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:

<table>
<thead>
<tr>
<th>Agency</th>
<th>FY 2015</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Services</td>
<td>$7,129,762,956</td>
<td>$8,119,742,316</td>
</tr>
<tr>
<td>Education</td>
<td>$3,457,588,679</td>
<td>$3,538,856,863</td>
</tr>
<tr>
<td>Finance and Administration</td>
<td>$985,935,822</td>
<td>$936,111,805</td>
</tr>
<tr>
<td>Correction</td>
<td>$375,658,284</td>
<td>$394,693,793</td>
</tr>
<tr>
<td>Health Department</td>
<td>$370,387,770</td>
<td>$297,240,574</td>
</tr>
<tr>
<td>Workforce Services</td>
<td>$460,258,462</td>
<td>$242,408,730</td>
</tr>
<tr>
<td>Career Education</td>
<td>$136,641,334</td>
<td>$143,431,425</td>
</tr>
<tr>
<td>Parks and Tourism</td>
<td>$98,584,451</td>
<td>$104,611,478</td>
</tr>
<tr>
<td>Community Correction</td>
<td>$89,680,879</td>
<td>$103,470,371</td>
</tr>
<tr>
<td>Economic Development</td>
<td>$45,589,380</td>
<td>$85,892,004</td>
</tr>
<tr>
<td>Information Systems</td>
<td>$64,801,776</td>
<td>$67,400,063</td>
</tr>
<tr>
<td>Military</td>
<td>$60,832,606</td>
<td>$62,251,106</td>
</tr>
<tr>
<td>Insurance</td>
<td>$57,736,238</td>
<td>$55,334,248</td>
</tr>
<tr>
<td>Environmental Quality</td>
<td>$51,888,439</td>
<td>$47,234,953</td>
</tr>
<tr>
<td>Agriculture</td>
<td>$44,167,159</td>
<td>$44,993,424</td>
</tr>
<tr>
<td>Emergency Management</td>
<td>$39,812,016</td>
<td>$27,905,617</td>
</tr>
<tr>
<td>Higher Education</td>
<td>$13,066,990</td>
<td>$20,722,787</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>$11,605,581</td>
<td>$20,444,445</td>
</tr>
<tr>
<td>Heritage</td>
<td>$18,165,321</td>
<td>$17,982,488</td>
</tr>
<tr>
<td>Assessment Coordination</td>
<td>$17,430,818</td>
<td>$17,547,052</td>
</tr>
<tr>
<td>Aeronautics</td>
<td>$9,597,094</td>
<td>$14,458,696</td>
</tr>
<tr>
<td>Bank Department</td>
<td>$7,693,381</td>
<td>$8,129,524</td>
</tr>
<tr>
<td>Labor</td>
<td>$6,486,450</td>
<td>$6,062,645</td>
</tr>
</tbody>
</table>

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.
CPI increased 2.6% in the 2015-17 period.\textsuperscript{5} The following chart shows "actual spending" exceeded\textsuperscript{6} CPI at 11 state agencies:

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

**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.

\textsuperscript{5} https://www.bls.gov/cpi/
\textsuperscript{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
\textsuperscript{7} https://www.bls.gov/cpi/
\textsuperscript{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.

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

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