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2	O. Andrew Gaona (028414)			
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8	ARIZONA SUPERIOR COURT			
9	MARICOPA COUNTY			
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11	CITY OF FLAGSTAFF, a political subdivision) No. CV2021-011210			
	of the State of Arizona,			
12	Plaintiff, VERIFIED COMPLAINT			
13)			
14	v. (Tier 2)			
15	THE ARIZONA DEPARTMENT OF			
13	ADMINISTRATION, an agency of the State of) Arizona; ANDY TOBIN, in his official)			
16	Il consoity as the Director of the Alizula			
17	Department of Administration; KIMBERLY YEE, in her official capacity as the State			
	Treasurer of Arizona; and STATE OF			
18	ARIZONA, a body politic.			
19	Defendants.			
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21	Plaintiff, for its Verified Complaint against Defendants, alleges as follows:			
	Parties, Jurisdiction and Venue			
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24		as		
25	A.R.S. § 23-364(I), which granted a "county, city, or town" the power to "regulate minimum			
26	ll and the state of the state o	r a		
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minimum wage lower than" the State's minimum wage.

- 3. Consistent with Prop 202, the City's voters approved the passage of Proposition 414 in 2016 (now codified as Flagstaff City Code 15-01-001-0003, a true and correct copy of which is attached as Exhibit 1), which adopted a local minimum wage that is higher than the State's minimum wage.
- 4. Defendant Arizona Department of Administration ("ADOA") is an agency of the State of Arizona responsible for providing support to the operation of state government. ADOA is required under A.R.S. § 35-121.01 to "assess and collect from a county, city or town an amount to reimburse this state for the cost to this state in the next fiscal year attributable to the county's, city's or town's establishment of a minimum wage if that minimum wage exceeds the minimum wage established by this state pursuant to section 23-363."
- 5. Defendant Andy Tobin is the Director of ADOA ("Director"), and is named in his official capacity.
- 6. Defendant Kimberly Yee is the State Treasurer of Arizona ("Treasurer") and is named in her official capacity. If a county, city, or town, does not pay an assessment described in Paragraph 4, the Treasurer is required under A.R.S. § 35-121.01 to "subtract the amount owed by the county, city or town from any payments required to be made by the state treasurer to that county, city or town pursuant to section 42-5029, subsection D, plus interest on that amount pursuant to section 44-1201," and "withhold from any other monies payable to that county, city or town from whatever state funding source is available an amount necessary to fulfill the requirement."
 - 7. Defendant State of Arizona is a body politic.
- 8. Jurisdiction over this action is proper pursuant to A.R.S. §§ 12-123, 12-1831, and the Arizona Constitution, as well as Rule 4(a) of the Arizona Rules of Procedure for Special Actions.
 - 9. Venue is proper in Maricopa County pursuant to A.R.S. § 12-401 and Rule 4(b) of

the Arizona Rules of Procedure for Special Actions.

Factual Allegations

The People's Initiative Power and the Voter Protection Act

- 10. The framers of the Arizona Constitution were "advocates of th[e] method of popular government" known as the initiative and referendum, "and the records of the constitutional convention, together with the language of the [] constitution, show clearly that it was the opinion of the delegates who adopted and signed it that its provisions setting forth these principles were among the most important to be found therein." Whitman v. Moore, 59 Ariz. 211, 218 (1942), overruled on other grounds by Renck v. Superior Court, 66 Ariz. 320, 327 (1947).
- 11. "When the [constitution] was submitted to the voters for ratification, that issue was again the principal one before them and the constitution was ratified by a very large percentage of the votes cast." *Id*.
- 12. As a result, and since statehood, the people of Arizona have reserved to themselves the power to "propose laws and amendments to the constitution and to enact or reject such laws and amendments at the polls, independently of the legislature," and "for use at their own option, the power to approve or reject at the polls any act, or item, section, or part of any act, of the legislature." Ariz. Const. art. IV, § 1(1).
- 13. As a function of this constitutional reservation, "the power of the people to legislate is as great as the power of the legislature to legislate." *Iman v. Bolin*, 98 Ariz. 358, 364 (1965).
- 14. In 1998, and after decades of the Arizona Legislature meddling with and undermining measures approved at the ballot box, Arizona voters adopted the Voter Protection Act ("VPA") as a constitutional amendment, limiting the legislature's power to amend, repeal, or supersede laws adopted by the People. Ariz. Const. art. 4, pt. 1, § 1(6)(B)-(C), (14).
 - 15. Under the VPA, the Legislature cannot repeal voter-approved initiative measures,

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and it can amend or supersede an initiative only when the amendment "furthers the purposes" of the initiative and is passed by "at least three-fourths of the members of each house of the [L]egislature." Id.

- The purpose of the VPA is "to limit changes to voter-approved laws," Meyer v. 16. State, 246 Ariz. 188, 192 ¶ 10 (App. 2019), and to prevent the legislature from "abusing its power to amend and repeal voter-endorsed measures." Arizona Early Childhood Dev. & Health Bd. v. Brewer, 221 Ariz. 467, 469 ¶ 7 (2009).
- The passage of the VPA thus "altered the balance of power between the electorate 17. and the legislature[.]" Id.

State Prop 202 and Flagstaff Prop 414

- In 2006, Arizona voters passed Prop 202, known as the "Raise the Minimum 18. Wage for Working Arizonans Act."
- As its name suggests, Prop 202's purpose was to "increase[e]" the minimum wage 19. to ensure that "[a]ll working Arizonans [are] paid a minimum wage that is sufficient to give them a fighting chance to provide for their families," Prop 202 § 1, "to assure 'the maintenance of the minimum standard of living necessary for health, efficiency, and general well-being of workers," and to make appropriate "cost of living adjustment[s]." Prop 202 Publicity Pamphlet, Arguments of the Arizona Minimum Wage Coalition¹.
- In the brief Legislative Council Analysis for Prop 202, the Legislative Council 20. noted that "[t]he Legislature, a county, a city or a town may enact a law providing for a higher minimum wage than established by this proposition." (Emphasis added).
 - In line with this purpose, Prop 202 also authorized a "county, city, or town" to 21.

¹ See 2006 General Election Information, Prop 202,

https://apps.azsos.gov/election/2006/Info/PubPamphlet/english/Prop202.htm (last visited July 14, 2021). A true and correct copy of the 2006 publicity pamphlet materials relevant to Prop 202 is attached as Exhibit 2.

"regulate minimum wages and benefits within its geographic boundaries," subject to only one condition: the county, city, or town may not adopt a local minimum wage that is <u>lower</u> than the State's minimum wage. A.R.S. § 23-364(I).

- 22. Prop 202 also must "be liberally construed in favor of its purposes" and does not "limit the authority of the legislature or any other body to adopt any law or policy that requires payment of <u>higher</u> or supplemental wages or benefits[.]" *Id.* (emphasis added).
- 23. As authorized by Prop 202, in 2006 the City through a local voter initiative known as Prop 414 adopted a local minimum wage that is higher than the State's minimum wage. [See Exhibit 1 (Flagstaff City Code 15-01-001-0003)].

The Legislature's Attempts to Undermine the Will of the Voters

- 24. In 2013, the Legislature first attempted to amend or supersede Prop 202.
- 25. That year, the Legislature passed and the Governor signed HB 2280, which provided that "[t]he regulation of employee benefits, including compensation, paid and unpaid leave and other absences, meal breaks and rest periods . . . is not subject to further regulation by a city, town or other political subdivision of this state."
- 26. The Flagstaff Living Wage Coalition and several individuals filed a lawsuit challenging the constitutionality of HB 2280 under the VPA. See Flagstaff Living Wage Coalition, et al. v. Arizona, Maricopa County Superior Court, Case No. CV2015-004240.
- 27. The Attorney General did not defend HB 2280's constitutionality, and instead agreed to a stipulated judgment that invalidated the law.
 - 28. Undeterred, the Legislature tried again in 2016.
- 29. That year, the Legislature passed and the Governor signed a HB 2579, which stated that "[t]he regulation of employee benefits, including nonwage compensation, paid and unpaid leave and other absences, meal breaks and rest periods . . . is not subject to further regulation by a city, town or other political subdivision of this state." A.R.S. § 23-204(A).
 - 30. State legislators, city council members, and a workers' union challenged the

constitutionality of the law because it amended A.R.S. § 23-364(I) in violation of the VPA. See UFCW Local 99, et al. v. Arizona, Maricopa County Superior Court, Case No. CV2016-092409.

- 31. The Superior Court invalidated the law under the VPA.
- 32. The Arizona Court of Appeals affirmed, holding that HB 2579 violated the VPA because it amended or repealed Prop 202's provision "grant[ing] counties, cities, and towns" the right to "further increase wages and benefits[.]" Meyer, 246 Ariz. at 194 ¶ 17 (emphasis in original).
- 33. In 2019, the Legislature tried for the third time to amend Prop 202 when it passed and the Governor signed HB 2756, now codified as A.R.S. § 35-121.01 and, as amended, A.R.S. § 35-113. These provisions of this legislation are referred to collectively herein as "HB 2756".
- 34. A.R.S. § 35-121.01(A) provides that "the legislature may allocate and, if allocated, the department of administration shall assess and collect from a county, city or town an amount to reimburse this state for the cost to this state in the next fiscal year attributable to the county's, city's or town's establishment of a minimum wage if that minimum wage exceeds the minimum wage established by this state pursuant to section 23-363."
- 35. Until this legislative session (as detailed below), the Legislature had never allocated any amounts under A.R.S. § 35-121.01(A).
 - 36. A.R.S. § 35-121.01(B) provides that ADOA

shall assess the amounts under this section not later than July 31 of each year. The amounts are payable immediately on assessment. If the county, city or town does not pay to the department the amount allocated pursuant to this section on or before December 31 of the year the allocation is made, the department shall notify the state treasurer, who shall subtract the amount owed by the county, city or town from any payments required to be made by the state treasurer to that county, city or town pursuant to section 42-5029, subsection D, plus interest on that amount pursuant to section 44-1201, retroactive to the first day the amount was due. If the amount the state treasurer withholds is insufficient to meet the requirements of this section, the state treasurer shall withhold from any other monies payable to that

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county, city or town from whatever state funding source is available an amount necessary to fulfill the requirement.

- HB 2756 also amended A.R.S. § 35-113 to add a requirement that state "budget 37. units" include in their annual budget estimates that are provided to the Governor's office of strategic planning and budgeting "a detailed estimate of the cost to the budget unit in the next fiscal year attributable to a county's, city's or town's establishment of a minimum wage if that minimum wage exceeds the minimum wage established by this state pursuant to section 23-363."
- When HB 2756 was introduced in the House Appropriations Committee, 38. Representative Randall Friese recognized that the law implicated the VPA. May 22, 2019 H. Approp. Comm. Mtg., https://www.azleg.gov/videoplayer/?eventID=2019051332 ("Is this a [VPA] issue? I mean [Prop 202] was voter-initiated.").

The State's Alleged Costs from the City's Minimum Wage

- In October 2019, the Joint Legislative Budget Committee ("JLBC") sent a 39. memorandum to various state agencies requesting that they include in their FY2021 budget estimates any costs to the State attributable to the City's minimum wage. See Oct. 8, 2019 JLBC Memorandum, a true and correct copy of which is attached as Exhibit 3.
- As of February 21, 2020, at least seven State agencies and other entities included 40. in their FY2021 budget estimates an amount of alleged costs attributable to the City's minimum wage.
- On information and belief, State agencies included in their budget estimates the 41. costs of paying the City's minimum wage to employees of the State.
- Under Flagstaff City Code 15-01-001-0002, however, "the state of Arizona" is 42. exempt from paying its employees the City's minimum wage.
- On information and belief, political subdivisions of the state, including Coconino 43. Community College ("CCC"), submitted budget estimates regarding their alleged costs attributable to the City's minimum wage.

- 44. CCC is not a State agency, and it has its own tax base and other sources of revenue.
- 45. On information and belief, CCC's estimated costs attributable to paying its employees the City's minimum wage are not "cost[s] to this state."
- 46. On information and belief, certain State agencies also included budget estimates under HB 2756 for amounts the State will not actually incur.
- 47. For example, the Arizona Historical Society ("AHS") included in its budget estimates the costs to AHS <u>if</u> it were to raise salaries for three positions, but on information and belief, AHS has not in fact raised the salaries for those positions. *See* Oct. 10, 2019 Letter from AHS to JLBC, a true and correct copy of which is attached as Exhibit 4.
- 48. On information and belief, even if AHS were to raise salaries for those positions, those positions are for employees of the State and thus exempt from the City's minimum wage.
- ADOA to "assess and collect the amount of \$1,110,992 from the City of Flagstaff in fiscal year 2021-2022 to reimburse this state for costs to this state attributable to the establishment of a minimum wage that exceeds the minimum wage established by this state[.]" SB 1827, 55th Leg., 1st Reg. Sess. § 12 (Ariz. 2021) ("SB 1827").
- 50. On June 24, 2021, the Legislature passed SB 1827. The Governor signed it on June 30, 2021. A true and correct copy of the chaptered version of SB 1827 is attached as Exhibit 5.
- 51. At a Senate Appropriations Committee meeting on May 26, 2021, legislators correctly questioned the constitutionality of this assessment under the VPA.
- 52. Senator Martin Quezada noted that the assessment is a "financial penalty against City of Flagstaff for exercising express authority to raise its minimum wage" as granted to it by the people. See May 26, 2021 Sen. Approp. Comm. Mtg., https://www.azleg.gov/videoplayer/?eventID=2021051062 (last visited July 14, 2021).

1	Count I	
2	(Declaratory Judgment – Violation of the Voter Protection	on Act)
3	(Against All Defendants)	
4	The City re-alleges Paragraphs 1-52 as if fully set forth here	in.
5	5 54. Prop 202 was passed by Arizona voters through an initiative	measure.
6	6 55. Prop 202 expressly granted the City authority to adopt a dif	ferent local minimum
7	wage, as long as it is higher than the State's minimum wage. A.R.S. § 23-	364(I).
8	8 56. Under the VPA, the Legislature cannot repeal Prop 202,	and it can amend or
9	9 supersede Prop 202 only if the amendment "furthers the purposes" of the I	Prop 202 and is passed
10	s of sale members of each house of the II legislatur	re." Ariz. Const. art. 4,
11	1 pt. 1, § 1(6)(B)-(C), (14).	
12	57. HB 2756 amended or superseded Prop 202 by adding a con	ndition to A.R.S. § 23-
13	364(I) that penalizes cities for adopting a higher minimum wage.	
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15	15 59. HB 2756 did not pass with a three-fourths majority vote in	
16	60. An actual and justiciable controversy exists regarding the	
17	2756 because the Legislature has allocated and directed ADOA to assess	\$1,110,992 against the
18	18 City under Section 12 of SB 1827.	
19	19 61. The City requests a declaration that HB 2756 and Section	12 of SB 1827 violate
20	20 the VPA.	
21		
22	22 (Injunctive Relief – Violation of the Voter Protection	n Act)
23	(Against All Defendants)	
24	24 62. The City re-alleges Paragraphs 1-61 as if fully set forth he	erein.
25	25 63. Defendants ADOA and the Director will assess \$1,110,9	992 against the City by
26	July 31, 2021 absent the entry of an injunction.	
	II	

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- 64. The City should not be compelled to pay the assessment because the assessment is unlawful for the reasons set forth in this Complaint.
- 65. Absent the entry of an injunction, the Treasurer can and will subtract and withhold State revenue owed to the City when the City does not pay the \$1,110,992 assessment by December 31, 2021.
- 66. The State of Arizona and its agents will continue to allocate and assess future amounts against the City absent an injunction.
- 67. The City will suffer irreparable harm absent the entry of an injunction because it is subject to an unconstitutional assessment and is at imminent risk of losing State revenue, which will cause the City significant harm.
- 68. The assessment set forth in SB 1827 amounts to approximately 13% of the City's state shared sales taxes. These revenues fund many operations through the City's General Fund, including, police, fire, parks and recreation, facilities, fleet maintenance, administration, legal services, information technology, finance, and human resources.
- 69. The assessment and resulting loss of revenues will likely disrupt the City's operations, cause the City to reduce its services, and create delays in the City's infrastructure and capital replacement.
- 70. Indeed, the City's fiscal year 2021-2022 budget already accounts for the assessment in SB 1827 and, as a result, the City is unable to fund critical infrastructure and equipment under this budget.
- 71. For example, under the City's budget that accounts for the assessment, the City (1) does not have resources to upgrade its aging information technology systems and advanced measures for cyber security, (2) does not have sufficient funding to replace its aging body cameras for public safety, (3) lacks funding for overtime pay for its public safety employees, and (4) has to defer maintenance of its facilities.
 - 72. Among other things, the City lacks funding under the budget to replace its fire

trucks, including a \$1.4 million ladder truck that is the only one available in the City's region. The City also must extend the replacement term for fire trucks to 25 years, instead of the industry standard of 20 years.

- 73. The City anticipates that many other organizational needs will not be met under the current budget because it accounts for the assessment in SB 1827.
- 74. The balance of hardships and public interest both favor the City, which seeks to uphold the Arizona Constitution and the will of Arizona's voters.

Count III

(Special Action - Prohibition - Violation of the Voter Protection Act) (Against Defendants ADOA, the Director, and the Treasurer)

- 75. The City re-alleges Paragraphs 1-74 as if fully set forth herein.
- 76. For the reasons set forth above in Paragraphs 53-61, HB 2756 violates the VPA.
- 77. If ADOA and the Director impose the assessment under Section 12 of SB 1827 against the City, they will be proceeding without or in excess of their legal authority.
- 78. ADOA's and the Director's assessment against the City would be a determination that is arbitrary and capricious or an abuse of discretion.
- 79. If the Treasurer subtracts and withholds State revenue from the City based on the City's failure to pay the assessment, she will be proceeding without or in excess of her legal authority.
- 80. The Treasurer's withholding of State revenue from the City based on the City's failure to pay the assessment would be a determination that is arbitrary and capricious or an abuse of discretion.
 - 81. The City has no other equally plain, speedy, and adequate remedy at law.
- 82. The City is entitled to special action relief prohibiting ADOA and the Director from assessing any amount against the City "an amount to reimburse this state for the cost to this state in the next fiscal year attributable to" the City's minimum wage.

83. The City is entitled to special action relief prohibiting the Treasurer from subtracting and withholding State revenue from the City based on the City's failure to pay the assessment.

Count IV

(Declaratory Judgment - Invalid Assessment)

(Against All Defendants)

- 84. The City re-alleges Paragraphs 1-83 as if fully set forth herein.
- 85. A.R.S. § 35-121.01 allows for reimbursement to the State only for "the cost to this state in the next fiscal year attributable to" the City's "establishment of a minimum wage" that exceeds the State's minimum wage.
- 86. "[T]he state of Arizona" is exempt from paying its employees the City's minimum wage. Flagstaff City Code <u>15-01-001-0002</u>.
- 87. On information and belief, various state agencies included in their budget estimates the costs of paying the City's minimum wage to employees of the State of Arizona.
- 88. The cost of paying State employees a higher minimum wage that the City does not require is not a cost "attributable to" the City's establishment of a minimum wage higher than the State minimum wage.
- 89. On information and belief, a political subdivision's estimated costs attributable to paying its employees the City's minimum wage above the State's minimum wage are not necessarily "cost[s] to this state."
- 90. CCC, for example, has its own tax base and other sources of revenue beyond the revenue it receives from the State. If CCC incurs costs from paying certain employees the City's minimum wage, there is no way to trace those costs to the State.
- 91. On information and belief, the assessment in SB 1827 includes estimated costs to certain State agencies that those agencies will not actually incur.
 - 92. An actual and justiciable controversy exists regarding the validity of the

assessment of \$1,110,992 against the City because the assessment is based on budget estimates that do not include "cost[s] to this state" or costs "attributable to" the City's minimum wage.

93. The City requests a declaration that the assessment in Section 12 of SB 1827 is unlawful because it is not "an amount to reimburse this state for the cost to this state in the next fiscal year attributable to the [City's] establishment of a minimum wage... that ... exceeds the [State's] minimum wage."

Count V

(Injunctive Relief - Invalid Assessment)

(Against ADOA, the Director, and the Treasurer)

- 94. The City re-alleges Paragraphs 1-93 as if fully set forth herein.
- 95. Defendants ADOA and the Director will assess \$1,110,992 against the City by July 31, 2021 absent the entry of an injunction.
- 96. The City will not pay the assessment under Section 12 of SB 1827 because the assessment is unlawful for the reasons set forth in this Complaint.
- 97. Absent the entry of an injunction, the Treasurer will subtract and withhold State revenue owed to the City when the City does not pay the \$1,110,992 assessment by December 31, 2021.
- 98. The City will suffer irreparable harm absent the entry of an injunction because it is subject to an unlawful assessment and is at imminent risk of losing State revenue, which will cause the City significant harm, as detailed in Paragraphs 67-73.
 - 99. The balance of hardships and public interest both favor the City.

Count VI

(Special Action - Prohibition - Invalid Assessment)

(Against Defendants ADOA, the Director, and the Treasurer)

100. The City re-alleges Paragraphs 1-99 as if fully set forth herein.

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For the reasons set forth above in Paragraphs 84-93, the assessment in Section 12

imposing an assessment against the City under A.R.S. § 35-121.01;

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1	D.	A preliminary and permanent injunction enjoining the Treasurer from withholding		
2	any State revenue from the City under A.R.S. § 35-121.01;			
3	E.	Special action relief prohibiting ADOA and the Director from imposing an		
4	assessment a	against the City under A.R.S. § 35-121.01;		
5	F.	Special action relief prohibiting the Treasurer from withholding any State revenue		
6	from the Cit	ty under A.R.S. § 35-121.01;		
7	G.	A preliminary and permanent injunction enjoining the State or its agents from		
8	enforcing H	B 2756 or Section 12 of SB 1827;		
9	H.	An order awarding the City its taxable costs under A.R.S. §§ 12-341 and 12-1840;		
10	I.	An order awarding the City its attorneys' fees under A.R.S. § 12-348.01 and any		
11	other applic	eable statute or equitable doctrine; and		
12	J.	Any other relief as may be appropriate.		
13	RES	PECTFULLY SUBMITTED this 15th day of July, 2021.		
14		COPPERSMITH BROCKELMAN PLC		
14 15		By /s/ Roopali H. Desai		
		By /s/ Roopali H. Desai Roopali H. Desai		
15		By /s/ Roopali H. Desai		
15 16		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona		
15 16 17		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18 19		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18 19 20		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18 19 20 21		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18 19 20 21 22		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		
15 16 17 18 19 20 21 22 23		By /s/ Roopali H. Desai Roopali H. Desai D. Andrew Gaona Kristen Yost		