ARKANSAS FIVE YEAR BUDGET REPORT

AMERICANS FOR PROSPERITY

ARKANSAS

www.americansforprosperity.org/arkansas

A Letter from Arkansas State Director Teresa Crossland-Oelke

Dear fellow Arkansans,

Today, Arkansas finds itself better off than many other states thanks to our constitutionally required balanced budget. This is something we should be truly thankful for.

However, for too many years elected officials have used the *"we have a balanced budget"* logic to divert attention away from the fact that Arkansas has a spending problem. Our state is on an unsustainable spending path and will face some tough budget decisions in the very near future if we continue on this course.

The Murphy Commission and their ground breaking work "to make Arkansas government smaller, more cost-effective and more accountable to taxpayers" was on target in their assessment that Arkansas state government was spending too much and growing too fast. The question begs to be asked…why didn't we listen?

The Arkansas Chapter of Americans for Prosperity hopes that **Part One** of our five year overview of Arkansas State Government spending renews the conversation among citizen leaders and elected officials on how to address across the board government spending increases and the competitiveness of Arkansas' tax climate. **Part two** will be a five year agency by agency review. **Part three** will be a model budget that puts hard working Arkansas families as the top priority.

Freedom loving people want to be left alone to run their businesses, go to work, raise their families, and invest in their churches and communities. They only ask government stay out of their way. But the irony of today's world is that freedom loving people have to get involved to constrain an ever expansive and intrusive (despite well-meaning) state government.

Sincerely,

Teresa Crossland-Oelke

Teresa Crossland-Oelke
State Director
Americans for Prosperity

Introduction

> *Opportunity Cost by definition is "**The true cost of something is what you give up to get it**. This includes not only the money spent in buying (or doing) the something, but also the economic benefits that you did without because you bought (or did) that particular something and thus can no longer buy (or do) something else."*

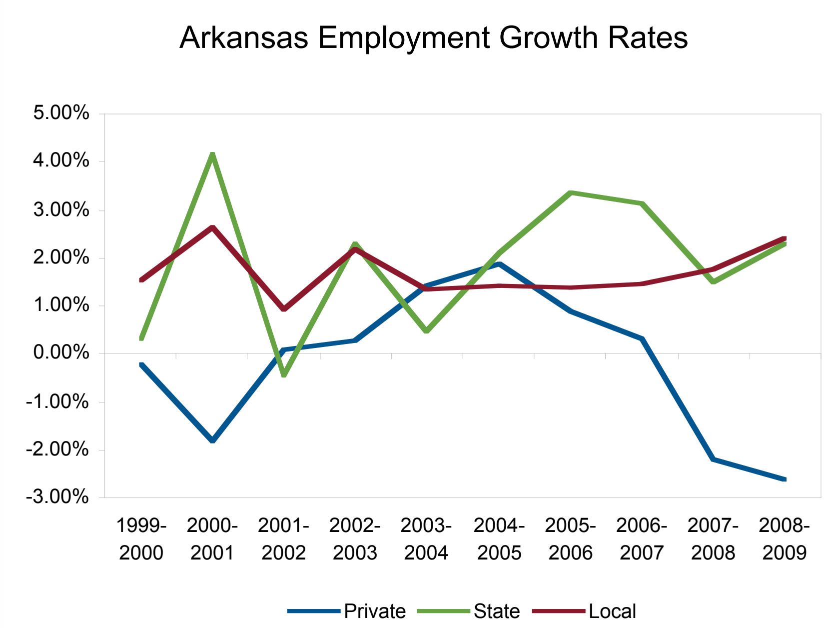
How will Arkansas make up the revenue shortfalls has been the story and headlines of the 2010 Fiscal Budget Session. But after conducting a five year review of Arkansas Government Spending, one has to ask the question is it a revenue problem or is it a spending problem? Further, what opportunities have Arkansas taxpayers and the Arkansas economy given up during the last five years? What, in fact, is the opportunity cost of government overspending?

If Only We Had Listened

More than a decade ago the Murphy Commission (www.arkansaspolicyfoundation.org/murphy_comission/) introduced common sense ideas to reform Arkansas state government "to make Arkansas government smaller, more cost-effective and more accountable to taxpayers."

Today, we can thank the commission for charter schools and the reduction of the sales tax on food. Unfortunately, many of these recommendations have been overlooked to the detriment of the Arkansas citizens.

For example, the Murphy Commission was shocked to find that the state government's employees grew by 228% from 1965 to 1998. Yet from 1998 to 2007 the state government has grown by an additional 171% in one-third of the time. Today, Arkansas government stands as the largest employer in the state.



Arkansas state government debt has grown as well, adjusted for inflation, from $887 million in 1980 to $4.3 billion in 2007, a 394% increase. Although the Constitutional Amendment to ease debt limits on local governments was considered a needed update, the rate of debt growth should still be monitored. Arkansas ranks 12th among states in its debt growth! Arkansas state and local debt works out to an astonishing $4305 owed for every man, woman and child in the state.

Arkansas government is still as convoluted and un-transparent as ever. The citizens of Arkansas still cannot trace their tax dollars through government to see exactly where they ultimately ended up being spent for goods or services.

But the most important thing Americans for Prosperity five year budget review has confirmed is Arkansas state government STILL has a spending problem.

Arkansas citizens have to ask themselves "Why didn't we listen the first time?"

We Survived… for Now.

Arkansas has survived the 2009 state budget crunch better than most states due to its conservative budgeting system. Arkansas' Revenue Stabilization System, first enacted in 1945, requires the state to designate budget priorities into various categories. For example, the FY 2010 budget funded all A level budgets 100% with partial funding for B level budgets at 54%. (New programs must start in the B category.) This innovative model has been credited with keeping the state's budget deficits low and manageable during difficult times.[1]

However, even with that sound structure in place the state's FY-2010 budget of $4.6 billion budget faced a $106 deficit as revenues declined.[2] With a continuing recession how does Arkansas weather this storm AND position the state and its citizens to prosper in the future?

You Can't Tax and Spend Your Way to Prosperity, but We Tried!

In FY-2010, newspapers and politicians across the state discussed the decline in state revenues and the budget deficit Arkansas faced. *But was it a revenue problem?*

If you can imagine a child who upon receiving their allowance immediately spends the entire amount each week claiming that the issue with their having no money is an allowance problem. However when you raise the allowance amount the child continues to spend the whole amount and there is never enough to address every short term want or need.

Sounds simplistic?

Sadly it is exactly the behavior that is exemplified in the fiscal policy of the state. The following table shows the growth in expenditures from FY-2003 to FY-2009 by revenue source when the state went on a spending spree after the 2000 recession which continued after 9/11.

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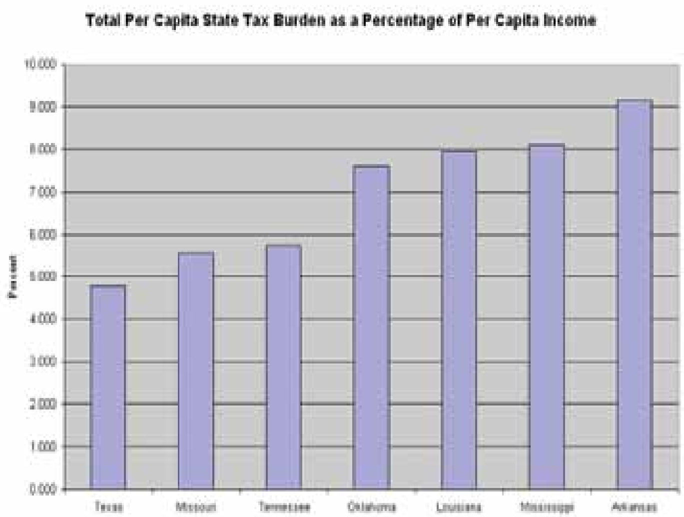
1 http://sunshinereview.org/index.php/Arkansas_state_budget

2 Arkansas News Bureau, October 20. 2009 Rob Moritz

Spending by Revenue Source 2003-2009							
GENERAL REVENUE	HSC/MCF FUNDS	SPECIAL REVENUE	FEDERAL REVENUE	CASH FUNDS	OTHER FUNDS	TOTAL EXPENDITURES	TOTAL STATE EXPENDITURES
35%	33%	25%	49%	75%	39%	45%	43%

Some bureaucrats are talking about various ways of raising revenues in order to maintain the rate of spending AND pay back the unemployment stimulus money. But should Arkansas citizens and small businesses, who are already feeling the effects of the recession in their personal finances, be expected to make up a deficit of this magnitude with increased burdens. The current tax structure of the state and local governments already impose a heavier tax burden on Arkansas residents than surrounding states as this chart shows.[3]



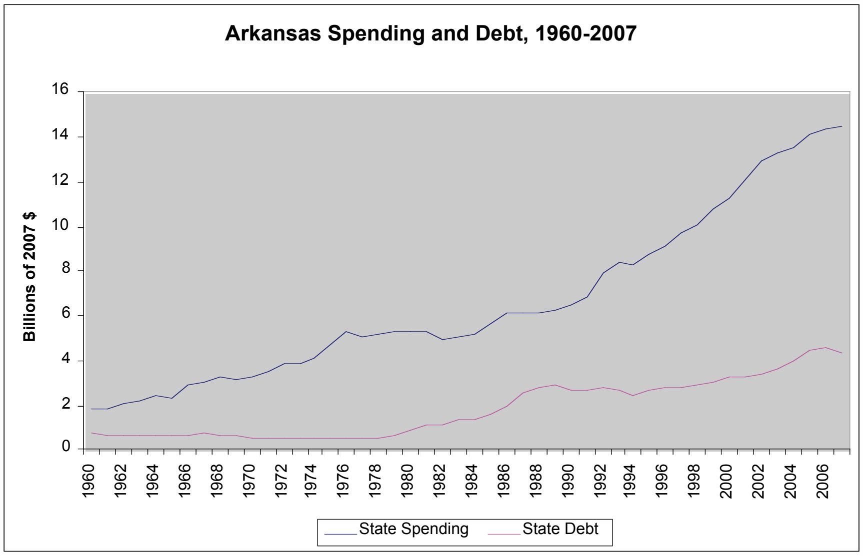
Arkansas' individual income tax has a top rate of 7% that kicks in at only $31,000 in income. Arkansas' individual income tax competitiveness continues to not only lag regionally but nationally as The Tax Foundation lowered the state's Business Tax Climate to 40th[4]. Unfortunately the bad news doesn't stop there as the corporate tax rate has a top tier of 6.5% that applies when income levels reach $100,000 which placed Arkansas in 39th place among the 50 states.

The Americans for Prosperity Arkansas Budget Review has offers a myriad of ideas to spur conversations on how to prevent and address not only reoccurrences of budget deficits but also correct this tax imbalance that significantly affects Arkansas' regional competitiveness.

The Tax Foundation ranks Arkansas 34th in income tax competitiveness, 39th in Corporate income tax competitiveness, and 40th in Business Tax Climate

[3] http://www.dfa.arkansas.gov/offices/budget/Pages/actualExpenditures.aspx
http://www.offthemarble.com/2009/08/26/arkansas-taxed-enough-already/
[4] http://www.taxfoundation.org/taxdata/show/24378.html

But first we must understand the problems and how to fix them.



Looking at the chart above, you can see Arkansas government spending habits are not the problem of a single administration or party.

In fact, Governor Mike Beebe has led the charge on some very good initiatives like the reduction of sales tax on food and the proposed reduction in expansion of Medicaid. In addition, Governor Beebe and the legislature did make some reductions in spending during this session. All of these things should be commended.

	GENERAL REVENUE	HSC/MCF FUNDS	SPECIAL REVENUE	FEDERAL REVENUE	CASH FUNDS	OTHER FUNDS	TOTAL EXPENDITURES	TOTAL STATE EXPENDITURES
FY-2003	$ 3,237,408,947	$ 237,782,085	$ 781,174,330	$ 3,641,509,104	$ 1,754,789,248	$ 3,291,149,123	$ 12,943,812,838	$ 9,302,303,734
FY-2004	$ 3,469,956,149	$ 230,586,431	$ 883,429,902	$ 4,229,765,424	$ 1,969,328,592	$ 3,362,981,696	$ 13,582,133,904	$ 9,352,368,480
FY-2005	$ 3,589,940,590	$ 240,231,737	$ 834,154,674	$ 4,234,764,342	$ 2,064,396,698	$ 3,641,646,573	$ 14,605,134,615	$ 10,370,370,272
FY-2006	$ 3,780,488,801	$ 241,055,732	$ 942,489,733	$ 4,575,981,693	$ 2,394,107,055	$ 3,674,373,074	$ 15,608,496,087	$ 11,032,514,395
FY-2007	$ 4,026,004,295	$ 273,047,730	$ 743,066,917	$ 4,557,710,756	$ 2,646,060,191	$ 4,248,055,347	$ 16,493,945,236	$ 11,936,234,480
FY-2008	$ 4,286,849,621	$ 265,714,515	$ 844,498,757	$ 4,792,423,203	$ 2,665,613,748	$ 4,492,466,693	$ 17,347,566,537	$ 12,555,143,334
FY-2009	$ 4,380,335,240	$ 315,185,293	$ 977,871,117	$ 5,425,001,805	$ 3,070,759,222	$ 4,585,606,495	$ 18,754,759,171	$ 13,329,757,367

Still, American for Prosperity's five year review shows that total state spending after removing federal funds increased by 10.88%, 6.38%, 8.19%, 5.19% and 6.17%, in the last five budget cycles prior to FY-2010. This created a structural deficit of unsustainable levels of spending as agencies expanded programs and government spent every penny of available revenues. Inevitably when a boom finally comes to a period of recession state revenues are greatly reduced just as we currently see in Arkansas. Predictably in a recession, tax revenue falls more rapidly than government expenditures as individuals lose their jobs and businesses close.

How to Move Arkansas Back to the Forefront of Economic Prosperity

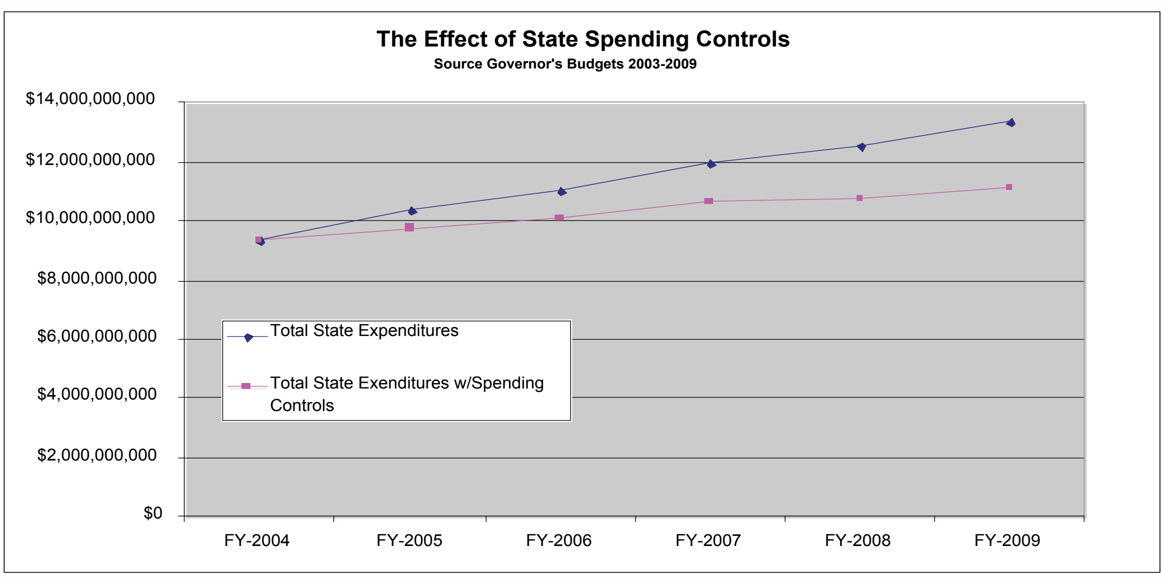
Repeating the errors of the past may appear to be the easy way out, but further jeopardize Arkansas' ability to compete regionally and globally.

Let's consider ***spending constraints tied to inflation and population growth***. Properly instituted spending constraints can set the stage for much needed reform in fiscal policies, helping prevent the sort of deficits that face Arkansas today.

Spending controls would ultimately allow income tax rates to be lowered to reduce the heavy tax burden on citizens. This would continue to improve the business climate, attracting even more new investment and jobs and mitigating some of the effect when a particular industry is hit with hard times. In the long run, Arkansas would experience smaller deficits in recession periods, but also higher rates of economic growth in good times.

The 5.9 BILLION DOLLAR Question

What if Arkansas state government had adhered to spending constraints during the last five years? As the following chart shows, simply applying the approach that state government's taxes, fees and other charges on the citizen's of the state should be constrained to the growth of inflation and population would have produced a budget that would be significantly less than the FY-2010 budget which resulted in the current budget shortfalls. It is obvious that spending every penny government received has created a problem that was easily avoidable.



If Arkansas had instituted a controlled spending approach the difference would have been pronounced for state government finances. (It should be noted this estimate is very likely well below what actually could be expected since there is no addition for the economic impact of returning funds to citizens). With just five years of spending controls the cumulative amount of funds that could have been returned to taxpayers either thru direct rebates or lower fees could have been in excess of *$5.9 billion after removing retirement payments to public employees* (see following chart).

This infusion of cash into the economy would have generated additional tax revenues for the state coffers while strengthening the private sector's ability to weather recessions.

Some might say spending increases were driven by the Lake View Arkansas Supreme Court Ruling, implying that this is outside of legislative control. In fact, the court directed the State Legislature to define adequacy and then fund at the level the State Legislature deemed adequate. The Lake View definition of adequacy by the State Legislature, not the court ruling, mandated the increase in funding. ([5])

Equally important, excess revenues from all sources could be directly rebated to individual and corporate taxpayers as a percentage of taxes paid, reducing the onerous rates they shoulder. Imagine as a legislator going back to your district and telling individuals and businesses that everyone who paid corporate and personal income taxes will be receiving a refund check because of your spending discipline!

This approach would in the long run lead to significant reductions in the individual and corporate income for the citizens of Arkansas, making us an economic power house among the states and much more competitive globally.

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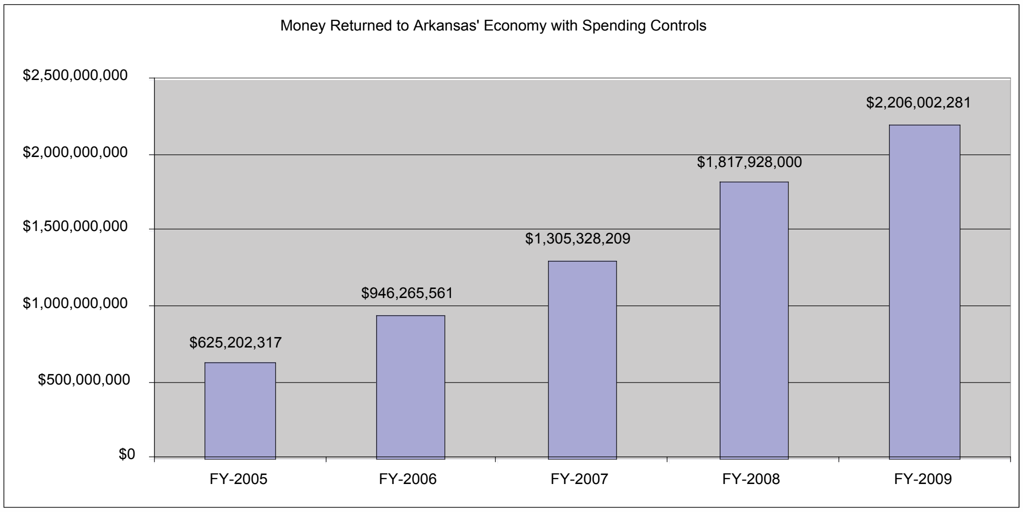
[5]The Murphy Commission Findings: "American Legislative Exchange Council (ALEC-a bipartisan group of 5,000 state legislators from across the nation chaired by **Arkansan Bobby Hogue**. ALEC's report card concluded its Executive Summary by stating:...*the lack of a correlation between education funding and academic achievement) suggests the system itself is not making effective use of the financial and staff resources funneled into it." http://www.arkansaspolicyfoundation.org/policy/30yrinvestreport.html*

2Source: Governor's Budget 2005-2009 with spending controls calculated using Bureau of Economic Analysis CPI and Census Bureau population numbers



The question now is will Arkansas ignore or embrace the lessons of the past?

Principles that Provide a Roadmap to Fiscal Stability

Achieving any constraint in government spending is much more difficult than it seems at face value. The complexity of the many state agencies' funding sources and programs make it difficult for our elected officials and citizenry to discern where the unnecessary expenditures lay.

Typically advocates for every program will provide legislators all sorts of information that will validate their continued existence. Special interest groups will wear out a path to the legislators' doors to make sure any program that benefits their group stays in place.

How can Arkansas taxpayers and legislators see through the fog of information?

Part One of our study provides an overview of Americans for Prosperity's five year study to encourage conversation about across the board government spending increases and the competitiveness of Arkansas' tax climate. Part two will over more specific assessments of each government agency and part three offered by Americans for Prosperity will offer a model budget.

However, the following are a few guiding principles to consider.

Stimulus Pay Back
Arkansas is being asked to repay over $300 million to the federal government for a 'loan' for enhanced unemployment payments to recipients.

ARKANSAS DEPARTMENT OF WORKFORCE SERVICES
Unemployment Insurance Administration

Summary of Unemployment Insurance Trust Fund Projections

	Actual CY2007	Actual CY2008	Projected CY2009	Projected CY2010	Projected CY2011
Beginning Balance, January 1st	$ 160.9 M	$ 142.8 M	$ 82.5 M	$ (223.8) M	$ (343.3) M
Actual/Projected Collections	282.3 M	293.2 M	349.4 M	358.8 M	367.8 M
Actual/Projected Disbursements	300.4 M	353.5 M	655.7 M	478.3 M	388.9 M
Ending Balance, December 31st	$ 142.8 M	$ 82.5 M	$ (223.8) M	$ (343.3) M	$ (364.4) M

(Includes $50.4M UI Modernization in Collections)
(2009 Projection is as of 09/26/2009)

Arkansas' elected officials need to ask some questions before they write this check.

The Federal Unemployment Tax Act (FUTA), authorizes the Internal Revenue Service to collect a federal employer tax used to fund state workforce agencies. Employers pay this tax annually by filing IRS Form 940. FUTA covers the costs of administering the Unemployment Income and Job Service programs in all states. In addition, FUTA pays one-half of the cost of extended unemployment benefits (during periods of high unemployment) and provides for a fund from which states may borrow, if necessary, to pay benefits.

Here is a start on the questions legislators need to ask:

1. How much money have employers in Arkansas paid in to the fund?
2. How much did FUTA pay to administrate the Arkansas Security Commission?
3. How did that compare to the cost to administrate the program in other states? (in other words did Arkansas subsidize other states inefficiencies?)
4. Where was the remainder of that money spent that Arkansas employers paid in? Or; Did Arkansas subsidize high unemployment in other states since FUTA went into effect?

A complete accounting of the revenues paid into FUTA and the expenditures made by FUTA on behalf of Arkansas needs to be made. Any unaccounted for monies should be deducted from the balance of $300 million. Arkansas should consider freezing loan repayments to the federal government until a proper accounting is made available.

Hiring Freeze

A *MEANINGFUL* hiring freeze for all Classified Full Time Equivalents (FTEs) positions and the elimination of any budgeted FTE positions that have been unfilled for more than six months.

Legislators should look very closely at where the limited funding to the various functions of government goes. Roughly ten percent of any state's public employees are either eligible for retirement or with a proper incentives early retirement plan would retire allowing the state to reduce their costs without massive layoffs. Agencies being closed or downsized because they weren't essential functions of government could have their FTEs moved to existing essential positions vacated by these retirees.

Agencies should be limited to only adding new employees when it is to fill an existing FTE opening resulting from employees retiring, being fired, or leaving for other opportunities. And then only when this FTE position is deemed an essential position to the core functions of government. This allows agencies to still keep all needed positions filled, yet forces them to consider their allocation of FTEs between programs.

State salaries carry with them benefit costs that are disproportionately high when compared to the private sector. For every dollar of salary the state pays additional payments for retirement, fringe benefits and payroll taxes that typically exceed private sector costs significantly. Uncapped growth in salaries and benefits are annualized costs that must be built into base budgets and will increase as seniority and merit raises are added each year regardless of the status of state revenues.

All new hires should be unclassified positions, even when replacing a classified position, thereby giving agency management more flexibility in allowing the dismissal of poor performers.

Commonsense would suggest that all these new hires be required to participate in a defined contribution that will give them the same type of retirement plan that the private workforce enjoys. In the short term millions of dollars would be saved in operating costs by the reduced employer contribution rate of new employees. This would also result over the long term in a significant reduction in the billions of dollars of Unfunded Accrued Actuarial Liabilities in the Arkansas Retirement System's defined benefit plan as new unfunded liabilities will not be accruing to these new employees, making the system more solvent for the state employees currently depending on it for their retirement. Additionally, potentially $100's of millions could be freed up for immediate use if this was conversion was properly structured.

A hiring freeze, incentive retirements for those qualifying and the elimination of unfilled FTEs will have some immediate impact on agency's budgets by providing savings that will help sustain needed programs.

Even with budget cuts, there are ways agencies can fund pay raises for deserving employees. Agency directors should challenge their department managers to propose plans that would result in the consolidation and redistribution of duties. Most employees would agree to take on more responsibility if they were rewarded with higher pay. Just as private industry rewards employees for their productivity, reducing the number of FTE required to perform the same services provides excess funds to split between budget savings and providing pay increases for those employees shouldering increased work loads.

Consolidations and Outsourcing

Private business has learned the savings and efficiencies that can be gained by outsourcing and consolidation of administrative functions and we shouldn't expect any less of our government agencies, which are financed directly or indirectly by Arkansas taxpayers. Accounting, data processing, and administrative support personnel of each agency should be reviewed for consolidation if not outsourcing.

Arkansas taxpayers would receive a savings of at least ten percent of each agency's total administrative budget if support functions such as accounting were consolidated and the layers of highly paid comptrollers and other supervisory positions were eliminated. The savings compounds when you consider the reduction in workspace requirements, computer hardware, software costs and other overhead costs of each of these positions.

Real economic growth is fueled by private business through the products and services they produce and subsequent payrolls they generate. Over time, we believe that state government should be required to introduce competitive contracting and other privatization strategies to programs. Government should avoid competing with private enterprise whenever possible.

Outsourcing functions or forming public-private partnerships should be considered for many programs. The rule of thumb of "If you can find the service in the Yellow Pages government shouldn't be in the business of providing it" is a measure that should be applied to many programs. If deemed appropriate, privatization and sales of unnecessary assets can be made subject to public covenants and contractual restrictions to continue the desired public purpose, while the state, and ultimately the taxpayers, benefit from the savings.

Move State Jobs to Rural Areas

Existing state agency functions should be examined for their suitability for remote office environments. In this day of server-based operations, many private firms have moved jobs not only around the country but overseas. Through the use of Virtual Private Network systems (VPN) we can move state jobs into rural areas.

The VPN technology is safe, economical and battle-tested by tens of thousands of private companies who have used this ability to place their support functions wherever it is most economical. The placement of agency jobs in rural towns would provide an instant economic impact on those communities that received them. State jobs have insurance and retirement benefits that exceed those normally available in the rural counties of Arkansas. State wage scales are really quite good compared to rural per capita incomes and would go a long way towards propping up the economies of those rural communities receiving the jobs.

Not only would rural Arkansas benefit but all Arkansas taxpayers could expect a savings from such a move. A review of government expenditures will usually show a number of capital expenditures related to office space expansion and building renovation. For example on February 18. 2010 the Legislatures Joint Budget Committee signed off on the FY-2011 budget that purchased Dillard's headquarters on Capitol Avenue in Little Rock for $18.5 million with a cost of $140 per square foot. [6]

Our elected officials should consider that rural Arkansas counties contain many fine buildings on their main streets that are either currently vacant or underutilized. The rent on these buildings is significantly less than equivalent office space in Little Rock and might actually be obtained rent free by asking rural towns to compete for these state jobs.

Real Economic Development Funding

The most important difference between private investors and government is that the venture capitalist and small business entrepreneurs risk their own money not the taxpayers. Commonsense would suggest that the best economic growth policy a state can have is a low tax environment without unnecessary government regulation instead of trying to pick winners from Little Rock or Washington D.C.

[6] (http://www.arkansasonline.com/news/2010/feb/19/joint-panel-signs-11-budget-20100219)

Increase Productivity in Government

In the private sector, employers have moved away from defined benefit pension plans and replaced them with defined contribution plans (such as IRAs, 401(k) s, and the like). With the latter, employees retain ownership and control of their own money. Making similar changes at the state level would lower administrative costs and improve both employee welfare and management flexibility. These plans currently carry unfunded liabilities that threaten the long-term fiscal stability of the State. Converting to a defined contribution plan for NEW employees would immediately halt the growth of this debt and provide the state workforce in government the same portability in their retirement plans that privately employed Arkansans enjoy! All new government employees should be placed in a defined contribution plan.

Government accounting, unlike private sector accounting, is not structured to measure how effectively the taxpayer's money is being spent. In the private sector there is a bottom line – net profit – that is a continuing measure of the success of the entity. Government accounting is designed merely to track the sources and uses of funds. Though that is a worthwhile endeavor, it does not give the taxpayer any indication of how well those funds are being spent. One solution is to have every state program not only benchmarked against other states' agency programs, but also against private industries performing similar tasks. These measures must be outcome based so that legislators and taxpayers can see if the program is delivering the benefits that were promised on its inception.

Another recommendation of the Murphy Commission was to adopt performance-based budgeting throughout state government. The flaws in Arkansas' current performance measure approach, known as 'key performance measures' are two fold. First the goals that the approach sets and the measurements used are instituted by the agency themselves. This approach is so obviously flawed that the concept of a performance measure becomes almost meaningless. An agency can defend a program by merely setting measures that are nothing but measures of outputs such as the number of citizens served by the Medicaid program instead of a measurement that chronicles the reduction of childhood diseases relative to a control group in the state's population who are not in the Medicaid program.

Legislators must take it upon themselves to institute a set of performance measures for every program performed by the State.

Every piece of new legislation that creates a program or agency should have these strong outcome-based performance measures attached, but it must go further than just relevant measurements of success. In order to fix the second fundamental flaw in the Arkansas performance budgeting program, each program should be subject to 'punishments' for failing to meet the desired outcomes. For programs with little success, these punishments could be as extreme as to act as a "tripwire" to dismantle the program if it cannot meet standards set by legislators. The resources can then be returned to the taxpayers or allocated to programs that actually produce results. This approach would result ultimately in the paring down of the size of government and more efficient utilization of taxpayer funds as poor performing programs are eliminated.

Viewing State Expenditures in Their Totality

Legislators in the budgeting process should look at the 'bank accounts' of state agencies at fiscal year end. Any unencumbered funds are monies that have no claim made against it and are often referred to as 'carryover'. These unencumbered fund balances often tell a story of waste or excessive funding.

Agencies, departments or programs will often view these as a sort of a savings account. Typically an agency, department or program director will tell legislators that these funds serve two purposes. One, they provide 'float' to allow them to manage the transition between fiscal years and any disbursement delays that come with it. What the bureaucrats don't mention is that their General Fund revenue allocations are disbursed in twelve-month increments. Just as citizens are paid on a regular basis and must budget within those parameters, we should expect our state agencies to be able to live within their allocations.

The second argument that bureaucrats will advance is that these funds provide protection from temporary revenue shortfalls due to economic vagaries. Monies will accumulate in these unencumbered funds during periods of high revenues and then they will be drawn down in periods of falling or stagnant revenues. This is especially true in the area of funds that are tied to tax receipts. Since these funds vary the most as revenues rise and fall, bureaucrats will more aggressively 'save' in these areas.

Allowing agencies to accrue these 'savings accounts' to access during economic downturns ignores the positive impact of the efficiencies that are a natural outcome during downturns within the private sector. In a recession private businesses have to look at their processes and products across the entire spectrum of goods and services to pare costs and increase efficiencies in order to survive. Bureaucrats do not face the same pressures when they have a built-in savings account in their unencumbered funds.

Some of these funds will have legitimate uses but others should be considered as available funds for legislators to use in determining how much to budget to that agency. Rainy Day funds should eliminate the argument of the bureaucrats to use these accounts for 'savings'.

Legislators should look for savings in how transfer money flows through the different levels of government and between agencies. There are costs associated with every transaction that moves these funds and finding and removing duplication and waste will save money at every level of government. For example, Medicaid expenditures are spread through several agencies, which results in additional paperwork and unnecessary overhead. A review of transfer transaction costs to local governments related to the Community Block Development Grant Program should be made. These are federal funds, but each state is given great leeway in the application and acceptance system. A system redesign that results in less bureaucratic review of applications and less time consumed by local communities wading through the paperwork should be considered as well!

Know What Everything Costs Before You Commit

Private citizens and businesses typically do not engage in transactions that they don't have an understanding of the cost and resulting benefits. Mandating that each piece of legislation has an economic impact statement enhances transparency for the general public. Legislators, bureaucrats and special interests who advocate for legislation should be prepared to face an honest inquiry on the cost of the legislation. This 'cost' information should be generated by the legislative staff and be public record for inspection BEFORE a bill is ever advanced to committee. This concept is already being done in other legislatures and it has effectively controlled certain types of hidden spending bills. This budget believes that this is a fundamental system design change that will help legislators make important decisions on legislation that may have long run implications for Arkansas state budgets.

Applying Commonsense in the Short Term

Commonsense would suggest that when your revenues are down that you would limit those expenditures that are controllable. Arkansas taxpayers' incomes are clearly down as witnessed by the continuing drop in tax receipts to the state coffers. It seems only prudent to hold state wages in check while this recession is in place.

When the common citizen is faced with a budget dilemma unnecessary items are typically pared from the budget. Arkansas government agencies should have to do the same. Agencies should remove all out of state travel from state budgets. Travel that agencies deem absolutely necessary can be funded by paring other areas of their budget, just as taxpayers are currently adjusting their budgets.

Again, Governor Beebe and the Arkansas State Legislature should be commended for implementing these measures during the current budget "shortfalls".

Conclusion

We hope that the Americans for Prosperity Five Year Arkansas Overview will prove to be a helpful conversation starter for citizens and elected officials alike.

Arkansas elected officials need look no further than their friends and neighbors to understand that they are not the only ones being asked to make tough budgeting decisions. It is no easy task.

Arkansas elected officials have a historical opportunity to position Arkansas in competition for businesses and jobs ahead of the other 49 states! However without long term budget discipline, Arkansas citizens will be asking themselves in the future, "Why didn't elected officials listen, AGAIN?"

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