

# Expenditure limitations

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

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

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

## **2. How is the expenditure limitation determined for a county?**

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

## **3. Where can a county obtain its constitutional expenditure limitation?**

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

## **4. Are all expenditures subject to the limitation?**

No. The expenditure limitation applies only to expenditures of local revenues as defined by Arizona Constitution, Article IX, §20(3)(d). Generally, local revenues include all monies received by or for the account of the county; however, the Constitution excludes some monies such as grants and aid from the federal government and certain revenues received from the State from the local revenues definition. For a detailed explanation of expenditures not

subject to the limitation, see the instructions for UERS forms—part II. In addition, see the exclusions (part II) FAQs for further discussion of expenditures subject to the limitation.

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

In accordance with A.R.S. §41-1279.07(H), a county that exceeds its expenditure limitation without authorization must reduce its maximum allowable primary property tax levy by the excess expenditures amount. Before a county reduces its maximum allowable primary property tax levy, the Auditor General must hold a hearing to determine if the county has exceeded the expenditure limitation without authorization. To ensure due process, county representatives are invited to attend and participate in this hearing. The allowable levy calculation for the fiscal year after the fiscal year of reduction, and future years, should be calculated without regard to the reduction.

## **6. Are there any provisions that allow a county to authorize expenditures in excess of its constitutional expenditure limitation?**

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

The Constitution also provides counties two voter-approved options to alter their expenditure limitation. These options include exceeding the expenditure limit for 1 year (one-time override) and permanently adjusting the base limit used to calculate the expenditure limitation (permanent base adjustment). See the voter-approved expenditure limitations FAQs for detailed information on these provisions.