10 December 2009 (Updated 15 December 2009)

Dear Arizona Taxpayer:

Arizona Governor Jan Brewer will likely call the Arizona Legislature into special session again this month. Among the items on the agenda is referring a billion-dollar tax hike to state voters.

But the Governor and Legislature do not need to raise taxes to reduce the state's FY 2010 and 2011 deficits. In this document, we identify $760 million in baseline budget reductions and $2.6 billion in one-time revenues for FY 2010. We also identify $3.5 billion in baseline budget reductions and $1.1 billion in one-time revenues for FY 2011.

We wish to acknowledge the help of Byron Schlomach of the Goldwater Institute, Steve Voeller and Michelle Clements of the Arizona Free Enterprise Club, and several members of the Arizona Legislature, in developing this document.

Balancing the state budget without raising taxes will not be easy, in part because present and former Governors and Legislatures failed collectively to make adequate budget reductions in FY 2008 and FY 2009 and to initiate privatizations that could have begun yielding budget savings and generating one-time revenues in FY 2010.

The key to returning Arizona to fiscal health is reduced spending. While private-sector employers and employees have experienced real pain during this recession, large sectors of our state government budget have escaped relatively unscathed, so far. Five of the state's largest government programs—AHCCCS (Medicaid), K-12 education, universities, health services, and economic security—have not seen any significant state-level cuts during the past three years, despite the implosion of Arizona's real estate bubble and the onset of a tough worldwide economic recession. Indeed, the only state-level reduction in any of those five programs during the past three years was a modest (and much-needed) three-percent reduction in K-12 education:

http://www.americansforprosperity.org/112509-big-five-state-govt-programs-are-crying-wolf

For each of the proposals below, we identify the potential deficit reductions for FY 2010 and FY 2011, indicating which reductions are permanent baseline cuts and which are temporary deficit fixes. The list below is not exhaustive. For example, in Options 1-16, we come nowhere near to listing the potential savings in education budgets that are not protected by Prop 105. We have also avoided listing options that would involve spending significantly more money in one area of the budget, in the hopes of saving money in others.

Our purpose is to show that alternatives to tax hikes do exist. Whether the state's authorities can muster the political courage to implement those alternatives is up to Arizona's politicians—and ultimately, up to the people of Arizona.

Tom Jenney, Arizona Director, Americans for Prosperity
Len Gilroy, Director of Government Reform, Reason Foundation

Options for Eliminating Arizona's FY 2010 and FY 2011 Budget Deficits

1) **Restoring the FY 2010 budget reductions vetoed by Gov. Brewer on September 4.** Restoration of the vetoed reductions would go against the budgets of the Department of Economic Security (DES) and the Arizona Department of Education (ADE). **(DONE)**

	FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
DES	$155 million	$160 million
ADE	$144 million	$150 million

2) **Eliminating agencies & programs.** The Legislature and Governor should push forward with an attempt to reduce the budgets of existing state agencies. In addition to big-ticket items such as All-Day Kindergarten (which has only existed since 2005), there are numerous small state agencies and boards that sound good ("Drug and Gang Prevention") but are of questionable value in actually accomplishing their ostensible goals. Other boards and agencies serve mainly to promulgate (and selectively enforce) meddlesome regulations that drive up costs for consumers. Still others are functions (the Arts Commission) that are better left to the profitable and charitable private sectors. The current fiscal crisis should be seen as an opportunity to clear out the deadwood in state government.

In the list below, we assume that all FY2010 funds are half spent, and that reforms go into effect in January of 2010. Our assumption is that fees related to eliminated or downsized boards and agencies should be eliminated in FY2011 (thereby precluding most FY2011 sweeps of non-GF funds) for agencies whose funds are swept in FY2010. Sweep revenues for boards are shown to the nearest $100,000, and are net of the loss of 90-10 contributions to the GF.

Agency/Program Eliminated	FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
Agriculture Dept	$4.5 million	$9.0 million
ADE Full-Day Kindergarten	$100 million	$200 million
ADE Excess Inflation	$0 (MOE)	$150 million
ADE Other (MOE FY10) w/o 105 reform	$50 million	$100 million
AHCCCS/DHS (MOE FY10) w/o 105 reform	$10 million	$400 million

Arts Commission	$0.5 million	$1 million
Career Ladder (K-12)	$20 million	$40 million
Commerce Dept (Half)	$1.5 million	$0
Fire & Bldg (Half)	$0.6 million	$1.2 million
Geological Survey	$0.4 million	$0.8 million
GIITEM (Half) (DPS)	$5 million	$10 million
Hist. Socs. (Privatize)	$0	$4.5 million
State Library (Privatize)	$0	$6.4 million
Liquor Dept (Half)	$0	$0
Mine Inspector (Half)	$0.3 million	$0.6 million
Mines&Minerals (Half)	$0.2 million	$0.4 million
Parks Board (see 4D & E)	$0	$0
Postsecondary Ed (Half)	$1 million	$2 million
Racing Dept	$3 million	$6 million
Radiation Regulatory (1/3)	$0.2 million	$0.4 million
Revenue Dept (1/10)	$2 million	$4 million
Tourism Office	$5 million	$10 million
Universities—move to 90 class credits @ CCs	$0	$100 million
Water Resources (1/3)	$3 million	$6 million
Total GF Savings	**$203 million**	**$1.043 billion**

Agency/Program Eliminated	FY 2010 Budget Sweep Revenues	FY 2011 Budget Sweep Revenues
Acupuncture Board	$0	$0
Agriculture Dept	$6.2 million	$0
Arts Commission	$1.6 million	$0
Board of Barbers	$0	$0
Behavioral Health	$0	$0
Chiropractic Examiner	$0	$0
Commerce Dept (Half)	$15 million	$0
Contractors, Reg. (Half)	$4 million	$0
Cosmetology Board	$0	$0
Drug/Gang Prevention	$0.3 million	$0
Fire & Bldg (Half)	$0.9 million	$0
Fish & Game (Half)	$10 million	$0
Funeral Directors	$0	$0
Gaming Dept (Half)	$5 million	$0
Geological Survey	$0.3 million	$0
Homeopathy Board	$0	$0
Housing Dept/UCP	$20 million	$10 million
Industrial Comm (Half)	$10 million	$0
Insurance Dept (Half)	$6 million	$0
Liquor Dept (Half)	$1 million	$0
Medical Board (1/3)	$0	$0

Naturopathic Board	$0	$0
Nursing Board (1/3)	$0	$0
Occup. Therapy Board	$0	$0
Opticians Board	$0	$0
Optometry Board	$0	$0
Osteopathic Board (1/3)	$0	$0
Parents Commission	$1.9 million	$0
Pharmacy Board (1/3)	$0	$0
Physical Therapy Bd	$0	$0
Podiatry Board	$0	$0
Postsecondary Ed (Half)	$0	$2 million
Priv. Postsecondary Bd	$0	$0
Psychological Exam Bd	$0	$0
Respiratory Care Board	$0	$0
State Boards' Office	$0.1 million	$0
State Board of Tech Reg	$0	$0
Tourism Office	$6 million	$0
Transportation Admin (1/3)	$7 million	$0
Transportation Hwy Ops (1/3)	$100 million	$0
Transportation DMV (1/3)	$30 million	$0
Veterinary Med. Board	$0	$0
One-Time Revenues	**$225 million**	**$12 million**

Below are some general guidelines for how to achieve greater agency savings.

Reduce personnel

One key strategy for the Legislature to pursue is to use the budget to reduce the workforce at Arizona's state government agencies by funding specific FTE (full-time equivalent) positions in the budget, so that excess managers cannot be reinstated by way of line-item veto. Consider the recent testimony of former Arizona Department of Transportation researcher John Semmens, as published in the *Arizona Republic*:

> After spending 32 years in the Arizona Department of Transportation bureaucracy, I can attest to the presence of waste and sloth easily exceeding 15 percent. I estimate that this one agency is over-staffed by about 100 percent. That is, all the existing work could be accomplished by half the personnel. If unnecessary tasks were also eliminated, we could get by with about one-third of the present workforce at ADOT. I am confident that an industrial-engineering-style work-measurement audit [of the whole state government] would illuminate a huge amount of potential saving (billions of dollars every year)...

Avoid the pitfalls of lump-sum reductions

For the FY 2009 budget fixes passed in January, and for the tentative FY 2010 budget passed this summer, the Legislature and Governor enacted several lump-sum reductions of agency budgets. In theory, that should be a good way to go about cutting budgets—in an ideal world, agency directors should be able to manage budget reductions in a way to maximize value for beneficiaries of government services. In practice, however, agency directors given lump-sum reductions often play a cynical political game of putting popular or sensitive programs on the chopping block, or raising fees to astronomical levels, and hoping that the public backlash will force the Legislature to restore funding.

Thanks to the policy of lump-sum reductions, we have seen the political spectacle of the former Department of Economic Security director pretending that Child Protective Services did not have enough money to pursue child-abuse cases, and we have seen the current Department of Health Services director attempt to increase preschool licensing fees by as much as 8,000 percent to sustain regulation that is of questionable efficacy in promoting quality and safety in Arizona's preschools. And we have seen ADOT close highway rest areas, even though rest areas have been run by private concessions in several other states for decades.

While it is easier to get bills passed in the Legislature with lump-sum reductions (by avoiding specific line-items, the Legislature can sometimes avoid rousing the defenses of the interest groups directly affected by the proposed line-item reductions), the Legislature thereby forfeits the power to manage reductions in a way that is best for policy and for tactical politics. Another problem with lump-sum *reductions* is that they can be line-item vetoed by the Governor…

3) **Formula reductions following Prop 105 reform.** Assuming that voters approve Prop 105 reform on a March 2010 ballot, and assuming the FY2010 monies in question have not already been spent by the relevant departments (mainly K-12 education, AHCCCS and programs funded by First Things First), the Legislature and Governor *could* make substantial revisions to formula spending that is currently on autopilot—that is, if they can actually summon the collective political will. One of the current estimates floating around the Legislature suggests $400 million in reductions for FY 2010 and $600 million in FY 2011. We are assuming only half the potential FY 2010 reductions could be realized in time for savings during this fiscal year, without putting the state in violation of federal maintenance of effort requirements.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$200 million	$600 million

4) **Asset sales and private concessions.** Arizona should sell state assets through open, competitive bidding, and bid out state functions to long-term private concessions. In the interest of creating long-term reductions to budget baselines, we are mainly proposing actual asset *sales*, not sell-leaseback schemes. In looking at asset sales, we recommend that the state offer potential buyers very wide latitude in the use of the acquired assets—including preemption of existing local zoning and land-use ordinances. Likewise, when looking at privatizing state functions, it is crucial that bids for potential private concessionaires include options to build new facilities and otherwise increase the utility of the existing state functions. It is important to take adequate time to auction assets in a transparent way, and to design concession bids carefully, so the overwhelming bulk of the sales and concessions would not go into effect until FY 2011.

4A) **Sell the Papago Park Military Reservation.**
Projected FY 2011 Revenue: $480 million

The state should sell the Papago Park Military Reservation (PPMR) for commercial or residential development, and move the National Guard facilities to state lands beyond the metropolitan area—possibly closer to the border with Mexico. The PPMR sits on some of the best real estate in the entire Valley, right next to the scenic Papago Buttes and the Papago Municipal Golf Course, and within easy hiking range of the Phoenix Zoo and the Desert Botanical Gardens. Even in today's market, an open, competitive bidding process could yield revenue of a million dollars an acre, or $480 million for the entire 480 acre parcel—on top of environmental remediation costs.

One big hurdle is getting the Federal Government to release the PPMR—though the main obstacle in Congress (the reason for the existence of the Base Realignment and Closing Commission), is that most members of Congress are reluctant to sell bases. If selling the PPMR proves popular to a center-right/center-left coalition in the Legislature (since it involves privatization, moving the Guard closer to the border, and raising money for education and health services), that could prove decisive in moving the matter rapidly through Congress.

4B) **Sell the Santa Rita Experimental Range.**
Projected FY 2011 Revenue: $250 million

The Santa Rita Experimental Range is 50,000 acres east of Green Valley that was set aside by the federal government in 1904 for the purpose of studying sustainable range practices. In the 1988 the federal government turned it over to the Arizona State Land Department. It was designated for "ecological and rangeland research purposes… until such time as the legislature determines the research can be terminated on all or parts of the lands." The Arizona Legislature has the power to sell the land to private development, as it is not part of the main corpus of state trust land. It is beautiful land, in the foothills of the Santa Rita Mountains, and close to Madera Canyon. Open, competitive bidding could yield revenue of at least $5,000 dollars an acre, or $250 million for entire parcel, even in today's depressed market.

4C) **Sell an operating concession for the Grand Canyon Airport.**
Projected FY 2012 Revenue: $150 million

The state could sell an operating concession on the Grand Canyon Airport to a private enterprise. If the private enterprise granted the long-term concession is allowed to enhance the facility by extending the runways, modernizing ATC, and building amenities adjacent to the airport, those factors could greatly increase usage of the facility, and also the state's revenue from the initial (open) competitive bidding process. If a potential operator believes the concession's contribution to its future income will be to generate $10 in net income for per passenger, and if the operators believes it can increase the number of passengers to an average of 2.5 million passengers annually for 30 years, it should be willing to pay $150 million up front to obtain the concession (assuming it has an opportunity cost of 7 percent). The contract should be structured so as to protect the investments of existing FBOs. Unfortunately, FAA procedures would likely delay privatization into FY 2012 or beyond. The state could get significantly more up-front money on a longer-term concession.

4D) **Sell an operating concession for lakeside hotels and marinas on Lake Havasu.**
Projected FY 2011 Revenue: $120 million

The state could sell operating concessions in Lake Havasu State Park to private hotel companies, allowing them to build and operate hotels for a period of time, and build and operate their own marinas. With Mexico perceived as becoming increasingly dangerous, LHC could become even more of a spring break destination for the Southwest. If the hotels believe that the concessions would contribute $20 million annually in net income from operations on 5,000-plus rooms over a 30-year period, they should be willing to pay at least $120 million up front to obtain the concessions (assuming they have an opportunity cost of 7 percent). Again, this should be done through an open, competitive bidding process. The state could get significantly more up-front money on longer-term concessions. Similar concessions could be—and should be—worked out for most of Arizona's state parks, saving at least **$20 million** in general fund parks expenditures, beginning in FY 2011.

4E) **Sell an operating concession for Kartchner Caverns.**
Projected Revenue: $10 million

The state could sell an operating concession on Kartchner Caverns to a nonprofit. The state parks system currently earns $2,500,000 a year in revenue on the caverns. If the nonprofit granted the long-term concession is allowed to enhance the facility by building a lodge, opening environmental education/outdoor recreation schools, etc, that could greatly increase the state's revenue from the initial (open) competitive bidding process. If the nonprofit's managers believe that the concession's contribution to its future income will be to generate $1 million annually in net income from operations over a 30-year period, it should be willing to pay at least $10 million up front to obtain the concession (assuming that it just wants to break even after inflation). The contract should be designed and overseen by Arizona State Parks so as to stay committed to the original Tufts-Tenen vision of protection through development. Similar concessions could be—and should be—worked out for most of Arizona's state parks, saving at least **$20 million** in general fund parks expenditures, beginning in FY 2011.

4F) **Sell an operating concession for the State Fair Grounds**
Projected Revenue: $120 million

The state could sell an operating concession for the State Fair Grounds, including the Coliseum. The main problem with previous proposals to sell the property is the assumption that the concessionaire would have to run the Fair Grounds in exactly the same way that the state government currently runs it. But there is a lot of flexibility within the terms of the covenant for the property. If the state were to pre-empt zoning restrictions and excessive regulatory meddling on the part of the City of Phoenix, a private hotel company could put a luxury facility on the site and greatly increase the utility of the fairgrounds--to fair-goers and others. If a hotel believes that the concessions would contribute $20 million annually in net income from operations over a 30-year period, they should be willing to pay at least $120 million up front to obtain the concession (assuming they have an opportunity cost of 7 percent). The state could get significantly more up-front money on a longer-term concession.

4G) **Sale-Leaseback of State Buildings**

We are not enthusiastic about sale-leaseback schemes, which often end up costing the state more in the long run. For a critique of Arizona's sale-leaseback schemes, go here:

http://reason.org/news/show/selling-state-buildings-in-ari

For better or worse, this option is already on the table, and scored at $200 million for FY10.

Summary of Section 4 Asset Sales

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$20 million (parks)

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$200 million	$980 million

5) **Expanding the use of corporate tuition tax credits.** Every child who leaves the government school system via STOs (school tuition organizations) eventually saves the state/local ed system more than $5,000 (net of the lost revenue). But as the *Arizona Republic* has recently reported, many STOs have had trouble getting enough applications from students whose families qualify for the present income limits. The Legislature and Governor could immediately raise the income threshold for scholarship recipients, and raise the global limit for the total amount of corporate tax credit scholarships. To accelerate the cost savings to the state, the Legislature and Governor could also remove the provisions shielding district schools from immediate revenue reductions due to declining ADMs ("Rapid Decline"). If we move 10,000 more kids to independent school through aggressive promotion of the credits, that could save the state $50 million in FY11.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$50 million

6) **Allowing parents to exercise personal use tuition tax credits.** Every child who leaves the government school system via STOs (school tuition organizations) eventually saves the state/local education system more than $5,000 (net of the lost revenue). The Legislature and Governor could immediately allow parents to take an income tax credit of $4,000 for every child they remove from district schools. To accelerate the cost savings to the state, the Legislature and Governor could also remove the provisions shielding district schools from immediate revenue reductions due to declining ADMs ("Rapid Decline"). If we move 10,000 more kids through aggressive promotion of personal use credits, that could save the state $50 million in FY11.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$50 million

7) **Voucherizing higher education.** The Goldwater Institute's high-end estimates of savings suggest that the state government could eventually save $6,000 per student by voucherizing higher education. The short term savings would not be that much, but if we move 5,000 students in the first year with savings of $4,000 each, the state could save $10 million. In future years, we could accelerate the movement of students into private higher ed programs.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$10 million

8) **Moving state employees to Health Savings Accounts with high deductibles.** By doing so, the state could keep DOA health expenditures from going up $100 million annually, as they did in FY 2009, and reduce baseline health costs for the state. The Goldwater Institute estimates that a big move toward HSAs could generate $75 million in GF savings for FY 2011.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$75 million

9) **Outsourcing civil law enforcement.** The Goldwater Institute projects that outsourcing in this area could yield at least $20 million in annual savings.

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$0	$20 million

10) **Suspending or eliminating unnecessary tax credits.** There are over 30 income tax credits listed by the Arizona Department of Revenue. One test for determining whether a tax credit is necessary is to ask whether it serves to introduce competition into a sector of the economy dominated by government provision of services, as the Student Tuition Organization (STO) credit does. Another test is to ask if the tax credit is designed to avoid double-taxation by different governments. The state could restore $40 million alone by eliminating the Extra Curricular Activities tax credit. If Arizona removes all special-interest tax credits, it could remove $100 million in tax credits in FY 2011. (However, we would prefer to offset those potential increased revenues with across-the-board pro-growth cuts in key tax rates.)

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$0	$0

11) **Having school districts spend unencumbered balances (balances they cannot legally spend), and reducing state aid proportionally.** As a very rough projection, we estimate that school districts will end FY 2010 with unencumbered balances of $50 million that can be carried forward into FY2011.

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$0	$50 million

12) **Releasing nonviolent drug offenders from Arizona's state prisons.** In response to Gov. Brewer's query on budget reductions, the Arizona Department of Corrections told the *Arizona Republic* that the state might have to reduce "the mandatory time served for most serious felonies, including rape and murder, to 50 percent, and less serious felonies to 25 percent." But releasing violent felons poses a real threat to public safety, and would be very politically unpopular (which is precisely why the ADC floated that rhetorical balloon—to put pressure on the Legislature to avoid cutting the overall ADC budget). A more realistic and much less dangerous alternative would be for the Governor, with the careful assistance of the Board of Executive Clemency, to unilaterally release nonviolent drug offenders who have no violent prior offenses and who did not plead down from violent offenses. About 20 percent of Arizona's prison population is made up of drug offenders, but at least half of those have violent priors, or have plead down from violent offenses. Combined with savings to the court system, the release of adult nonviolent drug offenders could save the state corrections system over $100 million annually. Release of juveniles in the same category could save juvenile corrections at least $10 million annually. The Legislature could then reduce GF judiciary budgets by at least $10 million annually. (Given the Arizona electorate's approval of past drug-related ballot propositions, this proposal promises to go over better with the general public than any attempt to release violent felons.)

FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
$60 million	$120 million

13) **Collateralizing future state lottery and tobacco settlement receipts.** Using estimates of $500 million for GF-designated lottery securitization and $700 million for GF-designated tobacco settlement securitization, the combined total could be $1.2 billion. We are not enthusiastic about collateralizing existing revenue streams, but these proposals are already on the table at the Legislature.

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$1.2 billion	$0

14) **Collateralizing future receipts from allowing the operation of racinos.** Currently, horse and dog tracks in Arizona are not allowed to operate slot machines and other games. One proposal at the Legislature is to allow tracks to become "racinos," combining racing and gaming. The House sponsor of the racino legislation estimates that Arizona could bring in $1 billion up front by securitizing a $100 million annual stream of revenues from allowing racinos to operate. (State revenues currently gained from gaming on Indian reservations would be in jeopardy, but those revenues are not available for general fund purposes.)

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$1 billion	$0

15) **Collateralizing future receipts from allowing operation of the Rosemont copper mine.** (UPDATED 12-15-09) If the Arizona Legislature and Governor were to back the opening of the embattled Rosemont copper mine in the Santa Rita Mountains southeast of Tucson, the state government could collateralize some of the future tax revenues. An ASU report projects tax revenues for Pima and Santa Cruz counties alone at $306 million over the life of the mine (http://www.rosemontcopper.com/assets/docs/Economic%20Impact%20Report.pdf). The company projects total state severance tax revenue at $100 million. Support of the Legislature and Governor could prove decisive in overcoming local opposition and federal dithering to get the mine opened (and provide jobs to hundreds of Southern Arizonans in sectors of the economy impacted by the mine). If so, the state government could gain $25 million in present value against future mine revenues, including: A) projected severance revenues; B) $100 m in revenues diverted from Pima and Santa Cruz counties, as a bonus for overcoming the failure of those governments to approve the project; and, C) possible new taxes levied on the mine (normally, we are not in favor of levying new taxes, but as with Option 14, this would be a tax on an activity that is currently prohibited by government—i.e., the current tax could be considered infinite).

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases	
$0	$25 million	(UPDATED 12-15-09)

16) **Creating a state privatization/efficiency council to advance competitive contracting.**

Arizona policymakers should embrace privatization and competitive contracting of government services, which can lower the costs of service delivery by between 10 to 25 percent, on average. A key lesson learned from global experience in privatization is that it works best when governments develop a centralized, independent decision-making body to manage privatization and government efficiency initiatives. Arizona should follow the lead of innovative states like Florida by creating a Council on Efficient Government designed to serve as the enterprise-wide gateway for best business practices in competitive contracting and standardize how the state identifies and conducts competition initiatives (i.e., a state "center of excellence" in privatization).

Florida's Council on Efficient Government was developed in 2004 during former Governor Jeb Bush's tenure and was a key component of a strategy that ultimately helped his administration realize over $550 million in cost savings through over 130 privatization and competition initiatives. And in 2008 alone, the Council evaluated 28 new business cases for potential agency outsourcing projects with a cumulative value of over $244 million, identifying over $53 million in projected savings to the state. Having a Florida-style Council on Efficient Government in place would facilitate the regular, wholesale review of state government activities with an eye toward right-sizing government through competition and privatization. But at the same time, it recognizes that successful privatization requires a high standard of due diligence and oversight in contracting. Hence the Council would be responsible for establishing a standardized method for procuring and managing contracts in order to maximize accountability, transparency and competition in order to deliver the best value for taxpayer money.

Altogether, a sound privatization policy framework is essential to maximizing cost savings and value for money in the delivery of state services. Experience from Florida, Virginia and Utah—who have each implemented versions of the privatization "center of excellence" concept—also suggests that this approach has increased the public's confidence and has mitigated perceptions of impropriety, a common public perception concern with any privatization initiative. Further, having a dedicated unit manage the process on an enterprise-wide scale ensures that the benefits of lessons learned and best practices are shared among agencies.

FY 2010 Budget Revenue Increases	FY 2011 Budget Revenue Increases
$?	$?

17) **Charterizing Arizona's district schools.** This reform involves mandating that all district schools operate as non-profit charter schools governed by existing school boards, beginning in FY 2011 (the 2010-2011 school year). The state government would have to pool all local, state, and federal school revenues and distribute them on a per-pupil basis. Given the existing "two bucket" funding formula structure, existing property tax rates could be frozen for two years, pending the creation of a uniform statewide rate. The $1.6 billion savings figure is derived from the difference between average per-pupil resources going to Arizona district schools ($9,707) and average per-pupil resources going to charter schools ($7,844) in FY 07-08. (We also assume the need for $150 million in oversight costs for ADE and ADOR to manage the transition.) To maximize gains in student achievement, the new charter schools should be allowed the same management independence and (relative) freedom from state regulations prevailing at existing charter schools today. Further, governing boards should be allowed to raise additional revenues by selling physical assets they consider to be unproductive.

This type of reform is starting to gain mainstream support nationally. Hawaii and Nevada have already begun to implement similar reforms at the state level, as have major urban school districts in cities like New York City, Baltimore and Oakland. For more details on these reforms, see Reason Foundation's 2009 report, *Weighted Student Formula Yearbook 2009*, available at http://reason.org/news/show/1007452.html.

	FY 2010 Budget Baseline Reductions	FY 2011 Budget Baseline Reductions
GF Savings	$0	$1.6 billion
Net of Option 3	$0	$1.2 billion

Total One-Time Deficit Reductions for FY 2010, Options 1-17	**$2.6 billion**
Permanent Baseline Reductions, FY10, Options 1-17	**$762 million**
Total One-Time Deficit Reductions for FY 2011, Options 1-17	**$1.1 billion**
Permanent Baseline Reductions, FY11, Options 1-17	**$3.5 billion**

Chart showing Options 1-17, Updated 12-15-09:

URL: http://www.americansforprosperity.org/files/deficitoptions121509.pdf

18) **Discontinuing AHCCCS (Medicaid) in FY2014.** Arizona's participation in Medicaid is voluntary, under the Title XIX amendments to the Social Security Act of 1965. In fact, Arizona chose to not participate in Medicaid until 1982. If one of the versions of ObamaCare is enacted by Congress, Arizona could discontinue AHCCCS in FY2014, at which time persons on AHCCCS would be eligible to purchase (heavily regulated/mandated) private insurance through the federal government's new "health insurance exchange" and would receive full federal subsidization. Government rationing of health services is a bad thing, but due to economic realities, government rationing will inevitably come to Arizona's AHCCCS population, whether that population remains in AHCCCS or joins a heavily-regulated plan on the federal exchange. Discontinuing AHCCCS in FY 2014 would save the Arizona government $3 billion in General Fund expenditures annually—and possibly much more, depending on how heavy the unfunded ObamaCare mandates turn out to be.