

CPI CAP WOULD HAVE SAVED \$900 MILLION

"A short-term budgetary link should be established between ... CPI and total operational expenditures by agencies." Efficiency Project, 2016

(November 2019) The Policy Foundation's Efficiency Project (2015-16) examined multiple variables at state agencies including a Consumer Price Index analysis.¹ Spending at nine agencies exceeded CPI from 2009 to 2015.²

Handful of State Agencies Drive Spending

The following chart shows "actual spending" since the Efficiency Project:

	<u>FY 2015³</u>	<u>FY 2017⁴</u>
Human Services	\$7,129,762,956	\$8,119,742,316
Education	\$3,457,588,679	\$3,538,856,863
Finance and Administration	\$985,935,822	\$936,111,805
Correction	\$375,658,284	\$394,693,793
Health Department	\$370,387,770	\$297,240,574
Workforce Services	\$460,258,462	\$242,408,730
Career Education	\$136,641,334	\$143,431,425
Parks and Tourism	\$98,584,451	\$104,611,478
Community Correction	\$89,680,879	\$103,470,371
Economic Development	\$45,589,380	\$85,892,004
Information Systems	\$64,801,776	\$67,400,063
Military	\$60,832,606	\$62,251,106
Insurance	\$57,736,238	\$55,334,248
Environmental Quality	\$51,888,439	\$47,234,953
Agriculture	\$44,167,159	\$44,993,424
Emergency Management	\$39,812,016	\$27,905,617
Higher Education	\$13,066,990	\$20,722,787
Veterans Affairs	\$11,605,581	\$20,444,445
Heritage	\$18,165,321	\$17,982,488
Assessment Coordination	\$17,430,818	\$17,547,052
Aeronautics	\$9,597,094	\$14,458,696
Bank Department	\$7,693,381	\$8,129,524
Labor	\$6,486,450	\$6,062,645

¹ A CPI spending cap incentivizes officials to search for efficiencies in a low-inflation environment. The goal is not unrealistic: operational expenditures *declined* at 13 agencies between FY 2014 and FY 2015.

² Community Correction, Correction, Econ. Dev., Education, Environmental Quality, Health, Insurance, Military, Veterans Affairs.

³ FY 2015, <https://www.dfa.arkansas.gov/images/uploads/budgetOffice/fy2015ActualExpenditures.pdf> (Total Op. Expenditures)

⁴ FY 2017, <https://www.dfa.arkansas.gov/images/uploads/budgetOffice/fy2017ActualExpenditures.pdf> (Total Op. Expenditures)

CPI increased 2.6% in the 2015-17 period.⁵ The following chart shows "actual spending" exceeded⁶ CPI at 11 state agencies:

	<u>2015-2017</u>
Workforce Services	-47.3%
Emergency Management	-30.0%
Health Department	-19.7%
Environmental Quality	-9.0%
Labor	-6.5%
Finance and Administration	-5.1%
Insurance	-4.2%
Heritage	-1.0%
Assessment Coordination	0.7%
Agriculture	1.9%
Military	2.3%
Education	2.4%
CPI	2.6% ⁷
Information Systems	4.0%
Career Education	5.0%
Correction	5.1%
Bank Department	5.7%
Parks and Tourism	6.1%
Human Services	13.9%
Community Correction	15.4%
Aeronautics	50.7%
Higher Education	58.6% ⁸
Veterans Affairs	76.2%
Economic Development	88.4%

Role of Human Services

The most significant spending increase in the period was at the state Department of Human Services, where actual spending was \$8.1 billion in FY 2017. Actual Human Services spending increased 13.9% from FY 2015 to FY 2017. The savings to state taxpayers would have exceeded \$800 million if Human Services spending had equaled CPI in the period.

⁵ <https://www.bls.gov/cpi/>

⁶ Spending at 12 agencies was less than CPI from 2015 to 2017. Spending was less than CPI at 11 agencies in the 2009-15 period: Aeronautics, Agriculture, Assessment Coordination, Career Education, Emergency Management, Finance and Administration, Higher Education, Heritage, Labor, Parks and Tourism, Workforce Services

⁷ <https://www.bls.gov/cpi/>

⁸ Spending at Institutions of Higher Education increased 3% in the 2-year period.

Effect of CPI Spending Cap

The following chart shows how a CPI spending cap would have saved tax dollars in the two-year period.

	<u>Savings</u>
Human Services	\$804,605,523
Economic Development	\$39,117,300
Community Correction	\$11,457,789
Correction	\$9,268,394
Veterans Affairs	\$8,537,119
Higher Education	\$7,316,055
Aeronautics	\$4,612,078
Parks and Tourism	\$3,463,831
Career Education	\$3,237,416
Information Systems	\$913,441
Bank Department	\$236,115
Total Savings	\$892,765,061

Qualifications

Some agencies derive a significant percentage of their funding from the federal government.

The two-year period is a 'snapshot in time.' A review over a longer period such as a full business cycle would produce different results.

Conclusion

Arkansas taxpayers would have saved \$900 million if CPI had been linked to actual spending from FY 2015 to FY 2017. Policymakers do not possess a time machine but they could generate savings in the future by establishing a CPI spending cap.

-- Greg Kaza