CALL TO ORDER

COUNCIL INFORMATION AND FOLLOW-UP REQUESTS

This item is scheduled to give City Council members an opportunity to publicly request information or follow up on issues of interest to the community. If the information is available, staff will immediately provide it to the City Council member. No decisions will be made or action taken.

CONSENT ACTION

This item is scheduled to allow the City Council to act on the Mayor's recommendations on the Consent Agenda. There is no Consent Agenda for this meeting.

CALL FOR AN EXECUTIVE SESSION

A vote may be held to call an Executive Session.

REPORTS AND BUDGET UPDATES BY THE CITY MANAGER

This item is scheduled to allow the City Manager to provide brief informational reports on topics of interest to the City Council. The City Council may discuss these reports but no action will be taken.

DISCUSSION AND POSSIBLE ACTION (ITEM 1)

1 Recommendation to Begin Quadrennial Review of the Home Rule Option

This report recommends the Mayor and City Council appoint an Expenditure Limit Task Force and initiate the quadrennial review process to carefully study the State Expenditure Limit effect on the City. The Task Force will recommend a proposal for placement on the ballot for the November 2020 regular election.
THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Responsible Department
This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.

INFORMATION AND DISCUSSION (ITEM 2)

2 Solid Waste Service Level and Rate Update
This report provides the City Council with an update on the Public Works Department Solid Waste Management Program and presents options for solid waste service levels and rates.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Responsible Department
This item is submitted by Deputy City Manager Karen Peters and the Public Works Department.

ADJOURN

For further information or for reasonable accommodations, please call the Management Intern, City Manager's Office, at 602-262-4449 or Relay 7-1-1 as early as possible to coordinate needed arrangements.

Si necesita traducción en español, por favor llame a la oficina del gerente de la Ciudad de Phoenix, 602-262-4449 tres días antes de la fecha de la junta.
Recommendation to Begin Quadrennial Review of the Home Rule Option

This report recommends the Mayor and City Council appoint an Expenditure Limit Task Force and initiate the quadrennial review process to carefully study the State Expenditure Limit effect on the City. The Task Force will recommend a proposal for placement on the ballot for the November 2020 regular election.

THIS ITEM IS FOR DISCUSSION AND POSSIBLE ACTION.

Summary
In 1980, Arizona voters approved a constitutional amendment limiting local government spending to 1979-80 amounts adjusted for annual growth in population and inflation. This constitutional amendment included provisions for obtaining voter approval to exceed those limits. Since 1980, Phoenix has had nine home rule options approved by the voters.

Each of the City's prior home rule options have been thoroughly studied and recommended by citizen task forces. The City's current home rule option will expire on June 30, 2021. A proposal must be presented to the voters in the regular election on Nov. 3, 2020 in order to be in place by July 1, 2021.

Staff recommends a Task Force be appointed and charged with reviewing the revenue and expenditure forecasts prepared by City staff, studying the potential effects of the constitutional limit, and recommending a proposal to the Mayor and City Council for referral to the ballot. Staff also recommends the following schedule for their work:

- November 2020 - Appointment of Task Force
- February 2020 - Task Force meetings
- March 2020 - Task Force presents findings to the City Council
- April 2020 - Two required public hearings
- Mid-April 2020 - Required analysis transmitted to the State Auditor General
- June 2020 - Adoption of the form of the ballot
- August 2020 - Publicity pamphlet materials prepared
- Nov. 3, 2020 - Election Day
Additional information regarding the expenditure limit is attached to this report in Attachments A-C.

**Responsible Department**

This item is submitted by City Manager Ed Zuercher and the Budget and Research Department.
State Spending Limit:

- Also known as “Expenditure Limitation.”
- 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 actual levels adjusted for population growth and inflation. However, original limitation does not account for voter-approved increases (transit, public safety, parks and preserves), regional services (Sky Harbor, wastewater treatment) or Federal/State mandates (clean water, FAA).
- The Constitution includes provisions for exceeding the limit with voter approval.
- The Home Rule Option, also known as an Alternative Expenditure Limitation, must go to voters every four years.

If Home Rule Not Approved:

- The City will exceed the spending limitation and the State will withhold state-shared revenues in a formula-based amount set by statute. The City would need to reduce expenditures by an estimated $1 billion annually to comply with the formulaic limit.

City of Phoenix Process:

- Since 1980, Phoenix has had nine spending limit options approved by voters.
- Through Home Rule approved by Phoenix voters, the limit has been set at adopted budget since 1999.
- Each of Phoenix’s prior options have been studied and recommended by Citizen’s Committees.
- Voters last approved the Home Rule Option in August 2015.
- Phoenix’s current Home Rule period expires on June 30, 2021.
- Solution must be presented to voters November 3, 2020 to be effective July 1, 2021.

Citizen Committee Process:

- Review the revenue and expenditure forecasts prepared by City staff.
- Study the potential effects of the Constitutional limit.
- Recommend a solution to Council in March 2020.
ATTACHMENT B
Expenditure Limit
Frequently Asked Questions

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 could result in the General Fund losing about $72 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.

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:
  o In the event of a natural or man-made disaster and approval by council – may exceed limit for expenditures directly necessitated by the disaster.
  o 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.


Several other cities in the State use a similar Home Rule Option. Based on the most recent information available from the League of Arizona Cities and Towns in 2018, 78 cities and towns approved alternatives to the state expenditure limitation: 49 received
voter approval for a Home Rule option with the remaining 29 approving a Permanent Base Adjustment.

A history of Home Rule Option and Permanent Base Adjustment Initiatives for the City of Phoenix is included in Attachment C.

In 1999, for the first time we saw the impact of the expenditure limit on funds other than Aviation, Water, Wastewater and Solid Waste (formerly the Refuse fund). These impacts continue today and have two major causes:

- The use of a national inflation indicator as a measure of economic growth prohibited us from responding to a robust and growing Phoenix economy.
- New funding such as the voter-approved Transit 2000, Public Safety Expansion and Parks and Preserves taxes.

5. **When does our current authorization expire?**

Our authorization for an alternative expenditure limit expires June 30, 2021.

To implement a new Home Rule covering July 1, 2021 through June 30, 2025, the option must be approved by voters on the November 3, 2020 ballot.
## PHOENIX HOME RULE OPTION HISTORY

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
<th>Approved by Voters</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1981 Home Rule Option</strong></td>
<td>Exclude all expenditures associated with Aviation, Water, Wastewater and Civic Plaza operations</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Permanent Capital Improvement Exclusions:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Aviation - $5 million</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>- Wastewater - $6 million</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>- Water - $6 million</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>- General Purpose Funds for Street Improvements - $2 million</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>- Civic Plaza - $1.2 million</td>
<td>X</td>
</tr>
<tr>
<td><strong>1985 Home Rule Option</strong></td>
<td>Exclude all expenditures associated with Aviation, Water, Wastewater and Refuse</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Exclude expenditures related to City Court, City Prosecutor, and Public Defender</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Provide permanent base adjustment of $6.1 million to offset loss of Federal Revenue Sharing</td>
<td>X</td>
</tr>
<tr>
<td></td>
<td>Provide permanent base adjustment of $2.3 million to offset loss of Urban Mass Transit Assistance</td>
<td>X</td>
</tr>
<tr>
<td><strong>1991 Home Rule Option</strong></td>
<td>Exclude all expenditures associated with Aviation, Water, Wastewater and Refuse</td>
<td>X</td>
</tr>
<tr>
<td><strong>1995 Home Rule Option</strong></td>
<td>Exclude all expenditures associated with Aviation, Water and Wastewater</td>
<td>X</td>
</tr>
<tr>
<td><strong>1997 Permanent Base Adjustment</strong></td>
<td>Provide a permanent base adjustment of $29 million to allow increased Transit services</td>
<td>X</td>
</tr>
<tr>
<td>Home Rule Option</td>
<td>Approved by Voters</td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>1999 Home Rule Option</td>
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<td>X</td>
</tr>
<tr>
<td>Establish the expenditure limit at the budget</td>
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<td>X</td>
</tr>
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<td>2003 Home Rule Option</td>
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<td>X</td>
</tr>
<tr>
<td>Establish the expenditure limit at the budget</td>
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<td>X</td>
</tr>
<tr>
<td>2007 Home Rule Option</td>
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<td>X</td>
</tr>
<tr>
<td>Establish the expenditure limit at the budget</td>
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<td>X</td>
</tr>
<tr>
<td>2011 Home Rule Option</td>
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<td>Established the expenditure limit at the budget</td>
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</tr>
<tr>
<td>2015 Home Rule Option</td>
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<td>X</td>
</tr>
<tr>
<td>Established the expenditure limit at the budget</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>
Solid Waste Service Level and Rate Update

This report provides the City Council with an update on the Public Works Department Solid Waste Management Program and presents options for solid waste service levels and rates.

THIS ITEM IS FOR INFORMATION AND DISCUSSION.

Summary
The Public Works Department Solid Waste Management Program assists in providing a safe and aesthetically acceptable environment through effective, integrated management of the community’s solid waste stream, including collection, disposal, source reduction and recycling activities. The Department provides solid waste collection service to approximately 400,000 residential customers. Last year, the Department collected and processed more than 1.1 million tons of material at two City-owned transfer stations and Materials Recovery Facilities (MRFs). The City also owns and operates the State Route 85 Landfill in Buckeye, Ariz.

Phoenix is experiencing substantial population growth. Based on growth and new account trends, the Department forecasts 3,550 new Solid Waste customer accounts will be opened this Fiscal Year and anticipates this growth to continue in Fiscal Year 2020-21. The local economy is also strong, resulting in larger volumes of garbage thrown away per household. Services provided include: weekly residential curbside trash and recycling collection; quarterly bulk trash collection; processing recyclable materials; managing solid waste materials; and nine annual household hazardous waste events across the City. These services are provided to ensure the health and safety of Phoenix residents; to protect the environment and preserve natural resources; and to divert solid waste from the landfill. In 2013, City Council initiated the Reimagine Phoenix Initiative, setting a waste diversion goal of 40 percent by 2020. In April 2016, City Council adopted a goal to achieve Zero Waste by 2050.

Revenues for the Solid Waste Program are generated by monthly fees charged for residential household service, disposal fees charged at the transfer stations and landfill, and the sale of recycled materials. For the past 10 years, the current monthly residential solid waste rate has remained unchanged at $26.80 per month, per
household. The transfer station disposal fee has also remained unchanged for the past 10 years at $38.25 per ton. The residential rate and the transfer station and landfill disposal fees are currently published in Chapter 27 of the Phoenix City Code and require City Council approval to amend.

Since the last rate increase, the Solid Waste Management Program has withstood various economic pressures. Inflation has averaged 2.5 percent each year. The solid waste utility is also experiencing rising fleet maintenance costs and vehicle breakdowns resulting from an aging fleet, as the utility has been unable to adequately fund replacement trucks. As recycling markets have responded to international policy changes enacted in 2017, recycling revenues have decreased. For example, revenue from the sale of recyclables in Fiscal Year 2017-18 was $8.9 million. This Fiscal Year, the forecast is $3.3 million, a reduction of $5.6 million in annual revenue.

**Discussion**

On June 11, 2018, the City Manager appointed a Solid Waste Rate Advisory Committee consisting of business, industry and non-profit representatives and community leaders to review revenues, expenses and the utility rate forecast process and make recommendations regarding solid waste rates. On May 1, 2019, with the concurrence of the Solid Waste Rate Advisory Committee, City Council authorized the Public Works Department to enter into a contract with NewGen Strategies and Solutions (NewGen) to conduct a comprehensive solid waste cost of service and rate design study, including: Cost of Service and Rate Design Study; Benchmarking Analysis; and Recycling Market Analysis. NewGen's report, including recommendations to systematically address the City's primary solid waste user fee mechanisms, was presented to the Solid Waste Rate Advisory Committee in October 2019.

On Oct. 22, 2019, the Solid Waste Rate Advisory Committee approved recommending the four solid waste rate options outlined below to the City Manager for consideration by the City Council. Each of the rate options includes recommended capital and operating program reductions and efficiencies. The rate options also include additional revenue by increasing the disposal fee for customers at the transfer stations and landfill, amending current recycle agreements, and implementing a new commercial hauler permit program, similar to programs in most other Valley cities. Revenue from the new commercial hauler permit program is designed to cover a portion of the costs associated with providing citywide code enforcement and community clean-up events.

Maintaining the current rate would require $36.5 million in service cuts, which include every other week recycling, the elimination of bulk trash and household hazardous waste events, closing the compost facility and one of the City's recycling facilities,
removal of eco stations, and the elimination of approximately 135 staff positions.

Each proposed option includes a recommendation to add a two percent inflation to the rate, each year, to align with annual inflation impacts.

**Option One**
Maintain current service levels and increase the solid waste residential rate to $33.20, an increase of $6.40 per month.

**Option Two**
Suspend the city's compost program by eliminating curbside green organics collection and terminating operations of the compost facility for all customers. This option would increase the solid waste residential rate to $32.45, an increase of $5.65 per month.

**Option Three**
Adjust the collection frequency of recycle containers to every other week, which more closely aligns with service demand. This option reduces the staff and equipment required for collection, reduces emissions and vehicles miles traveled, and maintains full access to recycling and composting for all participating customers. An approved variance plan from the State of Arizona with concurrence from Maricopa County is required to implement this change. This option would increase the solid waste residential rate to $32.30, an increase of $5.50 per month.

**Option Four**
Suspend the City's recycle program and suspend the City's compost program by eliminating curbside green organics collection and terminating operations of the compost facility for all customers. All refuse will be collected as trash and sent to the landfill for disposal. This option would increase the solid waste residential rate to $31.55, an increase of $4.75 per month.

Additional details regarding the four solid waste rate options are outlined in [Attachment A](#).

In addition to the new proposed monthly residential rates, rate changes to the City's disposal fees are required. As required by Arizona Revised Statutes, section 9-499.15, staff will post a 60-day notice of intent to increase rates and fees. Staff will return to City Council for action no earlier than Jan. 29, 2020.

**Responsible Department**
This item is submitted by Deputy City Manager Karen Peters and the Public Works Department.
### Residential Rate Adjustment Options

<table>
<thead>
<tr>
<th>Current Residential Rate</th>
<th>Increase</th>
<th>Proposed Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$26.80</td>
<td>FY19-20 and FY20-21</td>
<td>FY21-22 through FY25-26</td>
</tr>
<tr>
<td></td>
<td>Option 1</td>
<td>$6.40</td>
</tr>
<tr>
<td></td>
<td>Option 2</td>
<td>$5.65</td>
</tr>
<tr>
<td></td>
<td>Option 3</td>
<td>$5.50</td>
</tr>
<tr>
<td></td>
<td>Option 4</td>
<td>$4.75</td>
</tr>
</tbody>
</table>

*Two percent inflation to be added to residential rate each year.

### Level of Service

<table>
<thead>
<tr>
<th>Level of Service</th>
<th>Current Rate</th>
<th>Increase</th>
<th>FY19-20</th>
<th>FY20-21</th>
<th>FY21-22</th>
<th>FY22-23</th>
<th>FY23-24</th>
<th>FY24-25</th>
<th>FY25-26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse Tipping Fee ($/Ton)</td>
<td>$38.25</td>
<td>$3.75</td>
<td>$42.00</td>
<td>$42.00</td>
<td>$44.00</td>
<td>$44.00</td>
<td>$45.00</td>
<td>$45.00</td>
<td>$45.00</td>
</tr>
<tr>
<td>Additional 90-gallon - garbage</td>
<td>$13.40</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Half the rate of the applicable residential rate for each Fiscal Year
| Additional 300-gallon - garbage   | $80.40       |          |         |         |         |         |         |         |         |
| 3x the rate of the applicable residential rate for each Fiscal Year
| Individual 60-gallon - garbage    | $23.80       |          |         |         |         |         |         |         |         |
| $3 less than the applicable residential rate for each Fiscal Year
| Establish Commercial Hauler Permit Fee | N/A         |          |         |         |         |         |         |         |         |
| Per truck rate established by Director and published by Department

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