

POLICY *brief*

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A Fresh Start for Arizona: Proposals for Closing a Billion-Dollar Budget Gap

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INTRODUCTION

Arizona is in the midst of a budget crisis. The state government is on track to overspend its current revenues by an unprecedented \$1.2 billion in the current fiscal year. Although a more than 13 percent spending/revenue gap should be considered a critical issue worthy of immediate attention, the last budget was adopted even as there were clear signs that revenues could not keep up.¹ This means that when the legislature meets in January 2009, it will have to take immediate action to avoid a financial catastrophe.

Tax increases are not an option and should not be on the table for discussion. Taxes reduce economic activity, punishing productivity, innovation, and hard work. Government spending often discourages exactly the same activity by rewarding constituencies and projects that often fail to make significant contributions to the citizenry's standard of living.

Immediate action does not necessarily mean drastic action. In many cases, returning agency budgets to fiscal year (FY) 2006 levels would do much to put Arizona on a more secure financial footing. That is because much of the budget gap is the result of dramatic increases in spending in recent years. In fact, in just the last five years, Arizona's General Fund spending increased 66 percent while population and inflation grew just 33 percent.

These cuts, which amount to just a little more than \$1 billion, certainly are not prescriptive, but they serve as a starting point. They are also not currently enough to completely close the current gap. However, there is no doubt that further digging by the full legislature can reveal additional reduction opportunities. Budget decisions are sure to be difficult and, in some cases, politically unpleasant. However, they are necessary if Arizona is to restore its fiscal health.

Numbers and calculations are based on the several years of the Joint Legislative Budget Committee's Appropriations Report.² The JLBC website represents a wealth of information, and the staff was very helpful and professional in responding to inquiries.

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I N S T I T U T E

Arizona Department of Administration

Suspend funding for County Attorney Immigration Enforcement

Savings: \$2,000,000

This is a special line item within the Financial Services Division.

These funds are distributed to all county attorneys for the purpose of enforcing the prohibition on the knowing employment of unauthorized immigrants and general immigration enforcement. The state law is arguably an unfunded mandate on local law enforcement. Efforts to avoid unfunded mandates are to be commended. However, special funding for specific functions as a way to incentivize units of government to concentrate efforts in specific areas should be avoided.

Return Facilities Management funding to FY 2003 General Fund level

Savings: \$1,900,000

Only essential physical plant services should be provided, with savings accruing to the state's General Fund. Given the degree of non-appropriated funding available, it might be possible to reduce General Fund spending further in this area.

Eliminate the Employee Wellness Program

Savings: \$300,000

This is a special line item within the Human Resources Division.

State employees have ample benefits for the purpose of maintaining good health and morale, including health benefits, vacation, and sick leave. It is questionable whether taxpayer resources should be used to help provide for chair massages and grocery shopping classes.³

Cut Other Non-Appropriated Funds in Human Resources by 5 percent

Savings: \$39,000,000

Other Non-Appropriated Funds largely fund employee benefits, including retirement benefits. Between FY 2008 and FY 2009, these funds grew from

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\$660 million to \$778 million, an 18 percent increase in a single year that mainly resulted from an increase in health care costs. This will have to be reduced by cutting back on employee benefits, increasing copayments, cutting some benefits, and instituting a Health Savings Account system. Savings here might be increased, depending on the measures taken. State employee benefits should be converted from the current open-ended defined benefit system to a system of defined contributions.

Eliminate General Fund funding for the Information Technology Services Division

Savings: \$851,800

This division receives \$57,201,200 in funding from various sources. General Fund monies are appropriated to pay for a contract payment for a new telecommunications system. Elimination of general funds amounts to a reduction of just 1.5 percent. The payment should come from other funding sources, including payments made to the division by other agencies that use the telecommunications system.

State employee benefits should be converted from the current open-ended defined benefit system to a system of defined contributions.

Deposit Surplus Property Sales Proceeds into the General Fund

Savings: \$16,200,000

Surplus property sales are conducted by the Support Services Division. Whenever agencies have surplus property, that property is turned over to support services and is sold. The proceeds are split, with 90 percent flowing back to the agencies the property came from and 10 percent retained by the Support Services Division to operate the program. Based on recent history, and actual proceeds retained, about \$18 million in surplus property is sold each year. Instead of 90 percent of the funds going back to agencies, this money should be deposited directly to the state's General Fund.

Office of Administrative Hearings

Increase the lump-sum reduction

Savings: \$67,500

Prior to the 2008 legislative session, JLBC listed the option of a lump-sum reduction wherein the agency would choose where to make cutbacks amounting to

\$77,000. The actual reduction was only \$9,500. This would increase the reduction to JLBC's listed amount.

Arizona Department of Agriculture

Reduce General Fund funding to \$10,000,000

Savings: \$1,640,400

As recently as FY 2004, the Department of Agriculture spent just under \$10 million in General Fund monies. Thus, there has been a 16 percent increase in five years, which trails inflation and population. However, agriculture's share of the economy has fallen 32 percent over the last decade. In addition, programs run by the department are explicitly for the sake of agriculture. Therefore, the department should be completely funded by dedicated proceeds from the agriculture industry. General Fund funding should be phased out completely over time.

Since 2001, General Fund spending on AHCCCS has increased 182 percent, an absolute increase of \$920 million.

Arizona Health Care Cost Containment System

Cut General Fund funding by 15 percent and require Arizona Health Care Cost Containment System (AHCCCS) to figure out how to do it

Savings: \$210,000,000

This agency is the single largest source of budget increases for Arizona. Since 2001, General Fund spending on AHCCCS has increased 182 percent, an absolute increase of \$920 million. Since 2005, when Proposition 204 provisions were scheduled for full phase-in, spending has increased by 63 percent, vastly outpacing the 27 percent increase in inflation and population growth during that time.

The bulk of the increase has occurred in Acute Care, where since 2005 General Fund spending has increased by 65 percent, an absolute increase of \$475 million in just four years. Long Term Care has seen a similar percentage increase. Acute Care and Long Term Care are the state's Medicaid programs, and the state must abide by federal rules subject to any waiver provisions agreed to by the federal government. States are able to enhance minimum federal benefit requirements; however, Arizona has provided few enhancements.

Costs have increased in Arizona's Medicaid programs for three reasons. First is caseload growth, especially as a result of Proposition 204. Second is the increase in capitation rates, the amounts paid by AHCCCS per patient that medical plans agree to take. Third is the reduction in the Federal Medical Assistance Percentage

(FMAP), a matching rate determined by the federal government and assigned to each state based on poverty levels.

All three of the growth factors appear to be outside the control of lawmakers. Caseloads are determined by federal rules and Proposition 204. Over the course of FY 2008, after Proposition 204 matured, caseloads increased by 5 percent, a clip considerably greater than general population growth. Capitation rates have to be “actuarially sound” by federal law and are adjusted according to medical inflation which has been considerably greater than general inflation. When states have attempted to make less costly adjustments, that have often been thwarted in court. The FMAP is federally determined.

AHCCCS and its contracted agency, the Department of Economic Security (DES), can and should take action to protect Arizona taxpayers wherever possible. Following are some suggestions. The degree to which they can be implemented will have to be determined by the agencies.

- 1) Make sure all recipients are truly eligible, requiring reapplication for assistance as frequently as once each quarter.
- 2) Terminate Medicaid and KidsCare benefits when recipients are not meeting TANF (Temporary Assistance for Needy Families) work requirements.
- 3) Require stronger prior authorization reviews for high-cost medical procedures.
- 4) Establish assets tests for KidsCare and Medicaid where possible, requiring applicants’ total assets to fall below a certain limit in order to be eligible for aid. (Legislative action may be required with agency cooperation.)
- 5) Increase KidsCare premiums where possible, charging the maximum under federal law through copayments and premiums.
- 6) Review capitation rate increase methodology. Currently, capitation rates increase with medical inflation. This creates a feedback effect that favors providers. Consider using the Consumer Price Index for an inflation factor in order to mitigate the temptation in medicine to raise prices for the sake of increasing government rates.
- 7) Take steps to reduce utilization that will in turn justify reduced capitation increases. Arizona should sue the federal government for

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the right to impose more rational copayment schedules for Medicaid recipients.

- 8) Take stronger action against fraud.
- 9) Reduce overhead. Almost \$100 million per year is sent to DES just for Medicaid eligibility determinations. Much of this is federally funded, but about one-third comes from the General Fund.

Eliminate the Indian Advisory Council

Savings: \$70,000

The Indian Advisory Council is a special line item within AHCCCS Administration, and is matched with federal funds for the ostensible purpose of creating a comprehensive health care system for the Native American population. This is something the market system, if allowed to work, is perfectly capable of doing.

If the state wants to experiment with small business insurance, it should contract with private insurers to build a Health Savings Account demonstration that is fully self-funded.

Eliminate Healthcare Group Administration and Reinsurance

Savings: \$3,000,000

Healthcare Group Administration and Reinsurance is a special line item within Administration.

This program is aimed at providing health insurance for small businesses and their employees. The insurance is “traditional,” in that it is the more typical prepaid health care plan, including dental and eye coverage. The program currently receives a \$5 million annual subsidy. It should be eliminated in favor of encouraging small businesses to access insurance through organizations such as small business alliances that pool resources. If the state wants to experiment with small business insurance, it should contract with private insurers to build a Health Savings Account demonstration that is fully self-funded.

Eliminate the Ticket to Work program

Savings: \$2,000,000

Ticket to Work is a special line item within Acute Care.

Ticket to Work provides transportation for program participants; it is optional and therefore unaffordable. Its elimination was an option listed by JLBC prior to the 2008 session. Part of the funds for FY 2009 would have been spent making this the likely maximum amount of savings from the program's elimination.

Eliminate the Breast and Cervical Cancer Early Detection program

Savings: \$200,000

Breast and Cervical Cancer Early Detection is a special line Item within Acute Care.

This is a special program focused on specific types of cancer that affect a specific population. Cancer screenings can already be performed under current program parameters when they are called for. Therefore, the need for a special, additional program is unclear.

Reduce KidsCare Children eligibility from 200 percent of the federal poverty level to 175 percent

Savings: \$4,000,000

KidsCare Children is a special line item within Acute Care.

This was an option listed by JLBC prior to the 2008 session. KidsCare was established as a result of the federal government's creation of SCHIP, the State Children's Health Insurance Program. Unlike Medicaid, it is not an open-ended program providing benefits to all who are eligible regardless of funding levels. States can appropriate a certain amount and, when that amount is spent, simply stop spending.

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Eliminate KidsCare Parents

Savings: \$5,000,000

KidsCare Parents is a special line item within Acute Care.

This is an optional program that the state can choose not to fund. The ostensible aim of KidsCare and the federal SCHIP program is to care for children whose parents have difficulty affording health care. Arizona has chosen to cover

the parents of these children. This program is now unaffordable. For FY 2009, \$8.3 million from the General Fund was appropriated.

Reduce General Fund spending for Graduate Medical Education by 20 percent

Savings: \$3,000,000

Graduate Medical Education is a special line item within Acute Care.

A one-time cut of \$1.5 million was implemented for this program in FY 2008 and then restored for FY 2009. Now it is even less affordable. Educational benefits from higher education mainly accrue to those who receive the education. Therefore, those who receive the education should bear its cost. Everyone would like to see more doctors for a given population, but the problems in health care go much deeper than simply the number of doctors per capita. This program should be phased out, but it would be difficult to eliminate immediately because of current contractual obligations.

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Eliminate the Critical Access Hospitals program or require a local-government reimbursement

Savings: \$300,000

Critical Access Hospitals is a special line item within Acute Care.

This is a state-matched federal program for hospitals in rural areas that are federally designated as critical for rural health care access. These hospitals should be locally funded by those who choose to live in remote areas. If the state were to require local governments such as counties or rural cities to reimburse for this program retroactively, the savings to the state could amount to \$580,100.

Eliminate Rural Hospital Reimbursement

Savings: \$2,500,000

Rural Hospital Reimbursement is a special line item within Acute Care.

This program was created in FY 2006. It is a state-matched federal program that increases inpatient rates for a subset of rural hospitals. Optional programs should be eliminated wherever possible.

Eliminate the Dual Eligible Part D Copay Subsidy

Savings: \$1,000,000

Dual Eligible Part D Copay Subsidy is a special line item within Acute Care and Long Term Care.

This program is for individuals who qualify for both Medicare and Medicaid. The program subsidizes the copayments recipients must make for prescription drugs. JLBC listed this program as optional prior to the 2008 legislative session.

Arizona Commission on the Arts

Eliminate

Savings: \$1,200,000

If necessary, refunds of unspent grant monies should be demanded. This agency's existence is difficult to justify. There are a myriad of private sources for funding of publicly available art.

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Empty the Arts Endowment Fund

Value: \$20,000,000

This fund's investment income is used to fund grants for arts projects. This does not represent a savings but is a one-time source of funds.

Attorney General–Department of Law

Cut payroll 10 percent

Savings: \$3,300,000

The Attorney General's office saw a payroll (Personal Services) increase of 20 percent between FY 2007 and FY 2008, with that increase maintained for FY 2009. A 10 percent payroll cut would still put the payroll \$2.2 million higher than in FY 2007.

Arizona Automobile Theft Authority

Eliminate

Savings: \$4,000,000

The Arizona Automobile Theft Authority is funded through a special assessment of \$1 per year on vehicles less than 26,000 pounds. This recommendation would immediately eliminate the agency without immediately eliminating the fee, which many have already paid this fiscal year. This fee should be scheduled for elimination at the end of FY 2009.

Arizona Biomedical Research Commission

Eliminate

Savings: \$10,000,000

Biomedical research money is readily available from a variety of public and private sources, making state spending duplicative of other efforts.

The Arizona Biomedical Research Commission was created by voter initiative and is funded from tobacco tax and lottery monies. These monies can be redirected to other uses such as helping to fund the state's share of Medicaid. Biomedical research money is readily available from a variety of public and private sources, making state spending duplicative of other efforts.

Department of Commerce

Eliminate

Savings: \$25,000,000

Most of the savings from the elimination of this department will accrue in special funds rather than to the General Fund. However, these special funds can be redirected. Critical functions the department might perform for citizens involved in business can be performed by other departments. There are already federal agencies such as the Small Business Administration that can provide assistance where needed.

The savings noted here still leave \$22 million in funding, only \$5 million less than that available in FY 2007. This can be used for shutting down operations and shifting truly needed functions to other agencies.

Arizona Community Colleges

Fund Dual Enrollment program at 25 percent

Savings: \$3,000,000

High school students who enroll in community colleges and receive college credit through the colleges even if classes taken are offered in their high schools draw full funding for both their public school and for the colleges. In other words, one student is funded twice. This would cut most of the community college portion, allowing for administrative costs. A 50 percent funding level was offered as an option by JLBC prior to the 2008 session.

Eliminate Hold Harmless provision

Savings: \$920,000

Community colleges with declining enrollment do not have their formula funding reduced, only increased when enrollment rises past the most recent maximum. Eliminating the Hold Harmless provision would require funding to vary downward when enrollment falls. This was a JLBC option.

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Roll back Equalization Aid to 2006 funding level

Savings: \$10,000,000

Equalization aid is money paid to community colleges with relatively low property wealth. This aid has increased from about \$17 million in FY 2006 to well over \$27 million in FY 2009, a 59 percent increase in just three years. Equalization aid should be phased out.

Corporation Commission

Reduce General Fund allocation by \$2 million

Savings: \$2,000,000

FY 2007 actual expenditures by the commission were \$2 million less than originally appropriated. Total appropriations have since increased by another \$2 million over the original 2007 appropriated amount. This would cut this increase and would still appropriate a total of \$1 million more than was spent in FY 2007.

Department of Corrections

Cut General Fund allocation by 10 percent

Savings: \$95,000,000

The 10 percent cut recommended here would still leave total funding for the agency at \$80 million more than was actually spent in FY 2007. At nearly \$1 billion, the Department of Corrections accounts for almost 10 percent of the state's more than \$10 billion in General Fund obligations. Growth in this department's spending has been significantly higher than that required to keep up with inflation and population growth. There are many reasons for this. All states have had to deal with lawsuits regarding prison conditions, which affect decisions made in every other state. Arizona has a burgeoning population, and illegal immigration has doubtlessly played some role in prison needs. Nevertheless, state prisons are notoriously full of nonviolent offenders, and zero-tolerance laws may well have over-stepped fiscal propriety. Care should be taken to make sure that the benefits of these measures outweigh the costs.

At nearly \$1 billion, the Department of Corrections accounts for almost 10 percent of the state's more than \$10 billion in General Fund obligations.

The legislature and the department should cooperate to build a package of reforms that will result in savings, a more efficient justice system, and a more effective system of punishment. Below are some suggested directions:

- 1) Increase use of GPS (Global Positioning System) monitoring for nonviolent offenders and parolees, requiring them to work and remunerate monitoring costs.
- 2) Require restitution to victims, as well as remuneration to the state, by parolees.
- 3) Move up release dates for nonviolent offenders put on parole.
- 4) Implement administrative efficiencies.

Arizona Criminal Justice Commission

Eliminate General Fund allocation

Savings: \$1,172,000

Even with this cut, other funding will maintain a budget of over \$40 million, slightly more than estimated expenditures for FY 2008 and over \$6 million more than was expended in FY 2007. The agency should be given the authority to

determine where best to make necessary cuts.

This agency should also be reviewed for its necessity. It appears to serve significantly as a conduit to pass monies through to counties for various criminal justice related purposes and to provide crime victim compensation. Critical functions could be transferred to the Office of the Attorney General.

Arizona School for the Deaf and the Blind

Reduce General Fund funding to \$16 million

Savings: \$6,000,000

This would reduce authorized spending in this agency to about \$55 million, \$1.5 million more than was authorized for FY 2007. The Arizona School for the Deaf and the Blind is currently serving 5 percent more students than in FY 2005. Even with this recommended reduction, it would have 17 percent more funding than in FY 2005.

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Department of Economic Security

Along with the other major health and welfare agencies, DES has seen considerable growth in spending in recent years. Since 2001, General Fund spending has increased 89 percent—and it has increased 45 percent since 2005. Despite this marked growth, these are the lowest growth rates of the major health and welfare agencies.

Cut General Fund funding by 5 percent

Savings: \$40,000,000

FY 2009 budgeted General Fund spending stands at \$808 million. FY 2007 General Fund spending was \$695 million, a 16 percent increase in just two years. Given that inflation over the last two years averaged no more than 3 to 4 percent and that population increased only about 2 percent per year, this growth rate is twice what it should be. Clearly, the department needs to more actively protect taxpayers. The legislature can help by passing legislation that sanctions full families when adults choose not to abide by TANF work requirements.

Cut Title XIX Long Term Care with eligibility limits

Savings: \$9,000,000

Title XIX Long Term Care is a broad funding category within Developmental Disabilities.

This savings estimate is based on reducing caseload to the 2008 level. According to JLBC, caseloads in Developmental Disabilities have increased at an average yearly rate of more than 6 percent per year even as population has increased only 2 percent per year. Clearly, generous diagnosing is being excessively tolerated.

Eliminate the Arizona Early Intervention Program

Savings: \$2,000,000

The Arizona Early Intervention Program is a special line item within Developmental Disabilities for children from birth to age 3 with disabilities or developmental delays. It was previously entirely federally funded.

This is a new program for the state established at a time that new programs are not affordable. Savings assume some of the appropriated monies have already been expended.

Eliminate the state-funded Autism special line items

Savings: \$1,500,000

These are relatively new programs that are no longer affordable.

Reduce state-funded services within Developmental Disabilities

Savings: \$6,000,000

The savings estimate represents less than a 10 percent reduction, leaving the program budget at approximately \$40 million.

Reduce TANF Cash Benefits General Fund funding

Savings: \$2,000,000

According to JLBC, caseloads in Developmental Disabilities have increased at an average yearly rate of more than 6 percent per year even as population has increased only 2 percent per year.

TANF Cash Benefits is a special line item within Benefits and Medical Eligibility.

This represents a less than 5 percent General Fund reduction for the year. TANF cash benefits have fallen in recent years but are now rising. Obviously, TANF demand will increase with harder economic times. Benefits will have to be spread more thinly according to whatever means are available.

Reduce Benefits and Medical Eligibility operating budget by 5 percent

Savings: \$1,900,000

DES contracts with AHCCCS to determine who is eligible for benefits and what those benefits can be with funding for that purpose listed under this category. The current operating budget is \$8 million higher than in FY 2005 and virtually the same as in FY 2007.

Eliminate General Assistance

Savings: \$1,000,000

General Assistance is a special line item within Benefits and Medical Eligibility.

This program is aimed at a relatively small population of mentally and physically disabled individuals. The benefits are limited, meaning that the long-term assistance is available where needed.

Nevertheless, the parents involved should be held responsible for the expenses of enforcing child support.

Reduce General Fund funding for Child Support Enforcement

Savings: \$3,000,000

General Fund funding in this area has increased from \$5.5 million in FY 2007 to \$9.1 million for FY 2009. Federal funds have been reduced so that total funding has increased over this two-year period by about \$1.6 million. Nevertheless, the parents involved should be held responsible for the expenses of enforcing child support.

Establish stricter eligibility requirements for home care in Adult Services

Savings: \$3,000,000

Adult Services is a special line item in Aging and Community Services.

Funding in this line item has nearly doubled from \$10 million to \$19.2 million since FY 2003, and spending in FY 2007 was \$15.2 million. Unless considerable savings in other areas can be *demonstrated* (as opposed to merely asserted), this line item should be cut.

Eliminate Community and Emergency Services

Savings: \$3,000,000

Community and Emergency Services is a special line item in Aging and Community Services.

Programs this money funds are already carried out by a variety of community action agencies and should be locally funded, in addition to being carried out by private charity.

This line item is long-standing and is funded by the federal TANF block grant. This money should be redirected where possible to reduce General Fund spending in other areas. Programs this money funds are already carried out by a variety of community action agencies and should be locally funded, in addition to being carried out by private charity.

Eliminate Coordinated Hunger

Savings: \$900,000

Coordinated Hunger is a special line item in Aging and Community Services.

Savings might be greater, depending on how matching federal TANF funds are deployed. There are a plethora of local government and private organizations to provide for food assistance. These programs can and do coordinate on their own.

Eliminate Coordinated Homeless

Savings: \$700,000

Coordinated Homeless is a special line item in Aging and Community Services.

Savings might be greater depending on how matching federal TANF funds are deployed. There are many local government and private organizations to provide for homeless assistance. These programs can and should coordinate on their own.

Eliminate the two-year increase in Domestic Violence Prevention

Savings: \$4,800,000

Domestic Violence Prevention is a special line item in Aging and Community Services.

At the current appropriation level funding for this item is double what it was in FY 2003 and is \$4.8 million greater than it was for FY 2007. This eliminates the most recent two-year increase.

Eliminate Lifespan Respite Care

Savings: \$300,000

This is a brand new and now unaffordable special line item in Aging and Community Services.

These programs fund various local providers of a variety of services ranging from counseling to substance abuse treatment. These represent subsidies to private efforts that should remain private.

Eliminate Family Support Programs

Savings: \$6,500,000

Family Support is a broad category of several programs in Children, Youth, and Families. These programs fund various local providers of a variety of services ranging from counseling to substance abuse treatment. These represent subsidies to private efforts that should remain private.

Eliminate Education and Training Vouchers

Savings: \$350,000

Education and Training Vouchers is a special line item in Children, Youth, and Families.

This program provides for higher and technical education vouchers for foster children after graduating high school. While vouchers for foster children in public

school are worthy of support, higher education's benefits accrue mainly to the recipients. Many individuals are financing their own schooling with no help from parents.

Roll back the increase in the Permanent Guardianship Subsidy

Savings: \$1,000,000

The Permanent Guardianship Subsidy is a special line item in Children, Youth, and Families.

This program provides funds to encourage permanent guardianship for foster children. Unless it can be demonstrated that this ultimately saves the state money by removing children from state support, it should be reduced.

Reduce General Fund funding for Adoption Services by 10 percent

Savings: \$3,600,000

Adoption Services is a special line item in Children, Youth, and Families.

General Fund funding for this line item has increased by 73 percent since FY 2003. This still results in a General Fund increase over FY 2007 of more than \$2.5 million.

Reduce General Fund funding for Day Care Subsidy by 10 percent

Savings: \$8,300,000

Day Care Subsidy is a special line item in Employment and Rehabilitation Services.

One of the options JLBC listed prior to the 2008 session was to reduce maximum income to be eligible for this subsidy to 145 percent of the federal poverty level from the current 165 percent. This was not done and thus remains an option. In addition, copayment requirements should be increased. Over time, this program should be phased out. Parents should be responsible for the children they alone choose to bear.

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Department of Education

The Department of Education has seen growth in General Fund spending that exceeds inflation and population, albeit an increase of lower magnitude than that of the major health agencies. Even without the twelfth-month state payment to school districts in FY 2009, Education General Fund funding has increased by 32 percent since FY 2005, five percentage points greater than inflation and general population growth.

Reduce Additional State Aid by 10 percent

Savings: \$40,000,000

Education funding is provided on a lagged basis. Many children who were in the system are no longer there, according to anecdotal evidence. This means that education formulas are funding children who are no longer in the system. Since FY 2007, Additional State Aid has increased by 25 percent. Even with this cut, funding in this special line item will be almost \$6 million more than in FY 2008.

Roll back Non-Formula Programs General Fund funding to FY 2008 level and reduce funding for the State Board of Education

Savings: \$29,500,000

There are a number of non-formula programs, some of which might be eliminated such as Adult Education/GED (General Equivalency Diploma), the National Math and Science Initiative (State Board of Education), and the Vocational Education Extended Year.

Full-day kindergarten was fully implemented just last year. It costs the state an additional \$200 million per year, interferes with the private day care market, and puts the state in a nearly parental relationship with children.

Go back to half-day kindergarten

Savings: \$100,000,000

Full-day kindergarten was fully implemented just last year. It costs the state an additional \$200 million per year, interferes with the private day care market, and puts the state in a nearly parental relationship with children. Full-day kindergarten has now proven to be unaffordable.

Department of Emergency and Military Affairs

Eliminate Guardsman Tuition Reimbursement, Military Gift Package Postage, and National Guard Uniform Allowance

Savings: \$1,000,000

These programs and benefits are simply unaffordable at the present time.

Cut the governor's Emergency Fund to the FY 2007 level

Savings: \$2,000,000

This fund was increased from \$1.5 million in FY 2007 to \$4 million in FY 2008 and stands at \$3.5 million for FY 2009. The governor may expend up to \$4 million from the General Fund through emergency declarations for disaster prevention and mitigation. This reduces that authority.

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Department of Environmental Quality

Eliminate the Maricopa, Pima, and Pinal Travel Reduction Plan

Savings: \$1,000,000

If necessary, refunds should be sought to achieve these savings. Travel has been reduced most effectively by gasoline price increases and the state of the economy. This program is not necessary.

Cut Water Quality Assurance Revolving Fund Priority Site Remediation funding in half

Savings: \$6,500,000

This program involves environmental cleanup similar to the federal Superfund cleanup program carried out by the Environmental Protection Agency. Current financial conditions require the delay of remediation. This would not, therefore, be an ongoing savings.

Governor's Office of Equal Opportunity

Abolish

Savings: \$125,000

State Board of Equalization

Shift funding to Maricopa and Pima counties

Savings: \$656,000

This agency hears property tax appeals for these two counties. This is a county issue and should be county funded.

Government Information Technology Agency

End the e-Health Initiative

Savings: \$1,000,000

This program provides electronic health information for the health care industry, a function the industry should fund on its own. Costs should be borne by those who receive services.

This program provides a guide to government and private social services by dialing 2-1-1 similarly to how emergency services are accessible through 9-1-1. This is new and now unaffordable.

Suspend or end the 2-1-1 program

Savings: \$700,000

This program provides a guide to government and private social services by dialing 2-1-1 similarly to how emergency services are accessible through 9-1-1. This is new and now unaffordable.

Suspend Public Safety Communications

Savings: \$500,000

To the extent that public safety agencies need greater ability to communicate with each other, this should be accomplished over time with ongoing equipment

updates rather than with a special one-time program. This program, while desirable, is now unaffordable.

Office of the Governor

Roll back General Fund funding to FY 2007 level

Savings: \$500,000

At the FY 2007 General Fund funding level, the governor's General Fund budget is 10 percent greater than that of FY 2003.

Department of Health Services

Since 2001, General Fund spending in AHCCCS has increased 148 percent, an absolute increase of \$365 million. Since 2005, spending has increased by 59 percent. Since 2005, inflation and population growth in Arizona combined amount to only 27 percent.

Since FY 2003, total expenditures in Family Health have more than doubled and have increased by 36 percent just since FY 2007.

Two programs account for the bulk of the increase. Since FY 2003, total expenditures in Family Health have more than doubled and have increased by 36 percent just since FY 2007. Expenditures in Behavioral Health have increased by 99 percent since FY 2003 and 25 percent just since FY 2007. These two areas are heavily influenced by federal policy. Some of the policy options listed under the AHCCCS discussion apply to the Department of Health Services (DHS).

Reduce General Fund funding by 10 percent

Savings: \$61,000,000

General Fund funding for DHS has increased 106 percent since FY 2003. A cut this large will still result in funding \$13 million higher than in FY 2007, although it will result in an absolute General Fund funding cut compared with FY 2008.

Many purely state-funded public health programs will have to be eliminated or severely cut. These include monies for vaccines, the statewide immunization information system, and various disease surveillances. Disease research funds should be eliminated and community health centers locally funded. Poison control centers should be consolidated and streamlined.

Under Family Health, the area with the largest growth has been AHCCCS–Children’s Rehabilitative Services. General Fund funding in this area has doubled since FY 2005, increasing by \$14 million. This is a federal Medicaid-related (Title XIX) program, leaving relatively few degrees of freedom for state policy.

Under Behavioral Health, Proposition 204 is currently responsible for about \$110 million in General Fund spending. The state match for Title XIX Children’s Behavioral Health area has increased by \$145 million since FY 2005.

Arizona Historical Society Prescott Historical Society of Arizona

Merge the two agencies, consider privatization, and eliminate the Field Services and Grants special line item

Savings: \$520,000

A merger would allow for staff cuts. Field Services and Grants, at a minimum, must be suspended. Private entities should be allowed to bid for the right to manage historical assets.

Under Behavioral Health, Proposition 204 is currently responsible for about \$110 million in General Fund spending.

Arizona Department of Housing

Redirect Housing Trust Fund proceeds to General Fund

Savings: \$900,000

Housing Trust Fund monies mostly result from the sale of unclaimed properties. These funds should be redirected, at least temporarily.

Industrial Commission of Arizona

Reduce the Industrial Commission operating budget by 10 percent and redirect funds for general purposes

Savings: \$2,000,000

The Industrial Commission’s operating expenses are covered by a tax on workers’ compensation premiums. There is really no nexus between this tax and the Industrial Commission’s purpose. The legislature should consider abolishing or reducing the tax and having the Industrial Commission fully funded by the entities

it regulates and on whose behalf it operates. This would cut the commission's operating budget to roughly its FY 2007 funding level.

Department of Insurance

Reduce the department's General Fund funding by 10 percent

Savings: \$740,000

This measure would reduce the department's funding roughly to the FY 2005 level.

Judiciary—Supreme Court

Cut General Fund funding by \$5,000,000

Savings: \$5,000,000

This is roughly a 10 percent cut on the agency's operating and SLI budget. Funding increased in this area from FY 2007 to FY 2009 by \$10 million, more than 25 percent.

There is no doubt that the Auditor General has an important role to play in accountability.

Legislature—Auditor General

Cut General Fund funding to the FY 2007 level

Savings: \$1,700,000

There is no doubt that the Auditor General has an important role to play in accountability. However, with cuts in all areas, the Auditor General should also look to cut expenses.

Department of Liquor Licenses and Control

Cut General Fund funding to the FY 2005 level

Savings: \$700,000

This would still leave total funding in the agency more than \$200,000 greater than in FY 2005.

Arizona State Lottery Commission

Increase transfers to the General Fund

Savings: \$50,000,000

Currently, just over a third of the \$157 million in lottery profits are transferred into the General Fund. Other destinations for the funds include transfers to local governments for transit and transportation, the funding of homeless shelters, the funding of various health and welfare programs, new spending on university capital, and economic development. All these transfers should be cut with spending reduced accordingly.

Board of Medical Student Loans

Abolish

Savings: \$400,000

This board distributes financial aid to medical students at the University of Arizona or private medical schools in the state. Estimated savings are modest because of anticipated contractual obligations.

The mine inspector's budget increased by 33 percent in just two years.

State Mine Inspector

Return funding to the FY 2007 level

Savings: \$460,000

The mine inspector's budget increased by 33 percent in just two years. This was partly in reaction to a single horrible tragedy. Efforts should be focused on locating abandoned mines.

Department of Mines and Mineral Resources

Eliminate the agency and consolidate the museum with the Arizona Historical Society

Savings: \$500,000

Savings would roughly cut the current General Fund funding in half. The

mining industry in Arizona can take care of itself. The museum can, along with other historical resources, be administered by a single agency.

State Board of Nursing

Eliminate General Fund funding

Savings: \$167,300

This is the only so-called 90/10 agency that receives General Fund funding. It is specifically designated for a fingerprinting program, which should be funded by fees.

Arizona Parents Commission on Drug Education and Prevention

Abolish and redirect funding to the General Fund

Savings: \$2,000,000

This agency is funded with 50 percent of the Judiciary Drug Treatment and Education Fund. This fund receives 7 percent of tax revenue collected on spirituous liquors and 18 percent of tax revenue collected on vinous and malt liquor.

Funding for the state parks will still be slightly higher than in FY 2007.

Arizona State Parks Board

Cut General Fund funding by 5 percent

Savings: \$1,400,000

Funding for the state parks will still be slightly higher than in FY 2007. Greater savings might be possible if fees are increased and/or privatization opportunities are explored and implemented.

Arizona Pioneers' Home

Eliminate General Fund funding

Savings: \$24,000

This agency cares for about 130 Arizona senior citizens, including pioneers,

long-time residents, and disabled miners. Compared with the agency's total budget, General Fund funding is so small that it is not clear why the appropriation exists at all.

Commission for Postsecondary Education

Lump-sum cut of \$1,000,000

Savings: \$1,000,000

This legislature should consider abolishing this agency. Postsecondary education benefits mainly the individuals who receive the education. It should not be turned into additional years of fully publicly funded education for anyone. Instead, measures should be taken to keep the costs of college education as low as possible. The legislature should consider eliminating funding for the Arizona College and Career Guide, whose focus is to expand student financial assistance as well as funding for the Arizona Minority Educational Policy Analysis Center.

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Department of Public Safety

Cut 10 percent of General Fund funding

Savings: \$6,300,000

With the installation of speed cameras, patrolling for speeders should be less necessary and savings on vehicle miles and fuel should result.

Arizona Department of Racing

Use fee revenue to fund the agency

Savings: \$1,000,000

The savings estimate is based on the presumption that General Fund monies have already been expended for FY 2009.

Department of Revenue

Return General Fund funding to the FY 2007 level

Savings: \$1,200,000

This would bring the department's total budget down to roughly that of FY 2007.

School Facilities Board

Suspend Building Renewal Grants

Savings: \$10,000,000

Local funds will have to be used to make critical repairs. New school funding should be suspended in order to keep from increasing debt service payments as well. Savings presume half the money has been granted. If possible, grants should be rescinded and money refunded to the state.

New school funding should be suspended in order to keep from increasing debt service payments as well.

Office of Tourism

Abolish

Savings: \$10,000,000

The agency's total funding is \$31 million. The savings presume costs related to shutting down the agency and completing contracts. The tourism industry can and does promote itself on its own. The government should not serve as a conduit for collective action by any industry.

Arizona Board of Regents

Return General Fund funding to FY 2007 levels

Savings: \$5,500,000

In just two years, General Fund spending for this agency increased by 37 percent. With funding from other sources, the agency's total funding would still have increased by over \$4 million, or 20 percent, compared with FY 2007.

Arizona Universities

Across-the-board 10 percent cut shared by all universities

Savings: \$100,000,000

These savings can be achieved through greater efficiencies and increases in tuition, as well as requiring faculty to teach full loads.

Department of Veterans' Services

Cut half of the increase since FY 2007

Savings: \$2,000,000

This savings can be achieved by eliminating benefits counseling, a function that is already available through the federal military.

Conclusion

The cuts outlined in this report total \$1,061,664,000, nearly the entire 2009 budget shortfall. Current estimates are that the legislature will have to find an additional \$140 million in savings, so this is only a starting point for getting Arizona back on track toward fiscal responsibility. No doubt there are other opportunities for reducing the budget. It will fall to our legislators to dig deeper and make the difficult and often politically painful decisions necessary to inject some much-needed sanity into Arizona's fiscal policies.

If programs are ended and phased out as recommended, though, savings for FY 2010 will be even larger, making that budget easier to balance. To reverse the gimmicks that got the state through FY 2008, we'll have to depend on future economic growth. Spending cuts today are key to creating opportunities for real economic growth to occur in the future.

*The cuts outlined
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budget shortfall.*

NOTES

1. See Joint Legislative Budget Committee, “Economic and Budget Update,” staff memorandum, October 1, 2008 <http://www.azleg.gov/jlbc/EconomicandBudgetUpdate10-1-08.pdf>; James J. Apperson, Director, Office of the Governor, Office of Strategic Planning and Budgeting, and Richard Stavneak, Director, Joint Legislative Budget Committee Staff, Letter to Governor Napolitano, President Bee, and Speaker Weiers, July 31, 2008, <http://www.azleg.gov/jlbc/jlbc-ospbreportonFY08endingbal.pdf>: <http://www.azleg.gov/jlbc/execbudgetproposal2.pdf>.
2. FY 2009 Appropriations Report, <http://www.azleg.gov/jlbc/09app/apprpttoc.pdf>; FY 2009 Appropriations Report, <http://www.azleg.gov/jlbc/08app/apprpttoc.pdf>; FY 2007 Appropriations Report, <http://www.azleg.gov/jlbc/07app/apprpttoc.pdf>; FY 2006 Appropriations Report, <http://www.azleg.gov/jlbc/06summ/summbktoc.pdf>; FY 2005 Appropriations Report, <http://www.azleg.gov/jlbc/05summ/summbktoc.pdf>.
3. Arizona Wellness Program, “Chair Massage Services,” webpage, http://www.benefitoptions.az.gov/wellness/chair_massage.asp

The Goldwater Institute

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