

EXPENDITURE LIMIT TASK FORCE

Thursday, January 29, 2015, 10 a.m., Meeting Packet

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**NOTICE OF PUBLIC MEETING
CITY OF PHOENIX
EXPENDITURE LIMIT TASK FORCE**

Pursuant to A.R.S. Section 38-431.02, notice is hereby given to the members of the **EXPENDITURE LIMIT TASK FORCE** and to the general public, that the **EXPENDITURE LIMIT TASK FORCE** will hold a meeting open to the public on **Thursday, January 29, 2015, at 10:00 a.m., located in the 12th floor Central Conference Room, Phoenix City Hall, 200 West Washington, Phoenix, Arizona.**

One or more task force members may participate via teleconference.

The agenda for the meeting is as follows:

1.	Call to Order	Chair David Krietor
2.	Approval of the minutes of the January 23, 2015 meeting. This item is for discussion and possible action.	Chair Krietor
3.	Task Force Consideration of Home Rule Option Materials – Staff will present a proposed Council report, ballot language, publicity pamphlet, and pro argument for the Home Rule option for Task Force review, discussion and possible action. This item is for review, discussion and possible action.	Chair Krietor Budget and Research Director Mario Paniagua
4.	Call to the Public – Consideration and discussion of comments from the public. The Chair will open the floor to the public but may limit the time allotted to each speaker. Responses to questions from the public will be provided if possible. Action taken as a result of public comment will be limited to directing staff to study the matter or rescheduling the matter for further consideration and decision at a later date.	Chair Krietor
5.	Adjournment	

For further information, please call Genevieve Siri, Management Assistant II, Budget and Research at 602-495-7320.

For reasonable accommodations, call Genevieve Siri at Voice/602-495-7320 or TTY/ use 7-1-1 as early as possible to coordinate needed arrangements.

1/26/15

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Agenda Item No. 2

Draft Minutes of the January 23, 2015 Meeting

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**CITY OF PHOENIX
EXPENDITURE LIMIT TASK FORCE
SUMMARY MINUTES
January 23, 2015**

City Hall, 12th floor, Subcommittee Room
200 West Washington Street
Phoenix, AZ 85003

Task Force Members Present

David Krietor, Chairman	Leezie Kim
Kerwin Brown	Jennifer Mellor
Armando G. Roman	

City Staff Present

Mario Paniagua	Sean Kindell
Troy Hayes	Tracy Reber
Amber Williamson	Dwon Forte
Genevieve Siri	

1. Call to Order

Chairman David Krietor called the meeting to order at 1:10 p.m. with Task Force members Jennifer Mellor, Leezie Kim, and Armando G. Roman present. Kerwin Brown arrived at 1:11 p.m.

2. Approval of the Minutes of the January 15, 2015 Meeting

Chairman Krietor noted there was an error on page four of the draft minutes with an incomplete sentence, and the corrected sentence should read as follows: "Mr. Barton gave background on the Council adopted Public Safety Funds balancing plan to reduce the hiring pace due to slower than anticipated revenue growth." Ms. Mellor moved approval of the minutes as corrected. Ms. Kim seconded the motion, which passed 5:0.

3. Information Requested by Task Force

Budget & Research (B&R) Director Mario Paniagua introduced Assistant Water Services Director Troy Hayes and Deputy Finance Director Sean Kindell. Chairman Krietor asked staff to explain the changes in the fund balances in the Water Fund forecast.

Mr. Hayes explained the fund balances were currently larger than desired, and staff made an effort to reduce the fund balance by moving more capital expenses to Pay-As-You-Go with less debt financing. Mr. Kindell explained that City staff watches the fund balance closely. Their goal is to have a fund balance equal to a year's worth of debt service, but since the fund balance is closer to a two-year value, staff intentionally

reduced the fund balance. Staff is relying more on Pay-As-You-Go funding for capital costs.

Mr. Hayes stated the Water Services Department's capital projects are generally currently in the rehabilitation and replacement mode with no expansion, and this status facilitates the reduction of the fund balance. The current fund balance allows the City to not require a rate increase this year.

Chairman Krietor summarized staff's explanation by stating the operating funds are used for operations and capital, and the Water Services Department decided to use more of the operating funds for capital costs to right-size the fund balance.

Mr. Roman asked if the City intended to reduce the Water Fund forecast by 50% from the beginning fund balance. Mr. Kindell said that statement was correct, and the fund balance is projected to level-out as revenues grow. He said future forecasts assume a potential rate increase.

Mr. Hayes stated removal of a water plant is their largest capital project while others are mainly rehabilitation of aging infrastructure. In response to Mr. Roman's question, Mr. Hayes stated pipe infrastructure is projected to be replaced toward the end of the decade or within the next decade.

Mr. Hayes stated a rate increase is projected going forward, in reply to the Chair's question.

4. Task Force Consideration of Spending Limit Options

Chairman Krietor stated that now that the Task Force has looked at the budget, the Task Force could look at options. He said it was important for the Task Force to leave with a real understanding of the options. He turned the presentation over to Mr. Paniagua.

Mr. Paniagua referred to page 5 of the packet. He detailed available options regarding the expenditure limit, including the Alternative Expenditure Limitation (Home Rule Option), the Permanent Base Adjustment, and the One-Time Override. He highlighted the processes for each option, as well as their pros and cons.

Under the Alternative Spending Limitation (Home Rule Option), Mr. Paniagua noted we set the spending limit to the budget, and the budget reflects the community's needs through the annual community budget process.

Mr. Paniagua explained the Home Rule Option would require the City to wait two years before putting it on the ballot again if the voters did not approve the Alternative Expenditure Limitation. Chairman Krietor asked what would happen during the two-year hiatus. Mr. Paniagua replied the City would have to comply or face penalties.

Mr. Roman asked Mr. Paniagua to confirm that the Permanent Base Adjustment Option did not require a periodic review, such as every four years by a citizen committee, and that the extent of community involvement would be through the community budget process. Mr. Paniagua affirmed that Mr. Roman's statements were correct.

Deputy B&R Director Tracy Reber noted that under the Permanent Base Adjustment Option, the amount of the adjusted base limit may need to be exceeded at some point in the future, in response to Ms. Kim's question.

Ms. Mellor asked if the City would have the discretion to decide if a similar task force would need to be reinstated in the future under the Permanent Base Adjustment Option. Ms. Reber confirmed that statement.

Chairman Krietor asked how the new base amount is determined for the Permanent Base Adjustment Option. Ms. Reber replied that that is one of the challenges, and we would want to plan for some cushion for unanticipated expenses.

Mr. Paniagua added building in large cushions could be a challenge for the voters.

Ms. Mellor asked about other local municipalities that passed a Permanent Base Adjustment. Ms. Reber named several such as the cities/towns of Carefree, Casa Grande, Douglas, Gilbert, Glendale, and Goodyear. She stated one municipality passed one as far back as 1982-83.

Mr. Paniagua added the City of Tucson reset their Permanent Base Adjustment about a year ago.

Chairman Krietor stated the Alternative Spending Limit is good for four years which reflects our belief in the City Council's decisions and the community-based budgeting process.

Mr. Roman asked about the length of Council terms. Mr. Paniagua replied four years.

Ms. Kim added they are staggered terms. Mr. Paniagua explained Council districts 1, 3, 5, and 7 face elections this year. In two years, the even-numbered districts will then face elections.

Chairman Krietor summarized how term limits work.

Chairman Krietor shared that the Task Force has one more meeting and at the next meeting, they would be asked to recommend an option.

Mr. Paniagua stated that the current item is posted for possible action, and if the Task Force decided to act today, staff would return with more information based on its approved recommendation.

Chairman Krietor stated he deferred to the rest of the Task Force.

Mr. Roman asked for the City's bond rating. Mr. Paniagua replied the rating on the General Obligation (GO) bonds is AA+, which is a very strong rating. There are other debts issued by the City but this is the main one discussed.

Mr. Roman asked if there have been discussions on issuing new bonds. Mr. Paniagua replied there are no plans in the immediate future and no current active reviews for GO bonds.

Chairman Krietor summarized the history of the City's GO bond issuance process and stated the last one was in 2006.

Ms. Kim stated she could see why the rating agencies looked favorably at the City's current spending limit Home Rule Option, as they look to the Task Force as independent reviewers.

Mr. Brown asked if there is any other public involvement in the process besides the Task Force. Mr. Paniagua replied there is no other public involvement generally because the matter does not generate a lot of general public interest. Presenting information in a clear and understandable way is a challenge when we go to the voters.

Chairman Krietor said the City has not had a significant revenue increase and the aggregate property tax rate has not increased in quite some time. Most growth has been due to the city's growth. We are not advocating an expenditure limit that is unreasonable and unnecessary. We now face competing demands for limited revenue.

Mr. Roman asked if other states had similar spending limits. Ms. Kim stated she believed our spending limit came from California's issues with capping their property tax rates.

Mr. Paniagua concurred that a lot of property tax limitations carried over to Arizona from California, and we have not done an outside state analysis.

Mr. Roman stated the process seems to be working and he was curious about what other cities do. He added it seems unfair that because of the way the state expenditure limit formula works, Phoenix has been penalized for its efficiency in the past, while newer cities with higher per capita spending in 1979-80 have benefited.

Mr. Paniagua stated to change that, the State Constitution would need to be changed and it would need to be passed by Arizona voters. It could be politically tough especially with this complicated topic.

Chairman Krietor stated one reason he leans toward the Alternative Spending Limit Option is because it is difficult to explain the issues associated with the Permanent Base Adjustment Option to the voters. With the Alternative Spending Limit Option, the

base is set annually at the Council- adopted budget with community involvement, and within four years the base can be adjusted.

Ms. Kim stated two major factors to consider are political reality and how much periodic oversight and transparency do we want.

Mr. Brown stated we need to have a system where we have periodic review and he does not favor setting an arbitrary cushion. Mr. Roman stated there are different steps along the way, and he favors the Alternative Spending Limit Option as well.

Ms. Mellor asked about next steps if the Task Force approved the Alternative Spending Limit Option.

Mr. Paniagua stated the recommendation of the Task Force for Alternative Spending Limit equal to the Council adopted budget would be presented to the City Council. The Council would then decide on ballot language to go to voters at the August election. All our materials show we will do the annual community budget process, which is important since the spending limit is set at the annual adopted budget.

Mr. Brown moved approval of the Alternative Expenditure Limitation (Home Rule Option) to be set at the annually Council adopted budget, as presented in the information packet. Ms. Mellor seconded the motion. The motion passed 5:0.

Mr. Paniagua stated staff would bring example materials to the next meeting, including the draft City Council Report, sample ballot measures and voter guides.

Budget Analyst III Amber Williamson stated the Task Force's first packet contained similar materials from the prior process. Ms. Reber added staff would update those materials.

Mr. Brown asked if any other options have been put forward. Ms. Reber explained early Home Rule Options were set to exclude such funds as the Aviation and Wastewater funds.

Chairman Krietor commended staff for doing a good job explaining the issues and options, given a complicated \$3.5 billion budget with enterprise and restricted funds.

5. Call to the Public

None.

6. Future Agenda Items

None.

7. Adjournment

Chair adjourned the meeting at 2:20 p.m.

Respectfully submitted,

Genevieve K. Siri
Management Assistant
Budget and Research Department

Agenda Item No. 3

Task Force Consideration of Home Rule Option
Materials

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CITY COUNCIL REPORT

RECOMMENDED BALLOT PROPOSITION FOR FALL 2015 ELECTION

TO: Mayor And City Council AGENDA DATE: February 24, 2015

FROM: David Krietor,
2015 Expenditure Limit Task Force

SUBJECT: RECOMMENDED BALLOT PROPOSITION FOR FALL 2015 ELECTION

The 2015 Expenditure Limit Task Force recommends a Local Alternative Spending Limit (also known as a Home Rule Option) be presented to voters on the August 25, 2015 ballot. Our recommended Home Rule Option would ask Phoenix voters to continue setting the annual spending limit equal to the annual budget. This alternative has been in place for sixteen years. This would allow Phoenix residents to continue to control local expenditures through the annual budget process, rather than default to a state-imposed formula.

Members of the 2015 Expenditure Limit Task Force included: Chairman David Krietor, CEO of Downtown Phoenix, Inc.; Kerwin Brown, President and CEO of the Greater Phoenix Black Chamber of Commerce; Leezie Kim, Vice President and General Counsel of Fox Restaurant Concepts; Jennifer Mellor, Vice President of Program Development of the Greater Phoenix Chamber of Commerce; and Armando G. Roman, Managing Principal of Axiom Financial Advisory Group, LLC. Our recommended ballot language is provided in Attachment A and additional information is also attached. This report provides brief information on our process and deliberations resulting in this recommendation.

THE ISSUE

The City of Phoenix, like most Arizona cities and towns, has had an alternative expenditure limit in place for many years. This limit, most recently approved by voters in 2011, allows the City to locally control expenditures by deciding what programs, services and facilities will be provided in our community through the annual budget process. Without this alternative expenditure limit, our services would be controlled by a formula that limits annual spending to 1979-80 levels, adjusted only for population and national inflation.

Phoenix residents have approved eight Home Rule Options since 1981. Our current Home Rule Option provides for the Mayor and Council to set the limit at the adopted budget following several budget hearings throughout the City and in each Council district. This Home Rule expires on June 30, 2016. On November 19, 2014, the Mayor and Council appointed the 2015 Expenditure Limit Task Force to study the provisions of the constitutional spending limit and to make a recommendation on our future approach to an alternative expenditure limit.

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The consequence of not establishing some form of an alternative expenditure limit would require the City to take actions such as drastically cutting even more services, and using excessive debt and its related costs.

Additional background information on the State Expenditure Limit is included in Attachment B.

TASK FORCE PROCESS

During a series of four meetings, the Task Force reviewed and discussed the history of the Arizona Expenditure Limitation, previous spending limits for the City of Phoenix and expenditure and service demand forecasts for all major City funds. The Task Force also reviewed information on factors affecting expenditures since 1979-80 (Attachment C), other forms of modifying the limit, and a comparison of the Phoenix limit per capita to other Arizona cities and towns (Attachment D).

The forecasts assume moderate economic growth over the next several years, with no further period of recession. Our analysis indicates that in 2016-17 the city's financial forecast for services to city residents will exceed the spending limit formula by over \$900 million. Conservatively, that gap will be approximately \$1.0 billion by 2019-20. These amounts are based on existing revenue sources and do not assume any new revenue sources, restoration of recently reduced or eliminated services or, the addition of new City services.

Our review of the factors impacting expenditures since 1979-80 identifies voter-approved enhancements for programs such as police, fire, transit and parks and preserves that are clearly desired by the community but that are not incorporated via the formula. Also evident is the impact of environmental and other mandates and regional services such as airports that are fully funded from airline and passenger fees having grown disproportionately faster than the state formula supports. Finally, Phoenix's limit per capita is one of the lowest of all Arizona cities and towns with populations of more than 100,000 yet the City provides many essential programs and services that benefit other communities in the region and state.

A permanent base adjustment approach to adjust the base limit was reviewed as an option to the Home Rule. Though there was some interest, there are concerns with the permanent base adjustment. One reason is the permanent change would not be truly permanent because, similar to the original limit, it would grow by inflation and population and not other factors. Another reason is that the periodic review and reconsideration by the community and tie to the annual, public budget process is lost with such an approach.

After reviewing the issues related to the state-mandated spending limit and its potential impact on the City of Phoenix, the 2015 Expenditure Limit Task Force supported the current four-year alternative limit, which sets the annual limit equal to the annual budget and requires the Mayor and Council to continue to review the budget in public hearings before adoption. The budget, and therefore the expenditure limit, would be constrained

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to the resources available and approved through the annual process. The Task Force agreed this is the most appropriate form of local alternative expenditure limitation for the City of Phoenix today.

Home Rule Options are utilized by 52 cities throughout the state. In all, 76 of 91 cities and towns throughout the state were reported by the League of Arizona Cities and Towns to have some type of relief from the state-imposed expenditure limits to meet community needs.

Continuing the current Home Rule Option recognizes the City's long-standing practice of seeking and providing opportunities for resident comment on an annual basis through hearings and other means of City input. This also allows our residents and their locally elected representatives to decide what services will be provided. This commitment to transparency and involvement of the community in decision making by the City of Phoenix is further demonstrated by the formation of this Citizens' Task Force. State law does not require such an approach to develop and place an alternative expenditure limit before the voters.

RECOMMENDATION

The 2015 Expenditure Limit Task Force recommends referral to the August 25, 2015 ballot of a local alternative expenditure limitation that sets the limit equal to the budget after the Mayor and Council have publicly reviewed the budget. This limit will be in effect for four fiscal years beginning in 2016-17 through 2019-20. This limit recognizes:

- The Mayor and City Council, after receiving input from residents, will have the ability to spend already available funds for services such as police, fire, parks and recreation, libraries, neighborhood services, recycling, a safe and adequate water supply, and a modern, convenient airport that are deemed important by the local community.
- A locally established expenditure limit allows the City to implement previous voter-approved mandates for enhanced services such as improved public safety, improved transit services and the expansion of parks and desert preserves.
- The City of Phoenix has a proven track record of making needed reductions to balance its annual budget relying upon its long-established open budget process with many opportunities for residents to communicate their budget priorities to the Mayor, City Council and City Management.
- Unlike seeking a permanent adjustment to the base limit, this local alternative limit will continue the process of review and voter approval on a four year cycle.

This recommended alternative limit will allow Phoenix residents and their locally elected representatives to continue to locally control expenditures to achieve the community's priorities.

With the Mayor and Council's approval, staff will prepare the necessary items to place this local alternative expenditure limitation on the August 25, 2015 ballot.

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Additionally, request to authorize the City Manager to set the dates of two public hearings required prior to placing a Local Alternative Expenditure Limitation on the August 25, 2015 ballot. The two hearings would be set at the following dates and times:

1. Wednesday, March 18, 2015 at 3:00 p.m.
2. Wednesday, March 25, 2015 at 3:00 p.m.

Immediately following the second public hearing on March 25, 2015, the Council will convene in a special session to consider adoption of the proposition for the ballot.

Attached to this report are copies of the ballot and publicity pamphlet language recommended by the Task Force (Attachment A). Final City Council adoption of the ballot language recommended by the Task Force is scheduled for April 22, 2015 after the two legally required public hearings.

Attachments

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ATTACHMENT A**

2015

BALLOT PROPOSITION

PROPOSITION NUMBER XXX

OFFICIAL TITLE: Resolution No. XXX

A RESOLUTION OF THE COUNCIL OF THE CITY OF PHOENIX PROPOSING THE CONTINUANCE OF A LOCALLY CONTROLLED ALTERNATIVE EXPENDITURE LIMITATION. THIS ALTERNATIVE EXPENDITURE LIMITATION WOULD SET THE LIMIT EQUAL TO THE BUDGET ADOPTED BY THE CITY COUNCIL.

Descriptive Title

Article IX, Section 20 (9) of the Arizona Constitution allows the voters to extend the locally controlled alternative expenditure limitation for the City of Phoenix, continuing it for the next four years. This alternative expenditure limitation has been in place since fiscal year 2000-01. If approved, it would keep the City of Phoenix's expenditure limitation equal to the amount of the budget adopted by the City Council. Annually, the Mayor and City Council will adopt a budget after public hearings for each Council district. Constitutional and previously authorized voter exclusions shall continue to apply. If the alternative expenditure limitation, which is currently in effect for the City of Phoenix, is not extended, the state-imposed expenditure limitation will go into effect.

Effect

A "Yes" vote shall have the effect of continuing local control by allowing the Mayor and City Council, by a majority vote, and after public meetings and hearings to establish a local expenditure limitation.

A "No" vote shall have the effect of the city operating under the state imposed expenditure limitation formula based on 1979-80 expenditures adjusted for inflation and population. This will result in an estimated \$917 million reduction in the fiscal year 2016-17 budgeted expenditures and reductions in or eliminations across all City services.

Question

Shall the Alternative Expenditure Limitation set forth in Phoenix City Council Resolution No. XXX be adopted as part of the local expenditure control program of the City of Phoenix?

YES

NO

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2015

PUBLICITY PAMPHLET

OFFICIAL TITLE: Resolution No. XXX

A RESOLUTION OF THE COUNCIL OF THE CITY OF PHOENIX PROPOSING THE CONTINUANCE OF A LOCALLY CONTROLLED ALTERNATIVE EXPENDITURE LIMITATION. THIS ALTERNATIVE EXPENDITURE LIMITATION WOULD SET THE LIMIT EQUAL TO THE BUDGET ADOPTED BY THE CITY COUNCIL.

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Question

Shall the Alternative Expenditure Limitation set forth in Phoenix City Council Resolution No. XXX be adopted as part of the local expenditure control program of the City of Phoenix?

YES

NO

Draft

LANGUAGE FOR COUNCIL RESOLUTION – BALLOT REFERALL

The Mayor and City Council of the City of Phoenix shall annually, as part of the annual budget process, adopt an expenditure limitation to govern the City of Phoenix budget for the fiscal year immediately following such adoption. The expenditure limitation shall be adopted each year after a series of hearings for each City Council district, at which the residents of the City of Phoenix may comment on the proposed spending plan. This continues previously adopted locally controlled alternative expenditure limitations approved in 1981, 1985, 1991, 1995, 1999, 2003, 2007 and 2011. No expenditures may be made in excess of such budget, nor may expenditures exceed available revenues. Constitutional and previously authorized voter exclusions shall continue to apply.

Applicability. In accordance with the provisions of Article IX, Section 20, Arizona Constitution, this locally controlled expenditure limit shall be effective for only the following four fiscal years: 2016-17, 2017-18, 2018-19, and 2019-20.

SUMMARY ANALYSIS

City of Phoenix, Arizona Locally Controlled Alternative Expenditure Limitation

The voters of Phoenix have previously approved locally controlled alternative expenditure limitations in 1981, 1985, 1991, 1995, 1999, 2003, 2007 and 2011. The purpose of this election is for the continued use of a locally controlled alternative expenditure limitation.

Pursuant to the Arizona Constitution, the City of Phoenix will seek voter approval to continue a Locally Controlled Alternative Expenditure Limitation for the next four fiscal years, beginning in 2016-17. Any and all dollar figures presented in the following summary are estimates only and are based on the best information available at the time of the analysis.

Under a locally controlled alternative expenditure limitation, if approved by the voters, the City estimates it will be allowed to expend the following approximate amounts (in thousands): \$3,661,761 in 2016-17, \$3,759,806 in 2017-18, \$3,896,098 in 2018-19, and \$4,061,503 in 2019-20.

The amount of revenue estimated to be available to fund the operation of your City government (in thousands) is \$3,661,761 in 2016-17, \$3,759,806 in 2017-18, \$3,896,098 in 2018-19, and \$4,061,503 in 2019-20. Revenue received from federal, state, and local sources will continue to fund the increased expenditure authority associated with the Locally Controlled Alternative Expenditure Limitation Plan. Expenditures will not exceed revenue. The revenue estimates are the same under the locally controlled alternative expenditure limitation and the State limitation. The City property tax levy shall remain limited to the amount prescribed by the Arizona State Constitution.

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With voter approval, the City of Phoenix will utilize additional expenditure authority under this plan for all local budgetary purposes, including criminal justice, public safety, transportation, community development, community enrichment, environmental services, capital improvements, debt service, and general government. This additional expenditure authority shall be in effect only for fiscal years 2016-17, 2017-18, 2018-19, and 2019-20.

Under the State-imposed limitation, after considering the constitutionally allowed exclusions, the City estimates it will be allowed to expend the following approximate amounts (in thousands): \$2,745,078 in 2016-17, \$2,847,230 in 2017-18, \$2,941,951 in 2018-19, and \$3,060,239 in 2019-20 for the operation of your local government. If no alternative expenditure limitation is approved, the state-imposed expenditure limitation will apply to the City of Phoenix. This would result in a combination of service cuts and new debt estimated at (in thousands): \$916,683 in 2016-17, \$912,576 in 2017-18, \$954,147 in 2018-19 and \$1,001,264 in 2019-20.

All dollar figures presented in this summary are estimates only and are based on the best information available at the time of the 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.

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BACKGROUND INFORMATION ON THE STATE EXPENDITURE LIMIT

1. What is the State expenditure limit?

It is a State Constitutional limit approved by voters in 1980 which restricts annual spending limits of cities and towns. The limit applies to all local revenues.

- Limits spending to 1979-80 levels adjusted for:
 - Population; including annexations
 - Inflation; gross domestic product and inflation price deflator
 - Population and inflation factors are provided by the State
- Exempts certain expenditures:
 - Federal funds
 - Bond proceeds
 - Debt service
 - Arizona Highway User Revenue (AHUR)
 - Local Transportation Assistance (LTA)
 - Other jurisdictions' contributions (e.g. the Sub-Regional Operating Group for the 91st Avenue wastewater treatment plant)

2. What happens if we exceed the spending limitation?

The State will withhold state-shared income tax revenues in a formula-based amount set by statute. For Phoenix, this would result in the General Fund losing about \$58 million per year which would be redistributed to all other cities and towns in Arizona.

3. What options do cities have to change the limits?

There are four methods for obtaining approval to change the limits.

Alternative Expenditure Limitation (Home Rule Option)

- Only in effect for four years, then must be reapproved by voters.
- Any and all expenditures can be exempted from the limit.
- Must be voted on in the year preceding the first fiscal year to which the alternative expenditure limit will apply.
- Can only be voted on at a regularly scheduled election of the local governing board (city council).
- If the voters do not approve the alternative expenditure limitation, the city must wait two years before putting it on the ballot again.

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Permanent Base Adjustment

- Permanently increases the base from which future spending limits are calculated.
- Does not provide for any increase in exemptions other than those constitutionally allowed.
- Can only be voted on at a regularly scheduled election of the local governing board (city council).

One-Time Override

- Applies in the following circumstances:
 - In the event of a natural or man-made disaster and approval by council – may exceed limit for expenditures directly necessitated by the disaster.
 - Upon affirmative vote of two-thirds of the council and approval by a majority of voters – may exceed limit by the specific amount approved.
- Can be voted on at either a regular or special election.
- Only good for the following fiscal year.

Capital Accumulation Exclusion

- Authorizes a permanent exclusion of a fixed level of operating funds for pay-as-you-go capital. Limited exclusions for Aviation, Water, Wastewater and Streets were authorized in 1981.

4. Can Phoenix go to another approach besides the Home Rule Option?

Phoenix could go to a permanent base adjustment. Concerns identified through prior citizen discussions include:

- This approach does not require periodic review by a citizens' group.
- A permanent base adjustment may not be truly permanent. Each year the expenditure limit will be calculated based on inflation and local population. At some point, it is possible that expenditures would again exceed the limit. All spending is subject to pressures not addressed by population and inflation factors such as environmental mandates and regional issues. This is especially true of Enterprise Departments, particularly the airport. Additionally, the ability to improve services in accordance with regional economic conditions and residents' wishes would be limited.
- Phoenix' previous attempts at permanent base adjustments have all failed. Permanent base adjustments for replacement of Federal Transit Assistance and Federal Revenue Sharing funds were defeated in 1985. A permanent base adjustment for transit expenditures was defeated in 1997.

Draft ATTACHMENT C

FACTORS AFFECTING EXPENDITURES SINCE 1979-80 NOT ACCOUNTED FOR BY POPULATION AND INFLATION ONLY

The list below identifies several examples of changes experienced by the City of Phoenix since 1979-80. These changes are the result of many factors that are not accounted for in the state-imposed formulaic spending limit. The factors generally include growth in regional services provided to residents outside Phoenix boundaries, environmental mandates, additional security requirements, and additional services adopted by Phoenix voters and City Council including public safety, parks and preserves, transit, and improved infrastructure.

- Many of our services and facilities are regional and serve more than just Phoenix residents. As an example, there were 6.5 million airport passengers in 1979-80 but 45.0 million are projected for 2019-20, which greatly exceeds the rate of Phoenix population increase over that period.
- The airport has experienced significant facility expansion including the opening of new Terminals 3 (1980) and 4 (1990). Terminal 4 was further expanded in 2004 and 2005 including a new 14-gate concourse, additional parking facilities and a third runway as a result of growth. The consolidated Rental Car Center opened in 2005-06 and the first segment and second segments of the PHX Sky Train opened in 2013 and 2014.
- A new passenger facility charge allows more cost-effective pay-as-you-go financing rather than the use of debt for airport projects such as taxiway and runway improvements, PHX Sky Train design and implementation, voluntary land acquisition and noise mitigation efforts (first PFC program was in 1996).
- Many City facilities, including the airport and water facilities, have experienced significant increases in security costs since 9/11.
- Water and Wastewater have experienced increased capital improvement costs for aging and deteriorating infrastructure. Using pay-as-you-go financing, rather than debt, for some of these projects has kept overall costs to ratepayers down.
- Water and Wastewater's costs for electricity and chemical costs are impacted by usage, source, quality of water and regulatory demands.
- Infrastructure must expand ahead of growth to be sure services are available when needed.
- Solid Waste has added citywide recycling (1998), improvements to uncontained trash pick-up, two recycling facilities (1998 and 2007), the SR85 landfill (2006), and two transfer stations (1995 and 2006) have been added.

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- Environmental mandates such as the Clean Water Act (1987), the National Pollution Discharge Elimination System (2000), the Safe Drinking Water Act (1992), the Groundwater Management Act (2006), the Clean Air Act (1998), the Federal Solid Waste Disposal Act and Wastewater Reuse Regulation have all increased costs.
- The Phoenix Convention Center was expanded in the early 1980s and again in 2009 benefiting the entire region. The Herberger and Orpheum Theatres were added in the 1990s.
- Voters approved a new Transit tax in 2000 mandating additional services including new routes, route extensions, additional hours of operation, weekend and holiday service and enhancements to dial-a-ride.
- Operating costs associated with Light Rail began in December 2008.
- Voters approved a new Parks and Preserves Initiative tax in 1999 and reauthorized the tax for a 30-year period in 2008 mandating improved and expanded parks and open space.
- The Fire Department began providing ambulance service in 1985.
- Previously exempt Federal Revenue Sharing Funds and Federal Transit Assistance Funds were replaced with an increase in the sales tax that is subject to the limit in the mid-80s.
- Voters passed the Public Safety Enhancement tax (2005) on utilities with franchise agreements and increased sales tax for Public Safety Expansion (2007) to be used to hire and support Police and Fire.
- Funding from the telecommunications industry (1998) now exists to repay residents for use of the right-of-way.
- New Sports Facilities funding (1989) pays for arena and other sports-related costs.

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ATTACHMENT D

Expenditure Limit Comparison by City
Cities over 100,000 in Population

City	Population		FY 1979/80 Base Limit	Final FY 2014/15 Expenditure Limitation	1979/80 Limitation per Resident	2014/15 Limitation per Resident
	2013	1978				
Surprise	121,629	3,550	\$ 9,500,000	\$ 919,730,229	\$ 2,676	\$ 7,562
Peoria	160,552	10,500	18,247,857	788,435,848	1,738	4,911
Glendale	231,109	84,000	67,955,628	528,312,730	809	2,286
Scottsdale	222,213	83,000	55,861,444	422,602,051	673	1,902
Tempe	165,158	102,000	65,579,379	300,050,818	643	1,817
Gilbert	227,603	4,250	2,346,450	355,081,813	552	1,560
Tucson	525,154	311,400	138,097,586	658,085,359	443	1,253
Mesa	450,310	130,000	54,090,640	529,442,050	416	1,176
Phoenix	1,485,751	717,000	229,200,625	1,342,056,332	320	903
Chandler	246,197	23,500	7,245,951	214,505,464	308	871
				Average	\$ 858	\$ 2,424

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PRO ARGUMENT

PROPOSITION NUMBER X – CONTINUANCE OF THE LOCAL HOME RULE OPTION

Proposition X is not a tax increase but allows local residents to continue controlling local spending. Without Proposition X, local spending would instead be controlled by a State formula restricting spending based on 1979-80 levels adjusted for inflation and population. That formula does not consider implementation costs of local, voter approved programs or regional impacts of services and facilities, such as the airport.

Support for continuing local control of expenditures is based on:

- Our residents will be able to spend already available funds for services such as police, fire, parks, libraries, neighborhood services, recycling, potable water, and a modern, convenient airport.
- Our recommendation allows voter-approved mandates for services like public safety enhancements, transit improvements, and parks and preserves expansion.
- The City's long-established open budget process with many opportunities for residents to communicate their budget priorities.
- Continuance of the citizen review process and voter approval of an alternate expenditure limit every four years.

Because local limits continue dependable, high-quality services, voters approved them on eight prior occasions: 1981, 1985, 1991, 1995, 1999, 2003, 2007 and 2011.

Local control of service delivery and priorities would continue annually through the citywide budget process. Without your "yes" vote, a State spending formula based on 1979-80 expenditures, that considers only population and inflation will cause reductions in your City services. As before, this limit will be in effect for four years, allowing another review in 2019.

After careful consideration, we strongly urge you to vote yes on Proposition X.

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