



**ARIZONA SUPREME COURT
ORAL ARGUMENT CASE SUMMARY**



**ARIZONA CHAMBER OF COMMERCE & INDUSTRY, *et al.* v.
HON. DANIEL J. KILEY; STATE OF ARIZONA, *et al.*; ARIZONANS
FOR FAIR WAGES AND HEALTHY FAMILIES
SUPPORTING PROP 206, Real Parties in Interest
CV-16-0314-SA**

PARTIES:

Petitioners: Arizona Chamber of Commerce & Industry (“CoC”), Greater Phoenix CoC, Tucson Hispanic CoC, Greater Flagstaff CoC, Yuma CoC, the Arizona Licensed Beverage Association, Arizona Restaurant Association, Marc Community Resources, Inc., the Arizona Free Enterprise Club, and ABRiO Family Services and Supports, Inc.

Respondent: Hon. Daniel J. Kiley

Real Parties in Interest: State of Arizona, Industrial Commission of Arizona, Arizona Health Care Cost Containment System (“AHCCCS”), Thomas Betlach, Director of AHCCCS, Arizona Department of Administration (“ADOA”), Craig C. Brown, Director of ADOA

Intervenor: Arizonans for Fair Wages and Healthy Families Supporting Prop 206

Amici Curiae: Maricopa County

The Office of Strategic Planning & Budgeting, Senate President Steve Yarbrough, House Speaker J.D. Mesnard, and Governor Douglas A. Ducey

Senate Minority Leader Katie Hobbs and House Minority Leader Rebecca Rios

National Employment Law Project and A Better Balance

David Wells, Ph.D.

Scharf-Norton Center for Constitutional Litigation at the Goldwater Institute

Arizona Association of Providers for Persons with Disabilities

Living United for Change in Arizona

FACTS:

In 2004, Arizona voters approved an amendment to the Arizona Constitution known as the “**Revenue Source Rule.**” It reads:

§ 23. Expenditures required by initiative or referendum; funding source.

A. An initiative or referendum measure that proposes a mandatory expenditure of state revenues for any purpose, establishes a fund for any specific purpose or allocates funding for any specific purpose must also provide for an increased source of revenues sufficient to cover the entire immediate and future costs of the proposal. The increased revenues may not be derived from the state general fund or reduce or cause a reduction in general fund revenues.

B. If the identified revenue source provided pursuant to subsection A in any fiscal year fails to fund the entire mandated expenditure for that fiscal year, the legislature may reduce the expenditure of state revenues for that purpose in that fiscal year to the amount of funding supplied by the identified revenue source.

ARIZ. CONST. art. 9, § 23.

On November 8, 2016, Arizona voters approved a voter initiative known as “Prop 206,” which included provisions increasing the minimum wage to \$10 per hour effective January 1, 2017, with fifty-cent-per-hour increases annually up to \$12 per hour. Prop 206 also requires that most workers accrue mandatory paid sick leave. State employees are exempt from Prop 206.

On December 15, 2016, a group of plaintiffs filed their complaint against the State and some of its agencies challenging Prop 206 on various grounds. They specifically argued that Prop 206 violated the Revenue Source Rule because it required the Industrial Commission to establish mandated notices and to create guidelines and regulations related to new paid sick leave provisions. They also argued that Prop 206 required the State to pay more to its contractors (and their employees) from the State general fund as “cost-reimbursement obligations.” The complaint referenced government contracts from the State of Arizona, AHCCCS, ADOA and the State Procurement Office. Plaintiffs argued that nothing in the Revenue Source Rule distinguishes mandatory or direct expenditures from indirect expenditures. Therefore, they argued, any mandate that causes the government to expend funds makes the initiative unconstitutional unless it also provides a revenue source to meet the State’s obligations. Plaintiffs filed a Second Amended Verified Complaint on December 19, 2016, asking the trial court for an injunction that would stop implementation of Prop 206 and for other relief.

Intervenor and the State responded in support of Prop 206 and argued that there are no “mandatory expenditures of state revenues,” but only the potential for increased administrative costs and prioritizing. They also argued that State contracts and various statutes protect the State

from having to pay more than is budgeted. They asserted that any violation of subsection “A” of the Revenue Source Rule is remedied by adjusting funding under subsection “B.” Therefore, they maintained that Prop 206 does not violate the Revenue Source Rule, and even if it did, the Court should not find that Prop 206 is unconstitutional.

PROCEEDINGS:

After conducting a hearing on December 19, 2016, Judge Kiley denied the Plaintiffs’ request for a preliminary injunction on December 21. Petitioners filed a Joint Petition for Special Action and Request for Stay on December 22, asking this Court to stay the enforcement of Prop 206 and to reverse the trial court. The Court denied the Petitioner’s Request for Stay. On February 14, 2017, the Court accepted jurisdiction of the Petition for Special Action and asked the parties to address:

Whether Proposition 206 violates the Revenue Source Rule, and, if so, what relief would be appropriate?

This Summary was prepared by the Arizona Supreme Court Staff Attorneys’ Office solely for educational purposes. It should not be considered official commentary by the Court or any member thereof or part of any brief, memorandum, or other pleading filed in this case.