds for a period of 60 days following the close of the fiscal year.¹³²

¹²⁴ A.R.S. § 42-17107

¹²⁵ A.R.S. § 42-17107

¹²⁶ A.R.S. § 42-17107

¹²⁷ A.R.S. § 42-17107

¹²⁸ A.R.S. § 42-17107

¹²⁹ A.R.S. § 42-17103 (C)

¹³⁰ A.R.S. § 42-17107

¹³¹ A.R.S. § 42-17108 (A)

¹³² A.R.S. § 42-17108 (B)

CHAPTER THREE

FINANCIAL MANAGEMENT

Once the city or town budget has been adopted, the municipality's finance officer must continue to manage the receipts and expenditures of the municipality throughout the fiscal year. While the task of administering the budget involves a wide variety of activities, this chapter of the manual will discuss the functions of Accounting, Audits, Investment of Public Funds and Purchasing.

ACCOUNTING

This publication does not include an analysis of accounting procedures or recommend one particular method over another. However, there are a number of general points to remember throughout the fiscal year. These concerns include the following.

Control of Expenditures

Arizona State law stipulates that no expenditures may be made for a purpose not authorized in the annual budget.¹³³ This makes it extremely important for the budget to be closely monitored to ensure that expenditures do not exceed the amount budgeted.

Generally speaking, budget item expenditures may not exceed the amount indicated in the finally adopted budget. However, if a situation arises that necessitates the transfer of funds between budget items State law provides authorization for such transfers. State law allows cities and towns to exceed expenditures in a budget item after final adoption of a city/town budget.¹³⁴ This may be accomplished by the transfer of funds between budget items.

The transfer can occur if all of the following conditions apply: the monies are available; the transfer is in the public interest and based on a demonstrated need; the transfer does not result in exceeding the community's expenditure limitation (State imposed limit or home rule option) and, a majority of the members of the governing body vote affirmatively on the transfer at a public meeting.¹³⁵

In addition, certain expenditures, notably capital expenditures, should be timed to coincide with the receipt of revenues from specific sources. As an example, it is a common practice to schedule major purchases, such as motor vehicles, to coincide with the receipt of property tax revenues. This type of budget planning can avoid cash flow problems.

The budget merely sets forth the purposes for which specific amounts of money may be expended, if and when the funds become available. Good budget administration ensures that no financial obligations are incurred until there is money in hand, and the budget has allocated the amount to be expended.

Financial Reports

The budget contains estimates on revenues to be received as well as anticipated expenditures. Revenues should be constantly monitored throughout the fiscal year to detect any fluctuations in the receipts. This practice is especially true of some excise taxes that are dependent upon the economy. The actual income derived from the various revenue sources should then be compared to the budget estimates to obtain a true picture of the city or town's financial condition at any point in time.

¹³³ A.R.S. § 42-17106

¹³⁴ A.R.S. § 42-17106 (B)

¹³⁵ A.R.S. § 42-17106 (B)

If, upon close examination of the budget, it is found that revenues are not sufficient to support planned activities, the finance officer of the city or town should promptly make recommendations to the governing body for dealing with the situation. There may be unforeseen expenditures arising during the budget year, which will cause considerable problems in even a “well-planned” budget. Any problem that arises should be handled immediately as financial problems have a way of escalating rapidly.

One helpful administrative tool in many cities and towns is a budget report prepared monthly by the clerk or finance officer to provide the council with current information regarding the collection and expenditure of funds. The report is usually organized to clearly present the budget items and reflect the condition of budgetary accounting funds.

In addition to the basic financial report, whenever there is an unusually large amount of money collected or expended during a particular month, a brief narrative is sometimes attached to the statement describing the nature of the transaction.

[Exhibit G](#) is an example of the format, which may be used for a budget report. This is only a suggested format and, of course, must be adapted to conform to your accounting format.

AUDITS

State law requires an audit of municipal operations to be made by a certified public accountant or a public accountant currently licensed by the Arizona State Board of Accountancy.¹³⁶ The audit is required each fiscal year for cities and at least once every two fiscal years for towns.¹³⁷

The audit, as required by the uniform expenditure reporting system and Arizona State law, must include a financial statement of all accounts and funds of the municipality.¹³⁸ Audits must be conducted in accordance with generally accepted auditing standards.¹³⁹ This report must include the professional opinion of the auditor regarding the financial statements of the city or town, or a declaration of why such an opinion cannot be expressed.

The audit report must include a “determination” that HURF monies and other dedicated state transportation revenues received by the city/town were used solely for the authorized purposes.¹⁴⁰ The Auditor General’s office requires that the auditor specifically report this determination in the auditor’s opinion on the financial statements or a separate report of the auditor within the city/town’s audit report. All cities and towns will need to ensure the required determination is included in their annual fiscal audit report.

As stated in [Chapter Two](#), the audit must be filed with the Auditor General by October 31 unless the 120-day extension for filing is requested in writing. Even with the extension, audits must be completed by December 31.¹⁴¹

Not less than three copies of the audit report are to be signed by the auditor and filed with the city or town. The city or town must immediately make one copy of the report a public record, open to the public for inspection. Also, one additional copy of the audit must be filed with the Arizona Department of Library, Archives and Public Records.¹⁴²

More detailed instructions on audit requirements are contained in the [UERS Manual](#) prepared by the Auditor General.

¹³⁶ A.R.S. § 9-481

¹³⁷ A.R.S. § 9-481

¹³⁸ A.R.S. § 9-481

¹³⁹ A.R.S. § 9-481 (B)

¹⁴⁰ A.R.S. § 9-481 (B)

¹⁴¹ A.R.S. § 41-1279.07

¹⁴² A.R.S. § 9-481 (D)

FEDERAL SINGLE AUDIT ACT

Several years ago Congress enacted the [Federal Single Audit Act](#) which imposes minimum Federal audit requirements for organization-wide audits of state and local governments that receive \$100,000 or more in Federal financial assistance. The purpose of the Act was to improve financial accountability of state and local governments with respect to federal financial assistance programs. Effective fiscal year 2004-05, the threshold amount required for single audits was increased to \$500,000.

If your city falls under the requirements of the Act, you need to arrange for the performance of a single audit for the present fiscal year and all future years in which your city or town receives \$500,000 or more in federal funds. Those of you that must conduct such an audit should include requirements for a single audit in your contract with your auditor.

In past years, biennial audits were an option, however, this option was discontinued with the Single Audit Act Amendments of 1996, and all Arizona cities and towns subject to the Act are to have a single audit performed annually.

INVESTMENT OF PUBLIC FUNDS

The public deposit law applies to all “general law” cities and towns in the State. Charter cities are excluded from the coverage of this law, except that charter city funds are subject to the collateral requirements in State law. ([Title 35 Chapter 2, Article 2](#))

The procedures to be followed in complying with the public deposit law depend on how much money is available for investment. Funds of \$100,000 or more must be invested according to the procedures specified in State law. For deposits of less than \$100,000, there are procedures as specified by local ordinance or resolution must be followed ([Exhibit H](#)).

Public Deposits of \$100,000 or More

The provisions of State law govern the investment of city and town funds in excess of \$100,000.¹⁴³ There are bidding procedures, eligible investments, minimum interest requirements on certificates of deposit, collateral and record keeping requirements specified.

Eligible Investments

The following forms of investment with a five-year maximum maturity are specified as eligible investments:

1. Certificates of deposit in eligible depositories if the interest rate bid is 103% or more of the equivalent bond yield of the offer side of treasury bills. Eligible depositories include: banks insured by the Federal Deposit Insurance Corporation (FDIC); savings and loan associations insured by the Federal Savings and Loan Insurance Corporation (FSLIC) and credit unions insured by the national credit union administration. The banks and savings and loan institutions must have either a branch or its principal place of business in Arizona.
2. Certificates of deposit in one or more federally insured banks or savings and loan associations in accordance with the following procedures:
 - The monies are initially invested through an eligible depository in this state selected by the investing entity.
 - The selected eligible depository arranges for the deposit of the monies in certificates of deposit in one or more federally insured banks or savings and loan associations wherever located, for the account of the investing entity.

¹⁴³ A.R.S. § 35-323

- The full amount of principal and any accrued interest of each certificate of deposit is insured by the federal deposit insurance corporation.
 - The selected eligible depository acts as custodian for the investing entity with respect to the certificates of deposit issued for its account.
 - At the same time that the investing entity's monies are deposited and the certificates of deposit are issued, the selected eligible depository receives an amount of deposits from customers of other federally insured financial institutions equal to or greater than the amount of the monies initially invested by the investing entity through the selected eligible depository.
 - Monies invested in accordance with all of the conditions prescribed in this section are not subject to any security or collateral requirements.
3. Interest bearing saving accounts in qualified banks and savings and loan institutions.
 4. Repurchase agreements with maximum maturity of 180 days.
 5. The pooled investment funds established by the state treasurer.¹⁴⁴
 6. Bonds or other evidence of indebtedness of the United States or any of its agencies or instrumentalities when the obligations are guaranteed as to principal and interest by the United States or by any agency or instrumentality of the United States.
 7. Bonds or other evidences of indebtedness of this State, any county, city, town or school district.
 8. Bonds, notes or evidences of indebtedness of any county, municipal or municipal district utility within this State which are payable from revenues or earnings specifically pledged for the payment of the principal and interest on the obligations, if they meet certain criteria as specified in State law.¹⁴⁵
 9. Bonds, notes or evidences of indebtedness issued by any municipal improvement district in this State to finance local improvements authorized by law, if the principal and interest of the obligations are payable from assessments on real property within the local improvement district. Once again certain criteria are established in State law for such investments to be eligible.
 10. Commercial paper of prime quality that is rated "P1" by Moody's investors service or rated "A1" or better by Standard and Poor's rating service or their successors. All commercial paper must be issued by corporations organized and doing business in the United States.
 11. Bonds, debentures and notes that are issued by corporations organized and doing business in the United States and that are rated "A" or better by Moody's investor service or Standard and Poor's rating service or their successors.¹⁴⁶

Bid Procedures

To comply with the bid procedures in State law, cities and towns must:

1. Give notice to all banks, savings and loan institutions and credit unions located within the city or town and, at the option of the city or town, to any other financial institution in the State. Banks must be insured by the Federal Deposit Insurance Corporation (FDIC), savings and loan institutions by the Federal Savings and Loan Insurance Corporation (FSLIC), and credit unions must be insured by the national credit union administration. Notice can be in writing or by telephone.

¹⁴⁴ A.R.S. § 35-323 & § 35-326 (B)

¹⁴⁵ A.R.S. § 35-323

¹⁴⁶ A.R.S. § 35-323

2. The city or town must specify in the notice the time the bids will be opened, the amount of funds to be deposited and the time period for deposit.
3. The bids must be announced in public and the funds must be awarded to the highest bidder.¹⁴⁷

State law requires that a report listing the bidders, the bids received and the amount awarded be prepared. The city or town council must be provided with a copy of the report. These records must be kept on file with the city for at least two years and be available for public inspection. [Exhibit I](#) in the appendix is an example of a sample notice of bids and [Exhibit J](#) is an example of a form for the financial institution to use when submitting a bid.¹⁴⁸

In the bidding procedure, banks and other eligible depositories must specify the rate of interest the institution will pay before the deadline for bids. In addition, banks must limit the amount of funds received to no more than two times the capital structure of the bank. This is the clear responsibility of the financial institution.¹⁴⁹

If the highest bidder only bids for a portion of the funds, then the remaining funds go to the next highest bidder. If two or more identical bids are received, the funds are awarded to the institution with the lowest ratio of public deposits to its capital structure. (The depositories should supply you with this information.)¹⁵⁰

Collateral

For any deposit over \$100,000 the bank or other depository must provide a surety bond, certain securities or if eligible a safekeeping receipt as collateral to equal at least 100% of the deposit. Public deposits up to and including \$100,000 are insured by the FDIC, FSLIC or national credit union administration.¹⁵¹

Restrictions

1. A city or town may not award any bids for certificates of deposit for less than 103% of the equivalent yield of the offer side of U.S. Treasury bills.
2. Operating fund monies may not be invested for more than 3 years.¹⁵²

Trust Funds and Sinking Funds

Procedures for investment of trust funds are also specified in State law.¹⁵³

Pooled Investment Funds

The State Treasurer maintains several pooled investment funds for collective investment of public funds.¹⁵⁴ Cities and towns may participate in these funds. Cities and towns making deposits into this fund must specify the period of time that the funds will remain on deposit.

For more detailed information on these funds, such as monthly earning rates, types of investments involved and other characteristics of the various pools, contact the Office of the State Treasurer www.aztreasury.gov.

¹⁴⁷ A.R.S. § 35-323

¹⁴⁸ A.R.S. § 35-323

¹⁴⁹ A.R.S. § 35-323

¹⁵⁰ A.R.S. § 35-323

¹⁵¹ A.R.S. § 35-323

¹⁵² A.R.S. § 35-323

¹⁵³ A.R.S. § 35-324, § 35-327 and § 35-328

¹⁵⁴ A.R.S. § 35-326

PURCHASING

Bidding Procedures For Municipal Purchasing

In general, municipal purchasing procedures are an issue of local concern. However, in a few situations, State law dictates specific competitive bidding procedures. These situations are as follows:

1. State law dictates what construction projects cities and towns can complete with their own regularly employed personnel or with volunteer labor and which projects are subject to a state-mandated competitive bidding procedure. The law includes the following provisions:¹⁵⁵

- A city or town may complete a project that it believes can be advantageously done by its own employees provided that the total cost of the work, excluding materials and equipment previously acquired by bid, does not exceed a threshold amount that is adjusted annually for inflation. The threshold amount for FY2007-08 is \$18,430, FY2008-09 is \$18,794, FY2009-10 is \$19,184 and FY2010-11 is \$19,594.
- A city or town may use its own employees for street, road, bridge, water or sewer work, other than a water or sewer treatment plant or building, without advertising for bids if the total cost of the project does not exceed a threshold amount that is adjusted annually for inflation. The threshold amount for FY2007-08 is \$197,460, FY2008-09 is \$201,360, FY2009-10 is \$205,545 and FY2010-11 is \$209,940.
- A city or town may construct, reconstruct, install or repair a natural gas or electric utility and distribution system, owned and operated by the city/town, with their employees without going to bid unless otherwise prohibited by charter or ordinance.
- A city or town, without going to bid, may make a contribution for the financing of public infrastructure pursuant to a development agreement up to a threshold amount that is adjusted annually for inflation. The threshold amount for FY2007-08 is \$131,640, FY2008-09 is \$134,240, FY2009-10 is \$137,030, and FY2010-11 is \$139,960.
- A city or town without going to bid, may construct recreational projects, including trails, playgrounds, ballparks and other similar facilities excluding buildings, structures, or additions or alterations to structures or buildings, with volunteer workers or workers provided by a nonprofit organization without advertising for bids for labor and materials provided that the total cost of the work does not exceed a threshold amount which is adjusted annually for inflation. The threshold amount for FY2007-08 is \$174,300, FY2008-09 is \$177,735, FY2009-10 is \$181,440 and FY2010-11 is \$185,310.

The penalty for violating the aforementioned bid procedures is as follows:

- \$10,000 for a first violation
- \$25,000 for a second violation
- \$75,000 for a third violation
- A city or town is required to submit plans and specifications to any construction news reporting service that files an annual request with the city or town.
- Any construction done by a city or town under this section of law must comply with generally accepted accounting principles.

¹⁵⁵ A.R.S. § 34-201

2. State law requires a city or town to use competitive bids in an improvement district.¹⁵⁶ Under this bidding procedure, however, the governing body of a city or town may reject any or all bids when deemed for the public good.¹⁵⁷ In this situation, the law requires that the invitation for bids be published twice in one or more daily newspapers or once in a weekly or semi-weekly newspaper that is published and circulated in the city or town.¹⁵⁸ Additionally, there is a requirement that a copy of the notice be posted for five days on or near the door of the meeting place of the city/town council.¹⁵⁹

In addition to the above requirements for municipal purchasing, the State law requires a formal bid process for the sale of any real or personal property by a general law city or town unless the property is sold to another political subdivision. State law allows an exchange of property for property of substantially equal value.¹⁶⁰

Procuring Professional Services

One other area of purchasing where there are State regulations is in the area of contracting for professional services (architects, engineers, etc.). Some of these specifics include the opportunity to use alternative forms of contracting, i.e. design-build, construction manager at-risk, etc. If you are interested in how these alternatives might be used, please consult [A.R.S. Title 34, Chapter 6](#).

The preceding paragraphs set forth formal bid requirements as set forth in the Arizona Revised Statutes. However, this section of the manual is not intended as a substitute for the advice of counsel, and it is suggested that in any specific situation the city or town attorney be consulted with regard to the application of the statutes and local charter or ordinance requirements.

It should be noted that the practice of requiring competitive bidding in the letting of municipal contracts is generally for the purposes of inviting competition, guarding against favoritism, and to secure the best work or supplies at the lowest price practicable. In this regard, most municipalities require either by charter provision or by ordinance that purchases over a specified dollar amount be handled with a formal bidding procedure while lesser purchases are handled through an informal bidding process. We recommend consideration of such a local ordinance.

We also suggest consideration of centralized control of municipal purchasing procedures. Although centralized control of purchasing is not required, it is a good method to ensure sound budget control. Because a department has authority in the budget to purchase items does not mean that expected revenues are forthcoming. This pay-as-you-go budget control provides a more precise way to time your expenditures upon the receipt of revenue.

Developing an effective centralized purchasing program should begin with the authorizing of a purchasing officer to be responsible for the scheduling and making of purchases. The purchasing officer is also responsible for developing standard purchasing procedures and seeing that the purchasing schedule and procedures are followed. To ensure that the best products are obtained for the least price, it is essential to maintain a current list of qualified suppliers. Inventory and surplus goods may also be controlled with this program. Therefore, we suggest that such control along with up-to-date information may assist you in this budget related area.

¹⁵⁶ A.R.S. § 48-581

¹⁵⁷ A.R.S. § 48-584 (B)

¹⁵⁸ A.R.S. § 48-584 (D)

¹⁵⁹ A.R.S. § 48-581

¹⁶⁰ A.R.S. Title 9, Chapter 4, Article 1

DAVIS-BACON ACT

Arizona had a law known as the Little Davis-Bacon Act that required the payment of prevailing wages on public construction contracts. In March of 1980, the Arizona Supreme Court upheld a lower court's determination that this act was unconstitutional. Therefore, municipalities need not consider prevailing wages when letting construction contracts as far as the State law is concerned.

But, this Arizona ruling does not affect the Federal law on payment of prevailing wages in construction contracts known as the Davis-Bacon Act. Consequently, if Federal funds are used in construction projects, this Federal requirement may apply. For example, if Federal funds are used to finance 25% or more of a contracted construction project costing over \$2,000, then the city or town must ensure compliance with the prevailing wage rate and labor standards established by the Davis-Bacon Act. This Act is administered by the U.S. Department of Labor. We suggest your local city/town attorney be consulted on any construction project that will be paid for, either fully or partially, from Federal funds.

APPENDIX

EXHIBIT A

Article IX, Section 20, Arizona State Constitution

20. Expenditure limitation; adjustments; reporting

SECTION 20. (1) THE ECONOMIC ESTIMATES COMMISSION SHALL DETERMINE AND PUBLISH PRIOR TO APRIL 1 OF EACH YEAR THE EXPENDITURE LIMITATION FOR THE FOLLOWING FISCAL YEAR FOR EACH COUNTY, CITY AND TOWN. THE EXPENDITURE LIMITATIONS SHALL BE DETERMINED BY ADJUSTING THE AMOUNT OF ACTUAL PAYMENTS OF LOCAL REVENUES FOR EACH SUCH POLITICAL SUBDIVISION FOR FISCAL YEAR 1979-1980 TO REFLECT THE CHANGES IN THE POPULATION OF EACH POLITICAL SUBDIVISION AND THE COST OF LIVING. THE GOVERNING BOARD OF ANY POLITICAL SUBDIVISION SHALL NOT AUTHORIZE EXPENDITURES OF LOCAL REVENUES IN EXCESS OF THE LIMITATION PRESCRIBED IN THIS SECTION, EXCEPT AS PROVIDED IN SUBSECTIONS (2), (6) AND (9) OF THIS SECTION.

(2) EXPENDITURES IN EXCESS OF THE LIMITATIONS DETERMINED PURSUANT TO SUBSECTION (1) OF THIS SECTION MAY BE AUTHORIZED AS FOLLOWS:

(a) UPON AFFIRMATIVE VOTE OF TWO-THIRDS OF THE MEMBERS OF THE GOVERNING BOARD FOR EXPENDITURES DIRECTLY NECESSITATED BY A NATURAL OR MAN-MADE DISASTER DECLARED BY THE GOVERNOR. ANY EXPENDITURES IN EXCESS OF THE EXPENDITURE LIMITATION, AS AUTHORIZED BY THIS PARAGRAPH, SHALL NOT AFFECT THE DETERMINATION OF THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION IN ANY SUBSEQUENT YEARS. ANY EXPENDITURES AUTHORIZED PURSUANT TO THIS PARAGRAPH SHALL BE MADE EITHER IN THE FISCAL YEAR IN WHICH THE DISASTER IS DECLARED OR IN THE SUCCEEDING FISCAL YEAR.

(b) UPON THE AFFIRMATIVE VOTE OF SEVENTY PER CENT OF THE MEMBERS OF THE GOVERNING BOARD FOR EXPENDITURES DIRECTLY NECESSITATED BY A NATURAL OR MAN-MADE DISASTER NOT DECLARED BY THE GOVERNOR, SUBJECT TO THE FOLLOWING:

(i) THE GOVERNING BOARD REDUCING EXPENDITURES BELOW THE EXPENDITURE LIMITATION DETERMINED PURSUANT TO SUBSECTION (1) OF THIS SECTION BY THE AMOUNT OF THE EXCESS EXPENDITURE FOR THE FISCAL YEAR FOLLOWING A FISCAL YEAR IN WHICH EXCESS EXPENDITURES WERE MADE PURSUANT TO THIS PARAGRAPH; OR

(ii) APPROVAL OF THE EXCESS EXPENDITURE BY A MAJORITY OF THE QUALIFIED ELECTORS VOTING EITHER AT A SPECIAL ELECTION HELD BY THE GOVERNING BOARD OR AT A REGULARLY SCHEDULED ELECTION FOR THE NOMINATION OR ELECTION OF THE MEMBERS OF THE GOVERNING BOARD, IN THE MANNER PROVIDED BY LAW. IF THE EXCESS EXPENDITURE IS NOT APPROVED BY A MAJORITY OF THE QUALIFIED ELECTORS VOTING, THE GOVERNING BOARD SHALL FOR THE FISCAL YEAR WHICH IMMEDIATELY FOLLOWS THE FISCAL YEAR IN WHICH THE EXCESS EXPENDITURES ARE MADE, REDUCE EXPENDITURES BELOW THE EXPENDITURE LIMITATION DETERMINED PURSUANT TO SUBSECTION (1) OF THIS

SECTION BY THE AMOUNT OF THE EXCESS EXPENDITURES. ANY EXPENDITURES IN EXCESS OF THE EXPENDITURE LIMITATION, AS AUTHORIZED BY THIS PARAGRAPH, SHALL NOT AFFECT THE DETERMINATION OF THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION IN ANY SUBSEQUENT YEARS. ANY EXPENDITURES PURSUANT TO THIS PARAGRAPH SHALL BE MADE EITHER IN THE FISCAL YEAR IN WHICH THE DISASTER OCCURS OR IN THE SUCCEEDING FISCAL YEAR.

(c) UPON AFFIRMATIVE VOTE OF AT LEAST TWO-THIRDS OF THE MEMBERS OF THE GOVERNING BOARD AND APPROVAL BY A MAJORITY OF THE QUALIFIED ELECTORS VOTING EITHER AT A SPECIAL ELECTION HELD BY THE GOVERNING BOARD IN A MANNER PRESCRIBED BY LAW, OR AT A REGULARLY SCHEDULED ELECTION FOR THE NOMINATION OR ELECTION OF THE MEMBERS OF THE GOVERNING BOARD. SUCH APPROVAL BY A MAJORITY OF THE QUALIFIED ELECTORS VOTING SHALL BE FOR A SPECIFIC AMOUNT IN EXCESS OF THE EXPENDITURE LIMITATION, AND SUCH APPROVAL MUST OCCUR PRIOR TO THE FISCAL YEAR IN WHICH THE EXPENDITURE LIMITATION IS TO BE EXCEEDED. ANY EXPENDITURES IN EXCESS OF THE EXPENDITURE LIMITATION, AS AUTHORIZED BY THIS SUBDIVISION, SHALL NOT AFFECT THE DETERMINATION OF THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION, IN SUBSEQUENT YEARS.

(3) AS USED IN THIS SECTION:

(a) "BASE LIMIT" MEANS THE AMOUNT OF ACTUAL PAYMENTS OF LOCAL REVENUES FOR FISCAL YEAR 1979-1980 AS USED TO DETERMINE THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION.

(b) "COST OF LIVING" MEANS EITHER:

(i) THE PRICE OF GOODS AND SERVICES AS MEASURED BY THE IMPLICIT PRICE DEFLATOR FOR THE GROSS NATIONAL PRODUCT OR ITS SUCCESSOR AS REPORTED BY THE UNITED STATES DEPARTMENT OF COMMERCE OR ITS SUCCESSOR AGENCY.

(ii) A DIFFERENT MEASURE OR INDEX OF THE COST OF LIVING ADOPTED AT THE DIRECTION OF THE LEGISLATURE, BY CONCURRENT RESOLUTION, UPON AFFIRMATIVE VOTE OF TWO-THIRDS OF THE MEMBERSHIP OF EACH HOUSE OF THE LEGISLATURE. SUCH MEASURE OR INDEX SHALL APPLY FOR SUBSEQUENT FISCAL YEARS, EXCEPT IT SHALL NOT APPLY FOR THE FISCAL YEAR FOLLOWING THE ADOPTION OF SUCH MEASURE OR INDEX IF THE MEASURE OR INDEX IS ADOPTED AFTER MARCH 1 OF THE PRECEDING FISCAL YEAR.

(c) "EXPENDITURE" MEANS ANY AUTHORIZATION FOR THE PAYMENT OF LOCAL REVENUES.

(d) "LOCAL REVENUES" INCLUDES ALL MONIES, REVENUES, FUNDS, FEES, FINES, PENALTIES, TUITIONS, PROPERTY AND RECEIPTS OF ANY KIND WHATSOEVER RECEIVED BY OR FOR THE ACCOUNT OF A POLITICAL SUBDIVISION OR ANY OF ITS AGENCIES, DEPARTMENTS, OFFICES, BOARDS, COMMISSIONS, AUTHORITIES, COUNCILS AND INSTITUTIONS, EXCEPT:

(i) ANY AMOUNTS OR PROPERTY RECEIVED FROM THE ISSUANCE OR INCURRENCE OF BONDS OR OTHER LAWFUL LONG-TERM OBLIGATIONS ISSUED OR INCURRED FOR A SPECIFIC PURPOSE, OR COLLECTED OR SEGREGATED TO MAKE

PAYMENTS OR DEPOSITS REQUIRED BY A CONTRACT CONCERNING SUCH BONDS OR OBLIGATIONS. FOR THE PURPOSE OF THIS SUBDIVISION LONG-TERM OBLIGATIONS SHALL NOT INCLUDE WARRANTS ISSUED IN THE ORDINARY COURSE OF OPERATION OR REGISTERED FOR PAYMENT, BY A POLITICAL SUBDIVISION.

(ii) ANY AMOUNTS OR PROPERTY RECEIVED AS PAYMENT OF DIVIDENDS OR INTEREST, OR ANY GAIN ON THE SALE OR REDEMPTION OF INVESTMENT SECURITIES, THE PURCHASE OF WHICH IS AUTHORIZED BY LAW.

(iii) ANY AMOUNTS OR PROPERTY RECEIVED BY A POLITICAL SUBDIVISION IN THE CAPACITY OF TRUSTEE, CUSTODIAN OR AGENT.

(iv) ANY AMOUNTS RECEIVED AS GRANTS AND AID OF ANY TYPE RECEIVED FROM THE FEDERAL GOVERNMENT OR ANY OF ITS AGENCIES.

(v) ANY AMOUNTS RECEIVED AS GRANTS, AID, CONTRIBUTIONS OR GIFTS OF ANY TYPE EXCEPT AMOUNTS RECEIVED DIRECTLY OR INDIRECTLY IN LIEU OF TAXES RECEIVED DIRECTLY OR INDIRECTLY FROM ANY PRIVATE AGENCY OR ORGANIZATION OR ANY INDIVIDUAL.

(vi) ANY AMOUNTS RECEIVED FROM THE STATE WHICH ARE INCLUDED WITHIN THE APPROPRIATION LIMITATION PRESCRIBED IN SECTION 17 OF THIS ARTICLE.

(vii) ANY AMOUNTS RECEIVED PURSUANT TO A TRANSFER DURING A FISCAL YEAR FROM ANOTHER AGENCY, DEPARTMENT, OFFICE, BOARD, COMMISSION, AUTHORITY, COUNCIL OR INSTITUTION OF THE SAME POLITICAL SUBDIVISION WHICH WERE INCLUDED AS LOCAL REVENUES FOR SUCH FISCAL YEAR OR WHICH ARE EXCLUDED FROM LOCAL REVENUE UNDER OTHER PROVISIONS OF THIS SECTION.

(viii) ANY AMOUNTS OR PROPERTY ACCUMULATED FOR THE PURPOSE OF PURCHASING LAND, BUILDINGS OR IMPROVEMENTS OR CONSTRUCTING BUILDINGS OR IMPROVEMENTS, IF SUCH ACCUMULATION AND PURPOSE HAVE BEEN APPROVED BY THE VOTERS OF THE POLITICAL SUBDIVISION.

(ix) ANY AMOUNTS RECEIVED PURSUANT TO SECTION 14 OF THIS ARTICLE WHICH ARE GREATER THAN THE AMOUNT RECEIVED IN FISCAL YEAR 1979-1980.

(x) ANY AMOUNTS RECEIVED IN RETURN FOR GOODS OR SERVICES PURSUANT TO A CONTRACT WITH ANOTHER POLITICAL SUBDIVISION, SCHOOL DISTRICT, COMMUNITY COLLEGE DISTRICT OR THE STATE, AND EXPENDED BY THE OTHER POLITICAL SUBDIVISION, SCHOOL DISTRICT, COMMUNITY COLLEGE DISTRICT OR THE STATE PURSUANT TO THE EXPENDITURE LIMITATION IN EFFECT WHEN THE AMOUNTS ARE EXPENDED BY THE OTHER POLITICAL SUBDIVISION, SCHOOL DISTRICT, COMMUNITY COLLEGE DISTRICT OR THE STATE.

(xi) ANY AMOUNTS EXPENDED FOR THE CONSTRUCTION, RECONSTRUCTION, OPERATION OR MAINTENANCE OF A HOSPITAL FINANCIALLY SUPPORTED BY A CITY OR TOWN PRIOR TO JANUARY 1, 1980.

(xii) ANY AMOUNTS OR PROPERTY COLLECTED TO PAY THE PRINCIPAL OF AND INTEREST ON ANY WARRANTS ISSUED BY A POLITICAL SUBDIVISION AND OUTSTANDING AS OF JULY 1, 1979.

(xiii) ANY AMOUNTS RECEIVED DURING A FISCAL YEAR AS REFUNDS, REIMBURSEMENTS OR OTHER RECOVERIES OF AMOUNTS EXPENDED WHICH WERE APPLIED AGAINST THE EXPENDITURE LIMITATION FOR SUCH FISCAL YEAR OR WHICH

WERE EXCLUDED FROM LOCAL REVENUES UNDER OTHER PROVISIONS OF THIS SUBSECTION.

(xiv) ANY AMOUNTS RECEIVED COLLECTED BY THE COUNTIES FOR DISTRIBUTION TO SCHOOL DISTRICTS PURSUANT TO STATE LAW.

(e) "POLITICAL SUBDIVISION" MEANS ANY COUNTY, CITY OR TOWN. THIS DEFINITION APPLIES ONLY TO THIS SECTION AND DOES NOT OTHERWISE MODIFY THE COMMONLY ACCEPTED DEFINITION OF POLITICAL SUBDIVISION.

(f) "POPULATION" MEANS EITHER:

(i) THE PERIODIC CENSUS CONDUCTED BY THE UNITED STATES DEPARTMENT OF COMMERCE OR ITS SUCCESSOR AGENCY, OR THE ANNUAL UPDATE OF SUCH CENSUS BY THE DEPARTMENT OF ECONOMIC SECURITY OR ITS SUCCESSOR AGENCY.

(ii) A DIFFERENT MEASURE OR INDEX OF POPULATION ADOPTED AT THE DIRECTION OF THE LEGISLATURE, BY CONCURRENT RESOLUTION, UPON AFFIRMATIVE VOTE OF TWO-THIRDS OF THE MEMBERSHIP OF EACH HOUSE OF THE LEGISLATURE. SUCH MEASURE OR INDEX SHALL APPLY FOR SUBSEQUENT FISCAL YEARS, EXCEPT IT SHALL NOT APPLY FOR THE FISCAL YEAR FOLLOWING THE ADOPTION OF SUCH MEASURE OR INDEX IF THE MEASURE OR INDEX IS ADOPTED AFTER MARCH 1 OF THE PRECEDING FISCAL YEAR.

(4) THE ECONOMIC ESTIMATES COMMISSION SHALL ADJUST THE BASE LIMIT TO REFLECT SUBSEQUENT TRANSFERS OF ALL OR ANY PART OF THE COST OF PROVIDING A GOVERNMENTAL FUNCTION, IN A MANNER PRESCRIBED BY LAW. THE ADJUSTMENT PROVIDED FOR IN THIS SUBSECTION SHALL BE USED IN DETERMINING THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION BEGINNING WITH THE FISCAL YEAR IMMEDIATELY FOLLOWING THE TRANSFER.

(5) THE ECONOMIC ESTIMATES COMMISSION SHALL ADJUST THE BASE LIMIT TO REFLECT ANY SUBSEQUENT ANNEXATION, CREATION OF A NEW POLITICAL SUBDIVISION, CONSOLIDATION OR CHANGE IN THE BOUNDARIES OF A POLITICAL SUBDIVISION, IN A MANNER PRESCRIBED BY LAW. THE ADJUSTMENT PROVIDED FOR IN THIS SUBSECTION SHALL BE USED IN DETERMINING THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION BEGINNING WITH THE FISCAL YEAR IMMEDIATELY FOLLOWING THE ANNEXATION, CREATION OF A NEW POLITICAL SUBDIVISION, CONSOLIDATION OR CHANGE IN THE BOUNDARIES OF A POLITICAL SUBDIVISION.

(6) ANY POLITICAL SUBDIVISION MAY ADJUST THE BASE LIMIT BY THE AFFIRMATIVE VOTE OF TWO-THIRDS OF THE MEMBERS OF THE GOVERNING BOARD OR BY INITIATIVE, IN THE MANNER PROVIDED BY LAW, AND IN EITHER INSTANCE BY APPROVAL OF THE PROPOSED ADJUSTMENT BY A MAJORITY OF THE QUALIFIED ELECTORS VOTING AT A REGULARLY SCHEDULED GENERAL ELECTION OR AT A NONPARTISAN ELECTION HELD FOR THE NOMINATION OR ELECTION OF THE MEMBERS OF THE GOVERNING BOARD. THE IMPACT OF THE MODIFICATION OF THE EXPENDITURE LIMITATION SHALL APPEAR ON THE BALLOT AND IN PUBLICITY PAMPHLETS, AS PROVIDED BY LAW. ANY ADJUSTMENT PURSUANT TO THIS SUBSECTION, OF THE BASE LIMIT SHALL BE USED IN DETERMINING THE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (1) OF THIS SECTION BEGINNING WITH THE FISCAL YEAR IMMEDIATELY FOLLOWING THE APPROVAL, AS PROVIDED BY LAW.

(7) THE LEGISLATURE SHALL PROVIDE FOR EXPENDITURE LIMITATIONS FOR SUCH SPECIAL DISTRICTS AS IT DEEMS NECESSARY.

(8) THE LEGISLATURE SHALL ESTABLISH BY LAW A UNIFORM REPORTING SYSTEM FOR ALL POLITICAL SUBDIVISIONS OR SPECIAL DISTRICTS SUBJECT TO AN EXPENDITURE LIMITATION PURSUANT TO THIS SECTION TO INSURE COMPLIANCE WITH THIS SECTION. THE LEGISLATURE SHALL ESTABLISH BY LAW SANCTIONS AND PENALTIES FOR FAILURE TO COMPLY WITH THIS SECTION.

(9) SUBSECTION (1) OF THIS SECTION DOES NOT APPLY TO A CITY OR TOWN WHICH AT A REGULARLY SCHEDULED ELECTION FOR THE NOMINATION OR ELECTION OF MEMBERS OF THE GOVERNING BOARD OF THE CITY OR TOWN ADOPTS AN EXPENDITURE LIMITATION PURSUANT TO THIS SUBSECTION DIFFERENT FROM THE EXPENDITURE LIMITATION PRESCRIBED BY SUBSECTION (1) OF THIS SECTION. THE GOVERNING BOARD OF A CITY OR TOWN MAY BY A TWO-THIRDS VOTE PROVIDE FOR REFERRAL OF AN ALTERNATIVE EXPENDITURE LIMITATION OR THE QUALIFIED ELECTORS MAY BY INITIATIVE, IN THE MANNER PROVIDED BY LAW, PROPOSE AN ALTERNATIVE EXPENDITURE LIMITATION. IN A MANNER PROVIDED BY LAW, THE IMPACT OF THE ALTERNATIVE EXPENDITURE LIMITATION SHALL BE COMPARED TO THE IMPACT OF THE EXPENDITURE LIMITATION PRESCRIBED BY SUBSECTION (1) OF THIS SECTION, AND THE COMPARISON SHALL APPEAR ON THE BALLOT AND IN PUBLICITY PAMPHLETS. IF A MAJORITY OF THE QUALIFIED ELECTORS VOTING ON SUCH ISSUE VOTE IN FAVOR OF THE ALTERNATIVE EXPENDITURE LIMITATION, SUCH LIMITATION SHALL APPLY TO THE CITY OR TOWN. IF MORE THAN ONE ALTERNATIVE EXPENDITURE LIMITATION IS ON THE BALLOT AND MORE THAN ONE ALTERNATIVE EXPENDITURE LIMITATION IS APPROVED BY THE VOTERS, THE ALTERNATIVE EXPENDITURE LIMITATION RECEIVING THE HIGHEST NUMBER OF VOTES SHALL APPLY TO SUCH CITY OR TOWN. IF AN ALTERNATIVE EXPENDITURE LIMITATION IS ADOPTED, IT SHALL APPLY FOR THE FOUR SUCCEEDING FISCAL YEARS. FOLLOWING THE FOURTH SUCCEEDING FISCAL YEAR, THE EXPENDITURE LIMITATION PRESCRIBED BY SUBSECTION (1) OF THIS SECTION SHALL BECOME THE EXPENDITURE LIMITATION FOR THE CITY OR TOWN UNLESS AN ALTERNATIVE EXPENDITURE LIMITATION IS APPROVED AS PROVIDED IN THIS SUBSECTION. IF A MAJORITY OF THE QUALIFIED ELECTORS VOTING ON SUCH ISSUE VOTE AGAINST AN ALTERNATIVE EXPENDITURE LIMITATION, THE EXPENDITURE LIMITATION PRESCRIBED PURSUANT TO SUBSECTION (1) OF THIS SECTION SHALL APPLY TO THE CITY OR TOWN, AND NO NEW ALTERNATIVE EXPENDITURE LIMITATION MAY BE SUBMITTED TO THE VOTERS FOR A PERIOD OF AT LEAST TWO YEARS. IF AN ALTERNATIVE EXPENDITURE LIMITATION IS ADOPTED PURSUANT TO THIS SUBSECTION, THE CITY OR TOWN MAY NOT CONDUCT AN OVERRIDE ELECTION PROVIDED FOR IN SECTION 19, SUBSECTION (4) OF THIS ARTICLE, DURING THE TIME PERIOD IN WHICH THE ALTERNATIVE EXPENDITURE LIMITATION IS IN EFFECT.

(10) THIS SECTION DOES NOT APPLY TO ANY POLITICAL SUBDIVISION UNTIL THE FISCAL YEAR IMMEDIATELY FOLLOWING THE FIRST REGULARLY SCHEDULED ELECTION AFTER JULY 1, 1980 FOR THE NOMINATION OR ELECTION OF THE MEMBERS OF THE GOVERNING BOARD OF SUCH POLITICAL SUBDIVISION, EXCEPT THAT A POLITICAL SUBDIVISION, PRIOR TO THE FISCAL YEAR DURING WHICH THE SPENDING LIMITATION WOULD FIRST BECOME EFFECTIVE, MAY MODIFY THE EXPENDITURE LIMITATION PRESCRIBED PURSUANT TO SUBSECTION (1) OF THIS SECTION, BY THE PROVISIONS PRESCRIBED BY SUBSECTIONS (2) AND (6) OF THIS SECTION, OR MAY ADOPT AN ALTERNATIVE EXPENDITURE LIMITATION PURSUANT TO SUBSECTION (9) OF THIS SECTION.

A COUNTY MAY CONDUCT A SPECIAL ELECTION TO EXCEED THE EXPENDITURE LIMITATION PRESCRIBED PURSUANT TO SUBSECTION (1) OF THIS SECTION FOR THE FISCAL YEARS 1982-1983 AND 1983-1984, ON THE FIRST TUESDAY AFTER THE FIRST MONDAY IN NOVEMBER IN 1981.

(11) "CITY", AS USED IN THIS ARTICLE, MEANS CITY OR CHARTER CITY.

EXHIBIT B

ECONOMIC ESTIMATES COMMISSION

APPEAL PROCEDURES

One of the purposes of this publication is to provide cities, towns, community college districts and counties with an effective opportunity to appeal from decisions of the Commission that determine base year expenditures and revenues, expenditure limits and adjustments to base year expenditures and revenues and expenditure limits with respect to annexation and new political subdivisions. All notices of appeal shall be typewritten, legibly written or legibly printed and shall state the following information:

1. Name and address of the entity appealing.
2. The amount of deficiency or error committed by the Commission in their determination of expenditures and revenues.
3. Statement of error(s) alleged to have been committed by the Commission in their determination of expenditures and revenues.
4. What relief is being sought.
5. If an oral hearing is requested.

A notice of appeal shall be accepted if filed in the month of February of the year of the appeal.

Any appeal or memoranda in support of an appeal from action by the Commission shall be mailed or delivered to the office of the Commission at 1600 West Monroe, Phoenix, Arizona 85007.

If the last day for filing an appeal falls on a Saturday, Sunday, or Legal Holiday, the appeal may be timely filed on the following business day. An appeal filed by mail will be considered filed on the date shown by its postmark. In the absence of other evidence, the Commission will determine whether an appeal was timely filed. An appeal not filed within the time prescribed shall be dismissed. After the notice of appeal and any supporting memoranda are filed, the appeal shall be set for oral hearing. Written or oral notice of the time and place of hearing will be given to the party at least five (5) days in advance; Saturdays, Sundays and holidays excluded. The hearing may be postponed for good cause shown, in the Commission's discretion at the written or oral request of the party.

An oral hearing may be waived in writing by the appellant. If oral hearing is waived, the appeal will be deemed submitted to the Commission for decision upon the basis of the notice of appeal and any memoranda filed in the matter.

A member of the Commission or designated Hearing Officer shall conduct the hearing. That individual shall make a report to the members of the Commission. The report shall include a summary of the material evidence presented at the hearing, a recommendation as to the Commission's decision and the reasons in support of the recommended decision.

Oral hearings will be held in the Commission's hearing room in Phoenix, Arizona. Hearings shall ordinarily be conducted between the hours of 9:00 a.m. and 5:00 p.m. and will be scheduled to last for not more than one hour. If additional time is needed, this may be arranged in advance by contacting the Commission Chairman. The burden of proof will be upon the local government entity as to all issues of fact.

All oral proceedings will be transcribed by a recording device and the recorded tapes will be maintained in the office of the Commission. A copy of the tape will be furnished to a party making the request at no cost.

A request that the hearing be transcribed manually shall be made in writing to the Chairman of the Commission at least five days in advance of the hearing. Such transcript shall be prepared at the expense of the requesting party unless otherwise provided by law. The records and files of the Commission will not be removed from its office for use as evidence or other purposes. Certified copies of records which the Commission is permitted by law to divulge will, however, be furnished to litigants or other interested persons. Where certified copies of papers or records are requested, a reasonable charge will be made as determined by the Commission. A decision or order of the Commission must be agreed upon by a quorum of the Commission. Two members shall constitute a quorum. Any member who dissents may state the reasons for the dissent. All decisions shall be in writing.

Notice of the decision or order of the Commission shall be mailed, return receipt requested, or delivered to all parties to the proceedings.

EXHIBIT C

**STATE LAW REQUIREMENTS
AND
SAMPLE FORMS
FOR
ALTERNATIVE EXPENDITURE LIMITATION
(HOME RULE OPTION)
AND
PERMANENT BASE ADJUSTMENT**

**JULY 1, 1978 POPULATIONS
AND 1979-80 BASE LIMITATIONS***

City/Town	1978 Population ***	2006 Population ***	Population Factor	Inflation Factor ****	FY 1979/80 Base Limit	Final FY 2007/08 Expenditure Limitation
Apache Junction	9,500	34,055	3.5847	2.5358	\$1,581,484	\$14,376,203
Avondale	6,900	72,645	10.5283	2.5358	\$1,525,417	\$40,725,585
Benson	3,925	4,815	1.2268	2.5358	\$1,317,815	\$4,099,522
Bisbee	6,860	6,350	0.9257	2.5358	\$1,625,337	\$3,815,182
Buckeye	3,175	32,710	10.3024	2.5358	\$1,048,270	\$27,386,219
Bullhead City	13,830	39,880	2.8836	2.5358	\$5,493,553	\$40,170,607
Camp Verde	5,650	11,225	1.9867	2.5358	\$2,072,112	\$10,439,345
Carefree	1,744	3,805	2.1818	2.5358	\$1,642,262	\$9,086,000 **
Casa Grande	14,100	36,680	2.6014	2.5358	\$3,743,397	\$24,694,385 **
Cave Creek	2,025	4,880	2.4099	2.5358	\$656,393	\$4,011,260
Chandler	23,500	236,155	10.0491	2.5358	\$7,245,951	\$184,648,925
Chino Valley	2,400	12,690	5.2875	2.5358	\$255,094	\$3,420,367
Clarkdale	1,200	3,710	3.0917	2.5358	\$255,616	\$2,004,023
Clifton	4,515	2,490	0.5515	2.5358	\$1,656,956	\$2,317,260 **
Colorado City	1,730	4,045	2.3382	2.5358	\$987,191	\$5,853,229 **
Coolidge	6,775	9,485	1.4000	2.5358	\$1,530,413	\$5,433,239
Cottonwood	4,200	10,920	2.6000	2.5358	\$1,105,601	\$7,289,435 **
Dewey-Humboldt	4,080	4,230	1.0368	2.5358	\$1,533,271	\$4,031,078
Douglas	12,600	17,650	1.4008	2.5358	\$4,067,476	\$14,448,450
Duncan	700	805	1.1500	2.5358	\$177,389	\$517,305
Eagar	2,450	4,535	1.8510	2.5358	\$627,268	\$2,944,330
El Mirage	4,025	32,690	8.1217	2.5358	\$774,680	\$15,954,878
Eloy	6,300	11,065	1.7563	2.5358	\$1,419,813	\$6,323,596
Flagstaff	32,000	62,115	1.9411	2.5358	\$22,522,966	\$110,864,933 **
Florence	3,175	21,015	6.6189	2.5358	\$714,110	\$11,985,962
Fountain Hills	10,190	25,065	2.4598	2.5358	\$4,107,576	\$25,621,305 **
Fredonia	850	1,125	1.3235	2.5358	\$329,695	\$1,106,542
Gila Bend	1,575	1,815	1.1524	2.5358	\$684,678	\$2,000,804
Gilbert	4,250	186,860	43.9671	2.5358	\$2,346,450	\$261,613,906 **
Glendale	84,000	243,715	2.9014	2.5358	\$67,955,628	\$499,977,558 **
Globe	6,550	7,550	1.1527	2.5358	\$2,436,186	\$7,120,954
Goodyear	2,500	50,260	20.1040	2.5358	\$4,125,000	\$210,294,801 **
Guadalupe	4,300	5,570	1.2953	2.5358	\$549,792	\$1,805,956
Hayden	1,200	840	0.7000	2.5358	\$408,838	\$725,724
Holbrook	5,450	5,425	0.9954	2.5358	\$2,585,121	\$6,525,386
Huachuca City	1,690	1,825	1.0799	2.5358	\$317,153	\$868,495
Jerome	395	330	0.8354	2.5358	\$132,688	\$281,106
Kearny	2,665	2,165	0.8124	2.5358	\$950,057	\$1,957,188 **
Kingman	8,745	27,605	3.1567	2.5358	\$4,426,488	\$35,433,115
Lake Havasu City	13,000	54,545	4.1958	2.5358	\$4,711,264	\$50,126,934
Litchfield Park	3,835	4,950	1.2907	2.5358	\$3,542,818	\$11,596,069 **
Mammoth	1,960	1,720	0.8776	2.5358	\$425,048	\$945,872
Marana	1,425	30,425	21.3509	2.5358	\$202,239	\$10,949,713
Maricopa	3,790	24,625	6.4974	2.5358	\$10,601,417	\$174,671,904 **
Mesa	130,000	451,855	3.4758	2.5358	\$54,090,640	\$476,760,171

* Information from Economic Estimates Commission

** Received approval from voters for permanent base adjustment

*** Figures as of July 1 SOURCE: DEPT. OF ECONOMIC SECURITY)

**** SOURCE: (2006 GDP Implicit Price Deflator - Global Insight, November 2006)/
(1978 GDP Implicit Price Deflator) = 116.033/45.757

**JULY 1, 1978 POPULATIONS
AND 1979-80 BASE LIMITATIONS***

City/Town	1978 Population ***	2006 Population ***	Population Factor	Inflation Factor ****	FY 1979/80 Base Limit	Final FY 2007/08 Expenditure Limitation
Miami	2,615	2,000	0.7648	2.5358	\$878,262	\$1,703,352
Nogales	11,740	21,765	1.8539	2.5358	\$3,245,377	\$15,257,305
Oro Valley	1,475	40,205	27.2576	2.5358	\$272,317	\$18,822,829
Page	4,375	7,240	1.6549	2.5358	\$6,429,631	\$26,981,660 **
Paradise Valley	10,425	14,020	1.3448	2.5358	\$6,645,509	\$22,663,256 **
Parker	2,485	3,270	1.3159	2.5358	\$1,145,364	\$3,821,968
Patagonia	925	920	0.9946	2.5358	\$213,500	\$538,476
Payson	4,305	15,620	3.6283	2.5358	\$1,267,280	\$11,660,108
Peoria	10,500	146,210	13.9248	2.5358	\$18,247,857	\$644,349,883 **
Phoenix	717,000	1,509,765	2.1057	2.5358	\$229,200,625	\$1,223,849,745
Pima	1,465	2,070	1.4130	2.5358	\$275,000	\$985,343 **
Pinetop-Lakeside	2,635	4,515	1.7135	2.5358	\$1,214,814	\$5,278,482
Prescott	19,250	42,065	2.1852	2.5358	\$8,495,931	\$47,078,568
Prescott Valley	1,520	35,720	23.5000	2.5358	\$380,054	\$22,648,283
Quartzsite	2,115	3,650	1.7258	2.5358	\$974,825	\$4,266,101
Queen Creek	2,525	19,010	7.5287	2.5358	\$818,277	\$15,622,231
Safford	6,200	9,360	1.5097	2.5358	\$5,484,597	\$20,996,697
Sahuarita	1,629	18,030	11.0681	2.5358	\$713,697	\$20,031,369
St. Johns	4,100	3,925	0.9573	2.5358	\$819,104	\$1,988,460
San Luis	1,690	23,700	14.0237	2.5358	\$724,909	\$25,779,070
Scottsdale	83,000	237,480	2.8612	2.5358	\$55,861,444	\$405,306,168 **
Sedona	7,050	11,010	1.5617	2.5358	\$2,960,687	\$11,724,999
Show Low	3,800	10,490	2.7605	2.5358	\$1,443,667	\$10,106,040
Sierra Vista	24,050	44,835	1.8642	2.5358	\$10,055,882	\$47,538,379 **
Snowflake	3,000	5,150	1.7167	2.5358	\$741,469	\$3,227,759
Somerton	3,540	10,095	2.8517	2.5358	\$681,742	\$4,929,981
South Tucson	6,275	5,805	0.9251	2.5358	\$1,879,168	\$4,408,351
Springerville	1,400	2,130	1.5214	2.5358	\$678,299	\$2,616,947
Star Valley	2,255	2,265	1.0044	2.5358	\$744,113	\$1,895,320
Superior	4,700	3,170	0.6745	2.5358	\$682,763	\$1,167,760
Surprise	3,550	99,650	28.0704	2.5358	\$474,998	\$33,811,375
Taylor	1,740	4,245	2.4397	2.5358	\$245,508	\$1,518,855
Tempe	102,000	165,900	1.6265	2.5358	\$65,579,379	\$270,480,288 **
Thatcher	3,170	4,955	1.5631	2.5358	\$1,860,674	\$7,375,251 **
Tolleson	4,190	6,525	1.5573	2.5358	\$966,494	\$3,816,698
Tombstone	1,600	1,655	1.0344	2.5358	\$508,007	\$1,332,508
Tucson	311,400	534,535	1.7166	2.5358	\$138,097,586	\$601,126,304 **
Wellton	900	2,145	2.3833	2.5358	\$460,150	\$2,781,034 **
Wickenburg	3,300	6,315	1.9136	2.5358	\$1,805,966	\$8,763,772 **
Willcox	2,985	3,905	1.3082	2.5358	\$10,497,909	\$34,825,841
Williams	2,100	3,175	1.5119	2.5358	\$1,254,501	\$4,809,695
Winkelman	1,010	435	0.4307	2.5358	\$183,579	\$200,499
Winslow	7,725	9,890	1.2803	2.5358	\$4,995,579	\$16,218,315
Youngtown	2,100	6,345	3.0214	2.5358	\$559,874	\$4,289,678
Yuma	34,500	92,120	2.6701	2.5358	\$15,663,245	\$106,056,840

* Information from Economic Estimates Commission

** Received approval from voters for permanent base adjustment

*** Figures as of July 1 SOURCE: DEPT. OF ECONOMIC SECURITY)

**** SOURCE: (2006 GDP Implicit Price Deflator - Global Insight, November 2006)/
(1978 GDP Implicit Price Deflator) = 116.033/45.757

**SAMPLE FORMS
FOR
ALTERNATIVE EXPENDITURE LIMITATION
(HOME RULE OPTION)**

INSTRUCTIONS FOR PUBLIC NOTICE OF HEARINGS

1. Insert information about date, time and location of hearings.
2. This public notice must be published once a week for at least two consecutive weeks. This notice is required by A.R.S. § 41-563.01.

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INSTRUCTIONS FOR COMPLETING PUBLIC NOTICE

1. Include first paragraph only if you are renewing an alternative expenditure limitation.
2. If council disapproves proposal, only publish second paragraph.
3. In completing the fourth paragraph of the notice, you should use the same figures used in the summary analysis.
4. The purposes for additional expenditures listed here must be specific - i.e., police department, street construction or water and sewer departments. The purposes should also agree with those purposes enumerated in the detailed and summary analysis. Regardless, this is only a statement of intent and will not limit your additional expenditures to these purposes.
5. If you do not have a property tax, remove the last sentence in the fifth paragraph.
6. Notice must be published at least once each week for two consecutive weeks if in a weekly newspaper or four consecutive times if in a daily newspaper. (A.R.S. § 41-563.01(2) and § 39-204)
7. The requirements for this notice are specified in A.R.S. § 41-563.01(2).

PUBLIC NOTICE OF HEARINGS

The City/Town Council of the City/Town of _____ will hold two public hearings on the proposed alternative expenditure limitation - home rule option as follows:

By order of the City/Town Council of _____.

Signed:

City/Town Clerk

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PUBLIC NOTICE

(The voters of the City/Town of _____ in 20__ adopted an alternative expenditure limitation - home rule option. The purpose of this election is for the continued use of the alternative expenditure limitation.)

Pursuant to A.R.S. § 41-563.01, the City/Town Council of _____ voted to (approve/disapprove) the proposed alternative expenditure limitation - home rule option at its special meeting on _____. The vote for (approval/disapproval) was _____ For and _____ Against.

At the (primary/general) election to be held on _____, the voters of the City/Town of _____ will vote on the question of an alternative expenditure limitation - home rule option.

With voter approval, the city/town shall be limited to the expenditure of estimated available revenues whether such expenditures are less than or exceed the State imposed limit. As an example, in _____, the state-imposed limitation plus applicable constitutional exclusions will allow expenditures of \$ _____. Under the proposed alternative expenditure limitation, we estimate expenditures of \$ _____.

If the voters approve, the additional expenditure authority will be used for all local budgetary purposes including _____. Revenues received from federal, state and local sources will be used to fund such expenditures. (The city/town property tax shall be limited to the amount prescribed in the Arizona State Constitution.)

By order of the City/Town Council of _____.

Signed:

City/Town Clerk

INSTRUCTIONS FOR COMPLETING DETAILED ANALYSIS

Information required to be documented on the detailed analysis is specified in A.R.S. § 41-563.03 (E).

1. In the first paragraph, insert the number of the resolution authorizing the alternative expenditure limitation and date the resolution passed.
2. In the second paragraph, enter the amount of the estimated expenditures under the home rule option for each of the four consecutive fiscal years for which the proposal will be effective.
3. In the third paragraph, indicate the purposes for which the additional expenditures under the home rule option will be used. You should be as specific as possible (e.g. general government, public safety, street construction, parks and recreation, library, public works, etc.). Reference to such expenditures by fund only is not sufficient. It also should be noted that these descriptions will not limit your additional expenditures to these purposes. **NOTE: The purposes listed here should be consistent with the purposes listed in the first chart (Estimated Amounts to be Expended in Specific Areas) and those listed in the summary analysis.**
4. In the first chart, enter the specific purposes for which the expenditures will be made and the estimated expenditures for each of the four consecutive fiscal years for which the home rule option will be effective. **NOTE: The purposes listed here should be consistent with the purposes listed in the third paragraph above and the summary analysis. Additionally, total expenditures for each year should be mathematically accurate and should agree to the amounts included in the second paragraph of the detailed analysis and summary analysis.**
5. In the second chart, enter the estimated revenue amounts from federal, state and local sources for each of the four consecutive fiscal years for which the proposal will be effective. **NOTE: Total estimated revenues for each year should be mathematically accurate and should agree to the total estimated expenditures for each year as presented on the detailed and summary analysis.**
6. Insert the fifth paragraph **only** if the city/town levies a property tax. Otherwise, it should not be included.
7. In the sixth paragraph, add any assumptions used in determining the revenue sources to fund the authorized additional expenditures under the alternative expenditure limitation if not already identified here.

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

Pursuant to the Arizona State Constitution, the City/Town of _____ as authorized by Resolution # _____ passed on _____ will seek voter approval to adopt an alternative expenditure limitation (Home Rule Option) to apply to the City/Town for the next four years beginning in (fiscal year).

Under a Home Rule Option if approved by the voters, the city/town estimates it will be allowed to expend approximately \$ _____ in (fiscal year), \$ _____ in (fiscal year), \$ _____ in (fiscal year), and \$ _____ in (fiscal year).

With approval of the Home Rule Option, the city/town will utilize the expenditure authority for all local budgetary purposes including _____. 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	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
Total Expenditures				

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	Fiscal Year	Fiscal Year	Fiscal Year	Fiscal Year
Federal				
State				
Local				
Total Revenues				

(The city/town property tax shall be limited to the amount prescribed in the Arizona State Constitution).

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 (fiscal year) as they have for the past _____ years. Their continued availability is also assumed for the next three consecutive years following (fiscal year).

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.

INSTRUCTIONS FOR COMPLETING SUMMARY ANALYSIS

Information required to be documented in the summary analysis is specified in A.R.S. § 41-563.03 (C).

1. Complete the first paragraph only if the city/town is renewing the alternative expenditure limitation.
2. In the second paragraph, enter the estimated expenditures under the Home Rule Option for each of the four consecutive fiscal years for which the proposal will be effective. **NOTE: The amounts in this paragraph should equal the total estimated expenditures for each fiscal year as documented in the detailed analysis.**
3. In the third paragraph, enter the purposes for which the additional expenditures will be made. **NOTE: The purposes listed here must be specific and should be consistent with the purposes listed in the detailed analysis and the Public Notice.**
4. In the fourth paragraph, enter the amount of estimated expenditures under the state-imposed expenditure limitation including the estimated amount for exclusions for each of the four consecutive fiscal years. **NOTE: These amounts should be calculated using the summary analysis worksheet.**
5. In the fifth paragraph, enter the total estimated revenue for each of the four consecutive fiscal years for which the proposal will be effective. **NOTE: The amounts in this paragraph should be consistent with the total estimated revenues for each fiscal year in the detailed analysis. Insert the last sentence of this paragraph only if the city/town levies a property tax.**

ALTERNATIVE EXPENDITURE LIMITATION

(Home Rule Option)

SUMMARY ANALYSIS

(The voters of the City/Town of _____ in 20__ 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 City/Town of _____ seeks voter approval to adopt a Home Rule Option to apply to the city/town for the next four years beginning in (fiscal year). Under a Home Rule Option if approved by the voters, the city/town estimates it will be allowed to expend approximately \$_____ in (fiscal year), \$_____ in (fiscal year), \$_____ in (fiscal year), and \$_____ in (fiscal year).

With approval of the Home Rule Option, the city/town will utilize the expenditure authority for all local budgetary purposes including _____.

Under the state-imposed limitation, after considering the constitutionally allowed exclusions, the city/town estimates it will be allowed to expend approximately \$_____ in (fiscal year), \$_____ in (fiscal year), \$_____ in (fiscal year), and \$_____ in (fiscal year) for the operation of your local government.

The amount of revenue estimated to be available to fund the operation of your city/town government is \$_____ in (fiscal year), \$_____ in (fiscal year), \$_____ in (fiscal year), and \$_____ in (fiscal year). These revenue estimates are the same under the Home Rule Option or the state-imposed expenditure limitation. (The city/town property tax shall be limited to the amount prescribed in the Arizona State Constitution.)

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 city/town.

INSTRUCTIONS FOR COMPLETING SUMMARY ANALYSIS WORKSHEET

Population Factor Computation Table

1. In projecting your state-imposed expenditure limitations beginning in fiscal year XXXX-YYYY, you will need population estimates beginning with the July 1, XXXX (prior year) figure. In the first column, enter the Prior Fiscal Year Population figures for each of the four consecutive years for which the proposal will be effective. The DES population figures which must be used in this calculation are available from the League offices. They are provided to the League by and questions about the figures can be addressed to **Peter Kozy, Department of Economic Security, Population Statistics Unit, 1789 West Jefferson - 045Z, First Floor - Southeast Corner, Phoenix, Arizona 85007-3202, (602) 542-5986.**
2. In the second column, enter the city/town's 1978 population for each of the four consecutive fiscal years. Obtain the 1978 Population amount as determined by the Economic Estimates Commission from the first section of this exhibit.
3. Calculate the Population Factors for each of the four consecutive fiscal years by dividing the Prior Fiscal Year Population amount by the 1978 Population amount as shown. **NOTE: For consistency, the population factors should be rounded to the fourth decimal place.**

State-Imposed Expenditure Limitation Table

1. In the first column, enter the 1979-80 Base Limit amount for each of the four consecutive fiscal years shown. To aid in preparation of the summary analysis worksheet, the Base Limits provided by the Economic Estimates Commission for all cities and towns have been included in the first section of this exhibit.
2. In the second column, enter the Population Factors for each of the four consecutive fiscal years as calculated in the previous table.
3. In projecting your state-imposed expenditure limitations beginning in fiscal year XXXX-YYYY, you will need calendar year Inflation Factors beginning with the year prior to XXXX. In the third column, enter the most recent Inflation Factors available for each of the four consecutive fiscal years. The Inflation Factors used should be calendar year factors and may be obtained from: **Diane Sosinski, Department of Revenue, Econometrics Unit, 1600 West Monroe, Phoenix, Arizona 85007, (602) 716-6797. NOTE: The Inflation Factors listed in this sample will be changed in late September. If you are making a submission to the Auditor General's Office prior to late September, you may use the factors appearing on the chart. Otherwise, you should obtain the up-to-date factors from Ms. Sosinski.**
4. Calculate the Projected State-Imposed Expenditure Limitation amounts for each of the four years by multiplying the 1979-80 Base Limit amount by the Population Factor and the Inflation Factor. Add an amount for estimated exclusions in the next to last column and insert a total in the final column. **NOTE: The projected expenditure limitations plus exclusions calculated here should be consistent with the estimated state-imposed expenditure limitation plus exclusions recorded in the summary analysis narrative.**

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

POPULATION FACTOR COMPUTATION

Fiscal Year	Prior Fiscal Year Population	÷	1978 Population	=	Population Factor
		÷		=	
		÷		=	
		÷		=	
		÷		=	

STATE-IMPOSED EXPENDITURE LIMITATION

Fiscal Year	1979-80 Base Limit	x	Population Factor	x	Inflation Factor	=	Projected State-Imposed Expenditure Limitation	+	Estimated Exclusions	=	Total Expenditures Under State-Imposed Limit
		x		x		=		+		=	
		x		x		=		+		=	
		x		x		=		+		=	
		x		x		=		+		=	

GENERAL INSTRUCTIONS FOR PREPARING PUBLICITY PAMPHLET

A publicity pamphlet must be prepared for each alternative expenditure limitation election. The contents of the pamphlet are specified by state law AS FOLLOWS: (A.R.S. § 41-563.03 and § 19-123).

1. The date of the election.
2. The names and locations of polling places and the times they are open.
3. A true and complete copy of the title and text of the proposed alternative expenditure limitation.
4. The form in which the proposed alternative expenditure limitation will appear on the ballot, the official title, a descriptive title prepared by the city or town clerk and the number by which the alternative expenditure limitation will be designated.
5. A summary of estimated total expenditures under the proposed alternative expenditure limitation for a period of four consecutive fiscal years, as reviewed by the Auditor General's Office.
6. Any exclusions under the proposed alternative expenditure limitation.
7. A summary of the estimated total expenditures under the state-imposed expenditure limitation, considering constitutionally allowed exclusions for a period of four consecutive fiscal years, as reviewed by the Auditor General's Office.
8. A summary of estimated revenue from all sources from which any expenditure limitation shall be funded for a period of four consecutive fiscal years, as reviewed by the Auditor General's Office.
9. A statement that if the proposed alternative expenditure limitation is not approved by a majority of the qualified voters, the state-imposed expenditure limitation will apply to the city or town.
10. Arguments for and against the proposed alternative expenditure limitation, or an indication that no arguments for/against were received.

The summary analysis as reviewed by the Auditor General's Office must be published in the publicity pamphlet and satisfies the information required in #5 through #9 listed above. The detailed analysis and summary analysis worksheet are not required to be published in the publicity pamphlet; however, if they are included they must also be published in the form as reviewed by the Auditor General's Office.

A draft of the publicity pamphlet must be mailed or faxed to the Auditor General's Office in sufficient time for their review and comment **prior to printing**. See page 14 for the address and fax number of the Auditor General's Office. The publicity pamphlet must contain Spanish language translations of all information.

The publicity pamphlet must be distributed to every household containing a registered voter at least ten days before the election (A.R.S. § 19-141).

You are prohibited from expending public funds for promoting the adoption of a home rule option. This means that, in providing publicity pamphlets, the city or town should not include a city/town sponsored argument for the home rule option.

On the following pages, we have produced a sample publicity pamphlet. Where the necessary insertions are obvious, such as inserting the name of the city or town, no instructions are included.

PUBLICITY PAMPHLET COVER

CITY/TOWN OF _____

PUBLICITY PAMPHLET

Proposal to be submitted to the qualified electors
of the City/Town of _____
at the

PRIMARY/GENERAL ELECTION

(Insert Date of Election)

Compiled and Issued by

City/Town of _____

(_____), City/Town Clerk

INSTRUCTIONS FOR COMPLETING PAGES 2 AND 3 OF PUBLICITY PAMPHLET

1. On Page 2, list the name and location of all polling places and insert the date of election in the space provided.
2. Page 3 is optional. If the city/town chooses to include this page in the publicity pamphlet, insert the city/town name and the date of the election. Otherwise, omit this page.

PAGE 2

LIST OF POLLING PLACES

ALL POLLING PLACES WILL BE OPEN FROM 6:00 A.M. to 7:00 P.M. ON _____.

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PAGE 3

To the voters of the City/Town of _____.

The purpose of this publicity pamphlet is to provide you with information on a measure which will appear on the _____ Primary/General Election ballot. Preparation of this pamphlet is required by State law.

In compliance with the Federal Voting Rights Act, this publicity pamphlet has been prepared in both English and Spanish.

(You may want to insert additional information.)

INSTRUCTIONS FOR COMPLETING PAGE 4 OF PUBLICITY PAMPHLET

Insert the text of the resolution adopted by the city/town council setting forth how the alternative expenditure limitation will be calculated. The text is that portion of the resolution in quotation marks in our sample which appears on page 12 of this Guide. **If the city/town wishes to take Constitutional exclusions or other exclusions under the alternative expenditure limitation, such exclusions must be included in the resolution and publicity pamphlet.**

PAGE 4

PROPOSITION 1

Title and Text of Proposal

RESOLUTION # _____

A RESOLUTION 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 CITY/TOWN OF _____ IN 20__ ADOPTED AN ALTERNATIVE EXPENDITURE LIMITATION; AND)

WHEREAS, THE CITY/TOWN COUNCIL OF _____ AFTER TWO PUBLIC HEARINGS HAS DETERMINED THAT AN ALTERNATIVE EXPENDITURE LIMITATION IS NECESSARY FOR THE CITY/TOWN OF _____.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY/TOWN COUNCIL OF _____ THAT THE FOLLOWING ALTERNATIVE EXPENDITURE LIMITATION BE SUBMITTED TO THE VOTERS OF THE CITY/TOWN OF _____.

SHALL THE FOLLOWING BE ADOPTED BY THE CITY/TOWN OF _____ AS AN ALTERNATIVE EXPENDITURE LIMITATION:

(INSERT TEXT OF RESOLUTION)

PASSED AND ADOPTED BY THE CITY/TOWN COUNCIL OF _____, THIS _____ DAY OF _____, 20__.

Mayor

ATTEST:

City/Town Clerk

APPROVED AS TO FORM:

City/Town Attorney

INSTRUCTIONS FOR COMPLETING PAGES 5-7 OF PUBLICITY PAMPHLET

1. On Page 5, insert the summary analysis as reviewed by the Auditor General's Office. No revisions to the summary analysis may be made after the review by the Auditor General's Office is complete, except for minor edits if approved by the Auditor General's Office. If the city/town elects to publish the detailed analysis and summary analysis worksheet, the city/town must publish such documents as reviewed by the Auditor General's Office. You are only required to include the summary analysis.
2. On Page 6, insert any arguments submitted supporting the home rule proposition or print "no arguments received" and insert any arguments submitted opposing the home rule proposition or print "no arguments received".
3. On Page 7, insert the ballot format as it appears on the last page of this portion of Exhibit C.

PAGE 5

Summary Analysis

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PAGE 6

Arguments Favoring Proposition #

Arguments Opposing Proposition #

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PAGE 7

Ballot Format

INSTRUCTIONS FOR COMPLETING BALLOT FORMAT

The ballot format is outlined in A.R.S. § 19-125, pursuant to A.R.S. § 41-563.03 (G).

1. Insert the home rule proposition on the ballot after candidate names.
2. Indicate the official title, the descriptive title and the proposition number by which the alternative expenditure limitation will be designated.
3. The number of the proposition must be printed in at least 12 point reverse type each time it appears on the ballot. If the measure appears on a statewide ballot, it must be numbered beginning with 400.
3. Be sure to remove “(extension of)” in Official Title if this is your first alternative expenditure limitation election.

BALLOT FORMAT

Home Rule Option

Proposition #

Proposal submitted by City/Town Council of _____

Official Title

A resolution proposing an (extension of) alternative expenditure limitation for the City/Town of _____.

Descriptive Title

Pursuant to the Arizona State Constitution, this proposal establishes an alternative expenditure limitation for the City/Town of _____ for the next four years. Annually, the City/Town Council will determine the amount of the limitation after at least one public hearing. This limitation then replaces the state-imposed expenditure limitation.

Proposition #

A "YES" vote shall have the effect of establishing an alternative expenditure limitation for the City/Town of _____.	Yes Proposition #
A "NO" vote shall have the effect of not allowing the City/Town of _____ to establish an alternative expenditure limitation and to require expenditures of the city/town to be limited by the state-imposed expenditure formula.	No

**SAMPLE FORMS
FOR
PERMANENT BASE ADJUSTMENT**

INSTRUCTIONS FOR COMPLETING DETAILED ANALYSIS

Information required on the detailed analysis is specified in A.R.S. § 41-563.03 (D).

1. In the first paragraph, insert the number of the resolution authorizing the city/town to proceed with going to the voters for approval of a permanent base adjustment.
2. In the second paragraph, enter the amount that will be added to the base expenditure limitation if the permanent base adjustment is approved and indicate the purposes for which the additional expenditures will be used. You should be as specific as possible (e.g. general government, public safety, street construction, parks and recreation, library, public works, etc.). Reference to such expenditures by fund only is not sufficient. It should be noted that these descriptions will not limit your additional expenditures to these purposes. **Note: The purposes listed here should be consistent with the purposes listed in the summary analysis.**
4. In the third paragraph, enter the amounts from each of the major revenue sources - federal, state and local - from which the revenues to fund the additional expenditure authority will be derived. You can use the proportionate amounts of revenue received from the three sources to complete this paragraph. **Be sure to remove the sentence relating to the property tax if you do not have a property tax.**
5. In the final paragraph, indicate the relative growth in revenue from the three major revenue sources for one or more years.

**PERMANENT BASE ADJUSTMENT
DETAILED ANALYSIS**

Pursuant to the Arizona State Constitution, the City/Town of _____ as authorized by resolution # _____ passed on _____ will seek voter approval to permanently adjust the expenditure base of the City/Town as determined by the Economic Estimates Commission.

With voter approval, the City/Town will permanently increase the 1979-80 expenditure base of the City/Town by _____ beginning in fiscal year XXXX-YYYY and utilize the additional expenditure authority for all local budgetary purposes including _____.

If approved, the additional expenditures authorized will be funded from revenue obtained from federal, state and local sources. In XXXX-YYYY, the City/Town's expenditure limitation will increase by \$ _____, from \$ _____ to \$ _____. In Fiscal Year XXXX-YYYY, \$ _____ of the revenue required to fund the additional authorized expenditures will be obtained from federal sources while \$ _____ will be acquired through state sources and the remaining \$ _____ will be funded through local revenue sources. (The City/Town property tax shall be limited to the amount prescribed in the Arizona State Constitution.) All dollar figures in this analysis are estimates only.

In determining the revenue sources to fund the authorized additional expenditures, it is assumed that the federal, state and local revenues received by the City/Town will continue to be available and increase as they have for the past _____ years. In the past _____ years, federal revenue has increased by approximately _____% each year while state revenue has increased by approximately _____% and local revenue has increased by approximately _____% each year.

INSTRUCTIONS FOR COMPLETING SUMMARY ANALYSIS

1. Information required to be documented in the summary analysis is specified in A.R.S. § 41-563.03 (B).
2. In the first paragraph, enter the amount which will be added to your base expenditure limitation if the permanent base adjustment is approved.
3. In the second paragraph, enter the amount which will be added to your expenditure authority in the fiscal year following the election if the permanent base adjustment is granted and the purposes for which the additional expenditures will be made. The amount added to your expenditure authority would be the amount of your proposed adjustment multiplied by the appropriate population and inflation factors. **NOTE: The purposes listed here should be consistent with the purposes listed in the detailed analysis.**

PERMANENT BASE ADJUSTMENT

SUMMARY ANALYSIS

Pursuant to the Arizona State Constitution, the City/Town of _____ seeks voter approval to permanently adjust the expenditure base of the City/Town as determined by the Economic Estimates Commission. If approved by the voters, the City/Town's 1979-80 base expenditure limitation will be increased by \$_____ adjusted each future year for population and inflation growth since 1979-80.

With voter approval, in XXXX-YYYY the City/Town's expenditure limitation will increase by \$_____, from \$_____ to \$_____. The City/Town will utilize the additional expenditure authority for any local budgetary purposes including _____. (The dollar figures in this statement are estimates only.)

If approved, the additional authorized expenditures will be funded from revenues obtained from federal, state and local sources.

GENERAL INSTRUCTIONS FOR PREPARING PUBLICITY PAMPHLET

A publicity pamphlet must be prepared for each permanent base adjustment election. The contents of the pamphlet are specified by state law as follows: (A.R.S. § 41-563.03 and § 19-123).

1. The date of the election.
2. The names and locations of polling places and the times they are open.
3. A true and complete copy of the title and text of the proposed permanent adjustment of the base limit.
4. The form in which the proposed permanent base adjustment will appear on the ballot, the official title, a descriptive title prepared by the city or town clerk and the number by which the proposed adjustment will be designated.
5. A summary of the purpose or purposes for which the additional spending capacity will be used as reviewed by the Auditor General's Office.
6. A summary of the amount of the proposed adjustment to the base limit, as reviewed by the Auditor General's Office.
7. A summary of the effect of the adjustment on the expenditure limitation, as reviewed by the Auditor General's Office.
8. A summary of the source or sources of estimated revenue to be used for financing the upward adjustment of the base limit or the source or sources of the estimated revenues to be reduced as a result of a downward adjustment of the base limit, as reviewed by the Auditor General's Office.
9. Arguments for and against the proposed adjustment, or an indication that no arguments for/against were received.

(Items # 5 through # 8 of the listing above are contained in the summary analysis.)

A draft of the publicity pamphlet must be mailed or faxed to the Auditor General's Office in sufficient time for their review and comment **prior to printing**. Also, any documents related to home rules or permanent base adjustments may be sent to the Auditor General's Office electronically in portable document format (.pdf) at asd@azauditor.gov

Office of the Auditor General
Accounting Services Division
2910 North 44th Street, Suite 410
Phoenix, AZ 85018
Phone: 602-553-0333
FAX: 602-553-9702

The publicity pamphlet must contain Spanish language translations of all information.

The publicity pamphlet must be distributed to every household containing a registered voter at least ten days before the election (A.R.S. § 19-141 (A)).

You are prohibited from expending public funds for promoting the adoption of the permanent base adjustment. This means that, in providing publicity pamphlets, the city or town should not include a city/town sponsored argument for the permanent base adjustment.

On the following pages, we have produced a sample publicity pamphlet. Where the necessary insertions are obvious, such as inserting the name of the city or town, no instructions are included.

PUBLICITY PAMPHLET COVER

CITY/TOWN OF _____

PUBLICITY PAMPHLET

Proposal to be submitted to the qualified electors
of the City/Town of _____
at the

PRIMARY/GENERAL ELECTION

(Insert Date of Election)

Compiled and Issued by

City/Town of _____

(_____), City/Town Clerk

INSTRUCTIONS FOR COMPLETING PAGES 2 AND 3 OF PUBLICITY PAMPHLET

1. On Page 2, list the name and location of all polling places and insert the date of election in the space provided.
2. Page 3 is optional. If the city/town chooses to include this page in the publicity pamphlet, insert the city/town name and the date of the election. Otherwise, omit this page.

PAGE 2

LIST OF POLLING PLACES

ALL POLLING PLACES WILL BE OPEN FROM 6:00 A.M. to 7:00 P.M. on _____.

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PAGE 3

To the voters of the City/Town of _____.

The purpose of this publicity pamphlet is to provide you with information on a measure which will appear on the _____ Primary/General Election ballot. Preparation of this pamphlet is required by State law.

In compliance with the Federal Voting Rights Act, this publicity pamphlet has been prepared in both English and Spanish.

(You may want to insert additional information.)

INSTRUCTIONS FOR COMPLETING PAGE 4 OF PUBLICITY PAMPHLET

Insert the text of the resolution adopted by the city/town council setting forth the permanent base adjustment. Be sure to fill in the amount by which the expenditure base will be increased.

PAGE 4

PROPOSITION ____

RESOLUTION # _____

A RESOLUTION PROPOSING A PERMANENT ADJUSTMENT TO THE 1979-80 BASE EXPENDITURE LIMITATION OF THE CITY/TOWN OF _____.

WHEREAS, THE ARIZONA STATE CONSTITUTION PERMITS THE SUBMISSION TO THE VOTERS OF A CITY OR TOWN OF A PERMANENT ADJUSTMENT TO THE BASE EXPENDITURE LIMITATION; AND

WHEREAS, THE CITY/TOWN COUNCIL OF _____ HAS DETERMINED THAT A PERMANENT BASE ADJUSTMENT IS NECESSARY FOR THE CITY/TOWN OF _____.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY/TOWN COUNCIL OF _____ THAT THE FOLLOWING PERMANENT BASE ADJUSTMENT BE SUBMITTED TO THE VOTERS OF THE CITY/TOWN OF _____.

SHALL THE EXPENDITURE BASE OF THE CITY/TOWN OF _____ BE PERMANENTLY INCREASE BY \$ _____.

PASSED AND ADOPTED BY THE CITY/TOWN COUNCIL OF _____, THIS _____ DAY OF _____, 20__.

Mayor

ATTEST:

City/Town Clerk

INSTRUCTIONS FOR COMPLETING PAGES 5 - 7 OF PUBLICITY PAMPHLET

1. On Page 5, insert the summary analysis as reviewed by the Auditor General's Office. No revisions to the summary analysis may be made after the Auditor General's review is complete, except for minor edits if approved by the Auditor General's Office. If the city/town elects to publish the detailed analysis, the city/town must publish it as reviewed by the Auditor General's Office. You are only required to include the summary analysis. Also list the purposes for which the permanent base adjustment is sought.
2. On Page 6, insert any arguments submitted supporting the permanent base proposition or print "no arguments received" and insert any arguments submitted opposing the proposition or print "no arguments received".
3. On Page 7, insert the ballot format as it appears on the last page of this packet.

PAGE 5

Summary Analysis

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PAGE 6

Arguments Favoring Proposition #

Arguments Opposing Proposition #

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PAGE 7

Ballot Format

INSTRUCTIONS FOR COMPLETING BALLOT FORMAT

The ballot format is outlined in A.R.S. § 19-125, pursuant to A.R.S. § 41-563.03 (G).

1. Insert the permanent base adjustment proposition on the ballot after candidate names.
2. Indicate the official title, the descriptive title and the proposition number by which the permanent base adjustment will be designated.
3. The number of the proposition must be printed in at least 12 point reverse type each time it appears on the ballot. If the measure appears on a statewide ballot, it must be numbered beginning with 400.

BALLOT FORMAT

Permanent Base Adjustment

Proposition #

Proposal submitted by City/Town Council of _____

Official Title

A resolution proposing a permanent adjustment to the state-imposed base limitation for the City/Town of _____.

Descriptive Title

Pursuant to the Arizona State Constitution, the City/Town of _____ seeks voter approval to permanently adjust the expenditure base of the City/Town as determined by the Economic Estimates Commission. The City/Town seeks an adjustment of \$_____.

Proposition #

A "YES" vote shall have the effect of allowing the City/Town to adjust its base expenditure limit.	Yes Proposition # No
A "NO" vote shall have the effect of not allowing the City/Town to adjust its base expenditure limit.	

EXHIBIT D

CITY/TOWN CHRONOLOGY OF EVENTS FOR AN ALTERNATIVE EXPENDITURE LIMITATION ELECTION

This is a chronology of events to be used as a guide depending on your city or town's circumstances and election date.

<u>Action Steps</u>	<u>Deadline Set By Law</u>	<u>Earliest Date</u>
Call primary and general election, including home rule option as one of the purposes of the election ¹	None - suggest 100 days prior to election	None
Call of election published in newspaper once a week for two consecutive weeks if in a weekly paper or four times if publishing in a daily paper ¹	None	None
City/town council receives <u>estimated</u> state-imposed expenditure limitation for coming fiscal year	February 1	None
Publish notice of public hearings - once a week for two consecutive weeks	Two notices must be published <u>prior</u> to public hearings	None
Hold public hearings	None	<u>After</u> publishing second notice of hearings
City/town council adopts resolution on alternative limitation	Immediately following second public hearing	None
Publish record of vote and other required information	Immediately following city/town council vote	None
Submit detailed and summary analyses and summary analysis worksheet to Auditor General's office	At least 60 days prior to election and before printing of publicity pamphlet	None
City/town clerk receives arguments <u>supporting</u> or <u>opposing</u> alternative expenditure limitation	Not less than 60 days prior to election	None

¹A call of election is no longer required by state law. We include it in this chronology as an option.

<u>Action Steps</u>	<u>Deadline Set by Law</u>	<u>Earliest Date</u>
City/town council receives copy of the reviewed detailed and summary analyses and summary analysis worksheet from the Auditor General	15 working days after Auditor General's office receives copies of the analyses and worksheet	None
City/town council receives <u>actual</u> state-imposed expenditure limitation	April 1	None
Submit draft of publicity pamphlet to Auditor General's office for review	In sufficient time to allow for review and comment prior to printing	None
Distribute publicity pamphlets	Not less than 10 days prior to election	None
Hold election	Election date	Election date
Notify Auditor General's office and Economic Estimates Commission of outcome of election	Immediately after canvass of vote	None

Note: An alternative expenditure limitation election must be held at regular elections only. All the information related to these elections must comply with the Voting Rights Act; therefore, Spanish translations of election materials must be provided.

**CITY/TOWN CHRONOLOGY OF EVENTS FOR A
PERMANENT BASE ADJUSTMENT ELECTION**

This is a chronology of events to be used as a guide depending on your city or town's circumstances and election date.

<u>Action Steps</u>	<u>Deadline Set By Law</u>	<u>Earliest Date</u>
Call primary and general election, including permanent base adjustment as one of the purposes of the election ²	None - suggest 100 days prior to election	None
Call of election published in newspaper once a week for two consecutive weeks if in a weekly paper or four times if publishing in a daily paper ¹	None	None
City/town council receives <u>estimated</u> state-imposed expenditure limitation for coming fiscal year	February 1	None
City/town council adopts resolution on permanent base adjustment	None	None
Submit detailed and summary analyses to Auditor General's Office	At least 60 days prior to election and before printing of publicity pamphlet	None
City/town clerk receives arguments <u>supporting</u> or <u>opposing</u> permanent base adjustment	Not less than 60 days prior to election	None
City/town council receives copy of the reviewed detailed and summary analyses from the Auditor General's Office	15 working days after Auditor General's Office receives copies of the analyses	None
City/town council receives <u>actual</u> state-imposed expenditure limitation	April 1	None

²A call and notice of election of election is no longer required by state law. We include them in this chronology as options.

<u>Action Steps</u>	<u>Deadline Set By Law</u>	<u>Earliest Date</u>
Submit draft of publicity pamphlet to Auditor General's Office for review	In sufficient time to allow for review and comment prior to printing	None
Distribute publicity pamphlets	Not less than 10 days prior to election	None
Hold election	Election date	Election date
Notify Auditor General's Office and Economic Estimates Commission of outcome of election	Immediately after canvass of vote	None

Note: A permanent base adjustment election must be held at a regular city/town election or at a state general election. All the information related to these elections must comply with the Voting Rights Act; therefore, Spanish translations of election materials must be provided.

EXHIBIT E

ONE-TIME AND EMERGENCY OVERRIDES

PUBLIC NOTICE OF HEARINGS AND COUNCIL VOTE

(Sample Forms)

PUBLIC NOTICE OF HEARINGS

The City/Town Council of the City/Town of _____ will hold two public hearings on the one-time override of the city/town's expenditure limitation or emergency override, as follows:

(Date & Time)

(Date & Time)

(Location)

(Location)

(Address)

(Address)

By order of the City/Town Council of _____.

Signed:

City/Town Clerk

NOTE:

This public notice must be published once a week for at least two consecutive weeks. This notice is required by A.R.S. Section 41-563.01.

PUBLIC NOTICE

For use after council vote

Pursuant to A.R.S. Section 41-563.01, the City/Town of _____ voted to (approve/disapprove) the one-time override of the city/town's expenditure limitation or emergency override at its special meeting on (date). The vote for (approval/disapproval) was _____ For and _____ Against.

At the (primary/general/special) election to be held on (date), the voters of the City/Town of _____ will vote on the question of this one-time override or emergency override.

With voter approval, the City/Town will be limited to expending approximately \$ _____ more than the State imposed limit in (fiscal year).

If the voters approve, the additional expenditure authority will be used for the following purposes _____. Revenues received from Federal, State and local sources will be used to fund such expenditures.

By order of the City/Town Council of _____.

Signed:

City/Town Clerk

NOTES:

1. If council disapproves proposal, only publish first paragraph.
2. Notice must be published at least once each week for four consecutive weeks if in a weekly newspaper or six consecutive times if in a daily newspaper.
3. In listing purposes for additional expenditures, we suggest specifics - i.e., police department, street construction or water and sewer departments.
4. The requirements for this notice are specified in A.R.S. Section 41-563.01.

EXHIBIT F

Budget Calendar

<u>Action</u>	<u>Deadline</u>
1. Compile pertinent budget information.	None
2. Distribute budget instructions, information and work sheets to department heads. (A general meeting with department heads could be held at this time if so desired.)	None
3. Complete compilation of the forthcoming fiscal year's revenue estimates including debt service requirements, etc.	None
4. Submit departmental budget estimates to appropriate reviewing official or office. Review of departmental budgets and revenue estimates by appropriate reviewing official or office. (An individual hearing with each department head may be held in conjunction with the review step.)	None
5. Make approved changes and prepare summary of tentative budget.	None
6. Begin typing and duplication of proposed budget.	None
7. Receive from the county assessor certified property values necessary to calculate the property tax levy limit and the final levy limit worksheet.	On or before February 10 of the tax year
8. Notify the Property Tax Oversight Commission as to agreement or disagreement with the property tax levy limit.	Within ten days of receiving information in #7 above
9. Make the property values provided by the county assessor available for public inspection.	On or before February 15 of the tax year
10. Deliver proposed budget to city council for review.	None
11. Submit information on involuntary tort judgments and appropriate documentation to the Property Tax Oversight Commission for consideration.	On or before the first Monday in July
12. Adopt tentative budget.	On or before the third Monday in July
13. Publish budget once a week for two consecutive weeks. Also include time and place of budget hearing and a statement indicating where the proposed budget may be examined. (A.R.S. 42-17103)	Depends upon newspaper publishing date
14. Publish first "Truth in Taxation" notice (Exhibit L) in a paper of general circulation in the city or town and issue a press release with the same information as the published notice.*	Not less than fourteen nor more than twenty days before tax levy hearing
15. Publish second "Truth in Taxation" notice in a paper of general circulation in the city or town.*	Not less than seven nor more than ten days before tax levy hearing

* Only necessary if the proposed property tax levy, excluding amounts attributable to new construction, is greater than the amount levied by a city or town in the previous year. In lieu of publishing the notice, a city or town may mail the notice to all registered voters at least ten days but not more than twenty days before the hearing.

Budget Calendar (Cont'd)

<u>Action</u>	<u>Deadline</u>
16. Hold public hearing on budget and property tax levy (can be combined with truth in taxation hearing). Convene special meeting to adopt final proposed budget.	On or before the 14th day before the tax levy is adopted
17. Mail a copy of the truth in taxation notice, a statement of its publication or mailing and the result of the council's vote to the Property Tax Oversight Commission. Property Tax Oversight Commission 1600 W. Monroe Phoenix, AZ 85007	Within 3 days of the hearing in #16
17. Adopt property tax levy.	On or before the third Monday in August*
18. Forward certified copy of tax levy ordinance to county. (The tax levy must be adopted by the board of supervisors on or before the third Monday in August - A.R.S. 42-17151 A.)	*

* This must occur on or before the day on which the board of supervisors levies the county tax. Check with your county board of supervisors as to their deadline for receiving your levy. Dates may change to conform to their schedule.

EXHIBIT G

SAMPLE BUDGET REPORT City/Town

Month of _____, 20__

<u>REVENUE</u>	<u>This Month</u>	<u>Year to Date</u>	<u>Budget</u>
GENERAL FUND			
<u>General Property Taxes</u>			
Current Tax Levy	\$ _____	\$ _____	\$ _____
<u>Other Local Taxes</u>			
City/Town Sales Tax	\$ _____	\$ _____	\$ _____
Franchise Tax	\$ _____	\$ _____	\$ _____
Total Other Local Taxes	\$ _____	\$ _____	\$ _____
<u>Licenses and Permits</u>			
Building Permits	\$ _____	\$ _____	\$ _____
Business Licenses	\$ _____	\$ _____	\$ _____
Non-Business Licenses	\$ _____	\$ _____	\$ _____
Total Licenses & Permits	\$ _____	\$ _____	\$ _____
<u>Revenue From Other Agencies</u>			
Vehicle License Tax	\$ _____	\$ _____	\$ _____
Income Tax	\$ _____	\$ _____	\$ _____
State Shared Sales Tax	\$ _____	\$ _____	\$ _____
Local Transportation Assistance Fund	\$ _____	\$ _____	\$ _____
Total Revenue From Other Agencies	\$ _____	\$ _____	\$ _____
<u>Other Revenue</u>			
Garbage Fees	\$ _____	\$ _____	\$ _____
Fines	\$ _____	\$ _____	\$ _____
Total Other Revenues	\$ _____	\$ _____	\$ _____
TOTAL GENERAL FUND	\$ _____	\$ _____	\$ _____

Arizona Highway User Revenue Fund

Highway User Revenue

\$ _____ \$ _____ \$ _____

Utilities

Water

\$ _____ \$ _____ \$ _____

Sewer

\$ _____ \$ _____ \$ _____

Total Utility Revenue

\$ _____ \$ _____ \$ _____

Cemetery Fund

Sale of Lots

\$ _____ \$ _____ \$ _____

Markers

\$ _____ \$ _____ \$ _____

Total Cemetery Revenue

\$ _____ \$ _____ \$ _____

TOTAL REVENUE

\$ _____ \$ _____ \$ _____

EXPENDITURES

**This
Month**

**Year to
Date**

Budget

GENERAL FUND

Mayor and Council

\$ _____ \$ _____ \$ _____

Manager/Clerk

\$ _____ \$ _____ \$ _____

Magistrate

\$ _____ \$ _____ \$ _____

Attorney

\$ _____ \$ _____ \$ _____

Police

\$ _____ \$ _____ \$ _____

Fire

\$ _____ \$ _____ \$ _____

Public Works

\$ _____ \$ _____ \$ _____

Garbage

\$ _____ \$ _____ \$ _____

Parks and Recreation

\$ _____ \$ _____ \$ _____

TOTAL GENERAL FUND

\$ _____ \$ _____ \$ _____

Arizona Highway User Revenue Fund

Streets

\$ _____ \$ _____ \$ _____

Utilities

Water

\$ _____ \$ _____ \$ _____

Sewer

\$ _____ \$ _____ \$ _____

Total Utility Fund

\$ _____ \$ _____ \$ _____

Cemetery Fund

\$ _____ \$ _____ \$ _____

TOTAL EXPENDITURES

\$ _____ \$ _____ \$ _____

EXHIBIT H

SAMPLE RESOLUTION

RESOLUTION NO.

A RESOLUTION OF THE CITY/TOWN COUNCIL OF THE CITY/TOWN OF _____
PROVIDING FOR THE DEPOSIT OF ACTIVE AND INACTIVE CITY/TOWN FUNDS.

WHEREAS, the City/Town Council is required by A.R.S. Title 35, Chapter 2, Article 2, to adopt procedures for the award of deposit of city/town funds of less than \$100,000;

NOW THEREFORE BE IT RESOLVED by the city/town council of the city/town of _____, as follows:

Section 1. INVESTMENT OF CITY/TOWN FUNDS OF LESS THAN \$100,000

- A. If a total of less than one hundred thousand dollars is available for investment, the City/Town treasurer shall award the deposit to one or more financial institutions either within or without the corporate limits which offer the highest rate of interest commensurate with the safety of such deposit.
- B. The treasurer shall prepare each month a report on the depository or depositories to which deposits were awarded and submit such report to the City/Town Council.
- C. The City/Town Council reserves the right through its treasurer to reject any and all bids.

Section 2. EMERGENCY CLAUSE

WHEREAS, it is necessary for the preservation of the peace, health and safety of the City/Town of _____, Arizona, an emergency is declared to exist, and this resolution shall be effective immediately upon its passage and adoption.

PASSED AND ADOPTED BY THE Mayor and Council of the City/Town of _____, this _____ day of _____, 20__.

APPROVED this _____ day of _____, 20__, by the affirmative vote of three fourths of the members of the Common Council of the City/Town of _____, Arizona.

Mayor

ATTEST:

City/Town Clerk

APPROVED AS TO FORM:

City/Town Attorney

EXHIBIT I

SAMPLE NOTICE OF BID BY CITY/TOWN TO FINANCIAL INSTITUTIONS

Date: _____

To: _____

AMOUNT	DATE OF DEPOSIT	MATURITY DATE
--------	-----------------	---------------

Bids to be received by this office not later than (time) on (date) . All bids will be opened at (time) .

The submitted bid must specify the rate of interest offered and whether the bid is for all or a portion thereof. Bids should not be expressed in over three decimal points. The designated depository will be advised by phone.

_____, Treasurer
(name)

Authorized Signature

EXHIBIT J

SAMPLE FORM FOR

FINANCIAL INSTITUTION TO SUBMIT BID

Date: _____

The _____ hereby submits the following bid(s) to the Office of the City/Town Treasurer of (City/Town) for City/Town monies to be awarded pursuant to terms of letter or phone call of (date) .

<u>AMOUNT</u>	<u>DATE OF DEPOSIT</u>	<u>MATURITY DATE</u>
---------------	------------------------	----------------------

It is our understanding that the bids will be opened on (date) at (time) . Bids will become invalid one hour after the stated time.

The ratio of the (name of institution) total public deposits in relation to its capital structure is _____.

(Name of Bank or Institution)

(Authorized Signature)

EXHIBIT K

GUIDE FOR AMENDING YOUR TAX CODE

There are two state laws governing changes to your tax code. The first is A.R.S. § 42-6053; the second is A.R.S. § 42-6054. For those cities and towns in the state collection system, the notification provisions of the intergovernmental agreement you have signed with the Department of Revenue will also affect tax code changes.

The purpose of this report is to highlight for you the requirements of these laws and also to outline for you a suggested procedure when you are proposing a change to your code.

TEXT CHANGES TO THE CODE (OUTSIDE OF CURRENTLY AVAILABLE OPTIONS)

1. We ask that any proposed changes to the tax code be submitted to the Unified Audit Committee (UAC) prior to any action on any changes, including submission to the Municipal Tax Code Commission. The Unified Audit Committee is composed of city sales tax officials and representatives of the Department of Revenue. Since the chairmanship of the UAC rotates, please send any proposals to the League of Arizona Cities and Towns who will forward them to the chairman. A copy should also be sent to the Cities Program Liaison at the Department of Revenue at the address provided later in this report.
2. Any changes to the text of the tax code outside of available options must be submitted to the Municipal Tax Code Commission at least sixty days prior to any action by your city or town council on the change. The Municipal Tax Code Commission is composed of nine city/town elected officials appointed by the governor and legislative leadership. **(Rate changes or the adoption or repeal of any of the options already included in the model tax code are not included in this pre-notification requirement.)**
3. The Tax Code Commission may hold a hearing on any proposed change to the tax code within 30 days of receipt. The Commission must approve any proposed change to a local city or town tax code before a city or town may adopt the change and any change adopted by the commission must be adopted by the affected cities or towns. Any taxpayer affected by the proposed change may present testimony or information at any hearing held by the Commission on proposed changes.
4. Prior to adoption of any change to the text of the tax code, a public hearing must be held in your city or town. Notice of the hearing must be given at least 15 days before the hearing by publication in a newspaper of general circulation in the city or town. The hearing can be held at a regular or special city/town council meeting. The hearing requirement applies to all text changes, even those recommended or approved by the Municipal Tax Code Commission. A sample notice for the hearing is attached.
5. Unless otherwise provided by city charter, no text change will be effective until at least 30 days after the hearing. Obviously, ordinance adoption procedures will apply; but this means that no emergency clauses can be included unless your city charter (for those few of you who have one) makes some special provision.
6. If your city or town participates in the state collection program, all text as well as other changes to your tax code must be submitted to the Department of Revenue. In order to properly notify taxpayers of changes and amend the tax reporting form, notice must be provided to the Department of Revenue at least 60 days prior to the effective date of the change.
7. Since the League is maintaining a master version of the tax code to assist taxpayers in complying with your code and those of all other cities and towns, it is also necessary for you to send a copy of any such changes to the League following adoption.

RATE CHANGES OR ADOPTION OF DIFFERENT OPTIONS ALREADY IN THE MODEL CODE

1. Any changes to the rate of your tax or your choice of options under the model code must be submitted to the following places within the following time frames:
 - Within 10 days after passage of the change by your city/town council to the Municipal Tax Code Commission.
 - At least 60 days prior to the effective date of the change to the Department of Revenue for cities and towns in the state collection program to comply with your intergovernmental agreement and allow for necessary changes in the collection system.
 - As soon as possible after adoption by your city/town council, send changes to the league, as well, so that they can be reflected in the master version of the tax code.
2. State law does not require a public hearing on these changes; your code or charter may require additional steps prior to passage of an ordinance.

INTERPRETATIONS OF THE CODE; PROCEDURES AND AUDITS

1. Prior to any change in any written interpretation of the code or written procedures to be followed under the code, a public hearing must be held following the notice provisions specified above for text changes. This requirement must be met whenever a letter or ruling, which is in conflict with or changes any previous interpretation of the code, is issued. It is our recommendation that all correspondence on interpretations of the code be kept for easy access and reference. This provision will affect principally those cities and towns collecting their own tax, since changes affecting cities and towns in the state collection program are accomplished by the Department of Revenue.
2. The law prohibits any change in application of the code from audit to audit unless the city or town first adopts an amendment or modification of the code. All the rules for text changes specified above will apply to such amendments or modifications. This provision will affect those cities and towns collecting their own tax as well as those performing supplementary audits in their city or town under the state collection program.

RETROACTIVE RELIEF FROM MODEL CITY TAX CODE

Any city or town which adopted the model city tax code may elect to amend the effective date of any of its provisions, or amend the effective date of a provision to a specific class of taxpayers when the city or town believes a substantial number of taxpayers may not have received fair notice concerning the application of the provision. This authority does not require any city or town to take any action. (A.R.S. § 42-6055)

WHERE TO SEND CHANGES

Municipal Tax Code Commission
Attention: Chairman
1600 West Monroe
Phoenix, Arizona 85007

Department of Revenue
Attention: Cities Program Liaison
1600 West Monroe
Phoenix, Arizona 85007

League of Arizona Cities and Towns
1820 West Washington
Phoenix, Arizona 85007

If you have any questions about changing your code, please contact the Municipal Tax Code Commission or the League office.

SAMPLE PUBLIC NOTICE

The (city/town) council of _____, Arizona will hold a public hearing on a proposed change to the (city/town) tax code pursuant to A.R.S. § 42-6053. The proposed change will _____.

The hearing will be held at _____ a.m. /p.m. on _____, 20____ at the Council chambers _____.
(address)

Additional information can be obtained at _____ or by calling _____.

EXHIBIT L

TRUTH IN TAXATION HEARING NOTICE OF TAX INCREASE

IN COMPLIANCE WITH SECTION 42-17107, ARIZONA REVISED STATUTES, THE CITY/TOWN OF _____ IS NOTIFYING ITS PROPERTY TAXPAYERS OF _____'S (NAME OF CITY OR TOWN) INTENTION TO RAISE ITS PRIMARY PROPERTY TAXES OVER LAST YEAR'S LEVEL. _____ (NAME OF CITY OR TOWN) IS PROPOSING AN INCREASE IN PRIMARY PROPERTY TAXES OF \$ _____ OR _____%.

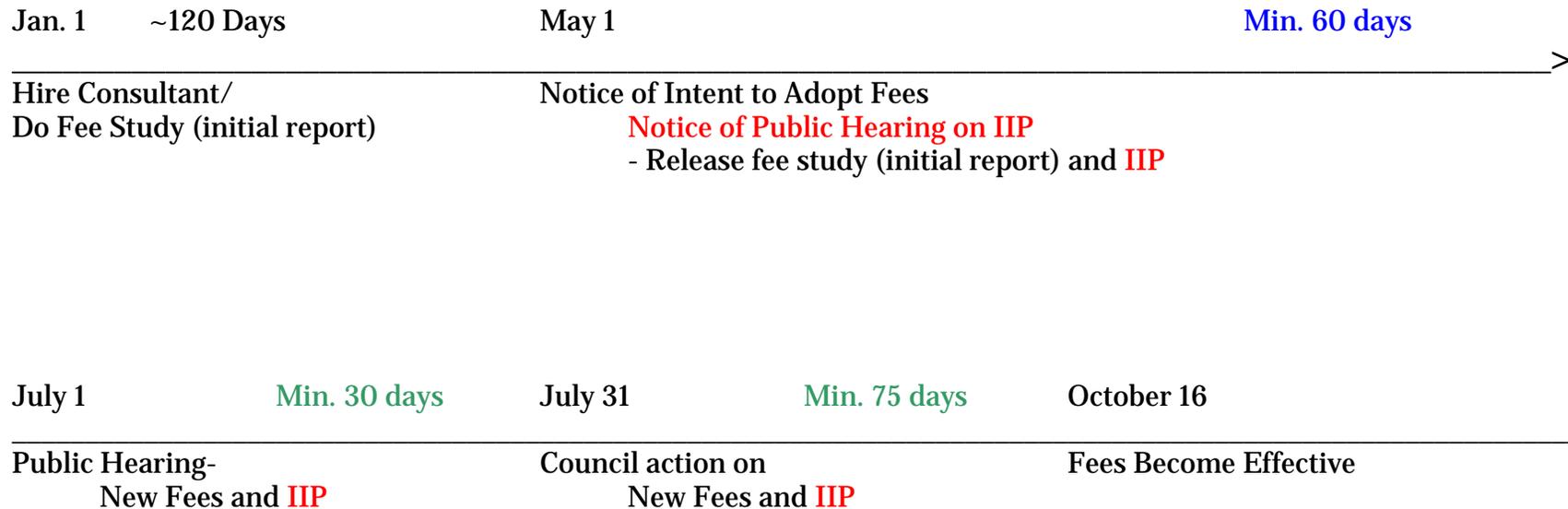
THE PROPOSED TAX INCREASE WILL CAUSE _____'S (NAME OF CITY OR TOWN) PRIMARY PROPERTY TAXES ON AN \$100,000 HOME TO INCREASE FROM \$ _____ (TOTAL TAXES THAT WOULD BE OWED WITHOUT THE PROPOSED TAX INCREASE) TO \$ _____ (TOTAL PROPOSED TAXES INCLUDING THE TAX INCREASE).

THIS PROPOSED INCREASE IS EXCLUSIVE OF INCREASED PRIMARY PROPERTY TAXES RECEIVED FROM NEW CONSTRUCTION. THE INCREASE IS ALSO EXCLUSIVE OF ANY CHANGES THAT MAY OCCUR FROM PROPERTY TAX LEVIES FOR VOTER APPROVED BONDED INDEBTEDNESS OR BUDGET AND TAX OVERRIDES.

ALL INTERESTED CITIZENS ARE INVITED TO ATTEND THE PUBLIC HEARING ON THE TAX INCREASE THAT IS SCHEDULED TO BE HELD _____ (DATE AND TIME) AT _____ (LOCATION).

Exhibit M

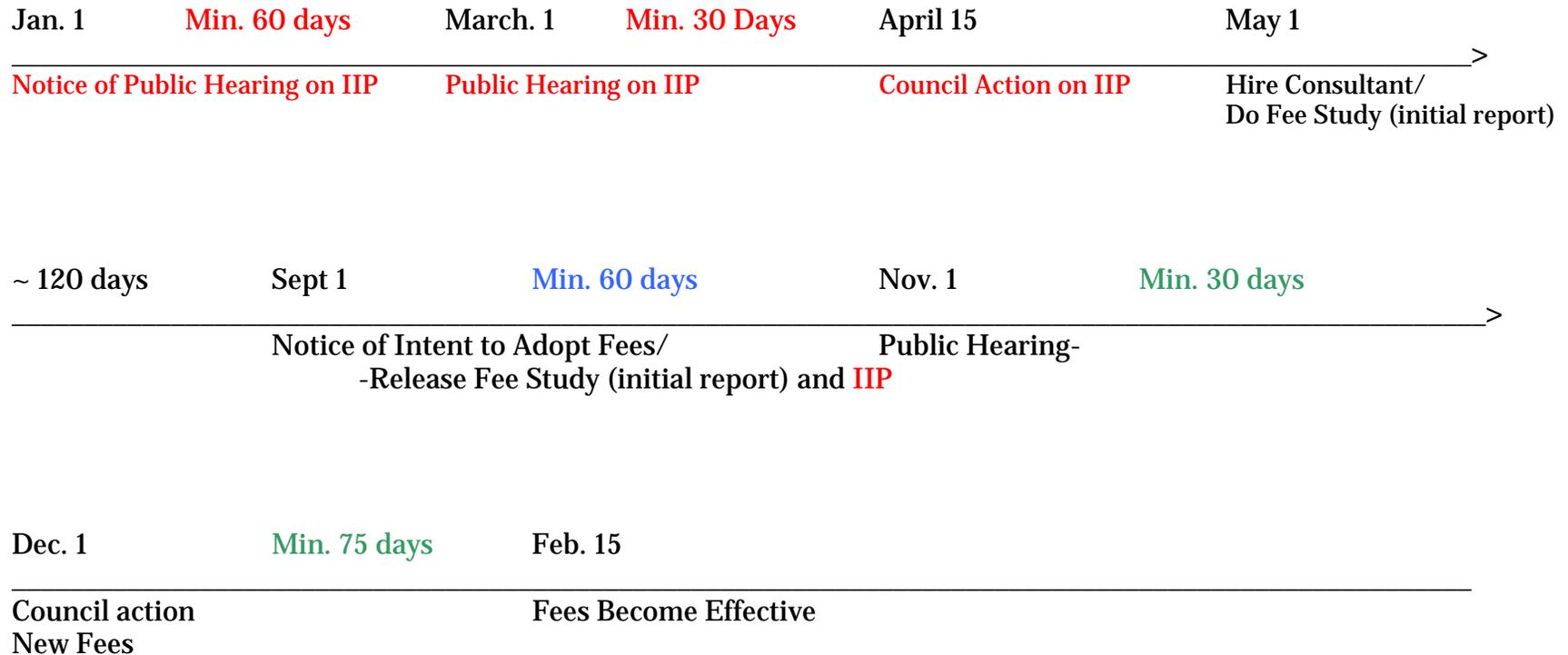
Estimated Timeline- Development Fees- Minimum 285 days (9.5 months) (IIP adopted concurrently with fees)



Requirements added by SB1423 are indicated in red.
Minimum Timelines in existing statute are indicated in blue.
Minimum Timelines altered by SB1423 are indicated in green.

Exhibit M (cont'd)

Estimated Timeline- Development Fees- Minimum 390 days (~13 months) (IIP adopted prior to fees)



Requirements added by SB1423 are indicated in red.
Minimum Timelines in existing statute are indicated in blue.
Minimum Timelines altered by SB1423 are indicated in green.