



2024 Scottsdale Permanent Base Adjustment: Questions and Answers

1. Overview

Scottsdale voters will decide on Nov. 5, 2024, whether to increase the city's state-imposed expenditure limitation baseline by \$22 million. All Arizona cities have such expenditure limitations, which limits the maximum amount a city can spend each year to provide services and programs. Most Arizona cities – 82 of 91 – have gone to their voters and adjusted their expenditure limitation baselines or adopted an alternative limitation since they took effect in the 1979-80 budget year. Many cities have made more than one adjustment to their baseline.

Changing Scottsdale's expenditure baseline is not an increase in taxes. The proposed change allows the city to operate within an expenditure limitation that more closely matches existing revenue sources to meet current and planned services and programs.

Without the adjustment, the city will have to consider which services and programs to continue funding based upon a budget amount that fits within the city's current state-imposed spending limitation.

2. What is a Permanent Base Adjustment?

The state of Arizona imposes an expenditure limitation on all Arizona cities and towns, based on a formula adopted by the State Legislature in 1979/80. The formula determines the amount of money that can be spent for municipal services each year, regardless of the money the city collects via taxes and fees.

The state formula uses an expenditure baseline based upon the services and programs each city had in place for the 1979-80 budget year. The formula provides an annual adjustment to account for inflation and population changes; however, it does not account for new services, rises in operating costs beyond population and inflation, new facilities, new programs or revenue growth.

The state offers options for cities – with voter approval – to adjust this annual expenditure limit.

One of those options is a Permanent Base Adjustment, which resets a city's expenditure limitation base. Since the state formula was imposed in 1979/80, Scottsdale voters have approved permanent base adjustments in 1998 and 2006.

The Permanent Base Adjustment allows the city of Scottsdale to operate within an expenditure limit that more closely matches existing revenues The Permanent Base Adjustment:

- does **not** raise or impose taxes
- does **not** allow the city to spend more than it receives in revenue
- does **not** allow the city to spend more than its legally adopted annual budget

3. What is the specific ballot question?

The ballot text will read “Shall the Expenditure Base of the City of Scottsdale be permanently adjusted by \$22 million in order to maintain existing and planned city services and programs?”

4. How was the \$22 million adjustment determined?

The requested base adjustment was determined using the state prescribed process that requires the city to estimate revenues available using historical revenue growth rates to determine the expenditure limitation that can be supported with existing revenue sources.

This adjustment would reset Scottsdale’s expenditure limitation as shown below:

State-Imposed Expenditure Limitation
with \$22,000,000 Permanent Base Adjustment

	<u>1979/80 Expenditure Base</u>		<u>Population and Inflation Factors</u>		<u>Expenditure Limitation</u>
Fiscal Year 25/26 Estimate	\$ 77,861,444	x	11.35944	=	\$ 884,463,000

5. Would this adjustment increase taxes or create new taxes?

No. Approving a Permanent Base Adjustment does not authorize the city to increase taxes, it would only allow the city to spend the revenue it collects to provide services and programs. By law, the city must obtain specific voter approval to increase or extend taxes – this ballot item does not do that.

6. Does the Permanent Base Adjustment allow the city to exceed its budget?

No. Approving a Permanent Base Adjustment does not allow the city to exceed its legally adopted budget. Scottsdale’s annual budget will continue to be subject to all state laws, including the requirement that cities must pass balanced budgets and spend no more money than the revenues received.

7. Why is the Permanent Base Adjustment needed now?

Adjusting the expenditure limitation base is a necessary step to ensure the city can continue to provide high-quality services to Scottsdale's citizens and visitors.

Since a Permanent Base Adjustment was last approved by voters 18 years ago (in May 2006), Scottsdale has seen significant increases in visitors, services, revenues and operating costs that exceed the population and inflation factors in the state adjustment formula.

8. What are specific examples of new costs impacting the city's base expenditure limitation?

Some costs that are supported by current revenue sources, but impact Scottsdale's expenditure limitation include:

Public safety: personnel and equipment costs (e.g. body cameras, ballistic vests), new fire stations, new police and fire training facilities, new crime lab and new services such as the short-term rental enforcement unit and new ambulance services. These cost increases are paid for with current taxes and fees.

Water: the cost to purchase and treat Central Arizona Project water and operate new and expanded treatment facilities. These cost increases are paid for with existing and approved water rates.

Tourism: increased costs for destination marketing, events and other tourism related costs paid for with the voter approved increase in transient lodging tax from 3% to 5% in 2010.

New facilities: new operating costs for community facilities built with voter approved bond financing that have opened since the city's last Permanent Base Adjustment in 2006, such as libraries, trailheads, neighborhood parks, and sports fields.

Adjusting the Scottsdale's expenditure limitation will allow the city to continue these programs and services.

9. How have other Arizona cities adjusted expenditure limits?

The Arizona State Constitution allows local voters to change a city's baseline if they believe an adjustment is necessary. Voters in most Arizona cities (82 of 91) have approved at least one increase to the expenditure limitation base or adopted an alternative limitation since the expenditure limitation took effect in the 1979-80 budget year.

10. How does Scottsdale’s expenditure limitation compare to other Valley cities?

Scottsdale’s Fiscal Year 2023/24 expenditure limitation and per capita expenditure limitation are among the lowest in the Valley.

** Expenditure Limitation based on voter approved Home Rule Alternative*

City	Fiscal Year 23/24 Expenditure Limitation	Limitation Per Capita
Phoenix*	\$11,623,359,000	\$7,015
Mesa*	\$2,560,000,000	\$4,957
Chandler *	\$1,656,274,385	\$5,855
Surprise	\$1,478,748,668	\$9,517
Peoria	\$1,232,516,693	\$6,180
Glendale	\$730,770,870	\$2,877
Maricopa	\$644,026,349	\$9,948
Queen Creek	\$631,421,266	\$8,899
Tempe	\$624,338,073	\$3,332
Goodyear	\$622,516,993	\$5,868
Buckeye	\$595,412,188	\$5,600
Scottsdale	\$586,300,525	\$2,393
Avondale	\$567,836,304	\$6,150
Gilbert	\$544,824,047	\$1,963

11. Have Scottsdale voters previously adjusted the city’s expenditure baseline?

Yes. Historically, the state-mandated expenditure limitation adjusted by annual population growth and inflation has not kept pace with Scottsdale's available revenues and service changes and the programs and services that these revenues and charges support. Scottsdale voters have previously approved two adjustments:

- In 1998, voters approved an adjustment to the expenditure limitation baseline of \$12.5 million. Voters approved this adjustment to use existing revenues to fund new programs and improvements including operation of the new Water Campus, development of new water sources, providing transit services such as Dial-a-Ride and upgrades of signal and traffic coordination systems.
- In 2006, voters approved an adjustment to the expenditure limitation baseline of \$12 million. This action accommodated a dedicated transportation sales tax approved by voters in 2004, staffing and operating costs related to Bond 2000 construction projects, technology investments, police dispatch and communications, and water, wastewater and solid waste billing systems.

12. What happens if the ballot measure is approved by voters?

The ballot question will ask voters to increase the existing 1979-80 baseline by \$22 million. If approved, the state will adjust the city's expenditure base by \$22 million which will increase the city's expenditure limitation to about \$884 million effective for Fiscal Year 25/26 when population and inflation factors are included.

The State Economic Estimates Commission determines the final amount, based on statutory formulas. This new expenditure limitation would not obligate the city to spend more money. The City Council is required to approve a balanced budget and would set the amount of spending each year. The new expenditure limitation will allow the city to continue to use the revenues it collects to meet service demands and provide voter approved programs for the foreseeable future as determined by the City Council in the annual public budget process.

13. What happens if Scottsdale's expenditure limitation is not increased?

The Permanent Base Adjustment will enable the city to meet current and forecasted demands for services and programs, using existing revenue sources. Without the adjustment, the city will have to consider which services and programs to continue as the city's budget cannot exceed the current state-imposed Expenditure Limitation regardless of the revenues collected. Not increasing the expenditure limitation would have a negative impact on the city's operations.