

GRADING ARIZONA GOVERNMENT'S PERFORMANCE

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Governing: The Magazine of States and Localities (February 2005) presents results of its third effort to grade states on "government performance." Performance, in this case, refers to four broad areas of operation: money, people, infrastructure, and information. Expenditures and innovations in these four areas—or lack thereof—indicate whether a state is bolstering programs despite the 2001 economic recession or "squeezing government dry." Depriving state agencies of needed revenues, according to *Governing*, results in a state's diminished analytic capacity, deteriorating roads, bridges and buildings, use of fiscal strategies to "defer pain," and declining positive initiatives in human resources (e.g., workers' comp programs).

Arizona received an overall grade of B, a high mark relative to that of other states. (The highest grade awarded to any state was A-.) Only Utah, Virginia, Kentucky, Delaware, Michigan, Minnesota, and Washington received higher grades than Arizona's. The overall grade is based on individual grades in the four performance categories. Table 1 itemizes Arizona's report card.

Table 1: Arizona's Management Report Card-2005

Overall	B
Money	B
People	B
Infrastructure	B-
Information	B-

Source: *Governing* February 2005

States were graded by journalists and academics with established research skills that administered an online survey, analyzed state documents and interviewed legislative fiscal analysts, state officials in legislative and executive branches; independent citizen groups and state academics. The Arizona Department of Administration (ADOA) worked closely with graders to coordinate state data gathering.(1) The survey addressed management activities in the four criteria (money, people, infrastructure, and information) in central state agencies and in selected line agencies (transportation and

environment only). Criteria were not weighted. The following section defines the criteria and summarizes the rationale for the grades given Arizona.

Why Arizona Got a B: Definitions and Rationales in Four Subjects

Money

The Money category assesses how well states manage their finances, including budgeting, forecasting, accounting and financial reporting, procurement, contracting, investments, and debt. Giving a grade of B, researchers found financial management activities in Arizona to be conducted “competently and conservatively.” Notable strengths include completing financial reports on time, using cost analysis abundantly and applying it to agency performance, and winning legislative approval of a new funding mechanism for replenishing the contingency fund. Governor Janet Napolitano was also recognized for implementing an Efficiency Review of each agency that realized a savings of \$38 million in its first year. Weaknesses noted are inconsistent forecasting accuracy and an insufficient contingency fund.

People

The People criterion assesses how well states manage their employees, including hiring, retention, developing, and rewarding. While receiving a grade of B in this category, Arizona suffers the second highest state employee turnover rate in the country, 11 percent in 2003. The strong gains in higher-paying private sector jobs are luring state employees away. Notable strengths in people management to address the problem of retention include creating a web-based human resources information system to speed up hiring processes, implementing a self-insured health benefits program, and committing to raise wages to near-market prices by 2009. Arizona also created an outstanding training and development program, called Arizona Government University (AzGU).

Infrastructure

The category looks at how well states manage their physical infrastructure, including roads, bridges, buildings, other facilities supported through capital expenditures. Researchers found that Arizona had improved in planning and prioritizing maintenance needs, but is still facing \$419 million in deferred maintenance needs. In the past four years, maintenance has been under funded by more than 50 percent. Thus Arizona received a B- in this category. (2)

Information

This criterion assesses how well states’ elected and appointed officials can use information and technology to measure program effectiveness, to make decisions, and to communicate with citizens. For a grade of B-, Arizona is recognized as having a well-developed performance auditing system with follow up procedures that result in a high compliance rate. Further, citizens can access state services and service performance records online. Researchers also found that while performance information is regularly collected and tied to specific programs during the budget cycle, program managers do not seem to use this information consistently. One of the factors in giving Arizona a B- is the

lack of a formal strategic planning system, although the state was cited for having a “general vision for future goals and a lot of performance information to determine what the state is achieving.”

[SIDEBAR]

Past Grades

***Governing* has graded the 50 states on government performance three times since 1999. Arizona first received an average grade of C in 1999; and in the second round in 2001, it was given an average grade of C+. While a grade of B in 2005 seems significantly better, *Governing* cautions that the 1999 and 2001 grades cannot be compared to this year’s: Changes in methodology and criteria preclude making meaningful comparisons, it notes.**

Since previous grades cannot be used as a benchmark (see sidebar), it might be useful to compare Arizona’s report card to those of other Western states. Among the 50 states, *Governing* ranks Arizona 20th in population, 38th in per capita income, and 48th in per capita spending. As Western states—and more specifically Mountain states—share particular characteristics that shape a region’s economy and public expenditure pressures, looking at Arizona’s government performance in a regional context—the 13 Western states and the sub regional eight Mountain states—Arizona’s grade can be placed in a better context for comparison. As described in the next section, political culture, geography, and growth are important factors in determining the “governing health” of a state.

States West of the Hundredth Meridian

Characteristics that give geographic and political definition to the West help shape state and local government policies. The U.S. Census Bureau geographically demarcates “the West region” at the hundredth meridian, a line of longitude west of which lie 13 states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Nevada, Oregon, Utah, Washington, and Wyoming. (West Texas is west of the hundredth meridian, but is not considered part of the West region by the U.S. Census.) West of the hundredth meridian, annual rainfall dips to under 20 inches (except along coasts), making aridity and scarcity of water dominant characteristics. Vast and difficult terrain also characterizes the West, most of which is owned by the federal government and Indian tribes. Of the 50 states, the 13 Western states rank from 1 to 13 in percentage of land owned by the federal government and tribes, ranging from a high of 85.1 percent in Nevada to a low of 19.9 percent in Hawaii. Arizona ranks second with 83 percent of its land publicly owned. Indeed, land use decisions made in Washington, D.C. reverberate throughout the West and keep state and local officials diligent on Capitol Hill. (3)

Economies dominated by agriculture and natural resource extraction are also another characteristic of Western states. Dependence on the land, and, accordingly, on water, as well as on global markets for minerals and other resources drive the West’s economy into boom and bust cycles. Economic vicissitudes impact budgets and service demands at all

levels of government. (4) Moreover, sparse population and difficult terrain make the delivery of services expensive, particularly for infrastructure—size and distance push up the cost of roads and consumer goods. A small tax base for the property tax—and particularly small in Arizona—also renders county governments and school districts strapped for revenues due to a low percentage of private land.

As similar as Western states are in geography and economy, there are intraregional disparities between the Pacific states and Mountain states. The eight Mountain states, Arizona and Colorado notwithstanding, tend to be poorer with less diversified economies. Mountain states also lag behind Coastal states in industrial output and employment. Average per capita income in 2003 was \$32,180 for the five coastal states and \$28,443 for the eight Mountain states, a difference of about \$4,000. (5)

Western states also face a dilemma in fiscal policymaking. Historical influences, as well as traditions, values, geography, and economic conditions, make fiscal policymaking in the West distinctive. For instance, a taxpayers’ rebellion originated in California in 1978, hit Arizona in 1980, and spread eastward. The relative scarcity of local wealth in much of the West and the desire to keep taxes low enough to encourage investment have also placed severe limits on the level of public spending in the West. Much of the West remains relatively poor and unstable with respect to economic conditions, particularly in the Mountain sub region. Fiscal policy in the West has adhered to the doctrine of fiscal responsibility, defined by one scholar as “frugality in public spending, a balanced budget, the liquidation of public debt, and government as small and as close to the people as possible.”(6) The following three tables illustrate much of the consequences of Western characteristics. The first, table 2, shows how the 13 Western states rank nationally in grade, population, per capita income, and per capita state spending.

Table 2: National Ranking of 13 Western States

State/Grade	Population	Per Capita Income	Per Capita Spending
AK/C+	48	12	1
AZ/B	20	38	48
CA/C-	1	9	11
CO/C+	24	8	41
HA/C	42	19	3
ID/B-	39	45	37
MT/C+	44	44	22
NV/B-	35	18	47
NM/C+	36	46	8
OR/C+	28	29	13
UT/A-	34	47	27
WA/B+	15	13	15
WY/C	50	15	4

Source: *Governing*, February 2005.

With the exception of California, Washington, and Wyoming, the Western states rank from the middle to very low on most indicators. Only Alaska, Hawaii, New Mexico, and Wyoming rank high on per capita spending, 1, 3, 8, and 4 respectively. The two most populous states of the West (California and Washington) also rank comparatively high on other dimensions. Table 3 then re-ranks the 13 Western states within the West region.

Table 3: Regional Rankings of 13 Western States

State/Grade	Population	Per Capita Income	Per Capita Spending
AK/C+	12	1	1
AZ/B	3	9	13
CA/C-	1	3	5
CO/C+	4	2	11
HA/C	10	7	2
ID/B-	9	11	10
MT/C+	11	10	8
NV/B-	7	6	12
NM/C+	8	12	4
OR/C+	5	8	6
UT/A-	6	13	9
WA/B+	2	4	7
WY/C	13	5	3

Source: *Governing*, February 2005.

When comparing Western states within the West region, California, and Washington rank consistently highest on most indicators. Arizona, third in population and tenth in per capita income, is last in per capita spending. Interestingly, per capita income does not seem to determine per capita state spending levels. Five Western states rank higher in income per person than they spend per person—Colorado having the largest gap between the two indicators (second and eleventh) and Nevada a close second (sixth and twelfth). Arizona’s gap is the third widest, ninth and thirteenth. Next, table 4 compares re-rankings of the eight Mountain states.

Table 4: Sub Regional Rankings of 8 Mountain States

State/Grade	Population	Per Capita Income	Per Capita Spending
AZ/B	1	4	8
CO/C+	2	1	6
ID/B-	6	6	5

MT/C+	7	5	3
NV/B-	4	3	7
NM/C+	5	7	2
UT/A-	3	8	4
WY/C	8	2	1

Source: *Governing*, February 2005.

In the Mountain sub region, Arizona rises to first in population but remains last in per capita spending, even though it falls in the middle in per capita income. Moreover, Arizona’s income and spending gap widens to fourth and last, with Colorado maintaining the widest (first and sixth) and Nevada (third and seventh) close behind.

Grades and Per Capita Spending

A state’s per capita spending level does not appear to be a factor in a state’s overall grade. The top spender, Alaska, only received a C+, and other “big spenders” fared about the same. Of almost all Western states that registered higher per capita spending than per capita income—Hawaii, Montana, Idaho, New Mexico, Oregon, and Utah—only Utah received a higher grade than Arizona. Utah ranked last in per capita income and ninth in per capita spending. Arizona’s overall B grade places it third in the West and second in the Mountain sub region, yet it ranks low in per capita spending in both domains. Perhaps a look at the report cards of two other (competitors for business) states—Utah and Colorado—will illuminate findings about Arizona state government.

Comparing Arizona (B) to Business Competitors Utah (A-) and Colorado (C+)

Arizona ranks high as a Western state and even higher as a Mountain state than it does nationally. Among the 13 states in the region, Arizona’s grade awarded by *Governing* is third behind Utah’s (A-) and Washington’s (B+). Its grade is second only to that of Utah in the Mountain sub region. And Colorado, a keen competitor for “business climate,” ranks next to last.

Utah’s Strengths and Weaknesses = A-

Governing’s graders praised Utah for being not only “information-driven” but also effective at getting the legislature to take the information into consideration. Legislators know, for example, that well-maintained roads cost less in the long run, whereas Arizona under spends on infrastructure by 50 percent. Utah is obsessed, say graders, with goals and planning, whereas Arizona doesn’t even have a statewide strategic plan. Moreover, Utah provides precise programmatic analyses which are used to reduce spending. Overall, concludes graders, Utah state government exhibits qualities of “governmental aggressiveness.” Its lowest grade was a B+ in the People category.

Colorado’s Strengths and Weaknesses = C+

Colorado state government is dominated by weaknesses. The 1992 Taxpayers Bill of Rights (TABOR), an amendment to the state constitution, severely limits the amount of revenues the state can raise, even in good times. While revenues can only increase by \$111.3 million in 2006 under TABOR, meeting the “basic bare essentials” will require \$330 million. To make matters worse, a second constitutional amendment mandates higher spending in education. Colorado has not been able to rebound from the 2001 recession as Arizona and Utah have. Gutted spending on infrastructure, a demoralized workforce, desperate “one-time measures” to balance the budget, and a drastically under funded pension system have fueled lawsuits over mental health, school construction, Medicaid funding, and the practice of shifting earmarked funds into the general fund. In the area of infrastructure, expenditures on non-transportation maintenance have dropped alarmingly from \$300 million a year to \$9 million. And funding for roads has decreased by 20 percent even as the state’s population increased by 250,000. According to graders, lawmakers are beginning to realize that maintaining the status quo under TABOR will bring about negative consequences to the state in the long-term. The following table compares grades in the four main performance areas for Arizona, Utah, and Colorado and assessments of “weak,” “mid-level” or “strong” performance in the specific dimensions of each.

Table 5: A Comparison of Grades for Arizona, Colorado, and Utah

CRITERIA/STATE	ARIZONA (B-)	COLORADO (C+)	UTAH (A-)
Money	B	C-	A
Long-term Outlook	Mid-level	Mid-level	Strong
Budget Process	Mid-level	Weak	Strong
Structural Balance	Mid-level	Weak	Strong
Contracting / Purchasing	Mid-level	Mid-level	Strong
Financial Controls/ Reporting	Strong	Mid-level	Strong
People	B	C+	B+
Strategic Workforce Planning	Mid-level	Mid-level	Mid-level
Hiring	Mid-level	Mid-level	Strong
Retaining Employees	Weak	Weak	Strong
Training and Development	Strong	Mid-level	Mid-level
Managing Employee Performance	Mid-level	Strong	Mi-level
Infrastructure	B-	C+	A
Capital Planning	Mid-level	Mid-level	Strong
Project Monitoring	Strong	Mid-level	Strong
Maintenance	Weak	Weak	Strong
Internal Coordination	Mid-level	Mid-level	Strong
Intergovernmental Coordination	Mid-level	Mid-level	Strong
Information	B-	C+	A-
Strategic Direction	Mid-level	Weak	Strong
Budgeting for Performance	Mid-level	Mid-level	Strong
Program Evaluation	Mid-level	Mid-level	Mid-level

Electronic Government	Mid-level	Mid-level	Strong
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Source: *Governing*, February 2005

Arizona received a “strong” in three dimensions: financial controls/reporting, training and development, and project monitoring. It received a “weak” in employee retention and infrastructure maintenance. Colorado only received one “strong,” in managing employee performance, and five “weaks”: budget process, structural balance, retaining employees, infrastructure maintenance, and strategic direction. Utah was assessed 15 “strong” and no “weaks.” It rated “mid-level” in only four dimensions: strategic workforce planning, training and development, managing employee performance, and program evaluation.

Conclusion

While levels of state spending on a per capita basis do not seem to determine grade awards, Arizona’s two weak areas—retaining employees and maintaining infrastructure—would require much greater spending to significantly improve. Crumbling infrastructure may well impact a state’s business climate, and high turnover in state employees is costly and draining in the long run. Rankings suggest that Arizona’s per capita spending could be considerably higher relative to its per capita income. Still, Arizona’s government performance is among the best in the country, West region and Mountain sub region, a laudable accomplishment considering its low level of per capita spending.

Endnotes

1. <http://www.adoa.state.az.us/News/detail.asp?ID=79>
2. “Grading the States: A Management Report Card.” *Governing: The Magazine of States and Localities*. February 2005. See also: <http://results.gpponline.org>.
3. Thomas, Clive S. Editor. *Politics and Public Policy in the Contemporary American West*. Albuquerque: University of New Mexico Press, 1991.
4. Cowan, Dawn, and Tanis J. Salant. *County Charter Government in the West*. Tucson: School of Public Administration Policy, The University of Arizona, 1999.
5. *Governing*.
6. Thomas.