

# AMERICANS FOR PROSPERITY

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8 January 2008

Dear Arizona Legislator,

Arizona government is facing the most severe fiscal crisis in state history. In proportional terms, we face the biggest budget deficit in the nation. This “Napolitano Deficit” was caused by rampant overspending during the past six years.

Gov. Napolitano’s tendencies toward overspending were aided and abetted by the lack of fiscally conservative majorities in the Legislature, constant cheerleading in opinion and editorial pages for increased spending, and intense lobbying by tax-taker interest groups. Those factors allowed Napolitano and her allies to increase the state budget by 59 percent from FY 2004 to 2008, compared to an economy that grew by 42 percent, and population and inflation, which grew by 30 percent. Rapid budget growth pushed spending to unsustainable levels. When the economy began to flag and revenues began to shrink, the result was massive budget deficits.

Arizona government in FY 2010 will have approximately \$11.5 billion in general fund spending commitments (including formula spending increases and K-12 rollovers), but the JLBC expects general fund revenue to be around \$8.3 billion. The state government is looking at a structural deficit for FY 2010 of around \$3.2 billion, if no corrections are made to the FY 2009 budget.

Thanks in large part to grassroots activism, Arizona voters in November elected majorities of state legislators who either scored very well on last year’s AFP Arizona Legislative Scorecard, or who have pledged to not raise taxes. And, thanks to President-Elect Obama, Gov. Napolitano will soon leave Arizona. With Secretary of State Jan Brewer taking Napolitano’s place, and with a new Legislature, Arizona has an extraordinary opportunity to enact responsible fiscal policies and return our state to the path of economic prosperity.

The new political balance gives Arizona a unique opportunity to become a beacon of economic freedom and sound fiscal policy to the entire country. At the same time that other state governments and the national government are sliding rapidly downhill toward continued deficits and growth-killing tax increases, Arizona can emerge as a strong counter-example. Arizona can balance its budget without tax increases, accounting gimmicks, unconstitutional debt, or federal handouts. Arizona can reduce government benefits in real terms, focusing financial assistance on the truly needy, while motivating able-bodied workers to find gainful employment. Arizona can preserve and enhance the flexibility of its labor market, allowing it to absorb displaced workers. Arizona can achieve efficiencies in the delivery of government benefits, while eliminating waste, fraud, and abuse. And, most importantly, Arizona can turn over to the private sector many activities currently conducted in an inefficient manner by government agencies.

If it pursues those policies in earnest, Arizona will emerge from this economic downturn much stronger than other states, attracting employers and workers from around the nation, and investment capital from around the globe.

The Arizona chapter of Americans for Prosperity has set forth a Reform Arizona Plan to reduce the gigantic state deficit, prevent tax increases, avoid taking on debt that will hurt future taxpayers, and implement reforms to bring government spending under control for the long term. (Plan elements are summarized on the last two pages of this memo.) AFP Arizona has incorporated the elements of the Reform Arizona Plan into its 2009 Legislative Scorecard, and has set a high bar for achievement by the new Legislative leadership and the new Governor.

Below is a scoring guide for AFP Arizona's 2009 Legislative Scorecard.

<b>Reform Element</b>	<b>Base Score--Dollar Impact</b>	<b>AFP AZ 2009 Scorecard</b>
Spending reductions, FYs 2009 and 2010*	2,500	<b>2,500</b>
Personal Income Spending Limit (6.5% = max points)*	500	<b>1,000</b>
Prevent Property Tax Increase	250	<b>250</b>
Local Govt Transparency	NA	<b>50</b>
Treasurer Budget Certification	NA	<b>50</b>
Education Tax Credit Bills**	50	<b>100</b>
Interstate Health Insurance**	50	<b>100</b>
P3s for Highway Projects**	100	<b>200</b>
Labor--Paycheck Protection/Preserving Ballot Privacy**	50	<b>100</b>
Other fiscal and regulatory bills coming to floor votes***	300 (?)	<b>300 (?)</b>
Total, All Bills	3,800	<b>4,650</b>
Positive Scale, Total Points	7,600	<b>9,300</b>

\*The votes on budget reductions and on the spending limit referendum will be scored proportionally, so as to encourage legislators to vote in favor of the best bill that can pass. \$2.5 billion is the approximate gap between projected FY 2010 expenditures and the baseline established by population plus inflation since the previous recessionary trough.

\*\*The weighting for AFP Arizona's key bills is subject to change, based upon the projected dollar impact of the bills when they reach third read or final votes. The 2009 Scorecard will also allow for substitute key bills in each policy area, with adjustments for the projected annual dollar impact and long-term impact on policy reform.

\*\*\*AFP Arizona will email memos to the Legislature and Governor regarding major fiscal policy bills that emerge, and scoring information will be provided to legislators upon request.

To better understand how AFP Arizona's scoring system works, assume that non-key bills are worth 300 points, and that Legislator X has the following voting patterns during the Session:

<b>Reform Element</b>	<b>Action Taken by Leg X</b>	<b>AFP AZ 2009 Scorecard</b>
Spending reductions, FYs 2009 and 2010	Votes for \$1.5 billion in net spending reductions	<b>1,500 (out of 2,500)</b>
Personal Income Spending Limit (6.5% = max points)	Votes to refer a personal income limit set at 6.8% = 200	<b>400 (out of 1,000)</b>
Prevent Property Tax Increase	Votes to prevent increase	<b>250</b>
Local Govt Transparency	Votes in favor	<b>50</b>
Treasurer Budget Certification	Misses vote	<b>0</b>
Education Tax Credit Bills	Votes in favor	<b>100</b>
Interstate Health Insurance	Votes against	<b>-100</b>
P3s--State Highway Projects	Bill fails to make floor vote	<b>-200</b>
Labor--Paycheck Protection/ Preserving Ballot Privacy	Bills fail to make floor votes	<b>-100</b>
Other fiscal and regulatory bills coming to floor votes	w/ AFP 75%, against 25%	<b>(+225 -75) = +150 (max 300)</b>
Total, All Bills	(add 4,650 for positive scale)	<b>(2,050+4,650)/9,300 = 72%</b>
Positive Scale, Total Points	Scorecard Designation	<b>Friend of the Taxpayer</b>

There is one major difference between the 2009 scoring method and the scoring method used in the AFP/AFT Scorecards issued from 2005 to 2008. In the past, the sponsors of key bills that failed to reach floor votes received positive points, while all other legislators received negative points. Given the greater probability of passing good legislation in the 49th Legislature, all Legislators (and the Governor) will receive negative points for key bills that fail to reach floor votes during the Session, with no positive points for sponsors.

The Scorecard Designations for the 2009 AFP Arizona Scorecard will be as follows:

<b>Point Totals on Positive Scale</b>	<b>2009 Scorecard Designation</b>
90-100 %	Hero of the Taxpayer
80-89 %	Champion of the Taxpayer
70-79 %	Friend of the Taxpayer
60-69 %	Adequate
50-59 %	Needs Improvement
30-49 %	Friend of Big Government
10-29 %	Champion of Big Government
0-9 %	Hero of Big Government

## **Reform Arizona Plan—Elements in AFP Arizona’s 2009 Legislative Scorecard**

1) **Spending Reductions.** In FYs 2009 and 2010, to bring the state budget into striking distance of structural balance, the Governor and Legislators need to reduce spending by at least \$2.5 billion, without relying on accounting gimmicks, revenue enhancements, federal handouts, or borrowing. Enacting 25 percent reductions to all government agencies other than law enforcement would take Arizona back to FY 2005 spending levels, with per-recipient amounts reduced to FY 2004 amounts. That could mean a reduction in real government benefits to 2003 levels. For the last five years, government has spent money at unrealistic rates, and it is now time to get back to reality. The size of the Napolitano Deficit is now over \$1,000 per Arizona household. We must not force taxpayers (now, or in the future) to pay for the government’s spending problem. Also, Arizona Legislators should not allow themselves to be lured into accepting a federal bailout, or creating general-obligation bonds. Federal “help” will come with policy strings attached (such as Real ID, NCLB, and Medicaid mandates), and debt financing is a recipe for long-term, California-style fiscal distress.

(The Legislature and Governor must determine how to get to \$2.5 billion in spending reductions in FYs 2009 and 2010, but one possibility is to send a spring referendum to the voters to get permission to temporarily suspend voter-mandated automatic spending increases during the declared fiscal emergencies in FYs 2009-2011. Model bill: HCR 2044 from 2008.)

2) **Personal Income Spending Limit.** Send to the 2010 ballot a referendum changing the personal income spending limit in the AZ Constitution from 7 percent to 6.4 percent. The model bill is HCR 2038 from 2008, with two new additions: a taxpayer standing clause for judicial enforcement, and a provision for the immediate refund of excess monies to taxpayers. This spending limit is not as stringent as the Taxpayer Bill of Rights (which is based on population-plus-inflation), but it would keep the government from growing much faster than the private economy, thereby preventing massive future budget deficits. Lead sponsor: Sen. Russell Pearce.

3) **Prevent Tax Increases.** Most important: prevent the return of the state equalization property tax. If the Legislature and Governor do nothing, there will be an automatic property tax increase of \$100 per household. Lead sponsor: Sen. Jim Waring.

4) **Local Government Transparency.** By 2010, taxpayers should be able to go online and review every disbursement made by every political entity in the state of Arizona. Arizona passed a state-level transparency bill back in June, but we must now ensure that every government in Arizona has open books. Lead sponsors: TBA

5) **Treasurer Certification of the Arizona Budget.** Enact legislation requiring the Arizona Treasurer to certify whether the state budgets are in legal compliance with the constitutional requirement for a balanced budget and with the state’s constitutional spending limit. Lead sponsors: TBA

6) **Education Tax Credit Bills for School Choice.** Children who leave government district schools and go to private schools save the state money—and greatly improve their odds of getting a good education. AFP Arizona urges legislators to eliminate the sunset for the corporate tuition tax credit, make it easier to contribute to the existing personal and corporate tax credits, and enact a personal use credit for parents who pay for their own children’s education. Model bills: HB 2098, 2101, et al, from 2008. Lead sponsors: Sen. John Huppenthal, Rep. Steven Yarbrough.

7) **Interstate Health Insurance.** We must allow Arizona consumers to have access to cheaper insurance plans available in other states. Making private health insurance more affordable through interstate competition and commerce will help to keep the working poor out of government-subsidized health plans such as AHCCCS (Medicaid). Lead sponsors: Sen. Thayer Verschoor, Rep. Frank Antenori.

8) **Private Financing for Future Statewide Transportation Projects.** For Arizona’s future transportation infrastructure needs, the only viable alternative to a massive tax increase (which would mean billions wasted on light rail and other transit boondoggles) is to allow private companies to finance, construct, operate and maintain new road capacity. Lead sponsor: Rep. Andy Biggs. (For public-private partnerships—P3s—in other areas of state government, we should create a Florida-style Council on Efficient Government to identify privatization opportunities and assist government agencies in developing business plans for privatization.)

9) **Labor Reform: Preserving Ballot Privacy.** Flexible labor markets will ensure that the Arizona economy can create new job opportunities, increase the productivity (and hence, the wages) of labor, and absorb workers displaced by technological changes and international competition. Unfortunately, the new Congressional majority seeks to abolish the protections that currently allow workers to vote in private on questions of union representation. Arizona must do what it can to preserve ballot privacy. The referendum bill is now called the Protecting the Fundamental Right to a Secret Ballot Act. Lead sponsor: Sen. Jonathan Paton. (Paycheck protection legislation would be a compliment to and/or substitute for this key bill.)

10) **Other Fiscal/Regulatory Bills.** Every year, AFP Arizona includes dozens (and since 2005, hundreds) of bills in its Legislative Scorecards, weighting them according to their projected impact upon taxpayers, producers and consumers. In general, AFP Arizona assigns one value point for every \$1 million of projected annual impact, with multiple values given to bills that represent important shifts in public policy.

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